

Kenneth Railton OAM CMDR RAN Rtd

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

Dear Sir/Madam,

I wish to make the following submission to the Senate Standing Committee on Finance and Public Administration Legislation Committee in regard to the Governance of Australian Government Superannuation Schemes Bill 2010, the ComSuper Bill 2010 and the Superannuation Legislation (Consequential Amendments and Transitional Provisions) Bill 2010. I am a DFRDB recipient and my wife and I both have small CSS superannuation pensions.

Background

The *Governance of Australian Government Superannuation Schemes Bill 2010* seeks to give effect to the Government's announcement in October 2008 to merge the Australian Reward Investment Alliance (ARIA), the Military Superannuation and Benefits Board (MSB Board) and the Defence Force Retirement and Death Benefits Authority (DFRDB Authority) to form a single trustee body from 1 July 2010.

The Bill is one of three that purport to modernise Australian Government superannuation while in fact serving other less constructive purposes. Towards this end, they also seek to introduce governance arrangements for the Commonwealth superannuation schemes that are inappropriately suggested to be effective and more consistent with the broader superannuation industry. The other two Bills in the package are:

- The *ComSuper Bill 2010*, which makes changes to the governance framework for superannuation administration arrangements for the main civilian and military superannuation schemes; and
- the *Superannuation Legislation (Consequential Amendments and Transitional Provisions) Bill 2010*, which contains the consequential and transitional provisions necessary to facilitate the merger, the changes to superannuation administration and the modernisation of specific aspects of Australian Government superannuation to more closely align with the broader superannuation industry.

Following the merger of ARIA, the MSB Board and the DFRDB Authority, the single trustee is proposed to be responsible for managing the main Commonwealth civilian and military superannuation schemes. These schemes are:

- The Commonwealth Superannuation Scheme
- The Public Sector Superannuation Scheme
- The Public Sector Superannuation Accumulation Plan
- The Military Superannuation and Benefits Scheme
- The Defence Force Retirement and Death Benefits Scheme
- The Defence Forces Retirement Benefits Scheme

The single trustee is also proposed to be responsible for the superannuation scheme established by the 1922 scheme and the Papua New Guinea scheme. These schemes were previously the responsibility of the Commissioner for Superannuation.

The following issues are of concern to me and many other recipients of the named schemes

1. The findings and recommendations of the Government review (with Price Waterhouse Coopers) cited as underpinning the need for the merger have not been made public for critical review.

The assumption that these revised arrangements will result in cost savings and an increase in efficiency is questionable. The disparate nature of the military schemes, and the governance expertise required, obviates the need for specialist “policy committees” to be formed to provide advice to the governing board and hence significantly reduce the opportunity for any staff rationalisation.

Furthermore there will be considerable additional costs associated with the administration and remuneration of the board.

2. The government failed to consult with any of the Ex Service Organisations in regard to this bill and ignored letters expressing strong and well reasoned objections to the merger of the Military schemes with the public Service Schemes.
3. The decision makes no effort to acknowledge the unique nature of Military Service which is clearly articulated in the attached paper for those who may not already appreciate this long recognised situation.
4. There appears to be no reason that politicians’ superannuation was not included in the merger. The pre 2004 superannuation is a defined benefit scheme that is similar to the military defined benefits schemes and the post 2004 is an accumulation scheme. The management of these schemes is similar and if there were to be benefits to amalgamating the other schemes surely further benefit to the commonwealth could be accrued by including the politicians’ schemes.
5. The Governing Board (Board of CSC) has ten members including the Chair of which two are appointed by CDF. In this environment with three members nominated by the ACTU and five by the minister it is highly unlikely that the ADF representatives could have sufficient influence in board considerations to ensure the uniqueness of military service is given appropriate weight.
6. The board composition means that although serving public service members will be well represented retired public servants and serving and retired ADF members are have no direct representation on this governing board.
7. To suggest that CDF should provide such representation is a bridge too far! His nominees will undoubtedly perform their roles with diligence. However, with the best will in the world they will inevitably represent the ADF as an entity and experience makes abundantly clear, will bring to the table a very corporate interpretation of issues, rather than one that represents the interests of even serving members. This leaves the retired members of the military schemes markedly worse off even than this.
8. The Review into Military Superannuation Arrangements has acknowledged that the military schemes disability and death benefits are unique to the responsibilities of the trustees of the current military schemes and require a different and additional skill set to that needed for the

public service schemes. There is real and widespread concern that this skill set will be lost with the proposed merger of the boards.

The RMSA recommendation is to establish a single board to manage all military superannuation schemes. This seems to be a reasonable action and Defence Force Welfare Association (DFWA) has already advised its agreement with this. It has further recommended a possible board composition that is designed to meet the governance requirements, as well as protect the interests of both the members of these schemes and the Commonwealth. DFWA has suggested a 7-member board constituted as follows:

- Independent Chairman
- Independent member with superannuation industry expertise
- Independent member with investment/financial services industry expertise
- 2 employer members (with at least 1 from Department of Defence)
- Employee member nominated from within the ADF.
- Ex-employee member nominated by the military superannuants' community.

In summary:

1. The financial justification for introducing this bill has not been released for public scrutiny and comment.
2. The bill seeks to normalise the operation of Commonwealth Super boards (excluding the politicians' superannuation) and does **not** recognise the unique nature of military service.
3. The makeup of the board virtually guarantees that the ADF representatives will have insufficient influence in board considerations to ensure the uniqueness of ADF service is afforded appropriate credence.

Recommendations

1. This bill be delayed and the government release the Price Waterhouse report to public examination and comment.
2. The government pay appropriate respect to the unique nature of military service when determining superannuation issues for the ADF and maintain a separate (combined) board for military superannuation.

Yours truly

Kenneth Railton OAM, BA, Grad Dip Admin, CMDR RAN Rtd
04 Mar 2010

Enclosure : DFWA Information Sheet – Unique Nature of Military Service