

Subject: Errors in Parliamentary Reporting and FOI Data
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From: Peter Thornton
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To:

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Dear Members of Parliament and Senators all

May I start by first wishing you all a Happy New Year. As most of you are aware the plight of indexation reform for Military and Commonwealth retirees remains unfinished business and I/we hope that 2012 will see a turning point for the better on this front. It is on this basis that I am now writing to you once again and I believe the following information will bring a realisation to the Parliament that things are just not right.

Further to my written analyses transmitted to you a I back in April and July of 2011 concerning the DoFD *Matthews Review Update* and my response to the Senate Review into the Fair Indexation Bill of the Defence Force Retirement and Death Benefits scheme (DFRDB) it is with regret that I once again have to appraise you of some serious parliamentary reporting issues and matters concerning the explicit lack of quality assurance pertaining to Commonwealth financial/demographic data. To put these concerns into some form of immediate perspective the reported errors which I refer to amount to 10s of Millions of dollars!

Firstly I would like to refer you to page 18 of the 2010-2011 DFRB / DFRDB [Annual Report to Parliament](#) where the DFRDB Authority states that the annual outlay in pension payments was \$1 375 488M (please see Table 1 below). As highlighted in Table 1 the stated sum for 2010-2011 compares to the previous year's outlay of \$1 285 457M; representing a supposed net increase in pension payments of \$90 031M over the reported period. However the total number of retirement pay recipients had only increased by 35 members over this same period and the total annual indexation applied to retirement pay was only 2.7% (as advised at page 30 and as reflected in Figure 1 below). By my calculation and consistent with the long term trend **the net increase from 2009-2010 to 2010-2011 should have been approximately \$35M NOT \$90M as reported!**

Table 1: DFRB and DFRDB benefits paid in the past five years

Benefit type	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
Pension payments (including invalidity)	1 170 958	1 202 824	1 260 027	1 385 457	1 375 488
Refunds of contributions	565	667	0	3040	0
Lump sum (communication) payments	160 640	118 385	155 905	95 497	107 189
Total benefit payments	1 332 203	1 321 721	1 415 977	1 383 989	1 472 677

Pension payments

During 2009-2010 ComSuper paid \$1 374 488 in pensions to DFRDB and DFRB pensioners compared to \$1 285 457 paid in 2008-2009. **The number of pensioners increased from 56 981 in 2008-2009 to 57 016 in 2009-2010.** ComSuper experienced a very large number (14 617) of variations to pensions, including changes to personal details, taxation arrangements and payment details.

Table 1

Pensioner communication

The Customer Information Centre at ComSuper assists military pensioners to understand their superannuation entitlements and to maintain their pension accounts.

Pension indexation and advice

Legislative provisions exist for DFRB and DFRDB pensions to be adjusted twice a year (in January and July) to reflect upward movements in the consumer price index (CPI).

In July 2009 the CPI increase was 1.4% and the January 2010 CPI increase was 1.3%. Pensioners received a statement in July 2009 and January 2010 showing the rates of pension payable to them over the following six months. Accompanying their statement was:

- a detailed letter advising how the variations in the CPI affected their fortnightly pension
- an income tax payment summary (only in July 2009)
- the Pensioner Update newsletter providing information about the scheme and any updates on significant changes that may affect their entitlements.

Figure 1

Also I refer addressees to Appendix 4 of this latest report (please see Figure 2 below) the DFRDB Authority provided a formal correction of the *average annual pension* from its previous 2009-2010 Annual Report to Parliament (an error that incidentally was not picked directly up by the DFRDB Authority itself; it was indeed by another retiree - Bernie McGurgan). Unfortunately this supposed correction is also in error because if you look at the total payment outlay in Table 1 for 2009-2010 (i.e. \$1 285 457M) and divide it by the total number of recipients (i.e. 56 981) then you will derive an average annual pension figure of **\$22,559 NOT \$23,549!**

I am sure at this point Parliamentarians will be asking... "well OK ... but are these errors just an aberration?"

Well unfortunately the answer is NO! Table 1 of my April research paper shows a number of errors in the Annual Reports stemming as far back as 1996. I believe in the main that I have isolated where most of the errors have occurred and using the 2009-2010 report as an example it would appear that the DFRDB Authority had failed to include normal retirees and invalidity retirees from the DFRB scheme in the total demographic number used to calculate the total DFRB/DFRDB final average annual pension figure (to be clear the Annual Report from year to year is supposed to combine the data from both DFRB and DFRDB for reporting purposes).

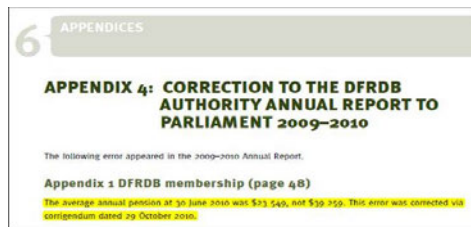


Figure 2

At this juncture I suspect that there may be a number of you that might say ... "so what?"

Well for a start the \$1 000 error in the correction represents a discrepancy in underlying cash of approximately \$56M for that reported year. Also and as the 2011 Hansard would clearly show on numerous occasions some Parliamentarians had used the over inflated average annual pension statistic to help justify their position in part to reject calls to resolve the pension indexation of affected Military retirees many of whom were in receipt of a benefit far less than the average (i.e. retirement pay outlays have typically exhibited an asymmetric tendency to the lower end of the payment spectrum and as such even the average pension statistic of \$22 559 in 2009-2010 generally overstated the benefit received by a larger percentage of retirees ... my July paper provides greater detail).

It is without any doubt that the low average retirement pay and the deterioration in benefits over time has been as a direct consequence of adverse policy decisions by Parliament resulting presumably from the delivery of poor policy advice underpinned by rubbery data and bogus actuarial assumptions. If you don't believe me and if the foregoing was not enough to peek your interest then perhaps you might find the following information even more compelling.

In late August 2010 I received a response from COMSUPER to an FOI request I had made earlier in the year. In my request I had asked for detailed demographic and payments data in order to allow for independent statistical analysis to be undertaken to better extract the life expectancy profiles of various recipient groups within each scheme (i.e. to extract the principle retiree reversionary retiree invalidity retiree etc). The aim of this exercise was to provide (not least) better life expectancy and payment outlay projections than DoFD had provided for the various schemes under consideration.

To my surprise and on initial inspection the datasets clearly showed that:

- we still had pension dollar amounts being recorded against people that are now deceased.
- some members were supposedly negative in age upon joining their respective scheme (e.g. -75 years of age); and
- evidence that at least one member apparently reached the **ripe old age of 125 years** and another 7 members who supposedly reached the **age of 123 years**.

If the latter point above is correct then clearly Jeanne Calment (1875-1997) who lived to 122 years & 164 days will lose her world title as being the longest aged person to have ever lived! These miraculous age records and datasets might help to explain the unexplainable DoFD / AGA's fountain of youth analysis regarding the "peak in expenditure" projections that were tendered to the 2010 Senate Enquiry regarding the DFRB/DFRDB Fair Indexation Bill (please see my July paper for further details).

Here's a small snapshot of the data provided to me under FOI:

SCHEME	FUND_ENTRY_DATE	AGE_AT_FUND_ENTRY	AGE_CURRENT	LAST_DAY_OF_SERVICE	PEN_COMM_DATE	PENS_ANNUAL_GROSS_PEN_2011	PENSION_STATUS	PENSION_TYPE	PENSION_REASON	TERMINATION_DATE	TERMINATION_REASON
1922											
Act	1/01/1922	4	94	2/01/1974	30/06/1988	0	Terminated	Death	Spouse of Contributor	24/10/2001	Death
DRDB	17/02/1947	23	87	2/10/1961	1/07/1988	0	Terminated	Death	Contributor	9/01/1995	Death
DRDB	17/04/1939	24	96	30/12/1961	1/07/1988	26107.64	Terminated	Retirement	Contributor	2/07/2007	Death
1922											
Act	1/01/1922	8	97	18/05/1972	19/05/1972	26346.32	Terminated	Death	Contributor	19/12/2006	Death
DRDB	9/08/1949	26	88	15/02/1968	1/07/1988	25464.66	Terminated	Retirement	Contributor	16/05/2009	Death
1922											
Act	1/01/1922	11	101	20/04/1975	21/04/1975	0	Terminated	Retirement	Contributor	6/06/1998	Death
DRDB	29/09/1939	23	95	27/11/1957	1/07/1988	0	Terminated	Invalidity	Contributor	21/04/1991	Death
1922											
Act	1/01/1922	11	101	23/03/1975	24/03/1975	0	Terminated	Retirement	Contributor	2/09/1990	Death
									Spouse of		

DRDB	29/09/1939	25	97	27/11/1957	22/04/1991	17435.6	Terminated	Death	Pensioner	22/12/2006	Death
DFRDB	1/10/1972	39	78	7/06/1974	1/07/1988	33301.06	Terminated	Retirement	Contributor	10/12/2004	Death
1922									Spouse of		
Act	1/01/1922	8	97	23/03/1975	3/09/1990	33496.06	Terminated	Death	Pensioner	6/02/2007	Death
1922											
Act	1/01/1922	-75	14	15/08/1961	16/08/1961	0	Terminated	Invalidity	Contributor	27/01/1989	Death
1922									Spouse of		
Act	1/01/1922	35	125	8/03/1949	9/03/1949	0	Terminated	Death	Contributor	31/01/1989	Death
MSBS	8/10/1992	52	70	19/08/1995	20/08/1995	33861.36	Terminated	Retirement	Contributor	7/08/2004	Death
DFRDB	5/06/1973	-6	32	25/05/1981	1/07/1988	0	Terminated	Death	Child Student	29/03/1996	Terminated
DFRDB	5/06/1973	-7	30	25/05/1981	1/07/1988	0	Terminated	Death	Child Student	7/11/1997	Terminated
PSS	1/07/1990	50	71	30/06/1999	21/08/2002	8285.16	Terminated	Retirement	Contributor	31/01/2007	Death
PSS	24/11/1997	52	65	31/08/2006	1/09/2006	19045	Terminated	Redundancy	Contributor	23/09/2008	Death

Table 2

Whilst it is plausible that the datasets provided by COMSUPER may have been corrupted by some electronic process (perhaps even as far back as Y2K remediation) it nevertheless brings into considerable doubt the validity of the data and the subsequent policy advice being tendered to the Parliament by DoFD and its subsidiaries. Whilst I have provided some form of plausible dispensation for COMSUPER here it nevertheless begs the question ... is this the same dataset that DoFD and its subsidiaries have used over time to generate life expectancy and subsequent budget projections?

Perhaps there's a more compelling question that arises for the Parliament in general and that is: if Thornton (and others) have been able to find so many holes in the reporting and the analysis of a single scheme (i.e. the DFRB/DFRDB) ... then how pervasive would the potential errors be in all the other schemes that have been under policy consideration?

Given that the datasets provided under FOI covered all schemes then one could reasonably assume that the potential for major errors in the actuarial projections could be vast! I believe the Parliament and particularly those long term retirees that have been unfairly subjected to a succession of adverse policy rulings on the basis of rubbery data and bogus actuarial assumptions deserve a whole lot better than this!

Given this situation and the dire straits that I know many former employees / retirees find themselves in (... it has not been a happy new year for some) I hope that the Parliament as a whole will answer the call (as previously suggested by Senator Xenophon) to mount an immediate enquiry into this and other matters surrounding the amelioration of benefit erosion for Military and Commonwealth retirees.

I would welcome your considered non-scripted responses if you are so inclined

Kind regards

Peter Thornton
Retiree & Independent Commentator



"All for One ... and ...One for All"