

A decorative graphic consisting of several overlapping squares in shades of orange, blue, and white, positioned above the title box.

MILITARY SUPERANNUATION

ANNUAL REPORT OF THE MSB BOARD 2000-2001

Military
Super

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**The Military Superannuation and
Benefits Board of Trustees**

Annual Report 2000–01

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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. Bruce Scott, 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 No. 1 is pleased to submit to you its annual report on the performance of its functions for the year ended 30 June 2001, together with financial statements in respect of the management of the Military Superannuation and Benefits Fund No. 1 during 2000–01, 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

A handwritten signature in blue ink, appearing to read 'Charles Kiefel', written in a cursive style.

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

5 October 2001

msb

Contents

Chairman's overview	viii
About the MSBS	1
Establishment of the Scheme	1
Description of the Scheme	1
The MSB Board	2
Fund investment	5
Investment policy	5
Investment management	7
Investment performance	8
Fund growth	9
Asset allocation	11
Crediting rate policy	12
Exit rate policy	13
Governance	15
Business Plan	15
Status under the SIS legislation	15
Administrative Agreement	16
Delegations	16
Board Committees	16
Evaluation	18
Contributors	21
Account maintenance	21
Surcharge	23
Contribution remittances	24
Contributor communications	26
MSCAG activity	28
Counselling services	28
Member statements	29
Website development	29
Benefit payments	31
Benefits payable on discharge	32
Invalidity benefits	34
Accounts, records and funding of benefit payments	37

Preserved benefit members	38
Account maintenance	38
Preserved benefit member communications	39
Preserved benefit payments	39
Pensioners	43
Account maintenance	43
Pensioner communications	44
Counselling and inquiry service	46
Benefit payments	47
Review of invalidity classifications	48
Reversionary benefits	49
Pension increase	49
Dispute resolution	51
Avenues of review	51
Internal reconsideration	51
External review	54
Inquiries and complaints	54
Freedom of information	57
Accounting services	58
Audit activity and results	59
Administrative arrangements	61
Organisational structure of the MSBS	61
Human resources	62
Financial resources	62
Appendixes	61
1: MSBS in brief	63
2: Financial statements	65
3: Fund managers	88
4: Glossary	90
5: Publications	91
6: Service charters	92
7: Contact officer	97
8: Legislation	98
9: Compliance	99
10: Freedom of information	100
Index	102

Tables

1: Investment performance by sector, 1999–2000 and 2000–01	9
2: Fund size at 30 June 2001 (after tax, charges and benefits)	10
3: Asset allocation	11
4: Exit rates declared in 2000–01	14
5: Contributor composition	22
6: Male and female contributors by years of service	22
7: Contributors and contributions at 30 June for past five years	23
8: Modes of exit since 1996–97	23
9: Partial and full lump-sum employer benefit payments, 2000–01	34
10: Member benefits paid or preserved, 2000–01	41
11: Number of pensioners since 30 June 1997, by type of benefit	47
12: New pensions granted during 2000–01 and annual liability	48
13: Invalidity entitlements reviewed in past five years	49
14: Reconsideration applications for past five years	53
15: Responses to complaints or ministerial/Ombudsman inquiries, 2000–01	56

Charts

1: Fund size at 30 June for past five years	10
2: Sectoral allocation as proportion of the Fund	12
3: Annual earning, crediting and CPI rates since 1996–97	12
4: MSB Fund performance over the 60 months since December 1997	13
5: Quality Service Index (QSI) scores for military client satisfaction, 1998–99 to 2000–01	19
6: MSB Fund cash flow (contributions received less benefits paid), 2000–01	25
7: ComSuper website usage—Commonwealth and military clients, 2000–01	30
8: MSBS benefit processing against standards, 2000–01	32
9: MSBS average time to process benefit payments, 2000–01	32
10: Average time taken to determine new invalidity cases in past five years	35
11: Comparison of invalidity classifications in 2000–01, by Service	36
12: Growth in MSBS preserved benefit member population, 2000–01	39
13: MSBS preserved benefit processing against standards, 2000–01	40
14: Growth in MSBS pensioner population in past five years	43
15: Military pension variations, 2000–01	44
16: Telephone calls received by the Retired Member Call Centre in 2000–01	46
17: Written inquiries received from retired members in 2000–01	46

Chairman's overview

The 2000–01 financial year was a challenging year for the MSB Board. Given the comparatively weak performance of international shares and the MSB Fund's high allocation to this asset class, the 1.8% investment return for the year was lower than previous years' returns but above benchmark performance for the Fund. After taking into account minor under-distributions in prior periods arising from the need to estimate the value of some funded entitlements, the Board has declared a crediting rate of 2.7% for 2000–01.

The Board's primary investment objective of achieving a Fund earning rate (after tax and fees) which exceeds the rate of inflation by at least 5% when measured over rolling five-year periods has been consistently met, including for the five-year period ending 30 June 2001.

To maintain this level of performance the target investment in growth assets has been set at 86% of the portfolio. The high allocation to domestic and international shares is structured to optimise returns over the long term but will give rise to some volatility in returns over the short term. The crediting rates applied to member's accounts over the past five years have ranged from 2.7% to 20.0% and have averaged 10.5%, which exceeds the investment objective of a 5% real (above inflation) return over rolling five-year periods.

During 2000–01 the Board added two new fund managers, Jardine Fleming (Australian shares) and Dresdner RCM (international shares), and restructured its core international equity investments with Barclays Global Investors by moving from an individually managed to a pooled portfolio. The allocation to global emerging markets and private equity was also commenced.

Communications

The Board continued to focus heavily on communication with its members during the year. It acknowledged that improvements could be made. As a result the Board developed a comprehensive communication strategy and engaged the services of a dedicated communications officer to oversight and implement it. I am pleased to announce that significant progress has been made during the year. A survey of members provided valuable insight not only into their understanding and appreciation of the scheme, but also as to the methods of communication they would prefer. This has enabled the

Board to refine its strategy and respond to members' needs. A series of videos aimed at educating and encouraging members to become more aware of the benefits of the MSBS and superannuation in general has commenced, with the first video distributed; a very effective interactive benefits calculator, the i-Estimator, has been developed and installed; the administrator's website has been improved; more face-to-face counselling has been arranged; and all printed publications are undergoing revision.

Ancillary services

During the year the Board looked closely at the Scheme and considered ways of enhancing it for members. As a result, the Board has invested in Super Member Home Loans which provides access for all members of the Defence Force to beneficial home loans and investment home loans.

The Board has indicated its desire to provide members with financial planning advice and has actively pursued the most effective way of implementing this benefit. Other initiatives, requiring legislative change, have been discussed with the Department of Defence.

Acknowledgements

I am very appreciative of the commitment and co-operation my fellow Trustees have shown throughout the year. I would especially like to acknowledge the valuable contribution made by Mr Paddy Gourley, who resigned his appointment as a Trustee on 13 September 2000. Mr Gourley was replaced by Mr Phil Charley.

On behalf of the Board I would also like to express my sincere thanks to all of its advisers, especially ComSuper, the scheme administrator, and ipac, the Board's investment adviser, for their excellent service throughout a very difficult year.



Charles Kiefel
Chairman

msb About the MSBS

Establishment of the Scheme

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.

Description of the Scheme

The MSBS is a defined contribution/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 contributions made each fortnight are paid into an investment Fund (the MSB Fund), the management and investment of which 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 productivity and other employer benefits 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 2001 were:

Chairman:

Mr Charles Kiefel BCom, FCA, FAICD
Reappointed 5 June 2000

Minister's Nominees:

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

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

CDF Nominees:

BRIG Bob Brown BA (Mil), CSC
Appointed 29 October 1999

WOFF Robert Swanwick JP
Reappointed 14 September 2000



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.

Schedule of Board meetings

	18 Aug 2000	14 Sep 2000	25 Oct 2000	6 Dec 2000	7 Feb 2001	4 Apr 2001	20 Jun 2001
Mr Charles Kiefel	P	P	P	P	P	P	P
Dr Michael Sharpe	P	P	P	P	P	P	P
WOFF Robert Swanwick	P	P	A	P	P	P	P
BRIG Bob Brown	P	P	P	P	P	A	P
Mr Phil Charley ¹	P	P	P	P	P	P	P
Mr Patrick Gourley	P						
Mr Peter Alomes			P	A			
Ms Leeanne Turner ²			P	P			
GPCAPT Lee Roberts ³			P	P	P	P	P
WOFF Michael Doncaster ⁴					P	P	A

P—present at meeting A—apologies

- 1 Mr Charley attended August meeting as alternate to Mr Gourley. Mr Gourley resigned on 13 September 2000. Mr Charley appointed Trustee on 14 September 2000.
- 2 Ms Turner was appointed alternate to Mr Charley on 14 September 2000—resigned on 12 December 2000.
- 3 GPCAPT Roberts is alternate to BRIG Brown.
- 4 WOFF Doncaster appointed alternate to WOFF Swanwick on 18 January 2001, replacing Mr Alomes.

msb Fund investment

Investment policy

Meeting the Fund's investment objectives

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.

The MSB investment strategy is for a long-term return of at least 5% above inflation. Performance against that objective will be 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 86% to growth assets and 14% 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).
- Derivatives may be used to manage the risk profile of the portfolio, manage transaction costs (including market impact) and implement investment positions in the portfolio. However, they may not be used for speculative purposes.
- 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

In 2000–01 the Board continued to expand on the investment strategy it had put in place as at the end of June 2000. Key developments in 2000–01 were:

- The appointment of a third Australian equities manager, Jardine Fleming Capital Partners, to complement the the Fund's other two Australian equities managers, Colonial First State and BGI (Barclays Global Investors).
- The appointment of an additional international equities manager, Dresdner RCM, which has enabled the Board to mitigate the Fund's exposure to manager risk in the international sector.
- An investment in Super Member Home Loans, which had the ancillary benefit of allowing members access to low-cost home loans.
- An increase in private equity investments. An additional manager, Gresham Partners Private Equity, was appointed during the year, and it is expected that two more managers will be appointed in

the coming year, giving a total of six managers for private equity investments.

- An investment in global emerging markets via the fund manager Nicholas Applegate. Global emerging markets are financial markets of developing countries which are experiencing significant growth.
- The transfer of the individually managed international equities portfolio managed by BGI to a pooled unit trust managed by BGI. This strategy enables the Fund to continue to enjoy the benefits of an indexed equities portfolio with lower transaction costs.
- The sale of the Board's small direct property holding in CFM Property Management Limited. Proceeds from the sale were reinvested in private equity investments.

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.

Custodial services

The Board's Master Custodian is State Street Australia Limited.

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.

Fund managers

The Board's fund managers at 30 June 2001 were:

Cash	State Street Australia Limited
Australian fixed interest	Westpac Investment Management Pty Limited
International fixed interest	Credit Suisse Asset Management (Australia) Limited
Australian property securities	Deutsche Asset Management (Australia) Limited
Australian shares	Colonial First State Investment Managers (Australia) Limited Barclays Global Investors Australia Limited Jardine Fleming Capital Partners
Private equity	Gresham Private Equity Limited Deutsche Asset Management (Australia) Limited Credit Suisse First Boston International (Australia) Limited Macquarie Specialised Asset Management Limited
International shares	Wellington International Management Company Pte Limited Wellington Management Company, LLP Barclays Global Investors Australia Limited Dresdner RCM Global Investors Australia Limited
Global emerging markets	Nicholas-Applegate Capital Management

The fund managers' addresses are given in Appendix 3 on page 88.

Investment performance

The Fund's performance for the year reflected difficult market conditions with wide-ranging and volatile returns across different sectors. Growth in major world economies slowed dramatically throughout 2000–01. The slowdown in growth translated to a fall in corporate earnings and a re-rating of stock prices and this has had a significant impact on the returns from international investments.

The Australian dollar fell by 15% against the US dollar over 2000–01. This decline made the Fund's investments in US dollar assets more valuable in Australian dollar terms. The full effect of the currency depreciation was, however, not realised due to 40% hedge on international assets.

Table 1 shows the percentage return on investments achieved in each sector, compared with the benchmark for that sector. The difference between actual and effective asset exposure is accounted for by the impact on liquids/cash holdings of derivatives position held in international shares.

Table 1: Investment performance by sector, 1999–2000 and 2000–01

Sector	Effective exposure at 30 June 2000		Effective exposure at 30 June 2001		Performance 2000–01	
	\$m	%	\$m	%	Fund ¹ %	Benchmark ² %
Cash	46.7	4.7	10.6	1.0	5.6	6.1
Australian fixed interest	101.5	10.2	88.5	8.4	7.3	7.4
International fixed interest	39.9	4.0	33.1	3.1	9.5	9.0
Australian property securities	86.5	8.7	57.9	5.5	14.8	13.9
Direct property	5.4	0.5	–	–	–	–
Australian shares	373.2	37.5	413.0	39.2	10.7	9.1
Private equity ³	1.8	0.2	18.3	1.7	n/a	n/a
International shares	341.1	34.2	400.9	38.0	–3.0	–6.1
Global emerging markets	–	–	32.5	3.1	–26.4	–12.5
Total fund	996.1	100.0	1 054.8	100.0	2.0	0.9

- 1 Figures shown are gross of management fees and tax. The Fund return net of management fees and tax was 1.8% for 2000–01.
- 2 Benchmark return is the return of the nominated market index for each asset class.
- 3 Private equity is a long-term investment and does not generally show a return in the first 1–2 years.

Fund growth

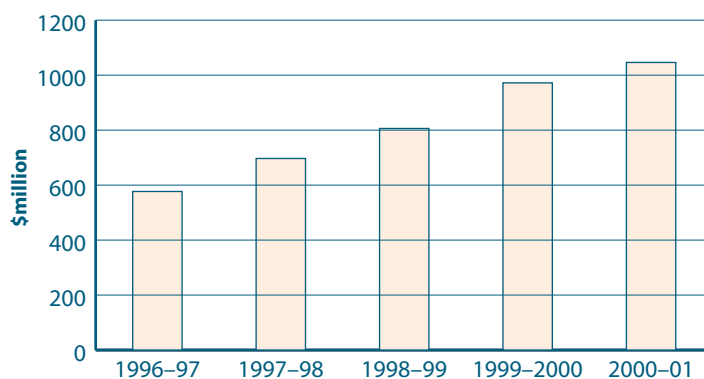
Fund assets available for investment at 30 June 2001 totalled \$1 054.8 million, an increase of 5.9% on the funds under management at 30 June 2000. The increase reflected the Fund's strong operational cash flow (contributions received less benefits paid).

After provision for all taxes, charges and benefits (as shown in Table 2), the Fund totalled \$1 046.3 million, a 7.6% increase from 1999–2000. This figure differs from that quoted above because it takes account of all fund transactions and tax provisions not provided for by the portfolio manager. Chart 1 shows how the Fund has grown since 1996–97.

Table 2: Fund size at 30 June 2001 (after tax, charges and benefits)

	\$m
Fund size at 30 June 2000	972.8
Inflow	
Contributions	242.9
Investment earnings	20.9
Outflow	
Benefits paid	(180.4)
Investment and other expenses	(6.3)
Taxation	(3.6)
Value of Fund at 30 June 2001	1 046.3

	\$m
Value of investments at 30 June 2000 (Table 1)	1 054.8
Less	
Benefits payable	(6.0)
Other liabilities	(1.0)
Provisions for tax	(9.5)
Plus	
Cash on hand	2.0
Other assets	6.0
Value of Fund at 30 June 2001	1 046.3

Chart 1: Fund size at 30 June for past five years

Asset allocation

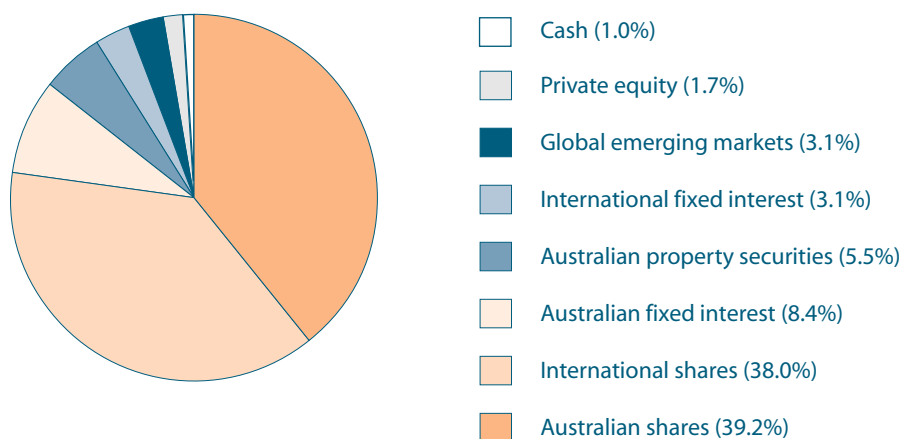
The asset allocation ranges and actual asset allocation (measured in terms of effective exposure) for each investment sector as at 30 June 2001 are shown in Table 3 and Chart 2. The asset allocation ranges are designed to ensure that the appropriate fund risk is maintained while allowing managers the flexibility to maximise returns.

Table 3: Asset allocation

Asset class	Fund manager	Allocation		Market benchmark
		\$m	% ¹	
Cash	State Street	10.6	1.0	UBS Warburg Australian Bank Bill Index
Australian fixed interest	Westpac	88.5	8.4	UBS Warburg Australian Composite Bond Index
International fixed interest	Credit Suisse	33.1	3.1	JP Morgan Global Government Bond (Hedged) Index (in \$A)
Australian property securities	Deutsche	57.9	5.5	S&P/ASX 300 Property Trust Accumulation Index
Australian shares	Colonial	124.9	39.2	S&P/ASX 300 Accumulation Index
	Barclays	168.2		As above
Private equity	Jardine Fleming	119.9		As above
	Gresham Fund No. 1	2.0	1.7	Not yet applicable
	Gresham Partners Capital Fund 1a	0.2		Not yet applicable
	Deutsche	5.1		Not yet applicable
	Credit Suisse	4.7		Not yet applicable
	Macquarie	6.3		Not yet applicable
	International shares	Wellington	232.5	38.0
	Barclays	74.7		As above
	Dresdner RCM	93.7		As above
Global emerging markets	Nicholas-Applegate	32.5	3.1	Not yet applicable
Total		1 054.8	100.0	

¹ Percentages refer to the asset class as a whole.

Chart 2: Sectoral allocation as proportion of the Fund



Note: This chart is a sectoral presentation of investment holdings. Its figures differ from the method of presentation in the financial statements, which include provision for outstanding settlements and separates cash holdings within each sector.

Crediting rate policy

The annual crediting rate is the rate at which Fund earnings are attributed to members’ accounts. It is determined at the end of the financial year and is based on the Fund’s investment performance after allowance for fees, charges and administrative costs.

Chart 3 shows a comparison of the crediting rates declared since 1996–97 against the Fund’s earnings rate and CPI. Chart 4 shows the performance of the MSB Fund over the 60 months since December 1997.

Chart 3: Annual earning, crediting and CPI rates since 1996–97

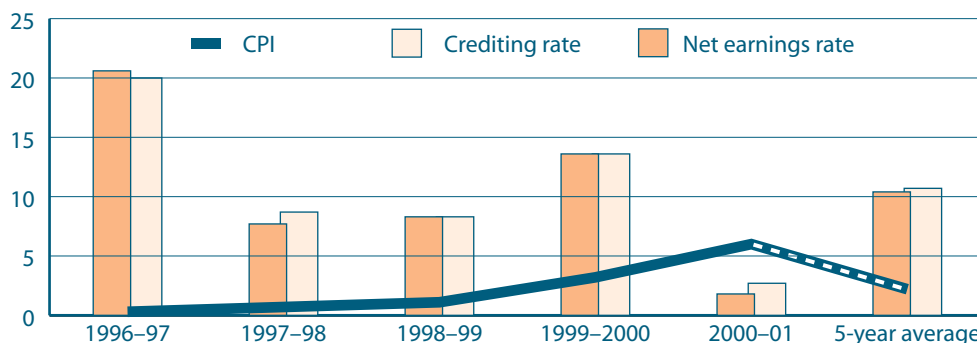
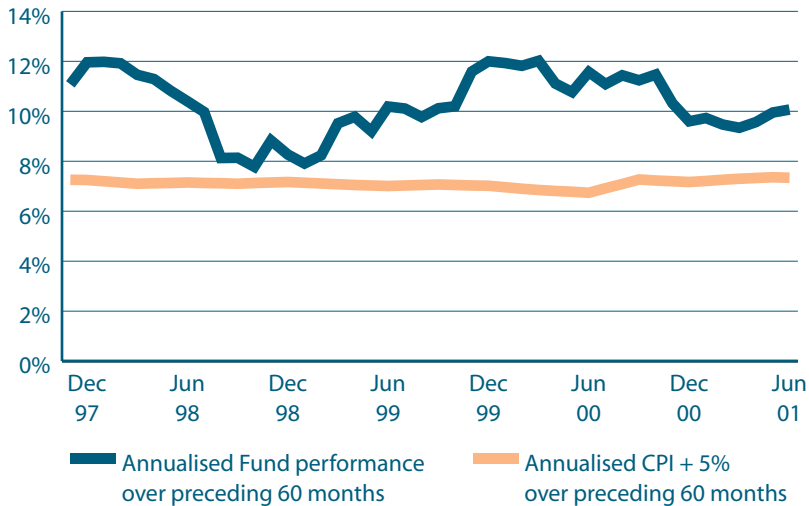


Chart 4: MSB Fund performance over the 60 months since December 1997

Exit rate policy

During each year the Board sets a rate of interest to apply to the accounts of members who exit the Scheme. This rate of interest is used to calculate total interest from the previous 1 July to the date of exit. This is called the exit rate.

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

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

The rates determined by the Board during 2000–01 are shown in Table 4. Each new exit rate replaces the previous one.

Table 4: Exit rates declared in 2000–01

24 July 2000	13.6%
18 August 2000	-5.5%
27 September 2000	9.7%
25 October 2000	7.0%
29 November 2000	5.0%
22 December 2000	-2.23%
24 January 2001	-3.67%
23 February 2001	1.45%
22 March 2001	-1.01%
24 April 2001	-4.10%
21 May 2001	0.25%
20 June 2001	1.04%

msb Governance

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.

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. In their 2000–01 audit the Board's external auditor did not identify any contravention of the SIS Act or Regulations.

Administrative Agreement

The MSB Board obtains superannuation administration services for management of the Scheme from Commonwealth Superannuation Administration (ComSuper). 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 25 October 2000 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

In recent years, the Board adopted a practice whereby relevant powers were delegated to the Commissioner for Superannuation who in turn authorised ComSuper staff to exercise powers for and on her behalf. (The Commissioner for Superannuation is the Chief Executive Officer of ComSuper.) This practice streamlined the delegation process and allowed faster updating of authorisations to accommodate changes.

A recent legal opinion has cast doubt on this practice. Consequently the Board has resumed the practice of delegating relevant powers direct to ComSuper staff.

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 sub-committee of the full Board. During 2000–01 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; and
- appropriate audit and fraud control strategies are in place to protect Board and member interests.

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 crediting rates.

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

Following a change to the MSBS rules in January 2001 this Committee replaced the Reconsideration Advisory Committee which had previously provided advice to the Board on reconsideration matters. This Committee met monthly from February 2001. It was chaired by the Deputy Commissioner for Superannuation and included a representative from the Department of Defence, a Service Officer of the rank of Colonel or equivalent and an MSBS pensioner representative.

The Committee's role is:

- to consider requests for reconsideration of a delegate's decisions 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.

Evaluation

Annual Effectiveness Reviews

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

In October 2000 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 Authority entered into a revised administrative agreement with ComSuper (see page 16).

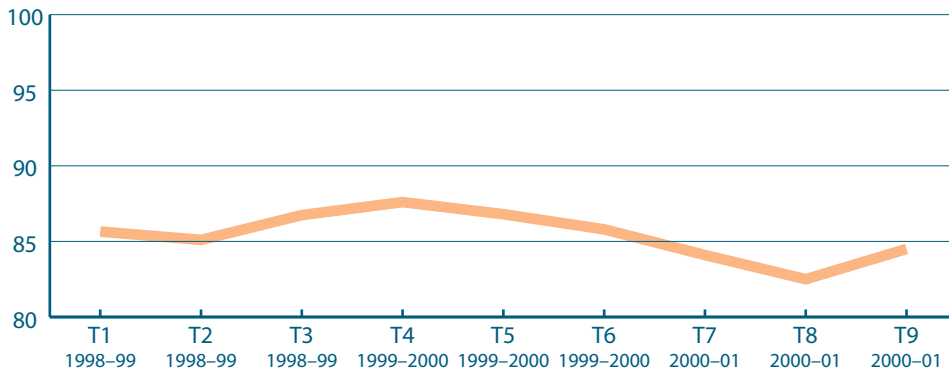
The performance standards referred to in this report are those defined in the revised administrative agreement notwithstanding that the higher service levels did not apply for the whole of the financial year. Performance against the standards, and the standards themselves, are the subject of ongoing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

Client feedback

During 2000–01 ComSuper again undertook a comprehensive series of client satisfaction surveys with the assistance of Canberra-based firm Orima Research. Military clients who had recent contact with one of ComSuper’s services were surveyed at three separate times throughout the year. ComSuper’s clients have again rated the quality of ComSuper’s service favourably on a range of customer service dimensions.

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 84% satisfaction level, with an average score over the past nine trimesters of 85.4%. Chart 5 shows ComSuper’s QSI scores for the military schemes in each of the nine survey periods since data have been collected on a trimester basis.

Chart 5: Quality Service Index (QSI) scores for military client satisfaction, 1998–99 to 2000–01



The survey results feed into ComSuper’s 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.

In addition, Orima Research carried out a survey of Military Super (MSBS) members on the effectiveness of communication (see page 28).

msb Contributors

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.

Account maintenance

The maintenance of MSBS contributor 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, as summarised below.

ComSuper (the Board's administrator) will:

- maintain records of scheme contributors to allow, among other things, the accurate and timely publication of member statements, the accurate and timely payment of benefits to members, and to facilitate reconciliation against Fund accounts;
- ensure that adequate systems, procedures and controls are in place to meet the administration and reporting requirements of the Act and associated legislation; and
- at the direction of the Audit Sub-committee of the Board, arrange for an independent audit of those systems and controls to be undertaken from time to time.

STANDARD

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.

OUTCOMES

Management representation letters containing the assurances referred to were presented on 13 September 2000. These letters were subject to internal and external audit scrutiny.

At 30 June 2001, there were 39 513 contributors to the MSBS, 33 391 (84.5%) of whom were male and 6 122 (15.5%) female. Table 5 shows the number of new entrants and exits and the total contributor membership at 30 June 2001. Table 6 shows the number of contributors by years of service and by sex.

Table 5: Contributor composition

	<i>Members who transferred from DFRDB</i>	<i>Members who first joined MSB</i>	<i>Total</i>
Membership at 30 June 2000	12 450	26 379	38 829
Plus new contributors	0	6 632	6 632
Less exits	(1 747)	(4 201)	(5 948)
Membership at 30 June 2001	10 703	28 810	39 513
Note: The membership figures given in this table for 30 June 2000 differ from those in the 1999–2000 report and in the summary table on page 64 due to retrospective adjustments not reported last year.			

Table 6: Male and female contributors by years of service

<i>Years of service</i>	<i>Male</i>	<i>Female</i>	<i>All</i>
0–9	24 402	4 712	29 114
10–14	5 504	1 057	6 561
15–19	2 026	298	2 324
20+	1 459	55	1 514
Total	33 391	6 122	39 513

The largest number of contributors in 2000–01 was aged between 20 and 24 years, 28% of members being in that age group. The next largest group (25–29 years) comprised 27.8% of the Scheme's contributor population.

Contributions

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 during 2000–01 were \$134 618 000, of which member contributions comprised \$86 742 000. Table 7 compares the total member and employer contributions that have been received each year since 1996–97.

Table 7: Contributors and contributions at 30 June for past five years

<i>Year</i>	<i>Contributors</i>	<i>Member contributions</i>	<i>Employer contributions</i>	<i>Total contributions</i>
1996–97	38 936	\$80 714 424	\$40 823 723	\$121 538 147
1997–98	37 356	\$82 383 000	\$42 185 882	\$124 568 715
1998–99	37 416	\$84 191 000	\$43 611 000	\$127 802 000
1999–2000	38 829	\$83 129 000	\$45 010 000	\$128 139 000
2000–01	39 513	\$86 742 000	\$47 877 000	\$134 619 000

Exits

There were 5 948 exits from the MSBS during the year. The types of exit are shown in Table 8.

Table 8: Modes of exit since 1996–97

<i>Mode of exit</i>	<i>1996–97</i>	<i>1997–98</i>	<i>1998–99</i>	<i>1999–2000</i>	<i>2000–01</i>
Age retirement	80	94	81	89	103
Resignation	4 065	3 209	3 654	4 084	4 891
Redundancy	4	64	90	29	171
Invalidity retirement	366	473	653	697	623
Death	19	18	19	12	10
Other*	267	213	243	294	150
Total	4 801	4 071	4 740	5 205	5 948
*Includes members who had exited but whose applications had not been submitted or were awaiting processing.					

Surcharge

The *Surcharge Contributions Tax (Assessment and Collection) Act 1997*, more commonly referred to as ‘the surcharge’, requires superannuation providers to report surchargeable contributions for all MSBS members to the Australian Taxation Office (ATO) on an annual basis. The intention of the legislation is to apply a tax on employer financed contributions, specifically targeted at high income earners, and imposes a surcharge of up to 15% on a member’s surchargeable contributions, provided the member’s adjusted taxable income is greater than the surcharge threshold.

The MSBS is classed as an unfunded defined benefit scheme for the purposes of the legislation. In order to have a basis on which to

calculate surchargeable contributions, the services of the Australian Government Actuary were employed to develop Notional Surchargeable Contributions Factors.

On receipt of surchargeable contributions information, the ATO matches the data with taxable income. If the taxpayer's adjusted taxable income exceeds the threshold, the ATO determines the amount of surcharge debt applicable to the member and reports this to ComSuper and the member.

The total of the debts reported by the ATO during 2000–01 is shown on page 85. The debts ranged in value from \$5.10 to \$4 109.30. Some of the affected members have elected to pay the debt. The total amount paid is also shown on page 85.

Contribution remittances

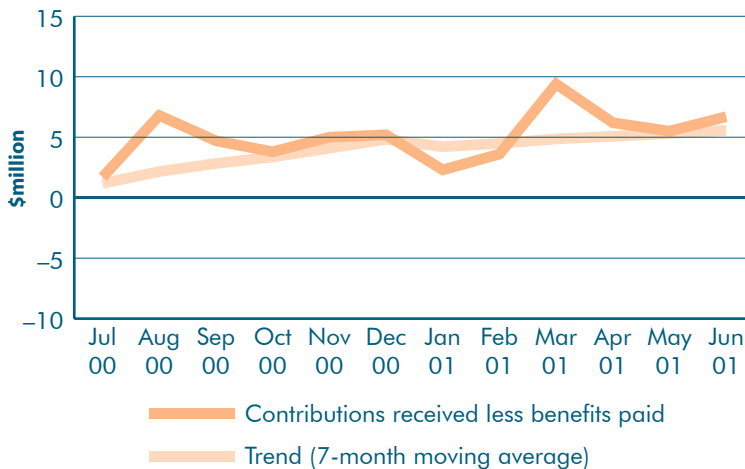
Member and employer productivity contributions for MSBS members are remitted fortnightly and paid by direct credit to the Board's bank account.

ComSuper will:

- maintain appropriate banking arrangements for the payment of contribution remittances into the Fund;
- lodge moneys with the Board's investment 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;
- maintain appropriate accounting systems for the recording of contribution remittances received; and
- monitor the collection of contribution remittances and pursue any late remittance of contributions with the Department of Defence and collect penalty interest where appropriate.

STANDARD	OUTCOMES
<p>Contribution remittances to be deposited into the Board's bank account on the same day as received.</p> <p>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.</p> <p>Contribution remittances to be recorded in the MSBS accounting systems within one week of receipt.</p> <p>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.</p> <p>Daily reconciliations will be undertaken to ensure that all moneys received are banked.</p>	<p>The Department of Defence directly credits all contributions into the MSB bank account on the due date.</p> <p>The balance of the MSB bank account was monitored on a daily basis and excess funds were transferred to the Board's custodian.</p> <p>Contribution remittances were recorded in the MSBS accounting systems generally within one week of receipt.</p> <p>All contribution remittances were received from the Department of Defence by the due date.</p> <p>Bank reconciliations were performed on a daily basis.</p>

Chart 6: MSB Fund cash flow (contributions received less benefits paid), 2000–01



Contributor communications

Communication with MSB Scheme members is achieved through a variety of means including:

- regular newsletters issued by ComSuper;
- articles in Service newspapers;
- e-mail and the Internet;
- annual member statements;
- the Board's Annual Report to Members;
- written correspondence;
- telephone inquiry services; and
- wide distribution of various scheme publications.

Performance standards, as described below, are set for these activities.

ComSuper will, at the direction of the Board, undertake a communication program 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 will include the range of communications required by SIS and a recognition of the particular needs of members.

ComSuper will also provide a range of communications to members on benefit entitlements and queries relating to the general administration of the Scheme in writing, over the phone and by electronic means. ComSuper will continuously seek ways to improve these communications.

STANDARD		OUTCOMES																	
<p>Where applicable, ComSuper will provide relevant information within the time frames imposed by SIS and generally speaking will significantly better those times.</p> <p>Personal counselling will be provided in Canberra immediately if urgent, otherwise within 5 working days.</p>		<p>This performance standard was met for 2000–01.</p> <p>This standard was met for 2000–01.</p>																	
Written inquiries/ requests for benefit estimates	Proportion of requests	Written inquiries/ requests for benefit estimates	Proportion of requests																
respond within 10 working days	85%	respond within 10 working days	100%																
respond within 15 working days	100%	respond within 15 working days	100%																
Member statements	issue by 10 September	Member statements	issued to contributors by 15 September; to preservers by 18 October																
Manually generated statements	issue by 15 December	Manually generated statements	issued by 30 October																
Replacement statements	issue within 15 working days of the request	Replacement statements	250 issued, all within 15 working days of results being corrected																
<table border="1"> <thead> <tr> <th colspan="2">Telephone inquiries</th> </tr> </thead> <tbody> <tr> <td>Dropout rate</td> <td>less than 5%</td> </tr> <tr> <td>Average wait time</td> <td>less than 45 seconds</td> </tr> <tr> <td>Response rate</td> <td>On 85% of days calls to be answered within 30 seconds</td> </tr> </tbody> </table>		Telephone inquiries		Dropout rate	less than 5%	Average wait time	less than 45 seconds	Response rate	On 85% of days calls to be answered within 30 seconds	<table border="1"> <thead> <tr> <th colspan="2">Telephone inquiries</th> </tr> </thead> <tbody> <tr> <td>Dropout rate</td> <td>1.6%</td> </tr> <tr> <td>Average wait time</td> <td>27 seconds</td> </tr> <tr> <td>Response rate</td> <td>Calls were answered within 30 seconds on 65% of days</td> </tr> </tbody> </table>		Telephone inquiries		Dropout rate	1.6%	Average wait time	27 seconds	Response rate	Calls were answered within 30 seconds on 65% of days
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<table border="1"> <thead> <tr> <th colspan="2">E-mail inquiries</th> </tr> </thead> <tbody> <tr> <td colspan="2">100% of e-mails to be answered within 24 hours</td> </tr> </tbody> </table>		E-mail inquiries		100% of e-mails to be answered within 24 hours		<table border="1"> <thead> <tr> <th colspan="2">E-mail inquiries</th> </tr> </thead> <tbody> <tr> <td colspan="2">98% answered within 24 hours 100% answered within 48 hours</td> </tr> </tbody> </table>		E-mail inquiries		98% answered within 24 hours 100% answered within 48 hours									
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100% of e-mails to be answered within 24 hours																			
E-mail inquiries																			
98% answered within 24 hours 100% answered within 48 hours																			

STANDARD	OUTCOMES
<p>Members approaching either their lump sum or pension maximum benefit limit will be advised no later than 20 working days before the limit is to be reached.</p> <p>Members will be provided with advice within 6 months of a rule change that has an adverse effect and within 12 months of a change that has no adverse effect.</p>	<p>This standard was met.</p> <p>This standard was met through provision of advice in the annual report to members.</p>

MSCAG activity

A communications officer was appointed early in 2001 to undertake work specifically aimed at Military Super (MSBS) members.

Outcomes of this work include a series of informational videos, the first of which focuses on the highlights of Military Super and the i-Estimator. Information about ComSuper’s Call Centre and website also features prominently.

The next video in the series is targeted at Australian Defence Force members’ spouses. This will be followed by a video on investments.

A survey of Military Super (MSBS) members on the effectiveness of communication was conducted during the year. The outcomes of the survey support the Board’s decision to increase communication to members.

Also, communication networks established between ComSuper and scheme stakeholders such as the Department of Defence and the Minister’s Office were strengthened.

Improved communication coverage to members through articles published in Defence publications such as Service newspapers, *The Key*, *Sea Talk* and *Defence Family Matters* was a notable outcome for the year.

Counselling services

Advice to members is provided through telephone advice, written responses to inquiries, e-mail advice, addressing members at resettlement seminars and talking to members and administrative staff at various bases and units throughout Australia.

With the advent of the ComSuper Internet site 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 e-mail inquiries received.

However, the most popular means of contact remains the telephone, with an average of some 1 015 telephone calls per week.

During the year, ComSuper gave presentations at 23 resettlement seminars, which were attended by a total of 2 202 people. Thirty-three MSBS member sessions and 11 information sessions for administrative/discharge staff were also conducted and were attended by 1 656 MSBS members and 228 staff (both MSBS and DFRDB) respectively. The member sessions were primarily conducted in conjunction with the resettlement seminars. A total of 4 730 retirement advice letters were issued during the year.

Member statements

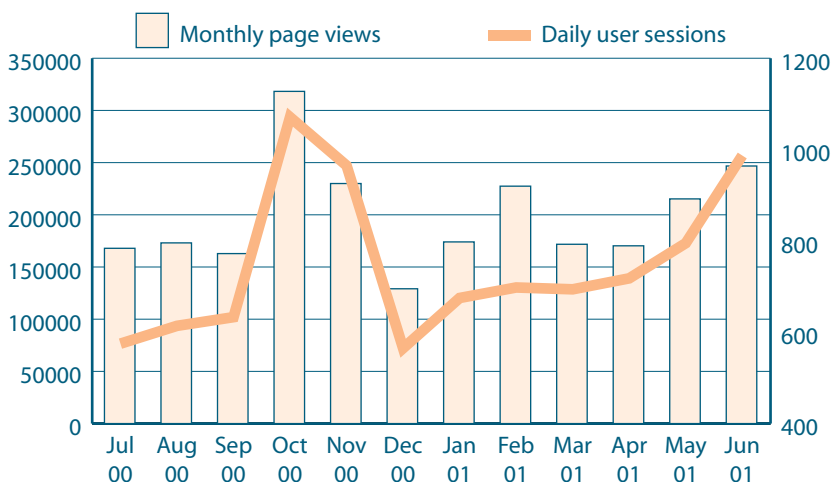
SIS legislation requires the Board to distribute annual member statements by 31 December each year. During the 2000–01 financial year statements for contributing members were distributed in mid-September, while preserved benefit members received their statements in mid-October. The statements provide 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 15 days (see page 27), which exceeds the SIS requirement.

Website development

Overall website activity again doubled in 2000–01, although this trend is less evident for the military than has been the experience with the civilian schemes. The increase in activity is generally attributable to more people using the website. Chart 7 shows monthly website usage for the year.

Chart 7: ComSuper website usage—Commonwealth and military clients, 2000–01



In 2000–01 the Military i-Estimator products were released and these were favourably received by members. At year’s end these products continued to attract member attention, which augurs well for future online services.

Extensive research into call centre activity was conducted during the year for the purposes of planning future website developments.

As a result of that research website development work is presently focused on revamping the process of dealing with frequently asked questions on the website and developing a series of simple fact sheets.

Considerable efforts were also directed to redesigning and simplifying the benefit application forms with a view to making these available for online processing purposes following the rollout of the Capital administration system.

Benefit payments

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.

SERVICE

ComSuper will process all applications for benefits in a timely manner and in accordance with the Act. For applications processed outside 15 days, late payment interest will be paid.

STANDARD

Processing time	Proportion processed
within 5 working days	85%
within 15 working days*	95%
Average processing time	less than 4 working days

Note: The time for processing commences from the receipt of all prescribed information (e.g. confirmation of discharge, medical classification or correctly completed application forms).

*A report is provided on the number of applications processed outside 15 days and the amount of late payment interest paid.

OUTCOMES

Processing time	Proportion processed
within 5 working days	96.7%
within 15 working days	100%
Average processing time	2.2 working days

Chart 8: MSBS benefit processing against standards, 2000–01

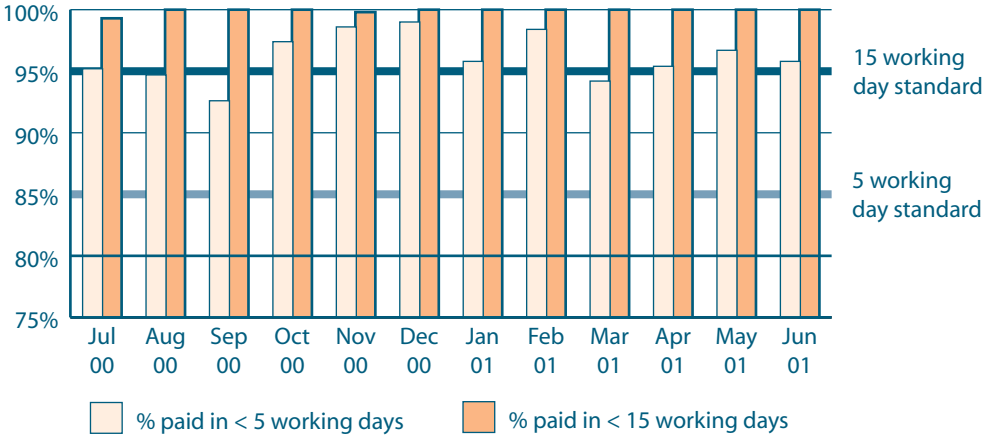
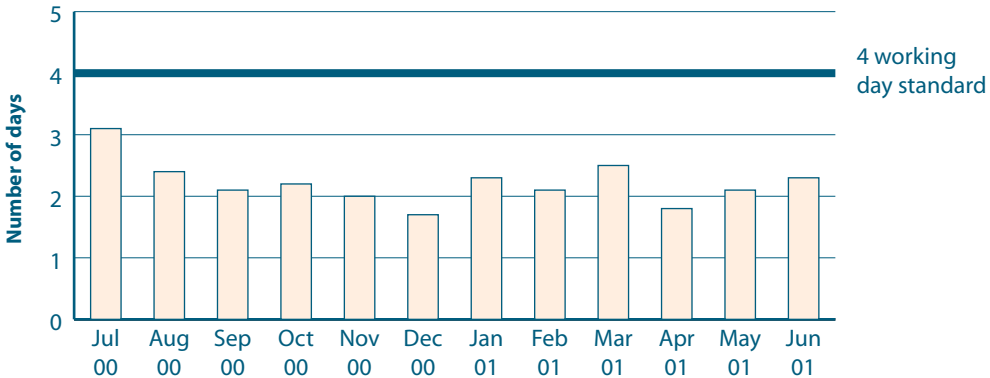


Chart 9: MSBS average time to process benefit payments, 2000–01



Benefits payable on discharge

Member 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.

From 1 July 1999 discharging members have been able to take only that portion of their member benefit that accrued to 30 June 1999. Any contributions paid and any interest earned after that date must

either be preserved in the Scheme or rolled over and preserved in another complying fund until preservation age.

Of the 5 948 members who left the Scheme during the year, 3 728 elected to claim their member benefit and received payments totalling \$97 412 156.

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.

Prior to 30 June 1998, if a member resigned from the ADF before completing seven years of service, access to the unfunded component of the employer benefit was phased in according to length of service. The funded component, the 3% productivity benefit, was not subject to the phase-in provision. However, following legislative changes, the MSBS Rules have been altered to permit the full accrual of the employer benefit for members leaving during the first seven years of service.

Changes from 1 July 1999 affect access to employer benefits following discharge from the ADF. The minimum age from which members can access superannuation benefits has been increased for those born after 1 July 1960. Members who leave on or after age 55 and have not reached their preservation age will be able to take their employer benefit in the form of a full pension or a part pension with the remaining portion of the employer benefit being preserved in a complying fund of their choice until they reach their preservation age.

Employer-financed benefits paid as lump sum

Between 1 July 2000 and 30 June 2001, 599 members received lump-sum employer benefit payments under MSBS legislation, as detailed in Table 9. These lump-sum benefits from the Scheme amounted to \$22 073 497.

Table 9: Partial and full lump-sum employer benefit payments, 2000–01

<i>Reason for exit</i>	<i>Number</i>	<i>Total lump-sum payments</i>	<i>Average lump-sum payment</i>
		\$	\$
Retirement	32	5 705 595	178 299
Redundancy	0	0	0
Preserved > age 55	55	6 977 020	126 854
Reversionary benefits			
spouses	7	940 328	134 332
orphans	0	0	0
estates	10	1 818 812	181 881
Early payment*	495	6 631 738	13 397
Total	599	22 073 497	36 850
*Permanent physical or mental incapacity; financial hardship; compassionate grounds.			

Invalidity benefits

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.

Decisions are taken either by the Board's Incapacity Classification Committee (ICC) or, in straightforward cases, under delegation held by ComSuper. In determining invalidity benefits ComSuper will ensure that due process is followed, that claims are processed expeditiously, that legislative requirements are met and that guidelines issued by the Board are followed.

STANDARD

Submit cases to delegate or ICC within 10 working days of receipt of supporting documentation and any additional information that may be required (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).

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

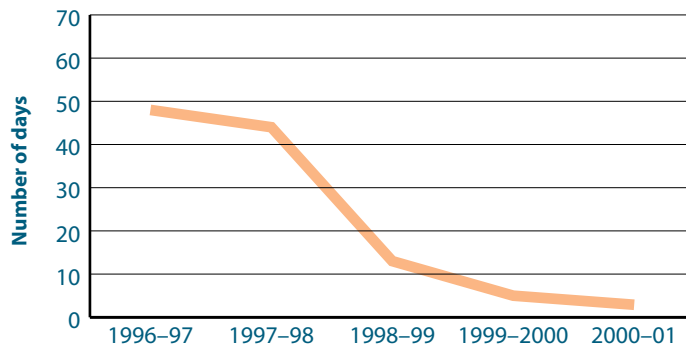
OUTCOMES

ComSuper met this standard in 100% of cases.

ComSuper met this standard in 100% of cases.

The marked improvement in processing times for new invalidity cases, evident from Chart 10, is the result of recent efforts to streamline procedures. This process has now been fine-tuned to the point where further reductions are not expected.

Chart 10: Average time taken to determine new invalidity cases in past five years



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 MSBS 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 678 initial classification decisions during 2000–01.

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 90 reclassification decisions during the year.

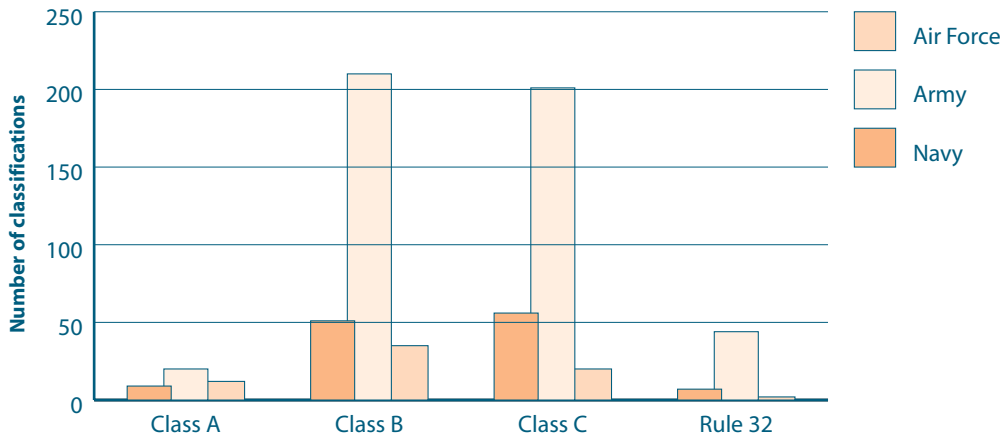
After a classification decision has been made, the member is advised in writing and informed of the right to request reconsideration of the decision. Members who receive advice of decisions of the Board and

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 2000 to 30 June 2001, 667 members received initial invalidity classifications. The total number of invalidity cases processed was 678, although in 53 of these cases Rule 32 (relating to pre-existing conditions) was applied. This is a decrease of 40 invalidity cases on the previous year (total 718). Of those who received an invalidity classification, 337 (41 Class A and 296 Class B) became entitled to an invalidity pension. The remaining 277 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 11.

Chart 11: Comparison of invalidity classifications in 2000–01, by Service



Accounts, records and funding of benefit payments

ComSuper will:

- liaise 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
- maintain proper accounts and records in respect of benefits paid.

STANDARD

Immediate availability of funds from Trustees' bank account to meet benefit payments.

OUTCOMES

See Chart 6 on page 25 which indicates that the MSB cash flow was positive for all months during the year.

Preserved benefit members

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.

Members may preserve their total member benefit, if they wish. From 1 July 1999 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 of their choice 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.

Account maintenance

ComSuper will maintain appropriate records and documentation of all members with a preserved benefit entitlement to allow, among other things, the accurate and timely distribution of member statements, the accurate and timely payment of benefits, and to facilitate reconciliation against Fund accounts.

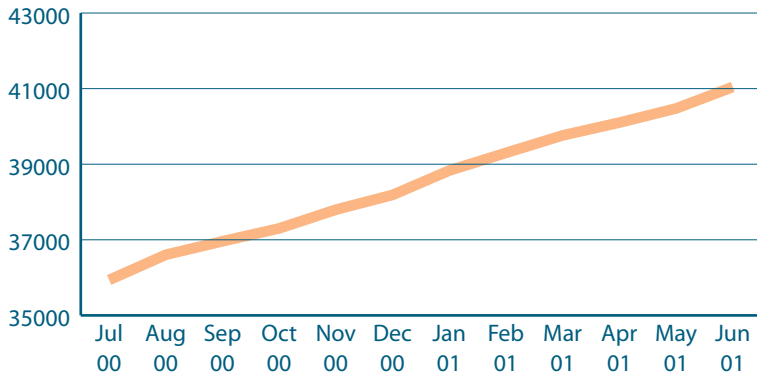
STANDARD

Receipt of assurance (in a format agreed by the Board) in the annual management representation letter in respect of the systems used to maintain preserved benefit member accounts.

OUTCOMES

Management representation letters containing the assurances referred to were presented on 13 September 2000. These letters were subject to internal and external audit scrutiny.

Chart 12: Growth in MSBS preserved benefit member population, 2000–01



Preserved benefit member communications

The services outlined on page 26 also apply to this activity.

STANDARD

The commitments given on page 27 also apply to this activity.

OUTCOMES

The standard was met.

Preserved benefit payments

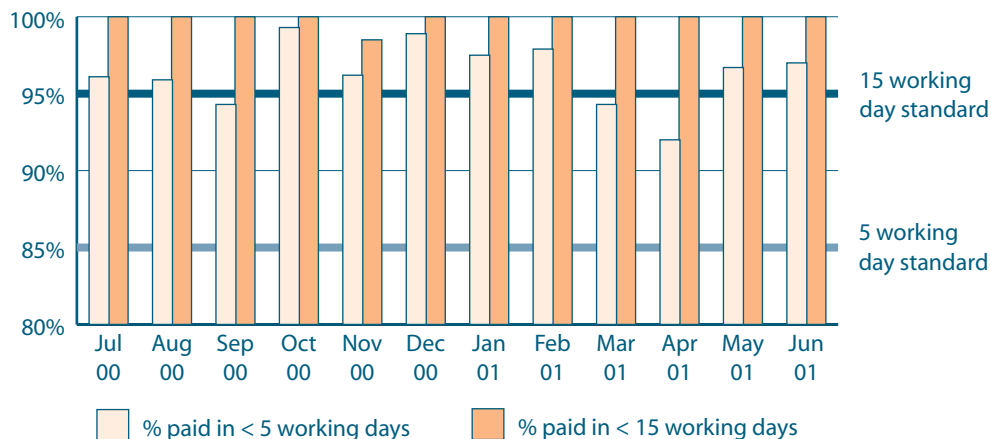
ComSuper will process all applications for payment of preserved benefits in a timely manner and in accordance with relevant legislation. For applications processed outside 15 days, late payment interest will be paid.

ComSuper will also process requests for release on hardship, compassionate or permanent invalidity grounds expeditiously and in accordance with relevant legislative requirements.

STANDARD		OUTCOMES	
Processing time	Proportion processed	Processing time	Proportion processed
within 5 working days	85%	within 5 working days	97%
within 15 working days*	95%	within 15 working days	100%
Average processing time	less than 4.5 working days	Average processing time	2.2 working days

*A report is provided on the number of applications processed outside 15 days and the amount of late payment interest paid.

Chart 13: MSBS preserved benefit processing against standards, 2000–01



At 30 June 2001, there were 11 227 preserved member benefits totalling \$92 409 856, as shown in Table 10.

Table 10: Member benefits paid or preserved, 2000–01

	<i>Number</i>	<i>Lump sums</i>	<i>Average amount</i>
Benefits paid on exit, 2000–01	3 309	\$8 585 790	\$25 946
Benefits preserved at 30 June 2001	11 227	\$92 409 856	\$8 231
Withdrawal of preserved benefits, 2000–01	263	\$6 325 245	\$24 050
Note: Members who received a partial withdrawal of their member benefit are counted under both benefits paid and benefits preserved.			

Preserved employer-financed benefits

In most exit categories, the employer-financed benefit must be preserved until compulsory preservation age or upon genuine retirement from the workforce, whichever is the later. At 30 June 2001, there were 40 038 preserved employer-financed benefits.

Early release of employer-financed benefits

Under certain circumstances, a preserved employer-financed benefit may be paid before a person reaches their compulsory preservation age.

An MSBS preserved benefit member, but not a contributor, can now apply to the Trustees for access to part of his or her preserved employer benefit on financial hardship grounds, provided that:

- the member has been in receipt of prescribed income support payments for a continuous period of over six months; and
- the member is unable to meet reasonable and immediate family living expenses; and
- the amounts being released do not exceed \$10 000 in any twelve-month period.

Separate conditions apply to release of superannuation benefits on compassionate grounds, generally in situations where substantial medical expenses are involved.

In some circumstances early release of a limited amount of preserved benefits may also be granted on compassionate grounds to allow a member to make a payment on a loan to prevent loss of his or her principal place of residence.

Early release on these grounds is administered by the Australian Prudential Regulation Authority, to which application must be made.

During 2000–01, the Board approved the early release of 408 benefits, totalling \$5 652 986, on the grounds of permanent physical or mental incapacity; severe financial hardship; or on compassionate grounds.

msb Pensioners

Account maintenance

SERVICE

ComSuper will maintain appropriate records and documentation of all persons eligible to receive a pension under the Rules. This includes the setting up of a new record when a pensioner commences, processing amendments to personal details, processing altered payment arrangements, processing cessations on death, where applicable commencing reversionary benefits following death, processing variations to child/student pensions, processing variations to invalidity pensions following reclassification and initiating recovery of overpaid pension when advice of death is delayed.

STANDARD

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

Receipt of assurance (in a format agreed by the Board) in the annual management representation letter in respect of the systems used to maintain pensioner records.

OUTCOMES

Most requests are made by telephone and actioned at the time the call is answered. Written requests are given similar priority and processed within the indicated timeframe in all but unusual circumstances.

Management representation letters containing the assurances referred to were presented on 13 September 2000. These letters were subject to internal and external audit scrutiny.

Chart 14: Growth in MSBS pensioner population in past five years

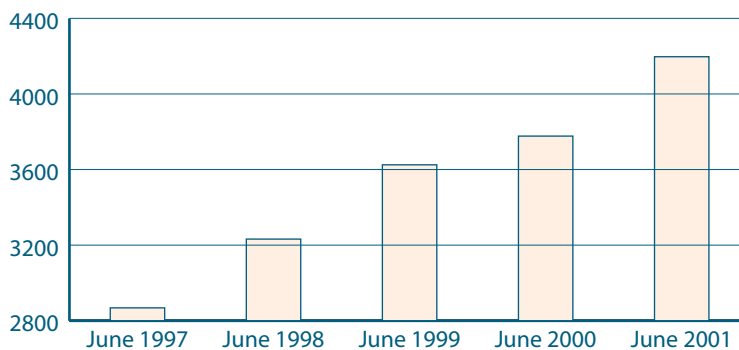
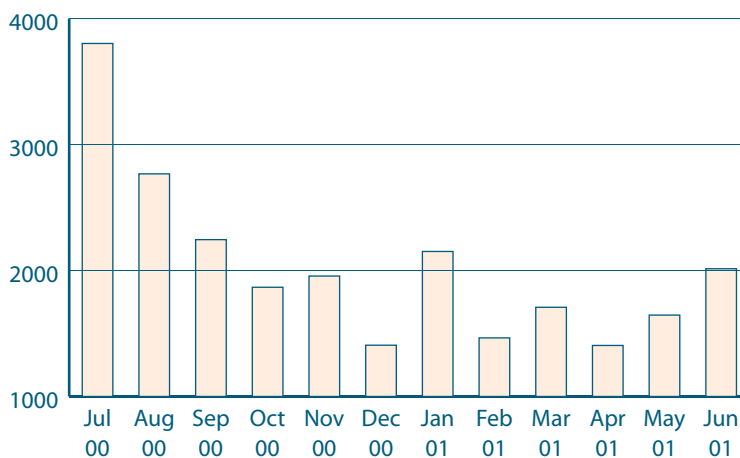


Chart 15: Military pension variations, 2000–01

Note: Pension variations shown include those for DFRDB and MSBS members. An increase in the number of variations processed in July 2000 was a result of the annual advice mailing. Many members requested variations to the level of tax being deducted from their pension, and notified changes of address.

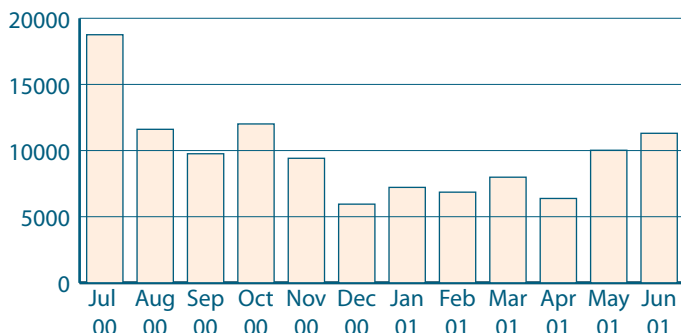
Pensioner communications

ComSuper will, at the direction of the Board, provide a range of communications to pensioners to assist their understanding of the Scheme, to facilitate inquiries and to facilitate changes to personal or payment details. This includes any communications that may be required by SIS.

In response to guidance from Trustees, ComSuper will also seek to improve the quality and effectiveness of its communications with pensioners in part through regular reviews and in part through surveys.

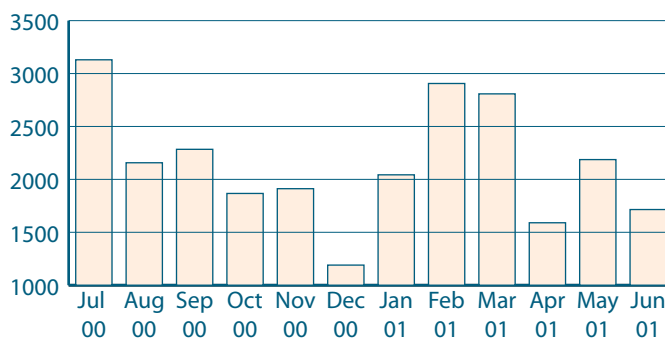
STANDARD		OUTCOMES																	
<p>Members who request a variation to their method of payment or who advise other changes will be sent an acknowledgement when the change has been effected.</p> <p>Telephone inquiries will generally be dealt with at the time of the call.</p> <p>Written inquiries will be responded to within 5 working days (however, if the inquiry is complex and a response within that time is not possible, the member will be told of that within 5 days).</p>		<p>All variations to method of payment and other changes were acknowledged when the changes had been effected.</p> <p>All telephone inquiries (see Chart 16) were dealt with within the agreed standards (see the table below).</p> <p>A total of 24 599 written inquiries were received by the Retired Member Information Service in 2000–01 (see Chart 17). Close attention was given to the agreed standards in all cases.</p>																	
Annual pension advices and group certificates	to be sent out before the first pension payday in July each year	Annual pension advices and group certificates	all sent out by the first pension payday in July 2001																
<table border="1"> <thead> <tr> <th colspan="2">Telephone inquiries</th> </tr> </thead> <tbody> <tr> <td>Dropout rate</td> <td>less than 3%</td> </tr> <tr> <td>Average wait time</td> <td>less than 30 seconds</td> </tr> <tr> <td>Response rate</td> <td>On 85% of days calls to be answered within 30 seconds</td> </tr> </tbody> </table>		Telephone inquiries		Dropout rate	less than 3%	Average wait time	less than 30 seconds	Response rate	On 85% of days calls to be answered within 30 seconds	<table border="1"> <thead> <tr> <th colspan="2">Telephone inquiries</th> </tr> </thead> <tbody> <tr> <td>Dropout rate</td> <td>1.2%</td> </tr> <tr> <td>Average wait time</td> <td>20 seconds</td> </tr> <tr> <td>Response rate</td> <td>Calls were answered within 30 seconds on 86% of days</td> </tr> </tbody> </table>		Telephone inquiries		Dropout rate	1.2%	Average wait time	20 seconds	Response rate	Calls were answered within 30 seconds on 86% of days
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98% answered within 24 hours 100% answered within 48 hours																			

Chart 16: Telephone calls received by the Retired Member Call Centre in 2000–01



Note: Telephone calls include those made by Commonwealth and military retired members.

Chart 17: Written inquiries received from retired members in 2000–01



Note: Written inquiries include those made by Commonwealth and military retired members.

Counselling and inquiry service

Staff of the Retired Member Information Service assist pensioners to understand their superannuation entitlements and maintain their pension accounts in accordance with the service standards agreed between ComSuper and the Board.

Advisory officers can be contacted by telephone (through a dedicated call centre), letter, facsimile or e-mail. Pensioners with hearing impairments can use a special teletypewriter (TTY) facility. Advisory officers are available for personal counselling at ComSuper’s office.

A section of ComSuper’s website has been designed to allow pensioners who use the Internet to get information about issues relating to the payment of their benefit.

Benefit payments

Employer-financed benefits paid as pension

At 30 June 2001, 4 197 members were receiving MSBS pensions. Pensions paid during 2000–01 totalled \$55 171 294. The total number of pensioners for each class of benefit is detailed in Table 11 for the end of each financial year since 30 June 1997.

During the year, 630 new pensions were granted, while 194 pensions ceased. A breakdown of new pensions by class of benefit is contained in Table 12. Table 12 also shows the estimated liability for 2001–02 of the pensions granted in 2000–01 and the average pension estimated to be received by each person.

Table 11: Number of pensioners since 30 June 1997, by type of benefit

<i>Class of pension benefit</i>	<i>Number of pensioners</i>				
	<i>30 June 1997</i>	<i>30 June 1998</i>	<i>30 June 1999</i>	<i>30 June 2000</i>	<i>30 June 2001</i>
Retirement	349	412	420	465	474
Redundancy	1 609	1 674	1 713	1 748	1 877
Preserved > age 55	54	88	50	66	82
Invalidity	830	1 029	1 248	1 436	1 724
Reversionary benefits*					
<i>spouses**</i>	26	29	35	62	40
<i>orphans</i>	0	0	0	0	0
Total	2 661	3 232	3 466	3 777	4 197
*Payable on the death of a member, former member or pensioner.					
**The numbers for spouses were understated before the current year.					

Table 12: New pensions granted during 2000–01 and annual liability

<i>Class of benefit</i>	<i>Number</i>	<i>Annual liability</i>	<i>Annual average pension</i>
		\$	\$
Retirement	30	697 908	23 263
Redundancy	182	2 344 816	12 883
Invalidity	395	5 736 282	14 522
Preserved > age 55	18	347 535	19 307
Reversionary benefits*			
<i>spouses</i>	5	44 958	8 991
<i>orphans</i>	0	0	0
Total	630	9 171 499	14 558
*Payable on the death of a member, former member or pensioner.			

Review of invalidity classifications

ComSuper may from time to time review the classification of invalidity pensioners either of its own volition or at the request of pensioners.

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

In 100% of cases ComSuper was able to complete the review within 20 working days of receipt of all the relevant information.

100% of members were advised of the decision 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 2000–01, 33 members requested a review of their invalidity classification. During 2000–01, 548 such cases were examined, of which 138 received full medical reviews. As a result of these reviews 90 classifications were changed, as shown in Table 13.

Table 13: Invalidation entitlements reviewed in past five years

	1996–97	1997–98	1998–99	1999–2000	2000–01
Entitlements examined	257	300	289	677	548
Review with medical exam	105	148	159	215	138
Classification raised	13	10	17	14	23
Classification reduced	57	67	90	121	67
Total classification changes	70	77	107	135	90

Reversionary benefits

ComSuper will process all applications for reversionary benefits following the death of a pensioner (that is, eligible spouses, children and orphan pensions) in a timely manner and in accordance with relevant legislation.

STANDARD

Commence all reversionary pensions on the next available payday following receipt of application subject to eligibility criteria being clearly met and subject to there being no counter claims.

OUTCOMES

Although performance against this standard is not specifically measured, payment of reversionary pensions is given the highest priority in processing cycles.

Pension increase

ComSuper undertakes to process the annual pension increase in accordance with the Scheme Rules.

STANDARD

Process the annual pension increase on the first payday on or after 1 July each year.

OUTCOMES

This standard was met for 2000–01.

In accordance with the agreed service standards, pension advice letters were sent to pensioners before the first pension payday in July 2001.

Each year, pensions that are subject to adjustment are increased in line with upwards movements in the Consumer Price Index (CPI). The MSBS legislation provides for an increase if the CPI number for the preceding 31 March exceeds the previous highest March CPI number. The increase is paid on the first pension payday in July.

In 2000–01, the Australian Bureau of Statistics announced a CPI change of 6% for the March to March year. This increase was applied to pension payments on payday 12 July 2001.

Annual notice to pensioners

As in previous years, pensioners were advised of the adjustment to their pensions in the annual pension advice letter that was sent to them, together with their income tax group certificate and other relevant information.

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Dispute resolution

Avenues of review

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 reconsideration

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

Under Part 9 of the MSB Rules, the Board is required to establish a Reconsideration Committee (RC). The RC's role is to reconsider decisions of delegates of the Board and to make recommendations to the Board in respect of requests for reconsideration of the Committee's own or Board decisions. ComSuper undertakes to investigate requests for reconsideration in a thorough, objective and effective manner in accordance with any guidelines issued by the Board.

STANDARD		OUTCOMES	
Processing of reconsideration requests	Proportion completed	There were 90 MSBS requests for reconsideration received in 2000–01. The proportions of cases completed against the relevant agreed standards were as follows:	
within 6 months	40%	Processing of reconsideration requests	Proportion completed
within 9 months	65%	within 6 months	41%
within 12 months	95%	within 9 months	66%
		within 12 months	80%
Average processing time	9 months	Average processing time	8.71 months
ComSuper will handle claims against the Board objectively and expeditiously.		Standards achieved were below target in all categories in respect of the percentage of cases completed within 12 months due to the clearance of a number of older cases.	
Submissions to the RC will be prepared within 30 days of receipt of supporting documentation.		The Board regularly monitored outstanding cases, particularly those remaining unresolved for more than 12 months after having been received. As at 30 June 2001 there was only one case in this category.	

Reconsideration of decisions

In January 2001 the MSBS rules were changed to allow a newly created Reconsideration Committee to decide requests for review of delegates’ decisions. Membership of this Committee remained the same as that of the now defunct Reconsideration Advisory Committee and the new body also assumed the responsibility for making recommendations to the Board in respect of requests for reconsideration of its own and Board decisions. The Committee met for the first time in February 2001. Other changes made to the MSBS rules in respect of review of decisions were that requests for reconsideration had to be made within 30 days of notification of the decision and, in respect of Board or Committee decisions, must be accompanied by new and relevant evidence.

The RC’s recommendation is taken into account by the Board in deciding whether to affirm or vary the primary decision, or set it aside and substitute another decision. The Board can also refer a decision to

the RC on its own motion. Each applicant receives a comprehensive written statement of reasons for the Board's or Committee's decision on reconsideration. Where appropriate, applicants are advised of further appeal rights.

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

During 2000–01, 90 requests for reconsideration of decisions taken by or on behalf of delegates of the Board were received, a decrease from the 97 requests received the previous year. Five requests for reconsideration of a Board decision and one request for reconsideration of a Committee decision were also received during 2000–01 compared with one during 1999–2000.

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 amount of benefit varies depending on the former member's assessed level of physical or mental incapacity to undertake suitable civilian employment.

One hundred and nine cases were finalised during the year, compared with 89 cases last year. The Board affirmed 39 cases, varied 22 cases in favour of the applicant and set aside 28 cases. Another 15 lapsed because the applicant failed to pursue the matter. Five requests were withdrawn. Fifty-five cases remained under investigation on 30 June 2001.

Table 14: Reconsideration applications for past five years

Year	1996–97	1997–98	1998–99	1999–2000	2000–01
Requests on hand	34	35	53	65	74
Requests received	38	63	73	98	90
Requests resolved	37	45	61	89	109
Carried forward	35	53	65	74	55

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).

Other than lodging a complaint with the SCT, an alternative external review mechanism available to aggrieved scheme members is judicial review in the Federal Court under the *Administrative Decisions (Judicial Review) Act 1977* (the AD(JR) Act). The AD(JR) Act entitles a person aggrieved by an administrative decision taken under Commonwealth legislation to seek an order for review of the decision in the Federal Court on grounds specified in that Act

Six complaints were lodged with the SCT during the year and twelve cases were carried over from 1999-2000. Ten SCT complaints were resolved during the year: three Board decisions were affirmed, one was conceded on the basis of new evidence, one complaint was treated by the SCT as having been withdrawn on the ground that it was misconceived, two complaints were withdrawn by the complainants, and three Board decisions were set aside. There were seven SCT cases outstanding as at the end of June 2001.

In 2000-01 two SCT decisions were appealed to the Federal Court. 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.

Inquiries 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

ComSuper undertakes to do all things necessary 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).

STANDARD

Process all external cases both objectively and expeditiously.

OUTCOMES

ComSuper complied with the specified procedures and deadlines for all cases considered by the SCT. There were no cases considered by the Federal Court or other jurisdictions such as HREOC during the year.

Complaints, ministerials and Ombudsman inquiries

SERVICE

ComSuper will maintain systems for dealing with SIS registered complaints and representations made by Parliamentarians and the Ombudsman.

ComSuper will also maintain systems for dealing with requests under the *Freedom of Information Act 1982*.

Systems will also be maintained to monitor inquiries directed to the Board.

STANDARD

Provide a substantive response to 80% of SIS registered complaints (excluding requests for internal review) within 15 working days.

Parliamentarian and Ombudsman representations and Freedom of Information requests will be dealt with within 30 calendar days.

Respond to 90% of Trustee correspondence within 15 working days of receipt and the remainder within 30 working days.

OUTCOMES

A substantive response was made to 75% of SIS registered complaints (excluding requests for internal review) within 15 working days.

Of two Parliamentarian and Ombudsman requests received, one was responded to within 32 calendar days. All Freedom of Information requests were processed within 30 calendar days.

All Trustee correspondence was responded to within 15 working days.

ComSuper has established procedures for dealing with SIS registered complaints and Parliamentary and Ombudsman representations.

Thirty-two complaints and 2 ministerials were received during the year. Two ministerials were carried over as at 30 June 2001.

These and Ombudsman inquiries covered a large range of issues, the most significant being preservation policy (14 cases), the payment process (3 cases), information statements (5 cases), surcharge (3 cases), with the remainder (7 cases) all being ones which had less than two occurrences.

Table 15 shows the timetable of responding to complaints or ministerial/Ombudsman inquiries in 2001–01.

Table 15: Responses to complaints or ministerial/Ombudsman inquiries, 2000–01

	<i>Less than 15 days</i>		<i>15–30 days</i>		<i>30–90 days</i>		<i>More than 90 days</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
Complaints	23	15	5	16	3	9	–	–
Ministerials	1	50	–	–	1	50	–	–

In addition ministerials relating to policy issues are received and responded to within the Department of Defence without referral to ComSuper. In 2000–01 those relating to MSBS totalled 239 (including 227 regarding MSBS employer benefit preservation arrangements). There were also 27 ministerials 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 54 requests for access to documents during 2000–01. All requests were granted in full. The requests took an average of 1.1 days to process.

Inquiries 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

Facsimile: (02) 6252 6509

Telephone: (02) 6252 7514

TTY: (02) 6253 2911

Internet: www.comsuper.gov.au

Accounting services

SERVICE

ComSuper will:

- maintain the Fund's 'general ledger' summarising monthly contributions, benefits and investment transactions as reported by the Fund Custodian;
- prepare the annual financial statements of the Scheme in a form agreed by the Board and the Minister;
- prepare monthly (unaudited) financial statements in a form agreed with the Board;
- prepare 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;
- prepare annual taxation returns and pay quarterly tax instalments by the due date;
- calculate annual crediting rates and monthly exit rates of interest to apply to member accounts;
- provide annual letters of comfort to the Board regarding information provided for annual financial statements;
- arrange payment of the Board's administrative expenses;
- liaise with the Board's specialist advisers on accounting, taxation and investment issues;
- provide 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;
- provide reasonable access to internal audit staff to attend Board Audit Committee meetings and to advise on audits completed or in progress;
- provide a quality assurance role on accounting information provided by the Custodian or other sources;
- prepare the Board's administration budget in a form agreed with the Board;
- maintain comprehensive and up to date delegations.

STANDARD	OUTCOMES
<p>ComSuper undertakes to deliver:</p> <ul style="list-style-type: none"> • unqualified financial statements in respect of services provided by ComSuper under this agreement; and • the Board’s annual report within the statutory time limits; • accurate and timely calculations of crediting and exit rates based on best available (but unaudited) accounting information; • payment of the Board’s administrative expenses (including income tax) by due dates; • report on expenditure against the Board’s Budget. <p>Note: ComSuper’s role relates specifically to accounting matters. As the administrator, ComSuper relies on investment performance data provided by the Custodian or IPAC to deliver some of the services listed above.</p>	<ul style="list-style-type: none"> • ComSuper produced unqualified financial statements to the Board in an accurate and timely manner. • ComSuper delivered the Board’s 2000–01 Annual Report within the statutory time limits and expects the same for the 2001–02 Annual Report. • Exit rate calculations were given to the Board each month for the declaration of interest rates. • The Board’s administrative expenses were paid as and when they became due. • ComSuper reported on the Board’s expenditure on a monthly basis for monitoring and comparison against the Board’s Budget.

Audit activity and results

Audit Committee

During 2000–01 the Board reappointed for a further two years the accounting firm KPMG to the role of independent audit adviser. A large part of that role encompasses a mandate to assist the Board in the monitoring and review of its internal governance arrangements.

With the assistance of KPMG the Audit Committee develops at the commencement of each financial year a detailed work plan covering areas of committee interest and activity. The Committee met on four occasions during the year.

The review of internal audit activities of service providers and the finalisation of the preparation and audit of annual financial statements are traditionally areas of primary focus for the Committee each year.

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 is provided to the Board in July and December each year.

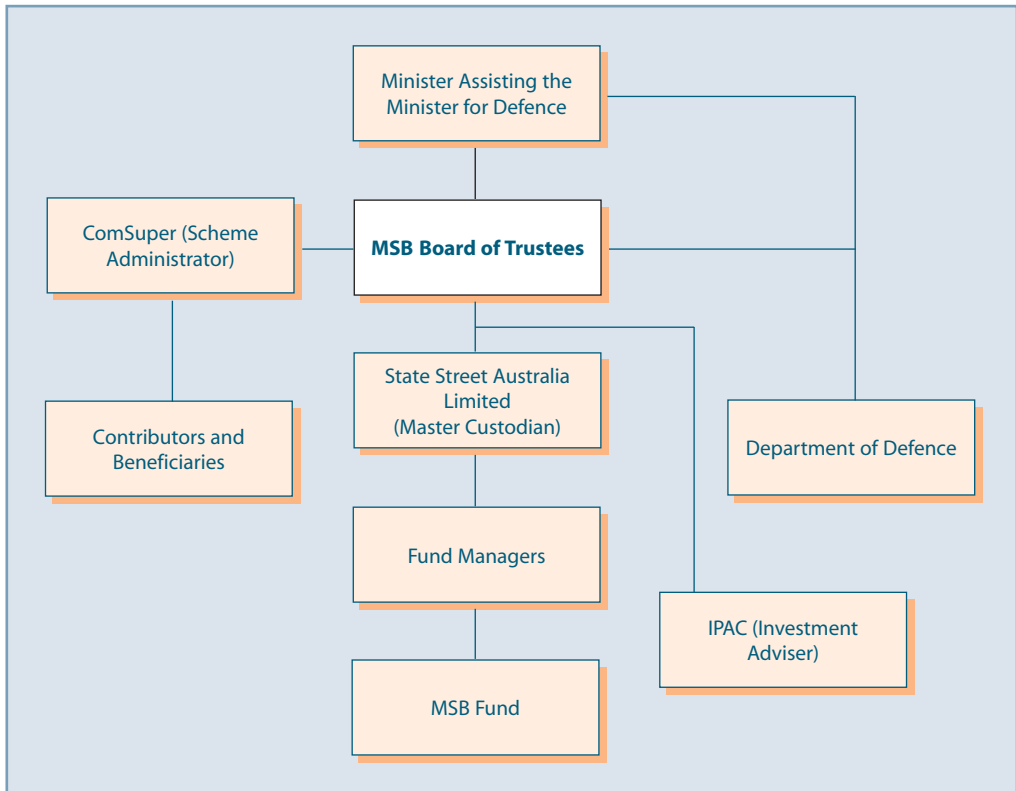
Audit of financial statements

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

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Administrative arrangements

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 2000–01 totalled \$925 141. These costs include fees paid to trustees, trustee travel costs and the cost of ComSuper secretariat and accounting staff.

In accordance with the provisions 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. All other expenses are met from moneys appropriated by Parliament to the Department of Defence.

The breakdown of administrative expenses met by the MSB Fund and the Department of Defence in respect of 2000–01 is as follows:

MSB Fund	\$765 066
Department of Defence	\$160 075
<u>Total</u>	<u>\$925 141</u>

Appendix 1: MSBS in brief

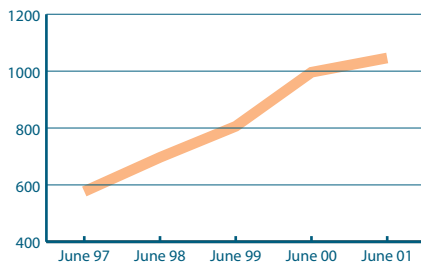
Investment

EFFECTIVE ASSET ALLOCATION Sector	30 June 2000		30 June 2001	
	\$m	%	\$m	%
Cash	46.7	4.7	10.6	1.0
Australian fixed interest	101.5	10.2	88.5	8.4
International fixed interest	39.9	4.0	33.1	3.1
Australian property securities	86.5	8.7	57.9	5.5
Direct property	5.4	0.5	–	–
Australian shares	373.2	37.5	413.0	39.2
Private equity	1.8	0.2	18.3	1.7
International shares ¹	341.1	34.2	400.9	38.0
Global emerging markets	–	–	32.5	3.1
Total under management	996.1	100.0	1 054.8	100.0

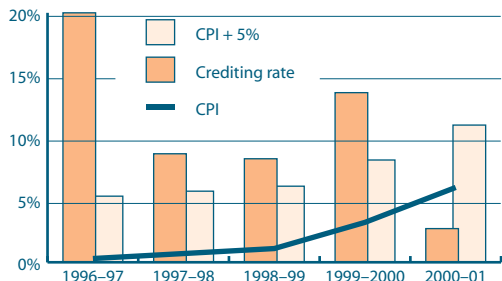
INVESTMENT PERFORMANCE ² Sector	1999–2000		2000–01	
	Fund %	Benchmark %	Fund %	Benchmark %
Cash	5.2	5.6	5.6	6.1
Australian fixed interest ³	6.1	6.2	7.3	7.4
International fixed interest	4.3	4.9	9.5	9.0
Australian property securities	12.2	12.1	14.8	13.9
Direct property	12.3	9.8	–	–
Australian shares	14.7	15.1	10.7	9.1
Private equity	–	–	n/a	n/a
International shares	31.1	23.8	–3.0	–6.1
Global emerging markets	–	–	–26.4	–12.5
Total	13.6	12.9⁴	2.0	0.9

	1999–2000	2000–01
Annual crediting rate ⁵	13.6%	2.7%
Annual inflation rate	3.2%	6.0%

Fund growth since 1996–97



Crediting rates since 1996–97



- Notes:
- 1 International shares shown here include currency and options overlays.
 - 2 Asset allocation figures are as reported by the portfolio manager.
 - 3 Performance figures are after tax and fees related to investment activity.
 - 4 The figure shown is the industry average, using the InTech Survey of Growth Pooled Superannuation Funds.
 - 5 The crediting rate is derived after allowance for all non-investment related fees and expenses and can differ from the investment return.

Membership

Contributors at 30 June	2000	2001	Increase (decrease)
Males	32 655	33 391	736
Females	6 174	6 122	(52)
Total	38 829	39 513	684
Total member contributions	\$83 129 000	\$134 618 000	\$51 489 000
Contributor exits			
Age retirement	89	103	14
Resignation	4 084	4 891	807
Redundancy	29	171	142
Invalidity	697	623	(74)
Death	12	10	(2)
Other	294	150	(144)
Total	5 205	5 948	743
Pensions in force			
Age retirement	465	474	5
Redundancy	1 748	1 877	114
Invalidity	1 436	1 724	275
Preserved > age 55	66	82	15
Spouses and orphans	62	40	(22)
Total	3 777	4 197	420
Pensions paid	\$47.4m	\$55.2m	\$7.8m
Average pension	\$12 554	\$13 145	\$695
Preserved benefits at 30 June 2001			
	Number	Value	
Member benefit	11 227	\$92.4m	
Employer benefit	40 038	\$1 408.8m	

Appendix 2: Financial statements

Auditor-General's report	66
Statement by the Trustee	69
Financial statements for the MSB Fund	70
Actuarial report	86



Independent Audit Report

To the Minister assisting the Minister for Defence.

(A) Financial Statements

Scope

I have audited the financial statements of the Military Superannuation and Benefits Scheme (MSBS) which includes the Military Superannuation and Benefits Fund No 1 (the Fund), for the year ended 30 June 2001. The financial statements comprise:

- Statement of Changes in Net Assets
- Statement of Net Assets
- Notes to and forming part of the Financial Statements; and
- Statement by the Trustees.

The Military Superannuation and Benefits Board of Trustees No 1 (the Trustee) is responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you.

The audit has been in accordance with Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit 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 as to whether, in all material respects, the financial statements are presented fairly in accordance with Australian Accounting Standards, other mandatory professional requirements and statutory requirements in Australia so as to present a view of the MSBS and the Fund which is consistent with my understanding of its net assets and changes in net assets.

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

GPO Box 707 CANBERRA ACT 2601
Centenary House 19 National Circuit
BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Audit Opinion

In my opinion:

- (i) the statements are in the form agreed by the Minister assisting the Minister for Defence and the Military Superannuation and Benefits Board of Trustees No. 1 in accordance with sub-section 26(1) of the *Military Superannuation and Benefits Act 1991*.
- (ii) the statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the changes in net assets of the MSBS for the year ended 30 June 2001 and the net assets of the MSBS at that date;

(B) SIS Compliance**Scope**

I have conducted tests in accordance with Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards, as necessary to provide reasonable assurance whether the MSBS Fund has complied, in all material respects with:

- (a) 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, 69-85, 86-93A, 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) adhered to the Guidelines for preparing risk management statements (“Guidelines”) issued by APRA in Circular II.D.7 on Derivatives (to the extent applicable)

for the year ended 30 June 2001.

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

My procedures with respect to regulation 6.17 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 the regulations. These procedures did not include testing of the calculation of the preserved and restricted non-preserved amounts.

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 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 and Guidelines apart from those specified. The Fund's trustee is responsible for ensuring compliance with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations and Guidelines.

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

Opinion

The MSBS Fund, in all material respects, has complied with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations specified above for the year ended 30 June 2001.

Australian National Audit Office



David C. McKean
Executive Director

Delegate of the Auditor-General
Canberra

21 September 2001

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 net assets of the Scheme at 30 June 2001 and the changes in net assets of the Scheme for the year ended 30 June 2001;
- (b) 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;
- (c) 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
- (d) the operations of the Fund have been conducted in accordance with the Trust Deed and the *Military Superannuation and Benefits Act 1991*.

Signed at Canberra this 17th day of September 2001 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 2001

	Note	2001 \$'000	2000 \$'000
Net Assets Available to Pay Benefits at 1 July		972,757	806,113
Add:			
Revenue from Ordinary Activities			
Net Investment Revenue			
Interest		11,627	13,638
Dividends		25,533	22,232
Other Investment Income		340	(1,283)
Changes in Net Market Values	3	(16,535)	89,707
Less: Direct Investment Expenses		(5,502)	(4,548)
		15,463	119,746
Contributions Revenue			
Employee Contributions	4a	86,742	83,129
Employer Contributions	4a	47,877	45,010
Appropriation from CRF	4b	108,308	114,725
		242,927	242,864
Total Revenue from Ordinary Activities		258,390	362,610
Less:			
Expenses from Ordinary Activities			
General Administration Expenses	1j, 4c	(765)	(552)
Benefits Paid	4b	(180,452)	(183,462)
Total Expenses from Ordinary Activities		(181,217)	(184,014)
Total Revenue less Expenses and Benefits Paid Before Tax		77,173	178,596
Income Tax Expense	5	(3,594)	(11,952)
Total Revenue less Expenses and Benefits Paid After Tax		73,579	166,644
Net Assets Available to Pay Benefits at 30 June		1,046,336	972,757

The attached notes form part of these financial statements.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

**STATEMENT OF NET ASSETS
AS AT 30 JUNE 2001**

	Note	2001 \$'000	2000 \$'000
Investments			
Cash and Short Term Deposits		39,402	68,287
Australian Fixed Interest		91,626	98,118
Overseas Fixed Interest		28,555	38,236
Australian Equities		399,247	365,723
Overseas Equities		419,287	328,899
Property Trusts		57,864	91,884
Currency Contracts		(5,871)	1,658
Other Investments		18,528	176
Total Investments		<u>1,048,638</u>	<u>992,981</u>
Other Assets			
Cash at Bank		1,983	1,705
CRF Special Account		2,285	1,148
Interest Receivable		2,341	2,897
Dividends Receivable		7,007	3,232
Trade Settlements Receivable		4,313	7,346
GST Recoverable		189	0
Sundry Debtors		279	477
Benefits Payable to be funded by Appropriation		2,547	3,974
Deferred Tax Assets		755	846
Total Other Assets		<u>21,699</u>	<u>21,625</u>
Total Assets		<u>1,070,337</u>	<u>1,014,606</u>
Less: Liabilities			
Benefits Payable		6,034	8,131
Trade Settlements Payable		7,557	10,898
Sundry Creditors	6	1,004	837
Current Tax Liability		4,212	6,733
Deferred Tax Liability		5,194	15,250
Total Liabilities		<u>24,001</u>	<u>41,849</u>
Net Assets Available to Pay Benefits		<u>1,046,336</u>	<u>972,757</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 2001

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 subsection 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.

As a result of applying the revised Accounting Standard AAS 1 Statement of Financial Performance, AAS 37 Financial Report Presentation and Disclosures and AAS 36 Statement of Financial Position for the first time, a number of comparative amounts were represented or reclassified to ensure comparability with the current 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 MSB Fund 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.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

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

- (vi) Overseas Investments—overseas 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.

(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 Fund'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 Fund. Derivatives are not used for speculation in any of these markets or for gearing the portfolios.

(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 future tax benefit 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 income tax or future income tax benefit 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.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)

(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 Fund'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 Fund 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) Fund Management Expenses

Costs of the Military Superannuation and Benefits Board of Trustees which are related to its responsibilities for the management of the MSB Fund and the investment of its moneys are a charge against the Fund. All other costs incurred by the Board of Trustees are paid from moneys appropriated to the Department of Defence by Parliament.

(k) Comparative Information

The presentation of comparative information has changed from that shown in the previous year's financial statements so as to conform with the current year's format.

(l) Goods and Services Tax (GST)

Where applicable, GST incurred by the Fund 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.

(m) 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 2001

2. NATURE OF THE FUND

(a) The Military Superannuation and Benefits Scheme is a defined benefits scheme which provides benefits to its members under the *Military Superannuation and Benefits Act 1991*.

(b) Member and Employee Numbers:

	2001	2000
Number of Members		
Contributors	39,513	38,829
Deferred Beneficiaries / Preservers	41,029	36,535
Pensioners	4,164	<u>3,777</u>
Total Number of Members	84,706	<u>79,141</u>
Number of Employees*	0	<u>0</u>

*Refer to Note 4(c) regarding administrative support provided to the Board by the Commissioner for Superannuation and the staff of ComSuper.

3. CHANGES IN NET MARKET VALUES

	2001	2000
	\$'000	\$'000
(a) Investments Held at 30 June		
Australian Fixed Interest	(121)	(1,472)
Overseas Fixed Interest	1,206	1,150
Australian Equities	32,272	35,709
Overseas Equities	(13,958)	47,097
Property Trusts	2,751	2,777
Currency Contracts	(5,849)	1,728
Other Investments	70	48
	16,371	<u>87,037</u>
(b) Investments Realised During the Year		
Australian Fixed Interest	101	(359)
Overseas Fixed Interest	673	(455)
Australian Equities	(6,029)	2,153
Overseas Equities	(46,301)	12,131
Property Trusts	1,345	952
Currency Contracts	16,982	(7,552)
Other Investments	323	(4,200)
	(32,906)	<u>2,670</u>
(c) Total Change in Net Market Values of Investments	(16,535)	<u>89,707</u>

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

3. CHANGES IN NET MARKET VALUES (Cont.)

The net gain on foreign currency contracts for the year was \$11.1m (2000 \$5.8m loss). This amount is the net of the realised and unrealised gains and losses on foreign currency contracts identified above. This does not include gains and losses on foreign currency transactions that may have occurred in the pooled trust investments.

4. FUNDING ARRANGEMENTS

(a) Contributions

Members contribute to the Scheme at optional rates ranging from a minimum of 5 per cent to a maximum of 10 per cent of salary paid to the member and the Department of Defence contributes employer superannuation contributions to the MSB Fund at the rate of 3 per cent of salary paid to the member.

The net assets available to pay benefits, as shown in the Statement of Net Assets at 30 June 2001 is equivalent to the accumulated employee and employer contributions held in the MSB Fund as at 30 June 2001.

(b) Benefits

MSBS Benefits are made up of a funded component (member and productivity contributions held in the MSB Fund) and an unfunded component (the pension or lump sum paid by the Commonwealth at the time a member retires from the workforce).

In general, when an MSBS benefit becomes payable, the total benefit becomes payable from the Consolidated Revenue Fund and the funded component held in the MSB Fund is transferred to the Consolidated Revenue Fund.

Benefits payable to members by the Commonwealth as at 30 June 2001 totalled \$2.5m (2000 \$4.0m). Benefits payable by the MSB Fund (i.e. amounts to be transferred to the Consolidated Revenue Fund), totalled \$3.5m at 30 June 2001 (2000 \$4.2m).

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

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

The following provides a breakdown of benefits paid by both the MSB Fund and the Commonwealth:

	2001	2000
	\$'000	\$'000
Gross Appropriation from CRF	164,331	165,701
Less: Transfers from Fund to CRF	(56,023)	(50,976)
Net Appropriation	<u>108,308</u>	<u>114,725</u>
MSB Fund		
Lump-sum Benefits	<u>16,121</u>	<u>17,761</u>
Consolidated Revenue Fund		
Lump-sum Benefits	109,012	118,284
Pensions	<u>55,319</u>	<u>47,417</u>
	<u>164,331</u>	<u>165,701</u>
Total Benefits Paid	<u>180,452</u>	<u>183,462</u>

(c) Costs of Administration

The *Military Superannuation and Benefits Act 1991* requires the Commissioner for Superannuation to provide administrative support to the Military Superannuation and Benefits Board of Trustees to enable the Board to perform its functions under the Act. Under the provisions of the Act, 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. Accordingly, all other expenses of the Board, the Commissioner for Superannuation and the staff of ComSuper who assist the Commissioner for Superannuation in the administration of the *Military Superannuation and Benefits Act 1991* and Rules are met from moneys paid to ComSuper by the Department of Defence. Transactions in respect of the receipt of these moneys and the costs of administration have been brought to account in the financial statements of the Commissioner for Superannuation.

5. INCOME TAX EXPENSE

The taxation liability at 30 June 2001 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.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

5. INCOME TAX EXPENSE (Cont.)

The difference is reconciled as follows

	2001	2000
	\$'000	\$'000
Prima facie income tax expense on		
Total Revenue less Expenses and Benefits Paid before Income Tax	77,173	178,596
Prima Facie Income Tax Expense Calculated at 15%	11,576	26,789
Add/(Less) Permanent Differences		
Employee contributions	(13,011)	(12,469)
Benefits Paid	10,822	10,311
Difference between accounting and tax gains	(559)	(8,229)
Tax Deferred Distributions	(812)	(592)
Less:		
Imputation and Foreign Tax Credits	(4,430)	(3,721)
Under/(Over) Provision in Prior Years	8	(137)
Income Tax Expense	<u>3,594</u>	<u>11,952</u>
Income Tax Expense comprises:		
Income Tax Payable Current Year	2,330	6,174
Amount Paid during 2000–01	11,165	5,533
Movement in Deferred Income Tax Provisions	(9,909)	382
Under/(Over) Provision in Prior Year	8	(137)
	<u>3,594</u>	<u>11,952</u>

Income tax paid during the year amounted to \$15,521,544 (2000: \$11,760,400).

6. SUNDRY CREDITORS

	2001	2000
	\$'000	\$'000
Investment Expenses Payable	504	422
Contributions In Advance	356	286
Audit Fees	21	17
Accrued Expenses	96	41
Surcharge payable to the Australian Tax Office	27	71
	<u>1,004</u>	<u>837</u>

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

7. 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 which 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.

State Street Australia Limited 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 receipt of 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.

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

	Notional Principal Amounts		Net Market Value	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Futures	8,470	5,692	70	48
Currency Contracts	(176,825)	(170,114)	(5,871)	1,662
Total	(168,355)	(164,422)	(5,801)	1,710

(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 \$16.4m (2000: \$7.0m).

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

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

7. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)**(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 2001 was as follows:

	Floating Interest Rate \$'000	Fixed Interest Rate			Non- Interest Bearing \$'000	Total \$'000
		1 Year or Less \$'000	1–5 Years \$'000	Over 5 Years \$'000		
30 June 2001						
Assets						
Cash & Short Term Deposits	39,402					39,402
Australian Fixed Interest		10,463	44,924	36,239		91,626
Overseas Fixed Interest			8,608	19,947		28,555
Australian Equities			257		398,990	399,247
Overseas Equities					419,287	419,287
Property Trusts					57,864	57,864
Currency Contracts					(5,871)	(5,871)
Other Investments					18,528	18,528
Other Assets	1,983				18,961	20,944
Deferred Tax Assets					755	755
Liabilities						
Trade Settlements Payable					(7,557)	(7,557)
Accrued Expenses					(96)	(96)
Sundry Creditors					(908)	(908)
Benefits Payable					(6,034)	(6,034)
Current Tax Liability					(4,212)	(4,212)
Deferred Tax Liability					(5,194)	(5,194)
Total	41,385	10,463	53,789	56,186	884,513	1,046,336
Weighted Average Interest Rate	5.32%	5.15%	5.62%	5.40%		

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

7. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)**(c) Interest Rate Risk (Cont.)**

	Floating Interest Rate \$'000	Fixed Interest Rate			Non- Interest Bearing \$'000	Total \$'000
		1 Year or Less \$'000	1–5 Years \$'000	Over 5 Years \$'000		
30 June 2000						
Assets						
Cash & Short Term Deposits	68,287					68,287
Australian Fixed Interest		3,648	50,716	43,754		98,118
Overseas Fixed Interest		1,514	13,238	23,484		38,236
Australian Equities				308	365,415	365,723
Overseas Equities					328,899	328,899
Property Trusts					91,884	91,884
Currency Contracts					1,658	1,658
Other Investments					176	176
Other Assets	1,705				19,074	20,779
Deferred Tax Assets					846	846
Liabilities						
Trade Settlements Payable					(10,898)	(10,898)
Accrued Expenses					(58)	(58)
Sundry Creditors					(779)	(779)
Benefits Payable					(8,131)	(8,131)
Current Tax Liability					(6,733)	(6,733)
Deferred Tax Liability					(15,250)	(15,250)
Total	69,992	5,162	63,954	67,546	766,103	972,757
Weighted Average Interest Rate	5.12%	5.44%	6.12%	5.96%		

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

7. 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
30 June 2001						
Gross investment amounts denominated in foreign currency	221,970	33,632	37,610	42,222	17,506	352,940
Amount effectively hedged	(96,200)	(20,822)	(20,239)	(37,870)	(1,694)	(176,825)
Net Exposure	125,770	12,810	17,371	4,352	15,812	176,115
	USA A\$'000	JPY A\$'000	GBP A\$'000	EUR A\$'000	Other A\$'000	Total A\$'000
30 June 2000						
Gross investment amounts denominated in foreign currency	231,226	49,375	25,147	52,108	22,194	380,050
Amount effectively hedged	(93,874)	(26,858)	(12,726)	(34,894)	(1,762)	(170,114)
Net Exposure	137,352	22,517	12,421	17,214	20,432	209,936

(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.

8. 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:

	2001 \$m	2000 \$m
Funded	1,050	968
Unfunded	5,116	4,500
Total Vested Benefits	6,166	5,468

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 2001 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.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

9. 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 1999–2000. An extract of the Australian Government Actuary's report is attached.

Accrued Benefits as at 30 June 1999 were:

	1999	1996
	\$b	\$b
Funded component	0.8	0.4
Unfunded component	<u>4.2</u>	<u>3.2</u>
	<u>5.0</u>	<u>3.6</u>

The liability for accrued benefits will be updated following the next comprehensive actuarial review which is scheduled for 2002–03 using data as at 30 June 2002.

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

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

Mr C .P .H. Kiefel (Chairman)
 Dr M. J. Sharpe, AO
 Brigadier R. C. Brown
 Warrant Officer R. C. Swanwick
 Mr P. D. Gourley (resigned 13 September 2000)
 Mr P. J. Charley (appointed 14 September 2000)
 Ms L. C. Turner (alternate for Mr Charley appointed 14 September 2000, resigned 12 December 2000)
 Warrant Officer P. D. Alomes (alternate for WO R. C. Swanwick, resigned 9 January 2001)
 Warrant Officer M. E. Doncaster (replaced WO Alomes as alternate for WO Swanwick, appointed 18 January 2001)
 Group Captain L. Roberts (alternate for Brig. R. C. Brown).

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

10. RELATED PARTIES (Cont.)

(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 2000–01 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 \$119,869 (2000: \$112,886).

11. AUDITORS REMUNERATION

The amount paid and payable in respect of external audit services is \$27,000 exclusive of GST (2000: \$25,000).

12. 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.

13. CONTINGENT LIABILITIES

(a) *Capital Commitments*

At 30 June the Fund had outstanding investment capital commitments of \$67.0m (2000: \$22.0m). These commitments relate to private equity investment funds managed by Deutsche Bank, Credit Suisse First Boston, Gresham Private Equity and Macquarie Specialised Asset Management.

(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.

The Board of Trustees is not aware of any other potential contingent liabilities.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

14. 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).

The Board of Trustees has received, from the ATO, surcharge assessments in respect of surchargeable superannuation contributions for the 2000–01 period.

A summary of transactions follows:

	2001	2000
	\$'000	\$'000
Total Surcharge Liability Outstanding at start of year	5,282	1,797
Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year	<u>3,370</u>	<u>3,706</u>
	8,652	5,503
Less: Amount paid by members	(309)	(371)
Less: Amounts deducted from members' benefit payments	<u>(214)</u>	<u>(27)</u>
	8,129	5,105
Plus: Interest applied to outstanding surcharge liability at 30 June 2001	<u>335</u>	<u>177</u>
Total surcharge liability outstanding at end of year	<u>8,464</u>	<u>5,282</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 \$8.5m does not include assessments in respect of 2000–01 which have not yet been calculated by the ATO.



21 August, 2000

MILITARY SUPERANNUATION AND BENEFITS SCHEME SUMMARY OF THE 1999 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 1999 by the Australian Government Actuary. This report was presented to Parliament in June 2000.
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. 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 45 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 1999 was satisfactory.
4. The value of assets of the MSBS as at 30 June 1999 reported in the audited financial statements of the fund was \$806 million.
5. Vested benefits of the MSBS were not calculated as part of the Long Term Cost Report as at 30 June 1999, but were calculated separately. They amounted to \$4,880 million as at 30 June 1999.

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 1999 and elected the option which is most costly to the scheme. The likelihood of such an occurrence is extremely remote. The value quoted does not in any way represent the scheme's liability under circumstances which have any reasonable possibility of arising.

6. The value of Accrued Benefits for the MSBS as at 30 June 1999 was \$5.0 billion. This comprised \$4.2 billion in unfunded Accrued Benefits and \$0.8 billion in funded Accrued Benefits. The value of Accrued Benefits is the present value of the proportion of projected future benefit payments that had accrued in respect of membership of the MSBS to 30 June 1999.
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
(4.0% in the 1996 review)
 - Investment earnings rate: 3.5% per annum real (net of tax and investment expenses)
(unchanged from the 1996 review)
 - Inflationary salary increases: 1.5% per annum real
(unchanged from the 1996 review)
 - Promotional salary increases: a scale based on age and length of service was used
(unchanged from the 1996 review)



K. E. Deeves
Fellow of the Institute of Actuaries of Australia
Australian Government Actuary

Appendix 3: Fund managers

Barclays Global Investors Australia Limited

Level 1
111 Harrington Street
Sydney NSW 2000

Colonial First State Investment Managers (Australia) Limited

Level 29
52 Martin Place
Sydney NSW 2000

Credit Suisse Asset Management (Australia)

Level 32, Gateway
1 Macquarie Place
Sydney NSW 2000

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

Dresdner RCM Global Investors Australia Limited

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

Gresham Private Equity Limited

Level 6, 175 Macquarie Street
Sydney NSW 2000

Jardine Fleming Capital Partners Limited

Level 23
600 Bourke Street
Melbourne Vic. 3000

Macquarie Specialised Asset Management Limited

1 Martin Place
Sydney NSW 2000

Nicholas-Applegate Capital Management

600 West Broadway
San Diego CA 92101
USA

State Street Australia Limited

Global Investor Services Group
State Street Centre
Level 18
338 Pitt Street
Sydney NSW 2000

Wellington International Management Company Pte Limited

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

Wellington Management Company, LLP

75 State Street
Boston MA 02109
USA

Westpac Investment Management Pty Limited

Level 36
60 Margaret Street
Sydney NSW 2000

Appendix 4: Glossary

active management	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.
ADF	Australian Defence Force
AD(JR) Act	<i>Administrative Decisions (Judicial Review) Act 1977</i>
APRA	Australian Prudential Regulation Authority
CDF	Chief of the Defence Force
CFM	Commonwealth Funds Management Limited
ComSuper	Commonwealth Superannuation Administration
core management	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
CPI	Consumer Price index
defensive assets	assets (such as cash and bonds) that are not very susceptible to market fluctuations
derivatives	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
direct property	property that is purchased by an investor to be held by that investor (see also <i>indirect property</i>)
DFRDB	Defence Force Retirement and Death Benefits
growth assets	assets (such as shares and property) that are very responsive to market fluctuations.
ICC	Incapacity Classification Committee
indirect property	an investment in property made by purchasing units in a property trust, or shares in a property company
IVR	Interactive Voice Response telephone system
LWOP	leave without pay
MSB	Military Superannuation and Benefits
MSBS	Military Superannuation and Benefits Scheme
MSCAG	The Military Superannuation Communication Advisory Group
passive	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
RC	Reconsideration Committee
SCT	Superannuation Complaints Tribunal
SIS	<i>Superannuation Industry (Supervision) Act 1993</i>
SRC Act	<i>Superannuation (Resolution of Complaints) Act 1993</i>
surcharge	the <i>Superannuation Contributions Tax (Assessment and Collection) Act 1997</i> , a tax on employer financed superannuation contributions

Appendix 5: Publications

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

Military Super: The MSBS 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

Provisions for LWOP

Rejoining the ADF

Superannuation Contributions Surcharge and

Taxation of Benefits

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

All of these publications can be obtained from members' Pay Offices; from National Mailing and Marketing on telephone (02) 6299 5193 or facsimile (02) 6299 6040; or from ComSuper's Internet site (www.comsuper.gov.au).

Appendix 6: Service charters

In the first half of 2000, revised service charters for MSBS contributors and preserved benefit members for 2000–02 were prepared by ComSuper and copies made available to members of the Scheme, in accordance with Government policy.

Members were made aware of the availability of these revised charters by an advice included with their annual member statement. The charters are also available from ComSuper's website (www.comsuper.gov.au).

At year's end new service charters were in the final stages of preparation.

The Board's communications committee (MSCAG) has endorsed these charters. The following extracts list the principal standards contained within the charters relevant to the year under report, with references to areas of the report where performance related data can be found.

The service MSBS contributors can expect

- Should a member phone our information service between 9.00 am and 5.00 pm, Eastern Time, Monday to Friday (excluding public holidays),
 - normally the call will be answered within 45 seconds (see page 27);
 - if the member asks for a benefit estimate, we will, where possible, provide that information at the time of the call (see page 27).
- In response to a member request for a benefit estimate, we will send the information requested usually within 10 working days of receiving the letter (see page 27).
- Letters about any other matter will be answered as soon as possible, usually within 10 working days of receipt (see page 27).
- Subject to the employer supplying us with correct, regular and timely information, we will maintain member records accurately and in a current state (see page 21).
- Annual member statements, setting out equity in the Scheme as at 30 June, will be sent before 10 October each year. Where

statements have to be produced manually, we will send a statement before 15 December (see page 27).

- In processing claims for a superannuation benefit,
 - we will pay the lump sum as soon as possible, usually within 5 working days of receiving all the necessary information (see page 31);
 - we will pay the pension on the next available pension payday after receiving all the necessary information (see page 31).
- In processing claims for an invalidity benefit,
 - we will assess the claim as soon as possible, usually within 10 working days of receiving all the necessary information (see page 34);
 - we will pay the pension on the next available pension payday after the claim is assessed (see page 34).
- If we are informed of a member's death,
 - we will send an application form and a benefit estimate to the member's spouse within 24 hours. If there is no spouse, but there is an eligible child or children, we will send an application form and benefit estimate to the guardian of the child or children. If needed, we will help in completing the form (see page 31);
 - when we receive a correctly completed application form and an entitlement to a benefit is clearly established, we will arrange for the benefit to be paid—in the case of a lump sum, within 10 working days and, in the case of a pension, on the next available pension payday (see page 31);
 - if entitlement to receive a benefit is not automatic, we will write within 5 days of receiving an application form and advise what needs to be done (see page 31);
 - if there is no spouse or children eligible for benefits, we will pay the benefit to the member's estate within 10 working days of receiving all necessary information (see page 31).

The service MSBS preserved benefit members can expect

- Should a preserved benefit member phone our information service between 9.00 am and 5.00 pm, Eastern Time, Monday to Friday (excluding public holidays),
 - normally the call will be answered within 45 seconds (see page 27);
 - if the member asks for a benefit estimate, we will, where possible, provide that information at the time of the call (see page 27).

- In response to a member request for a benefit estimate, we will send the information requested usually within 10 working days of receiving the letter (see page 27).
- Letters about any other matter will be answered as soon as possible, usually within 10 working days of receipt (see page 27).
- Annual member statements, setting out equity in the Scheme as at 30 June, will be sent before 10 October each year. Where statements have to be produced manually, we will send a statement before 15 December (see page 27).
- In processing claims for a preserved superannuation benefit from a member retiring permanently from the workforce on or after reaching preservation age,
 - we will pay the lump sum as soon as possible, usually within 5 working days of receiving all the necessary information (see pages 39–40);
 - we will pay the pension on the next available pension payday after receiving all the necessary information (see pages 39–40).
- If a member claims an early release of a preserved benefit on hardship or compassionate grounds before reaching preservation age and before permanently exiting the workforce, we will pay the benefit as soon as possible, usually within 5 working days of receiving all the necessary information, including, where appropriate, approval from the Australian Prudential Regulation Authority (APRA) (see pages 39–40).
- In processing a claim for an early release of a preserved benefit on the grounds of total and permanent incapacity (i.e. invalidity),
 - we will pay the lump sum as soon as possible, usually within 5 working days of a determination being made that the member is totally and permanently incapacitated (see pages 39–40);
 - we will pay the pension on the next available pension payday after a determination is made (see pages 39–40).
- If we are informed of a preserved benefit member's death,
 - we will send an application form and a benefit estimate to the member's spouse within 24 hours. If there is no spouse, but there is an eligible child or children, we will send an application form and benefit estimate to the guardian of the child or children. If needed, we will help in completing the form (see pages 39–40);

- when we receive a correctly completed application form and an entitlement to a benefit is clearly established, we will arrange for the benefit to be paid—in the case of a lump sum, within 10 working days and, in the case of a pension, on the next available pension payday (see pages 39–40);
- if entitlement to receive a benefit is not automatic, we will write within 5 days of receiving an application form and advise what needs to be done (see pages 39–40);
- if there is no spouse or children eligible for benefits, we will pay the benefit to the member’s estate within 10 working days of receiving all necessary information (see pages 39–40).

The service MSBS pensioners can expect

- Should a pensioner call our information service between 9.00 am and 5.00 pm Eastern Time, Monday to Friday (excluding public holidays), normally, the call will be answered within 30 seconds. However, at times, particularly during the months of July, August and September, demand for our services is high following the mailing of annual pension advice letters, and we may not be able to answer the call as quickly as we would like. During these times we will attend to the inquiry as soon as possible (see page 45).
- If a pensioner asks for a variation to be made to the way the fortnightly benefit is paid, we will make the change as soon as possible, but usually by the next available pension payday. We will advise the pay day on which the change will take effect (see page 45).
- In response to a letter about any other matter,
 - if the letter requires a written reply, we will answer it as soon as possible, usually within 5 working days of receipt (see page 45);
 - if we are unable to do this because of the complexity of the inquiry, we will let the pensioner know as soon as possible, usually within 2 working days of receiving the letter (see page 45).
- If we are informed of a pensioner’s death,
 - we will send an application form to the pensioner’s spouse within 24 hours. If there is no spouse, but there is an eligible child or children, we will send an application form to the guardian of the child or children. If needed, we will help in completing the form (see page 49);

- when we receive a correctly completed application form and an entitlement to a benefit is clearly established, we will arrange for the benefit to be paid on the next available pension payday (see page 49);
 - if the spouse’s entitlement to receive a benefit is not automatic, we will contact him or her within 5 working days of receiving an application form and advise what needs to be done (see page 49).
- Annual pension advice letters, advising whether the pension has been adjusted because of an upward movement in the Consumer Price Index (CPI), will be sent usually before the first pension payday in July each year. If there is an adjustment, the increase will be paid on that pension payday (see page 49).
- Income tax group certificates will be sent together with annual pension advice letters, usually before the first pension payday in July each year (see page 49).
- We will send income tax concession information that will help pensioners determine whether they are eligible for a superannuation tax concession. The information will be sent with annual pension advice letters before the first pension payday in July each year (see page 49).

Appendix 7: Contact officer

Information 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

Postal address: ComSuper
PO Box 22
Belconnen ACT 2616

Street address: Unit 1, Cameron Offices
Chandler Street
Belconnen ACT

Telephone: (02) 6252 5893

Facsimile: (02) 6253 1116

TTY: (02) 6253 2911

Appendix 8: Legislation

Changes to the MSB Act

Defence Legislation Amendment (Enhancement of the Reserves and Modernisation) Act (No. 10, 2001) makes minor definitional changes to the MSBS to accommodate changes to the Reserve by that Act.

Changes to the MSBS Rules

Military Superannuation and Benefits Amendment Trust Deed 2000 (No. 1) expands the role of the Reconsideration Advisory Committee to include the ability to decide certain requests for reconsideration, empowers the Board to dismiss applications in certain circumstances and specifies a time limit in which an applicant may seek reconsideration. The changes also adjust the calculation of final average salary for members who retire on the ground of invalidity or die whilst in Trainee positions.

Statutory Rules

Military Superannuation and Benefits Amendment Regulations 2000 (No. 1) (No. 144, 2000) ensure that the MSB Board and Fund are subject to the Goods and Services Tax (GST) laws.

Appendix 9: Compliance

While this report is not a Departmental annual report, the Authority 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 2000–01*. Annual reporting requirements that are met in the Commissioner for Superannuation's report are indicated below by an asterisk.

Requirement	Page
Letter of transmittal	iii
Aids to access	
Table of contents	v–vi
Alphabetical index	102
Compliance index	99
Glossary	90
Corporate overview	*
Organisation chart	61
Social justice and equity	*
Internal and external scrutiny	*
Industrial democracy	*
Occupational health and safety	*
Freedom of information	57, 100
Program performance reporting	8
Staffing overview	*
Financial statements	65

Appendix 10: Freedom of information

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 2000–01*.

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 6 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 Legal Services 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 8 officers in the Legal Services 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 57 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 Veterans' Affairs Minister 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 and leaflets that describe various aspects of the superannuation schemes, and annual reports, are made available to the public free of charge upon request. They are also available free of charge via ComSuper's Internet site.

Index

A

account maintenance 21, 38, 43
 contributor 21
 pensioner 43
 preserved benefit member 38
 accounting services 58
 Administrative Agreement 16, 19, 21, 62
 administrative arrangements 61
Administrative Decisions (Judicial Review) Act 1977 (the AD(JR) Act) 54
 American Home Assurance Company 3
 Annual Effectiveness Reviews 18
 annual member statement 92
 annual pension advices 45
 Annual Report to Members 26, 29
 asset allocation 11
 audit activity and results 59
 Audit Committee 16, 58, 59, 60
 Auditor-General 60
 Australian Bureau of Statistics 50
 Australian Defence Force 1, 2, 18, 31, 33, 34
 Australian Government Actuary 24
 Australian Prudential Regulation Authority (APRA) 42, 58, 94
 Australian Taxation Office (ATO) 23, 24

B

Barclays Global Investors Australia Limited 6, 7, 8, 11, 88
 beneficiaries 61
 benefit estimate 27
 benefits 31, 32
 accounts, records and funding of payments 37
 employer-financed 33, 41, 47
 early release of 41
 invalidity 34
 payable on discharge 32
 payments 31, 39, 47
 preserved 38
 productivity 33
 reversionary 49
 Board Committees 16
 Board of Trustees 2, 16, 41, 44, 61, 62
 Business Plan 15, 91

C

CFM Property Management Limited 7
 Chairman's overview viii
 Chairperson ix, 2, 16
 Chief of the Defence Force (CDF) 2
 client feedback 19, 20
 Colonial First State Investment Managers (Australia) Limited 6, 8, 11, 88
 Commissioner for Superannuation 16
Commissioner for Superannuation Annual Report 2000–01 99, 100
 Commonwealth Superannuation Administration. See ComSuper
 communications
 contributor 26
 pensioner 44
 preserved benefit member 39
 compliance 99
 ComSuper ix, 15, 16, 19, 21, 24, 26, 34, 39, 56, 61, 62, 92, 100
 Consumer Price Index (CPI) 50, 96
 contact officer 97
 contribution remittances 24
 contributions 22, 23
 contributor composition 21, 22
 contributors 21, 23, 61, 92
 Corporate Governance and Parliamentary Liaison Unit 57, 100
 counselling and inquiry services 28, 46
 Credit Suisse Asset Management (Australia) Limited 8, 11, 88
 Credit Suisse First Boston International (Australia) Limited 8, 11, 88
 crediting rate 12
 custodial services 7

D

Defence Force Retirement and Death Benefits (DFRDB) Scheme 1, 21, 32, 44
Defence Legislation Amendment (Enhancement of the Reserves and Modernisation) Act (No. 10, 2001) 98
 delegations 16
 Department of Defence 16, 18, 21, 22, 25, 56, 61, 62, 101

Deputy Commissioner for Superannuation 18
 Deutsche Asset Management (Australia)
 Limited 8, 11, 88
 dispute resolution 51
 avenues of review 51
 inquiries and complaints 54
 internal reconsideration 51
 Dresdner RCM Global Investors Australia
 Limited 6, 8, 88

E

evaluation 18
 exit rate 13, 14
 exits 23

F

Federal Court 54
 financial resources 62
 financial statements 65
 audit of 60
 freedom of information 57
Freedom of Information Act 1982 (the FOI Act)
 55, 57, 100, 101
 Fund cash flow 25
 Fund growth 9
 fund managers 8, 17, 61, 88

G

glossary 90
 Goods and Services Tax (GST) 98
 governance 15
 Gresham Private Equity Limited 6, 8, 88
 group certificates 45

H

human resources 62
 Human Rights and Equal Opportunity
 Commission (HREOC) 55

I

Incapacity Classification Committee (ICC) 34,
 35, 51
 invalidity 35
 classification process 35
 classifications 36, 48
 retirements by classification 36
 investment 5
 management 7
 objectives 5

policy 5
 strategy 5
 Investment Policy Statement 91
 IPAC Portfolio Management Limited ix, 7, 61

J

Jardine Fleming Capital Partners Limited 6, 8,
 88

K

KPMG 17, 59, 60

L

leaflets 91
 legislation 98
 lump sum 33

M

Macquarie Specialised Asset Management
 Limited 8, 88
 member statement 27
 member statements 29
Military Superannuation and Benefits Act 1991
 (the MSB Act) iii, 1, 62, 98
Military Superannuation and Benefits
Amendment Regulations 2000 (No. 1)
 (No. 144, 2000) 98
Military Superannuation and Benefits
Amendment Trust Deed 2000 (No. 1) 98
Military Superannuation and Benefits Fund No. 1
 iii, 1, 61, 62
 Military Superannuation and Benefits Scheme
 (MSBS) 1, 21
 in brief 63
 organisational structure 61
 Military Superannuation Communication
 Advisory Group (MSCAG) 28, 92
 Minister Assisting the Minister for Defence 2,
 61, 101
 Minister for Finance and Administration 2
 Minister for Veterans' Affairs 101
 Ministerial Liaison Officer 97
 ministerials 56
 Morgan Grenfell Australia 88
 MSB Fund 1, 2, 5, 6, 10, 12, 15, 58, 62
 MSB Trust Deed 100
MSBS Book 91
 MSBS Rules 18, 33, 43, 52, 98
 Rule 17 35

N

National Mailing and Marketing 91
Nicholas-Applegate Capital Management 7, 8, 88
Notional Surchargeable Contributions Factors 24

O

Ombudsman 55, 56
Orima Research 19, 20

P

Parliamentarians 55
pension increase 49
pensioners 43, 95
 annual notice to 50
preserved benefit members 38, 93
publications 91

Q

Quality Service Index (QSI) 19

R

Reconsideration Advisory Committee (RAC) 18, 52, 98
Reconsideration Committee (RC) 18, 51, 52
 reconsideration of decisions 52
Regular Defence Force Welfare Association 101
Retired Member Information Service 45, 46
review of invalidity classifications 48

S

service charters 92
SIS. See *Superannuation Industry (Supervision) Act 1993* (the SIS Act)
SIS compliance 60
SIS Compliance Officer 60
State Street Australia Limited 7, 8, 11, 61, 89
Statutory Rules 98
Super Member Home Loans 6
Superannuation (Resolution of Complaints) Act 1993 (the SRC Act) 54
Superannuation Complaints Tribunal (SCT) 51, 54
Superannuation Industry (Supervision) Act 1993 (the SIS Act) 15, 29, 53, 54, 60
surcharge 23
Surcharge Contributions Tax (Assessment and Collection) Act 1997 23

T

telephone inquiries 27, 45

W

website 29
Wellington International Management Company Pte Limited 89
Wellington Management Company, LLP 8, 11, 89
Westpac Investment Management Pty Limited 8, 11, 89
written inquiries 27