



The

**MSB BOARD**  
Military Superannuation and Benefits Scheme

Annual Report  
1996 - 97

**The Military Superannuation  
and Benefits Board of  
Trustees No. 1**

Annual Report  
1996–97

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Note: All contribution, benefit, membership and exit statistics are based on events related to the annual reporting period as reflected in the records of the Commissioner for Superannuation at the time these statistics were compiled. Where historical statistics are quoted, these may vary from previously published statistics due to the application of retrospective adjustments that are now reflected in this report. This is particularly the case for exit and benefit figures, where there is a time lapse between a member's exit and benefit payment.

10 October 1997

The Hon. Bronwyn Bishop, MP  
Minister for Defence Industry, Science and Personnel  
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 1997, together with financial statements in respect of the management of the Military Superannuation and Benefits Fund No. 1 during 1996–97, and the Auditor-General's report in respect of those statements.

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

Yours sincerely

Charles Kiefel  
Chairman  
MSB Board of Trustees No. 1

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# MSBS in brief

## Investment

<b>ACTUAL ASSET ALLOCATION</b>		<b>1995–96</b>		<b>1996–97</b>	
<b>Sector</b>	<b>\$M</b>	<b>%</b>	<b>\$M</b>	<b>%</b>	<b>%</b>
Australian shares	107.5	26.5	211.5	36.4	
International shares	64.5	15.9	143.8	24.8	
Property securities	8.7	2.1	61.4	10.6	
Direct property	5.5	1.4	5.4	0.9	
Australian fixed-interest <sup>1</sup>	114.5	28.2	74.8	12.9	
International fixed-interest	7.0	1.7	22.3	3.9	
Cash	98.4	24.2	61.0	10.5	
<b>Total under management<sup>2</sup></b>	<b>406.1</b>	<b>100</b>	<b>580.2</b>	<b>100</b>	

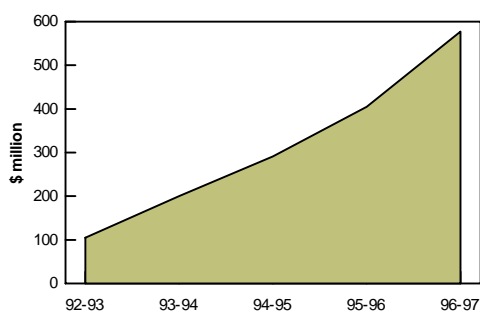
  

<b>INVESTMENT PERFORMANCE<sup>3</sup></b>		<b>1995–96</b>		<b>1996–97</b>	
<b>Sector</b>	<b>Fund %</b>	<b>Benchmark %</b>	<b>Fund %</b>	<b>Benchmark %</b>	<b>%</b>
Australian shares	15.8	15.8	27.8	26.6	
International shares	10.0	6.7	31.4	28.6	
Property securities	3.3	3.6	27.7	28.5	
Direct property	5.9	6.8	3.3	8.2	
Australian fixed-interest	15.4	14.4	15.0	16.8	
International fixed-interest	12.7	11.2	11.6	12.1	
Cash	7.9	7.8	8.8	6.8	
<b>Total</b>	<b>9.5</b>	<b>9.1</b>	<b>20.6</b>	<b>18.8<sup>4</sup></b>	

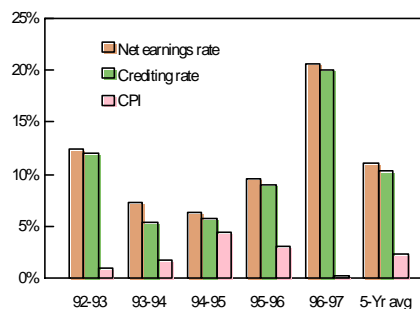
  

	<b>1995–96</b>	<b>1996–97</b>
<b>Annual crediting rate<sup>5</sup></b>	9.0%	20%
<b>Annual inflation rate</b>	3.1%	0.3%

Fund growth since 1992–93



Crediting rates since 1992–93



### NOTES

- 1 Includes Australian indexed bonds.
- 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 MSB Fund does not have a benchmark performance figure for its total investment. The figure shown is the industry average, gained using the InTech Performance Survey of Market-linked Pooled Fund, June 1997, a survey of sector specialist funds and sector components of diversified funds showing performance, risk measures and fund sizes.
- 5 The crediting rate is derived after allowance for all non-investment related fees and expenses and, therefore, differs from the investment return.

## Membership

<i>Contributors at 30 June</i>	<i>1995–96</i>	<i>1996–97</i>	<i>Increase (decrease)</i>
Males	31 582	31 466	(0.4%)
Females	6 773	6 778	0.1%
<b>Total</b>	<b>38 355</b>	<b>38 244</b>	<b>(0.3%)</b>
<b>Total member contributions</b>	<b>\$77 526 715</b>	<b>\$80 714 424</b>	<b>4.1%</b>
<b>Contributor exits</b>			
Age retirement	84	80	(4.8%)
Resignation	4 808	4 065	(15.5%)
Redundancy	1	4	300%
Invalidity	435	366	(15.9%)
Death	17	19	11.8%
Other	251	267	6.4%
<b>Total</b>	<b>5 596</b>	<b>4 801</b>	<b>(14.2%)</b>
<b>Pensions in force</b>			
Age retirement	296	349	17.9%
Redundancy	1 621	1 609	(0.7%)
Invalidity	664	830	25.0%
Preserved > age 55	32	54	68.8%
Spouses & orphans	20	26	30.0%
<b>Total</b>	<b>2 633</b>	<b>2 868</b>	<b>8.9%</b>
<b>Pensions paid</b>	<b>\$26.5m</b>	<b>\$30.4m</b>	<b>14.7%</b>
<b>Average pension</b>	<b>\$10 066</b>	<b>\$10 614</b>	<b>5.4%</b>
<b>Preserved benefits at 30 June 1997</b>			
	<b>Number</b>	<b>Value</b>	
Member benefit	1 213	\$14.3m	
Employer benefit	24 343	\$679.5m	

The 1995–96 figures given on this page are taken from the 1995–96 Annual Report. They differ from 1995–96 figures given elsewhere in this Report, which reflect adjustments to figures reported in the 1995–96 Annual Report.



## **The year** in review

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1996–97 was a significant year for the Military Superannuation and Benefits (MSB) Scheme: it was the first full year in which the MSB Fund operated under the Board’s new investment policy, as was foreshadowed in last year’s report and two long-serving Board members retired: Sir William Cole, the Board’s inaugural Chairperson, and Mr Ken Searson. The Fund passed the \$500 million milestone in terms of funds under management. Also of note, for the first time the contributor population comprised a higher proportion of first-time entrants than it did transferees from the Defence Force Retirement and Death Benefits Scheme (DFRDB).

### Fund investment

The MSB Fund recorded its best-ever performance in 1996–97, earning 20.6% on its investments. The pleasing performance supports the Trustee’s decision to move to a more growth-oriented investment policy, although it should be noted that the Fund will not have 20% returns every year as there will always be fluctuations in investment returns. The good return meant that members’ accounts could be credited with a 20% rate of interest, after allowance for non-investment related expenses.

### Fund milestone

The good investment return combined with continuing strong cash flows from new contributors meant that the Fund grew by over 40%, reaching and passing the \$500 million milestone in the process. At 30 June 1997, the Fund total available to pay benefits was \$576.9 million up from \$402.0 million at 30 June 1996.

### Sale of Commonwealth Funds Management

In December, 1996, the Government announced that Commonwealth Funds Management (CFM) had been sold to Commonwealth Financial Services (the investment arm of the Commonwealth Bank). The sale of CFM has had little or no impact on the Fund’s investment as it managed the direct property sector, which comprises only a very small part of the Fund’s assets.

### Trustee retirements

1996–97 was also marked by the retirement of two Trustees: the Chairperson, Sir William Cole, and Mr Ken Searson.

Sir William, who resigned on 30 April 1997, was instrumental in the establishment of the MSBS through his Chairmanship of the high-level committee established to undertake the review of the DFRDB Scheme (that led to the establishment of the MSBS). He subsequently became the inaugural Chairperson of the MSB Board of Trustees.

Mr Searson, who resigned on 14 February 1997, was appointed to the Board in early 1992 during the Scheme's first financial year. As Commissioner for Superannuation, Mr Searson provided a valuable link between the Board and its administrator.

During the preparation of this report, two other Trustees left the Board. Air Vice-Marshal Frank Cox resigned on 11 July 1997 after two years' on the Board, while on 22 September 1997 Warrant Officer David Sutherland's appointment expired. Warrant Officer Sutherland was the last serving original Board member.

The Board would like to express its appreciation for the valuable contribution made by each of these Trustees during their time on the Board and wishes them well in their retirement.

#### Superannuation compliance

The MSBS remains a complying fund under the Superannuation Industry (Supervision) Act and so continues to be eligible to have tax payable on net income of the Fund assessed at the concessional rate of 15%.

#### Actuarial review

During the year, the Australian Government Actuary released a report on the long-term costs of superannuation benefits payable in respect of the members of the MSB and DFRDB Schemes.

#### Future initiatives

During the 1997–98 financial year, the Board will be developing a fully integrated business plan. Key elements of the plan will be a review of the investment strategy, medium and long-term targets, revision of the service agreement with the administrator (ComSuper), review of the contract with the portfolio manager (IPAC Portfolio Management Ltd), and a continuing emphasis on improving communication with members.

#### Post-year-end events

The Minister announced the appointment of Mr Charles Kiefel as the new Chairman of the Board on 11 July 1997. Mr Kiefel is a Director of ANZ Securities Limited and is experienced in providing advice to a number of governments and multinational corporations.

Air Commodore Nick Ford was appointed on 11 July 1997 to replace Air Vice-Marshal Cox and Warrant Officer Rob Swanwick was appointed on 22 September 1997 to replace Warrant Officer Sutherland. All of these appointments are for a period of three years.

# Introduction

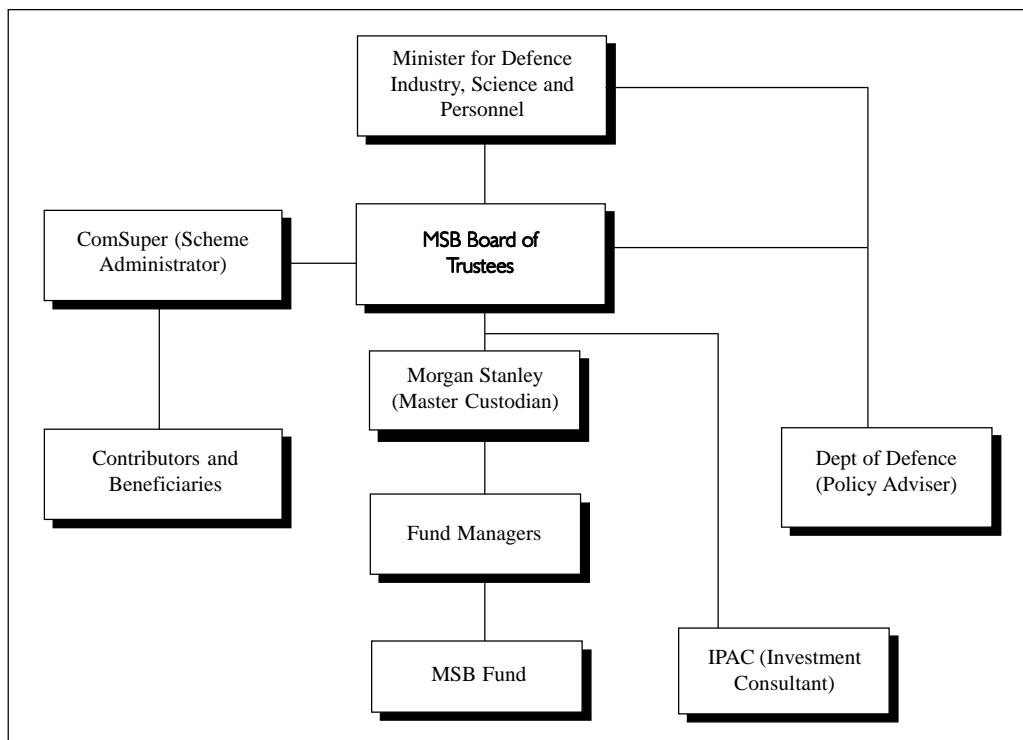
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The Military Superannuation and Benefits Scheme (MSBS) was established by the *Military Superannuation and Benefits Act 1991* (the MSB Act). It replaced the Defence Force Retirement and Death Benefits (DFRDB) Scheme for new entrants to the Defence 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 July 1992.

The MSBS is administered by ComSuper (Commonwealth Superannuation Administration) on behalf of the Board. In assisting the Board, ComSuper is responsible for the maintenance of accurate contribution and benefit records, the prompt payment of member benefits, determining and reviewing benefits payable to members who retire from the Defence Force as medically unfit for further service, and communication with members about their superannuation interests.

ComSuper's operations are detailed in the *Commissioner for Superannuation Annual Report 1996-97*.

Organisational structure of the MSBS.



### **Board** membership as at 30 June, 1997

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The Board consists of five Trustees appointed by the Minister for Defence Industry, Science and Personnel (the Minister) under s. 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. 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 were:

**Air Vice-Marshal Frank Cox AO**

*Appointed 9 March 1995; resigned 11 July 1997. CDF nominee*

Air Vice-Marshal Cox was Assistant Chief of the Defence Force (Personnel). His alternates were Commodore Geoff Earley (until 12 January 1997) and Air Commodore Nick Ford.

**Mr Patrick Gourley**

*Appointed 9 August 1993. Ministerial nominee*

Mr Gourley is First Assistant Secretary, Defence Personnel Executive, Department of Defence. His alternate is Mr Claude Neumann.

**Warrant Officer David Sutherland RAN**

*Appointed 18 September 1991; reappointed 23 September 1994; appointment expired 22 September 1997. CDF nominee*

Warrant Officer Sutherland was an active member of the Naval General Reserve. His alternate was Warrant Officer Rob Swanwick.

**Mr Peter Skinner**

Mr Skinner is Deputy Commissioner for Superannuation and Ministerial nominee and was Mr Searson's alternate. He was appointed as acting Trustee pending the appointment of a replacement for Mr Searson.

## **Audit** Committee

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The Audit Committee was established to advise the Board on accountability and audit-related matters. It operates as a check on the management practices of the Scheme administrator, Fund investment managers, the Master Custodian, and other service providers.

The Committee's responsibility is to assure the Board that its financial statements are based on appropriate accounting concepts, systems and techniques. Its role is to assure the Board that audit arrangements within service-providing agencies are operating effectively and that appropriate audit and fraud control strategies are in place.

The Audit Committee is appointed by the full Board and in 1996–97 comprised three members: Mr Claude Neumann (Chair), Warrant Officer David Sutherland and Commodore Geoff Earley.

## **Member** communication

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The Board believes that it is of paramount importance for members to be kept informed of developments which might affect their future entitlements.

As part of its ongoing communication campaign, the Board provides members with details of Fund performance and information on superannuation developments each year. This information is distributed by way of an *Annual Report to Members*.

Along with the Report, members, including those members with a preserved benefit in the Fund, are sent an information statement each year. Among other things, the statement shows members the amount of contributions they have paid, the amount of productivity contributions paid by the Department of Defence and the interest that has been added to both components.

On behalf of the Board, ComSuper provides members with publications that allow them to learn more about their superannuation scheme. These publications are listed on page 49. In addition, ComSuper keeps military pay offices and members informed of administrative changes through its bi-monthly newsletter, *Military Super News*.

In addition to these publications, ComSuper provides a telephone advisory service, through which members can obtain benefit estimates and general information about the Scheme and their membership.

More recently, steps have been taken to begin including information about the MSBS on ComSuper's Internet Web site, which is accessible to members and to Defence Force administrative personnel. When complete, it is envisaged that the Web site will contain all information now available in leaflet and booklet form, as well as the Annual Report

and a copy of the Ready Reckoner (a computer program that allows members to get an approximate calculation of their benefits).

The Military Superannuation Communications Advisory Group

In April 1996, the Board established the *Military Superannuation Communication Advisory Group* (MSCAG) to ensure the effective and timely provision of quality information and education on superannuation matters to ADF members. Members of the MSCAG include representatives from the Department of Defence, the Defence Force and ComSuper. The MSCAG's role is to:

- ensure smooth liaison between each of the Scheme's stakeholders;
- provide advice on communications 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 MSCAG met monthly during the year. Apart from monitoring ongoing communication issues such as members' information statements, the Annual Reports and *Military Super News*, the MSCAG concentrated on three main areas: SIS obligations, new starters and members about to leave the ADF. To this end, the MSCAG monitored the Board's communication with members to ensure that it continued to meet SIS requirements. The MSCAG also introduced initiatives aimed at new starters—overseeing the production of a Scheme summary leaflet and a *New Starter's Kit* and the provision of superannuation information for Defence Recruiting Branch (to be used in the induction process). In addition, the MSCAG oversaw the production of the leaflet *About to Leave the ADF?*, which was introduced in early July 1997. This leaflet contains a range of information of use to personnel contemplating leaving the Defence Force.

The MSCAG's planned activities for 1997–98 include:

- development of a standard MSBS presentation for new starters;
- production of an investment policy statement; and
- development of training tools for Defence Force personnel involved with the administration of the MSBS.

## **Indemnity** insurance

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The Board is insured with AMP General Insurance Ltd against losses, liabilities, actions, claims or demands arising from the performance of its functions.

## **Performance** indicators

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Performance indicators, other than those relating to investment, are set down in a Service Level Agreement between the Board and ComSuper. Details of performance against the indicators can be found on the following pages:

- *achievement of investment benchmarks (see **Investment performance**, pp. 12–13);*
- *the time taken to process benefit applications (see **Payment of benefits**, p. 21–2);*
- *the time taken to determine invalidity classifications (see **Invalidity**, pp. 22–3 );*
- *the number of appeals against decisions taken under delegation from the Board, and the outcome of those appeals (see **Reconsideration and review**, pp. 26–8)*
- *the time taken to respond to requests for information (see **Counselling and information**, p. 28).*

## **Investment** policy

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A major Board responsibility to Scheme members is to ensure that the money they pay in contributions generates the best possible investment returns with reasonable and well managed risk. To achieve this, the Board has put in place an investment policy that is aimed at:

- balancing the mix between growth and defensive assets;
- maintaining an effective blend of specialist sector mandates; and
- ensuring the portfolio managers remain effective and competitive.

### Growth assets and defensive assets

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.

About three-quarters of MSBS members are younger than 30—and as a general rule, the younger the member, the higher the proportion of growth assets that should be held. Therefore, a fund such as the MSB Fund, with a lot of young contributors, will best serve its members' long-term interests by holding a fairly high proportion of growth assets.

With this in mind, the Board decided during 1995–96 to increase its growth assets to around 75% of the Fund—in previous years, about 60% of the Fund comprised growth assets. The increase in growth assets does not necessarily mean that the Fund's risk exposure has been increased. The change from balanced fund managers to specialist sectoral managers has contained the Fund's risk profile at around the same level as it was under the previous policy.

### Meeting the Fund's investment objectives

The Board believes that its investment strategy represents the best way of achieving its primary long-term earning objective—to exceed inflation by at least five percentage points over rolling five- to seven-year periods. For example, if inflation runs at 2% p.a. over the five-year period between 1994–95 and 1998–99, then the Fund should earn at least 7% p.a. (after taxes, fees and charges have been deducted) over the same period.



The Board's other long-term objectives are to ensure that:

- the chance of not achieving a better-than-inflation return over a period of ten years is no greater than one in 18; and
- the chance of a negative return in any one year is no greater than one in six.

It should be borne in mind that superannuation is a long-term investment and it is possible that the Fund may have a poor or negative return on its investments on occasion. However, losses incurred in one year should be more than offset by the gains achieved in other years over the long term.

#### Investment strategy

The Board's investment strategy is growth oriented with a focus on the long term.

The Fund has an overall portfolio allocation of approximately 75% to growth assets and 25% to defensive assets with the risk/return characteristics of a 60% active/40% core mix. No single asset may exceed 7.5% of the Fund's total value. For example, the Fund should not have more than 7.5% of its assets in BHP shares.

The diversification and risk control philosophy of the Fund is to manage the risk of the total Fund, not just its components. This requires the position taken by investment managers to be combined and managed so that the total Fund adopts the targeted level of risk, in the expectation that this will allow value to be added. Derivatives may be used to manage the risk profile of the portfolio, to manage transaction costs (including market impact) and to implement investment positions in the portfolio. They may not be used for speculative purposes or for gearing the portfolios.

Exposure to a single economic entity must not exceed 10% of total Fund value (Australian Government debt is excluded from this restriction). For example, if the Fund had 7.5% of its funds in BHP shares, then it should not own more than 2.5% in BHP debentures.

Unlike the Commonwealth Superannuation Scheme and the Public Sector Superannuation Scheme, the MSB Fund does not have a reserve account—all net investment earnings are distributed to members' accounts.

## **Investment** management

### Master Custodian

The Fund's Master Custodian is Morgan Stanley Australia Limited. The Master Custodian performs various 'housekeeping' functions in relation to investment management. These include settlement of trades, physical custody and safekeeping of securities, collection of dividends, and account preparation.

It receives all monies available for investment from ComSuper, and allocates them to the investment managers in accordance with the mandates set down by the Board.

It also holds, but does not own, the assets that make up the Fund. It collects and disburses dividends, maintains consolidated accounts and tax records for the Fund, and reports to the Board on individual fund manager performance and investment returns.

### Fund managers

The Board's fund managers at 30 June 1997 were:

Australian shares	Core Active	Macquarie Investment Management Ltd Portfolio Partners Ltd
International shares	Core Active	Barclays Global Investors N.A. Wellington Management Company
Property Securities	Active	Paladin Australia Ltd
Direct Property	Active	Commonwealth Funds Management Ltd
Australian fixed-interest	Core Active	Westpac Investment Management Ltd BT Funds Management Ltd
International fixed-interest	Active	Credit Suisse Investment Management (Aust)
Cash		Morgan Stanley Australia Ltd

The fund managers' addresses are given in the Appendixes, on page 47.

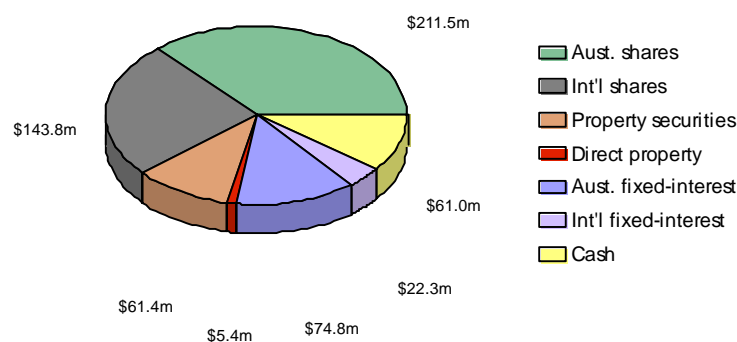
## **Asset** allocation

The asset allocation ranges and actual asset allocation for each investment sector as at 30 June 1997 are shown in Table 1 and Chart 1 (overleaf). The asset allocation ranges are designed to ensure that the appropriate fund risk is maintained while allowing managers the flexibility to maximise returns. The Fund's total allocation to growth assets at 30 June 1997 was 68.2%, and to international assets was 28.7%.

**Table 1 Actual asset allocation, range and indexes**

<i>Asset Class</i>	<i>Allocation</i>	<i>Range</i>	<i>Index</i>
Australian shares	36.4%	27%–47%	ASX All-Ordinaries Accumulation Index
International shares	24.8%	15%–35%	Morgan Stanley Capital International (MSCI) World Index (excluding Australia)
Property securities	10.6%	5%–18%	ASX Property Trust Accumulation Index
Direct property	0.9%		MSCI Property Trust Accumulation Index
Australian fixed-interest	12.9%	5%–25%	SBC Australia Composite Bond Index
International fixed-interest	3.9%	1%–15%	J.P Morgan World Government Bond Index in local currency
Cash	10.5%	0.5%–15%	SBC Australia Bank Bill Accumulation Index

**Chart 1 Sectoral allocation as a 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.

## **Investment** performance

The MSB Fund had a very pleasing year in 1996–97, both in absolute terms and in comparison with other superannuation funds. The 20.6% return was the Fund’s best ever and was almost 2% above the industry average of 18.8%. The good return enabled a crediting rate of 20% to be declared, the highest rate declared since the Scheme’s establishment.

Apart from the very small direct property sector, all sectors performed close to their benchmarks during the year. However, the size of the return was largely due to the Fund’s higher exposure to growth assets than in previous years. The changed Fund investment strategy, involving higher exposure to growth assets than in previous years, meant that the Fund was in a good position to take advantage of the world-wide increases in share prices that occurred during the second half of 1996–97. The Fund’s international share holdings returned 31.4%, with the active manager in the sector producing a return of

36.5% (8% above its benchmark). Australian shares also performed well, achieving a 27.8% return, the active manager in that sector achieving a 31.2% return (4.5% above its benchmark).

Table 2 shows the percentage return on investments achieved in each sector, compared with the benchmark for that sector.

**Table 2 Investment performance by sector 1995–96 and 1996–97**

Sector	1995–96		1996–97	
	Fund	Benchmark	Fund	Benchmark
Australian shares	15.8%	15.8%	27.8%	26.6%
International shares	10.0%	6.7%	31.4%	28.6%
Property securities	3.3%	3.6%	27.7%	28.5%
Direct property	5.9%	6.8%	3.3%	8.2%
Australian fixed-interest	15.4%	14.4%	15.0%	16.8%
International fixed-interest	12.7%	11.2%	11.6%	12.1%
Cash	7.9%	7.8%	8.8%	6.8%
<b>Total return</b>	<b>9.5%</b>	<b>9.1%</b>	<b>20.6%</b>	<b>18.8%*</b>

\* InTech Performance Survey, Market-linked Pooled Funds, June 1997

## Fund growth

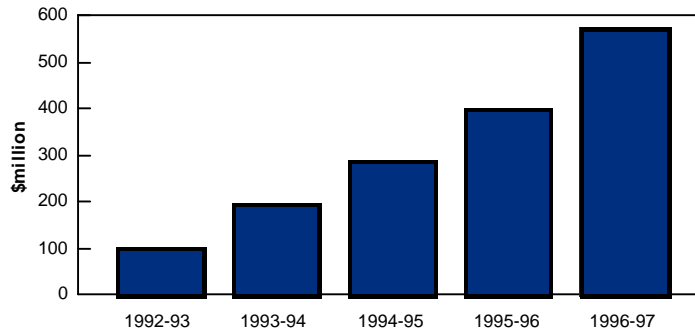
Assets under management at 30 June 1997 totalled \$580.2 million, an increase of 42.9% on the funds under management at 30 June 1996 (due as much to strong growth in contributions as it was to investment performance).

After provision for all taxes, charges and benefits (as shown in Table 3), the Fund totalled \$576.9m, a 43.5% increase from 1995–96. This figure differs from that quoted on page vi because it takes into account all fund transactions and tax provisions not provided for by the portfolio manager. Chart 2 shows how the Fund has grown since 1992–93.

**Table 3 Fund size at 30 June 1997 (after tax, charges and benefits)**

	\$m
<i>Fund size at 1 July 1996</i>	402.0
Plus member and employer contributions received (after contributions tax), 1996–97	115.4
Less benefits paid during financial year	(34.8)
Plus net earnings for financial year (after tax)	94.3
<b>Fund size at 30 June 1997</b>	<b>576.9</b>

**Chart 2 Fund size at 30 June for the last five years**

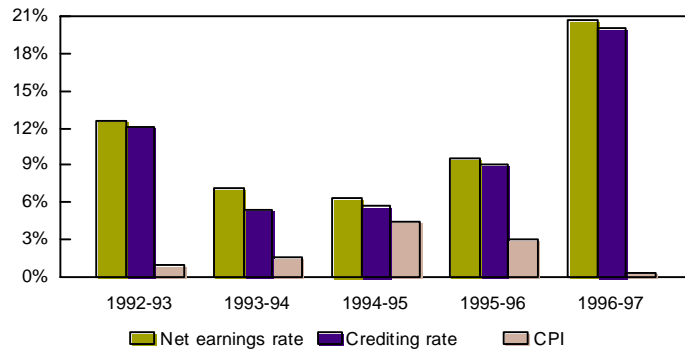


## **Annual** crediting rate

The crediting rate is the rate applied to member superannuation accounts. Its method of calculation is different from the earning rate, as it necessarily takes account of Fund growth and cash flows (including benefit payments), and non-investment-related fees and expenses incurred by the Board throughout the year.

The crediting rate declared for 1996–97 was 20%. A comparison of the crediting rates declared since 1992–93 is shown against the Fund’s earnings rate and the CPI in Chart 3.

**Chart 3 Annual earning, crediting and CPI rates since 1992–93**



## **Exit** rates

Exit rates are the rates of interest credited to the accumulation accounts of members leaving the Scheme. The initial exit rate (set immediately after the crediting rate for the previous financial year has been computed) is the market yield on ten-year Commonwealth bonds applying at the end of the previous financial year, less an adjustment to allow for tax.

The exit rate is reviewed after the results for each quarter become available and, if necessary, is adjusted to reflect the investment results for the financial year to date. The Board has the discretion to make one-off adjustments to exit rates in unusual circumstances.

The Board determined four rates during 1996–97 as shown in Table 4. Each new exit rate replaces the previous one and is credited to an exiting member's account for the period from 1 July until exit. For example, the interest rate of 11.7% per annum was applied to the accumulated contributions of members who exited on or after 21 May 1997 for the period from 1 July 1996 until their date of exit.

**Table 4** Exit rates declared for 1996–97

18 Sep 1996	20 Nov 1996	26 Feb 1997	21 May 1997
7.6%	9.5%	12.7%	11.7%

# Membership and administration

## 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.

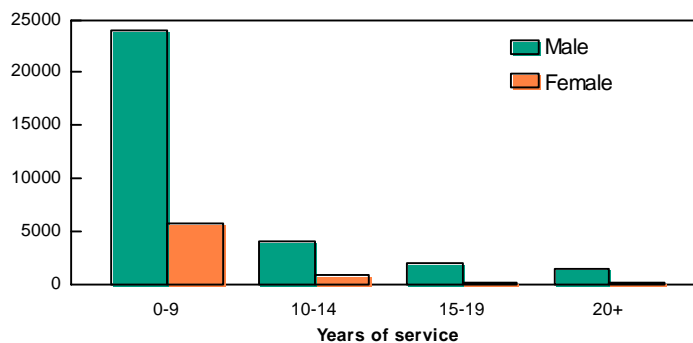
At 30 June 1997, there were 38 244 contributors to the MSBS, 31 466 (82.3%) of whom were male and 6 778 (17.7%) female. The year was of note as the first year in which new entrants comprised a majority of the Scheme's membership; previously transferees from the DFRDB made up the bulk of the membership. Table 5 shows the number of new entrants and exits and the total contributor membership at 30 June 1997. Chart 4 shows the proportion 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 1996	21 202	17 129	38 331
Plus new contributors	1	4 713	4 714
Less exits	(2 345)	(2 456)	(4 801)
<b>Membership at 30 June 1997</b>	<b>18 858</b>	<b>19 386</b>	<b>38 244</b>

Note: The membership figures given in this table for 30 June 1996 differ from those on page 1 and in the 1995–96 Report due to retrospective adjustments not reported last year.

**Chart 4 Male and female contributors by years of service**



As has been the case since the Scheme's establishment, the largest number of contributors in 1996–97 was aged between 20 and 25 years, 31.6% of members being in that age group. The next largest group (25–30 years) comprised 30.2% of the Scheme's contributor population. The following table breaks down the number of contributors by sex and age group.

**Table 6 Age profile and sex of contributors**

<i>Age group (yrs)</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>	<i>Percentage</i>
<20	2 890	746	3 636	9.5%
20–25	9 931	2 165	12 096	31.6%
25–30	9 224	2 319	11 543	30.2%
30–35	4 421	998	5 419	14.2%
35–40	2 436	377	2 813	7.4%
40–45	1 262	109	1 371	3.6%
45–50	738	46	784	2.0%
50–55	517	17	534	1.4%
>55	47	1	48	0.1%
<b>Total</b>	<b>31 466</b>	<b>6 778</b>	<b>38 244</b>	<b>100%</b>

## Contributions

The basic rate of contribution to the MSBS is 5% of salary, including higher duties and service allowances, although members can elect to contribute up to 10% of salary. An election to vary the rate of contribution may be made at three-monthly intervals. Total contributions during 1996–97 were \$121 538 147, of which member contributions comprised \$80 714 424. Table 7 compares the total member and employer contributions that have been received each year since 1992–93.

**Table 7 Contributors and contributions at 30 June for the last five years**

<i>Year</i>	<i>Contributors</i>	<i>Member contributions</i>	<i>Employer contributions</i>	<i>Total contributions</i>
1992–93	37 092	\$63 087 503	\$29 174 145	\$92 261 648
1993–94	35 297	\$73 544 686	\$34 369 834	\$107 914 520
1994–95	36 908	\$73 583 761	\$34 621 940	\$108 205 701
1995–96	38 331	\$77 526 715	\$37 763 099	\$115 289 814
1996–97	38 244	\$80 714 424	\$40 823 723	\$121 538 147

## Exits

There were 4 801 exits from the MSBS during the year. The modes of exit are shown in Table 8.

**Table 8 Modes of exit since 1992–93**

<i>Mode of exit</i>	<i>1992–93</i>	<i>1993–94</i>	<i>1994–95</i>	<i>1995–96</i>	<i>1996–97</i>
Age retirement	140	115	78	84	80
Resignation	4 172	4 522	4 617	4 808	4 065
Redundancy	1 036	923	2	1	4
Invalidity retirement	266	390	505	435	366
Death	43	25	22	17	19
Other*	183	208	309	251	267
<b>Total</b>	<b>5 840</b>	<b>6 183</b>	<b>5 533</b>	<b>5 596</b>	<b>4801</b>

\* Includes members who had exited but whose applications had not been submitted or were awaiting processing.



## Benefits

### Member benefits

The 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. Part or all of the member benefit may be taken on exit, rolled over to an approved deposit fund or preserved within the Fund for any period until age 65.

Of the 4 801 members who left the Scheme during the year, 4 277 elected to claim their member benefit and received payments totalling \$75 778 847. The largest proportion of this sum represented DFRDB money notionally held in the Scheme in respect of those members who had transferred from the DFRDB Scheme.

### Employer-financed benefits

The employer-financed benefit consists of an unfunded component paid by the Commonwealth, and the 3% productivity component which is paid by the Department of Defence. Eligibility for the unfunded component of the employer benefit is subject to a phase-in period over the first seven years of service. The phasing-in is designed to assist with retention of ADF personnel in the early years of service, as benefits increase substantially with each additional year served.

### Employer-financed benefits paid as lump sum

Between 1 July 1996 and 30 June 1997, 1 259 members received lump-sum employer benefit payments under MSBS legislation, as detailed in Table 9. These lump-sum benefits from the Scheme amounted to \$45 735 470.

**Table 9 Partial and full lump-sum employer benefit payments, 1996–97**

<i>Reason for exit</i>	<i>Number</i>	<i>Total lump-sum payments</i> \$	<i>Average lump-sum payment</i> \$
Retirement	59	9 493 131	160 901
Redundancy	1	289 855	289 855
Preserved > age 55	26	3 701 927	142 382
Reversionary benefits			
spouses	10	2 226 998	222 700
orphans	0	0	0
estates	6	1 549 758	258 293
Early payment			
ISC approved	879	9 895 369	11 258
Board approved	278	18 578 432	66 829
<b>Total</b>	<b>1 259</b>	<b>\$45 735 470</b>	<b>\$36 327</b>

## Employer-financed benefits paid as pension

At 30 June 1997, 2 868 members were receiving MSBS pensions. Pensions paid during 1996–97 totalled \$30 439 792. The total number of pensioners for each class of benefit is detailed in Table 10 for the end of each financial year since 30 June 1993.

In 1997, pensions were adjusted on the basis of a 1.3% increase in the CPI for the 12 months to 31 March 1997, with most adjustments coming into effect on pension payday 3 July 1997. Additional annual liabilities amounted to \$383 046.

During the year, 298 new pensions were granted, while 91 pensions ceased. A breakdown of new pensions by class of benefit is contained in Table 11. Table 11 also shows the estimated liability for 1997–98 of the pensions granted in 1996–97 and the average pension estimated to be received by each person.

**Table 10 Number of pensioners since 1992–93, by type of benefit**

Class of pension benefit	Number of pensioners				
	30 June 1993	30 June 1994	30 June 1995	30 June 1996	30 June 1997
Retirement	131	209	250	306	349
Redundancy	748	1 623	1 621	1 619	1 609
Preserved > age 55	2	8	20	32	54
Invalidity	128	341	522	683	830
Reversionary benefits*					
spouses	15	17	19	21	26
orphans	1	0	0	0	0
<b>Total</b>	<b>1 025</b>	<b>2 198</b>	<b>2 432</b>	<b>2 661</b>	<b>2 868</b>

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

**Table 11 New pensions granted during 1996–97 and annual liability**

Class of benefit	Number	Annual liability \$	Annual average pension \$
Retirement	44	970 940	22 067
Redundancy	7	127 326	18 189
Invalidity	219	3 093 576	14 126
Preserved > age 55	22	436 872	19 858
Reversionary benefits*			
spouses	6	97 846	16 308
orphans	0	0	0
<b>Total</b>	<b>298</b>	<b>\$4 726 560</b>	<b>15 861</b>

## Preservation of benefits

Members who leave the MSBS without a pension entitlement must preserve their total employer component until they reach their compulsory preservation age (currently age 55).

Members may also preserve their member benefit, if they wish. They may withdraw part of a preserved member benefit, however, it must be withdrawn in \$10 000 multiples and at intervals of no less than six months.

### Preserved member benefits

At 30 June 1997, there were 1213 preserved member benefits totalling \$14 301 552 as shown in Table 12.

**Table 12 Member benefits paid or preserved**

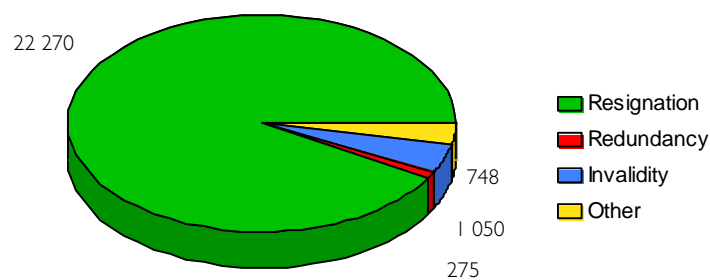
	<i>Number</i>	<i>Lump sums</i>	<i>Average amount</i>
Benefits paid on exit	4 277	\$75 778 847	\$17 718
Benefits preserved	1 213	\$14 301 552	\$11 791
Withdrawal of preserved benefits	124	\$3 524 465	\$28 423

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 retirement age (which is currently age 55) or upon genuine retirement from the workforce, whichever is the later. At 30 June 1997, there were 24 343 preserved employer-financed benefits.

**Chart 5 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. Before 1 July 1997, early release could have been granted if:

- the Board determined that the person had a permanent physical or mental incapacity, or intended to leave Australia permanently; or
- the Insurance and Superannuation Commissioner approved payment of the benefit (usually on the grounds of financial hardship).

During 1996–97, the Board approved the early release of 278 benefits, totalling \$18 578 432, on the grounds of permanent physical or mental incapacity or of permanent departure overseas. Another 879 people received entitlements to employer-financed benefits, totalling \$9 895 369, following the approval of the Insurance and Superannuation Commissioner.

#### New early release provisions

In the 1997 Budget, the Government announced changes to the early release provisions, restricting early release to applications on severe financial hardship or compassionate grounds. The changes became law with effect from 1 July 1997.

From that date, applications for early release on severe financial hardship grounds must be supported by evidence that the applicant has been receiving Commonwealth income support for the preceding 12 months, or 9 months for people over 55. The Government's changes also moved responsibility for administering early release on financial hardship grounds to Fund Trustees from the Insurance and Superannuation Commission. In practical terms, this means that ComSuper (as scheme administrator) will be responsible for assessing and authorising applications for early release.

The Government also introduced compassionate grounds as a ground for early release of the employer-financed benefit. Early release on this ground is administered by the Insurance and Superannuation Commission, to which application must be made.

Permanent relocation overseas is no longer a ground for early release.

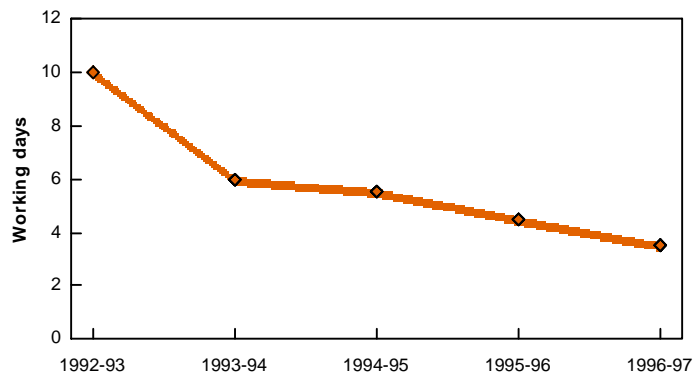
## **Payment** of benefits

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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. Full details of entitlements are given in the publications available from Pay Offices or ComSuper (see page 49).

The Board and ComSuper have an agreement on the level of service to be provided by ComSuper. Under this agreement, ComSuper is to pay benefits in 85% of cases within eight working days of the receipt of correctly completed applications, and in 95% of cases within 13 working days. The 13-day target was met in 10 of the 12 reporting periods during 1996–97. The periods when the targets were not met coincided with peak exit times and with processing periods following a retrospective pay increase. The average time taken to process a benefit has been falling for a number of years. Last year, the average was 3½ days compared with 10 days in 1992–93.

**Chart 6 Average benefit payment time since 1992–93**



## **Invalidity**

---

Each Service has the right to retire members on the grounds of invalidity, if they do not meet the Defence Force's standard of fitness, even though they may be capable of employment of a similar nature in the civilian workforce.

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 discrepancy between the classification nominated by the Service Office and the assessment of the medical specialist, 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 135 initial classification decisions during 1996–97.

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 70 reclassification decisions during the year.

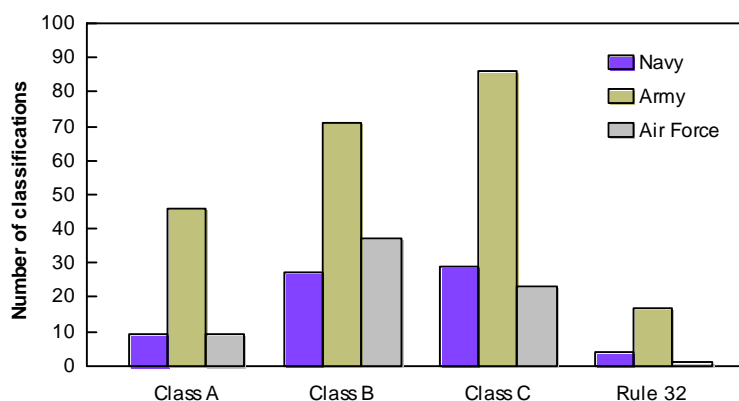
After a classification decision has been made, the member is advised in writing and informed of the right to request reconsideration of the decision. Members who receive advice of decisions of the Board and the ICC also receive a copy of the minute recording the decision. Members who receive advice of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

During 1996–97, initial and review classifications were determined or forwarded to the ICC within 15 days in 94% of cases. Letters of advice were despatched to applicants within two days of a decision in 99% of cases.

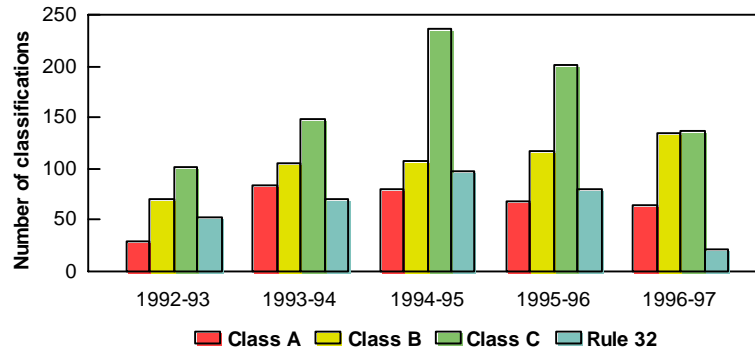
#### Invalidity retirements by classification

From 1 July 1996 to 30 June 1997, 337 members received initial invalidity classifications. The total number of invalidity discharges was 359, although in 22 of these cases Rule 32 (relating to pre-existing conditions) was applied. Of those who received an invalidity classification, 199 (64 Class A and 135 Class B) became entitled to an invalidity pension. The proportion of invalidity classifications for each Service is shown in Chart 7

**Chart 7 Comparison of invalidity classifications in 1996–97, by Service**



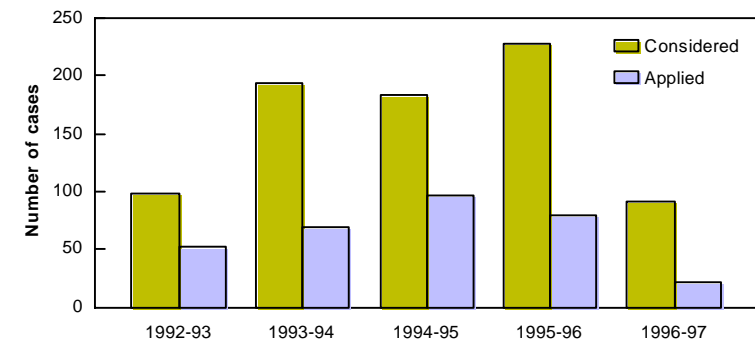
**Chart 8 Invalidation classifications since 1992–93**



Pre-existing incapacity (MSB Rule 32)

MSB Rule 32 prevents the payment of invalidity benefits to contributors who had a pre-existing incapacity and who were discharged on invalidity grounds within two years of entry to the Defence Force. During the year, 92 invalidity retirees' cases were considered under Rule 32 and it was applied in 22 cases. The number of cases considered under Rule 32 and the number to which it was applied dropped from 1995–96 due to a policy decision taken by the Army to discharge recruits with nominal impairments on other than invalidity grounds, thereby reducing the number of potential Rule 32 cases. Chart 9 shows the number of cases where Rule 32 was considered and applied since 1992–93.

**Chart 9 Cases since 1992–93 where Rule 32 was considered**



Retrospective entitlement (MSB Rule 30)

MSB Rule 30 provides for retrospective invalidity retirement where the Board is satisfied that grounds existed for invalidity retirement at the time the member was retired. The cases of 11 retirees were considered under Rule 30 during 1996–97. In seven of these cases, the Board was satisfied that grounds existed for retrospective entitlement. These members were granted an invalidity benefit.

## Invalidity review

Review of invalidity beneficiaries

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 his or her classification be reviewed. Cases of reclassification from Class A or B to Class C are also reviewable should the member write and request a review on the grounds that the impairment has deteriorated to the extent that he or she should be reclassified to Class B or A. During 1996–97, 257 such cases were examined, of which 105 received full medical reviews. As a result of these reviews 70 classifications were changed, as shown in Table 13.

**Table 13 Invalidity entitlements reviewed**

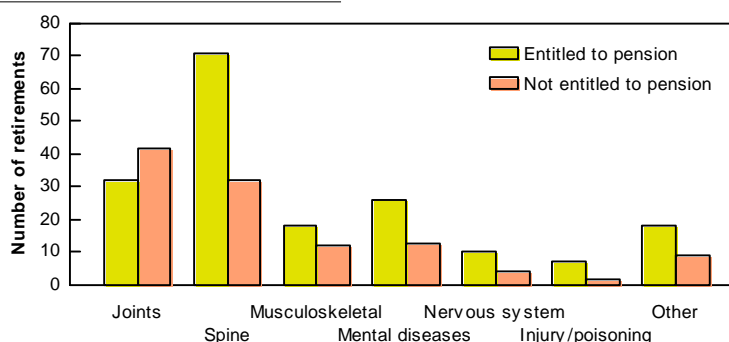
	1992–93	1993–94	1994–95	1995–96	1996–97
Entitlements examined	3	40	110	184	257
Review with medical exam	1	14	55	63	105
Classification raised	1	5	7	5	13
Classification reduced	0	2	13	24	57
<b>Total classification changes</b>	<b>1</b>	<b>7</b>	<b>20</b>	<b>29</b>	<b>70</b>

Causes of invalidity retirement

During 1996–97, the most common causes of invalidity retirement were disorders of the joints and spine. Of the 337 invalidity classifications determined, 177 retirees were in this category. A comparison of the causes of invalidity retirement is shown in the following Chart.

**Chart 10 Causes of invalidity retirement during 1996–97**

## Reconsideration and review





Decisions by the Board and its delegates, including the ICC, are subject to internal reconsideration and external review. 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.

#### Reconsideration Advisory Committee

The Board is advised on reconsideration matters by a Reconsideration Advisory Committee (RAC). The RAC comprises:

- the Deputy Commissioner for Superannuation, who is Chairperson of the RAC;
- a Senior Executive Service representative of the Department of Defence, who is also an alternate of a Trustee;
- a Service Officer of the rank of Colonel or equivalent; and
- an MSBS pensioner representative.

Decisions are reconsidered on the basis of new evidence provided by the applicant or obtained by ComSuper and are referred to the RAC for investigation. The RAC'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 an RAC on its own motion. Each applicant receives a comprehensive written statement of reasons for the Board's decision on reconsideration. If necessary, applicants are advised of further appeal rights.

Requests for reconsideration are treated as complaints for purposes of section 101 of the SIS Act.

During 1996–97, 38 requests for reconsideration of decisions made by delegates of the Board were made. The majority concerned invalidity retirement benefit classification or reclassification decisions. No requests for reconsideration of a Board decision were received.

**Table 14 Reconsideration applications**

<i>Year</i>	<i>1992–93</i>	<i>1993–94</i>	<i>1994–95</i>	<i>1995–96</i>	<i>1996–97</i>
Requests on hand	3	26	24	29	34
Requests received	26	17	25	32	38
Requests resolved	3	19	20	27	37
Carried forward	26	24	29	34	35

Under the Service Level Agreement with the Board, ComSuper's Reconsideration Section undertakes to prepare cases for the RAC within 30 days of receipt of evidence considered necessary for a decision to be made. Throughout the year an average of 91% of cases on hand met that target.

#### External review

Decisions taken in the administration of the MSBS are subject to review by the Federal Court under the *Administrative Decisions (Judicial Review) Act 1977* (the AD(JR) Act). Appeals to the Federal Court may be based on any of the legal grounds set out in ss 5, 6 and 7 of the AD(JR) Act, including:

- errors of law;
- improper exercise of power;
- denial of the rules of natural justice;
- failure to observe procedures; or
- unreasonable delay in making a decision.

Decisions made by the Board and its delegates may be reviewed under the AD(JR) Act.

Decisions taken by the Board are reviewable by the Superannuation Complaints Tribunal (SCT), which was established under the *Superannuation (Resolution of Complaints) Act 1993* (the SRC Act). When the SCT began operating, on 1 July 1994, it could not deal with complaints which involved the assessment or evaluation of medical evidence and/or consideration of a person's incapacity. This restriction was removed in December 1995. However, the SCT cannot deal with Board decisions relating to the payment of an invalidity benefit if:

- the primary decision was made prior to 1 November 1994;
- the primary decision was made on or after 1 November 1994 and the complaint was not lodged with the SCT within one year from the time the primary decision was made;
- before the date of the primary decision, the person permanently ceased working because of a physical or mental disability that gave rise to the claim for disability benefit, and the person did not lodge the claim with the Board within one year after he or she permanently ceased employment.

Under the SRC Act, a party to a proceeding before the SCT may appeal to the Federal Court on a question of law arising from any decision of the SCT in that proceeding.

In 1996–97 no applications for review were lodged with the Federal Court in respect of a decision of the Board or its delegates.

Five applications were made to the SCT during the year and none carried over from 1995–96. Four applications were resolved during the year, all of which were dismissed by the SCT prior to hearing. The remaining case had not been heard by the end of June 1997.

## **Counselling** and information

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Information to members is provided by way of telephone, correspondence, individual counselling and presentations given at Defence resettlement seminars and other seminars at Defence Force establishments. In 1996–97, as a means of meeting member requirements and to allow a wider range of more accurate statistics to be gathered, ComSuper upgraded its 24-hour Interactive Voice Response (IVR) telephone facilities. Statistics that can be obtained include the time it takes for calls to be answered, the length of calls and the number of calls abandoned. A total of 44 811 calls were received from both MSBS and DFRDB members during the year (unfortunately, figures for the MSBS only cannot be determined as the system is not capable of differentiating between members of the two Schemes).

During the year, ComSuper staff provided personal counselling to 35 members and gave presentations at 27 resettlement seminars, which were attended by a total of 4995 people (both MSBS and DFRDB members). Forty-two MSBS member sessions and one retrenchment seminar were also conducted and were attended by 1 575 members and nine members, respectively. The member sessions were primarily conducted in conjunction with the resettlement seminars.

ComSuper conducted four courses for military administrative staff, which were attended by 69 people.

A total of 948 retirement advice letters were issued during the year. Just over 98% of these were provided within seven days of the request, while the remainder were sent within 15 days. This more than satisfied the requirement in the Service Level Agreement, which specifies that 75% of retirement advice letters are to be sent within ten days of request, with the remainder to be sent within 15 days.

## **Freedom** of information

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Matters associated with the administration of the *Freedom of Information Act 1982* are dealt with by ComSuper's Freedom of Information Unit.

There were 40 requests for access to documents relating to the MSBS received during 1996–97. All were granted in full, taking an average of 7.2 days to process.

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

The Freedom of Information Unit  
ComSuper  
PO Box 22  
Belconnen ACT 2616

Facsimile: (02) 6252 6948  
Telephone: (02) 6252 7514  
TTY: (02) 6253 2911

## Appendixes

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Australian  
National  
**Audit**  
OFFICE

**INDEPENDENT AUDIT REPORT  
MILITARY SUPERANNUATION AND BENEFITS BOARD OF TRUSTEES NO. 1**

To the Minister for Defence Industry, Science and Personnel

**(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, for the year ended 30 June 1997. 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 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 Minister for Defence Industry, Science and Personnel.

The audit has been conducted 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 reporting requirements (Urgent Issues Group Consensus Views) and statutory requirements so as to present a view of the Fund and the Scheme which is consistent with my understanding of its net assets and changes in net assets.

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

Address all mail to: GPO Box 707 CANBERRA ACT 2601  
Centenary House | 9 National Circuit BARTON ACT 2600 Phone (06) 203 7300 Fax (06) 203 7777

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## **Audit Opinion**

In accordance with sub section 26(2) of the *Military Superannuation and Benefits Act 1991*, I now report that the statements are in agreement with the accounts and records of the Board and, in my opinion:

- (i) the statements are based on proper accounts and records;
- (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 1997 and the net assets of the MSBS at that date;
- (iii) the receipt of moneys into the Fund, and the payment of moneys out of the Fund and investment of moneys standing to the credit of the Fund, during the year have been in accordance with the *Military Superannuation and Benefits Act 1991* and the Trust Deed; and
- (iv) the statements are in the form agreed by the Minister for Defence Industry, Science and Personnel in accordance with subsection 26(1) of the *Military Superannuation and Benefits Act 1991*.

## **(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 as to whether the Military Superannuation and Benefits Fund No.1 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), 65, 66, 67, 69-85, 86-93A, 95, 97, 98, 102, 103, 104, 106, 107, 108, 109, 111, 112, 113, 117, 118, 122, 124, 125, 152, 153, 154, 169; and

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

(b) the Guidelines issued by the ISC on Risk Management Statements For Superannuation Entities Investing in Derivatives (to the extent applicable);

for the year ended 30 June 1997.

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 the Guidelines consisted of confirming that the relevant Risk Management Statements have been prepared and are broadly consistent with the requirements of the Guidelines. No opinion has been expressed on the appropriateness of the Risk Management Statements or whether the Fund has complied with the procedures set out in the Risk Management Statements.



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

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

**Opinion**

The Military Superannuation and Benefits Fund No. 1, 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 1997.

Australian National Audit Office

(signed)

Trevor Burgess  
Executive Director

For the Auditor-General

Canberra

30 September 1997

**MSB STATEMENT**

**STATEMENT BY THE TRUSTEES OF THE MILITARY SUPERANNUATION  
AND BENEFITS FUND No. 1**

The Trustees hereby state that in their 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 1997 and the changes in net assets of the Scheme for the year ended 30 June 1997;
- (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 for Defence Industry, Science and Personnel 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 and have been prepared in accordance with applicable Australian Statements of Accounting Concepts and applicable Australian Accounting Standards; 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                      day of September 1997 in accordance with a resolution of members of the Military Superannuation and Benefits Board of Trustees No. 1.

P.D. Gourley  
Member

Air Commodore N.J. Ford  
Member

Military Superannuation and Benefits  
Board of Trustees No. 1

**RESTATEMENT**
**STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30 JUNE 1997**

	Note	1997 \$'000	1996 \$'000
<b>Net Assets Available to Pay Benefits at 1 July</b>		<b>402,017</b>	<b>292,251</b>
<b>MSB FUND</b>			
<b>Investment Revenue</b>			
Interest		9,017	12,486
Dividends		12,274	8,364
Other Investment Income		91	384
Changes in Net Market Values	2	89,948	14,263
Direct Investment Expenses		(3,435)	(1,718)
		107,895	33,779
General Administration Expenses	1d	(237)	(449)
<b>Net Investment Revenue Before Tax</b>		<b>107,658</b>	<b>33,330</b>
<b>Contributions Revenue</b>			
	3a		
Employee Contributions		80,714	77,527
Employer Contributions		40,824	37,763
		121,538	115,290
Benefits Paid	3b	(34,828)	(30,045)
<b>Net Contributions Revenue Before Tax</b>		<b>86,710</b>	<b>85,245</b>
<b>Net Investment Revenue and Net Contributions Revenue</b>		<b>194,368</b>	<b>118,575</b>
Income Tax Expense	4	(19,512)	(8,809)
<b>Net Investment Revenue and Net Contributions Revenue After Tax</b>		<b>174,856</b>	<b>109,766</b>
<b>CONSOLIDATED REVENUE FUND</b>			
Moneys Appropriated by Parliament	3	161,486	142,728
Less: Benefits Paid	3b	(158,075)	(139,142)
Costs of Administering the MSBS Act and Rules	3c	(3,411)	(3,586)
<b>Net Assets Available to Pay Benefits at 30 June</b>		<b>576,873</b>	<b>402,017</b>

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

**STATEMENT OF NET ASSETS**

<b>STATEMENT OF NET ASSETS AS AT 30 JUNE 1997</b>
---

	Note	1997 \$'000	1996 \$'000
<b>MSB FUND</b>			
<b>Investments</b>	1e		
Short-term Money Market		68,441	198,793
Australian Fixed Interest		74,333	86,128
Overseas Fixed Interest		21,811	342
Australian Equities		201,323	94,163
Overseas Equities		147,584	47,215
Listed Property Trusts		67,353	11,865
Other Investments		10,058	703
<b>Total Investments</b>		<b>590,903</b>	<b>439,209</b>
<b>Other Assets</b>			
Cash at Bank and on Hand		2,455	1,482
Sundry Debtors		7	20
Prepayments		39	3
Accrued Income		3,870	3,577
<b>Total Other Assets</b>		<b>6,371</b>	<b>5,082</b>
<b>Total MSB Fund Assets</b>		<b>597,274</b>	<b>444,291</b>
<b>Less: Liabilities</b>			
Outstanding Settlements	5	977	32,046
Sundry Creditors		146	145
Accrued Expenses	6	662	485
Benefits Payable		1,997	1,840
Provision for Income Tax		4,984	6,785
Provision for Deferred Income Tax		11,635	973
<b>Total MSB Fund Liabilities</b>		<b>20,401</b>	<b>42,274</b>
<b>CONSOLIDATED REVENUE FUND</b>			
<b>Other Assets</b>			
Sundry Debtors		13,021	5,281
<b>Total Consolidated Revenue Fund Assets</b>		<b>13,021</b>	<b>5,281</b>
<b>Less: Liabilities</b>			
Benefits Payable		13,021	5,281
<b>Total Consolidated Revenue Fund Liabilities</b>		<b>13,021</b>	<b>5,281</b>
<b>Net Assets Available to Pay Benefits</b>		<b>576,873</b>	<b>402,017</b>

*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 1997

---

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

These financial statements have been prepared in accordance with applicable Australian Statements of Accounting Concepts, applicable Accounting Standards and the Defined Benefit Plan provisions of Australian Accounting Standard (AAS) 25 'Financial Reporting by Superannuation Plans'. 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 paragraph 22(a) 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 for Defence Industry Science and Personnel 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. The form of these statements differs from the Guidelines for Financial Statements of Commonwealth Public Authorities and Commercial Activities issued by the Minister for Finance.

Unless otherwise stated, these accounting policies were also adopted in the corresponding preceding reporting period.

**(b) Taxation**

Income tax has been brought to account using the liability method of tax effect accounting. A provision for deferred income tax has been brought to account in order to recognise the timing effect of income earned during the period that is not assessable for taxation purposes in the current period but is expected to reverse in future periods.

**(c) 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.

**(d) Fund Management Expenses**

Costs of the Military Superannuation and Benefits Board of Trustees No. 1 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 by Parliament.

**(e) Valuation of Investments**

Assets of the MSBS are recorded at net market value as at the reporting date and changes in the net market value of assets are recognised in the Statement of Changes in Net Assets in the periods in which they occur. Net market values of investments are reduced by 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 yields supplied by independent valuers.
- (ii) Fixed-interest - these securities are valued by marking to market using yields supplied by independent valuers.

**MILITARY SUPERANNUATION AND BENEFITS SCHEME****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 1997

**1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)**

- (iii) Futures Contracts - open futures contracts are revalued to closing price quoted at close of business on 30 June by the Sydney 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 Australian 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 Australian Stock Exchange.
- (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) Currency hedges - these securities are valued at the relevant exchange rate at close of business on 30 June.

**(f) Use of Derivatives**

The fund managers of the Scheme use a number of financial instruments such as futures, options and forward exchange contracts which are known as "derivatives". The objective of their use is to reduce the risks in the equity, bond and currency markets and to increase or decrease the Scheme's exposure to a particular market quickly.

The use of "derivatives" for this purpose is called hedging in the various markets. The likely effect of their use is reduction of risk to the Scheme. Derivatives are not used for speculation in any of these markets or for gearing the portfolios.

**2. CHANGES IN NET MARKET VALUES**

	<b>1997</b>	<b>1996</b>
	<b>\$'000</b>	<b>\$'000</b>
Changes in Net Market Values of Investments:		
<b>(a) Investments Held at 30 June</b>		
Australian Fixed-interest	2,354	(1,676)
Overseas Fixed-interest	(277)	(62)
Australian Equities	35,972	4,457
Overseas Equities	31,555	901
Property Trusts	6,922	(345)
Other Investments	(1,524)	(1,692)
	<b>75,002</b>	<b>1,583</b>
<b>(b) Investments Realised During the Period:</b>		
Australian Fixed-interest	4,308	1,039
Overseas Fixed-interest	809	88
Australian Equities	3,431	10,246
Overseas Equities	4,033	1,370
Listed Property Trusts	1,713	345
Other Investments	652	(408)
	<b>14,946</b>	<b>12,680</b>
	<b>89,948</b>	<b>14,263</b>

**MILITARY SUPERANNUATION AND BENEFITS SCHEME****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 1997

**3. 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 1997, is the accumulated employee and employer contributions held in the MSB Fund as at 30 June 1997.

**(b) Benefits**

Where a benefit that becomes payable under the Scheme can be fully met from moneys held in the MSB Fund, the benefit is paid to the beneficiary from the MSB Fund.

Where a benefit that becomes payable under the Scheme cannot be fully met from moneys held in the MSB Fund, all moneys held in the MSB Fund in respect of the member are paid to the Commonwealth and the Commonwealth is responsible for the payment of the benefit to the beneficiary from the Consolidated Revenue Fund. Under the provisions of the Military Superannuation and Benefits Act 1991, the Commonwealth is required to fund its share of all benefits as they become due and payable.

Benefits payable by the Commonwealth as at 30 June 1997 total \$13,021m (1996 \$5,281m). The Commonwealth is the corresponding debtor for this amount in accordance with the funding arrangements described above.

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

	<b>1997</b>	<b>1996</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>MSBS Fund</b>		
Payments to Commonwealth	29,798	27,024
Lump-sum Benefits	5,030	3,021
	<u><b>34,828</b></u>	<u><b>30,045</b></u>
<b>Consolidated Revenue Fund</b>		
Lump-sum Benefits	127,635	112,639
Other	30,440	26,503
	<u><b>158,075</b></u>	<u><b>139,142</b></u>

**(c) Costs of Administration**

The Military Superannuation and Benefits Act 1991 requires the Commissioner for Superannuation to provide administrative services to the Military Superannuation and Benefits Board of Trustees No. 1 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 appropriated by the Parliament to ComSuper for its running costs. The amount shown as the Cost of Administering the MSBS Act and Rules in the Statement of Changes in Net Assets has been calculated on a full accrual basis.

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

For the year ended 30 June 1997

**4. INCOME TAX**

The taxation liability at 30 June 1997 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 MSBS Fund at a rate of 15 per cent.

The aggregate amount of income tax attributable to the period is less than 15 per cent of the Net Investment Revenue and Net Contributions Revenue Before Tax as shown in the Statement of Changes in Net Assets. The difference is reconciled as follows:

	<b>1997</b>	<b>1996</b>
	<b>\$'000</b>	<b>\$'000</b>
Prima facie income tax expense on Net Investment Revenue and Net Contributions Revenue Before Tax	29,155	17,786
Add/(Less) Permanent Differences		
Employee contributions	(12,107)	(11,630)
Benefits Paid	5,224	4,507
Foreign Tax Credits	(171)	(88)
Imputation Credits from Franked Dividends Received	(2,306)	(1,313)
Difference between accounting and tax gains	(43)	(441)
Tax Free/Tax Deferred Distributions	(100)	(19)
Other Items (Net)	-	6
Over/(Under) Provision in Prior Year	(140)	1
	<u><b>19,512</b></u>	<u><b>8,809</b></u>

Income tax paid during the period amounted to \$10,792,000 (1995/96 \$7,034,000)

**5. OUTSTANDING SETTLEMENTS**

Outstanding Sales Settlements (Receivable)	1,140	3,590
Outstanding Purchase Settlements (Payable)	(2,117)	(35,636)
Net Settlements	<u><b>(977)</b></u>	<u><b>(32,046)</b></u>

**6. ACCRUED EXPENSES**

Investment Consultant Fees	383	100
Fund Management & Custodial Fees	189	352
Audit Fees	30	30
Other	60	3
	<u><b>662</b></u>	<u><b>485</b></u>

**7. 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 at 30 June 1997 is \$3,828m (1996: \$3,602m).



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

For the year ended 30 June 1997

**7. VESTED BENEFITS (continued)**

The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June 1997 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.

**8. 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, (ie. accumulated member contributions and, where applicable, productivity contributions, plus interest) and an unfunded component to be financed 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 1996-97. (A copy of the Australian Government Actuary's report is attached.)

Accrued Benefits as at 30 June 1996 were:	<b>\$m</b>
Funded component	402
Unfunded component	3,217
	<u><b>3,619</b></u>

The movement in the liability for Accrued Benefits since the last actuarial review is:

Balance reported at prior review of 30 June 1993	2,574
Less: Benefits paid	(459)
	<u>2,115</u>
Plus: Increase in Accrued benefits	1,504
Balance at 30 June 1996	<u><b>3,619</b></u>

**9. RELATED PARTIES**

The Trustees of the MSBS, the Military Superannuation and Benefits Board of Trustees No. 1, had the following members during the year:

Sir William Cole (Chairman) [resigned 30 April 1997]  
 Air Vice Marshal F.D. Cox, AO  
 Mr P.D. Gourley  
 Mr K.A. Searson [resigned 14 February 1997]  
 Warrant Officer D.J. Sutherland, RAN  
 Commodore G.J. Earley (Alternate for Air Vice Marshal F.D. Cox) [resigned 12 January 1997]  
 Mr C. Neumann (Alternate for Mr P.D. Gourley)  
 Warrant Officer R. Swanwick (Alternate for Warrant Officer D.J. Sutherland)  
 Mr P.G. Skinner (appointed acting Trustee on 29 January 1997)

Fees and associated superannuation contributions paid to, or in respect of, the Trustees, both from the MSB Fund and the Consolidated Revenue Fund, during the year totalled \$70,200 (1995-96: \$65,000)

**DISCLOSURE**

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

For the year ended 30 June 1997

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**10. AUDITORS REMUNERATION**

The amount paid and payable in respect of external audit services is \$31,500 (1995-96 : \$30,000).

**11. FOREIGN CURRENCY GAINS**

The foreign currency gain on overseas investments for the year was \$4,113m (1995-96: loss of \$2,598m). This amount is included in the 'Changes in Net Market Values of Investments' disclosed in Note 2.

**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**

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 Trustees, these requests do not represent a material liability on the Scheme.

The Trustees are not aware of any other potential contingent liabilities.

**14. SUPERANNUATION CONTRIBUTIONS SURCHARGE**

Pending necessary changes to the scheme rules, no provision has been made in these financial statements for the amount of the superannuation contributions surcharge which may be payable under the Superannuation Contributions Surcharge (Assessments and Collection) Act 1997. The Trustees do not anticipate that the superannuation contribution surcharge in respect of 1996-97 will materially affect the amount of "Net Assets Available to Pay Benefits at 30 June 1997" as disclosed in the financial statements.

**AUSTRALIAN GOVERNMENT ACTUARY**

PO BOX 9836 CANBERRA ACT 2601

243-251 Northbourne Ave

LYNEHAM ACT 2602

*Telephone:* (02) 6213 5499

*Facsimile:* (02) 6213 5250

DX 5766 Canberra

**MILITARY SUPERANNUATION AND BENEFITS SCHEME**

**SUMMARY OF THE 1996 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 1996 by the Australian Government Actuary, Mr Craig Thorburn, FIAA. This report was presented to Parliament in June 1997.
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. These projections showed a progressive fall in costs as the more expensive DFRDB scheme phased out. The actuary was thus of the opinion that the financial position of the schemes as at 30 June 1996 was satisfactory.
3. The realisable value of assets of the MSBS as at 30 June 1996 was \$402 million.
4. Vested benefits of the MSBS were not calculated as part of the Long Term Cost Report as at 30 June 1996 but were calculated separately. They amounted to \$3,602 million.

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 1996 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.

**INSURANCE AND SUPERANNUATION COMMISSION**

5. The value of Accrued Benefits for the MSBS as at 30 June 1996 was \$3,619 million. The value of Accrued Benefits is the present value of the proportion of projected future benefit payments that has accrued in respect of membership of the MSBS to 30 June 1996.
6. As would be expected in a substantially unfunded arrangement, the value of Accrued Benefits is more than the realisable value of scheme assets at the same date.
7. The major assumptions used in the calculations were as follows:
  - Investment earnings rate: 7.5% pa (net of tax and investment expenses)
  - Inflationary salary increases: 5.5% pa
  - Promotional salary increases: an age and service related scale was used
  - Pension increases (CPI): 4% pa

K.E. Deeves

Fellow of the Institute of Actuaries of Australia

Deputy Australian Government Actuary

22 September 1997

## **Fund** Managers

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### **BT Funds Management Ltd**

Level 15  
2 Chifley Square  
Sydney NSW 2000

### **Barclays Global Investors N.A.**

45 Fremont St  
San Francisco CA 94105  
USA

### **Commonwealth Funds Management Ltd**

Level 9  
12 Moore St  
Canberra ACT 2601

### **Credit Suisse Investment Management (Australia)**

Level 32  
1 Macquarie Place  
Sydney NSW 2000

### **Macquarie Investment Management Ltd**

Level 12  
20 Bond St  
Sydney NSW 2000

### **Morgan Stanley Australia Ltd**

Level 33  
2 Chifley Square  
Sydney NSW 2000

### **Paladin Australia Ltd**

Level 6  
19 Pitt St  
Sydney NSW 2000

### **Portfolio Partners Ltd**

Level 39  
385 Bourke St  
Melbourne VIC 3000

### **Wellington Management Company**

75 State St  
Boston MA 12109  
USA

### **Westpac Investment Management Ltd**

Level 36  
60 Margaret St  
Sydney NSW 2000

## Glossary

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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 benefitting 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>
AO	Order of Australia
BHP	Broken Hill Proprietary Limited
BT	Bankers Trust
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
ISC	Insurance and Superannuation Commission
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 Communications 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
RAC	Reconsideration Advisory Committee
SCT	Superannuation Complaints Tribunal
SIS	<i>Superannuation Industry (Supervision) Act 1993</i>
SRC Act	<i>Superannuation (Resolution of Complaints) Act 1993</i>

## **Publications**

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

*The MSBS Book* is a general information book that intended as a reference book for members and pay officers. A revised edition was published in September 1997.

*The Investment Policy Statement*, as its name suggests, is an outline of the Board's investment policy. It briefly explains the general objectives that underpin the Board's investment policy as well as the specific strategy through which these objectives will be realised. The *Investment Policy Statement* is also being revised as a result of the Board's review of its investment policy.

The Board also introduced two leaflets: *About to Leave the ADF?* and *Summary of the Scheme*. The first is aimed at personnel who are leaving or considering leaving the ADF and gives a broad range of information about what to expect. The second leaflet is aimed at new starters and gives some information that would be appropriate for new such members.

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

*Dependants Benefits*

*Invalidity Benefits*

*Maximum Benefit Limit*

*Preservation of Benefits*

*Provisions for LWOP*

*Rejoining the ADF*

*Resignation and Retirement Benefits* and

*Taxation of Benefits*

All of these publications can be obtained from members' Pay Offices or from ComSuper.

## **Contact** officer

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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
<i>Postal address:</i>	ComSuper PO Box 22 Belconnen ACT 2616
<i>Street address:</i>	Unit 1, Cameron Offices Chandler Street Belconnen ACT
<i>Telephone:</i>	(02) 6252 5893
<i>Facsimile:</i>	(02) 6253 1116
<i>TTY:</i>	(02) 6253 2911



## **Legislation**

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The only amendment to the MSB legislation during 1996–97 was a consequential amendment resulting from the *Defence Legislation Amendment Act (No. 1) 1997*, which altered the titles of the three Service Chiefs.

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