

Newsletter

Superannuation and Family Law - DFRDB Scheme

specialising in superannuation valuations for family law purposes since 2003

Abstract

This publication is to assist Family Law Practitioners (FLP) better understand the issues that need to be addressed when their client has an interest in the Defence Force Retirement and Death Benefits Scheme (DFRDB). It addresses common traps and highlights areas that require special care.

An essential resource for all FLP involved in a superannuation split of DFRDB.

Coverage

Defence personnel who joined before 1991. Closed to new entrants in 1991.

Type and Benefit

Fully defined benefit scheme. Unlike other super schemes, DFRDB pays benefits as early as age 35 and is exempt from preservation provisions. FLPs are more likely to come across members that are in receipt of a pension. Those that are contributing (ie in the growth phase) pay 5.5% as member contribution.

DFRDB is a pension scheme but up to 5 years of salary can be converted into a lump sum (commutation option). A lesser pension is then paid. Nearly all commute.

DFRDB is one of the most generous superannuation schemes in Australia paying an average of 35% of salary. However, DFRDB only pays a generous

benefit to those who complete 20 years of service.

One Statement – Two Schemes

DFRDB is really two schemes. On the member statement, you will see a reference to Productivity as a separate line item. The mean value is around \$40,000. Productivity is an additional super account with the employer paying an additional 3%. The legislative base for the Productivity Scheme is the Defence Act 1903. The DFRDB has its own legislation. Because DFRDB and Productivity are constituted under separate legislation, separate orders are required. Pro-forma orders are on the DFRDB web site. A link is at the end of this document.

All valuation reports should show DFRDB and Productivity as two separate amounts.

If you do not intend to split Productivity, you must advise the trustees otherwise a query is generated.

There are advantages to the member in maximising the split of Productivity and minimising the split of DFRDB. There is no impact on the non-member of such a strategy.

Should it be Valued for Family Law Purposes?

Yes, as it is a defined benefit scheme. Scheme specific factors are used to value DFRDB. In the growth phase, the family law values I have performed range from \$2m to \$350,000. Values are less for the payment phase.

FLVs in the growth phase can be derived from a member statement, benefit resignation quote or a superannuation information form.

FLVs in the payment phase generally require a superannuation information form. However, DFRDB pensioners receive in June and December notice of an increase as a result of applying CPI. This notice, in conjunction with other information, can be used to estimate the FLV.

The FLV of contributors increase each month with substantial increases occurring after the birthday and the anniversary of joining. For pensioners, the FLV remains relatively static with increases occurring after the CPI is applied in Jan and July of each year.

What Does the Non-Member Receive?

Unusually, when DFRDB is split in the growth phase, the non-member has a superannuation account established in his or her name in Military Super and not in DFRDB. It grows at the long term bond rate (about 5.5%). There are no benefit options. A lump sum must be taken. It can only be rolled out to another super scheme after age 55.

When a DFRDB pension is split, the non-member can only receive a pension. It is a separate interest. The split pension is spread over the life expectancy of the non-member. This means for example, a younger wife will receive a lesser amount per annum but will receive it for a longer time period because of her greater life expectancy.

Early release on medical grounds is available to the non-member.

Invalidity Pensions

The FLV of an invalidity pension is different to a normal pension. A reclassification on medical grounds after the split does not impact on the non-member.

Common Traps For FLP

- Requirement for separate order for Productivity (discussed above),
- Assuming that a 50% split of the pension will result in half of the pension going to the non-member (discussed above),
- Not taking into account the change in the FLV between the date the FLV was obtained and the date of the orders,
- Assuming a split will result in some lump sum going to the non-member spouse

Special Care

When a DFRDB member is about to retire from the Defence Force, the benefit payable to the non-member changes could change dramatically. If the split occurs before retirement, only a lump sum is payable once preservation age is



reached. If the split occurs after retirement, only a pension is payable.

Invalidity Pensions

The FLV is different to a normal pension. A reclassification on medical grounds after the split does not impact on the non-member.

Useful Links

www.dfrdb.gov.au/publications_forms/fl.html

The above link includes an application to obtain a superannuation information form, pro-forma orders, and information required about non-member spouses when a split has been made.

Costs to Obtain a FLV

The cost is \$330 plus gst for a single valuation and \$600 plus gst for two dates. FLVs are usually provided within 2 business days.

Other Questions?

[Click on this link](#)

Curriculum Vitae - click [here](#) to view my CV and past newsletters.

Other Schemes

I will be releasing similar resources for other schemes. Let me know if you want a particular scheme covered.

Your Colleagues

Let me know if your colleagues require a copy of this and future editions of my newsletter.

Peter Skinner
Director
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