

Private Submission to the inquiry into accuracy of information provided to Defence Force Retirement and Death Benefits (DFRDB) members

Introduction

I served in the Australian Army for 26 years (Jan 71 – Jan 96). My service period spanned a number of significant events that related to the defence pensions various systems. During this period there were three different schemes that serving members transitioned through.

- DFRB
- DFRDB, and
- MSBS

This section relates, in general to the three decision points and my recollection of the events at the time.

There were also three external events that occurred during the period of my engagement. Rightly or wrongly they were considered political and instigated by labour governments.

- Withdrawal for the conflict in Viet Nam and the transition into a peace time defence force.
- “Real” money removed from pension fund and absorbed into consolidated revenue (Whitlman).
- Suspension (twice) of Defence pay CPI increases (Hawke).

My working career, post discharge has, if nothing else confirmed just how naive and poorly informed I was with regard to the commercial aspect of my employer’s retirement provisions.

I hope this submission is seen as constructive and helps in the committee’s appreciation of the circumstances.

Communication of Change

All modern business emphasises the importance of effectively communicating change. Employee’s options, concerns and aspirations are valued, appreciated and accommodated where possible.

Nothing could be further from the circumstances that I experienced 1970 to the mid 1990. Exiting Viet Nam was deeply disturbing and the army was losing its experienced leaders as they became dissatisfied with the “New” army. Individuals were promoted quickly and soldiers were left in a strange limbo.

The requirement to unquestioningly follow orders was, and still is based on a mutual respect. The soldiers had to trust their leaders and the leaders had to believe in their responsibility for their men. In this setting change was something that needed to occur and was not prefaced with detailed explanation.

This environment didn’t elicit questioning about the pension scheme and defiantly didn’t result in formal education sessions. The old soldiers who knew had gone, their replacements were arguably less caring of their men. The systems and processes were rapidly changing the pension scheme in particular.

The pension changes were handed down as a consequence of various long, strung out reviews as were pay rises.

Of course “If you don’t like it you can always get out”.

The accuracy of information provided to DFRDB members

So was the information provided accurate? I have to trust that the defence leaders did not knowingly provide misleading information in the documents of the time. This was a world before computers, the internet and FAX machines were a novelty. If my boss didn't tell me I didn't know.

What I am sure of is that in the 70s, 80s and into the 90s the information didn't get to those who needed to know. And there is probably no way to redress that today.

All that I have a clear recollection of is that money was being deducted from my pay to go into a pension scheme. I am still confused as to how today the system is constantly referred to as "Non Contributory". I am cynical enough to believe that the change in definition is not accidental.

I clearly remember conversations when the new MSBS system was being introduced. There were various brochures but little discussions or lectures. I had complete 20 years in DFRDB and was required to make a signed election. Either stay in the old scheme or move to the new one.

A bit older and wiser I sought advice. No one was able to offer any form of "Cost / Benefit" analysis. Given my past contributions and intended future service what would be the best choice? What would the consequences of each option? Nobody was able to tell me. I was completely unable to make an informed decision.

This will end up being a play on words. Was the information provided accurate? Probably technically true. Was it relevant? Was it disseminated? Did it allow for a considered, informed decisions? Not even close.

With an absence of advice or guidance what does a simple soldier do? A decision has to be based on the individual's trust of the system. Soldiers are like dogs who have been kicked, they have long memories.

Prior to the DFRDB v MSBS decision, soldiers lived through a situation that reinforced their belief that their leaders were not looking after them. I refer to the decision to change the soldiers standard dress uniform. Some clever person (a serving officer) determined a means by which the soldier would have to pay for the new uniform himself. By "Redefining" the uniform maintenance allowance they decided that if the new uniform was phased in over a couple of years the soldier could be instructed buy the new item based on the perception his current kit had worn out. How clever, just try that on a commercial workforce. Soldiers went into personal debt over this.

Now in this environment consider the new MSBS scheme. Would you believe that defence would agree to a new system that actually benefited the soldier?

I would love to see an analysis of those who were in the situation of having to make the DRRDB / MSBS decision. Which choice they made and what would have been the outcome had they made the opposite choice.

The data would be there, but is the will to discover if the lack of information was a means of discouraging the selection of a system that would have increased the cost to government.

Probably left unsaid.

The effects of commutation on future retirement pay entitlement

I have tried to establish the general lack of financial understanding and the absence of support service to enable a soldier to make an informed decision. I have also conceded that I doubt that any of published brochures would contain false or misleading information. That doesn't mean that the situation is ethical or acceptable.

After leaving the defence force I was engaged in a number of negotiations with unionised workforces. Regardless of the difficulties an agreement would finally be achieved. The test applied at the final stage was the "Test of Reasonableness" (colloquially known as the Smell Test). Is the agreement fair? Is someone gaining an unfair advantage? Is it right? Is it ethical and will I be able to sleep at night.

In my opinion the permanent reduction of a soldiers pension to repay an amount commuted does not pass the Test of Reasonableness.

- Did the commutation documents signed contain an explanation of this requirement? Probably.
- Could the reader have assumed that the pension reduction would cease once the loan was repaid?
- Was there a terms and conditions "Disclosure Statement" provided?

I think it's probably a waste of time trying to recreate the past and discover the undiscoverable. Let's not spend too much time analysing how we have got into this situation.

Let's just answer the question is the practice of permanently reducing the soldiers pension reasonable.

How can this situation be addressed

If we accept a financially naïve soldier, with limited access to commercial advice has entered into an agreement that we consider to be unreasonable there need to be a resolution.

Firstly I suggest that the commutation repayment requirements be changed for future advances against entitlement. Accepting that the money advanced has to be repaid and that the method of reducing the weekly entitlement is reasonable. How long these payment should continue is therefore the issue.

I offer two alternatives that could be adopted individually of as an "And/Or" arrangement.

1. Life insurance companies have tables of expected life span. Some people are lucky live longer than these statistical values. As health services improve the life expectancy increases. Let's look at the soldier's age and his life expectancy at the time of commuting and that say that there will be no further deductions after that age is reached. Use the mean point between male and female life expectancy, or just pick the lowest. Just don't expect someone to be repaying a loan after they are expected to be dead.....that's not reasonable.
2. Value the interest due against amount commuted using the prevailing government bond rate. Treat the commutation as a commercial loan. When it's all paid back the payments stop. I haven't calculated how much over a comparable commercial loan I will pay via reduction of pension over my life. It's not reasonable that a soldiers continues to pay after the debt is cleared.

I think it would be reasonable to apply both of the above conditions to new and existing commutations. The soldier either stops paying because the debt is cleared or he stops because he is being inconsiderate by being alive when he is supposed to be dead. Sounds reasonable to me.

What's it going to cost?

Probably nothing and depending on the tax brackets the government might even come out ahead.

My assumption is that retired soldiers don't survive solely on their defence pensions. The amount of their old age pension is reduced by virtue of their service pension. Once the service pensions rises as the commutation repayment stop the old age pension entitlement will reduce accordingly.

Soldiers working after discharge may repay the commutation and interest prior to withdrawing from active employment. Their pension will increase and the top of their earning will protrude into the taxable income rates.

This is an excellent opportunity to develop an over complex resolution. Please resist the temptation.

If you accept the current situation is unreasonable seek a reasonable solution without looking for winners and losers and without trying to establish political blame.

Whether retirement payments were indexed as required by legislation

I have deliberately avoid comment on the accuracy of the indexation methodology employed. It is far too easy to point to the pension indexation rates of public servants, politicians and judges.

I wasn't a politician or a public servant and those pensions are a consequence of their individual or group bargaining power and they get what they get. I was a soldier, employed by my government to do their bidding in defence of Australia. I had to trust the government not to deploy me illegally and only to place me in harm when necessary. I expect the government to do the right thing and look after me in managing my service pension.

A test of just how reasonable the pension indexation is, in my opinion simple to evaluate. I don't have access to the date but I bet you do. Please conduct the following analysis.

Find out how much the fortnightly pension would paid next week to a private soldier (A) who is discharged tomorrow after completing 20 years of service and no commutation.

No go and look for the same soldier (B) who was discharged 20 years ago and check what his pension is payable next week.

If indexation is working the soldier who has been receiving a pension for the last 20 years will be receiving the same as his mate who leaves the service tomorrow.

Again there are endless ways of over complicating this indexation. Why not just make table that establishes the pension payable as a multiple of a current private soldiers pay. For example a Sergeant cook get 4 times a private soldiers rate and a Major gets 12 times. Agree out the various 0.1% to encompass specialist skills. Just be careful to base the calculation on the soldiers take home pay including allowances lest we disadvantage soldiers who are paid significant specialist allowances (e.g.SAS) to bypass ineffective remuneration processes.

Don't worry what politicians and teachers get just maintain relativity for the retired soldier to the serving soldier.

Few ex-servicemen will fault that endeavour. Just do what's reasonable.

Thank you for taking the time to read this submission and I hope it has broadened your collective understanding.