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OIA-2024-5099

29 August 2024

[REDACTED]  
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Dear [REDACTED]

I refer to your email of 1 August 2024 requesting, under the Official Information Act 1982 (OIA), a full copy of the *Military Factor Costing Review as prepared by Captain Shane Arndell for Chief People Officer Ms Jacinda Funnell, date 30th November 2023, version one*.

The requested document is enclosed. Where indicated, redactions have been made in accordance with section 6(b)(i) of the OIA, where the release of information would likely prejudice the entrusting of information to the Government of New Zealand on a basis of confidence by the Government of any other country or agency of such a Government; and in accordance with section 9(2)(g)(i) of the OIA, to protect free and frank expression of opinion.

You have the right, under section 28(3) of the OIA, to ask an Ombudsman to review this response to your request. Information about how to make a complaint is available at [www.ombudsman.parliament.nz](http://www.ombudsman.parliament.nz) or freephone 0800 802 602.

Please note that responses to official information requests are proactively released where possible. This response to your request will be published shortly on the NZDF website, with your personal information removed.

Yours sincerely

**AJ WOODS**  
Air Commodore  
Chief of Staff HQNZDF

**Enclosure:**

1. Military Factor Costing Review

# Military Factor Costing Review

<b>Prepared by:</b>	Captain Shane Arndell RNZN
<b>Prepared for:</b>	Ms Jacinda Funnell, Chief People Officer
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Role	Name	Sign-off Date
Chief People Officer	Jacinda Funnell	30 November 2023

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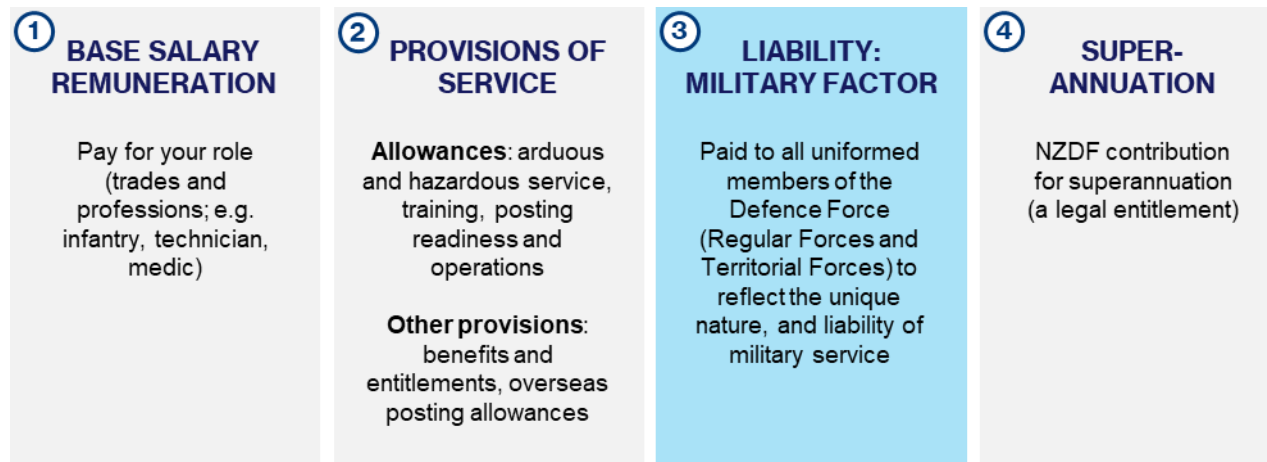
# 1 Purpose

This report has been developed at the request of the New Zealand Defence Force (NZDF) Chief People Officer (CPO) to explore future options for costing the 'Military Factor'.

This review builds upon existing 'Employee Value Proposition' work undertaken in mid-2023 to account for the Military Factor as a part of the remuneration of military personnel. Through extensive consultation and review, we have articulated the purpose and key components of the Military Factor – now we must ensure that the cost of this payment and any ongoing review processes are fit for purpose and adjusted if needed.

## 1.1 Scope

The NZDF compensation framework is illustrated below, with the Military Factor component within the scope of this report highlighted in blue.



The scope of this report includes:

- Analysis of current Military Factor costing.
- Comparison to other militaries.

- Options for adjusted costing.
- Recommendations for process improvements.

Out of scope is:

- A review of Military Factor components or other findings and recommendations – this was completed as part of the previous review, attached as ‘Appendix 1: Military Factor Review – EXCO presentation’.
- A detailed implementation plan.
- Findings or recommendations relating to Military Factor taxation. This was raised in EXCO but is being reviewed separately.

## 1.2 The review team

The review team was led by Captain Shane Arndell RNZN and included the following NZDF personnel:

- s. 9(2)(g)(i) [REDACTED]
- s. 9(2)(g)(i) [REDACTED]
- s. 9(2)(g)(i) [REDACTED]

The team also included external subject matter experts:

- Anne Russell – remuneration specialist with a deep understanding of the New Zealand public sector.
- Tregaskis Brown – a consulting partner that has collaborated with NZDF on a range of operating model and investment projects over many years and that also has a deep understanding of the New Zealand public sector.

## 1.3 Review work to date and EXCO engagement

On 8 August 2023, the review team presented Military Factor Review findings and recommendations to date, attached as ‘Appendix 1: Military Factor Review – EXCO presentation’. This stage of the review and findings presented to EXCO focused on agreeing an accurate description of the Military Factor and its value to New Zealand, as well as the impacts the surrendering of rights has on NZDF personnel and their whānau.

At this time, EXCO endorsed:

- Progress of the Military Factor Review, and the feedback received from across NZDF to help inform the revised principles and recommendations.
- The proposed description of the Military Factor and its value to New Zealand.
- Updated principles that recognise the renouncing of significant rights for service personnel that are subject to military discipline at all times.
- The recognition of impacts of military service on military personnel and their wider whānau.

In addition, EXCO endorsed the following next steps:

- Obtain actuarial costing of the Military Factor.
- Retain universal compensation of Military Factor across all service members.
- s. 9(2)(g)(i) [REDACTED].

- Enforce the regular review of Military Factor in accordance with the policy in DFO 3 (being every two years).
- Investigate better provisions of service to recognise the impacts of military liability on whānau.
- Proceed at pace with reviewing other allowances to contribute to a more complete remuneration picture s. 9(2)(g)(i) [REDACTED].



## 2 Context

New Zealand's military personnel hold a unique position in our society.

In swearing the Oath of Allegiance (the Oath) or Affirmation, military personnel take on the liability of military service and surrender certain rights and freedoms. This enables the government to protect and defend the sovereignty of New Zealand, use its armed forces to conduct military operations in response to international requests for military assistance and peacekeeping operations, respond to national emergencies, and provide humanitarian aid.

### 2.1 Description of the Military Factor

In July, the review team presented the following updated description of the Military Factor and its value to New Zealand to the CPO. This description was tested in focus groups across all three services at camps and bases and feedback was supportive.

In swearing the Oath or Affirmation, military personnel (and their whānau by default) agree to:

- Renounce significant employment rights (freedom of association, salary negotiation, participation in industrial action, limitations on the ability to leave, and the potential compulsion to return to service).
- Be subject to military discipline at all times (which is over and above normal consequences expected by employees from their employers).

And can be compelled to:

- Be away from home, or to shift their home base, to undertake their duties – for days, weeks, months or years.
- Undertake arduous and hazardous duties up to and including combat operations, which may be life threatening or result in loss of life.
- Perform additional duties outside of the scope of their trade, such as security patrolling, assisting with provision of humanitarian aid and disaster relief, military parades, and community outreach.

These conditions are unique to military personnel and do not apply to civilians employed within the NZDF.

The Military Factor ensures NZDF is combat ready by helping to retain highly skilled and trained military personnel for longer, and thereby retain capabilities, by compensating military personnel for accepting unlimited liability.

The Military Factor is currently set at the following annual, individual rates for all RF personnel in NZDF:

Percentage Rate	Value	Recipient
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100%	\$14,923	All members of the RF, except those members listed below.
50%	\$7,461.50	Officer Cadets who have completed basic training and who are undertaking tertiary training
10%	\$1,492.30	Officer Cadets and Private (Equivalent) who have not completed basic training.

Territorial forces are paid Military Factor by the hour, with a maximum of 8 hours paid per day. The Military Factor is currently set at the following annual, individual rates for all TF personnel in NZDF:

Percentage Rate	Value	Recipient
100%	\$4,038	All members of the TF, except those members listed below.
50%	\$2,019	Officer Cadets who have completed basic training and who are undertaking tertiary training
10%	\$404	Officer Cadets and Private (Equivalent) who have not completed basic training.

The divisor for calculation of annual remuneration to hourly rate is: value divided by 2080 (maximum total hours for the year), equalling roughly \$1.94 per hour.

It is not adjusted based on salary or rank, as per other nation's militaries compared in section [10](#).

See section [10](#) below for an overview of how this payment has changed over time.

## 2.2 Summary of current state

Throughout the Military Factor Review, our people have told us that they do not feel that Military Factor adequately compensates them for the liabilities of military service. This is supported by what the team has found when reviewing current processes and historic activity.

Please note that the following list of findings – as with the rest of this report – is focused only on what relates to *costing* the Military Factor. For a general, more detailed list of review findings please refer to the previously supplied 'Appendix 1: Military Factor Review – EXCO presentation'.

### **Military Factor has not been adjusted since 2012.**

The Military Factor was last adjusted to its current rate of \$14,923 in 2012 and the world has changed significantly in the intervening years. From Q1 2012 to Q3 2023, wages have inflated 54.4%<sup>1</sup>.

In 2012 the Executive Committee and Public Service Commission also agreed that applying weightings to the various elements should be avoided and that any decision concerning its value and whether it should be increased should be a case of CDF and his or her executive applying professional military judgement.<sup>2</sup>

It is not clear to the review team why the Military Factor has not been adjusted again since 2012.

### **Salaries have historically been reviewed from a perspective of “total remuneration”.**

The purpose of the Military Factor is to recognise the unique nature of military service and the liabilities of that military service that cannot be reasonably compensated for by base salary. It is additional compensation to reflect the accumulative liability of service, the loss of rights as an individual under that Defence Act of 1990, and the compulsion of each individual to serve where and when the NZDF requires.

In 2008, NZDF adopted a "Total Remuneration model" (TR), with the Military Factor rolled in as part of the total package used to compare salaries to the wider market, rather than its original intention. This led to base salaries becoming more and more out of step with the wider sector, and little attention being paid to the Military Factor itself.

In 2017 this was changed, and base salary is now used for benchmarking. However, as of late 2023 the policy (DFO 3) still states that TR rates are to be indexed to market median. There is still work to be done to ensure that NZDF policy is up to date, and that base salaries are in line with the market median.

Due to year on year funding constraints the NZDF has been unable to ensure base salaries have kept pace with wage inflation, or Military Factor regularly reviewed.

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<sup>1</sup> <https://www.rbnz.govt.nz/monetary-policy/about-monetary-policy/inflation-calculator>

<sup>2</sup> *The NZDF Military Factor – Background and Purpose (11 May 2023)*

### **There is no clear process in place to review or adjust the Military Factor.**

Review of or adjustments to the Military Factor are not factored into the current total remuneration model by default. Any review must be explicitly undertaken, and there is little pressure to do so.

### **What the Military Factor compensates for is difficult to value.**

Much work has been done by the review team to clarify exactly what the purpose of the Military Factor is and what it does and doesn't compensate for. This has been captured in 'Appendix 1: Military Factor Review – EXCO presentation'.

While attempts have previously been made to assign values to individual components of the Military Factor<sup>3</sup>, it was stated by reviewers at the time that: “*The principles for Military Factor do not in themselves provide a basis for establishing a value for Military Factor. This requires judgement from NZDF as to the level of compensation for the overall impact of the service elements.*”

## **2.2.1 The Military Factor over time**

Initially paid as a variable rate of approximate 10% of an individual's salary, in 2001 the Military Factor was adjusted to a flat rate for all eligible staff, irrespective of rank. The table below summarises how the Military Factor payments for the RF have changed over time.

Year	Military Factor (\$)	Notes
2001	4,508	Rates excluded NZDF superannuation employer contributions.
2002	5,157	
2003	5,852	
2004	6,000	
2008	7,074	Adjusted to include 17.9% NZDF employer superannuation contribution. Payable on a tiered basis: 50% for TF and 10% for recruits. Introduction of the current remuneration framework and move to a Total Remuneration (TR) salary. Adjusted by \$156 in 2010.
2010	7,230	

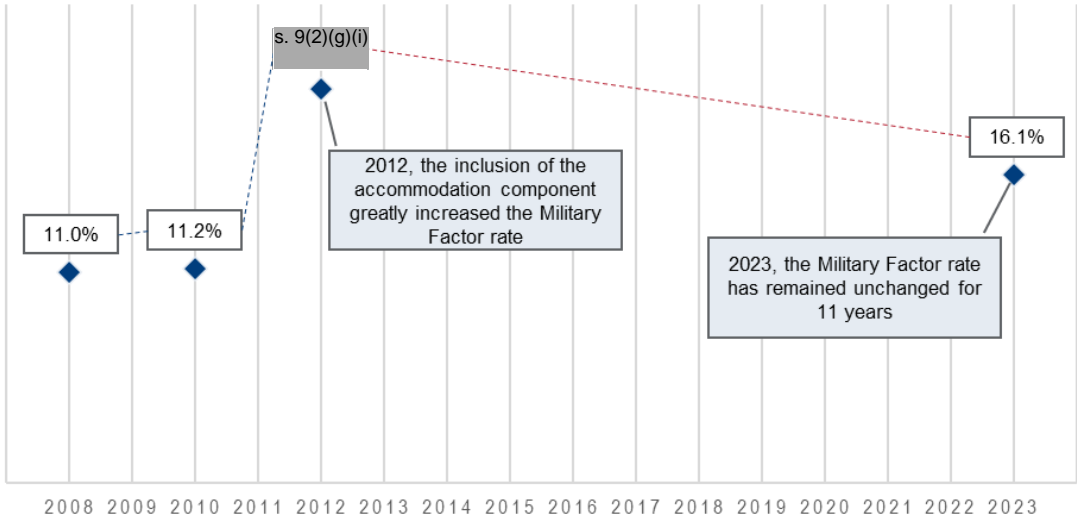
<sup>3</sup> Defence Personnel Executive Minute No. 54/2012 – Re-defining the Premium for Service (July 2012), section 21

<b>2012</b>	14,923	Allowance for Universal Accommodation Assistance (UAC) was removed and funding used to increase the Military Factor.
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A 2012 review of the Military Factor stated:

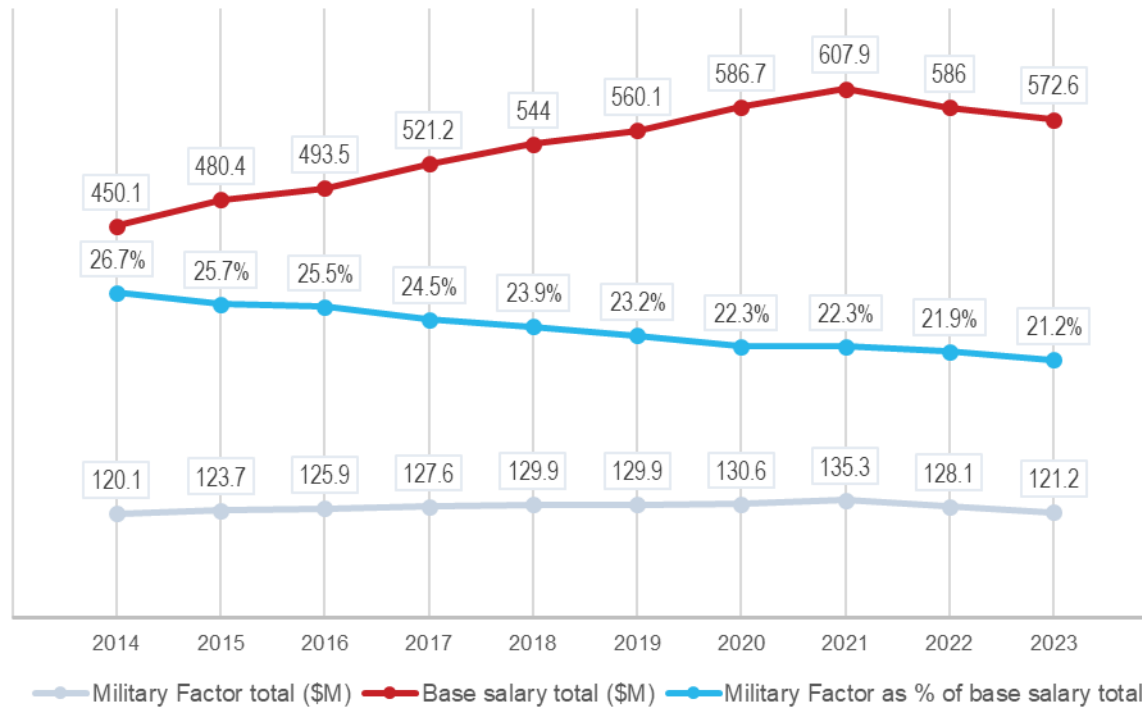
*“The Premium for Service was specifically ring-fenced to ensure that our people never lost sight of the fact that we recognised and placed a value on those specific military skills and requirements. The professional judgement of the senior military and civilian designers of MRS at the time strongly believed that bringing all RF up to a universal flat rate of \$13,205 was the right thing to do. **Further, it was signalled both internally and to external agencies that raising it to around \$15,000 was thought to be correct.** This was unaffordable in 2008, but more importantly, was to have been funded from the removal of remunerative allowances that were regarded as less valid/valued and savings from within the remunerative space.”<sup>4</sup>*

When it was last adjusted in 2012, the Military Factor individual rate was s. 9(2)(g)(i) of the average of the RF salary table. As salaries have increased over time, this percentage has decreased to 16.1% in 2023.



This is also reflected in actual total costs for base salary and Military Factor. Total spend for Military Factor has not increased at the same rate over time as total base salary spend.

<sup>4</sup> Defence Personnel Executive Minute No. 54/2012 – Re-defining the Premium for Service (July 2012), section 12



Please note:

- The visual above is based on RF staff only.
- The decline in base salary and Military Factor totals in 2022 and 2023 can be attributed to an overall decline in staff numbers over this period.

## 2.2.2 What do other nations do?

For comparison, we have compared our Military Factor against close equivalents from other countries. It is worth noting that *we do not recommend directly adopting the same levels* as these armed forces. Overseas militaries set comprehensive remuneration and compensation frameworks for markets that are entirely different to our own and are therefore difficult to directly compare.

Some of these nations have also chosen to tie these Military Factor-equivalent payments directly to individual salaries, increasing or decreasing based on rank and the individual's position in their salary band. We do not agree with this approach as it is not fair or equitable for our staff. Feedback gathered from our people supported the Military Factor as a flat rate – staff are subject to the same liabilities as one another no matter what rank or salary they hold.

Please refer to 'NZDF Military Factor – Background and Purpose' in 'Appendix 5: Supporting documents and data' for more information.

### Australia

The Australian Defence Force (ADF) pays a Service Allowance s. 6(b)(i) [REDACTED]. This varies slightly based on rank and service, with recruits and officer cadets undergoing initial training and Reserves all being paid 75% of the full rate. The Service Allowance is not payable for the ranks of LTCOL(E) and above.

Starting this year, the ADF is reportedly incorporating the Service Allowance into salary.

### United Kingdom

The UK Armed Forces pays a rate of 14.5% of an individual's base salary, this payment is known as the "X-Factor".

The X-Factor is made up of 12 components, including turbulence, danger, separation, and hours of work, collective rights, and more. Not all components are directly comparable to the NZDF Military Factor, but there are areas of crossover. X-Factor is reviewed periodically (5-yearly) to ensure that it remains relevant for comparing key aspects of service and civilian life.

The X-Factor is much more complex in execution than Military Factor. The "X-Factor taper" ensures that pay is scaled to rank, with higher ranks receiving a lower proportion (e.g., OF-5 receiving 75% of X-Factor cash value, and OF-6 receiving 50%). We have ruled this approach out for NZDF, as the primary purpose of Military Factor is to acknowledge the loss of rights and personal liability that come as part of signing the oath. The UK X-Factor attempts to cover more of the "actual cost" of sacrifices of military service, rather than just the liability, and therefore has more grounds to adjust based on role and rank.

### Canada

The salary of Canadian Armed Forces members includes a Military Factor element to compensate for the major characteristics of military service. As of April 1, 2019, the rates (as a percentage of base salary) are as follows:

- 15.21% for RF other ranks (non-commissioned members).
- 13.36% for RF officers up to the rank of LTCOL(E).

- 6.5% for officers in the rank of COL(E) and above.
- 8.01% for TF other ranks.
- 6.16% for TF officers.



# 3 Recommendations

The review team has developed multiple costing options for the Military Factor. Each option considered was tested against multiple design principles:

- **Fair and equitable** – staff are subject to the same liabilities as one another no matter what rank or salary they hold, the Military Factor should reflect this.
- **Defensible** – with a clear trail describing how they were costed.
- **Easy to adjust over time** – to ensure that Military Factor increases are by default, not by exception.
- **Does not artificially fluctuate** – changes in overall workforce composition should not impact the individual Military Factor rate.
- **Does not go down** – the proposed solution should not lead to scenarios where Military Factor payments are reduced from one year to the next.

We expect these principles to evolve over time and further principles to be added in future. We have not yet finished the detailed design that would provide policy recommendations. This will be part of implementation.

Options analysis and cost scenarios were produced for each option. These can be seen in detail in the following sections:

- [‘Appendix 2: Options and design principles](#)

	Fair and equitable	Defensible	Easy to adjust over time	Does not artificially fluctuate	Does not go down
Our proposed approach	Staff are paid the same amount regardless of rank or salary.	Aligns with past decisions, difficult to directly cost the liability of each component.	Adjusted by default as part of the regular salary review process.	Changes in overall workforce composition do not impact the individual rate*	It is highly unlikely that this calculation would result in a reduction*
An actuarial approach	Staff are paid the same amount regardless of rank or salary.  (Assumes this approach would adjust TF/Reserves rates).	Data for comparison will be limited, we do not believe an actuarial approach will produce defensible costs.	Process to re-cost each component is likely to be complex and require manual review.	Changes in overall workforce composition do not impact the individual rate.	Not explored for this option.

<p><b>Adjusting for inflation</b></p>	<p>Regular forces staff are paid the same amount regardless of rank or salary.</p>	<p>It is highly abnormal in any sector to directly tie any form of wage to inflation.</p>	<p>New process required. Will have more "lag" than the proposed approach until all data is available for use.</p>	<p>Changes in overall workforce composition do not impact the individual rate.</p>	<p>It is highly unlikely that this calculation would result in a reduction.</p>
<p><b>14.5% of the average of the salary table</b></p>	<p>The immediate reduction would be seen as unfair as liabilities have not reduced.</p>	<p>What the UK's X-Factor is intended to compensate for is not directly comparable to our Military Factor.</p>	<p>Adjusted by default as part of the regular salary review process.</p>	<p>Changes in overall workforce composition do not impact the individual rate*</p>	<p>Would result in an immediate reduction once implemented.</p>
<p><b>A percentage of total base salary expenditure</b></p>	<p>Staff are paid the same amount regardless of rank or salary.</p>	<p>Difficult to cost liabilities. Too many variables and fluctuations.</p>	<p>New process required. Will have more "lag" than the proposed approach until all data is available for use.</p>	<p>Changes in overall workforce composition may lead to unexpected changes to the individual rate.</p>	<p>Much more likely to result in a reduction based on attrition or changes to workforce composition.</p>

**Note**

\* It is possible that any major changes to the *structure* of the salary tables may impact the average figure used in these calculations, and therefore create some level of artificial fluctuation. We recommend that this is carefully factored into any future salary table changes. This may require the Military Factor individual rate to be re-indexed, but the principles described in these recommendations would still apply.

- Appendix 3: Detailed cost information’.
- [‘Appendix 3: Detailed cost information’](#).

Background documentation and detailed cost modelling can be made available via request to the review team lead.

## 3.1 Our recommended approach

In section 0, we visualised how the Military Factor has tracked over time as a percentage of total base salary cost and the average of the RF salary tables. The Military Factor has not historically been linked to salaries in any way, originally set as an entirely standalone payment with its own dedicated review cycle.

We recommend that this is changed, and a direct link is established between the RF and TF salary tables and the Military Factor rate.

### Summary of our proposed option

We recommend that **the individual annual Military Factor rate is set at <sup>s. 9(2)(g)(i)</sup> of the average of the RF salary tables.** It is also recommended that **Territorial Forces / Reserves (TF) personnel are paid 100% of Military Factor when in uniform for all hours worked.**

It is vital that as part of the review process, the Military Factor individual annual rate **must never decrease**. Changes to the structure of the salary tables may require the Military Factor individual rate to be re-indexed, but the principles described in these recommendations would still apply.

The table below compares both the individual rate and total annual estimate of the proposed <sup>s. 9(2)(g)(i)</sup> with current salary rates.

	Individual rate	Total annual estimate
Current:	\$14,923	s. 9(2)(g)(i)
Proposed scenario:	s. 9(2)(g)(i)	s. 9(2)(g)(i)

## Justification

NZDF is unique when compared to the other nation’s militaries described in section 4 in that we do not currently use salary or rank to determine a fair Military Factor value. While NZDF’s current approach to the Military Factor achieves (at a high level) the design principle of being “fair and equitable”, it is neither “defensible” nor “easy to adjust over time”. (See ‘2.2 Summary of current state’ for an overview of these findings).

For our proposed option, we have *partially* adapted how these militaries calculate their Military Factor-equivalent payments against salaries, but to achieve the principles of “fair and equitable”, “does not artificially fluctuate”, and “does not go down”, we have chosen to set this as a flat rate for all RF personnel based on a *percentage of the salary tables* – not against any one person’s individual salary (See ‘3.2.3 Other options: Setting total Military Factor expenditure at a consistent percentage of base salary expenditure’ for an explanation of why we have recommended the use of salary tables rather than total salary expenditure).

We explored multiple options for what this percentage should be set at, some of these are described further on in this report. Our recommendation s. 9(2)(g)(i) conservatively aligns with where the Military Factor payment was set the last time it was reviewed in 2012, at around s. 9(2)(g)(i) of the average of the salary table at the time. We believe this is more defensible than simply inflation adjusting the current rate, while still resulting in an individual rate relatively close to what that would have been under that scenario.

This approach also ensures that we achieve the third design principle of “easy to adjust over time, to ensure that Military Factor increases are by default – not by exception”. By linking the Military Factor individual rate directly to the salary tables, we create a system whereby any adjustments that are made as part of the regular salary review process are *also* automatically adjusting Military Factor by a proportional amount.

For an overview of how this option addresses each of our design principles, please refer to ‘Appendix 2: Options and design principles

Fair and equitable	Defensible	Easy to adjust over time	Does not artificially fluctuate	Does not go down
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<b>Our proposed approach</b>	Staff are paid the same amount regardless of rank or salary.	Aligns with past decisions, difficult to directly cost the liability of each component.	Adjusted by default as part of the regular salary review process.	Changes in overall workforce composition do not impact the individual rate*	It is highly unlikely that this calculation would result in a reduction*
<b>An actuarial approach</b>	Staff are paid the same amount regardless of rank or salary. (Assumes this approach would adjust TF/Reserves rates).	Data for comparison will be limited, we do not believe an actuarial approach will produce defensible costs.	Process to re-cost each component is likely to be complex and require manual review.	Changes in overall workforce composition do not impact the individual rate.	Not explored for this option.
<b>Adjusting for inflation</b>	Regular forces staff are paid the same amount regardless of rank or salary.	It is highly abnormal in any sector to directly tie any form of wage to inflation.	New process required. Will have more "lag" than the proposed approach until all data is available for use.	Changes in overall workforce composition do not impact the individual rate.	It is highly unlikely that this calculation would result in a reduction.
<b>14.5% of the average of the salary table</b>	The immediate reduction would be seen as unfair as liabilities have not reduced.	What the UK's X-Factor is intended to compensate for is not directly comparable to our Military Factor.	Adjusted by default as part of the regular salary review process.	Changes in overall workforce composition do not impact the individual rate*	Would result in an immediate reduction once implemented.
<b>A percentage of total base salary expenditure</b>	Staff are paid the same amount regardless of rank or salary.	Difficult to cost liabilities. Too many variables and fluctuations.	New process required. Will have more "lag" than the proposed approach until all data is available for use.	Changes in overall workforce composition may lead to unexpected changes to the individual rate.	Much more likely to result in a reduction based on attrition or changes to workforce composition.

**Note**

\* It is possible that any major changes to the *structure* of the salary tables may impact the average figure used in these calculations, and therefore create some level of artificial fluctuation. We recommend that this is carefully factored into any future salary table changes. This may require the Military Factor individual rate to be re-indexed, but the principles described in these recommendations would still apply.

## Territorial Forces / Reserves

TF personnel are currently paid Military Factor **by the hour**, with a maximum of 8 hours paid per day. The maximum Military Factor applicable is \$4038 per year, the divisor for calculation of annual remuneration to hourly rate is: value divided by 2080 (maximum total hours for the year), equalling roughly \$1.94 per hour.

While we are not proposing a change to the overall calculation method, we strongly recommend that the maximum annual TF Military Factor rate is increased to 100% of the RF individual rate. This would increase the hourly rate <sup>s. 9(2)(g)(i)</sup> based on the current Military Factor rate, to <sup>s. 9(2)(g)(i)</sup> under the proposed scenario. This was raised during the Military Factor Review, as TF personnel have surrendered the same rights and are subject to the same liabilities as their RF peers, we do not believe there is adequate justification for setting different individual rates across forces.

This increase has been modelled into the scenario costing seen in previous table.

## To note

We stress that while we have recommended <sup>s. 9(2)(g)(i)</sup> as our preferred option, **the exact percentage is not as important as the overall approach we are proposing**. As there is limited basis to provide detailed costings for the Military Factor based on its components alone, **judgement is required from NZDF** to determine an appropriate level of compensation for the overall liability and loss of rights experienced by our service members.

Should salary tables change as a result of a change to the remuneration framework, then this rate would need to be reviewed and re-indexed. The same design principles would apply.

The team noted a potential risk where future salary adjustments are made more conservatively or “strategically” to certain ranks or roles, due to possible affordability impacts of salary adjustments also resulting in a Military Factor adjustment by default. While the team acknowledges this potential risk, this design option was *explicitly* developed to ensure that adjustments to the Military Factor would be as straightforward and near-automatic as possible, and that an explicit decision *not* to increase the Military Factor would have to be made at review time if required.

## Implementation

The earliest this uplift could be fully designed and implemented <sup>s. 9(2)(g)(i)</sup> would be **mid-2024**. This assumes:

- An optimally resourced and dedicated team to design the new process and relevant policies, and update all systems required.
- EXCO approval.
- Adequate funding.

The following timeline has been lifted from the Allowances Review work to visualise how this uplift will fit into the wider NZDF compensation framework work that is underway.



Possible timeline s. 9(2)(g)(i)

	Today	2024	2025	2026 +
Early payments	Military factor uplift		◆	
	Retention payment		◆	
	Remuneration table uplift (REM 24)		◆	
Allowances	s. 9(2)(g)(i)			
Aligned activity				

## 3.2 Other options we considered

We considered multiple options for costing the Military Factor that we determined did not (or did not fully) meet all the design principles described in the previous section. Some of these options were explored in more detail than others and have been costed for comparison against the current state and our recommended option.

As these approaches were frequently raised during initial discussions, we believe it is appropriate to note them in this report to address why we have chosen not to recommend them for implementation.

Please note that some options, such as directly linking Military Factor to individual's ranks or salaries, were discussed but not raised here as they were quickly discounted due to not meeting our design principles.

### 3.2.1 An actuarial approach

This was the first option the team explored in detail, leveraging actuarial expertise from ACC and PwC to determine a defensible, actuarial approach to costing in line with our design principles.

It was quickly determined that this approach was **not fit for purpose**.

The feedback the team received from the actuarial experts contained many problems with no clear avenue to address, including:

- No obvious risk-based approach was seen to be possible, due to a lack of relevant expense or cost data for the components of the Military Factor.
- Any existing costs that could be identified were often more easily attributed to the *actuality* of service, rather than the *liability* – more appropriately addressed by an allowance.
- Little to no historical actuarial basis for how previous Military Factor rates had been set.
- The Military Factor acknowledges the liability of service in a variety of ways, across multiple major components, for both the individual and their whānau. We would need to somehow price every component and sub-component at both of these levels, and this would need to be reviewed and adjusted on a regular basis – a huge undertaking that would require significant resource, if it is even possible.

The team agreed that the actuarial approach was overly complex, potentially impossible to implement in full, and would likely be no more defensible than any of the other approaches described in this report.

### 3.2.2 Adjusting for inflation

This was the option proposed as part of the Allowances Review indicative cost modelling in August ('Appendix 5: Supporting documents and data'). While this option is straightforward and easy to understand, it does not achieve the principle of being "easy to adjust over time". It is also highly abnormal in any sector to directly tie any form of wage to inflation for several reasons, ranging from budgetary constraints and a lack of flexibility, to creating a potential wage-price spiral if implemented at a macro scale. It is unlikely that this approach will be acceptable to government as an ongoing commitment.

This approach has, however, served as a helpful litmus test to compare against our proposed option. If we intend to set a "fair and equitable" Military Factor rate, it should not be too far off what a theoretical inflation-adjusted rate would be.

While we are not proposing to implement this option, we have costed it for the sake of comparison in 'Appendix 3: Detailed cost information'. Below is a brief summary of how inflation has been calculated for these scenarios:

- Both the Labour Cost Index (LCI) and the Reserve Bank's wage inflation rates have been used to calculate these numbers. LCI options have been given for 'all sectors' and 'public sector only'.
- All inflation has been calculated from Q3 2012 to Q2 2023. Q2 2023 was chosen as this was the latest available LCI data at the time the cost model was built, and it allowed for a clean alignment with inflation forecasts provided by Treasury.
- s. 9(2)(g)(i)

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<sup>5</sup> <https://www.treasury.govt.nz/publications/efu/pre-election-economic-and-fiscal-update-2023>

### 3.2.3 Other options

#### Setting the Military Factor at 14.5% of the average of the salary table (more closely aligned to the UK's X-Factor)

This option was considered but quickly disregarded, as:

- What the UK's X-Factor is intended to compensate for is not directly comparable to our Military Factor.
- The X-Factor is set at 14.5% of an *individual's salary*, not the average of the salary table.
- 14.5% would mean a *reduction* in individual annual rate from \$14,923 to \$13,426 (based on current salaries).

Total costs for this option have not been included here but can be reviewed in the detailed cost model.

#### Setting total Military Factor expenditure at a consistent percentage of base salary expenditure

The logic for this option is similar to our recommended approach but differs significantly in execution and the data source used to determine the final individual rate.

For this option, the process would be as follows:

- Compare the total Military Factor spend in 2012 (when the rate was last adjusted) to the total base salary spend of that year. Note the percentage.
- Apply that percentage to the latest annual base salary total to determine the new Military Factor "pool".
- Develop a process to divide this fairly and accurately among all current staff that have signed the oath.

There are many issues with this approach, including:

- The "lag" that comes with using a previous year's base salary spend to determine a current Military Factor rate.
- The potential fluctuation due to peaks and troughs in salary expenditure. If staff high in their salary band left and were replaced by staff at a lower band, the final rate may even *decrease* year on year.
- The complexity and cost of creating an additional process to run each year.


We believe that our proposed approach will achieve a similar outcome in much fairer and simpler manner.

# 4 Appendices

## 4.1 Appendix 1: Military Factor Review – EXCO presentation

The following pages contain copies of the Military Factor Review slides for reference. This was presented to EXCO on 8 August 2023.


### NZDF Military Compensation: Proposed Structure



#### CONTEXT

As part of the Interim Workforce Plan initiatives to retain personnel still serving, a review of the Military Factor and military allowances is being conducted by the People Capability Portfolio (PCP).

This presentation focuses on the Military Factor. It has been tested in focus groups across all three services at camps and bases. Feedback has informed the definition of the Military Factor value proposition, the impacts on service members and their families, and what recognition could look like.



#### THERE ARE FOUR COMPONENTS THAT COMPRISE COMPENSATION:

	① <b>BASE SALARY REMUNERATION</b>	② <b>PROVISIONS OF SERVICE</b>	③ <b>LIABILITY: MILITARY FACTOR</b>	④ <b>SUPERANNUATION</b>
<b>WHAT IT IS</b>	Pay for your role (trades and professions; e.g. infantry, technician, medic)	<b>Allowances:</b> arduous and hazardous service, training, posting readiness and operations  <b>Benefits and entitlements:</b> Out of scope	Paid to all uniformed members of the Defence Force (Reserve Force and Territorial Force) to reflect the unique nature, value and liability of military service	NZDF contribution for superannuation (a legal entitlement)
<b>WHAT IT'S BASED ON</b>	The relevant sector market median for the role linked to military or civilian remuneration table	Compensation for special and/or urgent demands not compensated fully by other factors AND non-monetary compensation through additional offerings	We have proposed an updated value proposition for the military factor (slide 2) based on feedback from camps and bases	A 3% contribution is the legal requirement with which NZDF complies

## CONTEXT



As part of the wider Workforce Plan, the Military Factor is being reviewed to enable an objective valuation to inform this element of compensation for military personnel.

This slide pack sets out:

- The proposed description of Military Factor and its value to New Zealand
- The value proposition for surrendering rights in order to serve
- The impacts of the Military Factor on our personnel and their whānau
- How military personnel and their whānau would prefer the Military Factor is recognised
- Prioritised actions for NZDF to better recognise the Military Factor, based on their effectiveness in improving retention and ease of do-ability
- A summary of the consultation that has been undertaken to inform this work.

### Next Steps

1. Obtain actuarial costing of the military factor
2. Discuss this document and its proposals with NZDF Senior Leaders, including EXCO
2. Communicate back to our people, particularly those who were involved in the consultation process.
3. Proceed at pace with the Allowances review to contribute to a more complete remuneration picture that will inform a potential budget bid in November 2023.

## OUR PROPOSED DESCRIPTION OF THE MILITARY FACTOR & ITS VALUE TO NEW ZEALAND



New Zealand's military personnel hold a unique position in our society. In swearing the Oath of Allegiance (the Oath) or Affirmation, military personnel take on the liability of military service and surrender certain rights and freedoms. This enables the government to protect and defend the sovereignty of New Zealand, use its armed forces to conduct military operations in response to international requests for military assistance and peacekeeping operations, and respond to national emergencies, such as natural disasters and humanitarian aid.

In swearing the Oath or Affirmation, military personnel (and their whānau by default) agree to:

- renounce significant employment rights (freedom of association, salary negotiation, participation in industrial action, limitations on the ability to leave, and the potential compulsion to return to service)
- be subject to military discipline at all times (which is over and above normal consequences expected by employees from their employers)

And can be compelled to:

- be away from home, or to shift their home base, to undertake their duties – for days, weeks, months or years
- undertake arduous and hazardous duties up to and including combat operations, which may be life threatening or result in loss of life
- perform additional duties outside of the scope of their trade, such as security patrolling, assisting in humanitarian aid and disaster relief, military parades, and community outreach.

This surrender of rights has no reciprocal obligations of the Crown.

*These are unique to military personnel and do not apply to civilians employed within the NZDF.*



## THE VALUE PROPOSITION FOR JOINING THE DEFENCE FORCE



The value proposition for joining the Defence Force, swearing the Oath of Allegiance or Affirmation and the subsequent surrendering of rights includes the opportunity to:

- Contribute to the protection and defence of NZ
- Serve our communities, including responding to national emergencies and disasters
- Experience adventure, overseas travel, unique events and active service on military operations
- Experience the security and camaraderie that comes from being part of a tight-knit team, including developing friendships that last a lifetime
- Develop a trade and/or undertake tertiary education whilst in a paid position
- Obtain specific military skills that cannot be learned in any other organisation
- Develop personal mastery and gain work experience that is highly valued – not just by the military, but across many sectors and organisations
- Have pride in continuing a family history of military service

## THE IMPACTS OF MILITARY SERVICE ON SERVICE MEMBERS



In taking on military liability and the responsibility to serve, the impacts that military personnel experience can be significant. Our people have told us that these can include:

- Mental and emotional load and/or trauma: responding to difficult situations; performing duties that can be emotionally distressing
- Physical injuries and long-term health impacts; potential loss of life
- The pressure of living under military discipline and the liability of military service at all times
- Moral injury: needing to carry out an order that may be in conflict with the individual's values and any resulting mental and emotional harm
- Limitations on the lives of individuals; e.g., someone in the Defence Force may not be able to travel to particular countries
- Restrictions on leave: can be cancelled and/or called back at short notice due to service restrictions
- Potential conflicts between accepting postings and advancing career
- Difficulty establishing and maintaining relationships, starting a family, or caring for family members due to uncertainty of establishing a permanent posting location or being under prescribed notices to deploy
- Reserve liability: personnel leaving the Defence Force can be pulled back in within a certain time period if the need arises.



## THE IMPACTS OF MILITARY SERVICE ON WHĀNAU



When a new member of the military swears the Oath or Affirmation, their whānau, whether current or future, share the impacts. These can include:

- Mental and emotional load of risks and/or potential harms to whānau service member; and/or difficulty in communicating with or accessing information on whānau service member
- Difficulty establishing a permanent family home and/or starting a family
- Cumulative mental and emotional impacts on children: moving between schools, disruption to routine, interruption to parenting etc.
- Families moving to accompany a military partner or family member on posting; OR being separated by not being able to join a military partner or family member on posting
- Difficulty for partners in finding and maintaining a career and the associated financial sacrifice
- Impact on family of restrictions on personal leave: for example, leave not granted, cancelled at last minute or being compelled to return from leave can affect school/family holidays or family events
- Extra childcare arrangements and costs as a result of service requirements, especially when these are at immediate or short notice
- Prolonged absences and cumulative service of the serving member impacts cohesive continuity of whānau and community.

## WHAT RECOGNITION COULD LOOK LIKE FOR SERVICE MEMBERS



The following are ideas suggested by our people that might recognise and/or compensate service members for taking on military liability and surrendering certain rights and freedoms.

- Retain universal compensation of Military Factor across all service members
- Value of Military Factor to be adjusted for inflation <sup>s. 9(2)(g)(i)</sup>
- Recognition of the Military Factor as something unique and identifiable and clearly separate to base salary, allowances and superannuation.
- Leadership behaviour change through education and monitoring on rights and abuses
- Military Factor to be tax free
- Better provisions of service to recognise impacts on military liability on service members and whānau (out of scope)
- Advocacy bodies for service members to allow for individual and collective voice. Ensure intent of policies match people's lived experience, including addressing:
  - rights and abuses
  - remuneration.
- CDF to meet with bank CEOs re: taking Military Factor into account for mortgage lending
- Regular review of Military Factor compensation and ongoing adjustment (annual or biennial)
- Better explanation of the Military Factor, the commitment recruits are making and its potential impacts, including what they're giving up and impact on family
- Comparison of Military Factor compensation against armed forces internationally and any alignment within New Zealand market conditions (relativity to international comparisons may not be achievable).
- A covenant that acknowledges the commitment members of the Defence Force make to New Zealand and what commitment New Zealand makes to them in return.

*Please see slide 7 for a map of the effectiveness in retention and ease of implementation for these options.*

## WHAT RECOGNITION LOOK COULD LIKE FOR WHĀNAU?



The following ideas gathered from our people could recognise and/or compensate whānau when service members take on military liability and surrender their rights and freedoms.

Recognition of the impact on whānau may be better addressed in provisions of service than by the Military Factor.

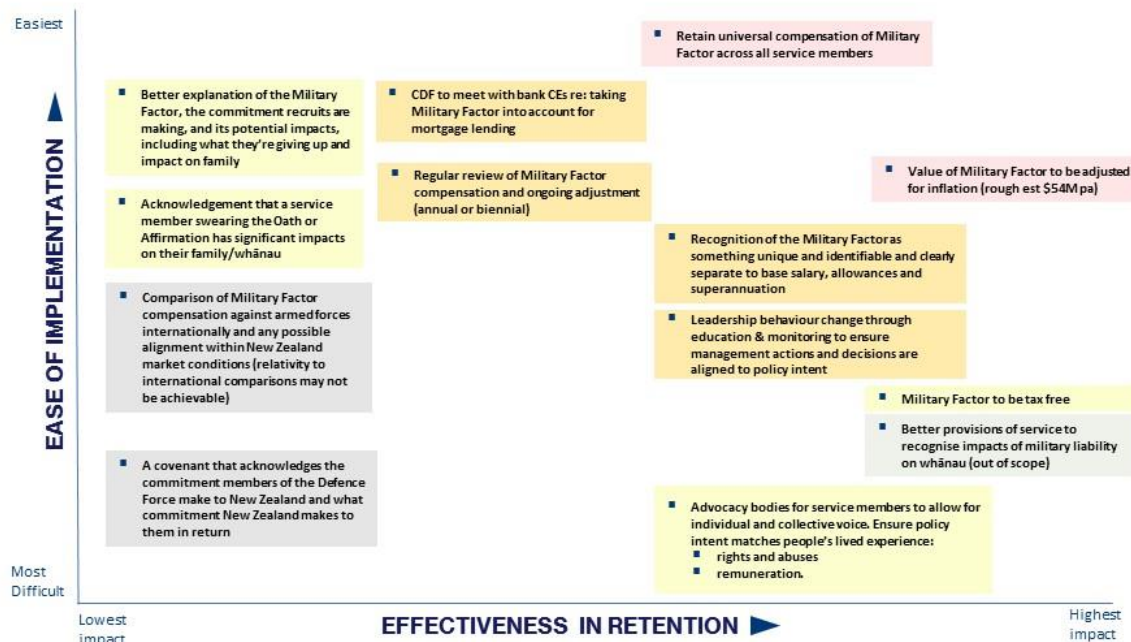
### MILITARY FACTOR

- Acknowledgement that an individual swearing the Oath or Affirmation has significant impacts on their family/whānau

### PROVISIONS OF SERVICE

- Better total/ongoing compensation after a workplace accident that results in discharge
- Faster/more accessible healthcare; for example, being able to access medical care from GPs more quickly in a new location; access to mental health care for families
- Better access to a wider and healthier range of housing
- Better support for childcare, especially when service requirements call service members away at immediate or short notice
- Access to career support for partners
- Recognition of more diverse family structures, including the definition of dependents, to better reflect the family structures of modern society and cultural considerations.

## MILITARY FACTOR: OPTIONS FOR RECOGNITION



The key below indicates when the activities should be delivered by (not when they should start)

Immediately critical; deliver by 1 July 2024	Options for consideration in medium term < 2 years
Critical; deliver by 1 July 2025	Reserve options for consideration in longer term; dependent on effectiveness of all other options => 3 years

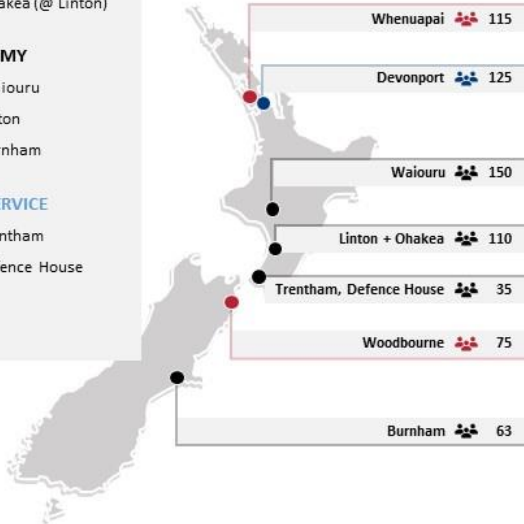
## SUMMARY OF CONSULTATION WITH SERVICE MEMBERS



### LOCATIONS

- NAVY**
  - Devonport
- AIR FORCE**
  - Whenuapai
  - Woodbourne
  - Ohakea (@ Linton)
- ARMY**
  - Waiouru
  - Linton
  - Burnham
- TRI SERVICE**
  - Trentham
  - Defence House

<b>673</b> Total workshop attendees + 10 whānau	<b>210</b> Total written questions and comments
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### Themes that emerged:

- tax free
- postings
- discounts
- leadership education
- Super/pensions
- MF separate
- covenant
- inflation adjustment
- benefits and entitlements
- whānau impact
- advocacy
- TFR model
- international comparison
- allowances
- whānau support
- transparency and comms
- service provisions
- explanation @ recruitment
- regular review

## SUMMARY OF WHĀNAU THEMES



- family separation
- whānau support
- leave restrictions
- starting a family
- postings
- MF in mortgages
- family healthcare
- schooling
- dependents' definition
- mental health
- childcare
- impacts on children
- housing
- partners' careers
- mental/emotional harm
- diverse family structures
- GP access
- injury compensation

## 4.2 Appendix 2: Options and design principles

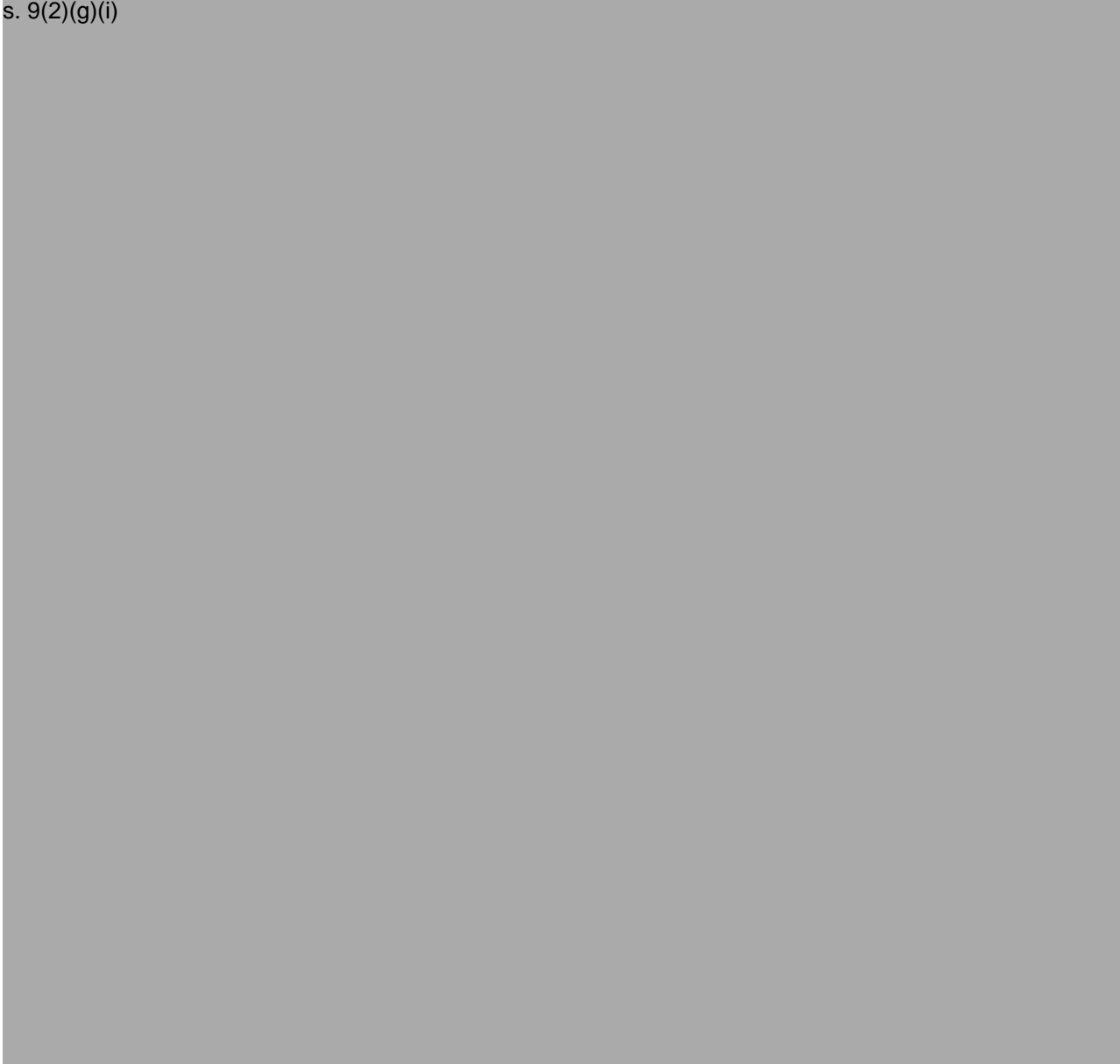
	Fair and equitable	Defensible	Easy to adjust over time	Does not artificially fluctuate	Does not go down
Our proposed approach	Staff are paid the same amount regardless of rank or salary.	Aligns with past decisions, difficult to directly cost the liability of each component.	Adjusted by default as part of the regular salary review process.	Changes in overall workforce composition do not impact the individual rate*	It is highly unlikely that this calculation would result in a reduction*
An actuarial approach	Staff are paid the same amount regardless of rank or salary. (Assumes this approach would adjust TF/Reserves rates).	Data for comparison will be limited, we do not believe an actuarial approach will produce defensible costs.	Process to re-cost each component is likely to be complex and require manual review.	Changes in overall workforce composition do not impact the individual rate.	Not explored for this option.
Adjusting for inflation	Regular forces staff are paid the same amount regardless of rank or salary.	It is highly abnormal in any sector to directly tie any form of wage to inflation.	New process required. Will have more "lag" than the proposed approach until all data is available for use.	Changes in overall workforce composition do not impact the individual rate.	It is highly unlikely that this calculation would result in a reduction.
14.5% of the average of the salary table	The immediate reduction would be seen as unfair as liabilities have not reduced.	What the UK's X-Factor is intended to compensate for is not directly comparable to our Military Factor.	Adjusted by default as part of the regular salary review process.	Changes in overall workforce composition do not impact the individual rate*	Would result in an immediate reduction once implemented.
A percentage of total base salary expenditure	Staff are paid the same amount regardless of rank or salary.	Difficult to cost liabilities. Too many variables and fluctuations.	New process required. Will have more "lag" than the proposed approach until all data is available for use.	Changes in overall workforce composition may lead to unexpected changes to the individual rate.	Much more likely to result in a reduction based on attrition or changes to workforce composition.

**Note**

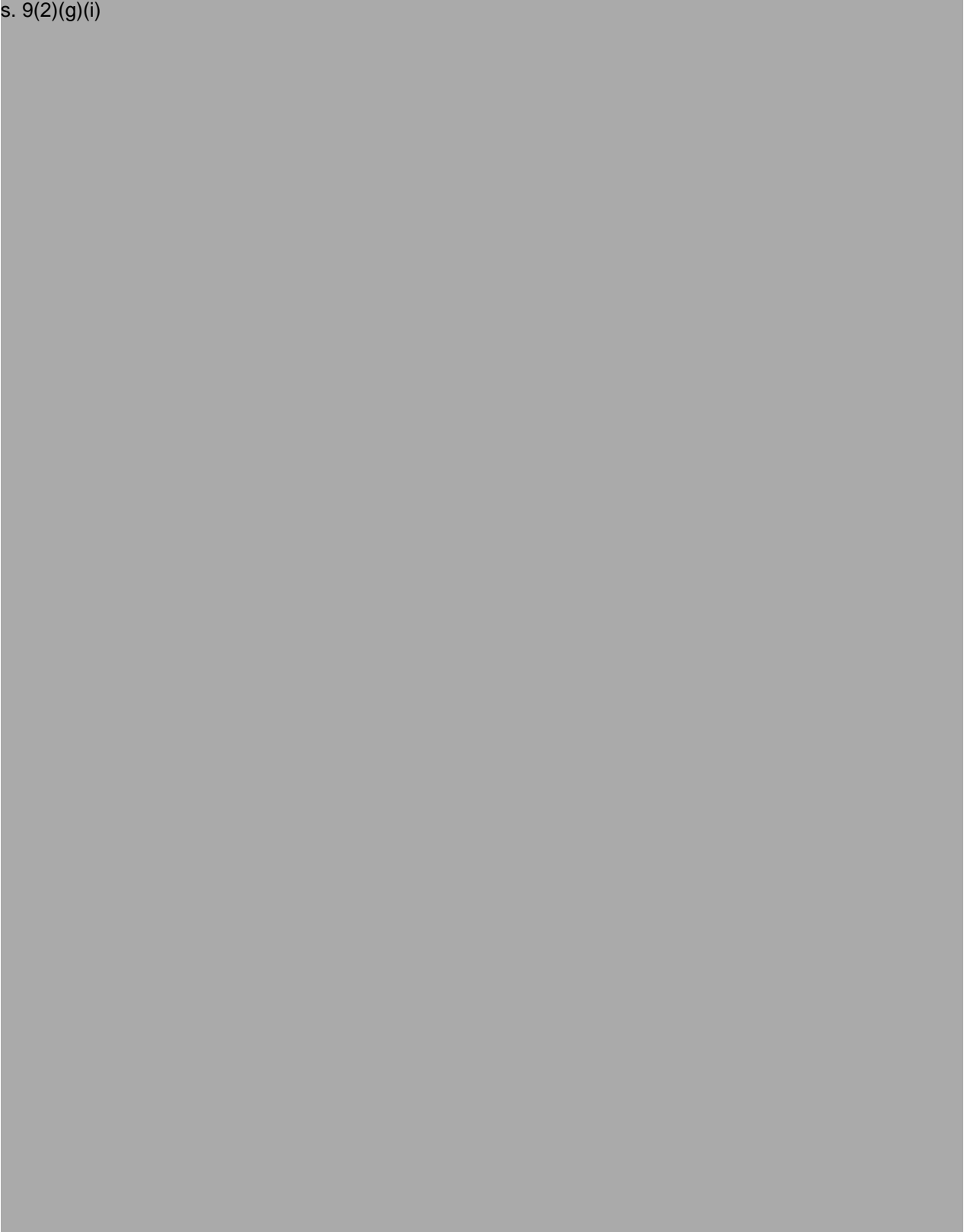
\* It is possible that any major changes to the *structure* of the salary tables may impact the average figure used in these calculations, and therefore create some level of artificial fluctuation. We recommend that this is carefully factored into any future salary table changes. This may require the Military Factor individual rate to be re-indexed, but the principles described in these recommendations would still apply.

## 4.3 Appendix 3: Detailed cost information

s. 9(2)(g)(i)



s. 9(2)(g)(i)



## 4.4 Appendix 4: Workshop participants

The following relates to Military Factor costing *only* and does not cover the previous Military Factor Review and EXCO presentation produced in Appendix 1.

Workshop (Defence liability discussion with ACC) – 3 October 2023		
s. 9(2)(g)(i)	PCP Business Partner (Maritime)	NZDF
Nina Herries	Head of Actuarial Services	ACC
Dan Hughes	Actuarial Services	ACC
Karen Tregaskis	Founding Partner	Tregaskis Brown

Military Factor Costing Workshop 1 – 6 October 2023		
Captain Shane Arndell	Project Lead, Military Factor and Allowances Review	NZDF
s. 9(2)(g)(i)	PCP Business Partner (Marine)	NZDF
s. 9(2)(g)(i)	PCP Business Partner (Land)	NZDF
s. 9(2)(g)(i)	PCP Business Partner (Air)	NZDF
Griere Cox	Partner, Consulting	PwC
Luke Fields	Director, Consulting (Actuarial Services)	PwC
Karen Tregaskis	Founding Partner	Tregaskis Brown
Rob Eland	Senior Consultant	Tregaskis Brown
Anne Russell	Public Sector Remuneration Specialist	Anne Russell Consulting Ltd.



## Workshop (Costing Models discussion) – 18 October 2023

Captain Shane Arndell	Project Lead, Military Factor and Allowances Review	NZDF
s. 9(2)(g)(i)	PCP Business Partner (Marine)	NZDF
Dean Pascoe	Director, HR Policy, Remuneration & Benefits	NZDF
s. 9(2)(g)(i)	Manager, Organisational Modelling and Costing	NZDF
s. 9(2)(g)(i)	Costing Analyst	NZDF
s. 9(2)(g)(i)	Finance Analyst	NZDF
Karen Tregaskis	Founding Partner	Tregaskis Brown
Leanne Spice	Partner	Tregaskis Brown
Rob Eland	Senior Consultant	Tregaskis Brown
Anne Russell	Public Sector Remuneration Specialist	Anne Russell Consulting Ltd.

## 4.5 Appendix 5: Supporting documents and data

Author	Document Name	Date/Version (if applicable)
NZDF	The NZDF Military Factor – Background and Purpose	11 May 2023
NZDF	Defence Personnel Executive Minute No. 54/2012 – Re-defining the Premium for Service	July 2012
NZDF	Defence Force Order 3: New Zealand Defence Force Human Resource Manual	Ver. 17/12 – AL16
NZDF	DFO 3: Part 7, Chapter 7 Operational Enabling Allowance	5 October 2022
NZDF	DFO 4: Defence Force Orders for Personnel Administration	24 April 2020
NZDF	DFO 5: Defence Force Orders for Entitlements to Pay, Allowances and Expenses	9 November 2020
NZDF	DFO(T) 08/2023: HR Policy Amendments	18 April 2023
NZDF	OEAPR Eligibility Criteria and Values	n.d.
NZDF	Pūrongo Ā Tau   Annual Report 2022	2022
NZDF	Six-Monthly Exit Survey Report: Voluntary Leavers from 1 Jan – 30 Jun 2023	August 2023
The Treasury	Budget Economic and Fiscal Update 2023	18 May 2023
UK Armed Forces	Armed Forces' Pay Review Body: Fifty-Second Report 2023	2023
New Zealand Government	Future Force Design Principles 2023	2023
<b>Data</b>		
NZDF	TF Hours FY 22/23	9 August 2023
NZDF	Workforce Totals and Average	1 August 2023
NZDF	Total Remuneration INFO (multiple datasets 30 Jun 14 – 30 Jun 23)	various
NZDF	RF Remuneration Tables (2008, 2010, 2012, 2023)	various

## 4.6 Appendix 6: Glossary of key terms

Term	Definition
Allowance	Compensation that recognises particular activities undertaken by service members in the course of their duties.
Allowances Review	A review initiated as part of the Interim Workforce Plan that aims to slow attrition, improve the organisation's ability to re-engage people who have left and recruit the right talent for the future force.
Base Salary	One of four major components of NZDF compensation, paying for the role of personnel (trades and professions e.g. infantry, technician, medic).
Conditions (Provisions) of Service	One of four major components of NZDF compensation. Includes allowances, benefits and entitlements, and overseas posting allowances.
Current State	Existing organisational processes and/or procedures.
Labour Cost Index	A price index used to measure changes in salary and wage rates in the labour market, for a fixed quality and quantity of labour.
Location Allowance	Recognises personnel who are compelled to live in a particular location due to the nature of their duties. It compensates for the high/increased cost of these locations. Proposed in the Allowances Review.
Military (Mil) Factor	One of four major components of NZDF compensation, paid to all uniformed NZDF members (Regular Forces and Territorial Forces) to reflect the unique nature, and liability of military service.
Oath of Allegiance / Affirmation	A binding agreement where military personnel take on the liability of military service and surrender certain rights and freedoms.
Respite / Stand down	A temporary period of rest or relief from duty.
Superannuation	One of four major components of NZDF compensation– NZDF's contribution towards employee superannuation.
Time Off In Lieu (TOIL)	An employee's entitlement to take time off from work to reflect additional hours worked in the course of their duties.

## 4.7 Appendix 7: Key acronyms

Acronyms	Meaning
ADF	Australian Defence Force
BEFU	Budget Economic and Fiscal Update
CDF	Chief of Defence Force
CDR	Commander
COL (E)	Colonel (Equivalent)
CPO	Chief People Officer
DFO	Defence Force Order
ERP	Enterprise Resourcing Programme
EXCO	Executive Committee
FY	Financial Year
LCI	Labour Cost Index
LTCOL (E)	Lieutenant Colonel (Equivalent)
NTM	Notice To Move
OEA-PR	Operational Enabling Allowance – Posting Readiness
OF-5	Rank of Colonel
OF-6	Rank of Brigadier
REM	Remuneration
RF	Regular Force
RNZN	Royal New Zealand Navy
TF	Territorial Force
TOIL	Time Off in Lieu
UAC	Universal Accommodation Component
WGCDR	Wing Commander