

28 February 2010

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

**SUBMISSION ON THE PROPOSED
GOVERNANCE OF AUSTRALIAN GOVERNMENT SUPERANNUATION SCHEMES BILL 2010**

Dear Secretary,

In 1960, at the age of 17, I enlisted into the then Citizens Military Forces. I served with the CMF until I enlisted the Australian Regular Army in 1965. I served as a regular soldier for 25 years during which time I saw active service in South Vietnam. In the final few years of my service I opted to transfer again to the Army Reserve until finally retiring in 1995 with the rank of Major after some 35 years service to my Country. I was supported and accompanied by my wife and family for 29 of those 35 years of service. I have been a contributor to the DFRDB Scheme and now draw a DFRDB superannuation payment, after commutation, of \$890.42 per fortnight which, as you will be aware, is CPI indexed only as opposed to the Old Age Pension (AWE indexed) and Parliamentary Backbencher superannuation (Salary indexed) which enjoy much better treatment in this respect.

I put forward this information to emphasise that I am very interested in what happens to my superannuation, who controls it and how it is indexed.

Points of Note

Point 1- Unfunded Scheme. In almost all Government correspondence that one reads, Ministers and Government bureaucrats continually state, in simple terms, that the Defence Forces Retirement Benefits (DFDB) and the Defence Forces Retirement and Death Benefit Scheme (DFRDB) are “**unfunded**” schemes and, must therefore be treated separately to all other Commonwealth superannuation schemes. (As late as at last week Mr Tanner on the ABC Q and A program again made this point in his reply to a question on DFRDB indexation.)

The proposed Bill now appears to ignore this long-held “policy” by proposing the merger of the DFDB, the DFRDB, the Military Superannuation and Benefits Scheme (MSBS) with other superannuation schemes. Why?

Point 2 – Funded Scheme. In Page 4 of the “Bill Proposal Outline”, it is stated: “*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”?

Point 3 – Board Representation. The “Bill Proposal Outline”, on Page 4, states: “*..the single trustee has a responsibility to act in the best interests of all members...*” however *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 does not appear to guarantee equal Board representation.

One must 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 am at a loss to see why the ACTU is involved with our Military superannuation schemes in the first instance!

Point 4 - Merger Costs. On Page 6 of the proposed Bill, under *Financial Impact Statement*, I note that a cost of \$1.1 million will be incurred in the merger of the ARIA, the MSBS Board and the DFRDB Authority!! This, inevitably, will be at the expense of the members. Why should these Boards be penalised for a Government initiative?

Point 5 – Directors’ Remuneration. It is not specified in the Bill 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?

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 the composition of the CSC is unbalanced and places the ADF Directors in the minority and at a distinct disadvantage.
- I am concerned that the proposed merger will incur unknown costs especially with the payment of the remuneration of the CSC Directors. Other related expenses such as travelling, accommodation, will also be incurred. If the military superannuation schemes have to contribute to these costs, this will further reduce the funds available to their members.
- I am concerned regarding establishment costs as these, too, appear 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 DFDB 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 also 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 – a further erosion of the uniqueness of Military service.

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 duty and 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 even though Page 4 of the “*Outline*” states that “*Each scheme will retain its own legislation base and provisions*”. Despite all of the guarantees and the undertakings, history is full of examples where Governments, at their whim, have ignored these promises to the detriment of the recipient (in this case, the ex-service community).

Consequently there is a great deal concern 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, another step in the Governments’ efforts to devalue the proven fact that employment in the Defence Force is unique from all other Government employment conditions.

Conclusion

In concluding I wish again to lodge my strong objection to the proposed 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, five Directors appointed by the Minister for Finance and only two Defence Directors

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,

Allan Braby
Major (Retired)