



# Military Super

annual report of the MSB Board  
2002 - 2003



[www.militarysuper.gov.au](http://www.militarysuper.gov.au)

Providing Superannuation  
benefits for  
members of the  
Australian Defence Force



msb

**msb board**  
**annual report**  
**2002 - 2003**

*the military superannuation and benefits board of trustees no. 1 |*

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ISSN 1037 7956  
 ISBN 0-9750886-6-1

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MSB Fund ABN: 50 925 523 120

SPIN: CMS0103AU

Note: All contribution, benefit, membership and exit statistics are derived solely from records available to the Commissioner for Superannuation as they stood at the time these statistics were compiled. Where statistics for earlier financial years are quoted, these may vary from those previously published due to the application of retrospective adjustments that are now reflected in this report. For similar reasons statistical information in this report may also vary from that presented by other agencies.

The Hon. Danna Vale, MP  
Minister Assisting the Minister for Defence  
Parliament House  
Canberra ACT 2600

Dear Minister

In accordance with section 26 of the *Military Superannuation and Benefits Act 1991* (the MSB Act), the Military Superannuation and Benefits Board of Trustees is pleased to submit to you its annual report on the performance of its functions for the year ended 30 June 2003, together with financial statements in respect of the management of the Military Superannuation and Benefits Fund during 2002-03, and the Auditor-General's report in respect of those statements.

Subsection 26(3) of the MSB Act requires you to cause a copy of the report to be laid before each House of the Parliament within 15 sitting days after you receive it.

Yours sincerely



Charles Kiefel, BCom, FCA, FAICD  
Chairman  
MSB Board of Trustees

30 September 2003



# CONTENTS

<b>chairman's overview</b>	<b>viii</b>
<b>about military super</b>	<b>1</b>
description of the scheme	1
the MSB Board	1
indemnity insurance	3
schedule of Board meetings	4
<b>fund investment</b>	<b>5</b>
investment policy	5
investment strategy	5
key investment decisions	6
investment management	7
custodian services	7
fund and private equity managers	8
investment performance	9
fund growth	10
asset allocation	11
unitisation	13
exit rate policy	13
crediting rate policy	14
member investment choice	14
<b>governance</b>	<b>16</b>
business plan	16
administrative agreement	16
delegations	16
Board committees	17
status under the SIS legislation	19
evaluation	19
<b>account maintenance</b>	<b>21</b>
collection, recording and maintenance of member information	21
system changes	21
collection, banking, recording and maintaining contributions remittances	22
<b>member communications</b>	<b>25</b>
MSCAG activity	26
counselling and information services	27
member statements	28
website development	28
<b>benefit payments</b>	<b>30</b>
benefits	30
benefit processing	31
pension variations	33

pension payments	34
invalidity benefits	36
invalidity classification process	37
invalidity classification review	38
accounts, records and funding of benefit payments	39
<b>dispute resolution</b>	<b>40</b>
internal review	40
reconsideration of decisions	40
external review	41
enquiries and complaints	42
freedom of information	44
<b>membership</b>	<b>45</b>
contributors	45
preserved benefit members	46
pensioners	46
<b>accounting services</b>	<b>47</b>
SIS compliance	48
audit of financial statements	48
<b>administrative arrangements</b>	<b>49</b>
organisational structure of the MSBS	49
human resources	50
financial resources	50
<b>financial statements</b>	<b>51</b>
<b>appendixes</b>	<b>77</b>
1: msbs in brief	77
2: fund and private equity managers	79
3: glossary	82
4: publications	84
5: service charters	85
6: contact officer	86
7: legislation	87
8: compliance	88
9: freedom of information	89
<b>index</b>	<b>91</b>

## charts

1:	daily unit prices of the MSB Fund 2002-03	5
2:	MSB Fund performance over 60 months since December 1999	10
3:	Fund size at 30 June for the past five years	11
4:	actual asset allocation as at 30 June 2003	12
5:	Quality Service Index (QSI) scores for military client satisfaction 1997-98 to 2002-03	20
6:	MSB Fund cashflow (contributions received less benefits paid) 2002-03	24
7:	contributor telephone call response times in the past five years	25
8:	Military Super website usage 2002-03	29
9:	average time to process benefit payments 2002-03	30
10:	contributor benefit processing against standards 2002-03	31
11:	preserved benefit processing against standards 2002-03	32
12:	pension variations 2002-03	33
13:	average time taken to determine new invalidity cases in the past five years	37
14:	comparison, by service, of invalidity classifications 2002-03	38
15:	growth in preserved benefit member population 2002-03	46
16:	growth in pensioner population in the past five years	46

## tables

1:	MSBS employer benefit accrual rates	1
2:	investment performance by sector 2002-03	9
3:	Fund net assets at 30 June 2003 (after tax, charges and benefits)	11
4:	actual asset allocation as at 30 June 2003	12
5:	earning and crediting rates since 1991-92	14
6:	contributors and contributions for the past five years	23
7:	most requested web pages 2002-03	28
8:	benefits paid 2002-03	30
9:	number of pensioners since 30 June 1999, by type of benefit	35
10:	invalidity entitlements reviewed in the past five years	39
11:	reconsideration applications for the past five years	41
12:	responses to complaints and parliamentary representations 2002-03	43
13:	contributor composition	45
14:	male and female contributors by years of service	45
15:	modes of exit in the past five years	46

Two themes have dominated the 2002-03 financial year for the Military Superannuation and Benefits Scheme (the Scheme): the Scheme's investment performance and the introduction of some important changes—unitisation of the Fund which allowed us to introduce Member Investment Choice.

## A challenging year for investments

The threat of war in Iraq captured the world's attention for the second half of 2002 and early 2003. It was a key issue for our members, who were faced with the professional reality of being involved in action in Iraq. It was also a key issue for investors, who were nervous about geopolitical risks and the price of oil.

The result was a challenging year for investors and superannuation funds in general. Investment returns were bleak for the better part of the year. However, by mid-March, sentiment had improved and markets once again turned their attention to the prospect of a recovery in the global economy.

The 2002-03 financial year ended with a welcome recovery in global share markets. The last four months of the financial year produced positive returns for both Australian and global share markets.

The Scheme follows a growth strategy that invests around 85% in equities. So, although the rally in share markets towards the end of the year helped the Scheme considerably, the gains were not enough to recover from the falls experienced earlier in the year and many growth-oriented funds reported negative returns for the year (source: InTech, June 2003).

As we review the investment results for 2002-03, it is important to keep in mind that shares carry the highest risk of moving up and down in value in the short term. Over the long term, however, shares have the best potential for producing sustained high returns for members.

The significant gains experienced over the last four months of the year demonstrate the market's capacity for sharp price increases and reinforce the importance of sticking to a long-term strategy. For example, between 11 March 2003 and 17 June 2003, the US Standard & Poor's Index recorded its second largest three-month recovery in more than 50 years, climbing 26.3%. Military Super was able to capture these gains and improve its return for the year, largely because the Board remained committed to its long-term growth investment strategy.

The earning rate for the MSB Fund for the year to 30 June 2003 was -2.0%. While disappointing, this year's result improves upon the Scheme's return of -8.9% for the 2001-02 financial year. It is important to keep in mind that, with the exception of the last two years, the Fund has achieved strong positive investment results every year since it began in 1991.

<i>5 years ending</i>	<i>Average annual rate of return</i>
30 June 2003	2.4%
30 June 2002	4.6%
30 June 2001	10.5%

Since its inception in 1991, Military Super has delivered an average annual crediting rate of 6.5% while inflation has averaged 2.4%, giving a real rate of return, notwithstanding the poor market returns of the past two years, of 4.1% over the long term.

Military Super aims to deliver strong, long-term investment returns to maximise the superannuation benefits of members when they retire. To do this, it invests primarily in 'growth assets' such as Australian and international shares and listed property. This strategy makes good sense because, over time, growth assets are likely to deliver higher returns than 'defensive' assets such as cash and bonds. However, they are also more volatile than defensive assets, which means members need to be prepared for bigger ups and downs along the way than would occur with a balanced or conservative investment strategy.

While returns have picked up in the investment markets recently, market commentators are advising caution, based on the fact that the US economy is still weak. Ultimately, global growth is somewhat dependent on the US, so what lies ahead is still uncertain, but single-digit performance is likely to be the rule rather than the exception for the next few years. In this environment the Board, with the assistance of its investment advisers, will be looking at alternative investment approaches which might provide greater diversification and improved opportunities for sustained growth in these uncertain market conditions.

### **Investment choice gives members more control**

On 1 July 2002 the Fund was unitised, meaning that the member's component now reflects the Fund's earnings in the daily changes to the value of a unit. Unitisation allows

members to track the daily performance of the Fund on the Military Super website ([www.militarysuper.gov.au](http://www.militarysuper.gov.au)).

Unitisation of the Fund has allowed the Board to offer members a variety of investment strategies, by implementing Member Investment Choice (Choice) from 1 July 2003. The Board launched a major communication campaign in 2003 informing members about this new feature of the Scheme.

Before the introduction of Choice, Military Super had only one investment strategy. Now, members can choose from five different strategies for their member benefit depending on their specific needs and risk tolerance.

With a wide range of new investment strategies to choose from, and helpful member communication, the feedback from members has been overwhelmingly positive.

### **A strong commitment**

The Board remains committed to making Military Super 'the best super scheme in Australia'. Following on from the implementation of Choice, the Board will continue to pursue opportunities to introduce additional services such as spouse contributions, salary sacrifice and rollovers into the Fund.

### **Acknowledgements**

I commend my fellow Trustees for their commitment, co-operation and support during a period of great volatility and change.

On behalf of the Board I would also like to express my sincere thanks to the Board Secretariat for sound advice and assistance, to ComSuper, the Scheme Administrator, which was instrumental in the change to unitisation and the implementation of Choice, and to IPAC, the Board's investment adviser, for its continuing service throughout a very difficult year.



Charles Kiefel  
Chairman

*The Military Superannuation and Benefits Scheme (MSBS) was established by the Military Superannuation and Benefits Act 1991 (the MSB Act). It replaced the Defence Force Retirement and Death Benefits (DFRDB) Scheme for new entrants to the Defence Force on 1 October 1991, following government initiatives to improve Defence Force superannuation arrangements. Existing DFRDB contributors were given the option of transferring to the MSBS before 1 October 1992.*

**table 1: MSBS employer benefit accrual rates**

Years of service	% of FAS* per year
< 7 years	18%
7–20 years	23%
> 20 years	28%

\*FAS (Final Average Salary) is salary averaged over the last three years of service.

MSBS benefit accrual rates are significantly higher than the community average.

## description of the scheme

The MSBS is a hybrid defined contribution and defined benefit scheme with benefits being derived from two sources:

- a member component, which is paid as a lump sum only (or rollover) of the member's own contributions, including amounts notionally brought over from the DFRDB Scheme, plus interest (at the crediting rates of the Fund); and
- an employer component, which is a defined benefit related to a member's period of membership and final average salary that must be preserved in the Fund until age 55. This benefit is unfunded (that is, the cost is met on an emerging cost basis) except for the portion relating to employer productivity contributions.

Membership of the scheme for new entrants to the Defence Force is compulsory and the minimum contribution rate is 5% of fortnightly salary for superannuation purposes. At three-monthly intervals MSBS members may elect to vary their contributions to the scheme between 5% and 10%.

Member and employer productivity contributions made each fortnight are paid into an investment fund (the MSB Fund). The management and investment of the Fund is the responsibility of the MSB Board.

Where a member resigns from the Defence Force the member benefit accrued to 30 June 1999 can be immediately paid as a lump sum but the balance of the member benefit must be preserved, either in the Fund or in a complying superannuation fund until preservation age. The employer component, including productivity contributions, must be preserved in the Fund until age 55, or another complying superannuation fund until preservation age.

## the MSB Board

### membership

The Board consists of five Trustees appointed by the Minister Assisting the Minister for Defence (the Minister) under section 21 of the MSB Act. Two of the Trustees, nominated by the Minister, must have experience in, and knowledge of, the formulation of government policy and public administration. Two additional Trustees must be members of the Defence Force—one an Officer and the other a member other than an Officer. They are nominated by the Chief of the Defence Force (CDF).

The fifth Trustee, who is also the Chairperson of the Board, is appointed by the Minister after consultation with the Minister for Finance and Administration. The Chairperson and the Trustees nominated by the CDF are appointed for a period not exceeding three years (but are eligible for reappointment), whereas the remaining two Trustees hold office at the Minister's pleasure.

Trustees holding office at 30 June 2003 were:

*Chairman:*

**Mr Charles Kiefel** BCom, FCA, FAICD  
Reappointed 5 June 2003

Mr Kiefel is the former Managing Director of Corporate Finance at ANZ Investment Bank and is a Director of a number of private companies.

*Minister's Nominees:*

**Dr Michael Sharpe** AO, Hon DScEcon (Syd.), BEc, FCA, FAICD  
Appointed 29 April 1998

Dr Sharpe is Director, Australian Stock Exchange Limited. During his career, he has served as Chairman of the International Accounting Standards Committee; President of the Institute of Chartered Accountants in Australia; Senior Audit Partner of the firm now known as PricewaterhouseCoopers; a trustee of State Super NSW; Chairman and Director of many companies; and an adviser to Government.

**Mr Phil Charley** MFinMgt, GradDip Strat Studies, GDTax, FCPA, FAICD  
Appointed 14 September 2000

Mr Charley is Director, Superannuation, Department of Defence.

*ADF Nominees:*

**BRIG Bob Brown** CSC, FAICD  
Reappointed 29 October 2002

Brigadier Brown is Head, Theatre HQ Project.

**WOFF Robert Swanwick** MAICD, JP  
Reappointed 14 September 2000

Warrant Officer Swanwick is a Staff Officer within the Director General Personnel Airforce. He has served throughout

Australia and overseas for 25 years as an Aircrewman Loadmaster, been posted to Air Force and Army units, and attached to Navy establishments. He holds diplomas in frontline management and aviation and has extensive training in investment and superannuation administration.



**The MSB Board**

Standing (L-R): BRIG Bob Brown, Mr Phil Charley, WOFF Robert Swanwick  
Seated (L-R): Mr Charles Kiefel, Dr Michael Sharpe

### **indemnity insurance**

The Board is insured with American Home Assurance Company against losses, liabilities, actions, claims or demands arising from the performance of its functions. To date there has never been a claim against the Board or a Trustee that has resulted in the loss of members' moneys, nor have any regulatory penalties been applied.

## schedule of Board meetings

	14 Aug 2002	11 Sep 2002	13 Nov 2002	17-18 Dec 2002	19-21 Feb 2003	30 Apr – 1 May 2003	18 Jun 2003
Mr Charles Kiefel	P	P	P	P	P	P	P
Dr Michael Sharpe	P	P	P	P	P	P	P
Mr Phil Charley	P	P	P	P	P	P	P
BRIG Bob Brown	P	A	P	P	P	P	A
WOFF Robert Swanwick	P	P	P	P	P	P	P
WO Michael Doncaster*	A	A	A	P	P	P	P

P—present at meeting    A—apologies

\*WO Michael Doncaster is alternate to WOFF Swanwick.

*In formulating an investment policy for the MSB Fund, the Board focuses on two primary objectives: to maximise long-term Fund returns; and to manage and control business and investment risks.*

## investment policy

### meeting the Fund's investment objectives

The MSB investment strategy is for a long-term return of at least 5% above inflation. Performance against that objective is measured by averaging over rolling five-year periods. It is not expected that Fund returns will exceed 5% above inflation each and every year and it is recognised that returns may be negative in some years.

## investment strategy

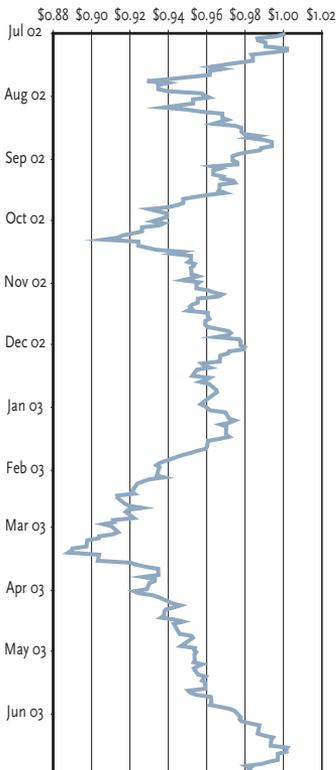
All investment funds must balance risk against returns. That is, they must determine the mix of growth assets and defensive assets that best suits their members' needs.

Growth assets are investment vehicles (such as shares and property) that are very responsive to market fluctuations. They therefore involve a higher degree of risk, but have the potential to provide a higher return. On the other hand, defensive assets (such as cash and bonds) are less susceptible to market fluctuations, and are therefore less risky investments. However, with this reduction in risk comes a reduced potential for growth.

The main points of the Board's investment strategy are:

- The strategic or target asset allocation is 85% to growth assets and 15% to defensive assets.
- The MSBS does not have a reserve account. A reserve account is used to smooth out the rates of return members receive. Members of the MSBS benefit by having all Fund earnings distributed to their accounts (after tax and all expenses are deducted). That is, they generally receive a higher crediting rate than would be the case if some of the funds were diverted to a reserve. It also follows that any losses are also passed on to members as they occur, which means that remaining members are not subsidising those who leave.
- The focus of risk control is the total Fund, not individual sectors. The overall Fund risk is kept within a specified range, so the Fund can be neither too aggressive (creating an excessive possibility of losses), nor too defensive (reducing growth potential).
- The Board's policy allows managers to use derivatives subject to strictly controlled limits. Derivatives such as

**chart 1: daily unit prices of the MSB Fund 2002-03**



options, futures and forward foreign exchange contracts may be used to reduce the Fund’s exposure to market fluctuations. These instruments cannot be used to leverage the Fund or to place the Fund in a position where it is short an asset class.

- No single asset can exceed 7.5% of the Fund’s total value. For example, the fund cannot hold more than 7.5% of its total assets in shares of a particular company.
- The exposure to a single economic entity, as an investment issuer or a counterparty, must not exceed 10.0% of the total Fund value (Australian Government debt is excluded from this restriction). For example, if the Fund had 7.5% of its funds in Company ‘A’ shares, then it could not own more than 2.5% in Company ‘A’ debentures.

## key investment decisions

During 2002–03 the Board made a number of changes to the MSB Fund to make it more robust to the current investment environment. Key developments in 2002–03 were:

- The unitisation of the Fund from 1 July 2002. The introduction of unitisation allows the Fund to offer its members a choice of investment options with different risk and return profiles from 1 July 2003.
- The continued improvement of the Australian equities asset class leading to the appointment of an additional Australian equities manager, UBS Global Asset Management, to complement the Fund’s other five managers—Schroder Investment Management, Alpha Investment Management, JB Were, Barclays Global Investors and Maple-Brown Abbott. UBS replaced Colonial First State.
- An increase in the MSB Fund’s exposure to prime Australian property in retail, industrial, commercial and residential sectors with the appointment of Citigroup Asset Management and SG Hiscock & Company and the termination of Deutsche Asset Management.
- The restructure in the fixed interest sector with the change of mandate for Credit Suisse Asset Management from international fixed interest to Australian fixed interest and the appointment of two new international fixed interest managers—PIMCO and BlackRock. Westpac Investment Management has been terminated as the Australian fixed interest manager.



- The move towards active currency management with the termination of State Street Global Advisors and the appointment of three new managers—Pareto Partners, FX Concepts and Bridgewater Associates. With the appointment of these managers, the Board also increased the Fund's protection strategy against currency volatility from 40% to 50%.
- An investment in hedge funds via the BGI Equity Market Neutral Fund.
- The appointment of a new custodian. National Custodian Services (NCS), a division of the National Australia Bank, replaces State Street Australia Limited as master custodian of the assets of the Fund. As well as the usual custodian responsibilities, NCS also provides knowledge and skill in relation to unit pricing and member investment choice. The appointment of NCS places the Fund in good stead to meet the challenges ahead.

## **investment management**

The fund managers appointed by the Board manage their portfolios in accordance with specific mandates agreed by the Board. Those mandates include directions as to the types of investments to be pursued, the maximum and minimum holdings for each type of investment, and the expected rates of return.

The Board reviews its long-term investment strategy and plan on an annual basis and monitors the performance of its fund managers against that plan progressively throughout the year. Assessments of the long-term performance of each fund manager are made on an ongoing basis. For this purpose each fund manager meets with the Board as necessary to discuss strategies, portfolio activity and investment performance.

The Board employs professional consultancy advice to assist it with the review of its investment policy, and to examine the performance of funds managers and the adequacy of the returns achieved by the Board. The role of investment adviser and portfolio manager is undertaken by IPAC.

## **custodian services**

The Master Custodian safeguards and maintains the assets of the Scheme on behalf of the Board, performing various functions such as settlement of trades, physical custody and safekeeping of securities, collection of dividends and preparation of accounts.

At the end of the 2001-02 financial year the Board sought tenders for custodian services with the objective of replacing State Street from September 2002. The new arrangements were a consequence of State Street changing its strategic focus to fund managers and away from corporate superannuation.

The Board subsequently appointed National Custodian Services as its Master Custodian with effect from September 2002.

## fund and private equity managers

The Board's 30 fund and private equity managers at 30 June 2003 were:

<b>Cash</b>	National Custodian Services (Custodian) Alliance Capital Management Australia Limited Super Members Home Loans
<b>Australian fixed interest</b>	Credit Suisse Asset Management Australia Limited
<b>International fixed interest</b>	BlackRock Financial Management Inc. PIMCO Australia Pty Ltd
<b>Australian property securities</b>	Citigroup Asset Management Australia Ltd SG Hiscock & Company Limited
<b>Australian shares</b>	Alpha Investment Management Pty Limited Barclays Global Investors Australia Limited JB Were Discretionary Portfolio Service Maple-Brown Abbott Limited Schroder Investment Management Australia Limited UBS Global Asset Management (Australia) Limited
<b>Private equity</b>	Credit Suisse First Boston International (Australia) Limited Deutsche Asset Management (Australia) Limited Gresham Private Equity Limited HarbourVest Partners, LLC Macquarie Specialised Asset Management Limited Pantheon USA, LP Sentient Global Resources, LP
<b>International shares</b>	Bernstein Investment Management Barclays Global Investors Australia Limited Dresdner RCM Global Investors Australia Limited Wellington International Management Company Pte Limited
<b>Currency</b>	Bridgewater Associates, Inc. FX Concepts (Bermuda) Limited Pareto Partners Australia Pty Ltd
<b>Hedge funds</b>	BGI Equity Market Neutral Fund
<b>Global emerging markets</b>	Nicholas-Applegate Capital Management

The fund managers' contact details are given in Appendix 2 on page 79.

## investment performance

Military Super recorded a return of -2.0% for the 2002-03 financial year. The last four months of the financial year produced positive returns for both Australian and global share markets. However, the positive returns did not make up for the significant falls earlier in the financial year and many growth-orientated funds reported negative returns for the year (source: InTech, June 2003).

The Scheme follows a growth strategy that invests around 85% in equities. So, although the rally in share markets towards the end of the year helped the Scheme considerably, the gains were not enough to recover from the falls experienced earlier in the year.

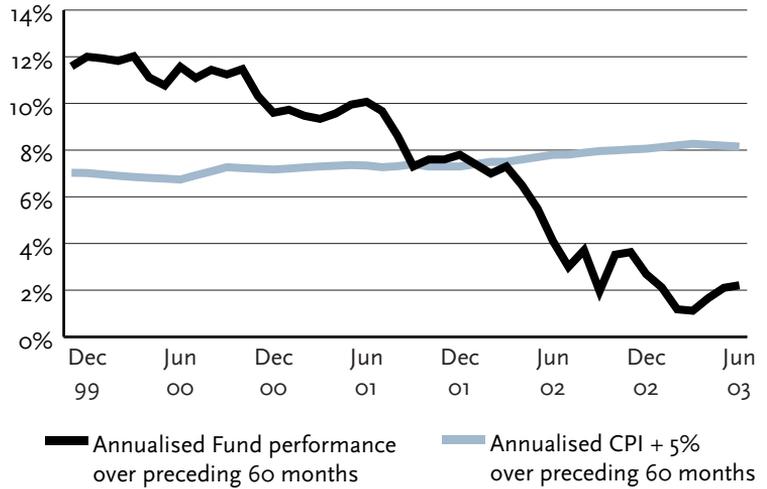
Table 2 shows the percentage return on investments achieved in each sector, compared with the benchmark for that sector. Effective asset exposure takes into account the impact on liquids/cash holdings of derivative positions held in international shares.

table 2: investment performance by sector 2002-03

Sector	Effective exposure at 30 June 2002		Effective exposure at 30 June 2003		Performance 2002-03	
	\$m	%	\$m	%	Fund <sup>1</sup> %	Benchmark <sup>2</sup> %
Cash <sup>3</sup>	8.0	0.8	11.1	1.0	4.3	5.0
Australian fixed interest	95.9	9.4	66.0	6.0	9.9	9.8
International fixed interest	35.9	3.5	76.4	6.9	14.1	13.0
Australian property securities	56.3	5.5	54.5	4.9	13.1	12.2
Australian shares	392.4	38.3	406.8	36.8	-1.7	-1.6
Private equity <sup>4</sup>	37.8	3.6	52.2	4.7	-1.5	na
International shares <sup>5</sup>	370.5	36.1	386.0	34.9	-7.4	-11.5
Hedge funds <sup>6</sup>	-	-	28.5	2.6	13.7	4.0
Global emerging markets	28.3	2.8	24.4	2.2	-14.1	-10.7

- 1 Figures shown are gross of management fees and tax.
- 2 Benchmark return is the return of the nominated market index for each asset class.
- 3 Transaction and administration costs are paid out of the cash portfolio.
- 4 Private equity is a long-term investment and does not generally show a return in the early years of the investment because of set-up and management costs. The investment gains usually come in the later years as the underlying companies mature and increase in value. The effect of this timing is known as the J Curve Effect.
- 5 Forty per cent of the international share exposure was hedged to 31 December 2002. This was increased to fifty per cent from January 2003.
- 6 Measured from the inception date of September 2002.

**chart 2: MSB Fund performance over 60 months since December 1999**



### fund growth

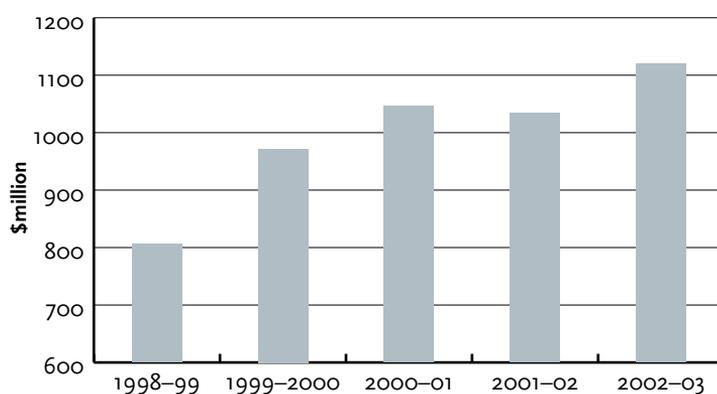
Fund assets available for investment at 30 June 2003 totalled \$1 106m.

After accounting for non-investment related assets and liabilities the Fund totalled \$1 120m, a 8.3% increase from 2001-02. Chart 3 shows how the Fund has grown since 1998-99.

**table 3: Fund net assets at 30 June 2003 (after tax, charges and benefits)**

<b>Fund net assets at 30 June 2002</b>	<b>\$m</b> <b>1 034</b>
Inflow	
Member contributions	102
Employer contributions	57
Appropriation from CRF	118
Investment earnings	(16)
Outflow	
Benefits paid	(162)
Investment and other expenses	(8)
Tax expenses	(5)
<b>Fund net assets at 30 June 2003</b>	<b>1 120</b>
<b>Value of investments at 30 June 2002</b>	<b>\$m</b> <b>1 106</b>
Less	
Benefits payable	(3)
Other liabilities	(8)
Plus	
Cash on hand	2
Other assets	23
<b>Value of Fund at 30 June 2003</b>	<b>1 120</b>

**chart 3: Fund size at 30 June for the past five years**



## asset allocation

Actual asset allocation as at 30 June 2003 is shown in Chart 4 and Table 4. The asset allocation ranges are designed to ensure that the appropriate fund risk is maintained while allowing managers the flexibility to maximise returns.

chart 4: actual asset allocation as at 30 June 2003

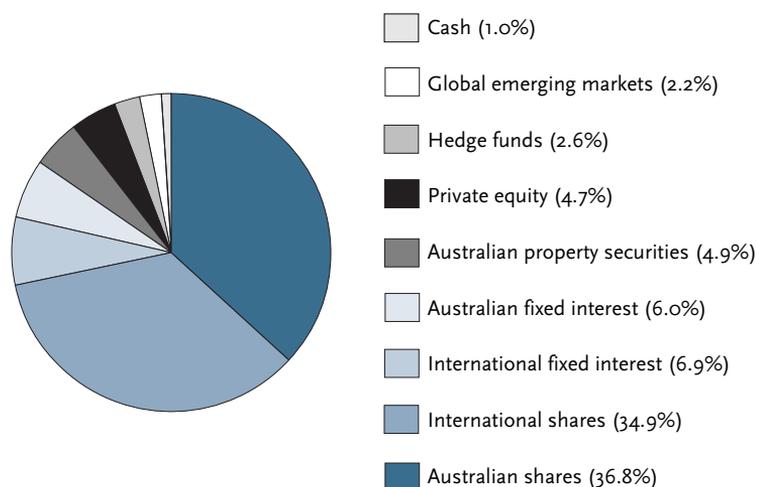


table 4: actual asset allocation as at 30 June 2003

Asset class	Fund manager	Allocation \$m	% <sup>1</sup>	Market benchmark
Cash	National Custodian Services	2.6	1.0	UBS Warburg Australian Bank Bill Index
	Alliance Capital Management	3.5		
	Super Members Home Loans	5.0		
Australian fixed interest	Credit Suisse	66.0	6.0	UBS Warburg Australian Composite Bond Index
International fixed interest	BlackRock	38.2	6.9	Lehmann Bros Global Aggregate Hedged AUD
	PIMCO	38.2		
Australian property securities	Citigroup	27.3	4.9	S&P/ASX 300 Property Trust Accumulation Index
	SG Hiscock	27.2		
Australian shares	Alpha	81.0	36.8	S&P/ASX 300 Accumulation Index
	Barclays	89.2		
	JB Were	22.0		
	Maple-Brown Abbott	91.4		
	Schroder	50.3		
	UBS	72.9		
Private equity	Gresham Fund No. 1	7.3	4.7	Not applicable
	Gresham Partners Cap Fund 1A	0.4		
	Deutsche	7.0		
	Credit Suisse First Boston	4.6		
	Macquarie GIF	24.7		
	Pantheon	2.1		
	HarbourVest	4.6		
	Sentient	1.5		

<b>International shares</b>	Bernstein	60.4	<b>34.9</b>	MSCI World ex. Australia International Share Index including dividends (in \$A)
	Barclays	55.5		
	Dresdner RCM	71.4		
	Wellington	185.6		
<b>Currency</b>	Bridgewater	1.3	As above	
	FX Concepts	0.5		
	Pareto	11.3		
<b>Hedge funds</b>	BGI Equity Market Neutral Fund	28.5	<b>2.6</b>	Not applicable
<b>Global emerging markets</b>	Nicholas-Applegate	24.4	<b>2.2</b>	MSCI Emerging Markets Free Index (in \$A)
<b>Total</b>		<b>1 106</b>	<b>100.0</b>	

1 Percentages refer to the asset class as a whole.



## unitisation

MSB Rule and Trust Deed changes approved by the Minister allowed for the unitisation of the MSB Fund with effect from 1 July 2002.

Unitisation refers to the conversion of member interest-bearing accounts to unit-based accounts within the MSB Fund. Members' closing account balance as at 30 June 2002 (after the application of the -8.9% crediting rate was applied) were converted to units, with each unit having a value of \$1.00 at that date.

Military Super members who contribute to the Fund will be allocated additional units depending on the size of their contributions and the unit price on the day the contributions are processed. (This is a similar concept to purchasing shares.)

Benefit payments result in the withdrawal of existing units at the unit price applicable on the later of:

- (a) the day after exit; or
- (b) the day on which a member's benefit application is received.

Earnings arising from the investments of the Fund are, in turn, reflected in the daily price of the units.

## exit rate policy

Until the end of financial year 2001-02 the Board had set a rate of interest to apply to the accounts of members who exited the Scheme. This rate of interest was used to calculate total interest from the previous 1 July to the date of exit. This was called the exit rate.

The exit rate was calculated each month based on cumulative Fund performance to the end of the previous month.

This policy ensured that the exit rate accurately reflected an exiting member's share of actual investment performance earnings for the period between the financial year for which the last crediting rate applied and the date of exit.

With the introduction of unitisation from 1 July 2002 this practice was discontinued.

### crediting rate policy

With the introduction of unitisation from 1 July 2002 the practice of determining an annual crediting rate to be applied to member accounts was discontinued.

Table 5 compares the earning and crediting rates of the Fund since the inception of the Scheme in 1991.

**table 5: earning and crediting rates since 1991-92**

Year	Earning rate	Crediting rate
1991-92	7.3%	5.9%
1992-93	12.5%	12.1%
1993-94	7.2%	5.4%
1994-95	7.5%	5.8%
1996-97	20.6%	20.0%
1998-99	8.3%	8.3%
1999-2000	13.6%	13.6%
2000-01	1.8%	2.7%
2001-02	-8.7%	-8.9%
2002-03	-2.0%	unit price now reflects earning rate on a daily basis

Since its inception, the Fund has delivered an average annual compound crediting rate of 6.5% while inflation has averaged 2.4%, giving a real rate of return, notwithstanding the poor market returns of the past two years, of 4.1% over the long term.

### member investment choice

Member investment choice is being introduced with effect 1 July 2003. This will give members the flexibility to choose how to invest their member benefit. (The employer benefit is paid for by the Australian Government and is not affected by investment returns, and so cannot be part of a member's investment strategy.)

Members will be offered five investment strategy choices for investing their member benefit. They can choose one or a combination of strategies. If a member chooses not to elect an investment choice, the default option is the Growth strategy. The five investment strategies are:

- Cash
- Conservative
- Balanced
- Growth
- High Growth.

	Strategy	Type of asset	
	Cash	100% Defensive	
	Conservative	30% Growth	70% Defensive
	Balanced	70% Growth	30% Defensive
	Growth (Default strategy)	85% Growth	15% Defensive
	High Growth	100% Growth	

At 30 June 2003, 1 305 members had provided their investment choices in respect of their member benefit. Although the initial take-up has been low, it is expected that on issue of this year's member statements many more members will take the decision to make investment choices.

Preparation for member investment choice has been a major project for the Board's administrator.

*During the year the Board continued to give particular attention to processes supporting decision-making, accountability and standards of service.*



## business plan

The Board's Business Plan sets out the main objectives of the MSBS. For each of the significant spheres of investment, administration, communications and corporate governance, the plan identifies the desired outcomes, performance indicators and monitoring arrangements.

The Business Plan identifies areas of Board responsibility and accountability and articulates the framework of internal and external governance measures employed by the Board to ensure that those responsibilities and accountabilities are properly discharged. The Plan has also been developed as a means of clarifying the roles and functions of the MSB Board and its service providers. It identifies environmental and other factors which will impact on the Board's responsibility for the administration of the Scheme and the management and investment of members' contributions. The Board's approach to control of the main business risks is also covered.

From an investment perspective the Plan has regard to the current membership and liabilities of the Scheme and makes some assumptions regarding the future growth of the scheme given the ever-changing superannuation environment. As such it provides the basis for monitoring long-term Fund performance having regard to market influences and the changing demographics and needs of Scheme members.

The Board reviews its business plan each year.

## administrative agreement

The Commissioner for Superannuation and, through that office, the Commonwealth Superannuation Administration (ComSuper), is the legislated provider of administration services to the Board. The cost of these services is met by the Department of Defence.

During the year ComSuper, in consultation with the Board, developed a new Administrative Agreement setting out revised levels of service to be provided to the Board. This agreement was signed on 21 November 2001 by the Chairman of the Board and the CEO of ComSuper. A companion agreement sets out the level of service to be provided between the Department of Defence and the MSB Board.

## delegations

The Board adopts a practice whereby relevant powers are delegated to ComSuper staff to exercise for and on its behalf.

This practice streamlines the delegation process and allows faster updating of authorisations to accommodate changes.

Certain powers are retained by the Trustees. These include reconsideration of decisions and cases involving the application of the legislation which produces a result not in keeping with the spirit of the legislation.

## Board committees

### Audit Committee

The Audit Committee is a subcommittee of the full Board. During 2002-03 the Committee comprised Dr Michael Sharpe (Chairman), Mr Phil Charley and WOFF Robert Swanwick.

The Audit Committee was established to advise the Board on accountability and audit-related matters. It operates as a check on the Board's own accountability arrangements as well as on the management practices of the Scheme Administrator, Fund Investment adviser and managers, the Master Custodian and other service providers.

Primary responsibilities of the Committee are to assure the Board that:

- its financial statements are derived from appropriate accounting systems and methods and reflect current accounting standards;
- the audit arrangements within service-providing agencies are operating effectively;
- appropriate audit and fraud control strategies are in place to protect Board and member interests; and
- proper assessment of risks is carried out for consideration by the Board.

The Committee has appointed the accounting firm KPMG to act in the role of independent audit adviser. KPMG is also the Board's taxation consultant and tax agent.

In assisting the Board in meeting its prudential and fiduciary responsibilities, KPMG:

- provides advice to the Board on significant industry-wide developments;
- assists in the annual review of the prudential and regulatory requirements of the Fund and the Trustees; and

- reviews annual financial statements and daily unit prices.

At the request of the Board, KPMG also undertakes specific reviews of the Board's various service providers.

### **The Military Superannuation Communication Advisory Group (MSCAG)**

The Board uses MSCAG to assist with, monitor and improve the effectiveness of communication with its members. MSCAG was established in 1996 and the current Chairman is BRIG Bob Brown. Members include representatives from the Department of Defence, the ADF and ComSuper.

MSCAG's role is to:

- ensure smooth liaison between each of the Scheme's stakeholders;
- provide advice on communication matters to the Board;
- monitor the quality and effectiveness of the Board's communication products;
- review existing communication products and methods; and
- monitor, review and make recommendations on the implementation of a superannuation communication strategy for the ADF.

The Group met on a monthly basis throughout the year.

### **Reconsideration Committee**

The role of Chairman of this Committee passed from the Deputy Commissioner for Superannuation to Brigadier David Buring AM (Rtd), the MSBS pensioner representative, with effect from the August 2001 meeting. The Committee continues to also include representatives from the Board and ComSuper as well as an ADF member of the rank of Colonel or equivalent. The Committee met on eleven occasions during the year.

The Committee's role is:

- to consider requests for reconsideration of a delegate's decision made under the MSB Rules and either affirm the decision, vary it or set it aside and substitute another decision for it; and
- to make recommendations to the Board in respect of

requests for reconsideration of decisions made either by itself or the Board under the MSB Rules.

## Complaints Committee

The powers of the Reconsideration Committee are limited to reconsidering decisions made under the MSB rules and do not currently extend to decisions made under the MSB Act. Pending legislative change to remove this restriction, the Board approved the establishment of a Complaints Committee, with the same membership and chairman as the Reconsideration Committee. The Complaints Committee met on two occasions during the year.

The Committee's role is:

- to consider requests for reconsideration of a delegate's decision made under the MSB Act and either affirm the decision, vary it or set it aside and substitute another decision for it; and
- to make recommendations to the Board in respect of requests for reconsideration of decisions made either by itself or the Board under the MSB Act.

## status under the SIS legislation

The MSBS is a regulated superannuation fund under the *Superannuation Industry (Supervision) Act 1993* (the SIS Act). All operational and legislative changes are independently reviewed within ComSuper to assess their impact against SIS requirements and to ensure that ComSuper's practices remain in concert with the SIS legislation. Further details of SIS compliance are given at page 48.

## evaluation

### annual effectiveness reviews

The Board's review of investment is covered on page 5 under 'Fund investment'.

In September 2002 the Board considered a report from ComSuper on the efficiency and effectiveness of the systems and procedures used in the administration of the MSB Scheme. As a result of that review the Board entered into a revised administrative agreement with ComSuper (see page 16).

The performance standards referred to in this report are those defined in the revised administrative agreement notwithstanding that the higher service levels did not apply for the whole of the financial year. Performance against the standards, and the standards themselves, are the subject of ongoing annual effectiveness reviews.

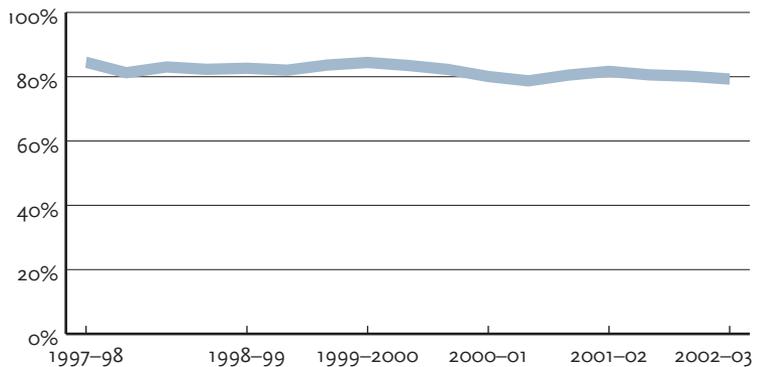
## client feedback

During 2002-03 the Board's administrator continued to conduct its series of client satisfaction surveys with the assistance of the Canberra-based firm Orima Research. Clients who had recent contact were surveyed once during the year. On a point scale of 1-10 the quality of services surveyed was consistently rated highly.

The Quality Service Index (QSI) for military clients, introduced to measure the survey results and to enable comparison between survey periods, currently ranks in the region of an 80% satisfaction level, Chart 5, which shows ComSuper's QSI scores for the military schemes in each of the seventeen survey periods since data collection began in 1997-98, shows a consistent level of client satisfaction within the 80-85% range.

The survey results feed into a continuous improvement process. Action plans are derived and reported against, and changes made to procedures as a result of the survey feedback, with the objective of improving client service.

**chart 5: Quality Service Index (QSI) scores for military client satisfaction 1997-98 to 2002-03**



*The maintenance of MSBS contributing member, preserved benefit member and pension member accounts is a major function provided by the Board's administrator (ComSuper) in conjunction with the Department of Defence. The principal aims of this function are defined by the Administrative Agreement between the MSB Board and ComSuper.*

## collection, recording and maintenance of member information

The Board's administrator:

- maintains records of contributing members, preserved benefit members and pension members to facilitate, among other things, the accurate and timely publication of member statements, accurate and timely communications, the accurate and timely payment of benefits, various reporting requirements and reconciliation against Fund accounts;
- ensures that adequate systems, procedures and controls are in place to meet the administration and reporting requirements of the Act and associated legislation;
- at the direction of the Audit Committee of the Board, arranges for an independent audit of those systems and controls to be undertaken from time to time; and
- maintains a system for locating and reporting lost members.

The following standards apply to these activities.

<b>standard</b>	<b>outcomes</b>
Receipt of assurance (in a format agreed by the Board) in the annual management representation letter in respect of the systems used to maintain member records.	<b>Management representation letters containing the assurances referred to were presented on 17 September 2002. These letters were subject to internal and external audit scrutiny.</b>
A search for lost members aged 50 years and over will be conducted at six-monthly intervals and the results will be reported to the Board.	<b>One search was conducted during the year, identifying 109 lost members, and follow-up was initiated.</b>

## system changes

As previously reported, the CAPITAL system developed for military schemes administration was commissioned on 4 June 2002.

Delays in paying benefits under CAPITAL continued into July and August 2002. This was due primarily to a backlog of claims for payment that had built up during the data migration period. This issue was further compounded by some essential system functionality that required urgent rework, and the normal learning and take-up time of a new system by operational staff.

Notwithstanding these initial ‘teething problems’, benefit claims were soon being processed successfully using the new system, as shown in performance charts in this report. Ongoing improvements in benefit processing are continuing as CAPITAL functionality is further enhanced and developed.

The system and supporting operational processes were ready to go live with unit pricing on 1 July 2002.

By the beginning of the 2002–03 financial year the scheme’s pensioners were able to be paid through CAPITAL. Pensioner payment summaries for the 2001–02 financial year were also produced through the new system, and pensions were indexed to the past six months CPI with effect from the first pay in the 2002–03 financial year.

Some of the advantages of having pension management and payroll systems within CAPITAL mean that running costs and maintenance are cheaper than those of the previous system and also manual cases, which had to be processed outside the system, can now be processed inside the system. Furthermore, clients are provided with improved services through additional functionality and through reduced lead times for pension payday cut-offs.

## **collection, banking, recording and maintaining contributions remittances**

The basic rate of member contribution to the MSBS is 5% of salary, including higher duties and Service Allowance, although members can elect to contribute up to 10% of salary. The employer benefit is, for the most part, unfunded except for the 3% productivity contribution which is paid into the Fund by the Department of Defence.

Total contributions to the Fund during 2002–03 were \$159.1m, of which member contributions comprised \$102.1m, as shown in Table 6. Employer-funded contributions amounted to \$57m. The net appropriation for benefits for the year was \$118.2m (\$119.8m for 2001–02).

Member and employer productivity contributions for MSBS members are remitted fortnightly and paid by direct credit to the Board’s bank account.

**table 6: contributors and contributions for the past five years**

Year	Contributors at year's end	Member contributions (\$m)	Employer-funded contributions (\$m)	Net appropriation contributions from Consolidated Revenue (\$m)
1998-99	37 416	84.2	43.6	121.6
1999-2000	38 829	83.1	45.0	114.7
2000-01	39 513	86.7	47.9	108.3
2001-02	42 703	93.2	51.6	119.9
2002-03	45 215	102.1	57.0	118.2

As the Board's administrator, ComSuper:

- maintains appropriate banking arrangements for the payment of contribution remittances into the Fund;
- lodges moneys with the Board's custodian for investment by investment managers to the extent that moneys held in the Board's bank account are not required for the purpose of the payment of benefits and other expenses;
- maintains appropriate accounting systems for the recording of contribution remittances received; and
- monitors the collection of contributions and pursues any late remittance of contributions with the Department of Defence.

**standard**

**outcomes**

Contribution remittances to be deposited into the Board's bank account on the same day as received.	<b>The Department of Defence directly credits all contributions into the MSB bank account on the due date.</b>
Balance of funds held in the Board's bank account to be monitored daily and any funds not required for the purpose of paying benefits and other expenses paid to the Board's investment custodian.	<b>The balance of the MSB bank account was monitored on a daily basis and excess funds were transferred to the Board's custodian.</b>
Contribution remittances to be recorded in the MSBS accounting systems within one week of receipt.	<b>Contribution remittances were recorded in the MSBS accounting systems generally within one week of receipt.</b>

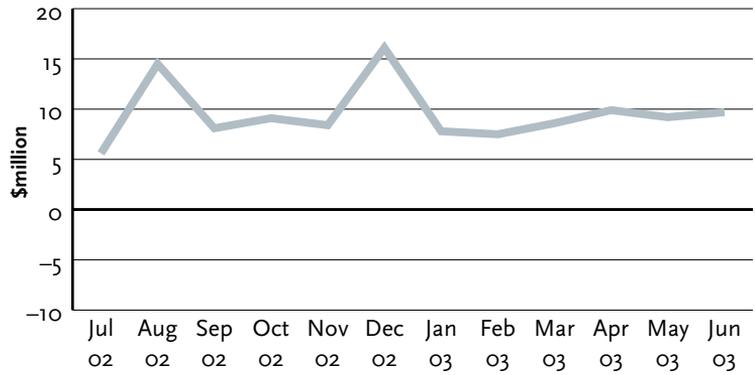
All known contribution remittances not received within 14 days of the due date will be pursued with the Department of Defence and penalty interest will be levied where appropriate.

Daily reconciliations will be undertaken to ensure that all moneys received are banked.

All contributions were received from the Department of Defence by the due date.

Bank reconciliations were performed on a daily basis.

**chart 6: MSB Fund cashflow (contributions received less benefits paid) 2002-03**



# MEMBER COMMUNICATIONS

**Communication with MSBS contributing, preserved benefit and pensioner members is achieved through a variety of means, including:**

- regular newsletters issued by ComSuper;
- articles in Service newspapers;
- email and the Internet;
- annual member statements;
- the Board's Annual Report to Members;
- written correspondence;
- telephone enquiry services;
- wide distribution of various scheme publications;
- regular member information seminars throughout Australia; and
- the communications officer's activities.

At the Board's direction, a comprehensive communications program is aimed at improving members' knowledge and understanding of the scheme so that they are in a position to make informed decisions at times when these need to be made. This includes the range of communications required by SIS and a recognition of the particular needs of members.

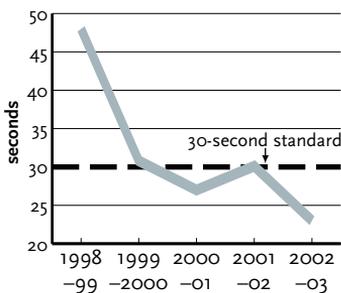
Specifically, a range of communications is provided to members on benefit entitlements and queries relating to the general administration of the scheme in writing, over the phone and by electronic means. The Board continuously seeks ways to improve these communications.

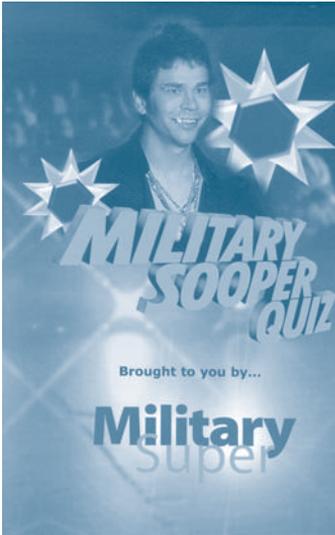
In addition, a range of seminars is offered broadly in accordance with demand, member information statements are issued and various scheme publications made available both in hard copy and electronic format.

The following timeliness standards apply to contributor communications.

<i>standard</i>	<i>outcomes</i>
Process or respond to:	
written enquiries	85% in 10 days 100% in 15 days <b>93.6% 97.7%</b>
email enquiries	95% in 1 day 100% in 2 days <b>97.2% 100%</b>
personal counselling in Canberra	urgent—immediately other—within 5 days <b>standard met standard met</b>
telephone average speed of answer	average of 30 seconds or less over a month <b>23 seconds</b>
website changes	critical updates—1 day routine updates—100% in 5 days <b>standard met standard met</b>
member statements	automatic by 10 September manual by 15 November replacement within 10 days <b>29 October 20 December standard met from late November onwards</b>
ComSuper will send a benefit estimate and an application form within one day of advice of a member's death.	<b>standard met</b>

**chart 7: contributor telephone call response times in the past five years**





## MSCAG activity

The key communication initiatives achieved throughout the year include:

- **The production of the video *Military Sooper Quiz***

The video was the fourth in a series of information videos on Military Super which was launched to increase member awareness.

The video was presented in a quiz show format and focused on the Military Super benefit structure, the key features of which were retirement, invalidity and dependant benefits.

The video was part of a broader communication strategy by the Defence Personnel Executive (DPE) and the Board to provide information to all Military Super members on the scheme.

- **A communications campaign on member investment choice**

The Board decided to implement investment choice for members from 1 July 2003. Member investment choice was implemented to provide members with the flexibility to choose how their money is invested depending on their individual needs and risk tolerances. This entailed setting up a range of investment options, putting in place the necessary infrastructure through its administrator, ComSuper, and conducting a comprehensive communications campaign.

The communications campaign was directed to all current MSBS contributors and preserved benefit members with a preserved member component.

A communications consultant experienced in member investment choice was selected. The consultant assisted in the development and conduct of a comprehensive communications campaign consisting of:

- the preparation of a detailed information kit;
- articles in Service newspapers;
- the establishment of pages on the Military Super website which will contain the kit and other information; and
- preparing the Military Contact Centre to field enquiries.

## **counselling and information services**

Information about the scheme is provided to members over the telephone, in writing, by email, and through presentations at resettlement seminars at various bases and units throughout Australia. Also, members may speak to an information officer on a one-to-one basis in Canberra and at some resettlement seminars throughout Australia.

With the development of the Military Super website there has been a significant increase in the general information available to those with Internet access. Also, greater computer awareness among the members has seen an increasing number of email enquiries received.

However, the most popular means of contact remains the telephone, with an average of 874 telephone calls per week. A total of 45 450 calls were received during the year.

During the year, ComSuper presented 101 seminars to a total of 5 827 MSBS members and provided personal counselling for 1 362 military members. The seminars were primarily conducted in conjunction with resettlement seminars. A further 22 seminars relating to medical discharge were presented to 325 military members.

A total of 3 009 retirement advice letters were issued during the year.

Additionally, the Contact Centre responded to 757 requests for information about the superannuation entitlements of DFRDB or MSBS members under the new family law arrangements. All family law requests were responded to within 28 days.

## **pensioner communications**

The Contact Centre assists military pensioners to understand their superannuation entitlements and maintain their pension accounts in accordance with the service standards agreed between the Board and ComSuper.

Information officers can be contacted by telephone, letter, facsimile or email. Pensioners with hearing impairments can use a special teletypewriter (TTY) facility. Information officers are available for personal counselling at ComSuper's office. Pensioners who use the Internet can get general information from the Military Super website.

During the year, the Contact Centre received 43 611 calls related to military pensioners, and responded to 4 513 written enquiries and 2 560 email enquiries.

Additionally, ComSuper responded to 373 requests for information about pensioners under the new family law arrangements. All requests were responded to within 28 days.

## member statements

SIS legislation requires the Board to distribute annual member statements by 31 December each year. During the 2002–03 financial year, statements for contributing members were distributed on 29 October 2002 and those for preserved members on 21 November 2002. This did not match the mid-September distribution achieved in 2001 because of delays caused by the implementation of the CAPITAL system. The statements provide members with equity figures and withdrawal benefits at the beginning and end of the financial year. Members are also sent a copy of the MSB Fund *Annual Report to Members* and an *About Your Statement* leaflet in their statement kit.

SIS legislation also requires that the Board issue replacement member statements within one month of being advised that a member’s statement is missing or incorrect. Under the service level agreement with the MSB Board the relevant service standard for this function is 10 days (see page 25), which exceeds the SIS requirement. A facility introduced in late November 2002, though initially resulting in the issue of some statements outside the one-month SIS requirement, now enables replacement statements to be issued within two working days.

**table 7: most requested web pages 2002–03**

1	Member Services Online
2	Unitisation
3	Calculate your benefits online (i-Estimator)
4	Unit Price History
5	View and print your statement
6	Military Super Book
7	Retired Members
8	FAQs
9	Preserved Benefits
10	Contact Us

## website development

There is a website developed specifically for Military Super members which contains communications material tailored for the Internet audience. The results of Contact Centre research into the types of questions asked by scheme members were extensively used in this effort. Previously web services had been provided through a common site for all schemes administered by ComSuper.

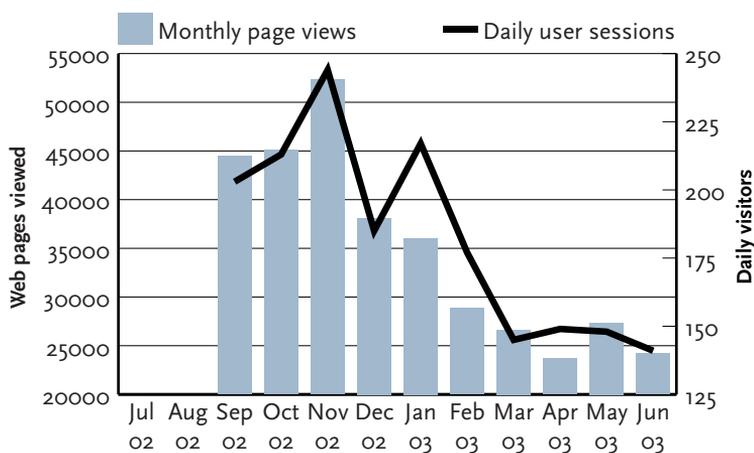
Chart 8 shows usage of the new website in 2002–03. Table 7 shows the ten most requested web pages during the current year.

Continuing improvements to the Military Super website are designed to position it as a primary communications channel to reach scheme members.

### secure website access

Member Services Online provides members with a range of secure services, including the calculation of benefits and the ability to view their annual statement online. During the year 8 549 statements were accessed and 8 211 benefit estimates produced online.

**chart 8: Military Super website usage 2002-03**



Website usage is highly seasonal in nature, peaking around the time annual member statements are issued.

All exiting members are entitled to a member-financed benefit regardless of their reason for leaving the ADF. Members are also entitled to an employer-financed benefit, which varies according to the reason for exit.

## benefits

### member-financed benefits

The MSBS member benefit is a lump sum of the member's contributions, including any amounts notionally brought over from the DFRDB Scheme, plus the interest earned on those contributions in the Fund. The member benefit is payable as a lump sum, and cannot be converted to a pension.

### employer-financed benefits

Employer benefits provided under the MSBS are defined benefits guaranteed by the Commonwealth. Part of the benefit, the productivity benefit, is a funded component and the balance, which is unfunded, is calculated to make up the difference for the total defined benefit. In this way the total employer benefit payable is not affected by market fluctuations.

### preserved benefits

Members who leave the MSBS without a pension entitlement must preserve their total employer component until they reach their compulsory preservation age or, from age 55, they can roll it over to another complying fund of their choice until their preservation age is reached and they are genuinely retired from the workforce.

Members may preserve their total member benefit, if they wish. Discharging members are able to take only that part of their member benefit that accrued up to 30 June 1999. Any contributions paid and interest earned after that date must either be preserved in the scheme or rolled over and preserved in another complying fund until preservation age. Members may withdraw part of a preserved benefit that is not required to be preserved; however, it must be withdrawn in \$10 000 multiples and at intervals of no less than six months.

chart 9: average time to process benefit payments 2002-03

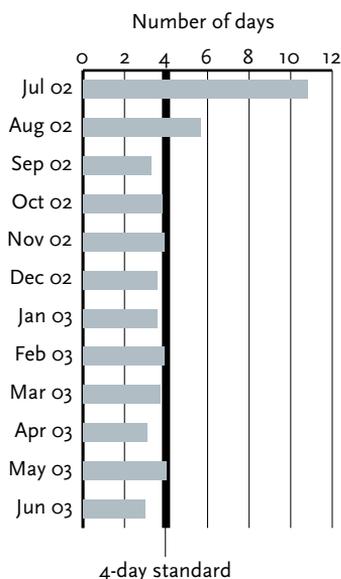


table 8: benefits paid 2002-03

Pensions	\$73.0m
Lump sums	\$89.4m
<b>Total</b>	<b>\$162.4m</b>
Fund share	\$44.2m
Consolidated Revenue share	\$118.2m
<b>Total</b>	<b>\$162.4m</b>

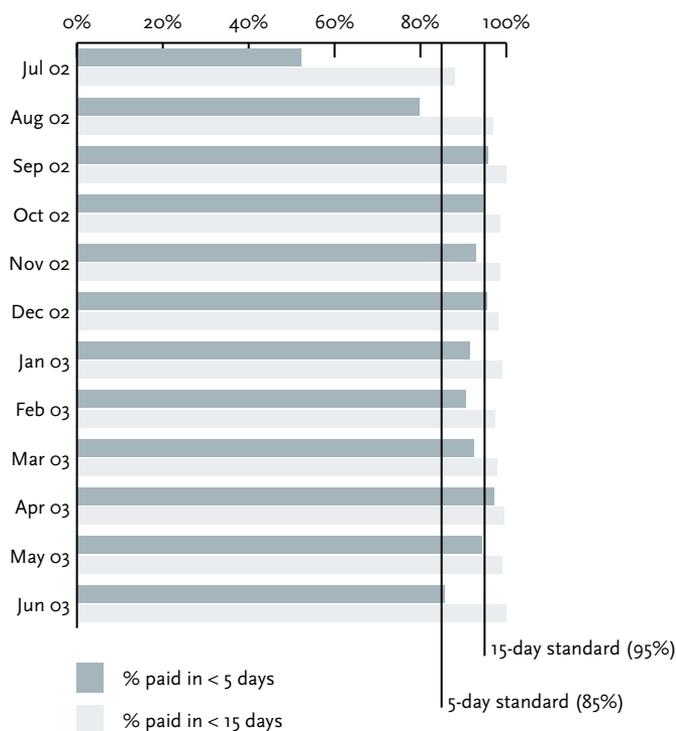
## benefit processing

All applications for benefits from contributors and preserved benefit members are processed in a timely manner and in accordance with relevant legislation. For members whose applications are processed outside 15 days, late payment interest is added.

The following timeliness standards apply to benefit processing.

<i>standard</i>	<i>outcomes</i>
<b>Benefit application processing</b>	
85% in 5 days	<b>88.6%</b>
95% in 15 days	<b>97.8%</b>
average processing time of 4 days over a month	<b>4.4 days</b>

chart 10: contributor benefit processing against standards 2002-03



**chart 11: preserved benefit processing against standards 2002-03**



Delays in the processing of contributor and preserved member benefits in July and August resulted from the introduction of the CAPITAL system late in 2001-02 (see page 21). Once the new system was functioning fully, processing standards were met for the remaining months of the year.

**early release of preserved benefits**

Under certain circumstances, a compulsorily preserved benefit may be paid before retirement.

Of the 1 210 preserved benefits paid in full or part during 2002-03, 513 were released on the grounds of permanent physical or mental incapacity or severe financial hardship, or on compassionate grounds.



## pension variations

### reversionary benefits

All applications for reversionary benefits following the death of a member or a pensioner (that is, eligible spouses, children and orphan pensions) are processed in a timely manner and in accordance with relevant legislation.

The following standard applies.

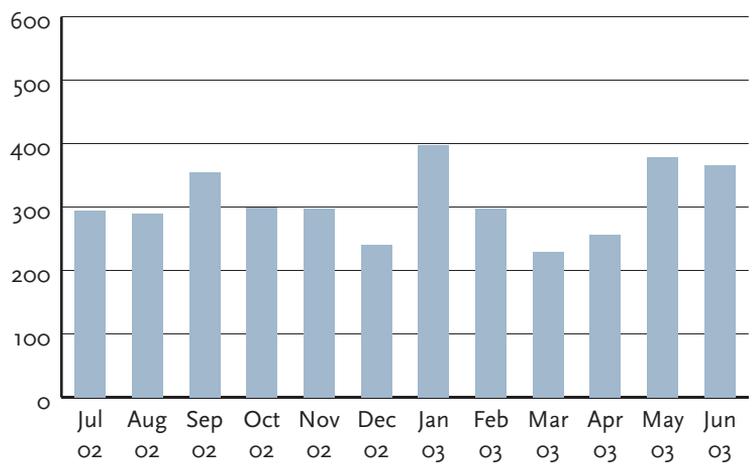
standard	outcomes
All reversionary pensions will be commenced on the next available payday following receipt of application subject to eligibility criteria being clearly met and there being no counterclaims.	Although performance against this standard is not specifically measured, payment of reversionary pensions is given the highest priority in processing cycles.

### changes to pension payment details

The following standard applies.

standard	outcomes
Changes to pension payment arrangements will be made within the first available fortnightly pay cycle following receipt of a request.	standard met

chart 12: pension variations 2002-03



## pension increase/advice

Pension increases are processed in accordance with relevant legislation.

The following standards apply.

<i>standard</i>	<i>outcomes</i>
The July increase is processed for payment on the first payday in July.	<b>standard met</b>
The January increase is processed for payment on the first payday in January.	<b>standard met</b>

MSBS pensions are automatically increased twice yearly in line with upward movements in the Consumer Price Index (CPI) for the six months ending 31 March and 30 September each year. The increases are paid on the first pension payday in January and July each year.

In 2002-03, the Australian Bureau of Statistics announced a CPI change of 1.4% for the six months to September 2002 and 2.0% for the six months to March 2003.

Pensioners receive a statement in January and July showing their new rate of pension. Their income tax payment summary and other relevant information is included with the July statement.

## pension payments

### employer-financed benefits paid as pension

During the year, 379 new pensions were granted and at 30 June 2003, 4 922 members were receiving MSBS pensions. The total number of pensioners for each class of benefit is detailed in Table 9 for the end of each financial year since 30 June 1999.

**table 9: number of pensioners since 30 June 1999, by type of benefit**

Class of pension benefit	Number of pensioners				
	30 June 1999	30 June 2000	30 June 2001	30 June 2002	30 June 2003
Retirement	470	531	556	621	707
Redundancy	1 713	1 748	1 877	1 885	1 901
Invalidity	1 248	1 436	1 724	2 010	2 169
Reversionary benefits*	35	62	40	84	145
<b>Total</b>	<b>3 466</b>	<b>3 777</b>	<b>4 197</b>	<b>4 600</b>	<b>4 922</b>

\*Payable on the death of a member, former member or pensioner.

The total amount paid as pensions during the year was \$73.0 million. The average pension amounted to \$14 830.

*The Defence Force retires members on the grounds of invalidity if they do not meet the required standard of fitness, even though they may be capable of employment of a similar nature in the civilian workforce.*

## invalidity benefits

In determining invalidity benefits it is ensured that due process is followed, that claims are processed expeditiously, that legislative requirements are met and that guidelines issued by the Board are followed.

The following standards apply to the processing of invalidity claims.

### standard

### outcomes

**Cases for submission to delegate** are submitted within 10 working days of receipt of supporting documentation and any additional information that may be required\* or by date of discharge, whichever is the later.

The standard was met throughout the year.

**Cases for submission to the Board's Incapacity Classification Committee (ICC)** are submitted to the meeting of the Committee immediately prior to the discharge date or to the next available meeting of the Committee after receipt of supporting documentation and any additional information that may be required\*, whichever is the later.

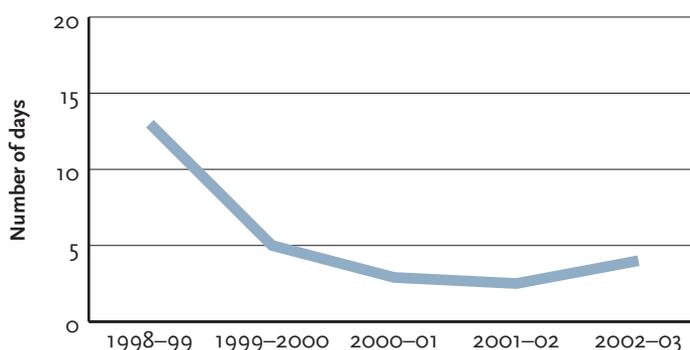
The standard was met throughout the year.

Members are advised of decisions taken within 3 working days.

\*Supporting documentation includes medical documentation, the member's employment experience, advice of conditions causing retirement, confirmation of date and mode of exit, and the member's application.

The image shows a brochure titled "INVALIDITY BENEFITS UNIQUE TO THE ADF" and "Military Super". It includes text explaining the process for members to apply for invalidity benefits, the role of the Medical Assessment and Health Services (MAHS) team, and the criteria for eligibility. It also lists the types of benefits available, such as the Class A Invalidity Pension, Class B Invalidity Pension, and Class C Invalidity Pension. The brochure is available at [www.militarysuper.gov.au](http://www.militarysuper.gov.au).

**chart 13: average time taken to determine new invalidity cases in the past five years**



## invalidity classification process

### Incapacity Classification Committee (ICC)

Members of the MSBS retired on invalidity grounds receive an A, B or C classification, reflecting the member's loss of capacity to obtain appropriate civilian employment. If there is a conflict in the medical information, or reasonable doubt as to the classification, the case is passed from the ComSuper delegate to the Incapacity Classification Committee (ICC) for decision. The ICC is established under the provisions of MSB Rule 17 and is required to determine the classification of members retired on invalidity grounds and to review the existing classification of invalidity pension recipients. The ICC made 125 initial classification decisions during 2002-03.

The rate of invalidity pension payable to a recipient member may be altered if the pensioner's degree of incapacity to undertake civilian employment deteriorates or improves. If specialist evidence indicates that a member's classification is no longer appropriate, the review of that case is passed from the ComSuper delegate to the ICC. The ICC made 170 reclassification decisions during the year.

After a classification decision has been made, the member is advised in writing and informed of the right to request reconsideration of the decision. Members who receive advice of decisions of the Board and the ICC also receive a copy of the minute recording the decision. Members who receive advice of decisions made by other delegates receive a copy of the decision itself.

## invalidity retirements by classification

From 1 July 2002 to 30 June 2003, 525 members received initial invalidity classifications, although in 47 of these cases Rule 32 (relating to pre-existing conditions) was applied. This is a decrease of 102 invalidity cases on the previous year (total 627). Of those who received an invalidity classification, 262 (55 Class A and 207 Class B) became entitled to an invalidity pension. The remaining 263 were classified as Class C incapacity. (Note: These figures vary slightly from the number of invalidity exits quoted elsewhere because some of the cases relate to members who were discharged in a previous financial year.) The proportion of invalidity classifications for each Service is shown in Chart 14.

chart 14: comparison, by service, of invalidity classifications 2002-03



## invalidity classification review

The Board or its delegates may from time to time review the classification of invalidity pensioners either of their own volition or at the request of pensioners.

The following standards apply to this review process.

### standard

Reviews will be completed within 20 working days of receipt of all relevant information.

Members will be advised of decisions taken within 3 working days.

### outcomes

The standard was met in 7 months of the year.

All members were advised of decisions taken within 3 working days.

Decisions by the Board to classify members as Class A or B are reviewable at intervals determined by the Board. A member who believes that his or her classification has altered since it was last considered may request that the classification be reviewed. During 2002-03, 475 cases were examined, 47 of which were member requested reviews. As a result of these reviews 144 classifications were changed, as shown in Table 10.

**table 10: invalidity entitlements reviewed in the past five years**

	1998-99	1999-2000	2000-01	2001-02	2002-03
Entitlements examined	289	677	548	545	475
Review with medical exam	159	215	138	187	222
Classification raised	17	14	23	25	21
Classification reduced	90	121	67	124	123
<b>Total classification changes</b>	<b>107</b>	<b>135</b>	<b>90</b>	<b>149</b>	<b>144</b>

## accounts, records and funding of benefit payments

As the Board's administrator, ComSuper:

- liaises with the Board's investment custodian to ensure that funds are available to meet benefits and other payments from the Fund as they fall due; and
- maintains proper accounts and records in respect of benefits paid.

The following standards apply to these activities.

<i>standard</i>	<i>outcomes</i>
Immediate availability of funds from Trustees' bank account to meet benefit payments.	See Chart 6 on page 24 which indicates that the MSB cashflow was positive for all months during the year.
Receipt of assurance (in a format agreed by the Board) in the annual management representation letter that proper accounts and records have been kept.	Standard met.

*Decisions by the Board and its delegates, including the Incapacity Classification Committee and the Reconsideration Committee, are subject to internal reconsideration and external review by the Superannuation Complaints Tribunal. These processes are managed by ComSuper.*

## internal review

A person affected by a decision of the Board or a delegate may apply in writing to have the decision reconsidered. If the Board or the Reconsideration Committee took the decision, the application must be supported by new and relevant evidence. Applications for the reconsideration of a delegate’s decision need not be supported by new evidence.

Requests for reconsideration are investigated in a thorough, objective and effective manner in accordance with any guidelines issued by the Board.

The following timeliness standards apply to this activity.

<b>standard</b>	<b>outcomes</b>						
Processing of reconsideration requests: <table border="1"> <tr> <td>60% in 8 months</td> </tr> <tr> <td>100% in 12 months</td> </tr> <tr> <td>Average—9 months for all requests</td> </tr> </table>	60% in 8 months	100% in 12 months	Average—9 months for all requests	There were 169 MSBS requests for reconsideration received in 2002–03. The proportions of cases completed against the standards were as follows: <table border="1"> <tr> <td>98% in 8 months</td> </tr> <tr> <td>100% in 12 months</td> </tr> <tr> <td>Average—3 months for all requests</td> </tr> </table>	98% in 8 months	100% in 12 months	Average—3 months for all requests
60% in 8 months							
100% in 12 months							
Average—9 months for all requests							
98% in 8 months							
100% in 12 months							
Average—3 months for all requests							
Preparation of submissions to the Reconsideration Committee: <table border="1"> <tr> <td>within 30 days of receipt of supporting documentation</td> </tr> </table>	within 30 days of receipt of supporting documentation	All submissions to the Reconsideration Committee were prepared within 30 days of receipt of supporting documentation. <p>The Board regularly monitored outstanding cases, particularly those remaining unresolved for more than 12 months after having been received. There were no such cases in 2002–03.</p>					
within 30 days of receipt of supporting documentation							

## reconsideration of decisions

Requests for reconsideration are treated as complaints for the purposes of section 101 of the *Superannuation Industry (Supervision) Act 1993*.

Following determination of a request for reconsideration each applicant receives a comprehensive written statement of reasons for the decision. Applicants are also advised of further appeal rights.

During 2002-03, 169 requests for reconsideration of decisions taken by the Board or its delegates of were received, an increase from the 141 requests received the previous year. Four requests for reconsideration of the Reconsideration Committee's decisions were received during 2002-03, compared with two of a Board decision and seven of a Committee decision during 2001-02.

The majority of requests for reconsideration concerned invalidity retirement benefit classification or reclassification decisions, the latter rising, as expected, as the invalidity pensioner membership grows. The primary issue to be determined in these cases is the member's level of physical or mental incapacity to undertake suitable civilian employment.

One hundred and seventy-seven cases were finalised during the year, compared with 149 cases last year. Sixty-four decisions were affirmed and in 29 cases the decision was set aside or varied in favour of the applicant. Another 75 cases lapsed because the applicant failed to pursue the matter. Nine requests were withdrawn. Thirty-nine cases remained under investigation on 30 June 2003.

**table 11: reconsideration applications for the past five years**

	1998-99	1999-2000	2000-01	2001-02	2002-03
Requests on hand	53	65	74	55	47
Requests received	73	98	90	141	169
Requests resolved	61	89	109	149	177
Carried forward	65	74	55	47	39

## external review

Following the MSB Board's election on 30 June 1995, the MSB became a regulated superannuation fund for purposes of the *Superannuation Industry (Supervision) Act 1993*. As a regulated fund any decision taken by the Board can be the subject of a complaint before the Superannuation Complaints Tribunal (SCT), which was established under the *Superannuation (Resolution of Complaints) Act 1993* (the SRC Act).

Thirteen complaints were lodged with the SCT during the year and ten cases were carried over from 2001-02. Thirteen complaints were resolved during the year: seven decisions were affirmed, three complaints were withdrawn, and three decisions were set aside. There were ten SCT cases outstanding as at the end of June 2003.

In 2002–03 one SCT decision was appealed to the Federal Court in addition to two appeals lodged in 2001–02. The Court handed down its judgment in all of these cases, allowing the Board’s appeal and setting aside the SCT’s decision in two appeals, and allowing the applicant’s appeal in the third case. There were no applications for review lodged with the Federal Court under the AD(JR) Act in respect of decisions of the Board or its delegates.

## enquiries and complaints

The Board has established formal procedures for dealing with members’ complaints received in accordance with section 101 of the *Superannuation Industry (Supervision) Act 1993*.

### external appeals

Systems are in place to facilitate the expeditious processing of matters that go to the Superannuation Complaints Tribunal, the Federal Court and other jurisdictions such as the Human Rights and Equal Opportunity Commission (HREOC).

The Board also monitors the outcome of external appeals and their implications.

The standards applying to these activities are as follows.

<i>standard</i>	<i>outcomes</i>
<p>Process all external review cases both objectively and expeditiously—as assessed by six-monthly audit.</p> <p>Report to be provided to the first Board meeting after a decision is handed down.</p>	<p><b>ComSuper complied with the specified procedures and deadlines for all cases considered by the SCT. Two cases appealed by the Board to the Federal Court were heard during the year and decided in favour of the Board.</b></p>

### complaints, ministerials and ombudsman enquiries and freedom of information requests

Systems are in place for dealing with SIS-registered complaints and representations made by Parliamentarians and the Ombudsman; requests made under the *Freedom of Information Act 1982* (the FOI Act); and correspondence directed to the Board.

The following timeliness standards apply to these activities.

### **standard**

SIS complaints and Parliamentarian/Ombudsman representations:

90% within 15 working days
100% within 25 working days

FOI requests:

100% in 7 working days
------------------------

Trustee correspondence:

90% within 15 working days
100% within 30 working days

### **outcomes**

Response was made to 90% of SIS complaints within 15 days and 100% within 25 days.

75% (three cases) of Parliamentarian and Ombudsman requests were processed within 15 days and 100% within 25 days.

All Freedom of Information requests were processed within 7 working days.

All Trustee correspondence was responded to within 15 working days.

## **complaints and parliamentary enquiries**

Thirty-nine complaints and four parliamentary representations were received during the year. One complaint was carried over as at 30 June 2003.

The complaints covered a range of issues such as payment delay, interest rate concern and inability to withdraw preserved amounts.

Table 12 shows the time taken to respond to complaints and parliamentary representations in 2002-03.

**table 12: responses to complaints and parliamentary representations 2002-03**

	<i>&lt;15 days</i>		<i>16-25 days</i>		<i>26-90 days</i>		<i>&gt;90 days</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
Complaints	35	92	3	8	—	—	—	—
Parliamentary representations	3	75	1	25	—	—	—	—

In addition, ministerials relating to policy issues are received and responded to within the Department of Defence. In 2002-03 those relating to the MSBS totalled 20 (including 12 regarding MSBS employer benefit preservation arrangements). There were also 25 ministerials (including 18 on pension indexation arrangements) that related to both the MSBS and the DFRDB Scheme.

## freedom of information

Matters associated with the administration of the *Freedom of Information Act 1982* are dealt with by ComSuper's Corporate Governance and Parliamentary Liaison Unit.

MSBS members made 85 requests for access to documents during 2002–03. Eighty-one requests were granted in full and two partially. Two requests were refused. The requests took an average of two days to process.

Enquiries relating to the documentary disclosure of information about the personal affairs of clients of the agency under the provisions of the Freedom of Information Act should be directed to:

Corporate Governance and Parliamentary Liaison Unit  
ComSuper  
PO Box 22  
Belconnen ACT 2616

Telephone: (02) 6272 9080  
Facsimile: (02) 6272 9802  
TTY: (02) 6272 9827  
Email: [foi@comsuper.gov.au](mailto:foi@comsuper.gov.au)

*There are two main groups of contributors to the MSBS, those who transferred from the DFRDB and those who have become members of the MSBS upon joining the ADF. There is also a small group of members who had been receiving a DFRDB benefit, rejoined the ADF and elected to join the MSBS.*

## contributors

At 30 June 2003, there were 45 215 contributors to the MSBS, 39 600 (87.6%) of whom were male and 5 615 (12.4%) female. Table 13 shows the number of new entrants and exits and the total contributor membership at 30 June 2003. Table 14 shows the number of contributors by years of service and by gender.

**table 13: contributor composition**

	Male members	Female members	Total
Membership at 30 June 2002	37 272	6 134	43 406
Plus new contributors	5 647	169	5 816
Less members leaving the ADF	3 319	688	4 007
<b>Membership at 30 June 2003</b>	<b>39 600</b>	<b>5 615</b>	<b>45 215</b>

Note: The membership figures given in this table for 30 June 2002 differ from those in the 2001–02 report and in the summary table on page 78 due to retrospective adjustments not reported last year. Also, the introduction of new computer systems has made some changes to the way membership records are counted.

**table 14: male and female contributors by years of service**

Years of service	Male	Female	All
0–9	30 686	4 305	34 991
10–14	4 620	815	5 435
15–19	2 698	419	3 117
20+	1 596	76	1 672
<b>Total</b>	<b>39 600</b>	<b>5 615</b>	<b>45 215</b>

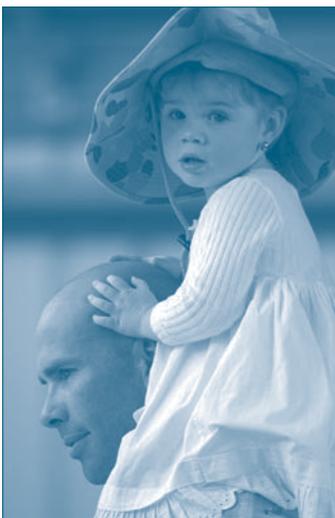
The largest number of contributors in 2002–03 was aged between 20 and 24 years, 28.6% of members being in that age group. The next largest group (25–29 years) comprised 24.9% of the scheme’s contributor population.

## commencements

There were 5 816 new MSBS members in 2002–03.

## exits

There were 4 007 exits from the MSBS during the year. The types of exit are shown in Table 15.



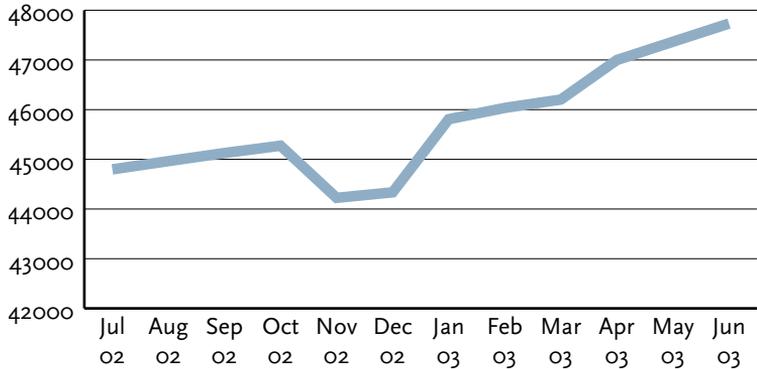
**table 15: modes of exit in the past five years**

Mode of exit	1998-99	1999-2000	2000-01	2001-02	2002-03
Age retirement	81	89	103	110	71
Resignation	3 654	4 084	4 891	3 744	3 426
Redundancy	90	29	171	12	11
Invalidity retirement	653	697	623	497	487
Death	19	12	10	17	12
Other	243	294	150	-	-
<b>Total</b>	<b>4 740</b>	<b>5 205</b>	<b>5 948</b>	<b>4 380</b>	<b>4 007</b>

## preserved benefit members

There were 47 733 preserved benefit members in the MSBS as at 30 June 2003. Chart 15 shows the growth of preserved benefit members during 2002-03.

**chart 15: growth in preserved benefit member population 2002-03**

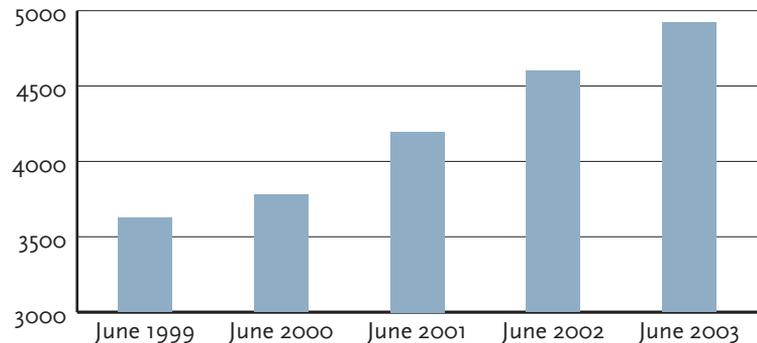


One of the oldest MSBS pensioners, Colin Carre, receiving a commemorative medallion from the Minister for Finance and Administration, Senator the Hon. Nick Minchin, at the ComSuper Open Day, 18 June 2003

## pensioners

There were 4 922 pensioners in the MSBS as at 30 June 2003. Chart 16 shows the growth of pensioners since 30 June 1999.

**chart 16: growth in pensioner population in the past five years**



As the Board's administrator, ComSuper:

- maintains the Fund's general ledger summarising monthly contributions, benefits and investment transactions as reported by the Fund Custodian;
- prepares the annual financial statements of the Scheme in a form agreed by the Board and the Minister;
- prepares monthly (unaudited) financial statements in a form agreed with the Board;
- prepares annual APRA returns and the annual report to the Minister in accordance with relevant guidelines for reporting by Government agencies and the directions of the Board;
- prepares annual taxation returns and pays quarterly tax instalments by the due date;
- calculates daily unit prices in concert with the Fund Custodian;
- provides annual letters of comfort to the Board and to the Board's external auditor regarding information provided for annual financial statements;
- arranges payment of the Board's administrative expenses;
- liaises with the Board's specialist advisers on accounting, taxation and investment issues;
- provides the Board with the opportunity to participate in the development of ComSuper's annual internal audit program to identify areas of mutual interest and to examine reports of specific internal audits where there is a coincidence of interest;
- provides reasonable access to internal audit staff to attend Board Audit Committee meetings and to advise on audits completed or in progress;
- provides a quality assurance role on accounting information provided by the Custodian or other sources;
- prepares the Board's administration budget in a form agreed with the Board.

The following standards apply to accounting services.

**standard**

The Board requires its administrator to deliver:

- unqualified financial statements in respect of services provided by ComSuper under this agreement;
- the Board's annual report within the statutory time limits.

**outcomes**

**standard met**

**The 2001–02 Annual Report was presented to the Minister on 8 October 2002.**

**SIS compliance**

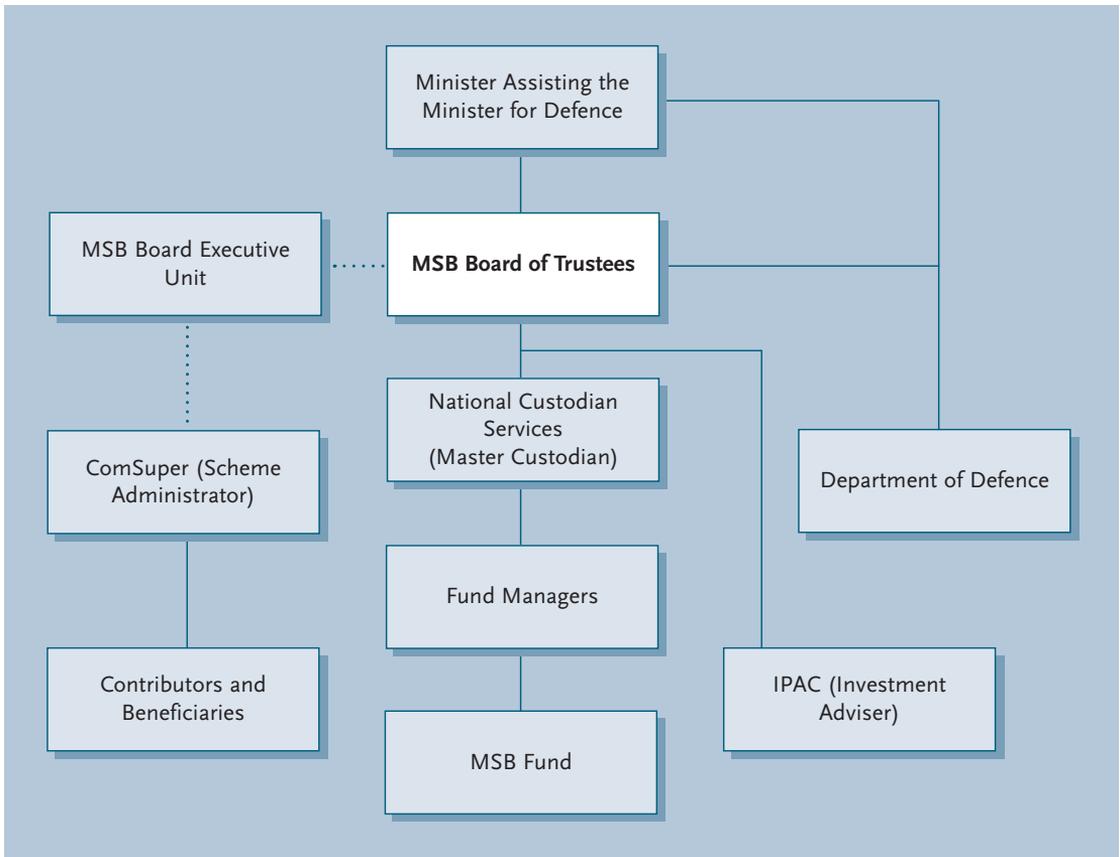
To ensure that the Board complies with the *Superannuation Industry (Supervision) Act 1993*, the Audit Committee has adopted a comprehensive SIS compliance checklist prepared by KPMG. In order to meet its compliance obligation, the Board has appointed, in conjunction with ComSuper, a dedicated SIS Compliance Officer whose role is to take responsibility for the MSBS checklist as well as to ensure the Board's compliance with other legislative requirements.

A detailed compliance report was provided to the Board in September 2002 and March 2003.

**audit of financial statements**

The Auditor-General has again been able to provide an unqualified audit opinion on the financial statements of the MSB Scheme.

## organisational structure of the MSBS



## human resources

ComSuper provides secretariat services to the Board in line with the standards outlined in the Administrative Agreement.

## financial resources

The administrative costs of the MSB Board of Trustees for 2002-03 totalled \$1.988m. These costs include fees paid to trustees, trustee travel costs and the cost of ComSuper secretariat and accounting staff.

In accordance with section 4 of the *Military Superannuation and Benefits Act 1991* only those expenses of the Board in respect of its responsibilities for the management of the MSB Fund and investment of its moneys are paid from the MSB Fund. Under section 27 of the Act the Commissioner for Superannuation and the staff of ComSuper provide scheme administration services to the Board. The Department of Defence pays ComSuper for the costs of administering the scheme on the Board's behalf, including a component of the administration fee which is earmarked to meet administration costs directly incurred by the Board and its staff.

The breakdown of administrative expenses met by the MSB Fund and the Department of Defence in respect of 2002-03 is as follows:

MSB Fund	\$1.130m
Department of Defence	\$0.858m
<hr/>	<hr/>
Total	\$1.988m

Further details are contained in the financial statements.

# FINANCIAL STATEMENTS

Auditor-General's report	52
Statement by the Trustees	55
Financial statements for the MSB Fund	56
Actuarial report	75



## MILITARY SUPERANNUATION AND BENEFITS SCHEME

### INDEPENDENT REPORT BY APPROVED AUDITOR TO THE MINISTER ASSISTING THE MINISTER FOR DEFENCE

#### (A) Financial Statements

##### Scope

**I have audited the financial statements of Military Superannuation and Benefits Scheme for the year ended 30 June 2003. The financial statements comprise:**

- Statement of Changes in Net Assets
- Statement of Net Assets
- Notes to and forming part of the Financial Statements

The superannuation entity's trustee is responsible for the financial statements. I have conducted an independent audit of the financial statements in order to express an opinion on them to the Minister assisting the Minister for Defence.

My audit has been conducted in accordance with Australian National Audit Office Auditing Standards which incorporate Australian Auditing and Assurance Standards to provide reasonable assurance whether the financial statements are free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with my understanding of the superannuation entity's net assets and changes in net assets.

The financial statements audit opinion expressed in this report has been formed on the above basis.

##### Audit Opinion

In my opinion

- (i) The financial statements are in the form agreed by the Minister assisting the Minister for Defence in accordance with the sub-section 26(1) of the Military Superannuation and Benefits Act 1991;

- (ii) the financial statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the net assets of Military Superannuation and Benefits Scheme as at 30 June 2003 and the changes in net assets for the year ended 30 June 2003.

**(B) Compliance**

**Scope**

I have conducted tests in accordance with Australian National Audit Office Auditing Standards which incorporate Australian Auditing and Assurance Standards as necessary to provide reasonable assurance whether the trustee of the Military Superannuation and Benefits Scheme has, in all material respects:

- (a) complied with the relevant requirements of the following provisions (to the extent applicable) of the *Superannuation Industry (Supervision) Act 1993* and Regulations:

Sections 19(2), 19(3), 36, 65, 66, 67, 69 to 85, 86 to 93A, 95, 97, 98, 101, 103, 104, 105, 106, 107, 109, 111, 112, 113, 117, 118, 121, 122, 124, 125, 152, 153, 154, 163, 169;

Regulations 2.10(1), 2.13(1), 2.21(3), 2.33(2), 2.43(1), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and

- (b) the relevant requirements of the following provisions (to the extent applicable) of the *Corporations Act 2001* and Regulations:

Sections 1012A, 1012B, 1012C, 1012F, 1012G(3), 1012H(2), 1012I, 1013D, 1013K(1) or (2), 1016A(2) or (3), 1017B(1), 1017B(5), 1017C(2), 1017C(3) or (5), 1017D(1), 1017D(3), 1017D(3A), 1017DA(3), 1017E(2), 1017E(3) or (4), 1020E(8) or (9); and

Regulation 7.9.32(3); and

- (c) adhered to the Guidelines for preparing risk management statements ("Guidelines") issued by Australian Prudential Regulation Authority (APRA) in Circular II.D.7 on Derivatives (to the extent applicable)

for the year ended 30 June 2003.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations and *Corporations Act 2001* and Regulations.

My procedures with respect to Regulation 6.17 of the Superannuation Industry (Supervision) Regulations included testing whether amounts identified by the trustee as preserved and restricted non-preserved have been cashed or transferred only in

accordance with the requirements of Part 6 of those regulations. These procedures did not include testing of the calculation of the preserved and restricted non-preserved amounts beyond a broad assessment of the apparent reasonableness of the calculations.

My procedures with respect to the Guidelines consisted of confirming whether any Risk Management Statement was to be prepared by the superannuation entity's trustee under the Guidelines contained in APRA Circular I.D.7 at any time during the year of income. These procedures indicated that only a Part A Risk Management Statement should be prepared by the superannuation entity's trustee. This has been prepared and is broadly consistent with the requirements of the Guidelines.

These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the *Superannuation Industry (Supervision) Act 1993* and Regulations or Guidelines or the *Corporations Act 2001* and Regulations apart from those specified. The superannuation entity's trustee is responsible for complying with the *Superannuation Industry (Supervision) Act 1993* and Regulations and the *Corporations Act 2001* and Regulations and appropriately applying the Guidelines.

The opinion on compliance expressed in this report has been formed on the above basis.

#### **Audit Opinion**

In my opinion the trustee of Military Superannuation and Benefits Scheme has complied, in all material respects, with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations and the *Corporations Act 2001* and Regulations and applied the Guidelines specified above for the year ended 30 June 2003.

Australian National Audit Office



David C. McKean  
Executive Director

Delegate of the Auditor General

Canberra

23 September 2003

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

### Statement by the Trustees of the Military Superannuation and Benefits Fund

The Board of Trustees hereby states that in its opinion:

- (a) the attached financial statements of the Military Superannuation and Benefits Scheme show a true and fair view of the matters required by AAS 25 "Financial Reporting by Superannuation Plans" and Schedule 1 of the *Commonwealth Authorities and Companies (Financial statements for reporting periods ending on or after 30 June 2003) Orders* to the extent that the latter is not inconsistent with the former;
- (b) the attached financial statements of the Military Superannuation and Benefits Scheme show a true and fair view of the net assets of the Scheme at 30 June 2003 and the changes in net assets of the Scheme for the year ended 30 June 2003;
- (c) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;
- (d) the financial statements are in a form agreed by the Minister Assisting the Minister for Defence and the Military Superannuation and Benefits Board of Trustees in accordance with sub-section 26(1) of the *Military Superannuation and Benefits Act 1991* and have been prepared in accordance with applicable Australian Accounting Standards and mandatory professional requirements; and,
- (e) the operations of the Scheme were in accordance with the *Military Superannuation and Benefits Act 1991* and the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations and the *Corporations Act 2001* and Regulations to the extent applicable.

Signed at Canberra this 17th day of September 2003 in accordance with a resolution of members of the Military Superannuation and Benefits Board of Trustees.



C.P.H Kiefel  
Chairman



M. Sharpe, AO  
Member

*Military Superannuation and Benefits  
Board of Trustees*

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30 JUNE 2003

	Note	2003 \$'000	2002 \$'000
<b>Net Assets Available to Pay Benefits at The Beginning of The Period</b>		1 033 869	1 046 336
<b>Add:</b>			
<b>Revenue from Ordinary Activities</b>			
<b>Investment Revenue</b>			
Interest	3	5 614	8 404
Dividends	3	29 805	21 624
Other Investment Income	3	130	161
Changes in Net Market Values	3	(51 274)	(137 139)
Less: Direct Investment Expenses	5	(6 977)	(5 924)
		<u>(22 702)</u>	<u>(112 874)</u>
<b>Contributions Revenue</b>			
Member Contributions		102 130	93 226
Employer Contributions		56 929	51 636
Appropriation from Consolidated Revenue Fund (CRF)	4	118 225	119 853
		<u>277 284</u>	<u>264 715</u>
<b>Total Revenue from Ordinary Activities</b>		<u>254 582</u>	<u>151 841</u>
<b>Less:</b>			
<b>Expenses from Ordinary Activities</b>			
General Administration Expenses	5	(1 130)	(946)
Benefits Paid	4	(162 374)	(173 791)
<b>Total Expenses from Ordinary Activities</b>		<u>(163 504)</u>	<u>(174 737)</u>
<b>Total Revenue less Expenses and Benefits Paid Before Tax</b>		91 078	(22 896)
Income Tax Benefit/(Expense)	6	(4 925)	10 429
<b>Total Revenue less Expenses and Benefits Paid After Tax</b>		<u>86 153</u>	<u>(12 467)</u>
<b>Net Assets Available to Pay Benefits at The End of The Period</b>		<u>1 120 022</u>	<u>1 033 869</u>

*The attached notes form part of these financial statements.*

MILITARY SUPERANNUATION AND BENEFITS SCHEME

STATEMENT OF NET ASSETS  
AS AT 30 JUNE 2003

	Note	2003 \$'000	2002 \$'000
<b>Investments</b>			
Cash and Short Term Deposits		26 896	24 946
Australian Fixed Interest		63 930	99 468
International Fixed Interest		76 414	33 975
Australian Equities		363 427	461 165
International Equities		365 331	276 471
Property Trusts		82 594	55 244
Currency Contracts		12 999	(2 414)
Private Equity	14a	52 180	37 809
Hedge Fund		28 468	–
Emerging Markets		24 365	28 362
Total Investments		<u>1 096 604</u>	<u>1 015 026</u>
<b>Other Assets</b>			
Cash at Bank		3 957	1 430
Consolidated Revenue Fund (CRF) Special Account		543	194
Interest Receivable		333	2 159
Dividends Receivable		3 387	3 734
Trade Settlements Receivable		7 589	12 512
GST Recoverable		158	152
Sundry Debtors		276	187
Benefits Payable to be funded by Appropriation	4	4 158	3 532
Deferred Tax Assets		22 611	15 121
Total Other Assets		<u>43 012</u>	<u>39 021</u>
<b>Total Assets</b>		<u>1 139 616</u>	<u>1 054 047</u>
<b>Less: Liabilities</b>			
Benefits Payable	4	7 283	7 074
Trade Settlements Payable		4 158	8 533
Sundry Creditors	7	2 101	987
Current Tax Liability		3 161	2 596
Deferred Tax Liability		2 891	988
<b>Total Liabilities</b>		<u>19 594</u>	<u>20 178</u>
<b>Net Assets Available to Pay Benefits</b>		<u>1 120 022</u>	<u>1 033 869</u>

The attached notes form part of these financial statements.

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES****(a) Basis of Preparation**

These financial statements have been prepared in accordance with the Defined Benefit Plan provisions of AAS 25 Financial Reporting by Superannuation Plans, other applicable Australian Accounting Standards (AAS) and Urgent Issues Group Consensus Views. A Defined Benefit Plan refers to a superannuation plan where the amounts to be paid to members on retirement are determined at least in part by a formula based on years of membership and salary levels. The Scheme has adopted the provisions of AAS 25 whereby the financial statements include a Statement of Net Assets, a Statement of Changes in Net Assets and Notes thereto. The form of these financial statements has been agreed by the Minister Assisting the Minister for Defence and the Military Superannuation and Benefits Board of Trustees in accordance with sub-section 26(1) of the *Military Superannuation and Benefits Act 1991*. Unless otherwise stated, these accounting policies were also adopted in the corresponding preceding reporting period.

**(b) Revenue**

Investment revenue and contributions are brought to account on an accruals basis. Dividends on quoted shares are deemed to accrue on the date the dividend is declared. Changes in the net market value of assets are recognised in the statement of changes in net assets in the periods in which they occur. Transfers from other funds are brought to account when received.

**(c) Valuation of Investments**

Assets of the Military Superannuation and Benefits Scheme (MSBS) are recorded at net market value as at the reporting date and changes in the net market value of assets are recognised in the Statement of Changes in Net Assets in the periods in which they occur. Net market values of investments includes an amount for selling costs which would be expected to be incurred if the investments were sold. The bases of market valuations are summarised below.

- (i) Short-term Money Market—these securities are valued by marking to market using yield supplied by independent valuers.
- (ii) Fixed-interest—these securities are valued by marking to market using yields supplied by independent valuers.
- (iii) Futures Contracts—open futures contracts are revalued to closing price quoted at close of business on 30 June by the futures exchange.
- (iv) Equities—listed securities, including listed property trusts, are valued based on the last sale price quoted at close of business on 30 June by the relevant stock exchange, or last bid where a sale price is unavailable.
- (v) Exchange Traded Options—options are valued as the premium payable or receivable to close out the contracts at the last buy price quoted at close of business on 30 June by the relevant stock exchange.
- (vi) International Investments—international securities are valued on the basis of last sale price quoted at close of business on 30 June by the relevant securities exchange. In the case of UK securities, the basis of valuation is the average of the bid and offer prices.
- (vii) Units in Property Trusts—units are valued at their net realisable value.
- (viii) Currency hedges—these securities are valued at the relevant exchange rate at close of business on 30 June.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)****(c) Valuation of Investments (Cont.)**

(ix) Private equity—this asset class is valued according to the most recent valuation obtainable from:

- an independent external valuer;
- a third party arms length transaction;
- the current and future earnings of companies in the portfolio; or
- cost (less any diminution in value).

The following table details the valuation of private equity investments as at 30 June 2003:

<b>Fund</b>	<b>Latest valuation</b>
Deutsche Private Equity Fund	30 June 2003
Gresham Private Equity Fund	31 May 2003
Macquarie GIF	31 March 2003
Sentient Global Resources Trust No. 1	31 March 2003
Pantheon USA Fund IV, L.P.	31 December 2002
Pantheon Europe Fund III, L.P.	31 March 2003
HarbourVest Partners IV – Fund L.P.A7	31 March 2003
HarbourVest Partners VII – Fund L.P.A7	31 March 2003
CSFB Fund Investment VI-B (Bermuda)	31 March 2003

All valuations are unaudited except for Pantheon USA.

**(d) Foreign Currency Translation**

Foreign currency transactions are converted to Australian currency using the currency exchange rate in effect at the point of recognition of each transaction. Foreign currency balances are converted to Australian currency using the exchange rate as at balance date. Resulting exchange differences are brought to account in determining the change in market value of investments for the year and hence the net assets available to pay benefits at the end of the financial year.

**(e) Use of Derivatives**

The investment fund managers use a number of financial instruments such as futures, options and forward exchange contracts which are known as 'derivatives'. The objective of their use is to reduce the risks in the equity, bond and currency markets and to increase or decrease the Scheme's exposure to a particular market. The use of derivatives for this purpose is called hedging in the various markets. The likely effect of their use is reduction of risk to the Scheme. Derivatives are not used for speculation in any of these markets or for gearing the portfolios.

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)****(f) Taxation**

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Changes in Net Assets is matched with total revenue less expenses before income tax, after allowing for permanent differences. The deferred tax asset relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on net cumulative timing differences is set aside to deferred tax liability or deferred tax asset accounts at rates which are expected to apply when those timing differences occur.

**(g) Benefits Payable**

Benefits payable include benefits in respect of members who ceased employment with the employer sponsor prior to year end who are entitled to receive a benefit but had not been paid by that date.

**(h) Liability for Accrued Benefits**

The liability for accrued benefits is not included in the statement of net assets, but the liability at the latest measurement date is reported by way of note. Where accrued benefits are measured during the reporting period, the benefits which have accrued since the latest measurement date are also reported by way of note. The liability for accrued benefits is actuarially measured on at least a triennial basis, and represents the value of the Scheme's present obligation to pay benefits to members and other beneficiaries at the date of measurement. The liability is determined as the present value of expected future payments which arise from membership of the Scheme up to the date of measurement.

The present value reported in the notes is determined by reference to expected future salary levels and by application of a current, market-determined, risk-adjusted discount rate and appropriate actuarial assumptions.

**(i) Superannuation Contributions Surcharge**

The surcharge is accounted for as and when the amount becomes payable to the Australian Taxation Office.

**(j) Goods and Services Tax (GST)**

Where applicable GST incurred by the Scheme that is not recoverable from the Australian Taxation Office has been recognised as part of the expenses to which it applies. Receivables and payables are stated with any applicable GST included in their carrying amounts.

The amount of any GST recoverable from, or payable to, the Australian Taxation Office is included as an asset or liability in the Statement of Net Assets.

**(k) Sundry Debtors and Creditors**

Sundry debtors are recognised at the amounts receivable which approximate net fair value. Sundry creditors represent liabilities for goods and services provided to the scheme prior to the end of financial year and which are unpaid. The amounts are unsecured. Sundry debtors and creditors are subject to normal trade credit terms.

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 2. NATURE OF THE SCHEME

- (a) The Military Superannuation and Benefits Scheme is a hybrid accumulation-defined benefits scheme which provides benefits to its members under the *Military Superannuation and Benefits Act 1991*.
- (b) Member and Employee Numbers:

	2003	2002
	#	#
Number of Members		
– Contributors	45 215	42 703
– Deferred Beneficiaries / Preservers	47 733	44 501
– Pensioners	<u>4 922</u>	<u>4 600</u>
Total Number of Members	<u>97 870</u>	<u>91 804</u>
Number of Employees (refer 5)	<u>4</u>	<u>3</u>

## 3. INCOME AND CHANGES IN NET MARKET VALUES

	Interest	Dividends	Other	Realised Capital Gain (Loss)	Unrealised Capital Gain (Loss)	Total
30 June 2003	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and Short Term Deposits	1 631		12			1 643
Australian Fixed Interest	3 983			503	2 685	7 171
International Fixed Interest		1 704		176	3 549	5 429
Australian Equities		15 797	19	(17 214)	(7 345)	(8 743)
International Equities		6 036	31	(20 648)	(44 797)	(59 378)
Property Trusts		4 883	9	3 517	(1 168)	7 241
Currency Contracts			10	22 746	9 817	32 573
Private Equity		1 337	8	271	(2 789)	(1 173)
Hedge Fund					3 468	3 468
Emerging Markets		48			(4 045)	(3 997)
Other Revenue			41	–	0	41
Total	<u>5 614</u>	<u>29 805</u>	<u>130</u>	<u>(10 649)</u>	<u>(40 625)</u>	<u>(15 725)</u>

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 3. INCOME AND CHANGES IN NET MARKET VALUES (Cont.)

	Interest	Dividends	Other	Realised Capital Gain (Loss)	Unrealised Capital Gain (Loss)	Total
30 June 2002	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and Short Term Deposits	516					516
Australian Fixed Interest	6 114			(18)	(661)	5 435
International Fixed Interest	1 435			346	(814)	967
Australian Equities	210	12 181	27	(21 359)	(8 568)	(17 509)
International Equities	110	4 840	13	(53 821)	(53 593)	(102 451)
Property Trusts	19	3 738		1 415	3 214	8 386
Currency Contracts				5 212	(1 428)	3 784
Private Equity		800	26		(2 838)	(2 012)
Emerging Markets		65			(4 226)	(4 161)
Other Revenue			95	-		95
Total	8 404	21 624	161	(68 225)	(68 914)	(106 950)

The net gain on foreign currency contracts for the year was \$32.6m (2002: \$3.8m gain). This amount does not include gains and losses on foreign currency transactions that may have occurred in the pooled trust investments.

Other revenue relates to write back of unallocated contributions over-recognised in previous years.

## 4. FUNDING ARRANGEMENTS

The Military Superannuation and Benefits Scheme is a hybrid accumulation-defined benefit scheme governed by a Trust Deed and Rules established under the *Military Superannuation and Benefits Act 1991*.

Members contribute to the Scheme each fortnight at optional rates ranging from a minimum of 5% of salary to a maximum of 10% of salary. The Department of Defence contributes to the Scheme each fortnight in respect of each member at the rate of 3% of the member's salary. These member and employer contributions, accumulated with investment earnings, equate to the net assets available to pay benefits as shown in the Statement of Net Assets.

The benefits payable from the Scheme comprise a lump sum of accumulated member contributions and a defined benefit financed by the employer and calculated on the basis of the member's final average salary and length of service. The defined benefit may be taken as a lump sum or as a pension or as a combination of lump sum and pension. The defined benefit consists of a funded component (the accumulated value of the 3% of salary contributions made to the Scheme by the Department of Defence) and an unfunded component (the balance of the defined benefit).

In general, when a benefit becomes payable to a member, the accumulated member and employer contributions held in the Scheme in respect of the member are transferred to the Consolidated Revenue Fund which pays out the total benefit (both funded and unfunded components).

Appropriation refers to the total amount paid from CRF. The Special Appropriation shown in the Statement of Changes in Net Assets is the net amount after taking into account transfers from MSBS Fund to CRF.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**4. FUNDING ARRANGEMENTS (Cont.)**

Total Benefits

	2003 \$'000	2002 \$'000
Lump Sums	89 357	109 050
Pensions	<u>73 017</u>	<u>64 741</u>
Total	<u><u>162 374</u></u>	<u><u>173 791</u></u>
<b>Financed by:</b>		
Military Super Fund	44 149	53 938
Consolidated Revenue Fund	<u>118 225</u>	<u>119 853</u>
Total	<u><u>162 374</u></u>	<u><u>173 791</u></u>

Of the \$7.3m benefits payable 30 June 2003, the Fund's share amounted to \$3.1m (2002: \$3.5m) with the Consolidated Fund's share being \$4.2m at 30 June 2003 (2002: \$3.5m).

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 5. COST OF SCHEME ADMINISTRATION AND MANAGEMENT OF THE FUND

Under Clause 9(3) of the Trust Deed set up under section 4 of the *Military Superannuation and Benefits Act 1991*, the costs and expenses of the management and investment of the Fund are met from the Fund. Fund expenses are classified as either direct investment expenses or general administration expenses.

	2003 \$'000	2002 \$'000
<b>Fund management and investment expenses met by Fund</b>		
<b>General administration costs</b>		
Accounting services	326	203
Professional advisers	226	195
Share of trustee fees, travel and incidental costs	196	201
Taxation services	100	96
Communications	100	46
APRA lodgement fees and industry levy	46	60
Insurance	41	39
External audit	36	27
Internal audit	20	39
Non-recoverable GST	39	40
Total	<u>1 130</u>	<u>946</u>
<b>Direct investment costs</b>		
Investment management fees	5 330	4 498
Asset consultancy and portfolio management	500	450
Custodian	1 001	854
Other	-	6
Non-recoverable GST	146	116
Total	<u>6 977</u>	<u>5 924</u>

The \$0.184m (19%) increase in general administration costs borne by the Fund is largely due to the \$0.123m increase in ComSuper accounting fees arising from the unitisation and daily pricing of the Fund effective 1 July 2002 and additional work on establishing new investment agreements.

The \$1.053m (18%) increase in direct investment costs reflects the combined effect of higher average assets under management, an increase in the number of managers and higher transaction costs as a result of restructuring the portfolio.

Direct investment costs do not include management fees of private equity as those fees have been taken into account in the calculation of unit prices by the managers hence reflected in the net asset value of the respective funds. The management fees of private equity in 2002-03 are \$1.5m (2002: \$1.2m).

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**5. COST OF SCHEME ADMINISTRATION AND MANAGEMENT OF THE FUND (Cont.)**

Under section 27 of the *Military Superannuation and Benefits Act 1991* the Commissioner for Superannuation and the staff of ComSuper provide scheme administration services to the Board. The Department of Defence pays ComSuper for the costs of scheme administration and ComSuper recognises this administration revenue in the annual financial statements prepared by the Commissioner for Superannuation. A component of the ComSuper administration fees is earmarked to meet administration costs directly incurred by the Board and its staff.

	2003 \$'000	2002 \$'000
<b>Scheme administration costs met by Department of Defence</b>		
<b><i>ComSuper administration fees</i></b>		
Contributors	3 841	2 888
Preservers	2 630	2 369
Pensioners	<u>245</u>	<u>246</u>
Total	<u><u>6 716</u></u>	<u><u>5 503</u></u>
<b><i>Board administration costs</i></b>		
Share of trustee fees travel and incidental costs	72	109
Support staff and facilities	333	205
Communication	404	224
Professional advisers	<u>49</u>	<u>61</u>
Total	<u><u>858</u></u>	<u><u>599</u></u>

The \$1.213m (22%) increase in 2002–03 ComSuper scheme administration fees comprises \$0.479m for number of scheme members and \$0.734m for higher fees charged per scheme member.

The \$0.259m (43%) increase in 2002–03 Board administration costs is largely due to \$0.128m for increased staffing and a \$0.180m one-off increase in scheme communications to prepare for the introduction of member investment choice.

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**6. INCOME TAX EXPENSE**

The taxation liability at 30 June 2003 has been calculated on the basis that the Scheme complies with the standards contained in the *Superannuation Industry (Supervision) Act 1993* and Regulations and that tax will be payable on the income received by the MSB Fund at a rate of 15 per cent. The aggregate amount of income tax attributable to the period is not equal to 15 per cent of the Net Investment Revenue and Net Contributions Revenue Before Tax as shown in the Statement of Changes in Net Assets.

The difference is reconciled as follows:

	2003 \$'000	2002 \$'000
Prima facie income tax expense on		
Total Revenue less Expenses and Benefits Paid before Income Tax	<u>91 078</u>	<u>(22 896)</u>
Prima Facie Income Tax Expense Calculated at 15%	13 662	(3 434)
Add/(Less) Permanent Differences		
Employee contributions	(15 320)	(13 984)
Benefits Paid	6 622	8 090
Difference between accounting and tax gains	5 377	3 037
Tax Free/Tax Deferred Distributions	(1 447)	(434)
Less:		
Imputation and Foreign Tax Credits	(3 981)	(3 716)
Under Provision in Prior Years	<u>12</u>	<u>12</u>
Income Tax Expense	<u><u>4 925</u></u>	<u><u>(10 429)</u></u>
Income Tax Expense comprises:		
Income Tax Payable Current Year	3 163	1 656
Amount Paid during 2002-03	7 337	6 267
Movement in Deferred Tax balances	(5 587)	(18 364)
Under Provision in Prior Years	<u>12</u>	<u>12</u>
	<u><u>4 925</u></u>	<u><u>(10 429)</u></u>

Income tax paid during the period amounted to \$9 947 290 (2002: \$9 758 468).

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

#### 7. SUNDRY CREDITORS

	2003 \$'000	2002 \$'000
Investment Expenses Payable	1 017	495
Unallocated Contributions	713	206
Audit Fees	40	30
Accrued Expenses	166	134
Tax Payable to the ATO	165	122
Total	<u>2 101</u>	<u>987</u>

#### 8. FINANCIAL INSTRUMENT DISCLOSURES

The investments of the Fund (other than cash held for meeting daily administrative and benefit expenses) are managed on behalf of the Board of Trustees by specialist sector fund managers who are required to invest the assets allocated for management in accordance with the terms of a written investment mandate. The Board of Trustees has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Board of Trustees' investment strategy.

National Custodian Services acts as master custodian on behalf of the Board of Trustees and as such provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting of investment transactions.

The Board of Trustees also employs IPAC Portfolio Management Limited (IPAC) to oversee the general management of the portfolio on a day-to-day basis, within the overall investment strategy and asset allocation limits set. IPAC subsequently provides the Board of Trustees with regular reports on the nature of the investments made on their behalf and the associated risks. Such reports include formal Risk Management Statements as required by the Australian Prudential Regulation Authority.

##### (a) Use of Derivative Financial Instruments

The Fund's investment managers use a number of financial instruments such as futures, options and forward exchange contracts to both facilitate increases or decreases in exposures in the equity, bond and currency markets and to reduce risk consistent with the investment policy of the Fund. Derivatives are not used for speculation in any of these markets or for 'gearing' the portfolio.

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**8. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)**

At 30 June, the notional principal amounts and net fair value of derivatives held by the Fund was as follows:

	Notional Principal Amounts		Net Market Value	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Futures and Options	(16 171)	3 108	(175)	12
Currency Contracts	(199 258)	(178 320)	12 999	(2 414)
Total	<b>(215 429)</b>	<b>(175 212)</b>	<b>12 824</b>	<b>(2 402)</b>

**(b) Credit Risk**

The net market value of financial assets, with the exception of derivative positions, included in the statement of net assets represents the Fund's exposure to credit risk in relation to those assets. For derivative positions, the credit risk is equal to the net market value of positive (asset) derivative positions which amount to \$54.9m (2002: \$0.3m).

The Fund does not have significant exposures to any individual counterparty or industry.

**(c) Interest Rate Risk**

The Fund invests in financial investments for the primary purpose of obtaining a return on investments on behalf of its members. As such, the Fund's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in market interest rates. The Fund's exposure to interest rate movements on investments at 30 June 2003 was as follows:

MILITARY SUPERANNUATION AND BENEFITS SCHEME

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**8. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)**

**(c) Interest Rate Risk (Cont.)**

	Fixed Interest Rate				Non-Interest Bearing	Total
	Floating Interest Rate	1 Year or Less	1-5 Years	Over 5 Years		
30 June 2003	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>						
Cash & Short Term Deposits	23 394				3 502	26 896
Australian Fixed Interest	11 514	4 959	26 676	20 956	(175)	63 930
International Fixed Interest					76 414	76 414
Australian Equities					363 427	363 427
International Equities					365 331	365 331
Property Trusts					82 594	82 594
Currency Contracts					12 999	12 999
Private Equity					52 180	52 180
Hedge Fund					28 468	28 468
Emerging Markets					24 365	24 365
Other Assets	3 957				16 444	20 401
Deferred Tax Assets					22 611	22 611
<b>Liabilities</b>						
Trade Settlements Payable					(4 158)	(4 158)
Accrued Expenses					(206)	(206)
Sundry Creditors					(1 895)	(1 895)
Benefits Payable					(7 283)	(7 283)
Current Tax Liability					(3 161)	(3 161)
Deferred Tax Liability					(2 891)	(2 891)
Total	38 865	4 959	26 676	20 956	1 028 566	1 120 022
Weighted Average Interest Rate	3.92%	4.73%	4.93%	4.96%		

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 8. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

## (c) Interest Rate Risk (Cont.)

	Fixed Interest Rate				Non-Interest Bearing	Total
	Floating Interest Rate	1 Year or Less	1-5 Years	Over 5 Years		
30 June 2002	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>						
Cash & Short Term Deposits	24 946					24 946
Australian Fixed Interest	55	5 434	50 597	43 394	(12)	99 468
International Fixed Interest			15 088	18 887		33 975
Australian Equities					461 165	461 165
International Equities					276 471	276 471
Property Trusts					55 244	55 244
Currency Contracts					(2 414)	(2 414)
Private Equity					37 809	37 809
Emerging Markets					28 362	28 362
Other Assets	1 430				22 470	23 900
Deferred Tax Assets					15 121	15 121
<b>Liabilities</b>						
Trade Settlements Payable					(8 533)	(8 533)
Accrued Expenses					(164)	(164)
Sundry Creditors					(823)	(823)
Benefits Payable					(7 074)	(7 074)
Current Tax Liability					(2 596)	(2 596)
Deferred Tax Liability					(988)	(988)
Total	26 431	5 434	65 685	62 281	874 038	1 033 869
Weighted Average Interest Rate	3.30%	5.13%	5.20%	5.02%		

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2003

## 8. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

## (d) Currency Risk Exposures

The Fund's exposure at 30 June to foreign exchange rate movements on its international investments was as follows:

	USA A\$'000	JPY A\$'000	GBP A\$'000	EUR A\$'000	Other A\$'000	Total A\$'000
<b>30 June 2003</b>						
Gross investment amounts denominated in foreign currency	209 725	20 796	27 940	49 540	20 685	328 686
Amount effectively hedged	(145 222)	(21 301)	(6 668)	(42 548)	16 481	(199 258)
Net Exposure	64 503	(505)	21 272	6 992	37 166	129 428
	USA A\$'000	JPY A\$'000	GBP A\$'000	EUR A\$'000	Other A\$'000	Total A\$'000
<b>30 June 2002</b>						
Gross investment amounts denominated in foreign currency	212 042	29 768	29 942	59 213	20 067	351 032
Amount effectively hedged	(93 154)	(19 669)	(15 348)	(47 975)	(2 174)	(178 320)
Net Exposure	118 888	10 099	14 594	11 238	17 893	172 712

## (e) Net Fair Values of Financial Assets and Liabilities

The Fund's financial assets, liabilities and derivative instruments are included in the Statement of Net Assets at amounts that approximate net fair value.

## 9. VESTED BENEFITS

Vested benefits are benefits which are not conditional upon continued membership of the Scheme (or any other factor other than resignation from the Scheme) and include benefits which members were entitled to receive had they terminated their plan membership as at the reporting date.

The Australian Government Actuary has advised that the estimated amount of vested benefits is as follows:

	2003 \$m	2002 \$m
Funded component	1 126	1 037
Unfunded component	6 229	5 649
Total vested benefits	7 355	6 686

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**9. VESTED BENEFITS (Cont.)**

The net assets of the fund compared to the vested benefits are as follows:

	<b>2003</b>	2002
	<b>\$m</b>	\$m
Funded component	<b>1 126</b>	1 037
Net assets adjusted for benefits payable and disposal costs	<b>1 126</b>	1 037
Surplus/(deficiency) Reserve	<b>0</b>	0

The value of vested benefits represents the liability that would have fallen on the Scheme in the unlikely event that all members ceased service on 30 June 2003 and elected the option which is most costly to the Scheme. The likelihood of such an occurrence is remote in the extreme. The value quoted does not in any way represent the scheme's liability under circumstances which have any reasonable possibility of arising.

**10. LIABILITY FOR ACCRUED BENEFITS**

The amount of accrued benefits has been determined on the basis of the present value of expected future payments which arise from membership of the Scheme up to the membership date. The accrued benefits are comprised of a funded component, which will be met from the Fund (i.e. accumulated member contributions and, where applicable, productivity contributions, plus interest), and an unfunded component to be financed, by the Commonwealth, from the Consolidated Revenue Fund, at the time the superannuation benefits become payable. The valuation of the accrued benefits was undertaken by the Australian Government Actuary as part of a comprehensive review during 2002-03. An extract of the Australian Government Actuary's report is attached.

	<b>2002</b>	1999
	<b>\$b</b>	\$b
Funded component	<b>1.0</b>	0.8
Unfunded component	<b>5.9</b>	4.2
Total accrued benefits	<b>6.9</b>	5.0

The net assets of the fund compared to the accrued benefits are as follows:

	<b>2002</b>	1999
	<b>\$b</b>	\$b
Funded component	<b>1.0</b>	0.8
Net assets	<b>1.0</b>	0.8
Surplus/(deficiency) Reserve	<b>0.0</b>	0.0

The liability for accrued benefits has been updated following the comprehensive actuarial review, which was completed early 2003 using data as at 30 June 2002.

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**11. RELATED PARTIES****(a) Members of the Board**

The Military Superannuation and Benefits Board of Trustees had the following members during the financial year:

Members of the Board:

Mr C P H Kiefel (Chairman)  
 Dr M J Sharpe, AO  
 Brigadier R C Brown, CSC  
 Warrant Officer R C Swanwick  
 Mr P J Charley  
 Warrant Officer E M Doncaster (alternate for WOFF Swanwick)  
 Captain Marcus Peake (alternate for Brigadier R C Brown)—appointment lapsed 28 October 2002.

**(b) Trustee Related Transactions**

Some members of the Board may, as a result of their current employment, be members of the Scheme and as such would be required to have made contributions to the scheme during the 2002–03 financial year on the same terms and conditions applicable to all scheme members.

Fees and associated superannuation contributions paid by the Scheme in respect of the members of the Board during the financial year totalled \$137 037 (2002: \$133 212).

**12. AUDITORS REMUNERATION**

	2003	2002
	\$	\$
The amount paid and payable in respect of audit services provided by ANAO (exclude GST)	<u>36 000</u>	<u>27 000</u>

Deloitte Touche Tohmatsu (Deloitte) have been contracted by the ANAO to provide audit services. Fees for these services have been included in above. Deloitte were paid no other fees during the year.

**13. SEGMENT REPORTING**

The MSB Scheme operates in the superannuation fund investment industry in Australia and as part of its investment activities it also maintains significant overseas investments.

**14. CONTINGENT LIABILITIES****(a) Capital Commitments**

At 30 June the Fund had outstanding investment capital commitments of \$174.9m (2002: \$125.7m). These commitments relate to private equity investment funds managed by Deutsche Bank, Credit Suisse First Boston, Gresham Private Equity, Macquarie Specialised Asset Management, Pantheon Private Equity Specialists, HarbourVest Partners and Sentient Global Resources.

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2003

**14. CONTINGENT LIABILITIES (Cont.)****(b) Benefit Entitlements**

In the normal course of business, requests are made by members and former members for the review of decisions relating to benefit entitlements of the Scheme which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. In the opinion of the Board of Trustees, these requests do not represent a material liability on the Scheme.

At 30 June 2003 the Fund had no contingent liabilities (2002: \$0.06m).

**15. SUPERANNUATION CONTRIBUTIONS SURCHARGE**

The Superannuation Contributions Surcharge was introduced in the 1996 Federal budget to apply from 20 August 1996, to the surchargeable superannuation contributions of higher earners, whose adjusted taxable income exceeds the surcharge threshold.

MSBS members with adjusted taxable income above the surcharge threshold will incur a surcharge liability which is to be calculated by the Australian Taxation Office (ATO).

A summary of transactions follows:

	<b>2003</b>	2002
	<b>\$'000</b>	\$'000
Total Surcharge Liability Outstanding at start of year	<b>7 649</b>	8 464
Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year	<b>2 409</b>	1 952
Adjustments to previous year's balance	<b>(31)</b>	(2 822)
	<b>10 027</b>	7 594
Less: Amount paid by members	<b>(195)</b>	(303)
Less: Amounts deducted from members' benefit payments	<b>(461)</b>	(69)
Plus:	<b>9 371</b>	7 222
Interest applied to outstanding surcharge liability at 30 June 2003	<b>469</b>	427
Total surcharge liability outstanding at end of year	<b><u>9 840</u></b>	<u>7 649</u>

No liability is recognised in the 'Statement of Net Assets' for the estimated value of the surcharge liability because the liability will be either met by the members during their period of membership or will be recovered from member benefits when they are paid. The above liability of \$9.8m does not include assessments in respect of 2002-03, which have not yet been calculated by the ATO.

1 August, 2003

## MILITARY SUPERANNUATION AND BENEFITS SCHEME SUMMARY OF THE 2002 LONG TERM COST REPORT

1. A report on the long term cost of the Military Superannuation and Benefits Scheme (MSBS) and the Defence Force Retirement and Death Benefits Scheme (DFRDB) was carried out using data as at 30 June 2002 by the Australian Government Actuary. This report was presented to Parliament in June 2003.
2. The MSBS is partially funded and the DFRDB (closed to new entrants since October 1991) is unfunded. Both schemes have an underlying Government guarantee. For the MSBS, amounts not paid from Fund assets are paid from Consolidated Revenue. Projections of the actual annual employer costs of the two schemes combined as a percentage of Gross Domestic Product (GDP) were made over a period of 43 years.
3. These projections showed a progressive fall in the combined cost of the two schemes, due to the phasing out of the more expensive DFRDB. Given the underlying Government guarantee, I was therefore of the opinion that the financial position of the schemes as at 30 June 2002 was satisfactory.
4. The value of net assets of the MSBS available to pay benefits as at 30 June 2002 reported in the audited financial statements of the Fund was \$1,034 million.
5. Vested benefits of the MSBS were not calculated as part of the Long Term Cost Report as at 30 June 2002, but were calculated separately and covered contributors, preserved members and pensioners. They amounted to \$6.7 billion.

It should be noted that this value of vested benefits represents the liability that would have fallen on the scheme if all members had ceased service on 30 June 2002 and elected the most costly option to the scheme. The likelihood of such an occurrence is extremely remote.

6. The value of Accrued Benefits for the MSBS using the actuarial Projected Unit Credit (PUC) methodology as at 30 June 2002 was \$6.9 billion. This comprised \$5.9 billion in unfunded Accrued Benefits and \$1.0 billion in funded Accrued

Benefits. The value of Accrued Benefits is the present value of the portion of projected benefit payments that had accrued in respect of membership of the MSBS to 30 June 2002. The employer component of the benefits for contributors was apportioned on a pro-rata basis using the ratio of current length of membership to the total length of projected membership at exit for each individual.

7. As would be expected in a substantially unfunded arrangement, the value of total Accrued Benefits is more than the audited value of scheme assets at the same date.
8. The major assumptions used in the calculations were as follows:
  - Pension increases (CPI): 2.5% per annum  
(unchanged from the 1999 review)
  - Investment return: 3.5% per annum real (net of tax  
and investment expenses)  
(unchanged from the 1999 review)
  - Inflationary salary increases: 1.5% per annum real  
(unchanged from the 1999 review)
  - Promotional salary increases: scales based upon age and length  
of service  
(slightly revised from the 1999 review)
  - GDP increases: a series of rates falling from 3.5% per  
annum (real) in 2003/04 to 1.6% per  
annum (real) in 2044/45  
(the 1999 review used a constant real  
rate of 2.5% per annum)



Peter Martin  
Fellow of the Institute of Actuaries of Australia  
Australian Government Actuary

investment

EFFECTIVE ASSET ALLOCATION Sector	30 June 2002		30 June 2003	
	\$m	%	\$m	%
Cash	8.0	0.8	11.1	1.0
Australian fixed interest	95.9	9.4	66.0	6.0
International fixed interest	35.9	3.5	76.4	6.9
Australian property securities	56.3	5.5	54.5	4.9
Australian shares	392.4	38.3	406.8	36.8
Private equity <sup>4</sup>	37.8	3.6	52.2	4.7
International shares <sup>5</sup>	370.5	36.1	386.0	34.9
Hedge funds <sup>6</sup>	—	—	28.5	2.6
Global emerging markets	28.3	2.8	24.4	2.2
<b>Total under management</b>	<b>1 025.1</b>	<b>100.0</b>	<b>1 105.9</b>	<b>100.0</b>

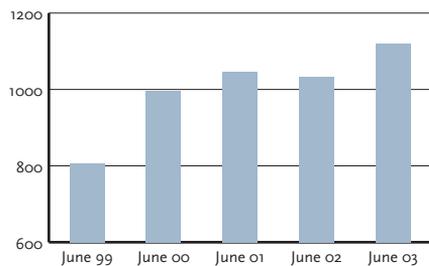
  

INVESTMENT PERFORMANCE <sup>2</sup> Sector	2001-02		2002-03	
	Fund %	Benchmark %	Fund <sup>1</sup> %	Benchmark <sup>2</sup> %
Cash <sup>3</sup>	4.1	4.7	4.3	5.0
Australian fixed interest	6.7	6.2	9.9	9.8
International fixed interest	8.4	7.7	14.1	13.0
Australian property securities	15.6	15.3	13.1	12.2
Australian shares	-4.6	-4.5	-1.7	-1.6
Private equity <sup>4</sup>	na	na	-1.5	na
International shares <sup>5</sup>	-24.9	-23.5	-7.4	-11.5
Hedge funds <sup>6</sup>	—	—	13.7	4.0
Global emerging markets	-12.8	-8.5	-14.1	-10.7

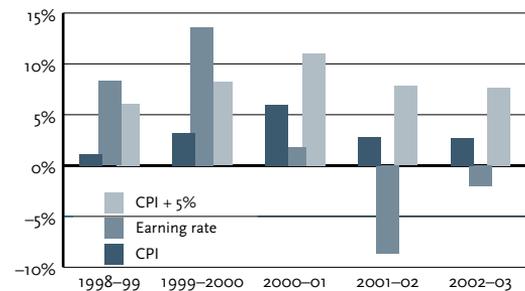
  

	2001-02	2002-03
Annual earning rate	-8.7%	-2.0%
Annual inflation rate	2.8%	2.7%

Fund growth in the past five years



Earning rates in the past five years



Notes

- 1 Figures shown are gross of management fees and tax.
- 2 Benchmark return is the return of the nominated market index for each asset class.
- 3 Transaction and administration costs are paid out of the cash portfolio.
- 4 Private equity is a long-term investment and does not generally show a return in the early years of the investment because of set-up and management costs. The investment gains usually come in the later years as the underlying companies mature and increase in value. The effect of this timing is known as the J Curve Effect.
- 5 Forty per cent of the international share exposure was hedged to 31 December 2002. This was increased to fifty per cent from January 2003.
- 6 Measured from the inception date of September 2002.

## membership

Contributors at 30 June	2002	2003	Increase (decrease)
Males	36 659	39 600	2 941
Females	6 044	5 615	(429)
<b>Total</b>	<b>42 703</b>	<b>45 215</b>	<b>2 512</b>
<b>Total member contributions</b>	<b>\$93.2m</b>	<b>\$102.0m</b>	<b>\$8.8m</b>
<b>Contributor exits</b>			
Age retirement	110	71	(39)
Resignation	3 744	3 426	(318)
Redundancy	12	11	(1)
Invalidity	497	487	(10)
Death	17	12	(5)
<b>Total</b>	<b>4 380</b>	<b>4 007</b>	<b>(373)</b>
<b>Pensions in force</b>			
Retirement	621	707	86
Redundancy	1 885	1 901	16
Invalidity	2 010	2 169	159
Reversionary	84	145	61
<b>Total</b>	<b>4 600</b>	<b>4 922</b>	<b>322</b>
<b>Pensions paid</b>	<b>\$64.7m</b>	<b>\$73.0m</b>	<b>\$8.3m</b>
<b>Average pension</b>	<b>\$14 774</b>	<b>\$14 830</b>	<b>\$56</b>
<b>Preserved benefits</b>	<b>44 501</b>	<b>47 733</b>	<b>3 232</b>

### **fund managers**

**Alliance Capital Australia Limited (Bernstein Investment Management)**

Level 29, Governor Phillip Tower  
1 Farrer Place  
Sydney NSW 2000

**Alpha Investment Management Pty Ltd**

Level 13  
350 Collins Street  
Melbourne Vic. 3000

**Barclays Global Investors Australia Limited**

Level 1  
111 Harrington Street  
Sydney NSW 2000

**BlackRock Financial Management Inc.**

40 East 52nd Street  
New York NY 10022  
USA

**Bridgewater Associates, Inc.**

One Glendinning Place  
Westport CT 06880  
USA

**Citigroup Asset Management (Australia) Limited**

Level 15  
120 Collins Street  
Melbourne Vic. 3000

**Credit Suisse Asset Management (Australia) Limited**

Level 32, Gateway  
1 Macquarie Place  
Sydney NSW 2000

**Dresdner RCM Global Investors Australia Limited**

Level 19, Maritime Trade Towers  
207 Kent Street  
Sydney NSW 2000

**FX Concepts (Bermuda) Limited**

225 W 34th Street  
7th Floor  
New York NY 10122  
USA

**IPAC Portfolio Management Limited**

Level 31, Grosvenor Place  
225 George Street  
Sydney NSW 2000

**JB Were Limited**

Level 17  
101 Collins Street  
Melbourne Vic. 3000

**Maple-Brown Abbott Limited**

Level 30  
20 Bond Street  
Sydney NSW 2000

**Nicholas-Applegate Capital Management**

600 West Broadway  
San Diego CA 92101  
USA

**Pareto Partners Australia Pty Ltd**

Level 32, ABN AMRO Tower  
88 Phillip Street  
Sydney NSW 2000

**PIMCO Australia Pty Ltd**

Level 19  
363 George Street  
Sydney NSW 2000

**Schroder Investment Management Australia Limited**

Level 20, Angel Place  
123 Pitt Street  
Sydney NSW 2000

**SG Hiscock & Company Limited**

Level 20  
14 William Street  
Melbourne Vic. 3000

**Super Members Home Loans**

ME Portfolio Management  
Level 17  
360 Collins Street  
Melbourne Vic. 3000

**UBS Global Asset Management (Australia) Ltd**

Level 45, Governor Phillip Tower  
1 Farrer Place  
Sydney NSW 2000

**Wellington International Management Company Pte Limited**

Level 61, MLC Centre  
19-29 Martin Place  
Sydney NSW 2000

## **private equity managers**

### **Credit Suisse First Boston International (Australia) Limited**

Level 32, Gateway  
1 Macquarie Place  
Sydney NSW 2000

### **Deutsche Asset Management (Australia) Limited**

Level 21  
83 Clarence Street  
Sydney NSW 2000

### **Gresham Private Equity Limited**

Level 6  
175 Macquarie Street  
Sydney NSW 2000

### **HarbourVest Partners, LLC**

One Financial Center  
44th Floor  
Boston MA 02111  
USA

### **Macquarie Specialised Asset Management Limited**

1 Martin Place  
Sydney NSW 2000

### **Pantheon USA Fund, LP**

Transamerica Centre  
23rd Floor, 600 Montgomery Street  
San Francisco, CA 94111  
USA

### **Sentient (Australia) Pty Limited**

Level 1  
130 Phillip Street  
Sydney NSW 2000

<b>active management</b>	an approach to investment where the manager varies its strategy depending on current market conditions. Active managers regularly review their investments with a view to benefiting from changes in the market or from growth in specific assets.
<b>ADF</b>	Australian Defence Force
<b>AD(JR) Act</b>	<i>Administrative Decisions (Judicial Review) Act 1977</i>
<b>APRA</b>	Australian Prudential Regulation Authority
<b>CDF</b>	Chief of the Defence Force
<b>ComSuper</b>	Commonwealth Superannuation Administration
<b>core management</b>	a manager whose portfolio is constructed so as to provide a high probability of capturing the market return for a particular asset class. Core managers are used to control liabilities
<b>CPI</b>	Consumer Price index
<b>defensive assets</b>	assets (such as cash and bonds) that are not very susceptible to market fluctuations
<b>derivatives</b>	investment products (such as an option on a share) that are derived from other securities or assets. Their value is linked to the value of the underlying security
<b>direct property</b>	property that is purchased by an investor to be held by that investor (see also <b>indirect property</b> )
<b>DFRDB</b>	Defence Force Retirement and Death Benefits
<b>growth assets</b>	assets (such as shares and property) that are very responsive to market fluctuations.
<b>ICC</b>	Incapacity Classification Committee
<b>indirect property</b>	an investment in property made by purchasing units in a property trust, or shares in a property company
<b>IVR</b>	Interactive Voice Response telephone system
<b>LWOP</b>	leave without pay
<b>MSB</b>	Military Superannuation and Benefits
<b>MSBS</b>	Military Superannuation and Benefits Scheme
<b>MSCAG</b>	Military Superannuation Communication Advisory Group
<b>passive</b>	an approach where the manager does not actively change the proportions held in the various investment sectors according to market conditions, but fixes them for an extended period
<b>RC</b>	Reconsideration Committee
<b>SCT</b>	Superannuation Complaints Tribunal

<b>SIS</b>	<i>Superannuation Industry (Supervision) Act 1993</i>
<b>SRC Act</b>	<i>Superannuation (Resolution of Complaints) Act 1993</i>
<b>surcharge</b>	<i>Superannuation Contributions Tax (Assessment and Collection) Act 1997</i> , a tax on employer-financed superannuation contributions
<b>unitisation</b>	the conversion of member interest-bearing accounts to unit-based accounts within the MSB Fund



The Board publishes two booklets and a series of leaflets for the benefit of members.

*The Military Super Book* is a general information book that intended as a reference book for members and pay officers. A *Summary of the Scheme* leaflet is also available.

The *MSB Fund Investment Policy* is an overview of the general objectives that underpin the Board's investment policy and the specific strategy through which these objectives will be realised.

The Board also publishes a series of leaflets that deal in more depth with a specific topic. The leaflets are entitled:

*About to leave the ADF?*  
*Dependants' Benefits*  
*Invalidity Benefits*  
*Leave Provisions*  
*Rejoining the ADF*  
*Summary of the Scheme*  
*Superannuation Contributions Surcharge*  
*Taxation Concessions*  
*Taxation of Benefits*  
*The Productivity Benefit*

A series of fact sheets has been produced. Titles released to date are:

*Crediting Rate 2001–2002*  
*Death and Dependants' Benefits*  
*Dependants' Benefits*  
*Early Access to Military Super Benefits*  
*Maximum Benefit Limits*  
*Member Investment Choice*  
*Unitisation*

Copies of the *MSBS Business Plan* are also available.

Also available is the *Service Charter for MSBS and DFRDB Members 2001–2003*.

Four videos have been produced:

*Highlights of the Scheme*  
*For the ADF and Their Families*  
*Investments*  
*Military Sooper Quiz*

All of these publications can be obtained from members' Pay Offices; National Mailing and Marketing on telephone (02) 6269 1020 or facsimile (02) 6260 2770; or the Military Super website ([www.militarysuper.gov.au](http://www.militarysuper.gov.au)).

## APPENDIX 5: SERVICE CHARTERS



ComSuper maintains service charters for scheme members. The service charter for 2001–2003 for MSBS members is available in hard copy and on the Military Super website (see Appendix 4).

Performance against the standards set out in this charter is included in this report.

Information is available to Members of Parliament, Senators and members of the public on request.

In the interests of timeliness and conciseness, this report has been designed to provide fundamental information. Requests for more detailed information should be directed to:

Ministerial Liaison Officer  
ComSuper

*Postal address:* PO Box 22  
Belconnen ACT 2616

*Street address:* Unit 4  
Cameron Offices  
Chandler Street  
Belconnen ACT

*Telephone:* (02) 6272 9262

*Facsimile:* (02) 6273 9809

*TTY:* (02) 6272 9827

### **changes to the MSB Rules**

*Military Superannuation and Benefits Amendment Trust Deed 2002 (No. 1)* provides for the unitisation of the MSB Fund and for the creation of Investment Divisions within the MSB Fund.

While this report is not a Departmental annual report, the Board has endeavoured to comply with the 'Requirements for Departmental Annual Reports', where applicable. Details of ComSuper's operations are provided in the *Commissioner for Superannuation Annual Report 2002-03*. Annual reporting requirements that are met in the Commissioner for Superannuation's report are indicated below by an asterisk.

<b>Requirement</b>	<b>Page</b>
Letter of transmittal	iii
Aids to access	
Table of contents	v-vi
Alphabetical index	91
Compliance index	88
Glossary	82-3
Corporate overview	*
Organisation chart	49
Social justice and equity	*
Internal and external scrutiny	*
Industrial democracy	*
Occupational health and safety	*
Freedom of information	44, 89-90
Program performance reporting	9-10
Staffing overview	*
Financial statements	51-76

### **Freedom of Information Act statement**

This statement is provided in accordance with section 8 of the *Freedom of Information Act 1982* (the FOI Act).

### **functions of ComSuper**

The general functions of ComSuper are described in the main body of this report and in the *Commissioner for Superannuation Annual Report 2002–03*.

### **decision-making powers**

The decision-making powers of the MSB Board are set out in clause 3 of the MSB Trust Deed. The authority for the MSB Board to delegate its powers and functions is contained in clause 12 of the MSB Trust Deed.

### **FOI internal procedures**

All requests for documents are referred to ComSuper's Corporate Governance and Parliamentary Liaison Unit. Compliance with the application fee provisions of the FOI Act are verified and the request is registered and acknowledged. The documents are then obtained and the request is considered by the Unit.

Decisions to grant access, levy charges, or refuse access are made by an APS Level 5 in the Corporate Governance and Parliamentary Liaison Unit.

Requests for internal review of FOI decisions are also referred to the Unit. They are then forwarded to the Reconsideration Section where they are investigated prior to submission to the MSB Board for decision under section 54 of the FOI Act.

Officers currently designated to carry out such investigations are APS Level 7 officers in the Reconsideration Section. All decisions on internal reviews are made by the MSB Board.

### **facilities for access**

Facilities for viewing documents are provided only at the ComSuper office in Canberra, as ComSuper has no regional offices. Publications may be inspected at ComSuper's Corporate Governance and Parliamentary Liaison Unit, and copies (for which there may be a charge) can be obtained by writing to ComSuper.

Information about facilities for access by people with disabilities can be obtained by contacting the Corporate Governance and Parliamentary Liaison Unit at the address and telephone numbers shown on page 44 of this report.

### **consultative arrangements**

Informal and ad hoc arrangements exist whereby the national, State and Territory branches of the Regular Defence Force Welfare Association may make representations relating to the general administration of the scheme. Representations are also received which relate to the determination of individual contributors' benefit entitlements.

Requests for consultation and/or representations relating to policy aspects of the schemes and their underlying legislation are referred to the Superannuation Branch of the Department of Defence which has responsibility for advising the Minister Assisting the Minister for Defence and the Minister for Veterans' Affairs on such matters.

### **categories of documents**

The MSB Board maintains no categories of documents that are open to public access as part of a public register or otherwise, in accordance with an enactment other than the FOI Act, where that access is subject to a fee or other charge.

Books, leaflets and fact sheets that describe various aspects of the Military Superannuation and Benefits Scheme, and annual reports, are made available to the public free of charge upon request. They are also available free of charge via the Military Super website ([www.militarysuper.gov.au](http://www.militarysuper.gov.au)).

## a

account maintenance 21  
 Administrative Agreement 16, 19, 21, 50  
 Alliance Capital Management Australia Limited 8, 12, 79  
 Alpha Investment Management Pty Limited 6, 12, 79  
 American Home Assurance Company 3  
 Annual Effectiveness Reviews 19  
 annual member statement 25, 28  
 Annual Report to Members 25, 28  
 asset allocation 11  
 Auditor-General iii, 48  
 Audit Committee 17, 47, 48  
 Australian Bureau of Statistics 34  
 Australian Defence Force (ADF) 1, 18, 36, 45  
 Australian Prudential Regulation Authority (APRA) 47

## b

Barclays Global Investors Australia Limited 6, 8, 12, 13, 79  
 beneficiaries 49  
 benefits  
   accounts, records and funding of payments 39  
   employer-financed 34  
   early release of 32  
   invalidity 36  
   member 30  
   payments 34  
   preserved 30  
   reversionary 33  
 Bernstein Investment Management 8, 13  
 BGI Equity Market Neutral Fund 7, 8  
 BlackRock Financial Management Inc. 6, 12  
 Board of Trustees iii, 1, 16, 21, 49, 50  
   administrative costs of 50  
 Board Secretariat x  
 Bridgewater Associates, Inc. 7, 13  
 Business Plan 16, 84

## c

CAPITAL system 21, 22, 28  
 Chairman iii, viii, x, 16  
 Chief of the Defence Force (CDF) 1  
 Citigroup Asset Management Australia Limited 6, 8, 12  
 client feedback 20  
 Colonial First State Investment Managers (Australia) Limited 6, 8

commencements 45  
*Commissioner for Superannuation Annual Report 2002-03* 88, 89  
 complaints 42  
 Complaints Committee 19  
 ComSuper x, 16, 18, 19, 21, 26, 40, 49, 50, 89  
 Consumer Price Index (CPI) 34  
 contributions 23, 78  
 contributors 23, 45, 49, 78  
 contributor composition 45  
 Corporate Governance and Parliamentary Liaison Unit 44, 89  
 counselling and enquiry services 27  
 crediting rate 14  
 Credit Suisse Asset Management (Australia) 6, 79  
 Credit Suisse First Boston International (Australia) Limited 8, 12, 81

## d

Defence Force Retirement and Death Benefits (DFRDB) Scheme 1, 30, 45  
 Defence Personnel Executive (DPE) 26  
 delegations 16  
 Department of Defence 16, 21, 43, 49, 50, 90  
 Deputy Commissioner for Superannuation 18  
 Deutsche Asset Management (Australia) Limited 6, 8, 12, 81  
 dispute resolution  
   enquiries and complaints 42  
   external review 41  
   internal reconsideration 40  
 Dresdner RCM Global Investors Australia Limited 8, 13, 79

## e

earning rates ix, 14, 77  
 evaluation 19  
 exits 45, 78  
 exit rate 13  
 external appeals 42  
 external review 41

## f

fact sheets 84  
 Federal Court 42  
 Freedom of Information 42, 44  
*Freedom of Information Act 1982 (FOI Act)* 42, 44, 90  
 fund and private equity managers 7, 8, 17, 49  
 Fund cashflow 24

Fund growth 10, 77  
 FX Concepts (Bermuda) Limited 7, 8, 13, 79

## g

Gresham Private Equity Limited 8, 12, 81

## h

HarbourVest Partners, LLC 8, 12, 81  
 human resources 50  
 Human Rights and Equal Opportunity Commission (HREOC) 42

## i

Incapacity Classification Committee (ICC) 36, 37, 40  
 indemnity insurance 3  
 information videos 26  
 internal review 40  
 invalidity 36  
   classifications 37  
   classification process 37  
   classification review 38  
   retirements by classification 38  
 investment  
   management 7  
   objectives 5  
   policy 5, 84  
   strategy 5  
 IPAC Portfolio Management Limited x, 7, 49, 79

## j

JB Were Limited 6, 8, 12, 80

## k

KPMG 17, 48

## l

leaflets 84

## m

Macquarie Specialised Asset Management Limited 8, 12, 81  
 Maple-Brown Abbott Limited 6, 8, 12, 80  
 Master Custodian 8, 17  
 member investment choice (MIC) ix, x, 26  
 member statements 28

Military Contact Centre 26  
 Military Sooper Quiz 26  
 Military Superannuation and Benefits Act 1991 (MSB Act) iii, 1, 19, 50  
 Military Superannuation and Benefits Amendment Trust Deed 2001 (No. 1) 87  
 Military Superannuation and Benefits Scheme (MSBS) viii, 1, 45, 90  
 Military Superannuation Communication Advisory Group (MSCAG) 18, 26  
 Military Super Book 84  
 ministerials 42  
 Ministerial Liaison Officer 86  
 Minister Assisting the Minister for Defence iii, 1, 49, 90  
 Minister for Finance and Administration 2, 13  
 Minister for Veterans' Affairs 90  
 MSB Board viii, 1  
 MSB Board Executive Unit ii, 49  
 MSB Fund iii, 1, 5, 10, 11, 13, 16, 47, 49, 50, 77, 87  
 MSB Rules 13, 18, 87  
   Rule 17 37  
   Rule 32 38  
 MSB Trust Deed 13, 89

## n

National Custodian Services 7, 8, 49  
 National Mailing and Marketing 84  
 newsletters 25  
 Nicholas-Applegate Capital Management 8, 13, 80

## o

Ombudsman 42  
 Orima Research 20

## p

Pantheon USA, LP 8, 12, 81  
 Pareto Partners Australia Pty Ltd 7, 8, 13, 80  
 Parliament iii  
 Parliamentarians 42, 86  
 pensioners 27, 46  
 pension variations 33  
 PIMCO Australia Pty Ltd 6, 12, 80  
 preserved benefit members 46

## q

Quality Service Index (QSI) 20

**R**

Reconsideration Committee (RC) 18, 40  
 reconsideration of decisions 40  
 Reconsideration Section 89  
 Regular Defence Force Welfare Association 90

**S**

Schroder Investment Management Australia Limited  
 6, 8, 12, 80  
 Sentient Global Resources, LP 8, 12, 81  
*Service Charter for MSBS and DFRDB Members*  
 2001–2003 84, 85  
 service level agreement 28  
 SG Hiscock & Company Limited 6, 8, 12, 80  
 SIS Compliance Officer 48  
 State Street Australia Limited 7  
*Superannuation (Resolution of Complaints) Act 1993*  
 (SRC Act) 41  
 Superannuation Complaints Tribunal (SCT) 40, 41,  
 42  
*Superannuation Industry (Supervision) Act 1993* (SIS  
 Act) 19, 28, 40, 41, 48  
 Super Members Home Loans 12, 80

**U**

UBS Global Asset Management (Australia) Limited  
 6, 8, 12, 80  
 unitisation ix, x, 6, 13, 14

**W**

website x, 26, 28, 29, 90  
 Wellington International Management Company Pte  
 Limited 8, 13, 80  
 Westpac Investment Management Pty Limited 6



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