

1 March 2010

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

**SUBMISSION BY GPCAPT (RTD) J. B. JACOBSEN  
ON THE PROPOSED  
GOVERNANCE OF AUSTRALIAN GOVERNMENT SUPERANNUATION SCHEMES  
BILL 2010**

Dear Committee Secretary,

I am writing in response to the joint media release issued by Mrs Louise Markus MP and The Hon Bob Baldwin MP on 27 February 2010 which encouraged anyone with a view on military superannuation management arrangements, especially the proposed merger, to contact the Committee with their views. Because I have such a limited time to respond to this joint media release, I shall only resort to commenting on those aspects of the proposed *Governance of Australian Government Superannuation Schemes Bill 2010* (the Bill) which I consider I am sufficiently competent to do so.

**My Background**

I served as an officer and pilot in the Royal Australian Air Force from 29 June 1960 to 2 May 1985. I contributed to the Defence Forces Retirement and Death Benefit Scheme (DFRDB) during that period of service and I am a recipient of that scheme in retirement. Please note that I shall continue to pay tax on my DFRDB benefit, even after 65 years of age, albeit with a 10% rebate, even though all other "pensioners" over 65 (with the exception of Commonwealth Public Servants) pay no tax at all. Therefore, I am very interested in what happens to my superannuation, what organisation controls it, how it is indexed and why it is taxed.

**My Major Concern**

Most importantly, I do not support the introduction of the Bill. I consider that the existing arrangement providing for the board known as ARIA, established under section 20 of the *Superannuation Act 1990*, continues to operate. I consider that the current practices established under section 20 of the *Superannuation Act 1990* have stood the test of time and need to be retained, free of dominating political influence. Why is it that politicians often want to embark upon a mission of changing proven Government

policy which has and continues to meet the Nation's aspirations of sound judicial management?

### **Other Concerns in Respect of the Proposed Legislation**

In numerous Government correspondence, Ministers and Government bureaucrats state, in simple terms, that the Defence Forces Retirement Benefits (DFDB) and the 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”. This Bill proposes to merge the DFDB, the DFRDB, the Military Superannuation and Benefits Scheme (MSBS) with other superannuation schemes. In the “*Outline*”, on page 4 of the Bill 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 DFDB 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, the text 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 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. **In fact, I cannot see the relevance of involving the ACTU in the administration of Military superannuation schemes at all.** If the Bill is to proceed, I consider that the CSC should be correctly structured. There should be three directors nominated from each of the organisations, ie the ACTU, CDF and the Minister for Finance. This change will give a total of nine directors plus a Chairperson, a reduction of one on that proposed in the Bill. In my opinion, this change provides equal representation at the Director level while reducing the political dominance of the Minister for Finance.

Furthermore, 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 Bill, under *Financial Impact Statement*, I am concerned 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 as an expense to the members of the specific schemes. Why should these Boards be penalised financially for a Government initiative?

At page 12 of the Bill, *Sub Clause 12(2) Term of appointment* indicates a maximum period of nine years for each Director. In my opinion, the maximum period of appointment for Directors should be six years.

### **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 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 Australian Defence Force (ADF). The uniqueness of Military Service includes the constant requirement to be ready for deployment on war or peace keeping duties overseas. The rigors of military life in general have a profound impact on the entire lifestyle of not only the member in uniform but that of their families as well. As a general rule, families of ADF members suffer hardships and separation 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 the highest calling our country can ask of its citizens. Therefore, the responsibility of Government is 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.

Despite the statement on page 4 of the "*Outline*" ie "*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 unjustly acquired by the Government, placed into Consolidated Revenue and used by the Government for other priorities. For example, in 1986, Prime Minister 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". This unjust penalty remained in force until 1998 and those members affected by this change have never been reimbursed.

### **Conclusion**

I strongly oppose the introduction of the Bill. Furthermore, I am concerned that the Bill will eventually result in a diminution of benefits for Military superannuants (even though the proposed legislation states otherwise). I foresee 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. Military superannuation schemes must remain

separate from all other schemes and be controlled by a separate governing body (Board of Directors).

If the Bill is to proceed and a CSC is to be established, there should be a total of nine directors, consisting of an equal representation of three directors nominated by the ACTU, CDF and the Minister for Finance. I also believe that the maximum term for Directors as per the Bill should be no more than six years.

In my opinion, there is a great deal of scepticism in the veteran and ADF community about the proposed changes and the long-term intention of the Bill. Many see it, as I do, as yet another step to do away with that concept of the uniqueness of Military Service.

Yours sincerely,

**JOHN B. JACOBSEN**  
**GPCAPT (RTD)**