

2 March 2010

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

## **SUBMISSION BY WILLIAM E HARRISON REGARDING THE PROPOSED GOVERNANCE OF AUSTRALIAN GOVERNMENT SUPERANNUATION SCHEMES BILL 2010**

### **Introduction**

It is with deep concern that I read the Draft of the *Governance of Australian Government Superannuation Schemes Bill 2010*. As a volunteer soldier of 27 years service, retiring as a Lieutenant-Colonel in 1990, I have an abiding interest in what happens to my superannuation and its management “*..in the best interest of all members*” (page 4 of the Bill). The ADF retirement benefits have, over the years, been used as a ‘playground’ for all governments and they are about to be ‘done over’ again.

Having paid my *obligatory* 5.5% of salary, *after tax*, into the DFRDB fund, for the whole of my career, to fund my superannuation (retirement pay), I now receive (after commutation) \$1231.24 per fortnight (\$32,012.24 per annum), *after tax*, with a 10% rebate. Although I am over 65 years of age, I still pay tax (on my so called ‘unfunded’) retirement pay. If I had not volunteered to serve in the ADF, I would now be enjoying tax-free retirement pay.

As can be seen, I am none too happy about the ‘fiddling around the edges’ that is to occur again, without any ability on my part (ie, a shareholder/stakeholder) to be able to vote on these proposals. I would be able to vote on such proposals if it was a properly run corporation.

My remarks probably apply to all three ADF superannuation schemes, DFRB, DFRDB and MSBS. Even though they provide different benefits, management and funding is very similar. As a DFRDB member, I will couch my remarks in those terms.

### **Uniqueness of Military Service**

“Uniqueness of military service” is often heard and **used** these days, even by those sitting in the Australian Parliament, but it is obvious that many users have no experience of, or significant familiarity with, how unique that service can be. This letter is not the place to go into detail that has already been well covered in many eloquent submissions from various individuals and organisations, and in Government enquiry reports on ADF superannuation (most of which have been ignored). Suffice to say that military service **IS** a unique calling (employment) that requires special skills, loyalty and dedication, and those undertaking such service should be properly compensated during and after their service. To have their post-service remuneration management ‘civilianised’ pays little heed to the sacrifices and privations they may/have been subject to during their actual service.

We have often heard that ‘*Military service is the highest calling that any country can ask of its people*’ (or words to that effect). This is something espoused by and from the political arena, which seems to be forgotten when it comes to management of the military superannuant. This Bill will, if passed, will

give a lie to the phrase 'highest calling' if ever used again, as these retirees will just be one of an undifferentiated group. The current superannuation regime has many 'industry based' superannuation schemes, and they are currently being advertised as such. As ADF service is a special and separate industry, and is 'unique', a unique superannuation management scheme appears to be appropriate.

## Industry Superannuation

In accordance with one of the stated aims, the Bill (page 4, first paragraph) is alleged to be *"..consistent with trends in the broader superannuation industry."* This is not so, because ADF service cannot be 'civilianised' as its employment conditions and organisation has no civilian equivalent. I believe there is scope, within the current superannuation regime, to consider establishing an 'ADF Industry' superannuation management Board, separate from the proposed CSC Board. There may well be directors that are members of both Boards, but a separate scheme would have greater focus on the unique aspects of ADF service than is currently possible under the CSC proposal.

Whilst accepting that there would be some Government input and controls, some 63,000 superannuants and some 55,000 permanent serving personnel is a large enough group for which to form a separate superannuation management organisation, and would be larger than many major corporations. Current and future ADF superannuants would more readily accept their own superannuation management, rather than the CSC proposal that may be imposed with no input from stakeholders, and a preponderance of Board members with no special knowledge of ADF service. There is no doubt that the CSC management organisation would be viewed unfavourably and be seen to be not in the best interests of past, current, or future ADF service members. Given the past experience of Governments in 'managing' ADF superannuation, it may also be a disincentive to enlistment and retention in the ADF.

## Funds Managed

On page 16 of the Bill, I find Clause 27, which states, inter alia;

***"Clause 27 requires CSC to deposit all money that it receives in respect of each of the superannuation funds it administers, into a bank account which is maintained by CSC."***

As far as I am aware, there are no DFRDB "funds", *per se*, to be managed. Accumulated DFRDB funds were (mis)appropriated by the Whitlam Government and placed into consolidated revenue. Subsequently, all (after tax) contributions made by members (then and now) were/are also paid into consolidated revenue. There are **no funds to be managed**, as far as ADF superannuants are concerned. Is the Government going to correct this significant anomaly by creating a fund, either actually or notionally?

If such a fund is created, is the retirement pay of current superannuants to be classified as "funded", and therefore be tax free for those over the age of 65 years? I think not (which may be a cynical view but not unreal given past performance).

As there is no DFRDB fund to 'manage', ADF superannuants should be managed separately from other government employee superannuation schemes.

## Composition of the CSC Board

If the Bill proceeds, I note that the CSC Board will have two directors nominated by the CDF. I also note that the board will have three directors nominated by the President of the ACTU and five directors and a Chairperson nominated by the Finance Minister, making a total Board of 11 directors. I also note that any proposal/decision requires only 9 directors, of 11, to assent, for any decision or

proposal to be carried. This is supposed to “*reflect(s) the need to balance the interests of a range of stakeholders*”.

The currently proposed composition of the board will enable the interests of the ADF and ADF superannuants to be subordinated to other stakeholders, and is therefore open to misuse by persons with another agenda. This may appear to be a jaundiced view of such an organisation but having been a long term member of the ADF, and seen conditions of service eroded with scant regard for the welfare of the service enlistee and his/her family, I believe I am entitled to this perception. A good example is when the Keating Government 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 was restored three years later, but the ‘stolen discount’ has never been paid to those who suffered the detriment.

Accordingly, if the current Bill proceeds, I believe that the ADF representation of CDF nominees should be increased to three (3) and the Minister’s nominees decreased by one (leaving four Ministerial nominees). This will allow the interests of the **full** range of stakeholders to be adequately represented, without a perception of bias.

## **Conclusion**

To summarise my objections to the passage of the *Governance of Australian Government Superannuation Schemes Bill 2010*, I submit the following objections:

- ADF service is a unique category of employment and governance of superannuation for the service person should not be ‘civilianised’; current and future ADF superannuants are deserving of a unique and focussed solution;
- The loss of accrued funds and discounting of superannuation increments by Governments in the past illustrates what can happen when there is an alternative agenda with no checks or balances, and
- The Board of the proposed CSC is unfairly biased towards civilian employees of the Government.

For the above reasons, ADF superannuation management must remain separate from any civilian employment superannuation management schemes and must have its own governance structure (Board of Directors and/or Trustees).

Yours sincerely,

WE Harrison