

# COMMONWEALTH OF AUSTRALIA

---

## SPEECH

BY

**The Rt Hon. W. McMAHON, C.H., M.P.**

**Prime Minister**

ON

## **Defence Forces Retirement Benefits Ministerial Statement**

*[From the 'Parliamentary Debates', 26 October 1972]*

---

**Mr McMAHON** (Lowe—Prime Minister)—by leave—I am now able to inform the House of the outcome of the Government's consideration of the report of the Joint Select Committee on Defence Forces Retirement Benefits legislation tabled in the House on 18th May 1972 by the Chairman of the Committee, the honourable member for La Trobe (Mr Jess). Honourable members will recall that the Committee was formed in September 1970. It quickly embarked on a wide-ranging inquiry in the course of which it received 459 written submissions from individuals, departments and organisations and heard evidence from 65 witnesses, in Victoria, New South Wales, Queensland and the Australian Capital Territory. The main recommendation of the Committee was the introduction of a completely new scheme to replace the existing pre-1959 and post-1959 DFRB schemes. The DFRB scheme has now been in existence for 24 years. It commenced in 1948 after an inquiry by an inter-departmental committee under the chairmanship of the Honourable J. J. Dedman, then Minister for Defence.

The original scheme, which had much in common with the Commonwealth super-annuation scheme, proved to be very inflexible in operation and in 1957 a committee chaired by Sir John Allison was appointed to renew it. The result was the establishment in 1959 of a new and quite

different type of scheme to apply to future members. This is the new scheme now known as the post-1959 scheme. Existing members were not transferred on to the new basis. Instead special arrangements were made that preserved for them their accrued rights and established a basis for them to contribute for additional benefits as they arose. These arrangements, which were significantly modified in 1965 to permit members to limit their contributions, are now known as the pre-1959 scheme. The pre-1959 scheme is most complex and has attracted a great deal of criticism.

About 12,000 of the present DFRB membership of around 80,000 still contribute on this basis and the present majority of present pensioners were pre-1959 members. The pre-1959 element of the DFRB Fund is, however, in a most buoyant position. The report of the Commonwealth Actuary on his fourth quinquennial investigation, which the Treasurer (Mr Snedden) received from the DFRB Board earlier this week discloses that on the basis of the DFRB scheme continuing in its present form, and I emphasise that proviso, there was an available surplus of \$14.9m as at 30th June 1969 in respect of around 19,000 pre-1959 contributors and pensioners. The post-1959 element of the fund, on the other hand, was approximately in balance, there being a small deficiency of little importance in

actuarial terms. The treasurer will table the reports of the Actuary and the DFRB Board on the fourth quinquennial investigation later today.

The post-1959 scheme is simpler than the very complex pre-1959 scheme, but the Jess Committee concluded that it is still unnecessarily complex. It has two distinct parts, one covering other rank members, the other officer members. Each contributor pays throughout his service a fixed percentage rate of contribution which varies with his age and rank at entry. The percentage rates range from 4.75 per cent for entry at 15 or less to a maximum of 6 per cent for other rank members entering at age 30 or more. Only service from age 20 onwards counts for pension purposes but both officer and other rank members who enter before that age pay lower rates of contribution. The difference between the maximum contribution rates for other ranks and officers reflects the different basis on which other rank and officer pensions are assessed. The other rank pension is determined by length of service while the officer pension is determined by age at retirement, the maximum in both instances being a pension approximately 70 per cent of final pay, although the maximum tapers down to around 60 per cent for the most senior officers as in the superannuation scheme.

Both the pre-1959 and post-1959 schemes are actuarially based and members' contributions are retained in an invested fund. The earning rate of this fund has increased rapidly in recent years. The estimated earning rate for the year ended 30th June 1972 is 6.58 per cent, which would be an increase of 0.24 per cent over the rate for 1970-71. The Jess Committee recommended that the present fund be transferred to the Commonwealth, that members' contributions in future be paid to consolidated revenue and that the Commonwealth guarantee the benefits provided and meet all costs not covered by members' contributions. In the new scheme recommended by the Committee, the contribution rate would be a flat 5.5 per cent of pay for all members and the level of pensions would be determined for both officers and other ranks by length of service.

All service, including service before age 20, would count for pension purposes and

pensions would range from 35 per cent of final pay after 20 years' service to 76.5 per cent of pay after 40 years. Officers, like other rank members, would be entitled to a pension on completion of 20 years' service, but a pension reduction penalty of 5 per cent would apply for each uncompleted year of service if an officer were retired at his own request before he reached his retiring age for rank or an other rank member before the end of his engagement. The Committee also recommended that, after retirement, the whole of a member's pension be adjusted annually to maintain relativity with average weekly earnings. The Committee said that a possible method of achieving this would be to maintain the relativity of benefits to current pay for the rank held on retirement. Other recommendations include desirable extensions and improvements to provisions that exist in the present scheme.

The Jess Committee was rightly concerned to seek to avoid complexions in the future operations of the DFRB scheme. For this reason the Committee concluded that all present contributors should be compulsorily transferred to the new scheme and that they should not be offered a choice of remaining in their present scheme. The Government is attracted to the concept of a simple, comprehensible scheme as outlined by the Jess Committee, but, in a letter to the Minister for Defence (Mr Fairbairn), the Committee expressed the strong opinion that if any of the Committee's recommendations were detrimental to any section of existing contributors, special short term arrangements should be made to ensure that no detriment occurred. The Government accepted this view and on 20th September last the Minister for Defence announced that no-one would be disadvantaged by participating in the new scheme, that everybody would have a right by election to ensure that by participating he would not be disadvantaged. This inevitably raised the question whether it would be possible to make this assurance effective without introducing a third DFRB scheme to supplement the pre-1959 and post-1959 scheme. The Government has no desire to do so.

There have been strong representations on behalf of post-1959 late entrant officers. There have also been representations on

behalf of those pre-1959 contributors who have taken the opportunity available to them of limiting their contributions and receiving, without increasing the level of their contributions further, the Commonwealth element of future accruing pension entitlements. The crucial point, therefore, is whether it is practicable to transfer in an equitable way the pre-1959 and post-1959 contributors to such a new scheme, without detriment to any one of them. We shall have an independent expert examination of this problem.

One supplementary suggestion from the Jess Committee related to late entry officers. The number involved are significant. At 30th June 1972 there were 3,516 officer members who entered at age 23 or later; 773 officers entered at age 33 or later. Because of the change in the basis for officers' pension to length of service in the Jess Committee scheme, many of these late entrant officers would have a lower pension entitlement. The Jess Committee in a letter to the Minister for Defence recommended that these officers, in addition to receiving the surplus of their contributions above 5½ per cent of salary, should be allowed to purchase back notional service to bring the pension they would be contributing for under the Jess scheme up to the level for which they were contributing under the post-1959 scheme. This proposal is being actively investigated now.

The Government, like the Jess Committee, is attracted to the concept of a simple, comprehensible scheme provided it is possible to transfer the existing pre-1959 and post 1959 contributors to the new scheme without detriment. This is strongly favoured by the Services. But if the Government's assurance of transfer without detriment should prove to be impracticable, the Government has decided that it would instead incorporate many of the recommendations of the Jess Committee in an improved version of the post-1959 scheme to which pre-1959 contributors would be given the opportunity of transfer on an equitable basis. In any event, the following 7 specific recommendations of the Committee have been accepted by the Government:

Marriages of pensioners before age 60 will be recognised for widows' pension purposes;

A dependent spouse of a female member or pensioner will be entitled to pension on her death;

Subject to conditions yet to be determined, de facto spouses and illegitimate children will be recognised for pension purposes;

Children's benefits payable to students will be continued until age 25;

There will be payable to the estate of a contributor or pensioner, who dies without leaving dependants entitled to pension, an amount equal to one and one half times his contributions less, in the case of a pensioner, any pension or other benefits received;

The tapering of the entitlements of more senior officers will be eliminated;

A retiring member will not be penalised by reason of his refusing to sign on to a reserve force.

The Government has also adopted in a modified form 6 other recommendations of the Jess Committee:

An officer will be able to retire on pension before reaching his designated retiring age on completion of 20 years service for DFRB purposes;

The present category structure will be eliminated. Contribution rates will be expressed as a percentage of pay for DFRB purposes and pensions as a percentage of final pay;

For members who enter at age 20, retirement pensions will range from 35 per cent of final pay at age 40 to 70 per cent at age 57 or later;

A retired member will have an unfettered right within a specified period of retirement, say, 12 months, to commute up to the existing one-third of his pension, other than an invalidity pension. The amount of the commuted sum will be determined on an appropriate annuity basis;

Appropriate provision will be made for the purchase of past non-contributory service by present serving members including those members who in 1948 elected to remain on deferred pay rather than enter the DFRB scheme;

The concept of an appeals tribunal has been accepted.

As I have earlier explained, the Jess Committee recommended that DFRB pensions be adjusted annually after retirement to maintain relativity with average weekly earnings and mentioned a possible method of doing this. We have concluded that the issue of post-retirement pension adjustments cannot be dealt with in the DFRB context alone. In the past DFRB pensions have been adjusted at the same time and on the same basis as Commonwealth superannuation pensions and similar adjustment principles have been applied to other Commonwealth superannuation-type pensions. The House will recall that last year the Treasurer in his Budget Speech announced that the Government was investigating alternative methods of adjusting DFRB and superannuation pensions.

We have now decided to refer this important issue to independent expert investigation. This investigation will be called upon to report on various methods of adjusting pensions for which the Commonwealth is responsible and the inter-relationships of the various schemes and how they might be affected by the various adjustment methods. Additionally, the investigation will report on the economic and financial effects of the various methods considered. The personnel members of the Navy, Army and Air boards have all agreed that it is premature at this stage to press for an annual updating of DFRP pensions in the light of the other schemes needing similar consideration. Children's and orphans' pensions in both the DFRB and superannuation schemes are expressed as fixed amounts, although there is an alternative basis for assessing orphans' pensions. The manner of determining children's and orphans' pensions in the DFRB and superannuation schemes is at present under consideration and any decisions taken will be incorporated in whatever scheme emerges.

We have also given careful consideration to the Committee's recommendation that the DFRB scheme be administered by the Department of Defence and that the Minister for Defence should be the responsible Minister. The Government is satisfied that the present arrangement of the one organisation—the office of the superannuation and DFRB boards—servicing both the DFRB and superannuation schemes, is

effective and results in significant economies through the common use of highly specialised staff and facilities. There is also a clear need for co-ordination of policy in relation to the main Commonwealth contributory superannuation schemes, namely, the DFRB scheme, the superannuation scheme, the schemes of the Commonwealth Banking Corporation and the Reserve Bank and the parliamentary and ministerial retiring allowances schemes. In the Government's view, this is at present facilitated by one Minister, the Treasurer, having responsibilities in relation to all 6 schemes.

Another important recommendation of the Jess Committee was that the present invested fund of members' contributions, which stood at \$154m at 30th June 1972, be transferred to the Commonwealth and contributions of members in future be paid to Consolidated Revenue. I referred earlier to the improvement in the earning rate of the DFRB Fund. An invested fund is likely in the long term to return earnings at a level that enables members' contributions to provide greater support for benefits than would otherwise be the case. Accordingly, the DFRB Fund will be retained. The Government has, however, decided that the investment powers relating to this fund and the superannuation fund should be widened so that up to 25 per cent of each fund can be invested in shares, debentures, real property, and in loans to building societies. The Government proposes also to establish an investment trust to handle the investment of the 2 funds. The Government is working towards the necessary amending legislation being ready for introduction in the Autumn sitting next year. As already announced, the legislation will operate from 1st October 1972. We believe that the improvements that will be effected by the legislation will simplify the present arrangements and result in a very much better DFRB scheme.

Before I commend this paper to the House, may I refer in particular to the dedicated and excellent work that has been done by the honourable member for La Trobe (Mr Jess), the honourable member for Isaacs (Mr Hamer), and the honourable member for Herbert (Mr Bonnett). I have read the Committee's report and I

have listened to the arguments that those honourable member's put to me. I have had to accept that there is no monopoly of wisdom in any official group or—perhaps I could put it this way—in any Ministerial group. These honourable members have made a notable contribution. They have persuaded me that some of the amendments which they have suggested are worth while and in the interests of the active and the retired servicemen. I believe they make a notable contribution to the DFRB scheme. I congratulate those honourable members because I think they have done an immensely important job on behalf of the servicemen of this country. I now commend this paper to the House. I present the following paper:

Defence Forces Retirement Benefits—Ministerial statement, 26th October 1972.