



THE  
**MSB**

BOARD

ANNUAL

REPORT

1998 - 99

military superannuation and benefits scheme

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

Annual Report 1998–99

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Note: All contribution, benefit, membership and exit statistics are based on events related to the annual reporting period reflected in the records of the Commissioner for Superannuation at the time these statistics were compiled. As such, the statistics may vary from the records of these events as recorded elsewhere. 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.

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 1999, together with financial statements in respect of the management of the Military Superannuation and Benefits Fund No. 1 during 1998–99, 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 black ink, appearing to read 'Charles Kiefel', written in a cursive style.

Charles Kiefel, BCom, FCA, FAICD  
Chairman  
MSB Board of Trustees No. 1

27 September 1999

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## Chairman's overview

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From an investment perspective 1998–99 was an extremely challenging year for the Fund and the markets. It was a year characterised by major swings in many of the world's financial markets, and this volatility produced a range of returns for the Fund's assets over the course of the year.

The Board has set the performance objectives of the Fund based on its judgment about the best achievable balance between risk and return. Fundamentally we see our responsibility as contributing to the support of members' lifestyles in retirement. We have therefore opted for a growth strategy over the long term, but with elements of caution so that the level of risk is contained. With this in mind the investment strategy for the Fund aims to ensure that the risk of negative return in any one year is no greater than one in six, and to exceed the rate of inflation by at least 5% over rolling five-year periods.

The MSB Fund has been consistent in the application of its investment strategy during a very difficult time for investing. There was considerable volatility in most major markets, including fixed interest markets. In addition, for much of the year returns from major share markets were narrowly concentrated in a relatively small number of larger stocks. The valuations of some market segments, such as the larger US stocks, reached unprecedented levels.

The Asian and Russian financial crises and the collapse of major commodities markets generated falls in all global equities markets during the first four months of the year, with that volatility reflected in initial Fund returns. For example, in August the leading US index, the Dow Jones, declined by over 15%. However, as the year progressed there was an improvement in investment conditions. The Fund achieved an overall return on investments of 8.3%. This was almost 3.4% ahead of the long-term performance objective, and matched the InTech survey industry average (see Table 1 on page 7).

Special efforts were made to minimise the effects of the negative returns in September and October 1998 by giving members then about to leave the Defence Force the opportunity of keeping their money in the Fund until returns again became positive.

## Review of investment strategy

Over recent years the Board has adopted a practice of annual reviews of MSB Fund investment objectives, strategy and implementation. With the assistance of its Investment Adviser (IPAC Portfolio Management) and its Administrator (ComSuper) the Board again reviewed its investment activities. It reviewed risk and volatility measures, and considered new markets.

The Board confirmed its commitment to its current investment strategy, which has a higher exposure to growth assets (shares and property) than to defensive assets (cash and fixed interest). The coverage of investment types and markets is designed to enhance the Fund's ability to achieve its long-term objectives. The Board has provided a comprehensive statement of investment strategy and policy with its 1997–98 annual report to members.

## Transition to new Master Custody arrangements

During the course of 1998–99 the Fund's Master Custodian advised the Board that it had sold its Australian custody business. The Board was offered the opportunity to transfer its custody requirements to the new owner or to seek an alternative service provider. After a competitive process the Board appointed State Street Australia as the Fund's new Master Custodian. State Street Australia is a wholly owned subsidiary of the US-based State Street Corporation. State Street is the world's leading specialist in serving institutional investors. In 1999 the assets under custody by State Street worldwide were US\$5.3 trillion. In terms of assets under custody State Street Australia is one of the largest global custodians in the Australian market.

The Fund custodian performs essential functions (described on page 6) in relation to the Board's investment activities and, therefore, the Board regarded any change in custodial arrangements to be a significant event—involving as it does the transfer of the entirety of the Fund's assets. In the transfer of assets from one custodian to another the Board was conscious of the need to obtain appropriate assurances that the assets of the Fund were protected.

With the assistance of its investment adviser, its independent audit adviser (KPMG) and its administrator, the Board oversaw the preparation of a detailed transition plan covering the transfer of assets between the two custodians. This plan incorporated specific requirements for independent reviews

and audit sign-offs regarding the completeness and accuracy of the transfer process.

I am pleased to report that the transition to State Street Australia occurred smoothly with no disruption to the Fund's investment activities and with an unqualified audit report on the completeness and accuracy of the transfer.

## Communications

The Board is mindful of the importance of communicating fully with its major stakeholders—the Minister and the members of the Scheme—and it took initiatives with both. On behalf of the the Board I briefed the Minister bimonthly on key developments. The Board set priorities for its Communications Advisory Group for communication with members, and commissioned consultancy assistance in some areas (see page 25).

## Year 2000 readiness

As the Board relies on the services of a number of external entities for the management and investment of the Fund and the administration of the MSB Scheme, the Board has continued to closely monitor the progress achieved by all of its service providers in achieving Year 2000 readiness. During the year the Board commissioned its audit adviser to undertake independent reviews of several of its service providers' risk management, Y2K and contingency planning strategies. The results of those reviews provided the Board with added assurance that there were appropriate strategies in place within those agencies to address areas of Board interest and responsibility. The Y2K readiness efforts of its service providers were completed just after year end. The Board will of course continue to focus on readiness in the coming months.

## Governance

Improvements in several aspects of governance were made during the year. In March 1999 the Board made some adjustments to the performance levels and service standards documented in its Administrative Agreement with ComSuper. As detailed in this report those standards were met, and generally exceeded, throughout the year. The Board is also mindful of the principles and better practice guide recently issued by the Australian National Audit Office (ANAO) for Commonwealth authorities and companies.

## Thanks

I am very appreciative of the hard work and excellent co-operation by all trustees throughout what was a challenging year.

The Secretary to the Board, Ms Michele Dawson, retired in July 1998. I would therefore like to acknowledge the valuable contribution made by Michele to the work of the Board since its inception in 1991.

On behalf of the Board as a whole I would also like to thank IPAC, the Board's investment adviser, ComSuper, the Scheme administrator, KPMG, the Board's audit and taxation adviser, and Clayton Utz, its legal adviser, for their excellent service during the year.

A handwritten signature in black ink, appearing to read "Charles Kiefel". The signature is written in a cursive style with a large initial "C".

Charles Kiefel  
Chairman

## About the MSBS

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### 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 of the member's own contributions, including amounts notionally brought over from the DFRDB Scheme, plus interest (credited 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 retirement from the workforce at age 55 or later. 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 a Board of Trustees.

Where the member resigns from the Defence Force the member benefit accrued to 30 June 1999 can be immediately paid 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 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 1999 were:

*Chairman:*

**Mr Charles Kiefel** BCom, FCA, FAICD

Appointed 11 July 1997. Mr Kiefel is Managing Director, Corporate Finance, of ANZ Investment Bank, and is experienced in providing advice to a number of multinational corporations and governments.

*Minister's Nominees:*

**Mr Patrick Gourley** BEc (Hons), MEc

Appointed 9 August 1993. Mr Gourley is First Assistant Secretary, Defence Personnel Executive, Department of Defence.

**Mr Michael Sharpe** AM, Hon DScEcon, BEc, FCA

Appointed 29 April 1998. Mr Sharpe is chairman of State Super Financial Services Ltd and a director of the Australian Stock

Exchange Ltd. He was awarded membership of the Order of Australia in 1991 for his services to the accounting profession.

*CDF Nominees:*

**AIRCDRE Nick Ford** BEc, BCom, BA

Appointed 11 July 1997. AIRCDRE Ford is Director General, Personnel Plans, Defence Personnel Executive.

**WOFF Robert Swanwick**

Appointed 22 September 1997. WOFF Swanwick is a RAAF Loadmaster currently working in the Directorate of Workforce Planning (Air Force).

**Indemnity insurance**

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

**Schedule of Board meetings**

	Aug 98	Oct 98	Dec 98	Jan 99	Feb 99	Apr 99	Jun 99
Mr Charles Kiefel	P	P	P	P	P	P	P
Mr Michael Sharpe	P	P	P	P	P	P	P
Mr Patrick Gourley	P	P	P	P	P	P	P
WOFF Rob Swanwick	P	P	P	P	P	A	P
AIRCDRE Nick Ford	P	P	P	P	P	P	P
WOFF Peter Alomes*					P	P	

\*Alternate to WOFF Swanwick    P—present at meeting    A—apologies

## **Fund investment**

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### **Investment policy**

In January 1999, with the assistance of IPAC Portfolio Management Ltd (IPAC), the Board's investment adviser and portfolio manager, the Board conducted a full review of the Fund's investment objectives, strategy and implementation.

Following the review the Board endorsed the current investment strategy subject to a revised asset allocation range. This revised range constrains each asset class to a movement of not greater than 5% without prior approval of the Trustees. Total growth assets will be similarly constrained.

The Board intends to hold a similar review on an annual basis. IPAC, on behalf of the Board, regularly monitors the performance of the Board's fund managers and advises the Board accordingly.

### **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.

### **Meeting the Fund's investment objectives**

The Board's investment policy focuses on two primary objectives; to maximise long term fund returns, and to manage and control business and investment risks.

The Board's specific objectives are to achieve annual returns that exceed inflation over rolling five year periods by at least 5% per annum; and to ensure that the chance of a negative return in any one year is no greater than one in six.

## Investment strategy

The main points of the Board's investment strategy are summarised below.

- 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, fees and 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.

## Investment management

The Board has directed its fund managers to implement its long-term investment strategy. The fund managers have to manage their portfolios in accordance with specific guidelines set down by the Board. Those guidelines 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 funds managers against that plan progressively throughout the year. Assessments of the long-term performance of each funds manager are made at six-monthly intervals (or as needed having regard to emerging market conditions). For this purpose each funds manager meets regularly with the Board 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.

### Custodial services

The Board's Master Custodian, Morgan Stanley Australia Limited, was sold to Chase Manhattan Bank on 1 October 1998. Chase Manhattan Bank performed custodian functions until the Board's appointment of a new Master Custodian, State Street Australia Limited, on 15 June 1999.

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 1999 were:

Australian equities	Active Active	Tower Portfolio Management Australia Portfolio Partners Limited
International equities	Core Active	Barclays Global Investors N.A. Wellington Management Company
Property securities	Active	Morgan Grenfell (Australia) Limited
Direct property	Active	Commonwealth Funds Management Limited
Australian fixed-interest	Core	Westpac Investment Management Limited
International fixed-interest	Active	Credit Suisse Investment Management (Australia) Limited
Cash		State Street Australia Limited

The fund managers' addresses are given in Appendix 3 on page 86.

## Investment performance

As was the case last year, the Fund has produced a good result during a time of very turbulent financial markets around the world. International markets moved up only a little over the year and most gains were again concentrated in a small number of large technology companies. By contrast, the Australian share market was the best sector during the year. As the Fund has approximately one third of its investments in Australian shares, this result underpinned the year's result.

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, 1997–98 and 1998–99\***

Sector	Effective exposure at 30/6/98		Effective exposure at 30/6/99		Performance 1998–99	
	\$m	%	\$m	%	Fund %	Benchmark %
Australian shares	242.5	33.9	307.6	37.1	17.9	15.4
International shares	149.6	20.9	152.3	18.4	12.5	8.2
Property trusts	73.0	10.2	98.3	11.9	3.0	4.3
Direct property	6.2	0.9	5.6	0.7	9.4	8.1
Australian fixed interest	100.6	14.1	115.1	13.9	3.2	3.3
International fixed interest	36.0	5.0	38.3	4.6	5.9	5.5
Liquids/cash	107.3	15.0	111.0	13.4	4.8	5.0
<b>Total fund</b>	<b>715.2</b>	<b>100.0</b>	<b>828.2</b>	<b>100.0</b>	<b>8.3</b>	<b>8.3*</b>
*InTech Performance Survey of Market Linked Pooled Funds, June 1999						

## Fund growth

Fund assets (including non-invested assets) at 30 June 1999 totalled \$841.6 million, an increase of 15.8% on the funds under management at 30 June 1998 (due as much to strong growth in contributions as it was to investment performance).

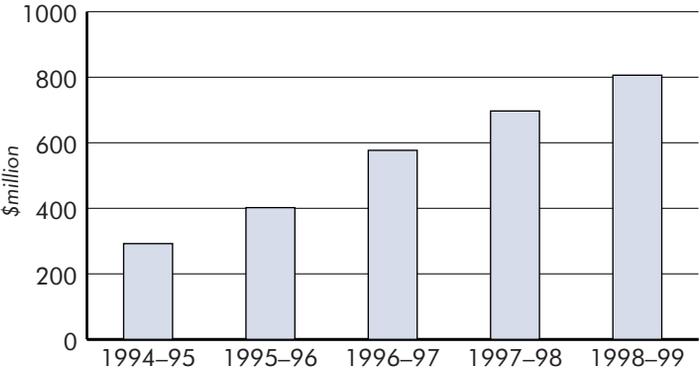
After provision for all taxes, charges and benefits (as shown in Table 2), the Fund totalled \$806.1m, a 15.7% increase from 1997–98. This figure differs from that quoted above because it

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 1994–95.

**Table 2: Fund size at 30 June 1999 (after tax, charges and benefits)**

<b>Fund size at 1 July 1998</b>	<b>\$m</b> <b>696.9</b>
Inflow	
Contributions	127.8
Investment earnings	70.3
Outflow	
Benefits paid	(72.4)
Investment and other expenses	(4.3)
Taxation	(12.2)
<b>Value of Fund at 1 July 1999</b>	<b>806.1</b>

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



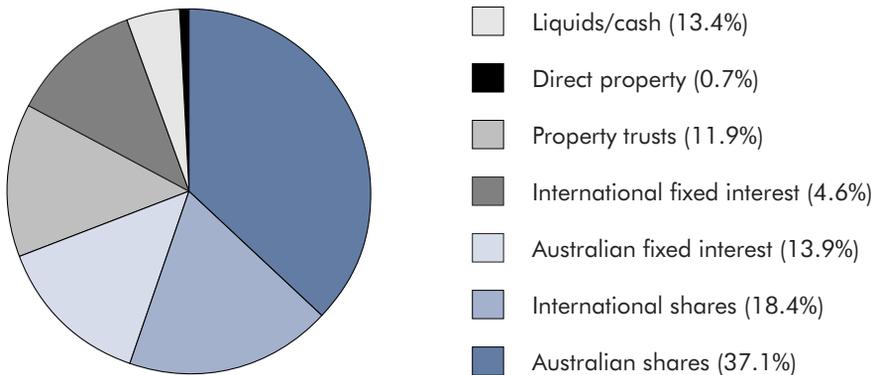
### Asset allocation

The asset allocation ranges and actual asset allocation (measured in terms of effective exposure) for each investment sector as at 30 June 1999 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	Effective exposure	Range	Benchmark
Australian shares	37.1%	25%–45%	ASX All-Ordinaries Accumulation Index
International shares	18.4%	12%–35%	Morgan Stanley Capital International (MSCI) World Index (excluding Australia)
Property trusts	11.9%	5%–18%	ASX Property Trust Accumulation Index
Direct property	0.7%	0%–18%	MSCI Property Trust Accumulation Index
Australian fixed interest	13.9%	2.5%–16.5%	SBC WDR Composite Bond Index
International fixed interest	4.6%	1%–15%	J.P. Morgan Hedged Global Bond Index
Liquids/cash	13.4%	0.5%–20%	SBC WDR Bank Bill Accumulation Index

**Chart 2: Sectoral allocation as proportion of the Fund**



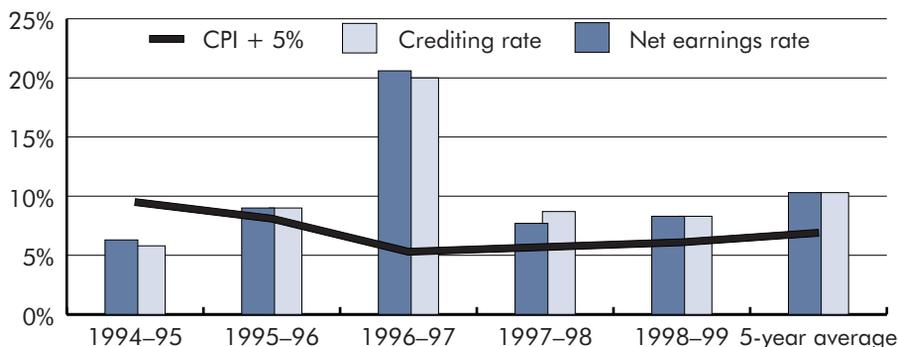
Note: This chart is a sectoral presentation of investment holdings. Its figures differ from the method of presentation in the financial statements, which include provision for outstanding settlements and separates cash holdings within each sector.

## 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. Because of this allowance, the crediting rate can differ from the return on the Fund’s investment performance.

Chart 3 shows a comparison of the crediting rates declared since 1994–95 against the Fund’s earnings rate and the objective of exceeding CPI by 5% over rolling five-year periods.

**Chart 3: Annual earning, crediting and CPI rates since 1994–95**



## 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.

With effect from 1 July 1998 the exit rate has been calculated each month based on monthly Fund performance, rather than every three to four months as was previously the case.

The new policy ensures the exit rate more accurately reflects the exiting member’s share of actual investment performance earnings for the period from the previous 1 July to the date of exit.

Setting of exit rates based on (calendar) monthly Fund performance means that fluctuations, both positive and negative, in the exit rate will be greater than those experienced under the previous policy. This is because the use of quarterly performance results acted to smooth the investment return whereas the move to monthly performance results provides a more accurate picture of the year to date position of the Fund without any smoothing effect.

The Board’s current policy is to ensure that the monthly exit rate reflects an exiting member’s proper share of actual investment performance for the year to date. This means that in periods of low or negative investment performance there is a greater chance that at the beginning of the year a negative rate of interest could be set. However, the Board’s investment policy is structured to minimise this risk.

Members who are about to leave the ADF and who are concerned about the exit rate in force at the time can avoid having that rate apply to their benefit. They can do this by electing to leave their money in the Fund for a period rather than take it on leaving the ADF.

The twelve rates determined by the Board during 1998–99 are shown in Table 4. Each new exit rate replaces the previous one.

**Table 4: Exit rates declared in 1998–99**

21 August 1998	4.7%
31 August 1998	7.3%
28 September 1998	-19.4%
27 October 1998	-4.4%
30 November 1998	0.9%
21 December 1998	7.8%
1 February 1999	10.2%
1 March 1999	10.9%
24 March 1999	7.3%
3 May 1999	9.8%
31 May 1999	10.6%
21 June 1999	6.7%

## Governance

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### Business Plan

In January 1999 a revised Business Plan was released. It set 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.

### 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 1998–99 audit the Board's external auditor did not identify any contravention of the SIS Act or Regulations.

## Delegations

Prior to March 1998 the Board formally delegated certain of its powers to specific staff within ComSuper. This meant that fresh delegations were required whenever structural or personnel changes occurred within ComSuper.

At its meeting of 6 March 1998 the Board determined that relevant powers would be delegated to the Commissioner for Superannuation, who in turn was empowered to authorise ComSuper staff to exercise Board powers for and on her behalf. This approach streamlines the delegation process and allows faster updating of authorisations when changes are required. A register of Instruments is made available to the Trustees. Powers retained by the Trustees include:

- application of the legislation which produces a result not in keeping with the spirit of the legislation; and
- reconsideration of decisions.

Due diligence continues to be exercised by the Board in relation to the review of proper exercise of Board powers, and the administrator is required to bring important matters to the Board's attention for information or formal approval as the case may be.

## Administrative Agreement

ComSuper, in consultation with the Board, developed a new Administrative Agreement setting out the level of service to be provided to the Board. This agreement was signed on 22 March 1999 by the Chairman of the Board and the CEO of ComSuper. A companion agreement was developed setting out the level of service to be provided between the Department of Defence and the MSB Board. This agreement was signed by the Chairman of the Board and the Secretary of the Department of Defence on 18 May 1999.

## Board Committees

### Audit Committee

The Audit Committee is a sub-committee of the full Board. During 1998–99 the Committee comprised Mr Michael Sharpe

AM (chairman), Air Commodore Nick Ford and Warrant Officer 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 based on appropriate accounting concepts, systems and techniques;
- 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.

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

- provides advice on matters of significance and importance to the Board;
- assists in the annual review of the prudential and regulatory requirements of the Fund and the Trustees; and
- reviews annual financial statements and advises the Board on significant industry wide developments.

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

## **The Military Superannuation Communication Advisory Group**

The Military Superannuation Communication Advisory Group (MSCAG) was established in 1996 to ensure the effective and

timely provision of quality information and education on superannuation matters to ADF members. The Chairman is WOFF Robert Swanwick and members 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 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.

## Year 2000 readiness

The MSB Board aims to be Year 2000 ready. Such readiness requires:

- checking that computer systems used to deliver services will continue to function properly before, during and after 2000; and
- having appropriate contingency plans in place to maintain critical services if problems do occur and quickly repairing such problems.

Throughout the year the Board closely scrutinised the progress and adequacy of its administrator's year 2000 readiness project, and the action in train by its investment adviser, fund managers and custodian to avoid any Year 2000 problems. External review of the project and the related business continuity plan were also undertaken (see page 56).

By the end of the year, the Board was satisfied with progress in all its service providers, and shifted its focus to business continuity and contingency planning.

This statement is a disclosure statement for the purposes of the *Year 2000 Information Disclosure Act 1999*. A person may be protected by that Act from liability in certain circumstances. Authorised by the MSB Board of Trustees.

## Evaluation

### Annual Effectiveness Reviews

The Board's review of investment is covered on page 4 under Fund investment.

In December 1998 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 an administrative agreement with ComSuper in March 1999 (see page 13).

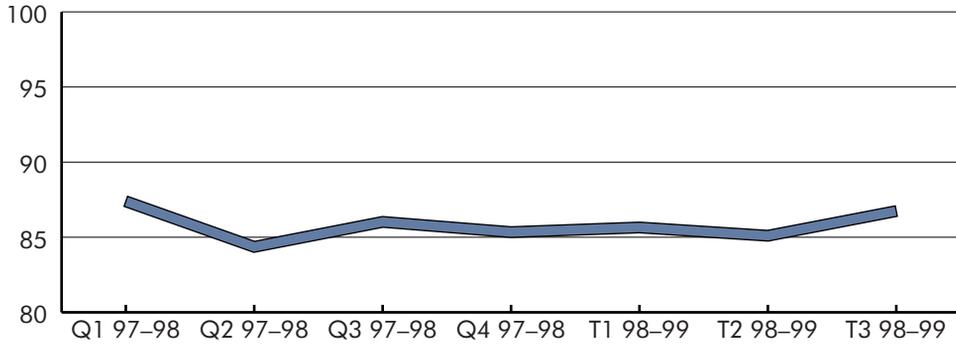
The performance standards referred to in this report are those defined in the administrative agreement. Performance against the standards, and the standards themselves, are the subject of ongoing annual effectiveness reviews.

### Client feedback

During 1998–99 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, continues to rank in the region of 85 with an average score for the seven periods of 85.80. Chart 4 shows ComSuper's QSI scores for the military schemes in each of the four survey periods in 1997–98 and the three survey periods in 1998–99.

**Chart 4: Quality Service Index (QSI) scores for military client satisfaction, 1997-98 and 1998-99**



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.

## 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.

SERVICE	
ComSuper (the Board’s administrator) will: <ul style="list-style-type: none"> <li>• 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;</li> <li>• ensure that adequate systems, procedures and controls are in place to meet the administration and reporting requirements of the Act and associated legislation; and</li> <li>• 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.</li> </ul>	
STANDARD	OUTCOMES
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.	Management representation letters containing the assurances referred to were presented in September 1998. These letters were subject to internal and external audit scrutiny.

At 30 June 1999, there were 36 290 contributors to the MSBS, 30 373 (83.7%) of whom were male and 5 917 (16.3%) female. Table 5 shows the number of new entrants and exits and the total contributor membership at 30 June 1999. 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 1998	16 568	20 788	37 356
Plus new contributors	0	3 674	3 674
Less exits	(2 304)	(2 436)	(4 740)
<b>Membership at 30 June 1999</b>	<b>14 264</b>	<b>22 026</b>	<b>36 290</b>
Note: The membership figures given in this table for 30 June 1998 differ from those in the 1997–98 report and in the summary table on page 61 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	22 023	4 629	26 652
10–14	5 016	1 040	6 056
15–19	1 918	209	2 127
20+	1 416	39	1 455
<b>Total</b>	<b>30 373</b>	<b>5 917</b>	<b>36 290</b>

The largest number of contributors in 1998–99 was aged between 25 and 29 years, 31.2% of members being in that age group. The next largest group (20–24 years) comprised 29.7% 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 1998–99 were \$127 802 000, of which member contributions comprised \$84 191 000. Table 7 compares the total member and employer contributions that have been received each year since 1994–95.

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

Year	Contributors	Member contributions	Employer contributions	Total contributions
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
1997–98	37 861	\$82 383 000	\$42 185 882	\$124 568 715
1998–99	36 290	\$84 191 000	\$43 611 000	\$127 802 000

## Exits

There were 4 740 exits from the MSBS during the year. The types of exit are shown in Table 8.

**Table 8: Modes of exit since 1994–95**

Mode of exit	1994–95	1995–96	1996–97	1997–98	1998–99
Age retirement	78	84	80	94	81
Resignation	4 617	4 808	4 065	3 209	3 654
Redundancy	2	1	4	64	90
Invalidity retirement	505	435	366	473	653
Death	22	17	19	18	19
Other*	309	251	267	213	243
<b>Total</b>	<b>5 533</b>	<b>5 596</b>	<b>4 801</b>	<b>4 071</b>	<b>4 740</b>
*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 per cent 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 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.

Late in 1998–99, the ATO reported surcharge debts for some MSBS members to ComSuper. The total of these debts is shown on page 83. The debts ranged in value from \$12.55 to \$2 917.45. ComSuper sent letters to all affected members, setting out options for payment of the debt. Some of these members have elected to pay the debt. The total amount paid is again shown on page 83. Debts for the remaining members who will be affected by the surcharge are expected to be reported by the ATO in August 1999.

The Board intends to lodge an objection against the assessments on behalf of members.

## Contribution remittances

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

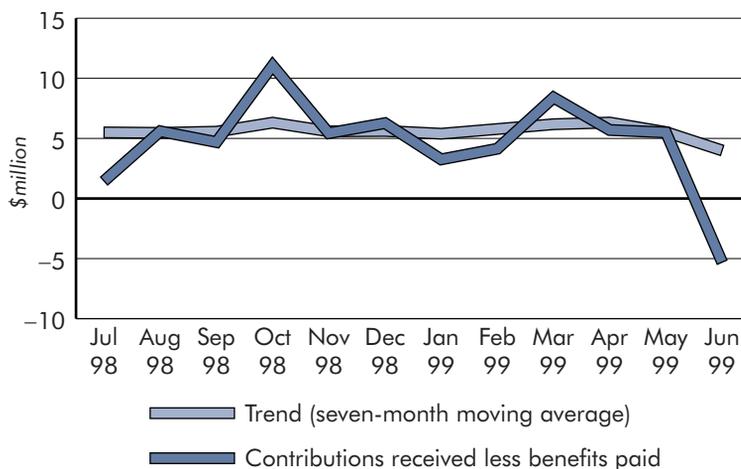
### SERVICE

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>The Department of Defence directly credits all contributions into the MSB bank account on the due date.</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>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 to be recorded in the MSBS accounting systems within one week of receipt.</p>	<p>Contribution remittances were recorded in the MSBS accounting systems generally 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>All contribution remittances were received from the Department of Defence by the due date.</p>
<p>Daily reconciliations will be undertaken to ensure that all moneys received are banked.</p>	<p>Bank reconciliations were performed on a daily basis.</p>

Chart 5: MSB Fund cash flow (contributions received less benefits paid), 1998–99



Note: The net contributions flow for the MSB Fund was negative for the month of June 1999 due to a one-off payment of \$10.4 million to adjust for previous under-reimbursements of the Consolidated Fund in respect of the productivity contributions component of MSBS benefits.

## 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.

### SERVICE

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 inquiries 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 standard was met for 1998–99.</p> <p>This standard was met for 1998–99.</p>	
Written inquiries/ requests for benefit estimates	Proportion of requests	Written inquiries/ requests for benefit estimates	Proportion of requests
respond within 10 working days	75%	respond within 10 working days	98.7%
respond within 15 working days	100%	respond within 15 working days	100%
Member statements	deliver to Department of Defence no later than 6 weeks after the Board determines the annual crediting rate	Member statements	delivered to Department of Defence in 8–10 weeks (delays with printing)
Manually generated statements	issue by 31 December	Manually generated statements	last issue by 24 December
Replacement member statements	issue within 30 days of the request	Replacement member statements	100% issued within 28 days (average 14 days)

STANDARD		OUTCOMES	
Telephone inquiries	Proportion of calls	Telephone inquiries	Proportion of calls
answer at time of call	90%	answer at time of call	99%
answer within 2 days	100%	answer within 2 days	100%
dropout rate*	less than 5%	dropout rate*	4.6%
average wait time*	less than 90 seconds	average wait time*	48 seconds
response rate	60% answered within 60 seconds	response rate	62% answered within 30 seconds
<p>*Averaged over a year for those months when the number of calls is 4 000 or less.</p> <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 affect and within 12 months of a change that has no adverse affect.</p>		<p>*Averaged over a year for those months when the number of calls is 4 000 or less.</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

The MSCAG met monthly during the year. A significant amount of its time was spent on monitoring and refining ongoing communications products such as member information statements and associated material, the annual report to members, and *Military Super News*. In conjunction with the above, the MSCAG monitored the Board’s communication with members to ensure it continued to meet SIS (the *Superannuation Industry (Supervision) Act 1993*) requirements.

During the year the Board commissioned an independent public relations consultant to work with the MSCAG on reviewing and improving communications strategies.

In addition, the MSCAG was active in the development of the MSB Board Investment Policy document. This document was

distributed with the 1998 member statements. Another priority was the communication of information on the superannuation surcharge and its implementation. An ongoing strategy for dissemination of relevant information was established. As part of this, the Group pursued the key communications issues through regular articles in Defence publications. Information on the schemes that was available on ComSuper's website was also released on the Defence Intranet.

## 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.

Overall, the workload remained very similar to last year although there has been a slight increase in all services provided. 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 1 035 telephone calls per week.

During the year, ComSuper staff provided personal counselling to 66 members and gave presentations at 29 resettlement seminars, which were attended by a total of 5 370 people (both MSBS and DFRDB members). Four combined MSBS–DFRDB sessions was attended by 109 members. Thirty-seven MSBS member sessions and six information sessions for administrative/discharge staff were also conducted and were attended by 1 868 members and 143 staff respectively. The member sessions were primarily conducted in conjunction with the resettlement seminars. A total of 1 279 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 1998–99

financial year these were distributed in 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. In 1998–99 the average processing time for replacement statements was 14 days.

## Website development

Usage of the Internet site increased in 1998–99 and is carefully monitored.

In 1998–99 further work was undertaken to improve the accessibility of electronic information by:

- including comprehensive searching facilities;
- placing copies of the website material on Defence computing networks; and
- distributing the regular monthly newsletters in electronic form through e-mail.

## Benefit payments

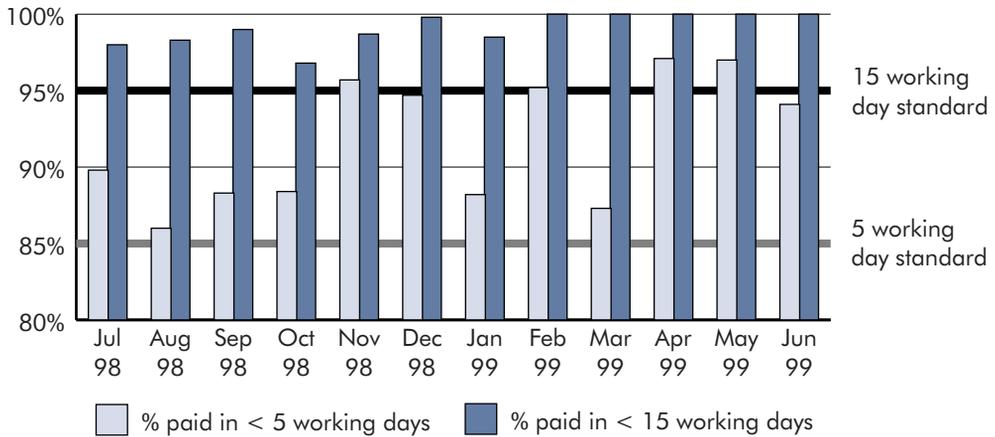
All exiting members are entitled to a member-financed benefit regardless of their reason for leaving the ADF. Members are also entitled to an employer-financed benefit, which varies according to the reason for exit. Full details of entitlements are given in the publications available from Pay Offices and ComSuper (see page 88).

**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		OUTCOMES	
600 or less combined* Military Schemes benefit applications per month	Proportion	There were four months in which there were less than 600 benefit applications processed.	
within 5 working days	85%		
within 15 working days**	95%		
More than 600 combined* Military Schemes benefit applications per month	Proportion	Combined schemes benefit processing exceeded 600 per month on eight occasions during the year.	
within 5 working days	75%		
within 15 working days**	85%		
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).  *The total of MSB and DFRDB applications. **A report will be provided on the number of applications processed outside 15 days and the amount of late payment interest paid.		600 or less combined Military Schemes benefit applications per month	Proportion
		within 5 working days	standard met in all months—monthly average was 89.4%
		within 15 working days	standard met in all months—monthly average was 98.7%
		More than 600 combined Military Schemes benefit applications per month	Proportion
		within 5 working days	standard met in all months—monthly average was 91.9%
		within 15 working days	standard met in all months—monthly average was 99.4%

**Chart 6: MSBS benefit processing against standards, 1998–99**



## Benefits payable on discharge

### 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.

From 1 July 1999 discharging members will be 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 4 740 members who left the Scheme during the year, 4 116 elected to claim their member benefit and received payments totalling \$109 519 938.

### 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 1998 and 30 June 1999, 650 members received lump-sum employer benefit payments under MSBS legislation, as detailed in Table 9. These lump-sum benefits from the Scheme amounted to \$27 502 487.

**Table 9: Partial and full lump-sum employer benefit payments, 1998–99**

<i>Reason for exit</i>	<i>Number</i>	<i>Total lump-sum payments</i>	<i>Average lump-sum payment</i>
		\$	\$
Retirement	53	10 856 253	204 834
Redundancy	0	0	0
Preserved > age 55	27	5 018 588	185 873
Reversionary benefits			
spouses	9	2 346 965	260 773
orphans	0	0	0
estates	9	2 201 656	244 628
Early payment			
ISC approved	502	3 906 868	7 782
Board approved	50	3 172 157	63 443
<b>Total</b>	<b>650</b>	<b>27 502 487</b>	<b>42 311</b>

## 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.

### SERVICE

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 14 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).

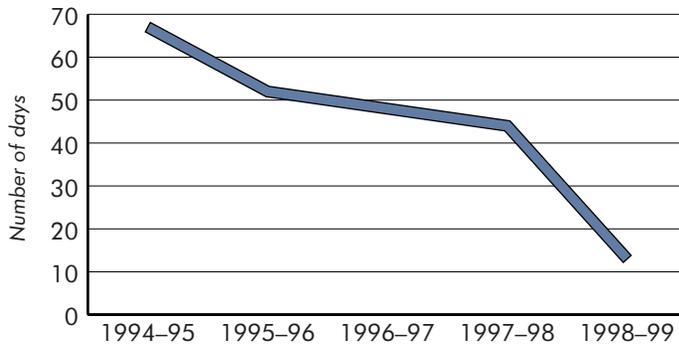
Members will be advised of decisions taken within 3 working days.

### OUTCOMES

In 95% of cases ComSuper is meeting this standard. ComSuper in conjunction with Defence has implemented new medical assessment arrangements whereby ComSuper contracts Health Services Australia doctors to assess the member's incapacity, in lieu of Service doctors. Under the new arrangements it is hoped in time that 75% of members will be classified and know their invalidity entitlement prior to their discharge from the Defence Force. The new procedures, which commenced in September 1998, have already had a considerable effect on reducing delays after the member's discharge from the Defence Force (see Chart 7).

ComSuper meets this standard in 99% of cases.

**Chart 7: 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 MSB Rule 17 and is required to determine the classification of members retired on invalidity grounds and to review the existing classification of invalidity pension recipients. The ICC made 261 initial classification decisions during 1998–99.

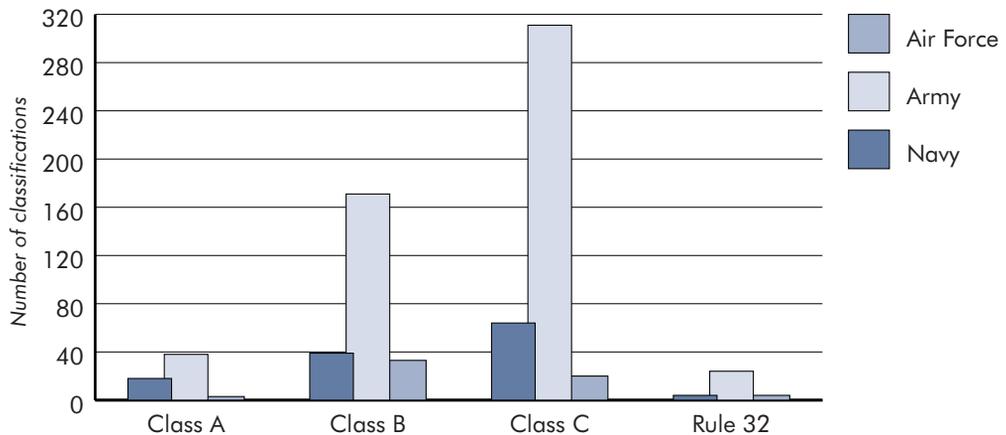
The rate of invalidity pension payable to a recipient member may be altered if the pensioner's degree of incapacity to undertake civilian employment deteriorates or improves. If specialist evidence indicates that a member's classification is no longer appropriate, the review of that case is passed from the ComSuper delegate to the ICC. The ICC made 107 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 1998 to 30 June 1999, 697 members received initial invalidity classifications. The total number of invalidity cases processed was 729, although in 32 of these cases Rule 32 (relating to pre-existing conditions) was applied. This is an increase of 236 invalidity cases on the previous year (total 493) because of the implementation of new medical and deployment standards. Of those who received an invalidity classification, 302 (59 Class A and 243 Class B) became entitled to an invalidity pension. The remaining 395 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 8.

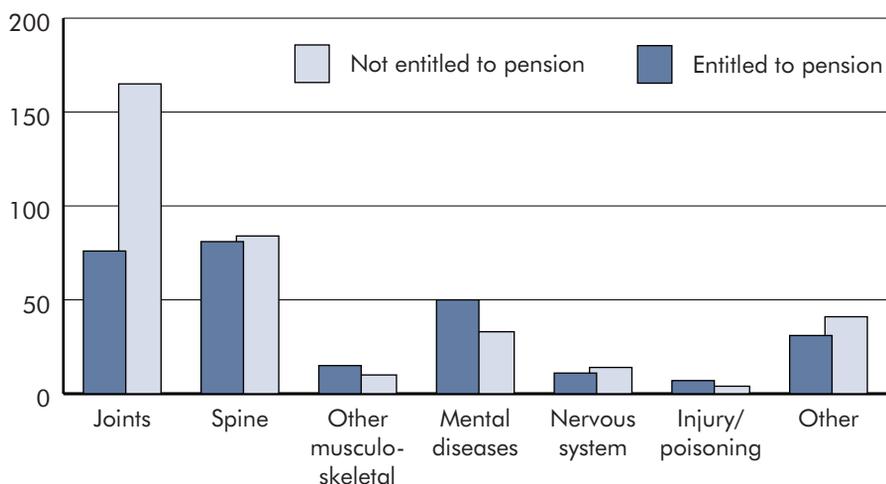
**Chart 8: Comparison of invalidity classifications in 1998–99, by Service**



### Causes of invalidity retirement

During 1998–99, the most common causes of invalidity retirement were musculoskeletal disorders, particularly of the joints and the spine. Of the 729 members who retired on invalidity grounds, 65% were in this category. A comparison of the causes of invalidity retirement is shown in Chart 9.

**Chart 9: Causes of invalidity retirement during 1998–99**



## Accounts, records and funding of benefit payments

### SERVICE

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 5 on page 22 which indicates that the MSB cash flow was positive for all months except June 1999 when a one-off payment was made to adjust for previous under-reimbursements of the Consolidated Fund in respect of the productivity contributions components of MSBS benefits.

## 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 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 will be 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

### SERVICE

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.

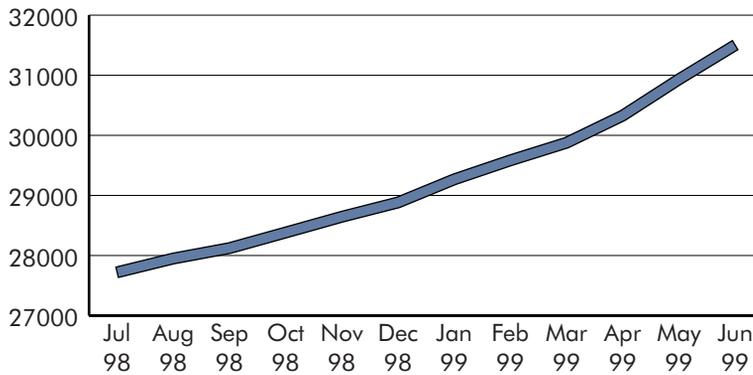
### STANDARD

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 in September 1998. These letters were subject to internal and external audit scrutiny.

**Chart 10: Growth in MSBS preserved benefit member population, 1998–99**



### Preserved benefit member communications

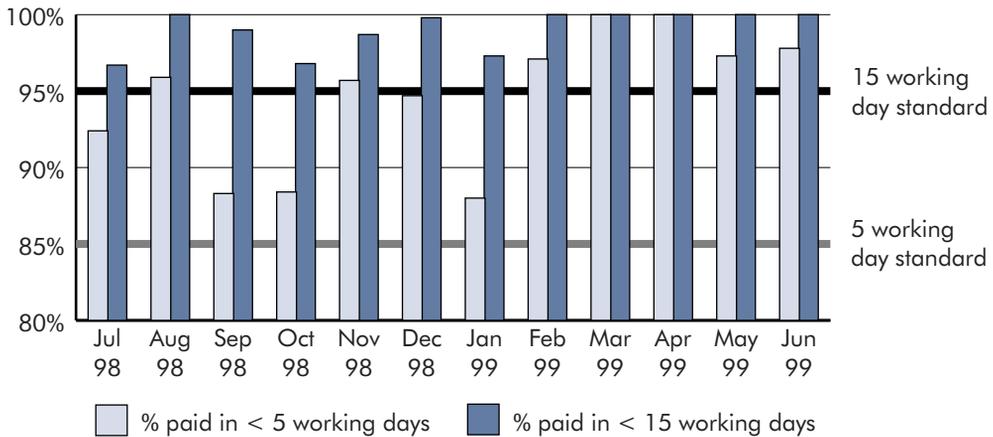
SERVICE	
The services outlined on pages 24–25 also apply to this activity.	
STANDARD	OUTCOMES
The commitments given on pages 24–25 also apply to this activity.	

### Preserved benefit payments

SERVICE
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	The standards were met in all months of financial year 1998–99.
within 5 working days	85%	
within 15 working days	95%	
<p>Note: When the total number of combined Military Scheme benefit applications in a month exceeds 600 a lower standard will apply (see page 28).</p>		

Chart 11: MSBS preserved benefit processing against standards, 1998–99



At 30 June 1999, there were 2 050 preserved member benefits totalling \$30 484 868, as shown in Table 10.

Table 10: Member benefits paid or preserved, 1998–99

	Number	Lump sums	Average amount
Benefits paid on exit, 1998–99	4 116	\$109 519 938	\$26 608
Benefits preserved at 30 June 1999	2 050	\$30 484 868	\$14 870
Withdrawal of preserved benefits, 1998–99	238	\$7 360 024	\$30 924
<p>Note: Members who received a partial withdrawal of their member benefit are counted under both benefits paid and benefits preserved.</p>			

## 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 1999, there were 31 501 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 benefits 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.

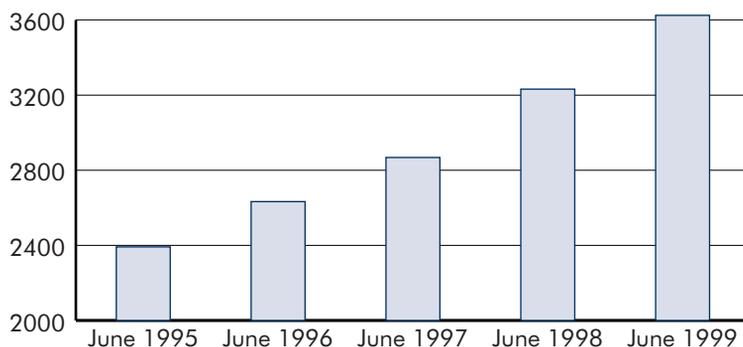
During 1998–99, the Board approved the early release of 552 benefits, totalling \$7 079 025, on the grounds of permanent physical or mental incapacity; permanent departure overseas; severe financial hardship; or on compassionate grounds.

## Pensioners

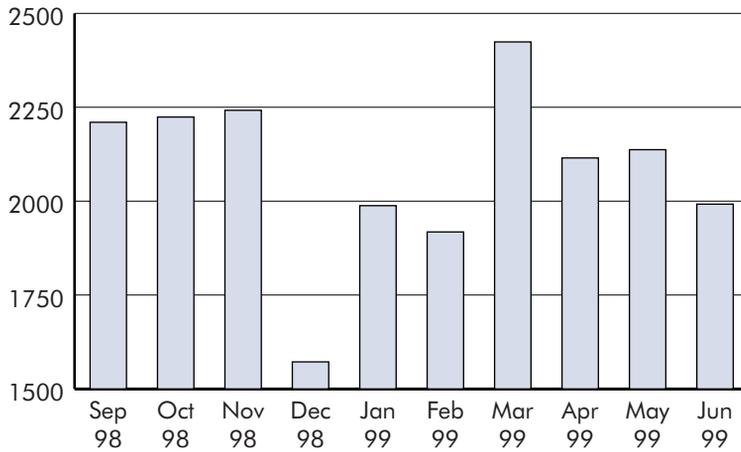
### Account maintenance

SERVICE	
<p>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.</p>	
STANDARD	OUTCOMES
<p>Changes to pension payment arrangements will be made within the first available fortnightly pay cycle following receipt of a request.</p> <p>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.</p>	<p>Detailed supporting statistics are not available for 1998–99 but indications are that the standard was met in the majority of cases.</p> <p>Management representation letters containing the assurances referred to were presented in September 1998. These letters were subject to internal and external audit scrutiny.</p>

Chart 12: Growth in MSBS pensioner population in past five years



**Chart 13: Military pension variations, ten months to June 1999\***



\*Data not available before September 1998

## Pensioner communications

### SERVICE

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 were dealt with within the agreed standards (see the table below).</p> <p>A total of 27 058 written inquiries were processed in 1998–99 (see Chart 15). All were answered within the agreed standards (see Chart 16).</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 before the first pension payday in July 1999
Average telephone wait time*	less than 1 minute	Average telephone wait time*	27 seconds
Dropout rate	less than 5%	Dropout rate	4%**
Average response time*	80% of calls to be answered in 30 seconds	Average response time	81% of calls answered in 30 seconds
*averaged over a year		*averaged over the year **Since February 1999, when new procedures were introduced, the dropout rate has dropped to 2%.	

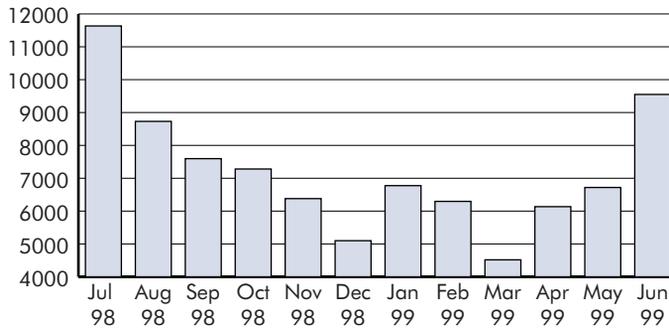
## Counselling and inquiry service

Staff of the Retired Member Advisory 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.

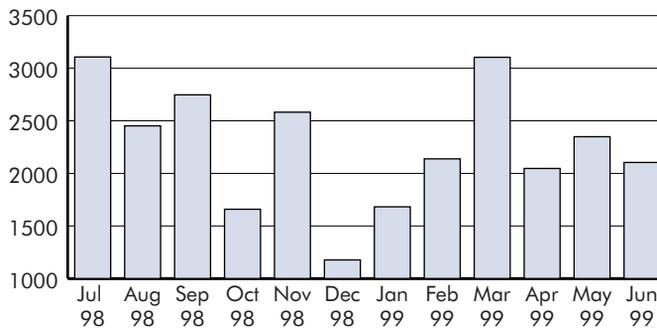
Advisory officers can be contacted by telephone (through a dedicated call centre), letter, facsimile or e-mail. Pensioners with hearing impairments can use a special teletypewriter (TTY) facility. Advisory officers are available for personal counselling at ComSuper's office.

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.

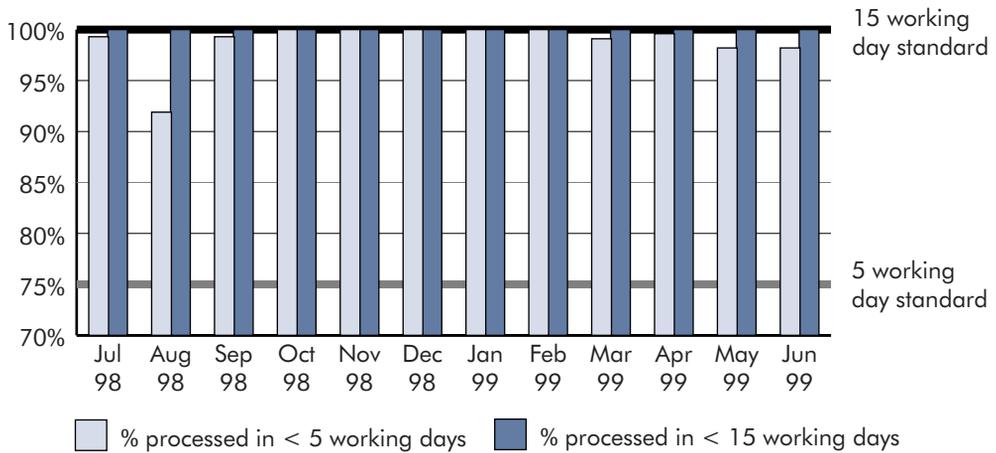
**Chart 14: Telephone calls received by the Retired Member Advisory Service in 1998–99**



**Chart 15: Written inquiries received by the Retired Member Advisory Service in 1998–99**



**Chart 16: Retired member written inquiries processing against standards, 1998–99**



## Benefit payments

### Employer-financed benefits paid as pension

At 30 June 1999, 3 625 members were receiving MSBS pensions. Pensions paid during 1998–99 totalled \$41 853 000. 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 1995.

During the year, 506 new pensions were granted, while 147 pensions ceased. A breakdown of new pensions by class of benefit is contained in Table 12. Table 12 also shows the estimated liability for 1999–2000 of the pensions granted in 1998–99 and the average pension estimated to be received by each person.

**Table 11: Number of pensioners since 30 June 1995, by type of benefit**

<i>Class of pension benefit</i>	<i>Number of pensioners</i>				
	<i>30 June 1995</i>	<i>30 June 1996</i>	<i>30 June 1997</i>	<i>30 June 1998</i>	<i>30 June 1999</i>
Retirement	250	306	349	412	459
Redundancy	1 621	1 619	1 609	1 674	1 763
Preserved > age 55	20	32	54	88	114
Invalidity	522	683	830	1 029	1 256
Reversionary benefits*					
<i>spouses</i>	19	21	26	29	33
<i>orphans</i>	0	0	0	0	0
<b>Total</b>	<b>2 198</b>	<b>2 432</b>	<b>2 661</b>	<b>3 232</b>	<b>3 625</b>
*Payable on the death of a member, former member or pensioner.					

**Table 12: New pensions granted during 1998–99 and annual liability**

<i>Class of benefit</i>	<i>Number</i>	<i>Annual liability</i>	<i>Annual average pension</i>
		\$	\$
Retirement	45	955 562	21 235
Redundancy	93	948 746	10 202
Invalidity	332	4 635 844	13 963
Preserved > age 55	25	613 180	24 527
Reversionary benefits*			
<i>spouses</i>	11	236 061	21 460
<i>orphans</i>	0	0	0
<b>Total</b>	<b>506</b>	<b>7 389 393</b>	<b>14 604</b>
*Payable on the death of a member, former member or pensioner.			

## Review of invalidity classifications

SERVICE	
ComSuper may from time to time review the classification of invalidity pensioners either of its own volition or at the request of pensioners.	
STANDARD	OUTCOMES
Reviews will be completed within 20 working days of receipt of all relevant information.	In 95% of cases ComSuper was able to complete the review within 20 working days of receipt of all the relevant information.
Members will be advised of decisions taken within 3 working days.	99% 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 1998–99, 31 members requested a review of their invalidity classification. During 1998–99, 289 such cases were examined, of which 159 received full medical reviews. As a result of these reviews 107 classifications were changed, as shown in Table 13.

**Table 13: Invalidity entitlements reviewed in past five years**

	1994–95	1995–96	1996–97	1997–98	1998–99
Entitlements examined	110	184	257	300	289
Review with medical exam	55	63	105	148	159
Classification raised	7	5	13	10	17
Classification reduced	13	24	57	67	90
<b>Total classification changes</b>	<b>20</b>	<b>29</b>	<b>70</b>	<b>77</b>	<b>107</b>

## Reversionary benefits

SERVICE	
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	OUTCOMES
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.	Detailed statistics for this activity were not available for 1998–99 but indications are that the standard was met.

## Pension increase

SERVICE	
ComSuper undertakes to process the annual pension increase in accordance with the Rules.	
STANDARD	OUTCOMES
Process the annual pension increase on the first payday on or after 1 July each year.	This standard was met for 1998–99.  In accordance with the agreed service standards, pension advice letters were sent to pensioners before the first pension payday in July.

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 1998–99, the Australian Bureau of Statistics announced a CPI change of 1.2% for the March to March year. However, because of last year’s negative CPI figure (–0.2%), the calculation method in the MSBS rules resulted in pensions being increased by 1.1% instead of by the announced CPI increase.

## **Annual notice to pensioners**

Pensioners were advised of the adjustment to their pensions in the annual pension advice letter that is sent to them each year, together with their income tax group certificate and other relevant information.

## Dispute resolution

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### Avenues of review

Decisions by the Board and its delegates, including the Incapacity Classification Committee and authorised officers, are subject to internal reconsideration and external review. These processes are managed by ComSuper. Members may also take complaints to the Superannuation Complaints Tribunal.

### 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.

#### SERVICE

Under Part 9 of the MSB Rules, the Board is required to establish a Reconsideration Advisory Committee (RAC). The RAC's role is to provide a recommendation to the Board on reconsideration of decisions made by the Board, its delegates, the ICC or authorised officers. 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	
100 or less combined military Schemes benefit applications received in the financial year	Proportion completed	There were 73 MSB and 56 DFRDB requests for reconsideration received in 1998–99. The proportions of cases completed against the relevant agreed standards were as follows:	
within 6 months	50%	More than 100 combined military Schemes benefit applications received in the financial year	Proportion completed
within 9 months	75%	within 6 months	40%
within 12 months	90%	within 9 months	57%
More than 100 combined military Schemes benefit applications received in the financial year	Proportion completed	within 12 months	84%
within 6 months	40%	The timeliness standard to be applied is dependent on the number of requests for reconsideration received. As evidenced in the table above, of the 61 cases processed, the standards were achieved in two categories, with only those cases completed in 9 months slightly below target. Towards the end of the year, ComSuper arranged or planned for additional staffing and contracted resources to assist in managing the increase in unresolved cases.	
within 9 months	65%	The Board regularly monitored outstanding cases, particularly those remaining unresolved for more than 12 months after having been received.	
within 12 months	80%		

## 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 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.

The RAC can operate with a quorum of three members.

## Reconsideration of decisions

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 the RAC on its own motion. Each applicant receives a comprehensive written statement of reasons for the Board'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 1998–99, 73 requests for reconsideration of decisions taken by or on behalf of delegates of the Board were received, an increase from the 63 requests received the previous year. While there was an influx of cases in late 1998 and early 1999, reflecting the rise in the number of invalidity discharges from the Army and the Air Force resulting from the introduction of revised fitness standards, towards the end of the financial year the peak appeared to have passed. Three requests for reconsideration of Board decisions were also received during 1998–99 compared with one during 1997–98.

The majority of requests for reconsideration concerned invalidity retirement benefit classification or reclassification decisions. The amount of benefit varies depending on the former member's assessed level of physical or mental incapacity to undertake suitable civilian employment.

Sixty-one cases were finalised during the year, compared with 45 cases last year. The Board affirmed 25 cases, varied 7 cases in favour of the applicant and set aside 13 cases. Another 16 lapsed because the applicant failed to pursue the matter. Sixty-five cases remained under investigation at 30 June 1999.

Table 14: Reconsideration applications for past five years

Year	1994–95	1995–96	1996–97	1997–98	1998–99
Requests on hand	24	29	34	35	53
Requests received	25	32	38	63	73
Requests resolved	20	27	37	45	61
Carried forward	29	34	35	53	65

## External review

The MSBS became a regulated superannuation fund for purposes of the *Superannuation Industry (Supervision) Act 1993*, following the MSB Board's election on 30 June 1995 to come under that Act. 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.

## Significant cases

In early 1998 the Full Federal Court handed down several decisions which brought into question the power of the SCT to review decisions of superannuation trustees under the SRC Act.

In July 1998, special leave was granted to the Commonwealth Attorney-General to appeal the case of *Breckler v Lesham* 57 FCA 12 Feb 1998 to the High Court. While the appeal was pending, the SCT ceased to review decisions of superannuation trustees. In the meantime, the *Superannuation Legislation Amendment (Resolution of Complaints) Act 1998* was passed in December 1998 to enable the SCT to arbitrate complaints with the consent of the parties. This amending legislation was the Government's interim solution for resolving disputes on superannuation complaints.

On 17 June 1999, the High Court handed down its decision which unanimously upheld the power of the SCT to review decisions of

trustees of regulated superannuation funds. Given the High Court decision, the SCT may proceed to determine complaints against trustees as it did prior to the Federal Court decisions in early 1998.

Four complaints by MSBS members were lodged with the SCT during the year and four SCT cases were carried over from 1997–98. Two complaints were resolved during the year—one was withdrawn by the complainant, and the other was treated by the SCT as having been withdrawn on the ground that the complaint was lacking in substance. There were six cases outstanding as at the end of June 1999.

In 1998–99 there were no applications for review lodged with the Federal Court in respect of decisions of the MSB 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

SERVICE	
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.	
ComSuper also undertakes to do all things necessary to facilitate the expeditious processing of negligence claims against the Board.	
STANDARD	OUTCOMES
Process all external cases both objectively and expeditiously.	ComSuper’s extensive discussions with the SCT on how the MSB Scheme works and its thorough participation in SCT conferences have hastened the conciliation process.

## Complaints, ministerials and Ombudsman inquiries

SERVICE
<p>ComSuper will maintain systems for dealing with SIS registered complaints and representations made by Parliamentarians and the Ombudsman.</p> <p>ComSuper will also maintain systems for dealing with requests under the <i>Freedom of Information Act 1982</i>.</p>

STANDARD	OUTCOMES												
<p>Provide a substantive response to SIS registered complaints (excluding requests for internal review):</p> <table border="1"> <thead> <tr> <th>Processing time</th> <th>Proportion of cases</th> </tr> </thead> <tbody> <tr> <td>within 15 working days</td> <td>80%</td> </tr> <tr> <td>within 30 working days</td> <td>90%</td> </tr> </tbody> </table> <p>Parliamentarian and Ombudsman representations and Freedom of Information requests will be dealt with within 30 calendar days.</p>	Processing time	Proportion of cases	within 15 working days	80%	within 30 working days	90%	<p>The standard achieved for processing complaints was as follows:</p> <table border="1"> <thead> <tr> <th>Processing time</th> <th>Proportion of cases</th> </tr> </thead> <tbody> <tr> <td>within 15 working days</td> <td>64%</td> </tr> <tr> <td>within 30 working days</td> <td>81%</td> </tr> </tbody> </table> <p>The standard achieved for processing Parliamentarian and Ombudsman response was 75% within 30 calendar days.</p> <p>All Freedom of Information requests were processed within 30 calendar days.</p>	Processing time	Proportion of cases	within 15 working days	64%	within 30 working days	81%
Processing time	Proportion of cases												
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Processing time	Proportion of cases												
within 15 working days	64%												
within 30 working days	81%												

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

Thirty-two complaints and four ministerials were received during the year.

These and Ombudsman inquiries covered a large range of issues, the most significant being transferring the preserved benefit to another fund (5 cases), claims for compensation (5 cases), interest rates (4 cases), release of the preserved benefit (4 cases), and level of service (3 cases), with the remainder (9 cases) all being ones which had less than two occurrences.

Table 15 shows the timetable of responding to complaints or ministerial/Ombudsman inquiries in 1998–99.

**Table 15: Responses to complaints or ministerial/Ombudsman inquiries, 1998–99**

	<i>Less than 15 days</i>		<i>15–30 days</i>		<i>30–90 days</i>		<i>More than 90 days</i>	
	No.	%	No.	%	No.	%	No.	%
Complaints	19	64	5	17	4	13	2	6
Ministerials	2	50	1	25	1	25	–	–

In addition ministerials are received and responded to within the Department of Defence without referral to ComSuper. In 1998–99 these totalled 91.

## Freedom of information

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

MSBS members made 66 requests for access to documents during 1998–99. Sixty of these requests were granted in full, two were refused, three were withdrawn, and one was outstanding. The requests took an average of 7.4 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:

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

Facsimile: (02) 6252 6509  
 Telephone: (02) 6252 7514  
 TTY: (02) 6253 2911

## 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 quarterly (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 and to the Board's external auditor 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 annual Budget and record expenditure;
- maintain comprehensive and up to date delegations.

STANDARD	OUTCOMES
<p>ComSuper undertakes to deliver:</p> <ul style="list-style-type: none"> <li>• unqualified financial statements in respect of services provided by ComSuper under this agreement; and</li> <li>• the Board’s annual report within the statutory time limits;</li> <li>• accurate and timely calculations of crediting and exit rates based on best available (but unaudited) accounting information;</li> <li>• payment of the Board’s administrative expenses (including income tax) by due dates;</li> <li>• report on expenditure against the Board’s Budget.</li> </ul> <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"> <li>• ComSuper produced unqualified financial statements to the Board in an accurate and timely manner.</li> <li>• ComSuper delivered the Board’s 1997–98 Annual Report within the statutory time limits and expects the same for the 1998–99 Annual Report.</li> <li>• Exit rate calculations were given to the Board each month for the declaration of interest rates.</li> <li>• The Board’s administrative expenses were paid as and when they became due.</li> <li>• ComSuper reported on the Board’s expenditure on a quarterly basis for monitoring and comparison against the Board’s Budget.</li> </ul>

## Audit activity and results

### Audit Committee

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 six occasions during the year.

Although 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, during 1998–99 issues related to Year 2000 preparedness and custodial arrangements were areas of major focus.

### Year 2000

The MSB Board utilises the services of a number of entities for the management and investment of the Fund and the

administration of the MSB Scheme. In order for the Trustees to fulfil their responsibilities under the Superannuation Industry Supervision (SIS) Act and the MSBS Act, they must ensure that appropriate controls and systems are in place for the management and custody of members' funds, for the maintenance of member records and for the payment of member entitlements. Year 2000 issues present an area of added risk in which the Committee believed that particular attention needed to be applied during the year.

Although the Board receives letters of representation from service providers as to the adequacy of their controls, systems and risk management statements in relation to derivatives and management operations generally, the Committee determined that it would commission additional work so that the Board could obtain a greater degree of independent assurance regarding the appropriateness of these representations. For this purpose the Committee commissioned KPMG to undertake an independent review of each service provider's internal audit, fraud control and risk management philosophies and procedure. Major areas of focus on risk management concentrated on Year 2000 action to date and contingency planning.

During the year KPMG conducted reviews of the Scheme Administrator (ComSuper) and the Fund investment adviser (IPAC). The planned review of the Master Custodian was delayed until 1999–2000 given the imminent transfer of Custody responsibility to a new Master Custodian (see comment below).

The results of those reviews provided assurance to the Board that there are appropriate strategies in place in relation to internal audit and fraud control and that there was a general framework of risk management within both organisations. More importantly KPMG was able to review the Year 2000 project and contingency plans for both organisations and to provide an independent (i.e. third party) opinion on their scope and appropriateness. The Audit Committee continued to monitor the performance of both service providers against these project plans throughout the year.

### **Transition to new Master Custody arrangements for the MSB Fund**

The Fund's Master Custodian performs important functions in relation to investment management; including settlement of trades, physical custody and safekeeping of securities, collection of dividends, and preparation of accounts. It allocates all available moneys to the investment managers in accordance with

the mandates set down by the Board. It also holds (but does not own) the assets which comprise the Fund.

A change in custody arrangements therefore represents a significant event for any Board of Trustees, involving as it does the transfer of the entirety of the Fund's assets. In these circumstances the Board must ensure that it does all that is possible to ensure that the assets of the Fund are protected.

During the course of 1998–99 the Fund's Master Custodian, Morgan Stanley Australia Limited, informed the Board that it had sold its Australian custody business. The MSB Board was offered the opportunity to transfer its custody requirements to the new owner or to seek an alternative service provider. With the assistance of its investment adviser (IPAC Portfolio Management) the Board determined that it would test the market and after an exhaustive competitive process appointed State Street Australia Limited as the MSB Fund's new Master Custodian.

A detailed transition plan covering the transfer of the MSBS assets to the new custodial service provider was developed in consultation between ComSuper, IPAC and the two Custodial firms concerned. The Board also commissioned the accounting firm of KPMG to review the transition plan to ensure that the Board's and the Fund's interests were protected and that the Plan was capable of delivering the required levels of assurance regarding the completeness and accuracy of the transfer process.

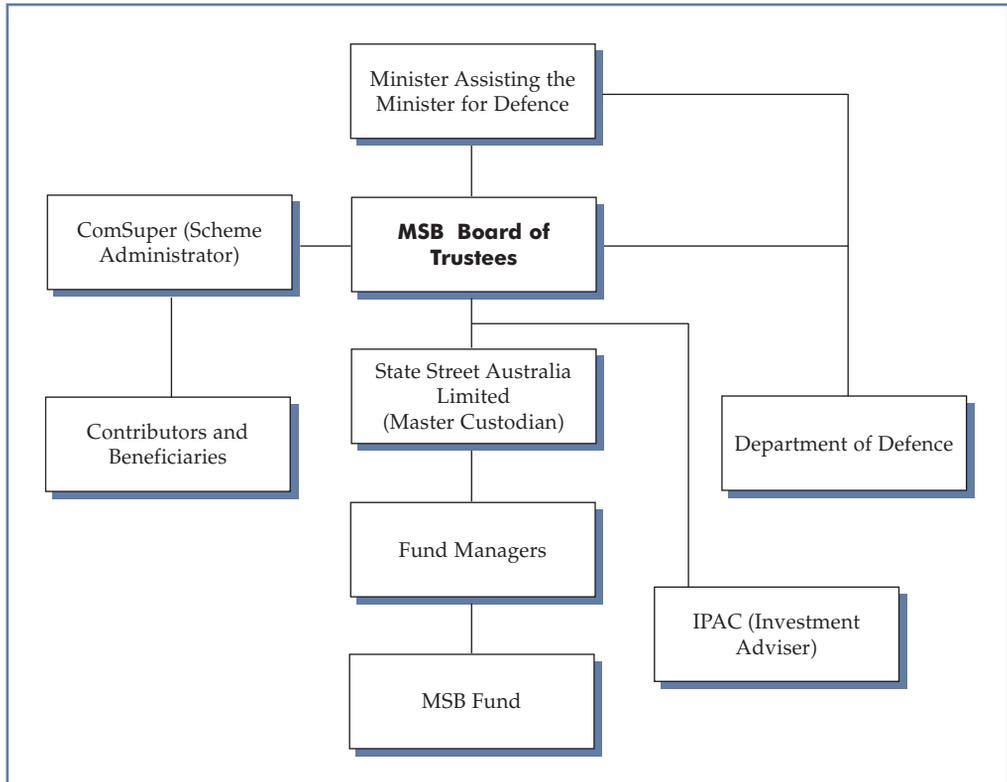
The transfer of some \$800 million in Fund assets occurred on 15 June 1999 with all settlements (domestic and international) effected by 21 June 1999.

#### **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.

## 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 1998-99 totalled \$385 000. 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 1998–99 is as follows:

MSB Fund	\$258 000
Department of Defence	\$127 000
<hr/>	<hr/>
Total	\$385 000

## Appendix 1: MSBS in brief

### Investment

EFFECTIVE ASSET ALLOCATION				
Sector	1997–98		1998–99	
	\$m	%	\$m	%
Australian shares	242.5	33.9	307.6	37.1
International shares	149.6	20.9	152.3	18.4
Property securities	73.0	10.2	98.3	11.9
Direct property	6.2	0.9	5.6	0.7
Australian fixed interest	100.6	14.1	115.1	13.9
International fixed interest	36.0	5.0	38.3	4.6
Liquids/cash	107.3	15.0	111.0	13.4
<b>Total under management<sup>1</sup></b>	<b>715.2</b>	<b>100.0</b>	<b>828.2</b>	<b>100.0</b>

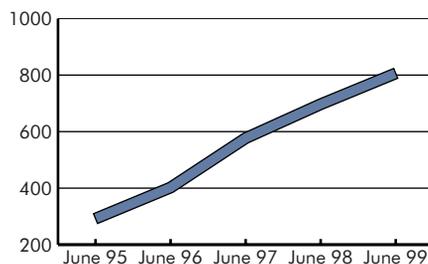
  

INVESTMENT PERFORMANCE <sup>2</sup>				
Sector	1997–98		1998–99	
	Fund %	Benchmark %	Fund %	Benchmark %
Australian shares	-1.9	1.6	17.9	15.4
International shares	40.0	42.1	12.5	8.2
Property securities	9.2	10.0	3.0	4.3
Direct property	9.0	10.2	9.4	8.1
Australian fixed interest <sup>3</sup>	10.4	10.9	3.2	3.3
International fixed interest	10.9	11.2	5.9	5.5
Liquids/cash	3.8	5.1	4.8	5.0
<b>Total</b>	<b>7.7</b>	<b>8.9<sup>4</sup></b>	<b>8.3</b>	<b>8.3</b>

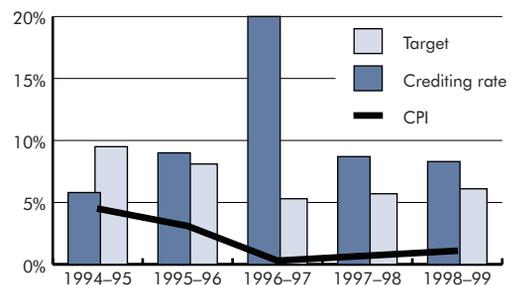
  

	1997–98	1998–99
Annual crediting rate <sup>5</sup>	8.7%	8.3%
Annual inflation rate	0.7%	1.1%

#### Fund growth since 1994–95



#### Crediting and target rates<sup>6</sup> since 1994–95



- Notes:
- 1 Includes all Australian 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 figure shown is the industry average, using the InTech Performance Survey of Market-Linked Pooled Funds.
  - 5 The crediting rate is derived after allowance for all non-investment related fees and expenses and therefore differs from the investment return.
  - 6 The target rate is inflation plus 5%.

## Membership

Contributors at 30 June	1997–98	1998–99	Increase (decrease)
Males	31 425	30 373	(3.3%)
Females	6 436	5 917	(8.1%)
<b>Total</b>	<b>37 861</b>	<b>36 290</b>	<b>(4.1%)</b>
<b>Total member contributions</b>	<b>\$82 383 000</b>	<b>\$84 191 000</b>	<b>2.2%</b>
<b>Contributor exits</b>			
Age retirement	94	81	(13.8%)
Resignation	3 209	3 654	13.9%
Redundancy	64	90	40.6%
Invalidity	473	653	38.1%
Death	18	19	5.6%
Other	213	243	14.1%
<b>Total</b>	<b>4 071</b>	<b>4 740</b>	<b>16.4%</b>
<b>Pensions in force</b>			
Age retirement	412	459	11.4%
Redundancy	1 674	1 763	5.3%
Invalidity	1 029	1 256	22.1%
Preserved > age 55	88	114	29.5%
Spouses & orphans	29	33	13.8%
<b>Total</b>	<b>3 232</b>	<b>3 625</b>	<b>12.2%</b>
<b>Pensions paid</b>	<b>\$36.3m</b>	<b>\$41.9m</b>	<b>15.4%</b>
<b>Average pension</b>	<b>\$12 396</b>	<b>\$11 531</b>	<b>(7.0%)</b>
<b>Preserved benefits at 30 June 1999</b>		<b>Number</b>	<b>Value</b>
Member benefit		2 050	30.5m
Employer benefit		31 501	\$1 052.4m

## Appendix 2: Financial statements

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### *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 1999. 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 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.

***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 1999 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 1999.

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 II.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 1999.

Australian National Audit Office



David C McKean  
Executive Director

Delegate of the Auditor-General  
Canberra

23 September 1999

**MILITARY SUPERANNUATION AND BENEFITS SCHEME**

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

The Trustee 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 1999 and the changes in net assets of the Scheme for the year ended 30 June 1999;
- (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 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 Accounting Standards and mandatory professional requirements (Urgent Issues Group Consensus Views); 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 15<sup>th</sup> day of September 1999 in accordance with a resolution of members of the Military Superannuation and Benefits Board of Trustees No. 1.



M. J. Sharpe AM  
Member



Air Commodore N.J. Ford  
Member

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

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30 JUNE 1999

	Note	1999 \$'000	1998 \$'000
<b>Net Assets Available to Pay Benefits at 1 July</b>		<b>696,879</b>	576,873
<b>MSB FUND</b>			
<b>Investment Revenue</b>			
Interest		13,234	11,560
Dividends		17,738	15,813
Other Investment Income		129	329
Changes in Net Market Values	2	39,161	29,223
Direct Investment Expenses		<u>(3,902)</u>	<u>(3,491)</u>
<b>Net Investment Revenue Before Tax</b>		<b>66,360</b>	53,434
General Administration Expenses	1j	<u>(385)</u>	<u>(236)</u>
		<b>65,975</b>	53,198
<b>Contributions Revenue</b>			
Employee Contributions	3a	84,191	82,383
Employer Contributions	3a	43,611	42,186
		<u>127,802</u>	<u>124,569</u>
Benefits Paid	3b	<u>(72,383)</u>	<u>(46,748)</u>
<b>Net Contributions Revenue Before Tax</b>		<b>55,419</b>	77,821
<b>Net Investment Revenue and Net Contributions Revenue</b>		<b>121,394</b>	131,019
Income Tax Expense	4	<u>(12,160)</u>	<u>(11,013)</u>
<b>Net Investment Revenue and Net Contributions Revenue After Tax</b>		<b>109,234</b>	120,006
<b>CONSOLIDATED REVENUE FUND</b>			
Moneys Appropriated by Parliament	3	179,524	185,440
Scheme Administration Costs Recovered from the Department of Defence		3,629	—
Less: Benefits Paid	3b	<u>(179,524)</u>	<u>(181,269)</u>
Costs of Administering the MSBS Act and Rules	3c	<u>(3,629)</u>	<u>(4,171)</u>
<b>Net Assets Available to Pay Benefits at 30 June</b>		<b>806,113</b>	<u>696,879</u>

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

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

STATEMENT OF NET ASSETS  
AS AT 30 JUNE 1999

	Note	1999 \$'000	1998 \$'000
<b>MSB FUND</b>			
<b>Investments</b>	1c		
Cash and Short Term Deposits		43,920	42,724
Australian Fixed Interest		112,143	99,410
Overseas Fixed Interest		34,555	35,382
Australian Equities		289,368	234,505
Overseas Equities		209,144	211,973
Property Trusts		102,271	76,918
Other Investments		34,205	9,928
<b>Total Investments</b>		<b>825,606</b>	710,840
<b>Other Assets</b>	5	<b>15,967</b>	14,980
<b>Total MSB Fund Assets</b>		<b>841,573</b>	725,820
<b>Less: Liabilities</b>			
Trade Settlements Payable		11,328	8,726
Accrued Expenses	6	379	355
Sundry Creditors		112	189
Benefits Payable		2,452	1,404
Provision for Income Tax		6,364	5,502
Provision for Deferred Income Tax		14,825	12,765
<b>Total MSB Fund Liabilities</b>		<b>35,460</b>	28,941
<b>CONSOLIDATED REVENUE FUND</b>			
<b>Other Assets</b>			
Sundry Debtors	3b	6,263	4,832
<b>Total Consolidated Revenue Fund Assets</b>		<b>6,263</b>	4,832
<b>Less: Liabilities</b>			
Benefits Payable	3b	6,263	4,832
<b>Total Consolidated Revenue Fund Liabilities</b>		<b>6,263</b>	4,832
<b>Net Assets Available to Pay Benefits</b>		<b>806,113</b>	696,879

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 1999

**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 No. 1 in accordance with sub-section 26(1) of the *Military Superannuation and Benefits Act 1991*.

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

**(b) Revenue**

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

**(c) Valuation of Investments**

Assets of the 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 yields 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 1999

**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.

**(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**

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.

**(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 1999

**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 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 to the Department of Defence by Parliament.

**(k) *Comparative Information***

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

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

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

For the year ended 30 June 1999

<b>2. CHANGES IN NET MARKET VALUES</b>	<b>1999</b>	<b>1998</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	(5,718)	(1,424)
Overseas Fixed Interest	(6,494)	3,493
Australian Equities	29,616	(6,008)
Overseas Equities	18,773	46,751
Property Trusts	(3,030)	(63)
Other Investments	8,755	(6,876)
	<u>41,902</u>	<u>35,873</u>
<b>(b) Investments Realised During the Period</b>		
	<b>1999</b>	<b>1998</b>
	<b>\$'000</b>	<b>\$'000</b>
Australian Fixed Interest	179	3,233
Overseas Fixed Interest	3,846	2,772
Australian Equities	8,130	(6,207)
Overseas Equities	3,827	11,164
Listed Property Trusts	(601)	1,146
Other Investments	(18,122)	(18,758)
	<u>(2,741)</u>	<u>(6,650)</u>
	<u>39,161</u>	<u>29,223</u>

**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 1999, is the accumulated employee and employer contributions held in the MSB Fund as at 30 June 1999.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

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

For the year ended 30 June 1999

**3. FUNDING ARRANGEMENTS (Cont.)**

**(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.

Although benefits paid to members were correct, during 1998–99 a computer programming error was detected that identified a shortfall of \$8,292,000 in payments from the MSB Fund to the Consolidated Revenue Fund during the period from October 1991 to 30 June 1998. This shortfall was paid to the Consolidated Revenue Fund in June 1999.

Benefits payable by the Commonwealth as at 30 June 1999 total \$6.263m (1998 \$4.832m). 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 MSB Fund and the Commonwealth:

	1999 \$'000	1998 \$'000
<b>MSB Fund</b>		
Payments to Commonwealth—current financial year	49,652	39,521
—understatement of prior year	8,292	—
Lump-sum Benefits	<u>14,439</u>	<u>7,227</u>
	<u>72,383</u>	<u>46,748</u>
<b>Consolidated Revenue Fund</b>		
Lump-sum Benefits	137,671	144,983
Pensions	<u>41,853</u>	<u>36,286</u>
	<u>179,524</u>	<u>181,269</u>

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

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

For the year ended 30 June 1999

**3. FUNDING ARRANGEMENTS (Cont.)****(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 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 collected by ComSuper. These moneys are collected from the Department of Defence and paid into the ComSuper Commercial Activity Account which forms part of the Commonwealth's Commercial Activities Fund.

**4. INCOME TAX EXPENSE**

The taxation liability at 30 June 1999 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 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:

	1999 \$'000	1998 \$'000
Prima facie income tax expense on		
Net Investment Revenue and Net		
Contributions Revenue Before Tax	18,209	19,653
Add/(Less) Permanent Differences		
Employee contributions	(12,629)	(12,357)
Benefits Paid	10,858	7,012
Foreign Tax Credits	(333)	(216)
Imputation Credits from Franked		
Dividends Received	(3,074)	(2,939)
Difference between accounting and tax gains	(241)	188
Tax Free/Tax Deferred Distributions	(310)	(174)
Over/(Under) Provision in Prior Year	(320)	(154)
Income Tax Expense	<u>12,160</u>	<u>11,013</u>

Income tax paid during the period amounted to \$10,039,106 (1998: \$9,440,809).

MILITARY SUPERANNUATION AND BENEFITS SCHEME

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

For the year ended 30 June 1999

**5. OTHER ASSETS**

	<b>1999</b>	1998
	<b>\$'000</b>	\$'000
Bank	1,860	3,771
Trade Settlements Receivable	7,597	5,358
Accrued Income	6,232	5,746
Future Income Tax Benefit	802	—
Sundry Debtors	(524)	105
	<u>15,967</u>	<u>14,980</u>

**6. ACCRUED EXPENSES**

	<b>1999</b>	1998
	<b>\$'000</b>	\$'000
Investment Consultant Fees	67	60
Fund Management & Custodial Fees	279	262
Audit Fees	25	27
Other	8	6
	<u>379</u>	<u>355</u>

**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 Trustee by specialist sector fund managers who are required to invest the assets allocated for management in accordance with the terms of a written investment mandate. The Trustee has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Trustee's investment strategy.

State Street Australia Limited acts as master custodian on behalf of the Trustee and as such provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting of investment transactions.

The Trustee 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 sets. IPAC subsequently provides the Trustee 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 (formerly the Insurance and Superannuation Commission).

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

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

For the year ended 30 June 1999

**7. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)****(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	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
Exchange Traded Options	(64,734)	(40,448)	(1,615)	(1,284)
Exchange Traded Warrants	1,428	1,330	1,105	1,091
Futures	5,983	2,355	62	(567)
Currency Contracts	(104,955)	121,895	(1,691)	(5,619)
Total	<u>(162,278)</u>	<u>85,132</u>	<u>(2,139)</u>	<u>(6,379)</u>

**(b) Credit Risk**

The net market value of financial assets, with the exception of derivative positions, included in the statement of net assets represent 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 \$6.2m.

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 1999

**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 1999 was as follows:

30 June 1999	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		
<b>Assets</b>						
Cash & Short Term Deposits	43,920					43,920
Australian Fixed Interest		15,085	46,534	50,524		112,143
Int'l Fixed Interest			10,521	24,034		34,555
Australian Equities		130			289,238	289,368
Overseas Equities					209,143	209,144
Property Trusts					102,271	102,271
Other Investments	37,119				(2,914)	(34,205)
Other Assets	1,860				14,107	15,967
<b>Liabilities</b>						
Trade Settlements Payable					(11,328)	(11,328)
Accrued Expenses					(379)	(379)
Sundry Creditors					(112)	(112)
Benefits Payable					(2,452)	(2,452)
Provision for Income Tax					(6,364)	(6,364)
Provision for Deferred Income Tax					(14,825)	(14,825)
<b>Total</b>	<b>82,899</b>	<b>15,215</b>	<b>57,055</b>	<b>74,558</b>	<b>576,386</b>	<b>806,113</b>
Weighted Average Interest Rate	2.67%	4.81%	5.38%	6.01%		

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

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

For the year ended 30 June 1999

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

30 June 1998	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		
<b>Assets</b>						
Cash & Short Term Deposits	8,999	33,725				42,724
Australian Fixed Interest		2,896	44,977	51,537		99,410
O'ceas Fixed Interest			4,390	30,992		35,382
Australian Equities					234,505	234,505
Overseas Equities					211,973	211,973
Property Trusts					76,918	76,918
Other Investments	16,308				(6,380)	9,928
Other Assets	3,771				11,209	14,980
<b>Liabilities</b>						
Trade Settlements Payable					(8,726)	(8,726)
Accrued Expenses					(355)	(355)
Sundry Creditors					(189)	(189)
Benefits Payable					(1,404)	(1,404)
Provision for Income Tax					(5,502)	(5,502)
Provision for Deferred Income Tax					(12,765)	(12,765)
<b>Total</b>	<b>29,078</b>	<b>36,621</b>	<b>49,367</b>	<b>82,529</b>	<b>499,284</b>	<b>696,879</b>
Weighted Average Interest Rate	2.90%	5.06%	8.62%	6.36%		

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

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

For the year ended 30 June 1999

**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	JPY	GBP	EUR	Other	Total
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
<b>30 June 1999</b>						
Gross investment amounts denominated in foreign currency	154,561	24,218	17,750	36,758	18,442	251,729
Amount effectively hedged	(55,199)	(12,248)	(8,869)	(25,572)	(3,057)	(104,955)
Net Exposure	<b>99,362</b>	<b>11,970</b>	<b>8,881</b>	<b>11,186</b>	<b>15,375</b>	<b>146,774</b>
	USA	JPY	GBP	DEM	Other	Total
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
<b>30 June 1998</b>						
Gross investment amounts denominated in foreign currency	143,940	26,179	18,358	21,252	37,625	247,354
Amount effectively hedged	(75,089)	(13,334)	(10,157)	(17,669)	(11,088)	(127,337)
Net Exposure	<b>68,851</b>	<b>12,845</b>	<b>8,201</b>	<b>3,583</b>	<b>26,537</b>	<b>120,017</b>

**(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:

	1999	1998
	\$m	\$m
Unfunded	4,073	3,698
Funded	807	708
Total Vested Benefits	<b>4,880</b>	<b>4,406</b>

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 1999 and elected the option which is most costly to the Scheme.

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

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

For the year ended 30 June 1999

**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, (ie. 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 1996–97. (A copy of the Australian Government Actuary's report is attached.)

Accrued Benefits as at 30 June 1996 were:

	\$m
Funded component	402
Unfunded component	<u>3,217</u>
	<u><b>3,619</b></u>

The liability for accrued benefits will be updated following the next comprehensive actuarial review which is scheduled for 1999–2000 using data as at 30 June 1999.

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

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

Mr C.P.H. Kiefel (Chairman)  
 Air Commodore N.J. Ford  
 Mr M.J. Sharpe AM  
 Mr P.D. Gourley  
 Warrant Officer R.C. Swanwick  
 Colonel M.J. Hannan (alternate for N.J. Ford)  
 Warrant Officer P.D. Alomes (alternate for R.C. Swanwick)  
 Mr C. Neumann (alternate for P.D. Gourley) [resigned 28 June 1999]  
 Ms D. Clarke (replaces C. Neumann) [appointed 28 June 1999]

MILITARY SUPERANNUATION AND BENEFITS SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

### 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 MSB scheme and as such would be required to have made contributions to the scheme during the 1998–99 financial year on the same terms and conditions applicable to all scheme members.

Fees and associated superannuation contributions paid to, or in respect of, the members of the Board during the financial year totalled \$105,351 (1997–98: \$77,900).

### 11. AUDITOR'S REMUNERATION

The amount paid and payable in respect of external audit services is \$25,000 (1997–98: \$27,000).

### 12. FOREIGN CURRENCY GAINS

The foreign currency gain on overseas investments for the year was \$1.251m (1997–98:10.098m). This amount is included in the 'Changes in Net Market Values of Investments' disclosed in Note 2.

### 13. SEGMENT REPORTING

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

### 14. CONTINGENT LIABILITIES

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

The Trustee 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 1999

**15. SUPERANNUATION CONTRIBUTIONS SURCHARGE**

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

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

The Trustees have received, from the ATO, surcharge assessments in respect of surchargeable superannuation contributions for the period 20 August 1996 to 30 June 1998.

A summary of transactions follows:

	1999 \$'000
Surcharge assessments received from ATO during 1998–99 which have been recorded on member records	94
Less: Amounts paid by members	(22)
	<u>72</u>
Plus: Interest applied to outstanding surcharge liability at 30 June 1999	5
	<u>77</u>
Surcharge assessments received from ATO during 1999–2000 which have been recorded on member records	1,720
Total surcharge liability outstanding	<u>1,797</u>

The MSBS Board has lodged an objection against the assessments received during 1998–99 and will be lodging an objection against the assessments received during 1999–2000 under the *Superannuation Contributions Tax (Assessment and Collection) Act 1997*. However, until the outcome of the objections has been determined, the Board has instructed the Scheme continue to be administered in accordance with the superannuation contribution surcharge legislation as it currently stands.

The surcharge liability in respect of surchargeable superannuation contributions for the period 1 July 1998 to 30 June 1999 has not been disclosed because the assessments have not, as yet, been calculated by the ATO and there is no reliable basis on which an assessment of the likely surcharge liability can be made.

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.



**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.

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

## **Appendix 3: Fund managers**

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**Barclays Global Investors N.A.**

45 Fremont Street  
San Francisco CA 94105  
USA

**Commonwealth Funds Management Ltd**

Level 9  
12 Moore Street  
Canberra ACT 260

**Credit Suisse Investment Management (Australia)**

Level 32  
1 Macquarie Place  
Sydney NSW 2000

**Morgan Grenfell Australia**

(formerly Axiom Funds Management)

Level 20  
83 Clarence Street  
Sydney NSW 2000

**State Street Australia Limited**

Level 64  
MLC Centre  
19 Martin Place  
Sydney NSW 2000

**Portfolio Partners Ltd**

Level 39  
385 Bourke Street  
Melbourne VIC 3000

**Tower Portfolio Management Australia**

Level 10  
80 Alfred Street  
Milsons Point  
NSW 2061

**Wellington Management Company**

75 State Street  
Boston MA 12109  
USA

**Westpac Investment Management Ltd**

Level 36  
60 Margaret Street  
Sydney NSW 2000

## Appendix 4: 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 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
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>
surcharge	<i>the Superannuation Contributions Tax (Assessment and Collection) Act 1997</i> , a tax on employer financed superannuation contributions

## Appendix 5: 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. A 'Summary of the Scheme' leaflet is also available.

The *Investment Policy Statement* 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:

*Dependants Benefits*

*Invalidity Benefits*

*Maximum Benefit Limit*

*Preservation of Benefits*

*Provisions for LWOP*

*Rejoining the ADF*

*Resignation and Retirement Benefits and*

*Taxation of Benefits*

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

All of these publications can be obtained from members' Pay Offices or from ComSuper, or from ComSuper's Internet site: [www.comsuper.com.au](http://www.comsuper.com.au)

## Appendix 6: Service charters

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In the latter part of 1998, service charters for MSBS contributors and preserved benefit members were developed by ComSuper and copies issued to members of the schemes, in accordance with Government policy.

The Board has endorsed these charters. The following extracts list the principal standards contained within them.

### The service MSBS contributors can expect

- If you phone our advisory service between 9.00 am and 5.00 pm, Eastern Time, normally your call will be answered within 90 seconds (see page 25).
- If you visit our office between the hours of 9.00 am to 5.00 pm, Eastern Time, where no appointment has been made, we will see you as soon as possible. However, if you ring to make an appointment beforehand, we will be ready to meet you at the agreed time (see page 26).
- If you write to us about any matter we will answer your letter, usually within 10 working days of receiving it even if this is only an acknowledgement that we have received your letter and are attending to it (see page 24).
- Your annual member statement, setting out your equity in the Scheme as at 30 June, will be sent to you before 31 October each year. If there is a problem with your record, your statement may have to be produced manually in which case we will send it to you before 31 December (see page 24).
- When you leave the Australian Defence Force we will normally process your lump sum benefit within 5 working days of the date of receipt of your application or your date of exit, whichever is the later, subject to all necessary information being received (see page 28).
- Pension benefits will be paid on the next available pension payday once all necessary information is received (see page 28).

- When you retire on the ground of invalidity, normally an assessment of the degree of your incapacity will be made within 10 working days of receipt of all necessary paperwork (including medical assessments that may subsequently be arranged by this Office) (see page 31).
- If you die and are survived by an eligible spouse and/or eligible children we will send a benefit application form with explanatory notes, an information leaflet and a covering letter to your spouse and/or to the guardian of your child/children immediately we are advised of your death (see page 28).
- If you die and are not survived by any dependants we will pay your benefit to your estate within 10 working days of all necessary documentation being received (see page 28).

## **The service MSBS preserved benefit members can expect**

- If you ring us between 9.00 am and 5.00 pm, Eastern Standard Time and Eastern Summer Time, seeking a current estimate of your benefit we will, where possible, provide you with an estimate at the time of your call (see page 25).
- If you ring us during the same hours on any other matter, generally we will attend to your enquiry on the spot (see page 25).
- If you write to us with a general inquiry or seeking a written estimate of your benefit we will answer your letter as soon as possible, usually within 15 working days of receiving it (see page 24).
- If you visit our office between 9.00 am and 5.00 pm, Eastern Standard Time and Eastern Summer Time, where you have made an appointment beforehand, we will see you at the agreed time (see page 26).
- If you advise us of a change in your personal details we will adjust your record within two days of receiving your request (see page 36).
- Your annual member statement, showing your current equity, will be sent to you each year before 31 December (see pages 24 and 26).

- When you claim your benefit either on retiring permanently from the workforce after reaching age 55 or on attaining age 65, we will pay your lump sum as soon as possible, usually within 10 working days of receiving all the necessary information (see page 28).
- Your pension will be paid on the next available pension payday once all necessary information is received (see page 28).
- When you seek 'early release' of your preserved benefit on hardship or compassionate grounds before reaching minimum retiring age (i.e. before reaching age 55) and before permanently exiting the workforce, we will pay your benefit as soon as possible, usually within 10 working days of all necessary information including, where appropriate, approval from the Australian Prudential Regulation Authority (APRA) being received (see page 28).
- If you lodge a claim for early release on the grounds of total and permanent incapacity (i.e. invalidity) we will pay your lump-sum benefit as soon as possible but in any event within 10 working days of a determination being made that you are totally and permanently incapacitated. In the case of a pension benefit it will be paid on the next available pension payday after a determination is made (see page 28).
- If we are informed of your death we will send an application form to your spouse within 24 hours. If there is no spouse but there is an eligible child or children, we will send an application to the guardian of the child or children. If needed, we will provide help in completing the form. When we receive a correctly completed application form, and entitlement to a benefit is automatic, 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, by the next available pension payday (see page 28).

## The service MSBS pensioners can expect

- If you ask for a variation to be made to the way your fortnightly benefit is paid we will make the change as soon as possible, but usually by the next available pension payday. If you make your request by telephone, we will tell you the payday the change will be made (see page 41).

- If you tell us of a change to your address we will make the change as soon as possible, but usually by the next available pension payday (see page 41).
- If you write to us about any other matter and your letter requires a written reply, we will answer it as soon as possible, usually within 10 working days of receiving it (see page 41).
- If we are informed of your death we will send an application form to your 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 that child or those children. If needed, we will provide help in completing the form. When we receive a correctly completed application form, and eligibility is automatic, we will arrange for the benefit to be paid by the next available pension payday. If your spouse's eligibility to receive a benefit is not automatic, we will write and advise what needs to be done within seven days of receiving an application form (see page 46).
- If you phone our advisory service between 9.00 am and 5.00 pm, Eastern Standard Time or Eastern Summer Time, normally your call will be answered within 60 seconds (see page 41).
- If you visit our office between the hours of 9.00 am to 5.00 pm, Eastern Standard Time or Eastern Summer Time, we will see you within five minutes of your arrival. However, if you ring to make an appointment beforehand, we should be able to resolve the matter you wish to discuss with us more quickly (see page 41).
- Your annual pension advice letter, advising you whether your pension has been adjusted because of an upwards movement in the Consumer Price Index (CPI), will be sent to you usually before the first pension payday in July each year (see page 41).
- Your income tax group certificate will be sent to you together with your annual pension advice letter, usually before the first pension payday in July each year (see page 41).
- We will send you tax concession information that will help you determine whether you are eligible for a superannuation tax concession. The information will be sent with your annual pension advice letter in July each year (see page 41).

## Appendix 7: 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

*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

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### Changes to the MSB Act

During 1998–99 the MSB Act was amended by the *Financial Sector Reform (Amendments and Transitional Provisions) Act (No. 1) 1999*. This Act made minor amendments to the MSB Act relating to the definitions of 'bank' and 'financial institution'.

### Amending Deeds

During 1998–99 the MSB Rules were amended by the *Military Superannuation and Benefits Amendment Trust Deed 1999 (No. 1)*.

The Deed changed the Rules to allow members greater flexibility in discharging their Superannuation Contributions Tax debt (the surcharge debt) by allowing the member to elect which component of their benefit is to be adjusted.

Previously the member's employer benefit was reduced by the surcharge debt before it was paid as a lump sum or converted to a pension. Members are now able to elect to have their surcharge debt discharged in one of the following ways:

- by deduction from the member's employer benefit before it is paid to the member as a lump sum, or before it is converted into a pension;
- by deduction from the member's member benefit before it is paid to the member as a lump sum;
- by deduction from the pension payable to the member after conversion of the member's employer benefit.

If a member does not make an election the debt will be discharged according to the type of benefit claimed as follows:

- by deduction from the member's employer benefit after it is converted into a pension;
- if the member elects to receive part of his or her employer benefit either as a lump sum payment or converted into a pension—by deduction from the member's employer benefit after it is converted to a pension;

- in any other case—by deduction from the member’s employer benefit before it is paid as a lump sum.

## Changes to the SIS Act

Statutory Rule No. 175/1998 of 30 June 1998 made various changes to the SIS regulations. The most significant of these changes for MSBS members are the restriction from 1 July 1999 on the lump sum that can be accessed in cash on ceasing membership before preservation age, and the gradual increase in the preservation age from 55 to 60 for those born on or after 1 July 1960.

These changes have been reflected in the scheme rules by the *Military Superannuation and Benefits Amendment Trust Deed 1999 (No. 2)* effective from 1 July 1999.

## Determinations

Twelve determinations were made during the year setting the crediting interest rate for the 1998–99 financial year and the prevailing exit interest rate applicable during the period of scheme membership.

Five determinations were made setting the interest rate and preconditions to the payment of interest in the period after a benefit becomes payable.

## Appendix 9: Compliance

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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 1996–97*. Annual reporting requirements that are met in the Commissioner for Superannuation's report are indicated below by an asterisk.

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