

SENATE FINANCE AND PUBLIC ADMINISTRATION COMMITTEE INQUIRY

into

The operation and appropriateness of the superannuation and pension schemes for current and former members of the Australian Defence Force (ADF)

Commutation Misrepresentation in Commonwealth Superannuation Corporation (CSC) Brochures: The DFRDB Scheme and Its Lifelong Financial Impact

Examining Systemic Non-Disclosure and Its Consequences for
Members

Introduction

Commutation—the option to exchange part of a superannuation pension for a lump sum payment—holds critical implications for the financial well-being of retirement fund members. Within the context of the Defence Force Retirement and Death Benefits (DFRDB) Scheme, the issue of commutation has become a focal point for controversy and hardship, particularly due to the misrepresentation and inadequate disclosure in official brochures issued by the Commonwealth Superannuation Corporation (CSC) between 1973 and 2004. Many members, including myself, made life-altering decisions based on incomplete or misleading information, with repercussions that extend far into the future.

This document examines the nature of the misrepresentation, the systemic faults underlying the DFRDB Scheme's operations, and the personal, ongoing financial consequences faced by members who were persuaded under false pretences to commute a portion of their superannuation.

The Nature of Commutation and Its Significance

To understand the gravity of the misrepresentation, one must first appreciate the mechanism of commutation itself. In superannuation, commutation refers to the process by which a retiree elects to receive a lump sum payment in exchange for a reduced pension. The lump sum can be attractive for those seeking immediate funds, perhaps to pay off debts, make significant purchases, or invest elsewhere. However, the critical caveat is that the reduction in pension payments is not temporary—once commuted, the pension is reduced for the life of the member.

CSC Brochures (1973–2004): The Failure to Disclose

During the period from 1973 to 2004, brochures and official communications distributed by the Commonwealth Superannuation Corporation to DFRDB members presented commutation as a straightforward and beneficial choice. These materials, however, failed to make clear the lifelong nature of the pension reduction that would ensue. While the brochures outlined the mechanics of commutation and the calculation of lump sums, they omitted explicit warnings or clear language indicating that the reduced pension would not be restored after a certain period or once the "commuted portion" was considered "repaid" (as was sometimes believed). The lack of adequate disclosure is not a trivial matter; it goes to the heart of members' ability to make informed decisions about their financial security in retirement. Members relied on official documentation and trusted the information therein. The omission of critical, adverse information amounted to a serious misrepresentation—one with deep and enduring consequences.

Systemic Faults in the DFRDB Scheme

The misrepresentation was not a one-off error but rather a symptom of systemic faults within the DFRDB Scheme's administration and communication processes. Several factors contributed to the persistence of this problem over three decades:

- **Inadequate Oversight:** There appears to have been insufficient oversight of informational materials, with little effort made to update or clarify brochures even as confusion among members became evident.
- **Complexity of Calculations:** The actuarial calculations underpinning commutation were opaque and poorly explained. Members were not provided with clear, accessible modelling of the long-term financial impact of their decisions.
- **Assumptions of Member Knowledge:** There was an implicit—and unfounded—assumption that members possessed the financial literacy to discern the full implications of commutation, even in the absence of explicit disclosure.
- **Lack of Member Consultation:** Member feedback and reports of confusion or regret did not lead to meaningful changes in policy or communication.

These systemic issues fostered an environment in which misrepresentation could persist unchecked, undermining the trust between DFRDB members and the CSC.

The Member's Experience: Being "Duped"

As someone who placed trust in the official communications of the CSC, I accepted the commutation offer of four years (4) believing it would provide flexibility in retirement while maintaining a reasonable level of ongoing financial security. The brochures' failure to disclose the true, lifelong cost of commutation meant that my consent was not truly informed. Like many others, I made my choice without the benefit of full knowledge—knowledge that, if provided, would likely have led to a different decision.

It is only with the passage of time, as the ongoing reduction in pension payments becomes more apparent, that the depth of the problem emerges. For those who commuted, the financial impact compounds year after year. The absence of a

“restoration” of original pension levels leads to a significant shortfall compared to what was expected—and compared to what non-commuting peers receive.

Financial Consequences and Long-term Impact

The financial repercussions of commutation under these circumstances are stark. Members who commuted part of their DFRDB pension face a permanent, irreversible reduction in their income for the remainder of their lives. This has several cascading effects:

- **Reduced Standard of Living:** As the cost of living rises and unexpected expenses arise, the diminished pension creates increasing hardship, especially as members age and their capacity to supplement their income diminishes.
- **Inability to Recover Lost Income:** Because the reduction is permanent, there is no opportunity for members to “catch up” or recover lost ground through future increases.
- **Comparative Disadvantage:** Those who did not commute their pension are now in a comparatively advantageous position, heightening the sense of unfairness among those who were not properly informed.
- **Psychological and Emotional Toll:** The realisation that one’s retirement security has been irrevocably compromised leads to distress, anxiety, and a sense of betrayal.

Many affected members express regret and financial anxiety as they face the prospect of outliving their savings or being unable to afford necessary care later in life.

Expectations and the Near Future

Given these circumstances, I anticipate that the financial impact of the commutation—made under misrepresented terms—will become increasingly burdensome. The initial lump sum, which once seemed like a prudent choice, has long been expended. The ongoing reduction in pension payments leaves me, and many others, exposed to financial hardship, particularly as inflation erodes the real value of the remaining pension.

Without intervention or remediation by the authorities responsible, I expect to suffer significant financial disadvantage in the near future. The sense of having been “duped” is not merely emotional—it is grounded in a demonstrable disparity between what was promised (or at least implied) and what has eventuated.

Conclusion: The Need for Accountability and Remediation

The commutation misrepresentation in CSC brochures between 1973 and 2004 represents a profound breach of trust and responsibility by those tasked with safeguarding the interests of DFRDB members. The systemic faults that allowed misleading or incomplete information to persist must be acknowledged and rectified. Members who made decisions based on these brochures deserve transparency, accountability, and—ideally—reparative action to address the lifelong financial disadvantage they now face.

The experience of being misled is a cautionary tale for all superannuation and retirement schemes: clear, honest, and comprehensive communication is not a luxury—it is a necessity. For the individuals affected, the cost of failing to uphold this standard will be borne not just today, but for the rest of their lives.

Thank you for considering this submission.

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