



THE Military Superannuation AND Benefits Scheme

ANNUAL REPORT OF THE MSB BOARD | 1999 → 2000

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

The Hon. Bruce Scott, MP
Minister Assisting the Minister for Defence
Parliament House
Canberra ACT 2600

Dear Minister

In accordance with section 26 of the *Military Superannuation and Benefits Act 1991* (the MSB Act), the Military Superannuation and Benefits Board of Trustees No. 1 is pleased to submit to you its annual report on the performance of its functions for the year ended 30 June 2000, together with financial statements in respect of the management of the Military Superannuation and Benefits Fund No. 1 during 1999–2000, and the Auditor-General's report in respect of those statements. Subsection 26(3) of the MSB Act requires you to cause a copy of the report to be laid before each House of the Parliament within 15 sitting days after you receive it.

Yours sincerely



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

21 September 2000

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Chairman's overview

The financial year 1999–2000 was a challenging year for most superannuation funds. Two themes dominating the investment markets were the impact of new technology and the changing interest rate outlook for Australia and the USA. Throughout the year markets were unsettled but overall returns were strong.

Following a disappointing first quarter, the MSB Fund responded strongly to record a return of 13.6% on investments for the financial year to 30 June 2000.

The Fund's long-term objective is to exceed inflation, on average, by at least 5%. This year's performance was ahead of that objective.

The strong investment results achieved during May and June 2000 were due in part to a decision of the Board to move the Fund to a more growth-oriented investment strategy.

Review of investment strategy

Over recent years the Board has adopted a practice of annual reviews of the MSB Fund's investment objectives and strategy. In February 2000, with the assistance of its investment adviser and portfolio manager (IPAC) and its administrator (ComSuper), the Board undertook a fundamental review of the MSB Fund with particular regard to the emerging trends in investment markets.

Initially, the Board reviewed the Scheme's Asset Benefit Analysis (ABA). The ABA is an important tool for setting objectives for a superannuation fund. Its value lies in the way in which it highlights the impact of different investment policies on the benefits members can eventually expect. In a practical sense the ABA enables the Board to:

- focus on the return objectives required to deliver income support to members when they retire—objectives which require that a certain level of risk be tolerated;
- link investment objectives to the ongoing management of the fund; and
- provide a framework for making investment policy decisions.

The MSBS will always have a high proportion of young members whose benefits can remain in the Fund for considerable periods. For this reason the Board has concluded (with input from its professional advisers) that a greater allocation to growth assets is in members' best interests in the longer term.

Consequently the Board is increasing the Fund's allocation to around 85% in growth assets—to be achieved by increasing the allocation to domestic and international equities. Additionally, it has agreed to allocate funds to two new investment sectors, identified as global emerging markets and private equities. This move towards higher growth weighting is consistent with the previous actions of other large public sector superannuation schemes, such as the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation (PSS) Scheme.

Key investment decisions

- A change to the management of the Australian equities portfolio.

Two new fund managers were appointed and commissioned to adopt a more active management style.

- Removal of the protection strategy in relation to investments in international equities that has been in place for the past two years.

That strategy was effective in providing protection against US market volatility but it came at a cost that reduced overall performance. With the expectation of continued growth in international markets the Board's advisers have recommended that the continuation of the protection strategy is no longer appropriate.

- An investment in global emerging markets. This involves investment in international equities not covered by the current international equities mandates.
- A small investment in private equity, being capital more specifically directed towards infrastructure and developmental activities. This investment, initially around \$10 million, growing to around \$50 million over three to five years, will be placed with three managers.
- The Fund's small direct property holding will be sold.

The Fund's investment policy has been changed to accommodate the increased allocation to growth assets. As mentioned previously, the main investment aim is to deliver earnings on contributions in the Fund (after tax and fees) that generally exceed the rate of inflation by at least 5% over rolling five-year periods, recognising that there will be periods when returns are negative. A secondary aim is to perform creditably against the Fund's peer group, as measured by the InTech Survey of Growth Pooled Superannuation Funds. Since its inception the MSBS has consistently achieved these aims. The move towards a higher growth strategy should position the Fund to take greater advantage of the strong earnings potential in growth assets such as shares and listed property.

Market testing of investment advisory and portfolio management services

In February 2000, a special investment review meeting of the Board determined that, as a matter of good internal governance, there was a duty to ensure that the services provided by the Board's investment adviser and portfolio manager remained relevant and appropriate to the needs of MSBS members. This was not an indication of dissatisfaction with the services provided by IPAC but, rather, a need for assurance that there were no better processes or providers, of services of the type required by the MSBS, available in the market.

With the assistance of ComSuper and the accounting firm KPMG, the Board undertook a restricted tender process which involved detailed analysis of tender responses and subsequent interviews of potential service providers. The Board was able to satisfy itself that the services provided by IPAC are best suited to the Board's investment needs and accordingly IPAC has been reappointed as the Fund's investment adviser and portfolio manager for a further three years.

Communications

Communications continues to be a major focus for the Board and in its review of core strategy the Board is particularly sensitive that communications are directed towards families. To assist, the Board has appointed Social Change Media (a specialist consulting firm used by a number of other superannuation funds) to assess whether the needs of members are being met with informative, well-designed and useful written material.

In co-operation with the Department of Defence, attitudinal surveys were conducted to identify what information is most important to members and what means of communication best suit members' needs.

Acknowledgements

I am very appreciative of the hard work and excellent co-operation contributed by all trustees throughout another challenging and important year for the MSBS.

During the course of the year Air Commodore Nick Ford retired from the Defence Force and resigned his appointment as a Trustee on the MSB Board. Brigadier Bob Brown replaced him on the Board of Trustees on 29 October 1999.

I would like to acknowledge the valuable contribution made by Air Commodore Ford during his three years as a Trustee and to welcome Brigadier Brown to the Board.

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.



Charles Kiefel
Chairman

About the MSBS

Establishment of the Scheme

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

Description of the Scheme

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

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

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

Member contributions made each fortnight are paid into an investment Fund (the MSB Fund), the management and investment of which is the responsibility of the MSB Board.

Where a member resigns from the Defence Force the member benefit accrued to 30 June 1999 can be immediately paid as a lump sum but the balance of the member benefit must be preserved, either in the Fund or in a complying superannuation

fund until preservation age. The productivity and other employer benefits must be preserved in the Fund until age 55, or another complying superannuation fund until preservation age.

The MSB Board

Membership

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

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

Trustees holding office at 30 June 2000 were:

Chairman:

Mr Charles Kiefel BCom, FCA, FAICD

Appointed 11 July 1997. Mr Kiefel recently retired as 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.

Dr Michael Sharpe AO, Hon DScEcon (Syd.), BEc, FCA

Appointed 29 April 1998. Dr Sharpe is chairman of State Super Financial Services Ltd and of Cards etc Inc., as well as a director of the Australian Stock Exchange Ltd. He was appointed an

officer of the Order of Australia in 2000 for his services to the community and to the accounting profession at state, national and international levels.

CDF Nominees:

BRIG Bob Brown BA (Mil), CSC

Appointed 29 October 1999. BRIG Brown is Director General, Personnel Plans, Defence Personnel Executive. BRIG Brown replaced AIRCDRE Nick Ford as the ADF Officer representative on the Board.

WOFF Robert Swanwick

Appointed 22 September 1997. WOFF Swanwick is an RAAF Loadmaster currently working in the Defence Legal Office.



The MSB Board

Standing (L–R): WOFF Robert Swanwick and BRIG Bob Brown

Seated (L–R): Dr Michael Sharpe, Mr Charles Kiefel, Mr Patrick Gourley

Indemnity insurance

The Board is insured with American Home Assurance Company against losses, liabilities, actions, claims or demands arising from the performance of its functions.

Schedule of Board meetings

	August 1999	October 1999	December 1999	February 2000	April 2000	June 2000
Mr Charles Kiefel	P	P	P	P	P	P
Dr Michael Sharpe	P	P	P	P	P	P
Mr Patrick Gourley	P	P	P	P	A	A
WOFF Rob Swanwick	P	P	P	P	P	P
AIRCDRE Nick Ford*	P	A				
BRIG Bob Brown			A	P	P	A
GPCAPT Lee Roberts**		P	P			
Mr Phillip Charley***				P	P	

P—present at meeting A—apologies

*Resigned on 28 October 1999

Alternate to AIRCDRE Ford and BRIG Brown *Alternate to Mr Patrick Gourley

Fund investment

Investment policy

Each year the Board undertakes a review of its investment strategy, the various fund manager mandates and their performance against the benchmarks set for those mandates. A special meeting was held on 9–11 February 2000 and as a result the Board agreed the detail for a significant change in both the strategy and the various fund manager mandates.

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

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

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

Monitoring performance

In keeping with the move to a high-growth investment strategy, the Board monitors the performance of the Fund against other comparable funds, as measured by the InTech Survey of Growth Pooled Superannuation Funds.

Investment strategy

The Board has agreed to increase its investment in growth assets from around 75% to 85% of the assets of the MSB Fund. This move should provide a better long-term performance outcome for the Fund.

The Board's investment adviser, IPAC Portfolio Management Ltd, has indicated that the increased performance will be achievable at no change to the risk inherent in the portfolio.

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

- 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.

Key investment decisions

The Board agreed to an implementation timetable that saw the new investment strategy in place by the end of June 2000, with some aspects being achieved much earlier. Key features are:

- Around 35% of the Fund will be allocated to Australian equities, with mandates given to Barclays Global Investors (BGI) and Colonial First State (replacing Portfolio Partners and Tower).
- Around 36% of the Fund will be allocated to international equities, with an increased mandate to Wellington to reflect its outstanding performance. BGI will continue with its mandate. IPAC recommended that an additional mandate in international equities will be recommended to defray manager risk when the allocation to Wellington reaches around \$160 million. Preliminary indications are that the managers under consideration may be able to match the performance achieved by Wellington.
- Removal of the protection strategy in relation to investments in international equities that has been in place for the past two years. That strategy was effective and provided protection against US market volatility, but came at a cost and therefore reduced performance. The Board accepted advice that the international market, particularly in the USA, where there is an expectation of continued growth combined with significant productivity improvements in US business, will lead to good investment opportunities. The current view of the US market means that the expected increase in the cost of maintaining the protection outweighs any benefit that might be gained. IPAC believes that there is no increased risk to the Fund flowing from this decision.
- An investment in global emerging markets. This involves investment in international equities not covered by the current international equity mandates. An initial investment

of around \$36 million (4% of the Fund) will be via a unit trust established by IPAC for its wholesale and retail clients.

- There will be an investment in private equity, that is, capital more specifically directed towards international infrastructure and developmental activities placed with three fund managers (Deutsche, Credit Suisse First Boston and Macquarie). The initial investment is small and will grow to around \$50 million (5% of the Fund) over three to five years.
- A small direct property holding will be sold and the funds will be moved to the private equity allocation.

Investment management

As mentioned, the Board replaced some of its fund managers during the year and has issued directions to implement its revised 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.

Market testing of investment advisory and portfolio management services

As a matter of good internal governance the Board has instituted a process of ongoing review of the continuing appropriateness and cost effectiveness of the services provided by all of its external service providers.

As an outcome of the Special Investment Review Meeting held in February 2000 the Board determined that it had a duty to its members to ensure that the services provided by its investment adviser and portfolio manager remained relevant and appropriate to the needs of the MSBS and its members. (This was not an indication of dissatisfaction with the services provided by IPAC but rather, given the maturation of the market, to seek assurance that there were no better processes or providers of services of the type being sought by the MSBS available in the market.)

The Board also needed to seek assurance that, relative to comparable service providers, IPAC continued to provide an effective service at a competitive price.

The Board commissioned ComSuper to develop a process for market testing and to project manage the process of selection. This involved the development of a Request for Proposal, the issue of invitations to make submissions, the development of a process for ranking submissions against a set of selection criteria, the analysis of submissions and subsequent presentations to the Board and the preparation of recommendations flowing from that analysis. The accounting firm KPMG was appointed as an independent adviser to the Board during this process.

As a result of this detailed process the Board was able to satisfy itself that the primary objectives of the market testing process had been met and as a result determined that it would reappoint IPAC as its investment adviser and portfolio manager for a further three years—subject to an independent (mid-term) review of the continuing appropriateness of the IPAC process.

Custodial services

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

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

Fund managers

The Board's fund managers at 30 June 2000 were:

Australian equities	Active	Barclays Global Investors Australia Limited
	Active	Colonial First State Investment Managers (Australia) Limited
International equities	Core	Barclays Global Investors Australia Limited
	Active	Wellington Management Company, LLP
Property	Active	Deutsche Asset Management (Australia) Limited
	Direct	Commonwealth Property Management Limited
Australian fixed-interest	Core	Westpac Investment Management Pty Limited
International fixed-interest	Active	Credit Suisse Asset Management (Australia) Limited
Cash		State Street Australia Limited
Private equity		Deutsche Asset Management (Australia) Limited Credit Suisse First Boston International (Australia) Limited Macquarie Specialised Asset Management Limited
Global emerging markets		Nicholas-Applegate Capital Management

The fund managers' addresses are given in Appendix 3 on page 90.

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, 1998–99 and 1999–2000

Sector	Effective exposure at 30 June 1999		Effective exposure at 30 June 2000		Performance 1999–2000	
	\$m	%	\$m	%	Fund*	Benchmark**
Cash	111.0	13.4	46.7	4.7	5.2	5.6
Australian bonds	115.0	13.9	101.5	10.2	6.1	6.2
International bonds	38.3	4.6	39.9	4.0	4.3	4.9
Property trusts	98.4	11.9	86.5	8.7	12.2	12.1
Direct property	5.6	0.7	5.4	0.5	12.3	9.8
Australian shares	307.5	37.1	373.2	37.5	14.7	15.1
International shares***	152.3	18.4	341.1	34.2	31.1	23.8
Private equity	–	–	1.8	0.2	–	–
Total fund	828.1	100.0	996.1	100.0	13.6	12.9

*The performance of each sector is shown before tax and fees.

**The relevant benchmark for each sector is shown in Table 3. The benchmark against which the overall performance of the Fund is measured is the InTech Survey of Growth Pooled Superannuation Funds.

***International shares shown here include currency and options overlays.

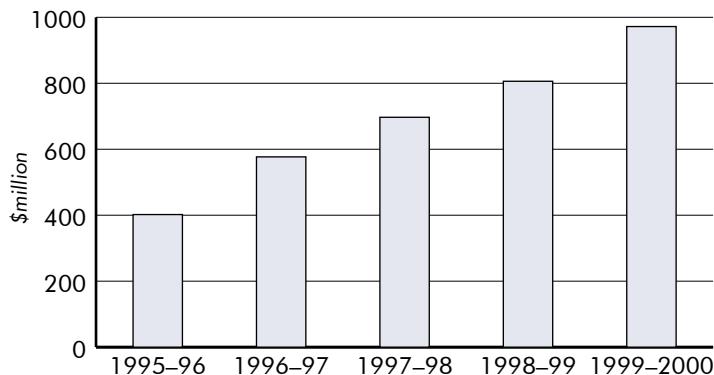
Fund growth

Fund assets at 30 June 2000 totalled \$996.1 million, an increase of 20.3% on the funds under management at 30 June 1999 (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 \$972.0 million, a 20.6% increase from 1998–99. 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 1995–96.

Table 2: Fund size at 30 June 2000 (after tax, charges and benefits)

Fund size at 30 June 1999	\$m 806.1
Inflow	
Contributions	128.1
Investment earnings	124.3
Outflow	
Benefits paid	(68.7)
Investment and other expenses	(5.1)
Taxation	(11.9)
Value of Fund at 30 June 2000	972.8
Value of investments at 30 June 2000 (Table 1)	\$m 996.1
Less	
Benefits payable	(4.2)
Provisions for tax	(22.0)
Other liabilities	(0.8)
Plus	
Cash on hand	2.9
Other assets	0.8
Value of Fund at 30 June 2000	972.8

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 2000 are shown in Table 3 and Chart 2. The asset

allocation ranges are designed to ensure that the appropriate fund risk is maintained while allowing managers the flexibility to maximise returns.

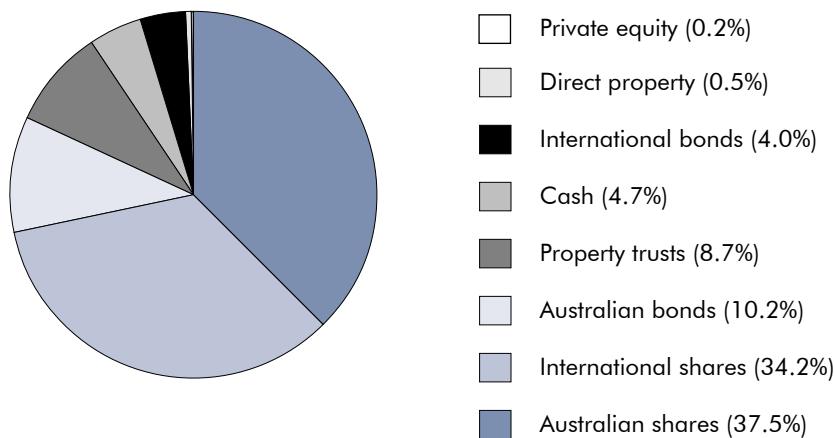
Table 3: Asset allocation

Asset class	Fund manager	Allocation*	\$m	%	Market benchmark
Cash	State Street Australia	46.7	4.7		UBS Warburg Australian Bank Bill Index
Australian bonds	Westpac Investment Management	101.5	10.2		UBS Warburg Australian Composite Bond Index
International bonds	Credit Suisse	39.9	4.0		JP Morgan Global Government Bond (Hedged) Index (in \$A)
Property trusts	Deutsche	86.5	8.7		S&P/ASX 300 Property Trust Accumulation Index
Direct property	Commonwealth Funds Management	5.4	0.5		AMP 'P' Unit
Australian shares	Barclays Global Investors	207.3	20.8		S&P/ASX 300 Accumulation Index
	Colonial First State	165.9	16.7		As above
International shares and currency	Barclays Global Investors	114.5	11.5		MSCI World ex. Australia International Share Index including dividends (in \$A)
	Wellington Management Co.	224.8	22.6		As above
	Currency hedge**	1.8	0.1		–
Private equity	Deutsche	0.5	–		Not yet applicable
	Credit Suisse	1.3	0.2		Not yet applicable
Total		996.1		100	

*At 30 June 2000 there were no single investments representing more than 5% of total Fund assets; nor did any combination of investments in a single entity exceed 5% of total Fund assets.

**Hedging is used to protect against losses resulting from adverse movements in exchange rates.

Chart 2: Sectoral allocation as proportion of the Fund



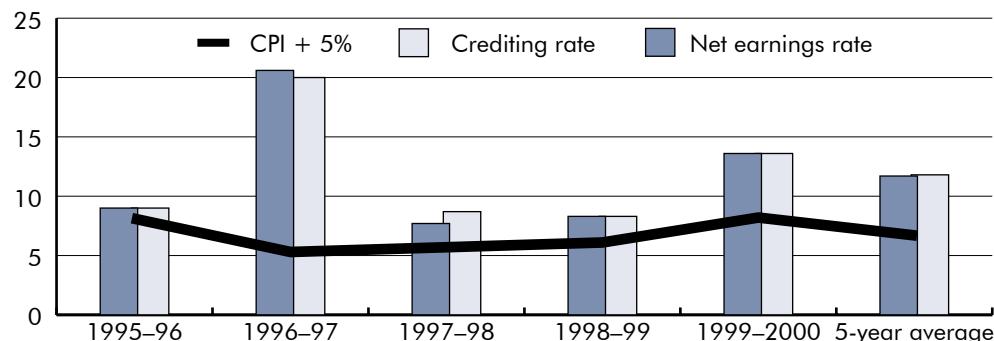
Note: This chart is a sectoral presentation of investment holdings. Its figures differ from the method of presentation in the financial statements, which include provision for outstanding settlements and separates cash holdings within each sector.

Crediting rate policy

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

Chart 3 shows a comparison of the crediting rates declared since 1995–96 against the Fund's earnings rate and CPI plus 5%.

Chart 3: Annual earning, crediting and CPI rates since 1995–96



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 cumulative Fund performance to the end of the previous month.

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

Setting of exit rates based on cumulative monthly Fund performance can result in fluctuations, both positive and negative, in the exit rate in the early part of the financial year that are greater than those experienced under the previous quarterly policy. This is because the use of quarterly performance results acted to partially smooth investment returns whereas the current method provides minimal smoothing in the first few months of the year.

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 exit rate of interest could be set. However, the Board's investment policy is structured to minimise this risk.

Also the Board has acted to ensure that 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 immediately on leaving the ADF.

The rates determined by the Board during 1999–2000 are shown in Table 4. Each new exit rate replaces the previous one.

Table 4: Exit rates declared in 1999–2000

2 August 1999	7.9%
19 August 1999	12.4%
30 August 1999	15.4%
27 September 1999	7.5%
25 October 1999	2.0%
26 November 1999	4.6%
23 December 1999	10.6%
27 January 2000	15.3%
25 February 2000	9.0%
24 March 2000	11.7%
20 April 2000	13.8%
26 May 2000	11.3%
26 June 2000	9.6%

Governance

Business Plan

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

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

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

At year's end the Board revised its business plan to reflect the changes it had made to its investment strategy and targets and other related matters.

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 1999–2000 audit the Board's external auditor did not identify any contravention of the SIS Act or Regulations.

Administrative Agreement

The MSB Board obtains superannuation administration services for management of the Scheme from Commonwealth Superannuation Administration (ComSuper). The cost of these services is met by the Department of Defence.

During the year, ComSuper, in consultation with the Board, developed a new Administrative Agreement setting out revised levels of service to be provided to the Board. This agreement was signed on 22 October 1999 by the Chairman of the Board and the CEO of ComSuper. A companion agreement sets out the level of service to be provided between the Department of Defence and the MSB Board.

Delegations

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

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

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

Board Committees

Audit Committee

The Audit Committee is a sub-committee of the full Board. During 1999–2000 the Committee comprised Dr Michael Sharpe (chairman), AIRCDRE Nick Ford and WOFF Robert Swanwick. AIRCDRE Ford retired during the year and was replaced on the Committee by BRIG Bob Brown.

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.

MSCAG's role is to:

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

The Group met on a monthly basis in 1999–2000.

Year 2000 readiness

Throughout 1999 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 61).

By mid-1999, the Board was satisfied with progress in all its service providers, and shifted its focus to business continuity and contingency planning.

As expected no problems occurred as a result of the transition into 2000.

Evaluation

Annual Effectiveness Reviews

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

In October 1999 the Board considered a report from ComSuper on the efficiency and effectiveness of the systems and procedures used in the administration of the MSB Scheme. As a result of that review the Authority entered into a revised administrative agreement with ComSuper (see page 18).

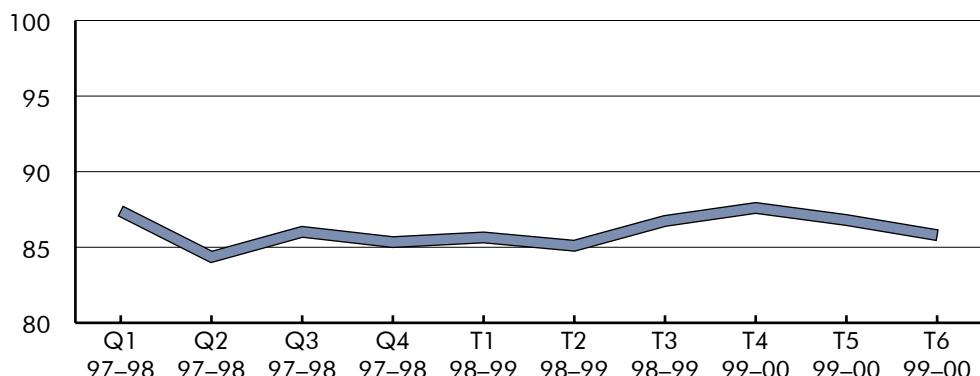
The performance standards referred to in this report are those defined in the revised administrative agreement notwithstanding that the higher service levels did not apply for the whole of the financial year. Performance against the standards, and the standards themselves, are the subject of ongoing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

Client feedback

During 1999–2000 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 (i.e. an 85% satisfaction level) with an average score for ten periods of 86.08. Chart 4 shows ComSuper’s QSI scores for the military schemes in each of the survey periods since inception.

Chart 4: Quality Service Index (QSI) scores for military client satisfaction, 1997–98 to 1999–2000



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.

Actuarial review

During the year an actuarial review of the MSBS was undertaken by the Australian Government Actuary, on the basis of data as at 30 June 1999.

The results of that review indicate that the notional employer contribution rate—the contribution rate that would be payable if the scheme were fully funded—had risen from 20.9% at the time of the Actuary's 30 June 1996 report to 22.3% at 30 June 1999.

The long-term cost projections required assumptions regarding the future growth of the two military superannuation schemes. The Actuary assumed that the total contributory membership of the DFRDB and the MSBS would remain constant at the level existing at the valuation date. As the DFRDB is closed to new members, to complement its declining membership the MSBS contributory membership was assumed to increase at the rate required to replace the members leaving the DFRDB.

The Actuary carried out a projection of actual employer costs to show the impact of the military schemes on Commonwealth outlays in the long term. In the previous four years, outlays had been relatively steady, rising from \$153 million in 1995–96 to \$156 million in 1999–2000. Projected outlays for the next four years showed a steady increase, rising from \$159 million in 2000–01 to \$197 million in 2003–04.

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"> • maintain records of scheme contributors to allow, among other things, the accurate and timely publication of member statements, the accurate and timely payment of benefits to members, and to facilitate reconciliation against Fund accounts; • ensure that adequate systems, procedures and controls are in place to meet the administration and reporting requirements of the Act and associated legislation; and • at the direction of the Audit Sub-committee of the Board, arrange for an independent audit of those systems and controls to be undertaken from time to time. 	
STANDARD	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 on 15 September 1999. These letters were subject to internal and external audit scrutiny.

At 30 June 2000, there were 38 829 contributors to the MSBS, 32 655 (84.1%) of whom were male and 6 174 (15.9%) female. Table 5 shows the number of new entrants and exits and the total contributor membership at 30 June 2000. 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 1999	14 309	23 107	37 416
Plus new contributors	0	6 618	6 618
Less exits	(1 859)	(3 346)	(5 205)
Membership at 30 June 2000	12 450	26 379	38 829

Note: The membership figures given in this table for 30 June 1999 differ from those in the 1998–99 report and in the summary table on page 66 due to retrospective adjustments not reported last year.

Table 6: Male and female contributors by years of service

<i>Years of service</i>	<i>Male</i>	<i>Female</i>	<i>All</i>
0–9	24 036	4 824	28 860
10–14	5 169	1 054	6 223
15–19	1 987	255	2 242
20+	1 463	41	1 504
Total	32 655	6 174	38 829

The largest number of contributors in 1999–2000 was aged between 20 and 25 years, 28.18% of members being in that age group. The next largest group (25–29 years) comprised 29.15% 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 1999–2000 were \$128 139 000, of which member contributions comprised \$83 129 000. Table 7 compares the total member and employer contributions that have been received each year since 1995–96.

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

Year	Contributors	Member contributions	Employer contributions	Total contributions
1995–96	38 331	\$77 526 715	\$37 763 099	\$115 289 814
1996–97	38 936	\$80 714 424	\$40 823 723	\$121 538 147
1997–98	37 356	\$82 383 000	\$42 185 882	\$124 568 715
1998–99	37 416	\$84 191 000	\$43 611 000	\$127 802 000
1999–2000	38 829	\$83 129 000	\$45 010 000	\$128 139 000

Exits

There were 5 205 exits from the MSBS during the year. The types of exit are shown in Table 8.

Table 8: Modes of exit since 1995–96

Mode of exit	1995–96	1996–97	1997–98	1998–99	1999–2000
Age retirement	84	80	94	81	89
Resignation	4 808	4 065	3 209	3 654	4 084
Redundancy	1	4	64	90	29
Invalidity retirement	435	366	473	653	697
Death	17	19	18	19	12
Other*	251	267	213	243	294
Total	5 596	4 801	4 071	4 740	5 205

*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 adjusted taxable income exceeds the threshold, the ATO determines the amount of surcharge debt applicable to the member and reports this to ComSuper and the member.

The total of the debts reported by the ATO during 1999–2000 is shown on page 87. The debts ranged in value from \$0.70 to \$8 401.10. Some of the affected members have elected to pay the debt. The total amount paid is also shown on page 87.

Contribution remittances

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

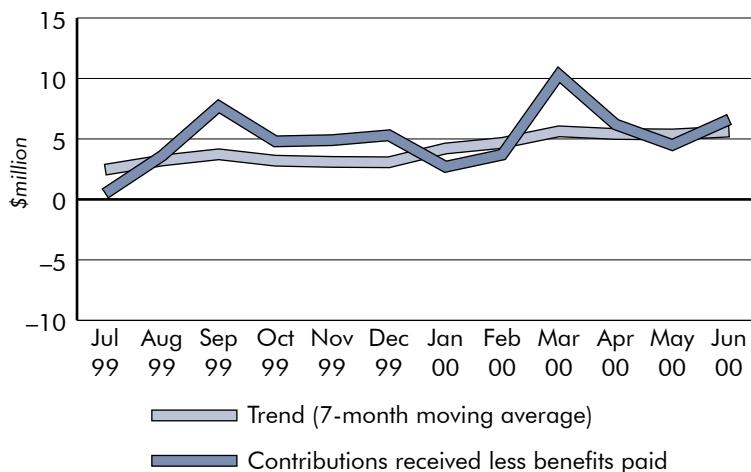
SERVICE

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

Chart 5: MSB Fund cash flow (contributions received less benefits paid), 1999–2000



Note: The net contributions flow for the MSB Fund was positive throughout the 1999–2000 financial year.

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 queries relating to the general administration of the Scheme in writing, over the phone and by electronic means. ComSuper will continuously seek ways to improve these communications.

STANDARD	OUTCOMES																
Where applicable, ComSuper will provide relevant information within the time frames imposed by SIS and generally speaking will significantly better those times.	This performance standard was met for 1999–2000. The outcome for this year showed a further improvement on the 1998–99 result.																
Personal counselling will be provided in Canberra immediately if urgent, otherwise within 5 working days.	This standard was met for 1999–2000.																
<table border="1"> <tr> <td>Written inquiries/ requests for benefit estimates</td><td>Proportion of requests</td></tr> <tr> <td>respond within 10 working days</td><td>85%</td></tr> <tr> <td>respond within 15 working days</td><td>100%</td></tr> </table>	Written inquiries/ requests for benefit estimates	Proportion of requests	respond within 10 working days	85%	respond within 15 working days	100%	<table border="1"> <tr> <td>Written inquiries/ requests for benefit estimates</td><td>Proportion of requests</td></tr> <tr> <td>respond within 10 working days</td><td>99.8%</td></tr> <tr> <td>respond within 15 working days</td><td>100%</td></tr> </table>	Written inquiries/ requests for benefit estimates	Proportion of requests	respond within 10 working days	99.8%	respond within 15 working days	100%				
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<table border="1"> <tr> <td>Member statements</td><td>issue by 10 September</td></tr> <tr> <td>Manually generated statements</td><td>issue by 15 December</td></tr> <tr> <td>Replacement statements</td><td>issue within 15 working days of the request</td></tr> </table>	Member statements	issue by 10 September	Manually generated statements	issue by 15 December	Replacement statements	issue within 15 working days of the request	<table border="1"> <tr> <td>Member statements</td><td>issued by 31 August</td></tr> <tr> <td>Manually generated statements</td><td>issued by 30 November</td></tr> <tr> <td>Replacement statements</td><td>Some 500 statements were issued, all within 15 working days of results being corrected</td></tr> </table>	Member statements	issued by 31 August	Manually generated statements	issued by 30 November	Replacement statements	Some 500 statements were issued, all within 15 working days of results being corrected				
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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.	This standard was met.																
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 effect.	This standard was met through provision of advice in the annual report to members.																

MSCAG activity

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, MSCAG monitored the Board's communication with members to ensure it continued to meet SIS (the *Superannuation Industry (Supervision) Act 1993*) requirements. Issues which demanded the attention of MSCAG included:

- possible provision of financial advisory services to members;
- appropriate means of communicating with the families of MSBS members;
- surcharge assessments;
- revisions to service charters;
- the impact of the enhanced SIS preservation standards; and
- usage of the Internet.

In 1998–99 the Board commissioned an independent public relations consultant to work with MSCAG on reviewing and improving communications strategies. In 1999–2000 MSCAG set priorities for work to be undertaken by the consultant and monitored its progress. It is expected that recommendations flowing from this consultancy will be considered for implementation in 2000–01.

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.

In 1999–2000, additional resources were directed towards counselling activities at resettlement seminars, allowing for a more proactive approach. Previously this service was provided only on request.

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 900 telephone calls per week.

During the year, ComSuper staff provided personal counselling to 41 members and gave presentations at 28 resettlement seminars, which were attended by a total of 4 583 people (both MSBS and DFRDB members). Twenty-seven MSBS member sessions and one information session for administrative/discharge staff were also conducted and were attended by 1 322 members and 147 staff respectively. The member sessions were primarily conducted in conjunction with the resettlement seminars. A total of 1 512 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 1999–2000 financial year these were distributed in August, an improvement on previous years. The statements provide members with equity figures and withdrawal benefits at the beginning and end of the financial year. Members are also sent a copy of the MSB Fund 'Annual Report to Members' and an 'About Your Statement' leaflet in their statement kit.

SIS legislation also requires that the Board issue replacement member statements within one month of being advised that a member's statement is missing or incorrect. Under the service level agreement with the MSB Board the relevant service standard for this function is 15 days (see page 29), which is in excess of that required by SIS.

Website development

Usage of the Internet site again increased in 1999–2000 but not to the extent that had been anticipated. This was despite the work that had been undertaken in 1998–99 to improve accessibility of website material.

At year's end, plans to implement a web-based version of the ever popular 'Ready Reckoner' program were well advanced. This feature provides projections of MSBS benefits. Consideration of additional strategies for encouraging website usage will be a priority for 2000–01.

Benefit payments

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

SERVICE			
STANDARD		OUTCOMES	
Processing time	Proportion processed	Processing time	Proportion processed
within 5 working days	85%	within 5 working days	92.5%
within 15 working days*	95%	within 15 working days	99.9%
Average processing time	less than 4.5 working days	Average processing time	3.2 working days

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

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

The 1999–2000 financial year saw the implementation of systems and procedural changes as a result of increased preservation standards applying to all superannuation funds. These

adjustments were made without adverse impact on service standard outcomes.

Chart 6: MSBS benefit processing against standards, 1999–2000

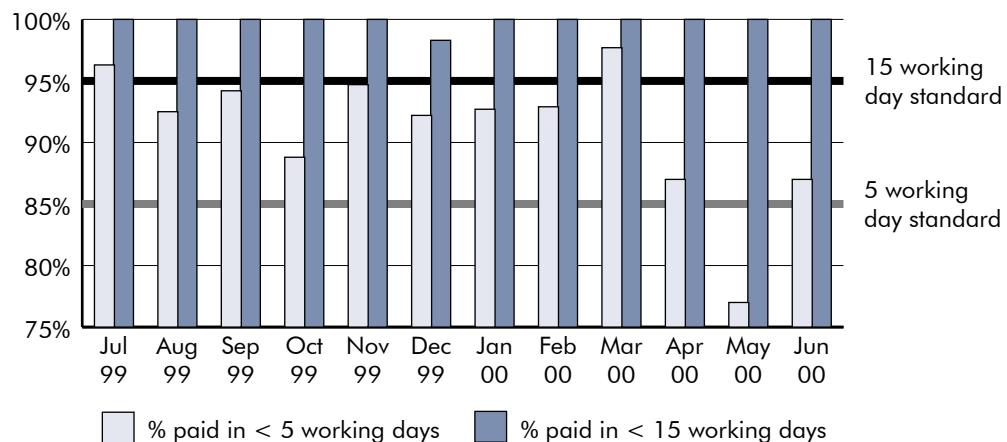
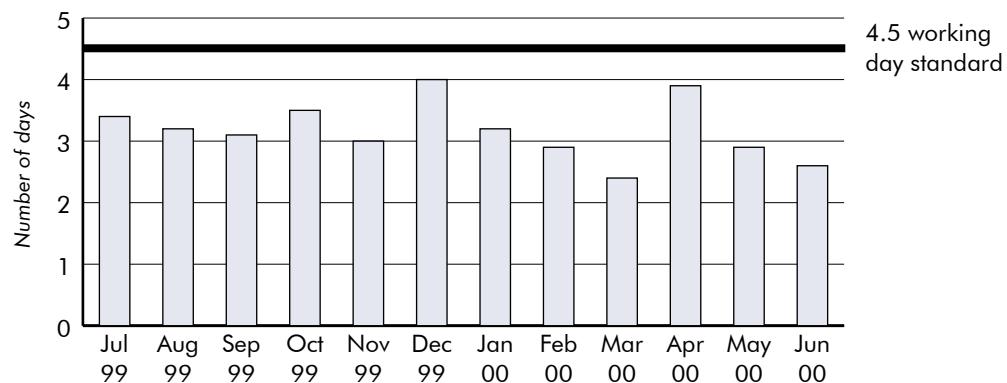


Chart 7: MSBS average time to process benefit payments, 1999–2000



Benefits payable on discharge

Member benefits

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

From 1 July 1999 discharging members have been able to take only that portion of their member benefit that accrued to 30 June 1999. Any contributions paid and any interest earned after that date must either be preserved in the Scheme or rolled over and preserved in another complying fund until preservation age.

Of the 5 205 members who left the Scheme during the year, 3 668 elected to claim their member benefit and received payments totalling \$94 783 805.

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 1999 and 30 June 2000, 582 members received lump-sum employer benefit payments under MSBS legislation, as detailed in Table 9. These lump-sum benefits from the Scheme amounted to \$23 500 343.

Table 9: Partial and full lump-sum employer benefit payments, 1999–2000

Reason for exit	Number	Total lump-sum payments	Average lump-sum payment
Retirement	51	\$ 9 508 229	\$ 186 436
Redundancy	0	0	0
Preserved > age 55	45	5 462 812	121 396
Reversionary benefits			
spouses	9	2 450 463	272 274
orphans	0	0	0
estates	5	687 913	137 583
Early payment*	472	5 390 296	11 420
Total	582	23 500 343	40 379

*Permanent physical or mental incapacity; financial hardship; compassionate grounds.

Invalidity benefits

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

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 10 working days of receipt of supporting documentation and any additional information that may be required (supporting documentation includes medical documentation, the member's employment experience, advice of conditions causing retirement, confirmation of date and mode of exit, and the member's application).

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

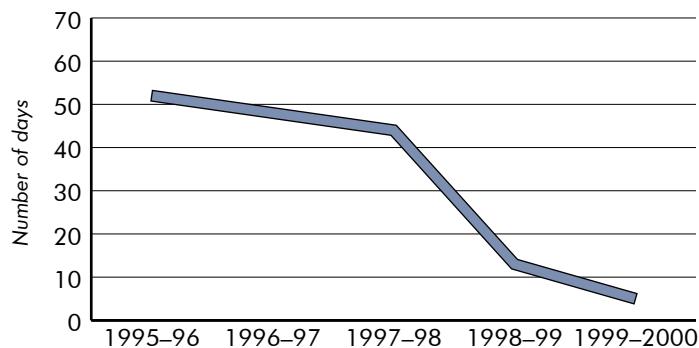
OUTCOMES

ComSuper met this standard in 100% of cases.

ComSuper met this standard in 100% of cases.

The marked improvement in processing times for new invalidity cases, evident from Chart 8, is the result of recent efforts to streamline procedures. This process has now been fine-tuned to the point where further reductions are not expected.

Chart 8: Average time taken to determine new invalidity cases in past five years



Classification process

Incapacity Classification Committee (ICC)

Members of the MSBS retired on invalidity grounds receive an A, B or C classification, reflecting the member's loss of capacity to obtain appropriate civilian employment. If there is a conflict in the medical information, or reasonable doubt as to the classification, the case is passed from the ComSuper delegate to the Incapacity Classification Committee (ICC) for decision. The ICC is established under the provisions of MSBS Rule 17 and is required to determine the classification of members retired on invalidity grounds and to review the existing classification of invalidity pension recipients. The ICC made 143 initial classification decisions during 1999–2000.

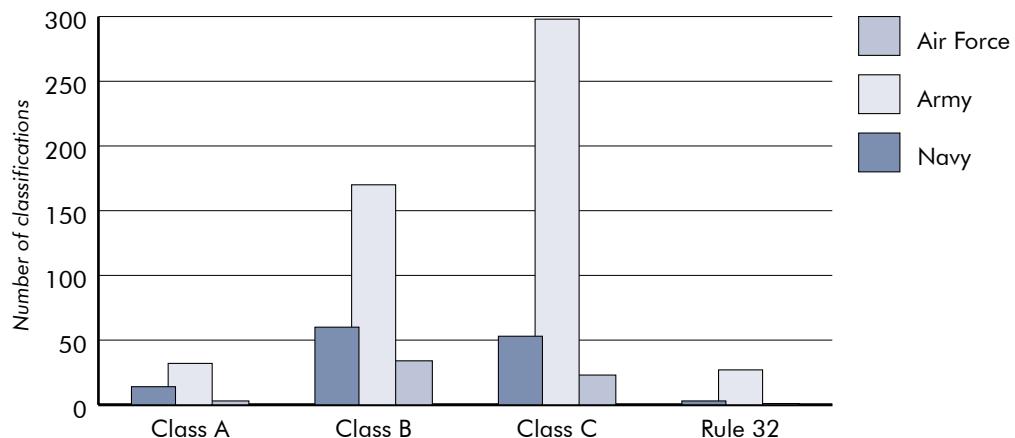
The rate of invalidity pension payable to a recipient member may be altered if the pensioner's degree of incapacity to undertake civilian employment deteriorates or improves. If specialist evidence indicates that a member's classification is no longer appropriate, the review of that case is passed from the ComSuper delegate to the ICC. The ICC made 135 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 1999 to 30 June 2000, 718 members received initial invalidity classifications. The total number of invalidity cases processed was 718, although in 31 of these cases Rule 32 (relating to pre-existing conditions) was applied. This is a decrease of 11 invalidity cases on the previous year (total 729). Of those who received an invalidity classification, 313 (49 Class A and 264 Class B) became entitled to an invalidity pension. The remaining 374 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 9.

Chart 9: Comparison of invalidity classifications in 1999–2000, by Service



Accounts, records and funding of benefit payments

SERVICE	
ComSuper will:	
STANDARD	OUTCOMES
• 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	See Chart 5 on page 27 which indicates that the MSB cash flow was positive for all months during the year.
• maintain proper accounts and records in respect of benefits paid.	

Preserved benefit members

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

Members may preserve their total member benefit, if they wish. From 1 July 1999 discharging members are able to take only that part of their member benefit that accrued up to 30 June 1999. Any contributions paid and interest earned after that date must either be preserved in the Scheme or rolled over and preserved in another complying fund of their choice until preservation age. Members may withdraw part of a preserved benefit that is not required to be preserved; however, it must be withdrawn in \$10 000 multiples and at intervals of no less than six months.

Account maintenance

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.

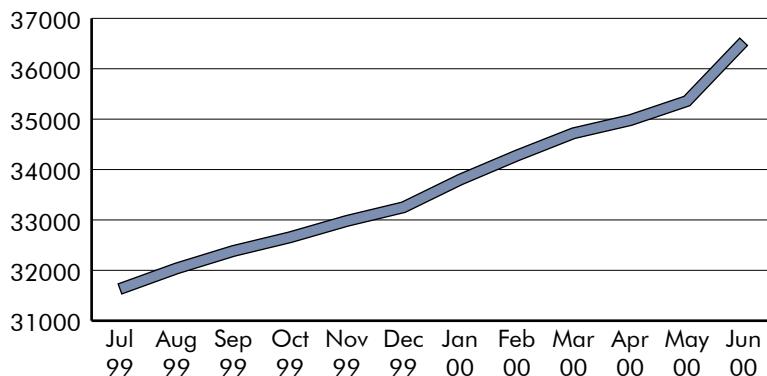
STANDARD

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 on 15 September 1999. These letters were subject to internal and external audit scrutiny.

Chart 10: Growth in MSBS preserved benefit member population, 1999–2000



Preserved benefit member communications

SERVICE

The services outlined on page 28 also apply to this activity.

STANDARD

The commitments given on page 29 also apply to this activity.

OUTCOMES

The standard was met.

Preserved benefit payments

SERVICE

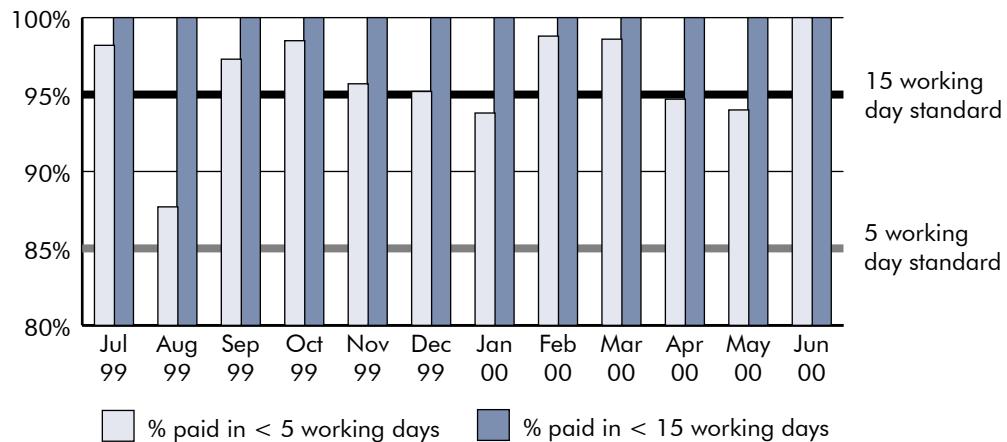
ComSuper will process all applications for payment of preserved benefits in a timely manner and in accordance with relevant legislation. For applications processed outside 15 days, late payment interest will be paid.

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	Processing time	Proportion processed
within 5 working days	85%	within 5 working days	96%
within 15 working days*	95%	within 15 working days	100%
Average processing time	less than 4.5 working days	Average processing time	3.2 working days

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

Chart 11: MSBS preserved benefit processing against standards, 1999–2000



At 30 June 2000, there were 6 307 preserved member benefits totalling \$44 664 813, as shown in Table 10.

Table 10: Member benefits paid or preserved, 1999–2000

	<i>Number</i>	<i>Lump sums</i>	<i>Average amount</i>
Benefits paid on exit, 1999–2000	3 668	\$94 783 805	\$25 840
Benefits preserved at 30 June 2000	6 307	\$44 664 813	\$7 082
Withdrawal of preserved benefits, 1999–2000	302	\$9 463 737	\$31 337

Note: Members who received a partial withdrawal of their member benefit are counted under both benefits paid and benefits preserved.

Preserved employer-financed benefits

In most exit categories, the employer-financed benefit must be preserved until compulsory preservation age or upon genuine retirement from the workforce, whichever is the later. At 30 June 2000, there were 36 065 preserved employer-financed benefits.

Early release of employer-financed benefits

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

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

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

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

In some circumstances early release of a limited amount of preserved benefits may also be granted on compassionate

grounds to allow a member to make a payment on a loan to prevent loss of his or her principal place of residence.

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

During 1999–2000, the Board approved the early release of 112 benefits, totalling \$1 821 200, on the grounds of permanent physical or mental incapacity; 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>Most requests are made by telephone and actioned at the time the call is answered. Written requests are given similar priority and processed within the indicated timeframe in all but unusual circumstances.</p> <p>Management representation letters containing the assurances referred to were presented on 15 September 1999. These letters were subject to internal and external audit scrutiny.</p>

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

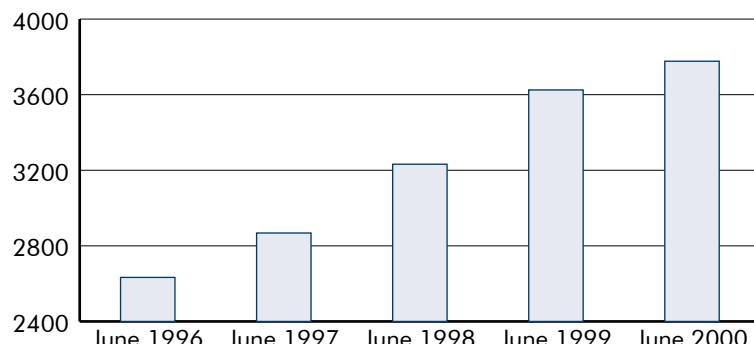
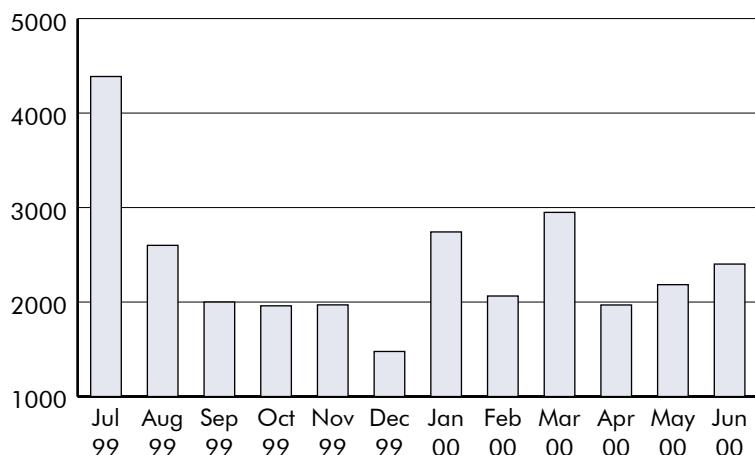


Chart 13: Military pension variations, 1999–2000



Note: Pension variations shown include those for DFRDB and MSBS members. An increase in the number of variations processed in July 1999 was a result of the annual advice mailing. Many members requested variations to the level of tax being deducted from their pension, and notified changes of address.

Pensioner communications

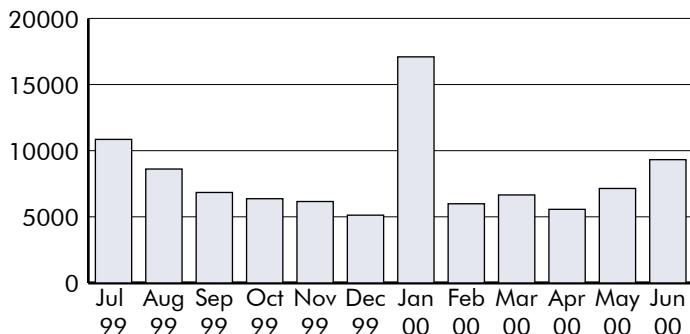
SERVICE

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.

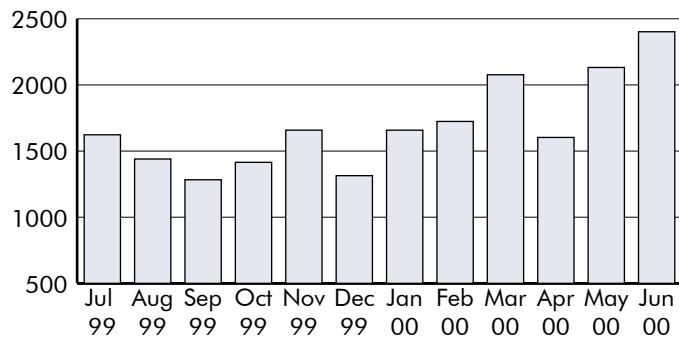
STANDARD	OUTCOMES
Members who request a variation to their method of payment or who advise other changes will be sent an acknowledgement when the change has been effected.	All variations to method of payment and other changes were acknowledged when the changes had been effected.
Telephone inquiries will generally be dealt with at the time of the call.	All telephone inquiries (see Chart 14) were dealt with within the agreed standards (see the table below).
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).	A total of 20 329 written inquiries were received by the Retired Member Information Service in 1999–2000 (see Chart 15). Close attention was given to the agreed standards in all cases.
Annual pension advices and group certificates	all sent out by the first pension payday in July 2000
Telephone inquiries	Telephone inquiries
Dropout rate	0.9%
Average wait time	18.3 seconds
Response rate	85.3% answered within 30 seconds

Chart 14: Telephone calls received by the Retired Member Information Service in 1999–2000



Note: Telephone calls include those made by Commonwealth and military retired members. An increase in calls in January 2000 was the result of the bringing forward of paydays in December 1999 as part of ComSuper's Y2K planning strategies.

Chart 15: Written inquiries received by the Retired Member Information Service in 1999–2000



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

Counselling and inquiry service

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

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

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

Benefit payments

Employer-financed benefits paid as pension

At 30 June 2000, 3 777 members were receiving MSBS pensions. Pensions paid during 1999–2000 totalled \$47 417 000. 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 1996.

During the year, 492 new pensions were granted, while 245 pensions ceased. A breakdown of new pensions by class of benefit is contained in Table 12. Table 12 also shows the estimated liability for 2000–01 of the pensions granted in 1999–2000 and the average pension estimated to be received by each person.

Table 11: Number of pensioners since 30 June 1996, by type of benefit

Class of pension benefit	Number of pensioners				
	30 June 1996	30 June 1997	30 June 1998	30 June 1999*	30 June 2000
Retirement	306	349	412	420	465
Redundancy	1 619	1 609	1 674	1 713	1 748
Preserved > age 55	32	54	88	50	66
Invalidity	683	830	1 029	1 248	1 436
Reversionary benefits**					
spouses***	21	26	29	35	62
orphans	0	0	0	0	0
Total	2 432	2 661	3 232	3 466	3 777

*The numbers for pensioners given in this table differ from those in the 1998–99 report due to retrospective adjustments not reported last year.
**Payable on the death of a member, former member or pensioner.
***The numbers for spouses were understated before the current year.

Table 12: New pensions granted during 1999–2000 and annual liability

<i>Class of benefit</i>	<i>Number</i>	<i>Annual liability</i>	<i>Annual average pension</i>
Retirement	44	\$ 963 374	\$ 21 895
Redundancy	46	441 898	9 606
Invalidity	377	5 381 678	14 275
Preserved > age 55	18	414 011	23 001
Reversionary benefits*			
spouses	7	115 736	16 534
orphans	0	0	0
Total	492	7 316 697	14 871

*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

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

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

OUTCOMES

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

100% of members were advised of the decision taken within 3 working days.

Decisions by the Board to classify members as Class A or B are reviewable at intervals determined by the Board. A member who believes that his or her classification has altered since it was last considered may request that the classification be reviewed. During 1999–2000, 24 members requested a review of their invalidity classification. During 1999–2000, 677 such cases were examined, of which 215 received full medical reviews. As a result of these reviews 135 classifications were changed, as shown in Table 13.

Table 13: Invalidity entitlements reviewed in past five years

	1995–96	1996–97	1997–98	1998–99	1999–2000
Entitlements examined	184	257	300	289	677
Review with medical exam	63	105	148	159	215
Classification raised	5	13	10	17	14
Classification reduced	24	57	67	90	121
Total classification changes	29	70	77	107	135

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

Pension increase

SERVICE	
ComSuper undertakes to process the annual pension increase in accordance with the Scheme Rules.	
STANDARD	OUTCOMES
Process the annual pension increase on the first payday on or after 1 July each year.	This standard was met for 1999–2000. In accordance with the agreed service standards, pension advice letters were sent to pensioners before the first pension payday in July 2000.

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 1999–2000, the Australian Bureau of Statistics announced a CPI change of 2.8% for the March to March year. This increase was applied to pension payments on payday 13 July 2000, together with a reduction in taxation deductions arising from the implementation of the Government's Tax Reform package.

Annual notice to pensioners

As in previous years, pensioners were advised of the adjustment to their pensions in the annual pension advice letter that was sent to them, together with their income tax group certificate and other relevant information. For this year, pensioners were given advice of the effect of the Government's Tax Reform package on superannuation payments, which includes provision for bonus payments to qualifying MSBS pensioners.

Dispute resolution

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 reconsider decisions of the Board, its delegates, the ICC or authorised persons. ComSuper undertakes to investigate requests for reconsideration in a thorough, objective and effective manner in accordance with any guidelines issued by the Board.

STANDARD		OUTCOMES	
Processing of reconsideration requests	Proportion completed		
within 6 months	45%		
within 9 months	65%		
within 12 months	80%		
Average processing time	10 months		
ComSuper will handle claims against the Board objectively and expeditiously.		There were 98 MSBS requests for reconsideration received in 1999–2000. The proportions of cases completed against the relevant agreed standards were as follows:	
Submissions to the RAC will be prepared within 30 days of receipt of supporting documentation.		Processing of reconsideration requests	Proportion completed
		within 6 months	35%
		within 9 months	57%
		within 12 months	74%
		Average processing time	10 months
		The timeliness standard to be applied is dependent on the number of requests for reconsideration received. Standards achieved were slightly below target in all categories due largely to the unanticipated number of new cases. 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.	
		The Board regularly monitored outstanding cases, particularly those remaining unresolved for more than 12 months after having been received.	

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 1999–2000, 97 requests for reconsideration of decisions taken by or on behalf of delegates of the Board were received, an increase from the 70 requests received the previous year. The increase reflected the rise in the number of invalidity discharges from the Army and the Air Force in the past two years resulting from the introduction of revised fitness standards. One request for reconsideration of a Board decision was also received during 1999–2000 compared with three during 1998–99.

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

Eighty-nine cases were finalised during the year, compared with 61 cases last year. The Board affirmed 27 cases, varied 20 cases in favour of the applicant and set aside 16 cases. Another 26 lapsed because the applicant failed to pursue the matter. Seventy-four cases remained under investigation at 30 June 2000.

Table 14: Reconsideration applications for past five years

Year	1995–96	1996–97	1997–98	1998–99	1999–2000
Requests on hand	29	34	35	53	65
Requests received	32	38	63	73	98
Requests resolved	27	37	45	61	89
Carried forward	34	35	53	65	74

External review

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

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

Significant cases

During the year, and following a High Court decision in June 1999 upholding the SCT's power to review decisions of trustees of regulated superannuation funds, two MSBS cases were considered by the SCT at separate Review Meetings:

- In Determination No. D99-2000/021, the SCT affirmed the MSB Board's decision that 'Flying Allowance' did not form part of the salary of a deceased member of the MSBS and consequently was not to be taken into account in determining the benefit payable to the deceased member's spouse. The SCT's decision was in accordance with the policy intention underlying the MSB Scheme. No appeal was lodged with the Federal Court against the SCT's decision.
- In Determination No. D99-2000/052, the SCT considered for the first time the provisions in the MSBS Rules dealing with

invalidity classification. Upon assessing the evidence of the parties and the decision of the Board, the SCT came to the conclusion that the Board's decision varying a person's classification from Class B to Class C was in all the circumstances fair and reasonable. Furthermore, in its decision, the SCT commended the procedural fairness the Board afforded to the complainant.

Twelve complaints were lodged with the SCT during the year and six cases were carried over from 1998–99. Six SCT complaints were resolved during the year: two Board decisions were affirmed, three complaints were withdrawn by the complainants, and one complaint was treated by the SCT as having been withdrawn on the ground that it was lacking in substance. There were twelve cases outstanding as at the end of June 2000.

In 1999–2000 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 (HREOC).

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

Complaints, ministerials and Ombudsman inquiries

SERVICE
ComSuper will maintain systems for dealing with SIS registered complaints and representations made by Parliamentarians and the Ombudsman.
ComSuper will also maintain systems for dealing with requests under the <i>Freedom of Information Act 1982</i> .
Systems will also be maintained to monitor inquiries directed to the Board.

STANDARD	OUTCOMES
Provide a substantive response to 80% of SIS registered complaints (excluding requests for internal review) within 15 working days.	A substantive response was made to 80% of SIS registered complaints (excluding requests for internal review) within 15 working days.
Parliamentarian and Ombudsman representations and Freedom of Information requests will be dealt with within 30 calendar days.	All Parliamentarian and Ombudsman requests were responded to within 30 calendar days. Ninety-nine per cent of Freedom of Information requests were processed within 30 calendar days.
Respond to 90% of Trustee correspondence within 15 working days of receipt and the remainder within 30 working days.	All Trustee correspondence was responded to within 15 working days.

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

Thirty-three complaints and 15 ministerials were received during the year.

These and Ombudsman inquiries covered a large range of issues, the most significant being preservation policy (28 cases), the payment process (3 cases) and the invalidity process (4 cases), with the remainder (13 cases) all being ones which had less than two occurrences.

Table 15 shows the timetable of responding to complaints or ministerial/Ombudsman inquiries in 1999–2000.

Table 15: Responses to complaints or ministerial/Ombudsman inquiries, 1999–2000

	Less than 15 days		15–30 days		30–90 days		More than 90 days	
	No.	%	No.	%	No.	%	No.	%
Complaints	27	80	5	14	2	6	—	—
Ministerials	15	100	—	—	—	—	—	—

In addition ministerials relating to policy issues are received and responded to within the Department of Defence without referral to ComSuper. In 1999–2000 these totalled 36.

Freedom of information

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

MSBS members made 66 requests for access to documents during 1999–2000. All requests were granted in full. The requests took an average of 5.1 days to process. Only one request, which included complex issues, fell outside the standard.

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

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

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

Internet: www.comsuper.gov.au

Accounting services

SERVICE

ComSuper will:

- maintain the Fund's 'general ledger' summarising monthly contributions, benefits and investment transactions as reported by the Fund Custodian;
- prepare the annual financial statements of the Scheme in a form agreed by the Board and the Minister;
- prepare 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"> • unqualified financial statements in respect of services provided by ComSuper under this agreement; and • the Board's annual report within the statutory time limits; • accurate and timely calculations of crediting and exit rates based on best available (but unaudited) accounting information; • payment of the Board's administrative expenses (including income tax) by due dates; • report on expenditure against the Board's Budget. <p>Note: ComSuper's role relates specifically to accounting matters. As the administrator, ComSuper relies on investment performance data provided by the Custodian or IPAC to deliver some of the services listed above.</p>	<ul style="list-style-type: none"> • ComSuper produced unqualified financial statements to the Board in an accurate and timely manner. • ComSuper delivered the Board's 1998–99 Annual Report within the statutory time limits and expects the same for the 1999–2000 Annual Report. • Exit rate calculations were given to the Board each month for the declaration of interest rates. • The Board's administrative expenses were paid as and when they became due. • ComSuper reported on the Board's expenditure on a quarterly basis for monitoring and comparison against the Board's Budget.

Audit activity and results

Audit Committee

In 1998 the Board appointed the accounting firm KPMG to the role of independent audit adviser. A large part of that role encompasses a mandate to assist the Board in the monitoring and review of its internal governance arrangements.

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

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 1999–2000 issues related to Year 2000 preparedness and corporate governance arrangements were areas of major focus.

Y2K transition

From an internal governance perspective one of the major issues faced by the Board during the year was the monitoring of processes employed by its service providers to manage the Y2K transition. In this regard the Board not only needed to have processes for monitoring the actions of its service providers, but in doing so it also needed to have independent confirmation that it had taken all reasonable steps to discharge its duties to the members of the Scheme.

KPMG was commissioned to undertake reviews of the Y2K contingency plans in respect of each of the Board's primary service providers. Initial reviews were completed in September with follow-up reviews occurring in late November and early December 1999. In both cases the findings from those reviews and the follow-up actions proposed were referred to the Australian Government Solicitor (AGS) for an assessment regarding the appropriateness of the actions taken and proposed. On both occasions the AGS advised that in its view the Board had taken reasonable steps to discharge its duties.

Establishment of a structured compliance function

At its meeting on 15 September 1999 the Board's Audit Committee accepted a recommendation made by the External Auditor that the Board establish a dedicated, proactive SIS compliance function. In accepting this recommendation the Committee asked that ComSuper consider the basis on which such dedicated service could be provided.

At that meeting the Committee also adopted a comprehensive SIS compliance checklist prepared by KPMG and determined that it should ask that ComSuper appoint a SIS Compliance Officer who would take responsibility for the MSBS Checklist. The Chairman also asked that ComSuper develop in-house procedures which, in addition to SIS, would also focus on the Board's compliance with other legislative requirements.

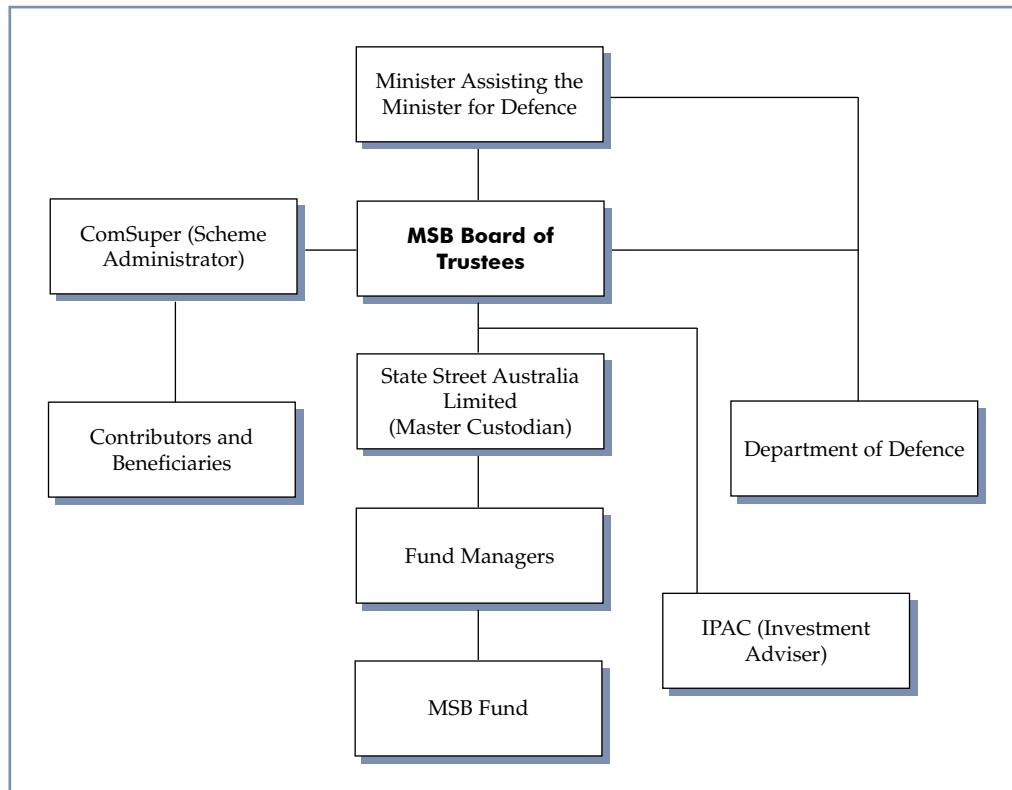
Under arrangements agreed with the Board detailed compliance reports are now provided to the Board in July and December each year.

Audit of financial statements

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

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 1999–2000 totalled \$614 000. 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 1999–2000 is as follows:

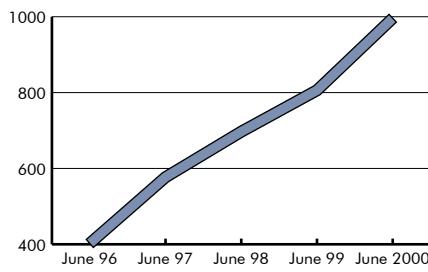
MSB Fund	\$552 000
Department of Defence	\$ 62 000
Total	\$614 000

Appendix 1: MSBS in brief

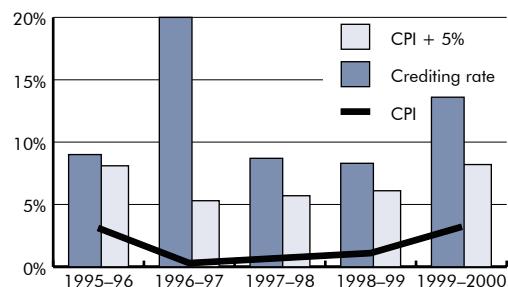
Investment

EFFECTIVE ASSET ALLOCATION Sector	30 June 1999		30 June 2000	
	\$m	%	\$m	%
Cash	111.0	13.4	46.7	4.7
Australian bonds	115.0	13.9	101.5	10.2
International bonds	38.3	4.6	39.9	4.0
Property trusts	98.4	11.9	86.5	8.7
Direct property	5.6	0.7	5.4	0.5
Australian shares	307.5	37.1	373.2	37.5
International shares ¹	152.3	18.4	341.1	34.2
Private equity	—	—	1.8	0.2
Total under management	828.1	100.0	996.1	100.0
INVESTMENT PERFORMANCE ² Sector	1998–99		1999–2000	
	Fund %	Benchmark %	Fund %	Benchmark %
Cash	4.8	5.0	5.2	5.6
Australian bonds ³	3.2	3.3	6.1	6.2
International bonds	5.9	5.5	4.3	4.9
Property trusts	3.0	4.3	12.2	12.1
Direct property	9.4	8.1	12.3	9.8
Australian shares	17.9	15.4	14.7	15.1
International shares	12.5	8.2	31.1	23.8
Private equity	—	—	—	—
Total	8.3	8.3⁴	13.6	12.9
1998–99		1999–2000		
Annual crediting rate ⁵	8.3%		13.6%	
Annual inflation rate	1.1%		3.2%	

Fund growth since 1995–96



Crediting rates since 1995–96



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

Membership

Contributors at 30 June	1999	2000	Increase (decrease)
Males	30 373	32 655	7.5%
Females	5 917	6 174	4.3%
Total	36 290	38 829	7.0%
Total member contributions	\$84 191 000	\$83 129 000	(1.3%)
Contributor exits			
Age retirement	81	89	9.9%
Resignation	3 654	4 084	11.8%
Redundancy	90	29	(67.8%)
Invalidity	653	697	6.7%
Death	19	12	(36.8%)
Other	243	294	21.0%
Total	4 740	5 205	9.8%
Pensions in force			
Age retirement	420	465	10.7%
Redundancy	1 713	1 748	2.0%
Invalidity	1 248	1 436	15.1%
Preserved > age 55	50	66	32.0%
Spouses & orphans	35	62	77.1%
Total	3 466	3 777	9.0%
Pensions paid	\$41.9m	\$47.4m	13.1%
Average pension	\$12 089	\$12 554	3.8%
Preserved benefits at 30 June 2000			
		Number	Value
Member benefit	6 307	\$44.7m	
Employer benefit	36 065	\$1 286.2m	

Appendix 2: Financial statements

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Financial statements for the MSB Fund	72
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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 2000. The financial statements comprise:

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

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

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

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

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

Audit Opinion

In my opinion:

- (i) the statements are in the form agreed by the Minister assisting the Minister for Defence and the Military Superannuation and Benefits Board of Trustees No. 1 in accordance with sub-section 26(1) of the *Military Superannuation and Benefits Act 1991*.
- (ii) the statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the changes in net assets of the MSBS for the year ended 30 June 2000 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 2000.

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 2000.

Australian National Audit Office



David C. McKean
Executive Director

Delegate of the Auditor-General
Canberra

25 September 2000

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 2000 and the changes in net assets of the Scheme for the year ended 30 June 2000;
- (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 14th day of September 2000 in accordance with a resolution of members of the Military Superannuation and Benefits Board of Trustees No. 1.


Mr C.P.H. Kiefel
Chairman


Brigadier R.C. Brown, CSC
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 2000**

	Note	2000 \$'000	1999 \$'000
Net Assets Available to Pay Benefits at 1 July		806,113	696,879
MSB FUND			
Investment Revenue			
Interest		13,638	13,234
Dividends		22,232	17,738
Other Investment Income		(1,283)	129
Changes in Net Market Values	2	89,707	39,161
Direct Investment Expenses		<u>(4,548)</u>	<u>(3,902)</u>
Net Investment Revenue Before Tax		<u>119,746</u>	<u>66,360</u>
General Administration Expenses	1i, 3c	(552)	(385)
Contributions Revenue			
Employee Contributions	3a	83,129	84,191
Employer Contributions	3a	<u>45,010</u>	<u>43,611</u>
Benefits Paid	3b	<u>128,139</u>	<u>127,802</u>
		<u>(68,737)</u>	<u>(72,383)</u>
Net Contributions Revenue Before Tax		<u>59,402</u>	<u>55,419</u>
Net Investment Revenue and Net Contributions Revenue Before Tax		<u>178,596</u>	<u>121,394</u>
Income Tax Expense	4	<u>(11,952)</u>	<u>(12,160)</u>
Net Investment Revenue and Net Contributions Revenue After Tax		<u>166,644</u>	<u>109,234</u>
CONSOLIDATED REVENUE FUND			
Moneys Appropriated by Parliament	3	165,701	179,524
Less: Benefits Paid	3b	<u>(165,701)</u>	<u>(179,524)</u>
Net Assets Available to Pay Benefits at 30 June		<u>972,757</u>	<u>806,113</u>

The attached notes form part of these financial statements.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

**STATEMENT OF NET ASSETS
AS AT 30 JUNE 2000**

	Note	2000 \$'000	1999 \$'000
MSB FUND			
Investments	1c		
Cash and Short Term Deposits		68,287	81,039
Australian Fixed Interest		98,118	112,143
Overseas Fixed Interest		38,236	34,555
Australian Equities		365,723	289,368
Overseas Equities		328,899	209,144
Property Trusts		91,884	102,271
Other Investments		1,834	(2,914)
Total Investments		992,981	825,606
Other Assets	5	17,651	15,967
Total MSB Fund Assets		1,010,632	841,573
Less: Liabilities			
Trade Settlements Payable		10,898	11,328
Accrued Expenses	6	480	379
Sundry Creditors		357	112
Benefits Payable		4,157	2,452
Provision for Income Tax		6,733	6,364
Provision for Deferred Income Tax		15,250	14,825
Total MSB Fund Liabilities		37,875	35,460
CONSOLIDATED REVENUE FUND			
Other Assets			
Sundry Debtors	3b	3,974	6,263
Total Consolidated Revenue Fund Assets		3,974	6,263
Less: Liabilities			
Benefits Payable	3b	3,974	6,263
Total Consolidated Revenue Fund Liabilities		3,974	6,263
Net Assets Available to Pay Benefits		972,757	806,113

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 2000

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 information sources.
- (ii) Fixed-interest—these securities are valued by marking to market using yields supplied by independent information sources.
- (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 2000

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 2000

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) *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.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2000

2. CHANGES IN NET MARKET VALUES

	2000 \$'000	1999 \$'000
Changes in Net Market Values of Investments:		
(a) Investments Held at 30 June		
Australian Fixed Interest	(1,472)	(5,718)
Overseas Fixed Interest	1,150	(6,494)
Australian Equities	<u>35,709</u>	29,616
Overseas Equities	<u>47,097</u>	18,773
Property Trusts	<u>2,777</u>	(3,030)
Other Investments	<u>1,776</u>	8,755
	<u><u>87,037</u></u>	<u><u>41,902</u></u>
(b) Investments Realised During the Period		
Australian Fixed Interest	(359)	179
Overseas Fixed Interest	(455)	3,846
Australian Equities	<u>2,153</u>	8,130
Overseas Equities	<u>12,131</u>	3,827
Property Trusts	<u>952</u>	(601)
Other Investments	<u>(11,752)</u>	<u>(18,122)</u>
	<u><u>2,670</u></u>	<u><u>(2,741)</u></u>
(c) Total Change in Net Market Values of Investments	<u><u>89,707</u></u>	<u><u>39,161</u></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 Department of Defence also made contributions to the Consolidated Revenue Fund at the rate of 20.9% of salaries to cover the accruing cost of MSBS benefits not financed through the MSB Fund.

The net assets available to pay benefits, as shown in the Statement of Net Assets at 30 June 2000, is the accumulated employee and employer contributions held in the MSB Fund as at 30 June 2000.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2000

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

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

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

Benefits payable to members from the Commonwealth Revenue Fund at 30 June 2000 amounted to \$4.0m (1999 \$6.3m). Benefits payable by the MSB Fund (i.e. amounts to be transferred to the Consolidated Revenue Fund), totalled \$4.2m at 30 June 2000 (1999 \$2.5m).

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

	2000 \$'000	1999 \$'000
MSB Fund		
Payments to Commonwealth—current financial year	50,976	49,652
—understatement of prior years	—	8,292
Lump-sum Benefits	17,761	14,439
	68,737	72,383
Consolidated Revenue Fund		
Lump-sum Benefits	118,284	137,671
Pensions	47,417	41,853
	165,701	179,524

(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 are met from moneys paid to ComSuper by the Department of Defence. Transactions in respect of the receipt of these moneys and the costs of administration have been brought to account in the financial statements of the Commission for Superannuation.

The increase in general administration costs met by the MSB Fund during 1999–2000 largely reflects one-off costs incurred by the Board to implement changes to taxation legislation, in particular the Goods and Services Tax.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2000

4. INCOME TAX EXPENSE

The taxation liability at 30 June 2000 has been calculated on the basis that the MSB Fund is a complying fund within the meaning of the *Superannuation Industry (Supervision) Act 1993* 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:

	2000 \$'000	1999 \$'000
Prima facie income tax expense on		
Net Investment Revenue and Net Contributions		
Revenue Before Tax	26,789	18,209
Add/(Less) Permanent Differences		
Employee contributions	(12,469)	(12,629)
Benefits Paid	10,311	10,858
Foreign Tax Credits	(171)	(333)
Imputation Credits from Franked		
Dividends Received	(3,550)	(3,074)
*Difference between accounting and tax gains	(8,229)	(241)
Tax Free/Tax Deferred Distributions	(592)	(310)
Over/(Under) Provision in Prior Year	(137)	(320)
Income Tax Expense	<u>11,952</u>	<u>12,160</u>

Income tax paid during the period amounted to \$11,760,400 (1999: 10,039,106)

*A significant proportion of the difference arises as a result of changes to the capital gains legislation which came into effect in September 1999.

5. OTHER ASSETS

	2000 \$'000	1999 \$'000
Bank	2,853	1,860
Trade Settlements Receivable	7,346	7,597
Accrued Income	6,129	6,232
Future Income Tax Benefit	846	802
Sundry Debtors	477	(524)
	<u>17,651</u>	<u>15,967</u>

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2000

6. ACCRUED EXPENSES

	2000 \$'000	1999 \$'000
Investment Consultant Fees	78	67
Fund Management & Custodial Fees	344	279
Audit Fees	25	25
Other	33	8
	<hr/> 480	<hr/> 379

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 set. 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.

(a) Use of Derivative Financial Instruments

As disclosed in Note 1(e), the Fund's investment managers use a number of financial instruments to reduce risk consistent with the investment policy of the Fund.

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

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2000

7. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)**(a) Use of Derivative Financial Instruments (Cont.)**

	Notional Principal Amounts		Net Market Value	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Exchange Traded Options	—	(64,734)	—	(1,615)
Exchange Traded Warrants	—	1,428	—	1,105
Futures	5,692	5,983	48	62
Currency Contracts	(170,114)	(104,955)	1,662	(1,691)
Total	(164,422)	(162,278)	1,710	(2,139)

(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 \$7.0m (1999: \$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 2000

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 2000 was as follows:

	30 June 2000	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			
Assets								
Cash & Short Term Deposits	68,287							68,287
Australian Fixed Interest		3,648	50,716	43,754				98,118
Overseas Fixed Interest		1,514	13,238	23,484				38,236
Australian Equities				308	365,415			365,723
Overseas Equities					328,899			328,899
Property Trusts					91,884			91,884
Other Investments					1,834			1,834
Other Assets	2,853					14,797		17,650
Liabilities								
Trade Settlements Payable					(10,898)		(10,898)	
Accrued Expenses					(1,039)		(1,039)	
Sundry Creditors					(357)		(357)	
Benefits Payable					(4,156)		(4,156)	
Provision for Income Tax					(6,174)		(6,174)	
Provision for Deferred Income Tax					(15,250)		(15,250)	
Total		71,140	5,162	63,954	67,546	764,955	972,757	
Weighted Average Interest Rate		5.12%	5.44%	6.12%	5.96%			

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2000

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

	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			
Assets								
Cash & Short Term Deposits	81,039						81,039	
Australian Fixed Interest		15,085	46,534	50,524			112,143	
Overseas 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					(2,914)	(2,914)		
Other Assets	1,860					14,107	15,967	
Liabilities								
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)		
Total	82,899	15,215	57,055	74,558	576,386	806,113		
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 2000

7. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)**(d) Currency Risk Exposures**

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

	USA A\$'000	JPY A\$'000	GBP A\$'000	EUR A\$'000	Other A\$'000	Total A\$'000
30 June 2000						
Gross investment amounts denominated in foreign currency	231,226	49,375	25,147	52,108	22,194	380,050
Amount effectively hedged	(93,874)	(26,858)	(12,726)	(34,894)	(1,762)	(170,114)
Net Exposure	137,352	22,517	12,421	17,214	20,432	209,936
30 June 2000						
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)	(3,067)	(104,955)
Net Exposure	99,362	11,970	8,881	11,186	15,375	146,774

(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:

	2000 \$m	1999 \$m
Funded	968	807
Unfunded	4,500	4,073
Total Vested Benefits	5,468	4,880

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 2000 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 2000

9. LIABILITY FOR ACCRUED BENEFITS

The amount of accrued benefits has been determined on the basis of the present value of expected future payments which arise from membership of the Scheme up to the membership date. The accrued benefits are comprised of a funded component, which will be met from the Fund, (i.e. accumulated member contributions and, where applicable, productivity contributions, plus interest) and an unfunded component to be financed, by the Commonwealth, from the Consolidated Revenue Fund, at the time the superannuation benefits become payable. The valuation of the accrued benefits was undertaken by the Australian Government Actuary as part of a comprehensive review during 1999–2000. (A summary of the Australian Government Actuary's report is attached.)

Accrued Benefits as at 30 June 1999 were:

	1999 \$b	1996 \$b
Funded component	0.8	0.4
Unfunded component	4.2	3.2
	5.0	3.6

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

10. RELATED PARTIES

(a) Members of the Board

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

Mr C. P. H. Kiefel (Chairman)
Dr M. J. Sharpe AO
Air Commodore N. J. Ford (resigned 28 October 1999)
Brigadier R. C. Brown (appointed 29 October 1999)
Mr P. D. Gourley
Warrant Officer R. C. Swanwick
Colonel M. J. Hannan (alternate for N. J. Ford) [resigned 16 August 1999]
Group Captain L. C. Roberts (alternate for N. J. Ford and R. C. Brown) [appointed 17 August 1999]
Warrant Officer P. D. Alomes (Warrant Officer RAAF General Reserve) [alternate for R. C. Swanwick]
Ms D. Clarke (alternate for P. D. Gourley) [resigned 22 August 1999]
Mr P. J. Charley (replaces Ms D. Clarke) [appointed 23 August 1999]

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2000

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 1999–2000 financial year on the same terms and conditions applicable to all scheme members.

Fees and associated superannuation contributions paid in respect of the members of the Board during the financial year totalled \$112,886 (1999: \$105,351).

11. AUDITORS REMUNERATION

The amount paid and payable in respect of external audit services is \$25,000 (1999: \$25,000).

12. SEGMENT REPORTING

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

13. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital Commitments

At 30 June the Fund had outstanding investment capital commitments of \$22.0m (1999: \$0). These commitments relate to private equity investment funds managed by Deutsche Bank and Credit Suisse First Boston.

(b) Benefit Entitlements

In the normal course of business, requests are made by members and former members for the review of decisions relating to benefit entitlements of the Scheme which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. In the opinion of the 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 2000

14. SUPERANNUATION CONTRIBUTIONS SURCHARGE

The Superannuation Contributions Surcharge applies 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 surcharge assessments from the ATO in respect of surchargeable superannuation contributions for the 1999–2000 period.

A summary of transactions follows:

	2000 \$'000	1999 \$'000
Total Surcharge Liability Outstanding at start of year	1,797	0
Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year	3,706	1,814
	5,503	1,814
Less: Amount paid by members	(371)	(22)
Less: Amounts deducted from members' benefit payments	(27)	—
	5,105	1,792
Plus: Interest applied to outstanding surcharge liability at 30 June 2000	177	5
Total surcharge liability outstanding at end of year	5,282	1,797

The MSBS Board lodged an objection against the 1996–97 and 1997–98 assessments under the *Superannuation Contributions Tax (Assessment and Collection) Act 1997*. However, until the outcome of the objections, the Board has instructed the Scheme continue to be administered in accordance with the superannuation contribution surcharge legislation as it currently stands. In March 2000 the Board decided not to lodge objections against future assessments.

No liability is recognised in the 'Statement of Net Assets' for the estimated value of the surcharge liability because the liability will be either met by the members during their period of membership or will be recovered from member benefits when they are paid. The above liability of \$5.2m does not include assessments in respect of 1999–2000 which have not yet been calculated by the ATO.



21 August, 2000

MILITARY SUPERANNUATION AND BENEFITS SCHEME SUMMARY OF THE 1999 LONG TERM COST REPORT

1. A report on the long term cost of the Military Superannuation and Benefits Scheme (MSBS) and the Defence Force Retirement and Death Benefits Scheme (DFRDB) was carried out using data as at 30 June 1999 by the Australian Government Actuary. This report was presented to Parliament in June 2000.
2. The MSBS is partially funded and the DFRDB (closed to new entrants since October 1991) is unfunded. Both schemes have an underlying Government guarantee. Projections of the actual annual employer costs of the two schemes combined as a percentage of Gross Domestic Product (GDP) were made over a period of 45 years.
3. These projections showed a progressive fall in the combined cost of the two schemes, due to the phasing out of the more expensive DFRDB. Given the underlying Government guarantee, I was therefore of the opinion that the financial position of the schemes as at 30 June 1999 was satisfactory.
4. The value of assets of the MSBS as at 30 June 1999 reported in the audited financial statements of the fund was \$806 million.
5. Vested benefits of the MSBS were not calculated as part of the Long Term Cost Report as at 30 June 1999, but were calculated separately. They amounted to \$4,880 million as at 30 June 1999.

It should be noted that this value of vested benefits represents the liability that would have fallen on the scheme if all members had ceased service on 30 June 1999 and elected the option which is most costly to the scheme. The likelihood of such an occurrence is extremely remote. The value quoted does not in any way represent the scheme's liability under circumstances which have any reasonable possibility of arising.

6. The value of Accrued Benefits for the MSBS as at 30 June 1999 was \$5.0 billion. This comprised \$4.2 billion in unfunded Accrued Benefits and \$0.8 billion in funded Accrued Benefits. The value of Accrued Benefits is the present value of the proportion of projected future benefit payments that had accrued in respect of membership of the MSBS to 30 June 1999.
7. As would be expected in a substantially unfunded arrangement, the value of total Accrued Benefits is more than the audited value of scheme assets at the same date.
8. The major assumptions used in the calculations were as follows:
 - Pension increases (CPI): 2.5% per annum
(4.0% in the 1996 review)
 - Investment earnings rate: 3.5% per annum real (net of tax and investment expenses)
(unchanged from the 1996 review)
 - Inflationary salary increases: 1.5% per annum real
(unchanged from the 1996 review)
 - Promotional salary increases: a scale based on age and length of service was used
(unchanged from the 1996 review)



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

Appendix 3: Fund managers

Barclays Global Investors Australia Limited

Level 1
111 Harrington Street
Sydney NSW 2000

Colonial First State Investment Managers (Australia) Limited

Level 17
52 Martin Place
Sydney NSW 2000

Commonwealth Property Management Limited

Level 10
Corner George and Market Streets
Sydney NSW 2000

Credit Suisse First Boston International (Australia) Limited

Level 32 Gateway
1 Macquarie Place
Sydney NSW 2000

Credit Suisse Asset Management (Australia)

Level 32 Gateway
1 Macquarie Place
Sydney NSW 2000

Deutsche Asset Management (Australia) Limited

(formerly Morgan Grenfell (Australia) Limited)
Level 21
83 Clarence Street
Sydney NSW 2000

Macquarie Specialised Asset Management Limited

Level 22
20 Bond Street
Sydney NSW 2000

Nicholas-Applegate Capital Management

600 West Broadway
San Diego CA 92101
USA

State Street Australia Limited

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

Wellington International Management Company Pte Limited
Level 26
1 O'Connell Street
Sydney NSW 2000

Wellington Management Company, LLP
75 State Street
Boston MA 02109
USA

Westpac Investment Management Pty Limited
Level 36
60 Margaret Street
Sydney NSW 2000

Appendix 4: Glossary

active management	an approach to investment where the manager varies its strategy depending on current market conditions. Active managers regularly review their investments with a view to benefiting from changes in the market or from growth in specific assets.
ADF	Australian Defence Force
AD(JR) Act	<i>Administrative Decisions (Judicial Review) Act 1977</i>
APRA	Australian Prudential Regulation Authority
CDF	Chief of the Defence Force
CFM	Commonwealth Funds Management Limited
ComSuper	Commonwealth Superannuation Administration
core management	a manager whose portfolio is constructed so as to provide a high probability of capturing the market return for a particular asset class. Core managers are used to control liabilities
CPI	Consumer Price index
defensive assets	assets (such as cash and bonds) that are not very susceptible to market fluctuations
derivatives	investment products (such as an option on a share) that are derived from other securities or assets. Their value is linked to the value of the underlying security
direct property	property that is purchased by an investor to be held by that investor (see also <i>indirect property</i>)
DFRDB	Defence Force Retirement and Death Benefits
growth assets	assets (such as shares and property) that are very responsive to market fluctuations.
ICC	Incapacity Classification Committee
indirect property	an investment in property made by purchasing units in a property trust, or shares in a property company
IVR	Interactive Voice Response telephone system
LWOP	leave without pay
MSB	Military Superannuation and Benefits
MSBS	Military Superannuation and Benefits Scheme
MSCAG	The Military Superannuation Communication Advisory Group
passive	an approach where the manager does not actively change the proportions held in the various investment sectors according to market conditions, but fixes them for an extended period
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	the <i>Superannuation Contributions Tax (Assessment and Collection) Act 1997</i> , a tax on employer financed superannuation contributions

Appendix 5: Publications

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

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; from National Mailing and Marketing on telephone (02) 6299 5193 or facsimile (02) 6299 6040; or from ComSuper's Internet site (www.comsuper.com.au).

Appendix 6: Service charters

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

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

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

The service MSBS contributors can expect

- If you phone our information service between 9.00 am and 5.00 pm, Eastern Time, Monday to Friday (excluding public holidays),
 - normally your call will be answered within 45 seconds (see page 29);
 - if you ask for a benefit estimate, we will, where possible, provide you with that information at the time of your call (see page 29).
- If you write to us for a benefit estimate, we will send you the information requested, usually within 10 working days of receiving your letter (see page 29).
- If you write to us about any other matter, we will answer your letter as soon as possible, usually within 10 working days of receiving it (see page 29).
- Subject to your employer supplying us with correct, regular and timely information, we will maintain your member record accurately and in a current state (see page 23).
- Your annual member statement, setting out your equity in the Scheme as at 30 June, will be sent to you before 10 October each year. Where statements have to be produced manually, we will send you a statement before 15 December (see page 29).

- When you claim your superannuation benefit,
 - we will pay your lump sum as soon as possible, usually within 5 working days of receiving all the necessary information from you and your employer (see page 32);
 - we will pay your pension on the next available pension payday after receiving all the necessary information from you and the Department of Defence (see page 32).
- When you claim an invalidity benefit,
 - we will assess your claim as soon as possible, usually within 10 working days of receiving all the necessary information from you and the Department of Defence (see page 35);
 - we will pay your pension on the next available pension payday after your claim is assessed (see page 35).
- If we are informed of your death,
 - we will send an application form and a benefit estimate 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 and benefit estimate to the guardian of the child or children. If needed, we will help in completing the form (see page 32);
 - when we receive a correctly completed application form and an entitlement to a benefit is clearly established, we will arrange for the benefit to be paid—in the case of a lump sum, within ten working days and, in the case of a pension, on the next available pension payday (see page 32);
 - if entitlement to receive a benefit is not automatic, we will write within 5 days of receiving an application form and advise what needs to be done (see page 32);
 - if there is no spouse or children eligible for benefits, we will pay the benefit to your estate within 10 working days of receiving all necessary information (see page 32).

The service MSBS preserved benefit members can expect

- If you phone our information service between 9.00 am and 5.00 pm, Eastern Time, Monday to Friday (excluding public holidays),
 - normally your call will be answered within 45 seconds (see page 29);
 - if you ask for a benefit estimate, we will, where possible, provide you with that information at the time of your call (see page 29).

- If you write to us for a benefit estimate, we will send you the information requested, usually within 10 working days of receiving your letter (see page 29).
- If you write to us about any other matter, we will answer your letter as soon as possible, usually within 10 working days of receiving it (see page 29).
- Your annual member statement, setting out your equity in the Scheme as at 30 June, will be sent to you before 10 October each year. Where statements have to be produced manually, we will send you a statement before 15 December (see page 29).
- When you claim your preserved superannuation benefit on retiring permanently from the workforce on or after reaching your preservation age,
 - we will pay your lump sum as soon as possible, usually within 5 working days of receiving all the necessary information from you (see pages 40–41);
 - we will pay your pension on the next available pension payday after receiving all the necessary information from you (see pages 40–41).
- If you claim an early release of your preserved benefit on hardship or compassionate grounds before reaching your preservation age and before permanently exiting the workforce, we will pay your benefit as soon as possible, usually within 5 working days of receiving all the necessary information, including, where appropriate, approval from the Australian Prudential Regulation Authority (APRA) (see pages 40–41).
- If you claim an early release of your preserved benefit on the grounds of total and permanent incapacity (i.e. invalidity),
 - we will pay your lump sum as soon as possible, usually within 5 working days of a determination being made that you are totally and permanently incapacitated (see pages 40–41);
 - we will pay your pension on the next available pension payday after a determination is made (see pages 40–41).
- If we are informed of your death,
 - we will send an application form and a benefit estimate 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 and benefit estimate to the guardian of the child or children. If needed, we will help in completing the form (see pages 40–41);

- when we receive a correctly completed application form and an entitlement to a benefit is clearly established, we will arrange for the benefit to be paid—in the case of a lump sum, within ten working days and, in the case of a pension, on the next available pension payday (see pages 40–41);
- if entitlement to receive a benefit is not automatic, we will write within 5 days of receiving an application form and advise what needs to be done (see pages 40–41);
- if there is no spouse or children eligible for benefits, we will pay the benefit to your estate within 10 working days of receiving all necessary information (see pages 40–41).

The service MSBS pensioners can expect

- If you call our information service between 9.00 am and 5.00 pm Eastern Time, Monday to Friday (excluding public holidays), normally, your call will be answered within 30 seconds. However, at times, particularly during the months of July, August and September, demand for our services is high following the mailing of the annual pension advice letter, and we may not be able to answer your call as quickly as we would like. During these times we will attend to your inquiry as soon as possible (see page 46).
- 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. We will tell you the payday the change will take effect (see page 46).
- If you write to us about any other matter,
 - if your letter requires a written reply, we will answer it as soon as possible, usually within 5 working days of receiving it (see page 46);
 - if we are unable to do this because of the complexity of your inquiry, we will let you know as soon as possible, usually within 2 working days of receiving your letter (see page 46).
- 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 the child or children. If needed, we will help in completing the form (see page 50);

- when we receive a correctly completed application form and an entitlement to a benefit is clearly established, we will arrange for the benefit to be paid on the next available pension payday (see page 50);
 - if your spouse's entitlement to receive a benefit is not automatic, we will contact him or her within 5 working days of receiving an application form and advise what needs to be done (see page 50).
- Your annual pension advice letter, advising you whether your pension has been adjusted because of an upward movement in the Consumer Price Index (CPI), will be sent to you usually before the first pension payday in July each year. If there is an adjustment, the increase will be paid on that pension payday (see page 50).
 - 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 50).
 - We will send you income 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 before the first pension payday in July each year (see page 50).

Appendix 7: Contact officer

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

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

Ministerial Liaison Officer

Postal address: ComSuper
PO Box 22
Belconnen ACT 2616

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

Telephone: (02) 6252 5893

Facsimile: (02) 6253 1116

TTY: (02) 6253 2911

Appendix 8: Legislation

Changes to the MSB rules

The Military Superannuation and Benefits Amendment Trust Deed 1999 (No. 3), which was signed on 23 September 1999, amends the rules to remove the terms 'credit union' and 'building society' and replaces them with a definition of 'bank' and references to the term 'bank'.

Appendix 9: Compliance

While this report is not a Departmental annual report, the Authority has endeavoured to comply with the 'Requirements for Departmental Annual Reports', where applicable. Details of ComSuper's operations are provided in the *Commissioner for Superannuation Annual Report 1999–2000*. Annual reporting requirements that are met in the Commissioner for Superannuation's report are indicated below by an asterisk.

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Appendix 10: Freedom of information

Freedom of Information Act statement

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

Functions of ComSuper

The general functions of ComSuper are described in the main body of this report and in the *Commissioner for Superannuation Annual Report 1999–2000*.

Decision-making powers

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

FOI internal procedures

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

Decisions to grant access, levy charges, or refuse access are made by an APS Level 6 in the Corporate Governance and Parliamentary Liaison Unit.

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

Officers currently designated to carry out such investigations are APS Level 8 officers in the Legal Services Section. All decisions on internal reviews are made by the MSB Board.

Facilities for access

Facilities for viewing documents are provided only at the ComSuper office in Canberra, as ComSuper has no regional

offices. Publications may be inspected at ComSuper's Corporate Governance and Parliamentary Liaison Unit, and copies (for which there may be a charge) can be obtained by writing to ComSuper.

Information about facilities for access by people with disabilities can be obtained by contacting the Corporate Governance and Parliamentary Liaison Unit at the address and telephone numbers shown on page 58 of this report.

Consultative arrangements

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

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

Categories of documents

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

Books and leaflets that describe various aspects of the superannuation schemes, and annual reports, are made available to the public free of charge upon request. They are also available free of charge via ComSuper's Internet site.

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