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Committee Secretary
Senate Standing Committee on Finance and Public Administration
PO Box 6100, Parliament House
CANBERRA ACT 2600

SUBMISSION BY MR TERRY WILSON AM, AFC – GPCAPT, RAAF (RETD)
ON THE PROPOSED GOVERNANCE OF AUSTRALIAN GOVERNMENT
SUPERANNUATION SCHEMES BILL 2010

Dear Committee Secretary,

Introduction

I am writing, as a former member of the Royal Australian Air Force (RAAF), to express my concerns about the proposed “Governance of Australian Government Superannuation Schemes Bill 2010” (the Bill). As someone who served his country for the best part of 33 years in the RAAF, and is in receipt of an inadequately indexed DFRDB pension, I am concerned that the special circumstances of military service that have underpinned the current governance provisions are being discarded in the hope that some seemingly quite elusive and uncertain financial gains to Government may be made.

The Special Nature of Military Service

Previously, the special nature and demands of military service on Service personnel and their families has been acknowledged by Government in the setting up and administration of Military superannuation schemes. Now the Bill to establish the CSC appears to subordinate or, indeed, virtually ignore the uniqueness of military service in the interests of quite limited (and not guaranteed) financial gains for the Government (and of course the taxpayer).

It seems now that the special nature of military service where persons are required, ultimately, to put their lives on the line in the defence of their country, is no longer to be a consideration in determining the arrangements in place for looking after them once their service is complete. This is not to mention the need to give due regard to the hardships that they and their families have endured in the normal course of events through submitting to a command structure that can determine, at a moment’s notice, significant changes in their circumstances and the demands placed on service personnel and their families.

In these times, when it has become increasingly difficult to recruit personnel into the Australian Defence Force, the Bill seems to send the message that there is no difference between a public servant in Canberra and a person in Australia Defence Force when it comes to matters of how the Government will look after them – and indeed view them – after they have given loyal service to their country. This is hardly likely to inculcate the view in young people that joining the military is something special and worthwhile - and is viewed as such by the Government. So why would they even consider putting up with the hardship and disruptions that inevitably come with military service?

Concerns

In numerous documents, the Government, or agents of the Government, have stated that the Defence Forces Retirement Benefits (DFRB) and the Defence Forces Retirement and Death Benefit Scheme (DFRDB) are “unfunded” schemes and, therefore must be treated separately to all other Commonwealth superannuation schemes.

However the Bill appears to ignore this long-held ‘policy’. Instead it proposes to merge the DFRB, the DFRDB, the Military Superannuation and Benefits Scheme (MSBS) with other superannuation schemes. In the “Outline”, on Page 4, to the Bill’s proposal, it states, inter alia:

“These outcomes provide an opportunity for benefits to all scheme members and the Commonwealth through lower costs and, potentially higher investment returns.”

There is no explanation of what this statement means. It begs the question of how the lot of scheme members is improved by these (as yet unsubstantiated) “benefits” and “potentially higher investment returns”. For example, does this mean that the Government will use these benefits and higher returns to remedy the inadequate indexation provisions currently applying to military pensions – as it promised to do prior to the 2007 election?

A further concern is that the Bill seems to be based to a considerable extent on the premise that “bigger is better”. As stated in the RSL submission on this matter, that premise does not necessarily hold up in the light of recent events during the Global financial crisis where some relatively small superannuation funds performed much better than their larger ‘merged’ brothers.

Along with this premise goes the proposal to “outsource” the administration of Military superannuation. Again, there is no substantiation that this is likely to produce a better result for military superannuants than the current arrangements. Moreover, it has the effect of placing further distance between military superannuants and the organisation charged with looking after their interests. Its effect is to reduce the influence they are likely to be able to bring to bear on redressing any grievances peculiar to military superannuation benefits accrued as a result of special service to the nation – service that is quite unlike that of the civilian superannuants with which would they would now be bundled under the Bill.

Of even greater concern to me though is that Subclause 10(2) of the proposed Bill states that the Commonwealth Superannuation Corporation (CSC) will comprise:

Three directors nominated by the President of the ACTU,

Two directors nominated by the Chief of the Defence Force (CDF), and

Five directors chosen by the Minister for Finance.

There is no justification nor substantiation as to why the ACTU should have greater representation than the Defence Force on the CSC Board at Director level. While I can understand that the ACTU is entitled to places on the Board, should the 'civilian superannuation funds', be included in the CSC as proposed, I am concerned at the seeming subordination of the interests of the Military to that of the ACTU that could occur with the proposed Board composition.

Conclusion

I have no objections to the merger of the three military superannuation schemes (DFRB, DFRDB and MSBS) under a single authority or board.

However, I wish to lodge my strong objection to merging all military superannuation schemes with other Commonwealth superannuation schemes.

I also strongly object to the proposed composition of the CSC, where there will be three Trade Union Representatives, only two Defence Directors and five Directors appointed by the Minister for Finance. At the very least, the representation from the ACTU and the Defence Force should be equal.

I submit that the Bill has not adequately substantiated its claims that the proposed merger will result in improved benefits to military superannuation recipients, nor has it recognised the special nature of military service. Both of these matters need further consideration - desirably through consultation with organisations representing service persons' interest such as the RSL and the RDFWA.

I am concerned that this proposed Bill will eventually result in a diminution of benefits for Military superannuants and that, in time, there will be an aggregation of all schemes with the result that military superannuants will be treated exactly the same as other Commonwealth superannuants.

Yours sincerely,

Terry C A Wilson