

Australian Defence Force personnel must maintain a high standard of fitness. Each arm of the Defence Force has the right to retire Members on the grounds of invalidity—that is, physical or mental incapacity to perform their duties—if they do not meet strict medical standards, even though they may be capable of civilian employment of a similar nature.

MilitarySuper aims to give invalidity retirees a benefit that reflects their incapacity for civilian employment. The benefit received by a severely incapacitated retiree will be greater than the benefit received by a retiree at equivalent rank with little incapacity for civilian employment.

The medical condition causing your discharge need not be related to your service. However, there are certain circumstances in which an Invalidity Benefit will not be granted.

You will not get an Invalidity Benefit if your discharge or retirement:

- occurred within your first two years of service and was caused by or substantially caused by a condition that was present on entry and was not materially aggravated by your service
- was, in the opinion of the Board, a result of your wilful action to obtain an Invalidity Benefit
- was caused by or substantially caused by an injury which occurred while you were absent without leave for a period of more than 21 consecutive days, and your salary and allowances for that period had been forfeited under regulations made under the *Defence Act 1903*.

What's the procedure?

Firstly, the Military Superannuation and Benefits Board of Trustees (or a delegate of the Trustees) will classify you according to your degree of incapacity for appropriate civilian employment. To do this the types of employment that a person with your qualifications, skills and experience could reasonably undertake, disregarding your medical condition are determined.

When your appropriate civilian employment, has been determined your incapacity for that employment is then assessed. Your service medical papers, and any other medical evidence provided will be taken into account.

You may have to attend a medical examination (at the Board's expense) if the Trustees (or a delegate) want more information.

After all the reports have been examined, you will be classified as either **Class A** (incapacity of 60% or more), **Class B** (incapacity from 30% to 59% inclusive), or **Class C** (incapacity less than 30%).

Please note that due to the different basis of assessment percentage assessments made under other legislation, such as the *Compensation Act or the Veterans' Entitlements Act*, are not relevant to your MilitarySuper invalidity entitlements.

For more information see the fact sheet *Invalidity Benefits—The Classification Process*, available on the MilitarySuper web site.

What will I receive?

Class A invalidity

If you are assessed as **Class A** (incapacity of 60% or more), you will be entitled to:

- a CPI indexed pension calculated from the lump sum value of the Employer Benefit that would have applied based on your Final Average Salary on the date of your retirement, and the Benefit multiple you would have received, had you remained in the Scheme until your compulsory retiring age for rank
- an adjustment to recover any accrued surcharge debt plus
- a lump sum of your Member Benefit as at 30 June 1999 (i.e. your own contributions and interest up until that time) and
- your post 30 June 1999 Member Benefit remains preserved in MilitarySuper or a regulated superannuation fund of your choice until you reach your preservation age.

The Employer Benefit is paid as an indexed pension using the conversion factor of 11 (or higher factor if your retiring age for rank is less than 60—the appropriate conversion factors are listed in the table below). The Employer Benefit cannot be taken as a lump sum.

Pension conversion factors

Age	Factor	Age	Factor
40	15.0	53	12.4
41	14.8	54	12.2
42	14.6	55	12.0
43	14.4	56	11.8
44	14.2	57	11.6
45	14.0	58	11.4
46	13.8	59	11.2
47	13.6	60	11.0
48	13.4	61	10.8
49	13.2	62	10.6
50	13.0	63	10.4
51	12.8	64	10.2
52	12.6	65	10.0

Note: Your pension conversion factor is worked out according to your age in years and days—for instance, if you were discharged at the age of 59 years 118 days, your age factor would be 11.1353. For a list of all pension conversion factors between ages 18 and 65, and an explanation of the formula used to calculate individual conversion factors, see Appendix C of MilitarySuper Book (available from MilitarySuper web site).

Example 1: calculation of Class A invalidity pension

Corporal Dawson joined the Defence Force at age 20, and retired on invalidity grounds at age 30. On retirement he would be entitled to receive a lump sum of his 30 June 1999 Member Benefit and his post 30 June 1999 Member Benefit would remain preserved either in MilitarySuper or a rollover fund. He would also be entitled to an immediate indexed pension, based on his actual service (10 years) and his prospective service from age 30 to age 60 (30 years):

7 years	@ 18%	=	1.26 x FAS
13 years	@ 23%	=	2.99 x FAS
20 years	@ 28%	=	5.60 x FAS
Total		=	9.85 x FAS

CPL Dawson's FAS was \$67 323, so his Employer Benefit (before conversion to pension) would be:

$$9.85 \times \$67\,323 = \$663\,131.55$$

His compulsory retiring age is 60, so we divide the Employer Benefit by 11 (the age 60 conversion factor) to calculate his annual pension.

$$\begin{aligned} \text{Annual pension} &= \frac{\$663\,131.55}{11} \\ &= \$60\,284.69 / \text{year} \end{aligned}$$

Class B invalidity

If you retire on invalidity grounds and are classified by the Board as **Class B** (incapacity from 30% to 59% inclusive), you are entitled to:

- a CPI indexed pension of either half the **Class A** rate or the pension calculated on your actual service up to the time of discharge, whichever is greater less
- an adjustment to recover accrued surcharge debt plus
- a lump sum of your Member Benefit as at 30 June 1999 (i.e. your own contributions and interest up until that time) and
- your post-30 June 1999 Member Benefit remains preserved in MilitarySuper or a regulated superannuation fund of your choice until you reach 60 or cease employment or reach your preservation age and retire from the workforce.

The **Class A** pension is calculated on your actual service plus prospective membership to your compulsory retiring age, and uses the pension conversion factor applicable to your compulsory retiring age. The pension based on actual membership is calculated in the same way as a redundancy pension, using the pension conversion factor for the age at retirement. The Employer Benefit cannot be taken as a lump sum.

Example 2: calculation of Class B invalidity options

Warrant Officer Collis was injured in a training accident. As a result of her injuries, she was retired from the Defence Force, and the Board classifies her as a **Class B** invalidity retiree. She receives a lump sum refund of her 30 June 1999 Member Benefit and her post-30 June 1999 Member Benefit is preserved. She must take her Employer Benefit as a pension.

In her case, to determine the amount of pension payable, we first calculate the notional **Class A** invalidity pension, then divide that by two, and compare the result with the pension derived from her actual membership, as follows:

WO Collis: She joined the Navy at the age of 19 years and 160 days, and had served for 23 years at the time she was invalidated out. Her FAS is \$82 190.

Her notional **Class A** invalidity Employer Benefit is:

$$\begin{aligned} 7 \text{ years} & @ 18\% = 1.26 \times \text{FAS} \\ 13 \text{ years} & @ 23\% = 2.99 \times \text{FAS} \\ 21 \text{ years} & @ 28\% = 5.88 \times \text{FAS} \\ \text{Total} & = 10.13 \times \$82\ 190 \\ & = \mathbf{\$832\ 584.70} \end{aligned}$$

To translate that into a pension we divide by 11 (the age 60 conversion factor):

Notional **Class A** pension

$$\begin{aligned} & = \frac{\$832\ 584.70}{11} \\ & = \mathbf{\$75\ 689.52 / \text{year}} \end{aligned}$$

Half **Class A** pension

$$= \frac{\$75\ 689.52}{2}$$

$$\text{Class B pension} = \$37\ 844.76 / \text{year}$$

Her pension based on actual service would be calculated as follows:

$$\begin{aligned} 7 \text{ years} & @ 18\% = 1.26 \times \text{FAS} \\ 13 \text{ years} & @ 23\% = 2.99 \times \text{FAS} \\ 3 \text{ years} & @ 28\% = 0.84 \times \text{FAS} \\ \text{Total} & = 5.09 \times \$82\ 190 \\ & = \mathbf{\$418\ 347.10} \end{aligned}$$

To calculate her pension, we divide that by the pension conversion factor for her age at retirement (42 years).

$$\begin{aligned} \text{Annual pension} & = \frac{\$418\ 347.10}{14.6} \\ & = \mathbf{\$28\ 653.91 / \text{year}} \end{aligned}$$

Her pension based on actual service (\$28 653.91 per year) is less than half her notional **Class A** invalidity pension (\$37 844.76 per year) so the larger amount becomes her **Class B** invalidity pension.

Class C invalidity

If you retire on invalidity grounds and are classified by the Board as **Class C** (incapacity less than 30%), you are entitled to:

- a lump sum of your Member Benefit as at 30 June 1999 (i.e. your own contributions and interest up until that time)
- your post-30 June 1999 Member Benefit remains preserved in the MSB Fund or a regulated superannuation fund of your choice until you reach age 60 and cease employment or reach your preservation age and retire from the workforce
- your Employer Benefit, accrued to the time of your discharge, remains preserved in MilitarySuper until:
 - age 55, at which time you can take it as pension
 - from age 55 you can have it paid as a rollover to another fund until you reach age 60 and cease employment, or retire permanently from the workforce at or after you reach your preservation age
 - you reach age 60 and cease employment or reach your preservation age and retire permanently from the workforce, at which time you can take it all as lump sum or as a mixture of lump sum and pension providing you convert at least 50% to pension
 - age 65 at which time the Benefit must be paid to you.

If your initial classification is **Class C** you are not subject to classification reviews.

Re-classification to Class C

If at any time your invalidity classification is reviewed and your classification is changed from **Class A** or **B** to **Class C**, your pension will be ceased immediately. At this time, your Employer Benefit will be recalculated and preserved in the Military Superannuation and Benefits (MSB) Scheme.

Re-calculation of Employer Benefit following re-classification to Class C:

Corporal Dawson's invalidity classification is reviewed and his classification changed to **Class C** after five years of being in receipt of an invalidity **Class B** pension. His Employer Benefit is re-calculated on the basis of 10 years actual service:

7 years	@ 18%	=	1.26 x FAS
3 years	@ 23%	=	0.69 x FAS
	Total	=	1.95 x FAS

Corporal Dawson's FAS was \$67 323, so his Employer Benefit as at his date of exit is:

$$1.95 \times \$67\,323 = \$131\,279.85$$

As Corporal Dawson has been in receipt of a pension benefit for five years, his Employer Benefit will be indexed in accordance with the scheme rules. The Employer Benefit comprises of two parts, productivity component (3%) and unfunded component. The productivity component is held within the MSB fund and earnings are reflected in daily unit prices. The unfunded component is increased annually in line with the March to March Consumer Price Index (CPI).

Based on the above example and using the past 5 years returns/indexation, Corporal Dawson's preserved Employer Benefit five years after his exit from the Defence Force would have increased from \$131 279.85 to \$166 118.10.

Re-classification from Class A to Class B

If you are in receipt of an invalidity **Class A** pension, and a medical review results in a re-classification to **Class B**, your pension benefit will change to reflect the new classification. A **Class B** pension is the greater of either:

- half a **Class A** pension; or
- the Employer Benefit at exit divided by the age factor at exit

Example 2:

Using Corporal Dawson's details as shown above, a re-classification to a **Class B** will change his benefit to:

Class A Pension	=	\$60 284.69 per annum
Class B Pension	=	\$60 284.69 / 2
	=	\$30 142.34 per annum
		or

Employer Benefit at exit

-	\$131 279.85 / 17
-	\$7 722.34

As \$7722.34 is less than half the **Class A** pension, the larger amount of \$30 142.34 becomes Corporal Dawson's **Class B** pension.

Preservation ages

Date of birth	Preservation age
Before July 1960	55
July 1960 – June 1961	56
July 1961 – June 1962	57
July 1962 – June 1963	58
July 1963 – June 1964	59
After June 1964	60

Surcharge debt

Any surcharge debt you may have accrued whilst a contributor must be recovered from MilitarySuper benefits when they are paid. Normally this is achieved by reducing the MilitarySuper pension benefit that is otherwise payable but you can elect to have it recovered from your lump sum if you wish.

Early release (Class C)

In certain circumstances, such as financial hardship or on compassionate grounds or if incapacity prevents you from working again, you may be able to access your preserved **Class C** Employer Benefit early. Contact our Customer Service Centre (contact details on last page) for more details, including the criteria you must meet before the preserved **Class C** Employer Benefit can be released.

Interim benefits

If more information is required in order to determine a classification and it is expected that the outcome will be higher than **Class C**, an interim **Class B** benefit may be paid.

Invalidity classification reviews

If you are initially classified **Class A** or **Class B**, your classification may be reviewed from time to time. If the level of your incapacity has changed or your skills, qualifications or work experience have changed, you may be reclassified – if you are, your pension will change to reflect the new classification. If you are receiving a **Class B** pension or you have been reclassified as **Class C** from **Class A** or **B**, you can ask for a review at any time up to age 65 if you think that your condition has deteriorated. If you are initially classified **Class C**, your classification is not reviewable, but you will have the opportunity to ask for reconsideration of the classification at the time you are classified as **Class C** (within 30 days of receipt of the decision).

Returning to the ADF

If you are in receipt of an invalidity pension (i.e. **Class A** or **B**) and subsequently return to the ADF, your pension will be cancelled. If following your period of re-entry you retire on invalidity grounds again, you will be assessed for eligibility with regard to invalidity benefits. If at the end of your period of re-entry you do not retire on invalidity grounds, your previous invalidity pension will not be re-instated.

Are benefits income tested?

MilitarySuper invalidity pensions are not adjusted on account of other income, including Repatriation, Compensation and Social Security payments. However, some of those payments may be adjusted to take account of your MilitarySuper invalidity pension.

Reconsideration of a decision made by a delegate of the Board

A MilitarySuper Member affected by a decision of a the Board or a delegate of the Board may apply to the Board for reconsideration of the decision (within 30 days of receipt of the decision).

What form do I use?

If you are being discharged from the ADF because of invalidity, you use MilitarySuper form M40, Application for Invalidity Benefits. This form is available from the MilitarySuper web site.

If you need more information...

Phone: Customer Service Centre 1300 006 727

Fax: (02) 6272 9617

Website: www.militarysuper.gov.au

Email: members@enq.militarysuper.gov.au

Post: PO Box 22
Belconnen ACT 2616

Visit Unit 4 Cameron Offices
Chandler Street Belconnen
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Note: This document contains general advice or information only

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