



2 March 2010

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

SUBMISSION BY CON SAPPELLI
ON THE PROPOSED
GOVERNANCE OF AUSTRALIAN GOVERNMENT SUPERANNUATION SCHEMES
BILL 2010

Dear Committee Secretary,

Background

I served our Nation for 20 odd years, resigning from the Royal Australian Navy and retired in 1977 with the rank of Warrant Officer I have been a contributor to the DFRDB Scheme and now draw DFRDB superannuation, after commutation, of gross \$ 794.84 per fortnight (\$20665.84 annually) after tax. And I continue to pay tax, although I turned 70 years of age last October, albeit with a 10% rebate, even though all other "pensioners" over 65 (with the exception of Commonwealth Public Servants) pay no tax at all. Seems to be very small comfort for service to our Nation of 20 odd years!

I mention these facts to emphasise that I am very interested in what happens to my superannuation, who controls it, how it is indexed and why is it taxed?

Another fact, which needs to be addressed, is the blatant rip off by Government in relation to commutation. Those of us who chose to commute are and have been repaying that commutation in my case for 33 years that debt has well and truly been recouped but yet I continue to repay a loan which is already discharged.

Comments

In numerous Government correspondence, Ministers and Government bureaucrats state, in simple terms, 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 proposed *Governance of Australian Government Superannuation Schemes Bill 2010* (the Bill) appears to ignore this long-held "policy". This Bill 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.”

Does this mean that the DFRB and the DFRDB schemes will now be reclassified as “funded” schemes as they will now be earning interest from “higher investments”?

Also in the “*Outline*”, on Page 4, it states, inter alia:

“..the single trustee has a responsibility to act in the best interests of all members...”

However in *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.

On the surface this does not appear to guarantee equal representation. One has also to ask why the President of the ACTU is permitted to nominate three directors while the CDF can only nominate two, especially when the relevant numbers of the Australian Defence Forces are taken into account! In fact, I cannot see the relevance of involving the ACTU with our Military superannuation schemes in the first instance!!

To the best of my knowledge Servicemen and women are in no way affiliated with any union, so I find it incongruous to the extend of being bizarre why the ACTU should have any say in the Defence Forces military superannuation and indeed have a greater representation.

The Bill does not specify how the CSC will be remunerated. Who pays the Directors’ salaries? Will this expense come from the superannuation schemes? If so will this not reduce any accruing interest from investments which should rightly go to the members?

On Page 6 of the proposed Bill, under *Financial Impact Statement*, it should be noted with a great deal of alarm that this proposed merger will cost \$1.1 million to the ARIA, the MSBS Board and to the DFRDB Authority!! This, inevitably, will again come at the expense of the members. Why should these Boards be penalised for a Government initiative?

The Uniqueness of Military Service

Military personnel, unlike their civilian counterparts, are required to take up arms and defend our Nation and, in doing so, put their lives at risk unlike those who choose employment in other Commonwealth Government departments.

The facts are well known that the unique requirements of military service pose a far greater risk of personal injury or death to those of us who are prepared to pay the supreme sacrifice for the betterment of the Nation by enlisting in the Defence Forces. The uniqueness of Military Service not only affects Military personnel. Because of the constant requirement to be ready for deployment on war service and the rigors of military life in general, (which are far greater than those experienced by the average Government employee and their families) has a profound impact on their entire

lifestyle and that of their families, who suffer hardships above and beyond that suffered by families of other Commonwealth Government employees.

Military service has to be considered separately and, as the Government has stated in the past, Military Service is of the highest calling our country can ask of its citizens. Surely then, it is the Government's responsibility to ensure that our country employs and properly trains the right people to do what is asked of them by the Government of the day (including the supreme sacrifice). It is also the responsibility of Government to recognise the uniqueness of Military Service and ensure that all Service personnel, past, present and future are fairly recompensed in retirement, for the unique role they play in the security of our Nation.

The proposed Bill appears to ignore this unique service to our nation. Despite the statement on Page 4 of the "Outline": *"Each scheme will retain its own legislation base and provisions"*, history is replete with examples of such "guarantees" being broken. **One has only to look at how the DFRDB funds were purloined put very bluntly stolen by the Government, placed into Consolidated Revenue and used how the Government wanted, to the detriment of the Servicemen and women** The DFRDB fund was a stand alone fund with considerable moneys and assets. Then in 1986, the Prime Minister, Mr Keating, unilaterally reduced the CPI on DFRDB recipients by almost 2% (commonly referred to in ADF circles as "Keating's stolen 2%") from 9.2% to 7.2% because the Nation was "going broke". It should be noted that this penalty remained in force until 1998 and those members affected have never been reimbursed.

Consequently there is a great deal of scepticism in the veteran and ex-ADF community about this proposed Bill. Many see it, as I do, as yet another step to do away with that concept of the uniqueness of Military service. The Government needs to bear in mind that there are some 630,000 Servicemen who will ultimately have a large who they will chose to support when election are due later this year.

Concerns

While I have no objections to the merger of the three military superannuation schemes (DFRB, DFRDB and MSBS) under a single authority or board, I have grave reservations regarding the merger of these three schemes with other superannuation schemes.

I am concerned that this proposed merger will incur unknown costs especially with the payment of the remuneration of the CSC Directors. There will also be other related expenses, travelling, accommodation, etc. If the military superannuation schemes have to contribute to these costs, this will further reduce the funds available to their members.

The composition of the CSC is unbalanced and certainly appears to place the ADF Directors in the minority.

Again, I am concerned regarding the establishment costs as these, too, appears to have to be met by the merging schemes. I do not believe that the Military superannuation schemes, being "unfunded" should have to bear these costs.

As the DFRB and DFRDB schemes have always been as Defined Benefit Schemes and, as such "unfunded", will they now be reclassified as "funded" schemes as investments will provide additional funds available for distribution?

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.

This, in turn, will be yet further erosion of the uniqueness of Military service.

Conclusion

I wish to lodge my strong objection to merge 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.

This is yet another step in the Governments' efforts to devalue the proven fact that employment in the Defence Force is unique to all other Government employment conditions. Despite all guarantees and undertakings, history is full of examples where Governments change such arrangements for financial reasons and to the detriment of the recipient (in this case, the ex-service community). I am very concerned that if this Bill is passed by Parliament, military superannuants will be treated exactly the same as Commonwealth Public Servants and trade unionists.

For the reasons stated in this letter, Military superannuation schemes must remain separate from all other schemes, and be controlled by a separate governing body (Board of Directors).

Yours sincerely,

Con Sappelli JP