Australian Government
Department of Finance and Deregulation
Department of Defence

SUBMISSION TO THE

SENATE FINANCE AND PUBLIC ADMINISTRATION COMMITTEE

INQUIRY INTO

GOVERNANCE OF AUSTRALIAN GOVERNMENT SUPERANNUATION SCHEMES BILL 2010, THE COMSUPER BILL 2010 AND THE SUPERANNUATION LEGISLATION (CONSEQUENTIAL AMENDMENTS AND TRANSITIONAL PROVISIONS) BILL 2010

March 2010

TABLE OF CONTENTS

Introduction

1. The purpose of the Bills is to improve superannuation for military personnel and Commonwealth employees and to secure the Commonwealth's superannuation administration arrangements for the future. The Government first announced the merger of the military and civilian trustees in 2008 and made further announcements regarding the changes to Commonwealth superannuation administration in 2009.

2. Development of this package of legislation has been undertaken in partnership between the Finance and Defence Ministers and their respective Departments, in consultation with the existing Military Superannuation and Benefits Board (MSB Board), the Defence Force Retirement and Death Benefits Authority (DFRDB Authority) and the Australian Reward Investment Alliance (ARIA), which is trustee of the civilian schemes.

3. Development of the legislation has also taken into account a range of views expressed over time by a number of other stakeholders. This includes the priority of maintaining and protecting the features of military superannuation that reflect the special nature of military service.

4. The Bills do not change member benefits, death and disability arrangements or entitlements, such as indexation of pensions. These matters are enshrined in legislation, which are not being altered by these Bills and cannot be altered by the scheme trustee. The arrangements also do not alter who members deal with in relation to their retirement benefits as ComSuper remains responsible for administering the schemes. The trustee will also be able to mirror the arrangements currently in place for the reconsideration of death and disability benefits in the military schemes, including for representation of military personnel.

About the schemes

5. The Commonwealth has a long history of providing retirement benefits to its military personnel and civilian employees.

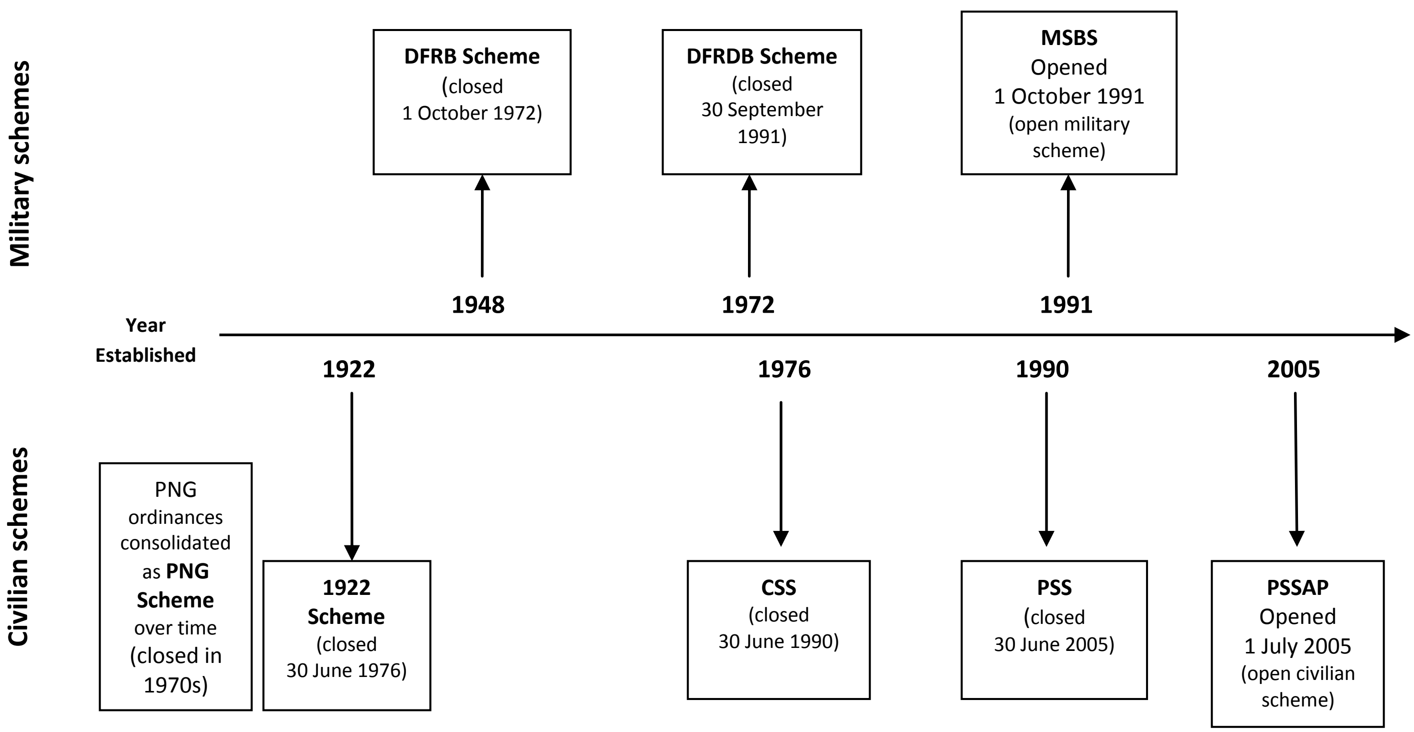
6. Currently, there are six Commonwealth military and civilian superannuation schemes that are managed by the MSB Board, the DFRDB Authority and ARIA. All of these schemes are administered by ComSuper. ComSuper is also currently responsible for two old civilian schemes in which only pensioners remain.

7. Mostly, membership of the Commonwealth's superannuation schemes is, or was, compulsory. All major benefits from the schemes are paid from the Consolidated Revenue Fund, except for the Public Sector Superannuation Accumulation Plan (PSSAP), where benefits are paid directly from the scheme. A further description of the schemes is set out at **Attachment A**.

8. Of the eight schemes, there are only two that are open to new members. The Military Superannuation and Benefits Scheme (MSBS) is the open, hybrid[1] superannuation scheme for new military personnel who join the Australian Defence Force. New Commonwealth civilian employees are eligible to join the PSSAP, which is an accumulation scheme, or a superannuation fund of their choice. Membership and fund statistics of each of these schemes, which would come under the responsibility of a single trustee, are set out in the table at **Attachment B**.

9. The military and civilian defined benefit superannuation schemes have developed over time to meet changing needs. The development of the various schemes is illustrated in the following timeline.

Timeline – Civilian and military superannuation schemes



10. While there are particular features of the military schemes that recognise the special nature of military service, there are many similar design concepts between the schemes. For example, retirement benefits in the Commonwealth Superannuation Scheme (CSS) and the Defence Force Retirement and Death Benefits Scheme (DFRDB) are based on a percentage of the member's final salary, with the percentage depending on length of service. Similarly Public Sector Superannuation Scheme (PSS) retirement benefits and the

---

[1] There is an accumulation component, which comprises member contributions and investment earnings, and a defined benefit component, which comprises the employer contributions.

employer component of MSBS retirement benefits are in the form of a lump sum that can be fully or partially converted to a lifetime pension.

11. The unique nature of military service involves, in particular, the increased risk of death and disability and a likelihood that career members of the Australian Defence Force will retire earlier than members in the broader Australian workforce. These risks are reflected in the differences between the military and civilian superannuation schemes in the rate of accrual of benefits and the design of death and disability benefits.

12. The current notional employer contribution rates for the DFRDB and MSBS are 33.4% and 27% respectively.[2] For the CSS and PSS they are 21.4% and 16.3% respectively.[3] In the case of the PSSAP the employer contribution rate is 15.4%. This means that on average the Commonwealth, as the employer, will contribute annually nearly twice as much towards the superannuation of a new military employee who joins the MSBS compared to a new civilian employee who joins the PSSAP.

13. A comparison of the accrual rates of retirement pensions between the DFRDB and the CSS is set out in the table below.

Comparison of accrual rates of retirement pensions between DFRDB and CSS

Years of service	**DFRDB** Per cent of final salary	**CSS** (based on person joining the CSS at age 20 years)	Years of service	**DFRDB** Per cent of final salary	**CSS** (based on person joining the CSS at age 20 years)
15	30.00	No pension available	**30**	51.25	30.00
20	35.00	No pension available	**35**	62.75	38.44
25	42.50	20.25	**40**	76.50	47.25

Note: 1. DFRDB retirement pensions are payable at any age after completion of 20 years service. The DFRDB rates in the table do not factor in the rules regarding notional retiring age.
2. CSS retirement pensions are not payable until at least age 55 years.

14. In both the DFRDB and MSBS invalidity benefits depend on the level of incapacity suffered by the member. There are three classification levels:

- Class A (incapacity of 60% or more);
- Class B (30% - 59% incapacity); and
- Class C (less than 30% incapacity).

[2] 2008 DFRDB and MSBS Long Term Cost Report
[3] 2008 CSS and PSS Long Term Cost Report

15. In addition, a person who is initially classified as Class A or B can have their classification changed.

16. On the other hand, CSS and PSS invalidity benefits do not depend on the level of incapacity suffered by a member. Rather the member has to be totally and permanently incapacitated. That is, because of a mental or physical condition, it is unlikely that the person will ever be able to work in any employment or hold any office for which the person is reasonably qualified by education, training or experience or could become reasonably qualified after retraining.

17. Notwithstanding the differences in benefit design, the MSB Board and ARIA perform broadly similar functions. One of their primary functions is to manage the investment of member funds. They also manage, and oversee ComSuper's administration of, the superannuation schemes for which they are responsible according to the legislated scheme rules and manage governance and regulatory requirements. Under the scheme rules, both ARIA and the MSB Board also establish committees to reconsider decisions of ComSuper relating to benefit entitlements and other claims made by their members, such as invalidity.[4]

18. The cost of ComSuper's administration of the schemes is paid by the Government. Unlike superannuation arrangements in the private sector, scheme members do not pay. This will not change as a result of the proposed reforms.

19. However, for those schemes where the trustee manages members' funds (the CSS, PSS and PSSAP for civilian employees and the MSBS for military personnel), the cost of the investment and related functions of ARIA and the MSB Board are met from members' accounts. One aim of the merger is to reduce these costs, which will benefit the relevant members.

Trends – the need for change

20. Disbursed trustee arrangements for the management of Commonwealth superannuation have developed over time as the different military and civilian superannuation schemes have been established.

21. In 2006, the civilian boards for the CSS and PSS merged to form ARIA, which is the single board that is now responsible for all three of the Commonwealth's civilian superannuation schemes (CSS, PSS and PSSAP). The three civilian schemes retain their separate legislative base and the merger did not impact on the individual scheme benefits, entitlements or identity.

---

[4] Similarly, the DFRDB Authority, reconsiders decisions made by ComSuper. The Authority is currently chaired by the Commissioner for Superannuation and includes a representative from each of the Army, Navy and Air Force.

22. The merger in 2006 was a response to emerging challenges associated with a declining membership for the CSS as a means of protecting and enhancing member benefits. It also recognised broader industry trends towards consolidation. This trend has continued.

23. The trend towards consolidation is evidenced by the rationalisation of superannuation funds in Australia over the last ten years, and particularly by consolidation of a number of significant industry superannuation funds in recent years. For example, AustralianSuper, one of Australia's largest industry superannuation funds, was formed through the merger of the Australian Retirement Fund, the Superannuation Trust of Australia and Finsuper in 2006. Other recent industry examples include the merger of Print Super and JUST Super to establish Media Super on 1 July 2008 and the merger of the Stevedoring Employees Retirement Fund and the Seafarers Retirement Fund to establish Maritime Super on 1 March 2009.[5]

24. In parallel, there is evidence that smaller, separate trustee arrangements are no longer consistent with superannuation industry best practice. A view of some fund advisers is that it is necessary for funds to be of a sufficient size and have more than $5 billion in funds under management to survive, given the economies of scale required to compete in the future.[6] This may be particularly relevant in an environment of lower investment returns where every basis point in costs makes a significant difference, especially over the longer term.

Legislation package – what it does

25. The Bills seek to bring the management of all of the Commonwealth's superannuation schemes more into line with modern industry practice and to secure a sustainable platform for delivering Commonwealth superannuation into the future, including securing long term operational benefits for scheme members.

26. The Bills make important structural reforms to Commonwealth superannuation to improve governance and administration of the main military and civilian superannuation schemes.

---

[5] Advice from SuperRatings indicates significant quantitative performance enhancements have been provided to members with significant reductions in Cost Per Member (CPM) and Management Expense Ratios (MER) as follows:

AustralianSuper

CPM reducing by 3% on an overall basis but with Finsuper saving 42% and STA 11%

MER reducing by 22% on an overall basis but with Finsuper saving 52% and ARF 20%

Media Super

CPM reducing by 36% on an overall basis but with JUST Super saving 39% and Print Super 34%

MER reducing by 29% on an overall basis but with JUST Super saving 37% and Print Super 23%

Maritime Super

CPM reducing by 23% on an overall basis but with Seafarers saving 31% and SERF 18%

MER reducing by 11% on an overall basis but with Seafarers saving 16% and SERF 8%

[6] Advice provided by PriceWaterhouseCoopers in relation to views put forward by fund managers such as Warren Chant, Deloitte, Super Ratings.

This is in line with the broader goal of improving superannuation benefits for military personnel and Commonwealth employees and securing the Commonwealth's superannuation arrangements for the future. The Bills are a package of reforms that:

- merge three existing boards into a single trustee; and
- make changes to ComSuper by establishing it as a statutory agency and replacing the outdated position of Commissioner for Superannuation with a Chief Executive Officer.

27. The reforms will improve efficiency in trustee and administration operations and will allow the benefits of these improvements to be passed on to scheme members over time, in the form of reduced costs and potentially higher investment returns. For example, it can be reasonably expected that there will be savings from investment fee reductions, single service providers for investment related activities (such as asset consultants, custodians and investment administration services) and from operating a combined trustee office.

28. Scheme members and pension recipients also stand to benefit in the short term from the reforms through improved administration arrangements and better quality service delivery by ComSuper.

The Bills do not change member benefits or entitlements

29. The day-to-day operation and management of the schemes will be business-as-usual in so far as scheme members are concerned. While it is not expected that scheme members will notice any immediate difference as a result of the structural changes in the trustee arrangements, over time it is members that will ultimately benefit from the more streamlined and efficient trustee operations. This is because the reforms do not change the military or civilian superannuation schemes, nor scheme benefits or entitlements. These are matters that are determined by the Government as employer and not by scheme trustees.

30. The schemes will maintain their own legislative base and identity and ComSuper will continue to administer the schemes on behalf of the trustee.

31. For serving and retired Australian Defence Force personnel, the reforms do not change or impact on the existing features and benefits of the military schemes that reflect the special nature of military service in the Australian Defence Force.

32. Ministers in the Defence portfolio will remain responsible for military superannuation and the Department of Defence will retain its role in providing advice to the responsible Defence Ministers in relation to the military superannuation schemes and arrangements.

33. As noted above, the Bills do not alter, in any way, scheme entitlements or change other entitlements concerned with military service or Commonwealth civilian employment.

Member benefits from the reforms

34. The Government's decision to merge ARIA, the MSB Board and the DFRDB Authority and improve superannuation administration arrangements was made with a view to improving member benefits and service levels to current and former members. The benefits to scheme members will result from improved trustee governance and improved service delivery by ComSuper.

Improved trustee governance

35. Improved trustee governance and, specifically, the ability of the single trustee to consolidate funds under management, will allow scheme members to access the benefits of scale advantage. Members of the MSBS, in particular, have the potential to gain substantial benefits from the merger, noting that the MSBS is significantly smaller than the civilian schemes.[7]

36. In addition, the single trustee could take advantage of enhanced age demographics (that is, a better spread of age profiles among members of all of the schemes). This provides the trustee with the capacity for a better spread of assets across age bands, enabling better fund longevity and reduction of investment risk to older members. This was one of the advantages of the merger of the PSS and CSS Boards in 2006 to form ARIA. As at 30 June 2009, ARIA had some $16 billion under management. This compares with the MSB Board having some $3 billion.

37. There is clear evidence from studies and experience in Australia and around the world that scale advantage enjoyed by larger superannuation funds is substantial.

38. An investigation by the Australian Prudential Regulation Authority of superannuation data over a ten year period[8] demonstrates that in all superannuation fund categories (corporate, industry, public sector and retail) large funds outperformed small and medium funds by at least a half a percentage, and up to one percentage point.

    - Data from other funds around the world show similar results. For example, US Pension Funds data[9] show a correlation between size of fund and performance. The average performance in the top quintile of defined benefit pension fund plans by size is about 2 percentage points above the net return in the third quintile and over 4 percentage points above those funds in the bottom quintile.

39. Australian research published in mid-2009[10] has also indicated that scale offers potential for funds to deliver extra benefits to members in terms of reduced operational and

[7] Australian case studies show that the smaller fund appears to consistently benefit the most from a merger as scale rewards are better.
[8] Published in *Insight – Celebrating 10 years of superannuation data collection 1996-2006.*
[9] Data provided by Mercer – original source USA Department of Labour data base of fund returns.
[10] Research undertaken by Deloitte Actuaries and Consultants and its superannuation partner, Wayne Walker, and published in its media release dated 4 June 2009, Super Fund Size Matters Deloitte actuarial research.

investment costs and higher investment returns. This research examined annual reports and Public Disclosure Statements of 60 industry superannuation funds and found that:

- *operational costs, which largely relate to the number of fund members, in a fund with more than 500,000 members can be reduced by about 32% when compared with a fund of between 100,000 and 500,000 members. These costs are reduced even further (about 44%) when compared with a fund of between 50,000 to 100,000 members; and*
- *investment fees as a percentage of total fund assets, using the default investment option, were 0.57% in a fund with over $10 billion in assets, compared with the higher 0.76% in a fund with between $1 billion and $2.5 billion in assets.*

40. In addition, Finance's actuarial service provider, Mercer, has considered the potential improved net investment return as a result of merging the military and civilian fund assets. Based on 2008 figures, it estimated that the potential improvement in net investment returns would have been $10 million in 2008, would be $15 million in 2018 and $19 million in 2028.

41. The extent to which individual members will gain from improved fund performance will depend on the scheme that they are in and whether they are contributing or preserved members. For example, the funded component of a contributing MSBS member's benefit will be higher.[11]

Improved service delivery by ComSuper

42. Scheme members will also benefit from improved service delivery by ComSuper. This is because ComSuper carries out the day-to-day running of the schemes such as receiving contributions, paying benefits and acting on instructions from members. ComSuper, therefore, is the primary point of contact for members. For example, when retiring military personnel or Commonwealth employees apply to receive their retirement benefit from the schemes, it is the role of ComSuper to process that benefit and arrange for its payment.

43. In addition, the actual level and calculation of member benefits are determined by the legislated scheme rules, meaning that ComSuper plays a vital role in calculating and paying scheme benefits to retired military personnel and Commonwealth employees. Moreover, there is minimal discretion for the trustee in determining scheme benefits. The role of the trustee in relation to scheme benefits is to largely ensure effective administration and service delivery to members.

44. Implementation of the package of Bills will better define ComSuper's role and provide a clearer relationship with a single trustee, removing pressures associated with ComSuper responding to multiple boards. It will also allow ComSuper to better manage administration of the schemes and improve service delivery to members, including paying

[11] The MSBS benefit has two components. A funded component comprising the member's contributions and earnings, which can be taken as a lump sum, and the employer component that is largely unfunded, which can be taken as either a lump sum, or pension or a combination of both.

the pensions of retired military personnel and Commonwealth employees. The reforms also include $22 million to improve administration of the schemes and service delivery to members.

Military members will benefit the most

45. There is a significant degree of similarity between the MSBS and the civilian schemes for their operational arrangements and investment structures. This results in duplicated effort under two separate trustees.

46. While members of both schemes will benefit from the merger, because of relatively small size of the MSB fund, MSBS members gain most. This is because the MSBS investment fund is under $3 billion. Merger of the military and civilian boards will bring together more than 650,000 members and pensioners and result in nearly $19 billon of funds under the management of a single trustee.

47. Importantly, the merger would address the risk that the military board will in the future become relatively smaller in size to the wider superannuation industry as funds continue to consolidate, reducing its ability to obtain good investment value and fees.

48. Increased size and scale will give potential for the single trustee to exploit the substantial scheme synergies for the benefit of all members. In particular, the ability for the single trustee to pool funds under management will provide opportunity for lower investment costs, access to higher service levels and better investment opportunities and provide higher investment returns to members.

49. As noted in paragraph 40, Mercer estimated that the reforms would generate an improved net investment return of $10 million in 2008 and would be $15 million in 2018 and $19 million in 2028. Of the $10 million net improvement in 2008, Mercer estimated that $7 million would relate to the military schemes and $3 million to the civilian schemes.

50. All military members will also ultimately benefit from having a better resourced trustee that will be able to:

    - operate using more sophisticated and developed risk management and IT systems; and
    - keep pace with a rapidly changing and complex superannuation environment and respond to changing conditions quickly and effectively; and
    - meet its licensing and regulatory reporting and compliance requirements; and
    - expand services and benefits to scheme members.

51. Scheme members will also ultimately benefit through a skilled and innovative trustee responsible for the schemes. This includes the ability for the single trustee, due to its increased presence in the superannuation industry, to attract and retain quality and experienced board members and staff.

Special features of the reforms that protect military interests

52. The Bills contain features that reflect the special nature of military service under the single trustee. These features are in addition to the existing military scheme features that are discussed in paragraphs 10 to 15.

53. The Bills provide for the interests of Australian Defence Force members to be represented on the governing Board of the trustee:

- the Chief of the Defence Force (CDF) will be responsible for nominating two employee representatives; and
- Ministers in the Defence portfolio will be consulted on suitable candidates for the five employer representative positions.

54. The Government has indicated that Mr Tony Hyams, the Chair of the Military and Superannuation Benefits Board, be the Chair of the new trustee. Consistent with this intention, the Government has recently appointed Mr Hyams to be the Chair of ARIA until the proposed start of the single trustee board.

55. Overall, the Bills seek to recognise the special nature of military service (noting that this principle is relevant to all aspects of military conditions of service) without taking away from a superannuation trustee's essential function of managing the superannuation schemes for which it is responsible on behalf of all scheme members and safeguarding members' benefits until they retire.

Function currently carried out by the DFRDB Authority

56. DFRDB benefits are administered by ComSuper. In 2008-09 ComSuper processed 556 claims for payment of scheme benefits and 48 invalidity classifications.[12]

57. A member's main interaction with respect to their benefits is conducted with ComSuper. This will not change under the proposed Bills.

58. The DFRDB Authority is responsible for oversight of the DFRDB and the Defence Forces Retirement Benefits scheme (DFRB). It has delegated most of the day-to-day operation of the schemes to ComSuper staff, however, it has retained the power to reconsider decisions of its delegates. The Commissioner for Superannuation is the ex-officio Chair of the Authority and there are four other members. In 2008-09, the Authority met seven times and received 35 requests for reconsideration.[13]

59. The Bills provide for the single trustee to set up a Defence Force Case Assessment Committee to undertake the functions currently performed by the DFRDB Authority, within the framework of the single trustee. This recognises that the special nature of military service warrants special treatment and also acknowledges the role that the

[12] ComSuper Annual Report, 2008-09, pgs 26 and 27
[13] DFRDB Authority Annual Report 2008-09, pgs 16 and 40

DFRDB Authority currently has in overseeing the operation of the DFRDB and DFRB, and particularly its primary role of reviewing decisions of its delegates, ComSuper staff, in relation to invalidity benefits.

60. The provisions in the Bill ensure that the Defence Force Case Assessment Committee has representation from each of the Army, Navy and Air Force as is currently the case for the DFRDB Authority. However, importantly, establishment of the Committee will resolve the current situation where conflicts could arise due to the Commissioner of Superannuation being appointed as the ex-officio Chair of the DFRDB Authority.

Functions currently carried out by the MSBS

61. The MSB Board is responsible for ensuring that the MSBS is operated according to its governing legislation and rules, and in line with superannuation prudential requirements. A primary function of the MSB Board is to manage and invest scheme members' money which comprises the MSB Fund. The Board is also responsible for oversighting administration of the MSBS by ComSuper. The Board consists of five members and has established specialist committees to assist it to carry out its functions, including a Reconsideration Committee[14] and an Incapacity Classification Committee.

62. As set out above, for members of the MSBS, the scheme rules already provide for separate committees to review decisions of the trustee, particularly in relation to invalidity retirement benefits, and to consider incapacity classifications. The Bills do not change these provisions in the governing rules of the MSBS and it is intended that the review mechanisms for MSBS members would operate as they do currently. Any change to these arrangements as set out in the scheme rules, would be the responsibility of the Defence Ministers.

Comments on other matters raised by interested parties

Termination provisions

63. The current arrangements for terminating Board members of ARIA, the MSB Board and the DFRDB Authority are:

- For ARIA, the Minister is required to seek the consent of the ACTU before terminating an employee representative (ie. a trustee that has been nominated by the ACTU) in most circumstances; and

- For the MSB Board and DFRDB Authority, the responsible Defence Minister can currently terminate any appointment, including MSB Board members who are nominated by the CDF, without any consultation.

---

[14] In 2008-09 the Reconsideration Committee received 76 requests for reconsideration, source: MSB Board Annual Report, 2008-09

64. The relevant provision in the Governance Bill requires the Finance Minister, in most circumstances, to seek the agreement of the nominating party (ACTU or CDF) to terminate the appointment of an employee director who has been nominated by that party. This is a new arrangement in terms of the CDF nominees to bring it into line with the process applying to ACTU nominees. Therefore, there is no change to the arrangements that apply to ACTU nominees but the arrangements for CDF nominees have been strengthened to require the CDF to consent to the termination before the Minister can terminate.

65. The Bill also provides that the Finance Minister can terminate the appointment of any director without first obtaining relevant ACTU or CDF consent if a director's continuation in office would contravene a 'fitness and proprietary standard' under the Superannuation Industry (Supervision) legislation (SIS).

66. A director's appointment will automatically terminate if he or she becomes a 'disqualified person' for the purposes of SIS.

67. The provision in the Governance Bill is underpinned by the requirement in the SIS legislation for consistent processes between appointment and termination of board members.

Employer and employee representatives

68. The composition of the governing board of the trustee is, to the extent possible, in line with SIS requirements for equal employer and employee (or member) representation. SIS equal representation on governing boards essentially requires an equal number of employer and member directors and permits an independent director.

69. Employer directors are the representatives of the employer – in this case, the Commonwealth. Employer directors will therefore be appointed by the Finance Minister, with the intention that the Finance Minister consult with Ministers in the Defence portfolio.

70. Member directors are the representatives of members of the schemes. These directors are either proposed by the members themselves or, commonly, are nominated by a body that represents members. For members of the military schemes, the nominating party is the CDF, which is consistent with the arrangements currently applying in the MSBS. For members of the civilian schemes, this is the ACTU, which is also consistent with the current arrangements. The respective number of nominees of the CDF and the ACTU are also consistent with the current arrangements – noting that the CDF nominates two directors[15] and the ACTU nominates three directors.

71. While not a primary consideration, military and civilian representation on the governing board of the trustee is also broadly in line with the size and membership of the respective military and civilian superannuation schemes.

[15] The CDF nominates as there is no equivalent of a union for military personnel.

72. Finance notes that:

- the overarching duty on a trustee (including all directors on the governing board) is to act in the best interests of all scheme members, whether military or civilian;
- to undertake its functions and best serve members of all of the schemes, the governing board of the trustee will require a mix of broad skills in disciplines such as superannuation, fund management, investment, legal, accounting and finance and government; and
- the special nature of military service is protected by express features in the governing legislation of the military schemes and cannot be fettered by the views or associations of particular board members.

73. As noted above, the single trustee will require a mix of skills across a range of disciplines to effectively undertake its functions in the best interests of all members. There is no different set of skills that is required to invest MSBS members' funds, manage compliance and regulatory requirements or administer the schemes in accordance with their legislative framework. Accordingly, the legislation gives flexibility to the CDF to nominate a director to represent the interests of military members with the best skills and experience to undertake the role, irrespective of whether the person is a current member of the Defence Force, a retired member of the Defence Force or another person with, in the opinion of the CDF, relevant skills and experience.

Attachment A

Outline of civilian and military superannuation schemes

A brief description of the basic retirement benefits provided under the eight civilian and military superannuation schemes is set out below.

Scheme under the *Superannuation Act 1922*

The 1922 Scheme is the oldest of the civilian schemes and now comprises only pensioners. In most cases member contributions purchased units of pension based on their superannuation salary and years of scheme membership. The scheme provided a lifetime pension for most members calculated by assigning a value to the units held by the member at the time of their exit from the scheme.

Scheme under the Papua New Guinea (Staffing Assistance) (Superannuation) Regulations 1973

The PNG Scheme provides retirement benefits for former employees of the administration of the former Territory of Papua and New Guinea. The scheme consists of pensioners only. The PNG Scheme provided a similar basic benefit to the 1922 Scheme. Members made contributions, based on their salary, which purchased units of pension. The lifetime pension payable to a member on or after reaching the maximum age was calculated by attributing a dollar value to fully paid pension units.

Defence Forces Retirement Benefits Scheme (DFRB Scheme)

The DFRB closed on 1 October 1972. Members who exited the scheme before that date and their reversionary beneficiaries are paid benefits under the DFRB. The basic retirement benefit provided by the DFRB is a lifetime indexed pension.

Officers became eligible for the pension on or after reaching retiring age once they had completed 20 years service for pension. The scheme provided a reduced pension to officers with at least 15, but less than 20 years, service.

A retirement pension was only payable to other ranks on discharge with 20 years service for pension. Members who had not reached the age of 57 years could apply to commute a third of the rate of pension payable on retirement to a lump sum.

Similar to the DFRDB, commutation resulted in a permanent reduction in the member’s pension and only the non−commutable part of the pension is indexed.

Commonwealth Superannuation Scheme

The CSS, also a scheme for Commonwealth civilian employees, is a hybrid arrangement. The scheme was open to new members from 1 July 1976 to 30 June 1990. A requirement for members to pay basic contributions of five per cent of superannuation salary to the scheme was removed from 1 July 2008. As with the PSS, these contributions are now voluntary.

There are three parts to the CSS age retirement benefit. The first part is a lifetime, indexed pension based on the member's age at retirement, years of contributory service and final superannuation salary.

The second and third components are the member contributions and interest and any employer productivity (three per cent) contributions and interest respectively. The second and third components of the CSS age retirement pension can be taken as a lump sum or an additional non–indexed pension.

The additional pension cannot exceed 20 per cent of the person's superannuation salary on retirement at age 60 or later or a lower percentage if the member retires before that age. Any amount that cannot be taken as an additional pension may be taken as a lump sum.

Defence Force Retirement and Death Benefits Scheme (DFRDB Scheme)

The DFRDB also provides benefits to members of the Australian Defence Force. It was open to new members from 1 October 1972 to 30 September 1991. Members are required to contribute five and a half per cent of salary to the scheme. The basic DFRDB benefit is a lifetime benefit referred to as 'retirement pay'. Members are entitled to retirement pay on ceasing service if they have 20 years effective service or have 15 years or more effective service and have reached their compulsory retirement age. The benefit is a percentage of the person's final salary, with the percentage depending on the number of years of effective service completed.

Members can commute a proportion of their retirement pay to a lump sum. The maximum commutation factor was increased progressively from four times pension in 1982 to five times pension from 2002 on. Upon commutation the member's pension is permanently reduced. Members also receive a lump sum employer financed productivity benefit in respect of service from 1988 onwards.

The full amount of retirement pay is indexed if the member commutes between four and five times their annual retirement pay. In other circumstances, indexation is limited to only that amount which would have been payable if the person had commuted four times their retirement pay.

Public Sector Superannuation Scheme (PSS)

The PSS is a defined benefit scheme for Australian Government civilian employees. The scheme commenced on 1 July 1990 and closed to new members on 30 June 2005. Members were required to make contributions of at least two per cent of superannuation salary until 1 July 2008, when such contributions became voluntary.

The basic PSS age retirement benefit is a lump sum. The lump sum is calculated based on the member's length of contributory membership in the scheme, their rate of contribution and Final Average Salary (FAS). Benefits are subject to a Maximum Benefit Limit.

Members can convert 50 per cent or more of their lump sum entitlement to an indexed pension that is payable for life.

Military Superannuation and Benefits Scheme (MSBS)

The MSBS is an open military superannuation scheme. Members are required to make contributions of five per cent of salary. The scheme provides a mix of accumulation and defined benefits. The lump sum retirement benefit provided by the MSBS comprises employer and member components. Benefits are subject to a Maximum Benefit Limit.

The employer component can be taken as a lump sum or, alternatively, 50 per cent or more of the amount can be converted to a lifetime indexed pension. The employer component is based on the member's length of service and Final Average Salary (FAS). The employer benefit can be paid on retirement from age 55 onwards.

The member component consists of the value of units that the member has in a chosen investment strategy and is paid as a lump sum. This part of the benefit cannot be converted to a pension.

Public Sector Superannuation Accumulation Plan (PSSAP)

PSSAP is a fully funded accumulation scheme for Australian Government civilian employees. The scheme commenced on 1 July 2005. PSSAP provides employer superannuation contributions of 15.4% of superannuation salary. Retirement benefits comprise the accumulated employer contributions and interest. The benefit is payable as a lump sum.

Attachment B

Membership and fund size statistics for the Commonwealth superannuation schemes as at 30 June 2009

SCHEME	MEMBERSHIP SIZE	FUNDS UNDER MANAGEMENT
CSS	**Total Members[16] 140,344** Contributors = 19,807 Preserved = 10,857 Pensioners = 109,680	$4,715[17]
PSS	**Total Members[18] 253,394** Contributors = 124,978 Preserved = 109,589 Pensioners = 18,818	$9,971[19]
PSSAP	**Total Members[20] 85,202** Contributors = 61,807 Preserved = 23,395	$1,240m[21]
MSBS	**Total Members[22] 134,811** Contributors = 51,655 Preserved = 75,929 Pension recipients = 7,227	$2,811m[23]
DFRDB	**Total Members[24] 57,623** Contributors = 4,630 Preserved = 19 Pension recipients = 52,974	No Fund Member contributions paid into CRF
DFRB - Defence Forces Retirement Benefits Scheme	Pension recipients[25] = 4,190 (2,403 are reversionary pensions)	No Fund
Superannuation Act 1922	Pensioners[26] = 5,933 (4,593 are reversionary pensions)	No Fund
PNG scheme	Pensioners[27] = 267 (185 are reversionary pensions)	No Fund

---

16 Commissioner for Superannuation 2008-09 Annual Report. Figures exclude 5,933 1922 Act pensioners which have been counted as CSS pensioners.
17 ARIA Annual Report 2008-09.
18 Commissioner for Superannuation 2008-09 Annual Report.
19 ARIA Annual Report 2008-09.
20 Commissioner for Superannuation 2008-09 Annual Report.
21 ARIA Annual Report 2008-09.
22 Commissioner for Superannuation 2008-09 Annual Report.
23 MSB Board Annual Report 2008-09.
24 Commissioner for Superannuation 2008-09 Annual Report. Figures exclude 4,190 DFRB pensioners which have been counted as DFRDB pensioners.
25 The DFRDB Authority Annual Report 2008-09.
26 Commissioner for Superannuation 2008-09 Annual Report.
27 Commissioner for Superannuation 2008-09 Annual Report.