

Senate Finance and Public Administration Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Finance and Administration Portfolio

ComSuper

February Additional Estimates Hearings 2003-04 – 17 February 2004

Question: F25

Outcome ComSuper

Topic: Defence Force Retirement and Death Benefits Act 1973

Hansard Page: F&PA 84

Senator Sherry asked:

I am interested in the administrative treatment of it. If you are not familiar with it, perhaps you should take it on notice. Apparently, you can pay the sum back but, if you do not pay the sum back, your benefits are reduced. Even though you pay the sum back into the DB, your pension benefit is not adjusted. I found it a little extraordinary that that was the case. Nevertheless, that is what someone has complained to me about. Are you aware of the issues involved here?

Mr Dent – No. I have not come across that provision at all. I am quite happy to take it on notice.

Answer:

ComSuper understands the question to relate to a provision under the Defence Force Retirement and Death Benefits Act 1973 (closed to new members in 1991) in which a member of the Defence Force on retirement may in certain circumstances elect to “commute” a portion of his or her normal retirement pay (superannuation pension) to a lump sum. This option allows the person to access a lump sum to assist in their transition from service to civilian life. From 1 July 2002 the lump sum has been 5 times the annual standard pension entitlement of the person. If this option is taken the annual pension otherwise payable is reduced by an amount calculated by dividing the lump sum by the person’s life expectancy at retirement (measured in years to two decimal places and determined by reference to tables issued by the Australian Bureau of Statistics). If the person later lives to, or beyond, their life expectancy his or her pension does not revert to the uncommuted rate. On the other hand, if death occurs prior to the person attaining normal life expectancy the lump sum (or any part thereof) is not repayable. Irrespective of whether the former member elected to commute part of their entitlement, any reversionary benefit later payable to a surviving spouse is calculated as a percentage of the former member’s pension rate as if commutation had not occurred. Because of the foregoing, the lump sum ought not be characterised as a loan that is capable of repayment by instalments. Experience shows that the great majority of eligible DFRDB members have elected to commute their benefits on retirement.