

Ms Christine McDonald
Committee Secretary
Standing Committee on Finance and Public Administration
(Legislation Committee)
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Canberra ACT 2600

**Governance of Australian Government Superannuation Schemes Bill 2010,
the ComSuper Bill 2010 and the Superannuation Legislation (Consequential Amendments and
Transitional Provisions) Bill 2010**

I refer to your letter of 25 February 2010 inviting me, in my capacity as Chairman of the Military Superannuation and Benefits Board No.1 (the MSB Board), to provide a submission to the Committee in connection with its inquiry into the above Bills.

The Committee has been requested to determine whether it is necessary to retain a separate board to administer the military superannuation schemes and whether these schemes differ markedly from other Commonwealth Government administered schemes.

Background

On 31 October 2008, the Government announced that from 1 July 2010 the boards of ARIA and MilitarySuper and the DFRDB Authority would merge to form a single board. In making this announcement the Government stated that the new board would have the requisite skills to govern in the best interests of all members and that civilian and military interests will continue to be represented.

The Government also said that the reforms will not affect members' superannuation benefits in any way as each Scheme will retain its own legislative base and provisions.

The Government has stated that the board consolidation is part of an integrated package of measures aimed at a modernised and improved framework for Australian Government superannuation, more in line with arrangements in the broader superannuation industry in Australia. The Government's advised intention is that the package aims to provide efficient trustee arrangements and improved services to members.

The single Board's principal responsibility will be to act in good faith and in the best interests of all of each of the separate schemes.

Military Superannuation and Benefits Scheme

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The Government has stated that the merger of the board will not change the individual schemes' structures, entitlements or benefits for members. The new single Board will continue to administer each scheme in accordance with the existing legislation and rules applicable to each scheme.

Given that the matters under consideration by the Committee relate directly to the Government's policy concerning the future governance of the military and civilian public sector superannuation schemes, the MSB Board believes that it is not appropriate for it to comment on that policy.

To assist the Committee with its considerations please find attached some relevant material on the structure and operations of the MSB Board and Scheme.

Yours sincerely,

For Tony Hyams

Chairman

Military Superannuation and Benefits Board No.1

4 March 2010

FEATURES OF THE MILITARY SUPERANNUATION AND BENEFITS SCHEME

Scheme Overview

The Military Superannuation and Benefits Scheme (the Scheme) was established in 1991, after a detailed review of superannuation arrangements covering members of the Australian Defence Force (ADF). It replaced the Defence Force Retirement and Death Benefits Scheme (a totally unfunded, defined benefit scheme) for all new entrants to the ADF from 1 October 1991.

Military Superannuation and Benefits Board of Trustees No.1 (the MSB Board)

The MSB Board consists of five trustees appointed by the Minister for Defence Personnel, Materiel and Science (the Minister) under section 21 of the Act. Two of the trustees, nominated by the Minister, must have experience in, and knowledge of, the formulation of government policy and public administration. Two additional trustees must be Members of the Defence Force – one an Officer and the other a Member other than an Officer. They are nominated by the Chief of the Defence Force (CDF) and appointed by the Minister.

The Board's vision for the Scheme is that it be a high-performing superannuation scheme providing quality services to members and investing their contributions in the Military Superannuation and Benefits Fund (the Fund) in a way which contributes positively to the support of its members' lifestyles in retirement.

The Board's principal duties are to:

- Manage and invest moneys to meet the purposes of the Scheme
- Ensure the Scheme is administered in accordance with the Scheme rules and regulatory obligations;
- Cause the payment of moneys in and out of the Scheme to occur as prescribed
- Safeguard the assets of the Scheme and the interests of the beneficiaries
- Inform all relevant parties of the Scheme's condition and conduct, and
- Cause proper records and accounts to be maintained about the operation and financial activities of the Scheme.

The MSB Board's trustees are responsible for the prudent management of the Scheme and Fund in the best interests of the members of the Scheme and their dependants.

The Fund

The Fund comprises the members own contributions and funded employer contributions paid into the Fund on behalf of the member. The Fund was unitised from 1 July 2002 and offers members a choice of five Investment options – Cash, Conservative, Balanced, Growth and High Growth. Over 90% of the assets of the Fund are invested in the Growth (Default) Option.

As at 30 June 2009 the assets of the Fund were approximately \$2.8 billion and, based on conservative assumptions, the Fund is expected to grow to \$3 billion by 30 June 2010.

Design Features of the Scheme

The Scheme is a hybrid defined contribution and defined benefit scheme with benefits being derived from two sources:

- A member component which is a lump sum of the member's own contributions, plus interest (based on the member's investment choice); and

- An employer component, which is a defined benefit related to a member's period of membership and final average salary that must be preserved in the Fund until age 55. This benefit is unfunded (that is, the cost is met on an emerging cost basis from the Consolidated Revenue Fund) except for the portion relating to employer productivity contributions. This component can be paid as either an indexed pension or lump sum or combination of either after the age of 55.

Membership of the Scheme is compulsory for all new entrants to the ADF and the minimum member contribution rate is 5% of fortnightly salary for superannuation purposes (salary for superannuation purposes includes the qualification and skills elements of flying, submarine service, special action forces and specialist operations allowances). At three month intervals members may elect to vary their rate of contribution to the Scheme between 5% and 10%.

A member is able to salary sacrifice contributions to the Scheme, roll-in superannuation balances from other funds and/or make additional personal contributions or contributions on behalf of a spouse.

The benefits provided by the Scheme are generous, by occupational-based superannuation standards, but are reflective of the nature of military service.

Key Scheme Demographics

- Contributing Members 52,000
- Preserved Benefit Members 76,000
- Pensioners 7,500

Governance Arrangements

The following are key attributes relating to the MSB Board, Scheme and Fund:

- The Scheme is a Regulated Superannuation Scheme under the *Superannuation Industry Supervision Act and related Regulations*;
- The MSB Board holds Australian Financial Services and APRA licenses and the MSB Fund has been granted status as a Registered Superannuation Entity;
- The MSB Board has been granted an exemption from the strict application of the SIS equal representation rules in respect of its board;
- Contributing membership of the Scheme is limited by the overall size of the ADF;
- Although contributing membership will increase only slightly from their current levels (around 52,000) over the next 8-10 years, the number of members with preserved benefits within the Scheme will double from their current level of 76,000 to over 150,000 in this same period.
- The Scheme is male dominated (86%);
- The average age of members is approximately 28 years;
- The most common form of exit is by way of resignation after less than 10 years service;
- There is a high incidence (approx. 11%) of separation from the ADF on invalidity grounds. This is in large part due to the high physical and psychological standards applied to members of the Defence Force; and
- Invalidity benefits are based on an assessment of capacity to undertake civilian employment, not the inability to perform ADF service functions.