



28 February 2010

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

**SUBMISSION BY Dr G.A. THOMS  
ON THE PROPOSED  
GOVERNANCE OF AUSTRALIAN GOVERNMENT SUPERANNUATION SCHEMES  
BILL 2010**

Dear Committee Secretary,

I write to express my deep concern for proposals before your Committee that bear on governance of the Defence Force Retirement Benefit Scheme and for its iniquitous provisions.

**Background**

In 1961 I joined the Australian Royal Australian Air Force and served our Nation for 27 years, resigning from the RAAF in July 1988 with the rank of Group Captain. I contributed to the DFRDB Scheme and now draw DFRDB superannuation. Although I am now 68 years of age, current DFRDB legislation requires that I continue to pay tax, albeit with a 10% rebate, even though all other "pensioners" over 65 (with the exception of Commonwealth Public Servants) pay no tax at all. This is very small comfort for active service to our Nation of 27 years followed by a further 22 years of active and ongoing contributions as a business man.

I am acutely interested in what happens to my superannuation, who controls it, how it is indexed and why is it taxed. These issues are conditioned by the current financial crisis, and are central to the forthcoming election.

**Structure of Defence Superannuation**

Military superannuation is unique. Defence Forces Retirement Benefits (DFRB) and the Defence Forces Retirement and Death Benefit Scheme (DFRDB) are "unfunded" schemes. Accordingly, DFRDB and DFRB should be managed separately from 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, and 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.

This structure is inappropriate for two reasons: first, equal representation for Defence personnel is not guaranteed. Why is the President of the ACTU permitted to nominate three directors while the CDF can only nominate two? This imbalance is inappropriate, especially when the numbers of contributors in the Australian Defence Forces are taken into account. Second, Defence Force members are not related to the ACTU in any professional, social, organisational or legal way. Consequently, involvement of the ACTU in management of Military superannuation schemes is inappropriate.

### **Funding of the CSC**

The Bill does not specify how the CSC will be funded. Who will pay for establishment of the CSC and who will pay the Directors’ salaries and related operating costs? Will these expenses come from the superannuation schemes? If so will this not reduce any accruing interest from investments which should rightly go to the members?

The proposed Bill states on page 6, under *Financial Impact Statement*, that this proposed merger will cost \$1.1 million and will be funded by 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 and the past and presently serving members whom they represent be penalised for this Government initiative?

### **Uniqueness of Military Service**

Military personnel, unlike their civilian counterparts, are required to take up arms in defence of our Nation and, in doing so, put their lives at risk. This is a commitment beyond that made by civilian employees in other Commonwealth Government departments. Military Service not only affects military personnel but has a marked impact on their families. The constant requirement to be ready for operational deployment and the rigors of military life, which are more demanding than those experienced by Government employees and their families, have a profound impact on the lifestyles of Defence families.

Military service should be considered unique. In the past, the Government has stated that Military Service is of the highest calling our country can ask of its citizens. Accordingly, the Government should reaffirm 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 have been purloined by the Commonwealth Government, placed into Consolidated Revenue and used as the Government wanted. 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 yet another step to do away with that concept of the uniqueness of Military service and of fair recompense.

## Summary

***Fair Recompense.*** Potential but not initial cost savings upon merger of the three military superannuation schemes (DFDB, DFRDB and MSBS) under a single authority or board are acknowledged. Merger of military superannuation with other Commonwealth schemes would not recognise the uniqueness of military service. Benefits of the proposed arrangements that potentially accrue to Defence superannuants are not clearly defined. Accordingly, the proposal to merge all military schemes with civilian Commonwealth schemes is seen not to be acceptable.

***Fair Representation.*** The composition of the CSC is unfair in that it accords the ADF a permanent minority among the directorship.

***New Operating Costs.*** The proposed merger will incur unknown costs including remuneration of CSC Directors, and related expenses such as travel and accommodation. If military superannuation schemes contribute to these new costs, the funds available to their members will be reduced.

***Establishment Costs.*** The establishment costs appear to be met by the merging schemes. The Military superannuation schemes, being “unfunded”, should not have to bear these costs.

***Potential Reclassification.*** DFDB and DFRDB schemes have always been Defined Benefit Schemes and, as such have been “unfunded”. Will these schemes now be reclassified as “funded”? Will such a reclassification require that their assets become part of a single CSC investment pool? Will the returns from that pool provide additional funds available for distribution or will returns be at the mercy of the market and of directorial competence?

The proposed Bill appears to offer increased costs and a potential diminution of benefits for Military superannuants. Similarly, potential for an aggregation of all Commonwealth schemes could result in further erosion in recognition of the uniqueness of Military service.

## Conclusion

I present my strong objection to a merger of 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.

The proposed integration of all Commonwealth superannuation schemes in effect devalues the uniqueness of military service. Despite all guarantees and undertakings, history is full of examples where Governments have changed such arrangements for financial reasons and to the detriment of superannuants (in this case, the ex-service community). I am very concerned that if this Bill were to be passed by Parliament, military superannuants would be treated in exactly the same manner as Commonwealth Public Servants and trade unionists.

Military superannuation schemes must remain separate from all other Commonwealth schemes, and be controlled by a separate governing body.

Yours sincerely,

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