

Autumn 10

**Military
Super**

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Member Update

For Contributing and Preserved Benefit Members



Message from the Chairman

On behalf of the Board and its management team, I am pleased to present MilitarySuper's Autumn 2010 Member Update.

Investment Performance

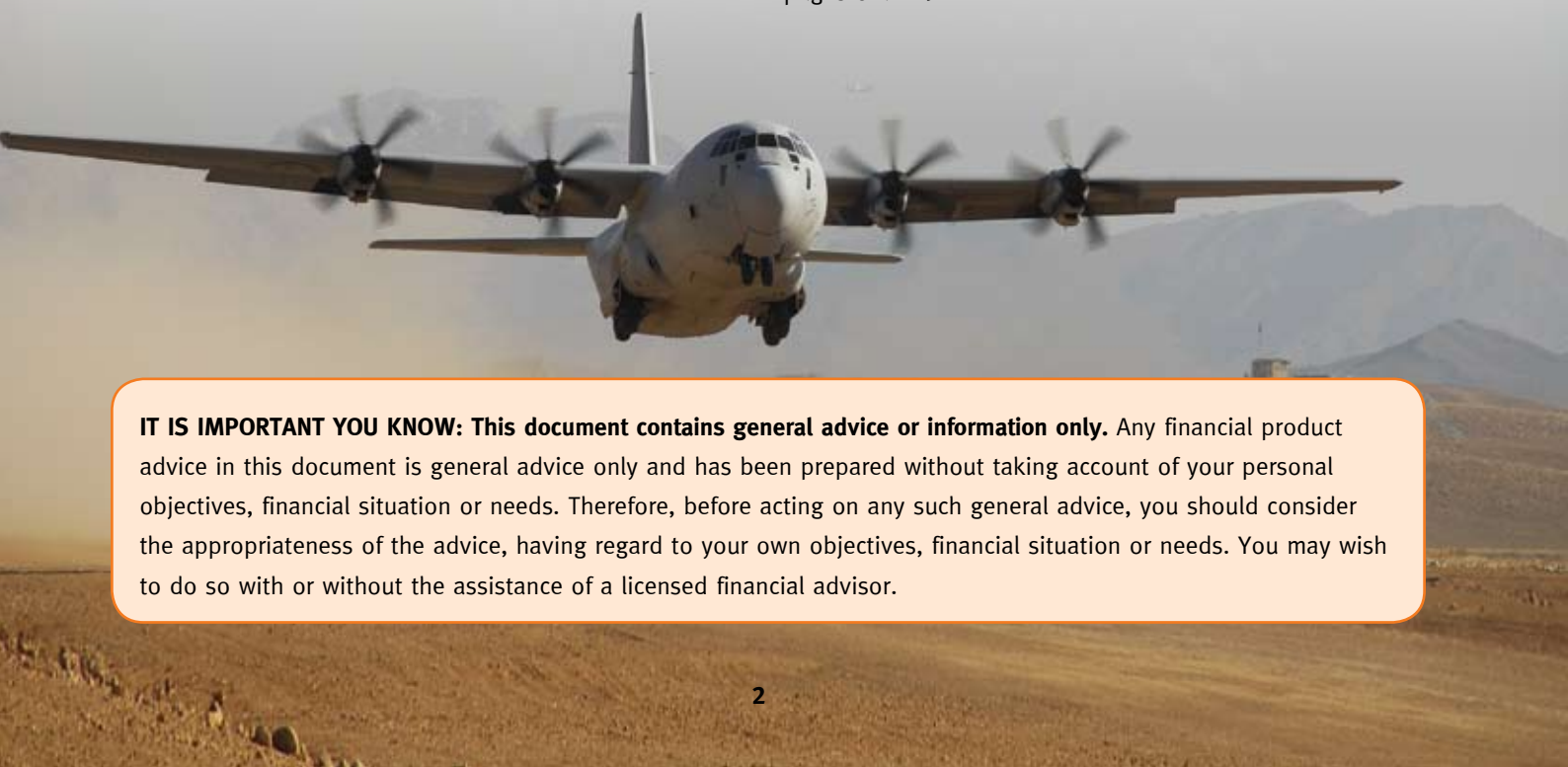
Like many superannuation funds MilitarySuper has experienced improved investment returns during 2009-10 as the world emerges from the effects of the recent global financial crisis (GFC). In particular, listed share markets both in Australia and internationally have recovered some 50% over the past year, banks are again lending, although somewhat more cautiously than before the GFC, and cash is no longer king as more growth-orientated asset classes stabilise and pick up.

That said, our long-term investment exposure to unlisted assets, such as infrastructure, property and private equity, which has held us in good stead in the past, has underperformed listed asset markets over the last year and this has directly impacted on our investment returns as reflected in our unit prices over this period.

Despite the general improvement in the investment environment, the Board remains cautious in its outlook for the next 12 months. Whilst necessarily reviewing the Fund's investment portfolio we remain committed to the longer-term focus in determining and setting investment policy for the Fund.

Although our short-term investment performance has been less than was targeted, our latest figures, supported by data from the Australian Prudential Regulatory Authority, indicate that MilitarySuper's overall performance over three and five year periods has been competitive and reflective of our strategic investment objectives.

You can read more about the current investment environment and MilitarySuper's 2009-10 performance on pages 6 and 7.



IT IS IMPORTANT YOU KNOW: This document contains general advice or information only. Any financial product advice in this document is general advice only and has been prepared without taking account of your personal objectives, financial situation or needs. Therefore, before acting on any such general advice, you should consider the appropriateness of the advice, having regard to your own objectives, financial situation or needs. You may wish to do so with or without the assistance of a licensed financial advisor.



The Board of Trustees

Left to right (standing): Brigadier Bob Brown, Mr Gabriel Szondy, WOFF Robert Swanwick.

Left to right (seated): Mr Felix Bleeser, Mr Tony Hyams.

Australian Government Superannuation Schemes - Board Merger

The Board and its management have been working closely with the Government and key stakeholders on the reforms announced in October 2008 relating to the merger of the MSB Board, DFRDB Authority and ARIA Board from 1 July 2010.

The Government has provided an assurance that the reforms will not affect members' superannuation benefits as each scheme will retain its own legislative base and provisions.

The Board will continue to keep members advised of progress in this matter, predominantly via MilitarySuper's website. In the meantime, you can read more about the current status on the board merger project on page 4.

Changes to your Scheme

In October last year the Government announced a change that will improve death and invalidity benefits for Members. Benefits for death and invalidity payments will now be calculated in line with changes to the compulsory retirement age for ADF Members and will be backdated from 1 July 2007.

Further details of this change and a general overview of other matters relevant to superannuation more generally are provided in this edition of your Member Update.

Tony Hyams
Chairman



Australian Government Superannuation Schemes – Board Merger

In October 2008 the Government announced that it intended to merge the MSB Board, the DFRDB Authority and the ARIA Board (the trustee of the CSS, PSS and PSSap civilian schemes) from 1 July 2010. It is intended that the new single board will operate under a new name (proposed to be the Commonwealth Superannuation Corporation).

The board consolidation is part of an integrated package of government measures aimed at a modernised and improved framework for Australian Government superannuation, more in line with arrangements in the broader superannuation industry in Australia. The package aims to provide efficient trustee arrangements and improved services to Members.

In making its announcement the Government stated that the new single board would have the requisite skills to govern in the best interests of all members and, importantly, that military interests will continue to be represented. The Minister for Finance and Deregulation has announced that it is the Government's intention to appoint the current chair of MilitarySuper, Mr Tony Hyams, as the inaugural chair of the new single board when it is formed.

MilitarySuper has been working closely with the Government and its relevant policy departments to ensure that the reforms and outcomes from this process will meet the Government's requirements and the interests and expectations of scheme members.

What is the current status of the board merger?

In February this year the Government introduced a package of legislation into the Parliament to support the Government's reforms and governance arrangements for Commonwealth superannuation schemes. Also in February the Bills were referred to the Senate Finance and Public Administration Committee for inquiry and report.

The Committee received a number of submissions and held a public hearing at Parliament House in Canberra on 11 March 2010. The Committee completed its inquiry and tabled its report to the Senate on 15 March 2010. As of mid May the Bills are still before the House of Representatives. If passed by Parliament, they are expected to take effect from 1 July 2010.

How will the proposed board merger affect you as a Member of MilitarySuper?

For Members of MilitarySuper the key issues to note are:

- there will be no change to existing benefits or entitlements;
- the MSB Scheme will maintain its own unique branding and continue to look and feel the same to its Members;
- ComSuper will continue to be the scheme administrator and the source of ongoing, first-point, Member contact; and
- importantly, the interests of MilitarySuper Members will be represented on the new single Board. The Chief of the Defence Force will be responsible for nominating two directors to represent military Members.

The Government has provided an assurance that Members' scheme entitlements will not be affected by the board merger. This means, for example, that the existing features and benefits that reflect the special nature of military service in the Australian Defence Force, such as death and disability arrangements, will be maintained.

The Board will continue to keep Members advised of progress in this matter via MilitarySuper's website.



Economic and Investment Update

While listed equity markets have regained something like 50 per cent of last year's declines, 2009-10 continues to be a testing period for world financial markets.

The past year has seen a number of major economies either remain in or rather unsteadily emerge from recession, including the USA, UK, Japan and most major EU countries. Australia avoided a recession, as determined by two consecutive quarters of negative GDP growth, largely as a result of the pre-emptive action of the Australian Government which embarked on a substantial financial stimulus program.

However, the post global financial crisis (GFC) recovery has been a tale of two distinct parts. The Australian and other world share markets have performed positively over the last 12 months, daily volatility in these markets has moderated, banks have resumed lending, albeit cautiously and the price falls experienced during the GFC in the commodity markets have turned around. As a result investment performance has improved with positive returns for super funds, especially those with large allocations to these markets.

On the other hand unlisted assets have generally underperformed during the listed market recovery, largely as a result of the lag effect of negative re-valuations, deleveraging and otherwise depressed markets for such assets that followed the listed market's downturn in 2008-09. Super funds with proportionally larger allocations to unlisted assets, such as MilitarySuper, have seen the

underlying values of their unlisted portfolios fall over the past year, with any improving trend in the performance of these assets still to be experienced.

More generally, while Australia's economy was one of the most well performed of the advanced economies over the past year, other leading economies, such as the US, UK and a number of European countries have stabilised, but are yet to show the same signs of recovery. Indeed, the unemployment rates in some of these countries continue to hover around the 10 per cent level and the medium-term fiscal challenges ahead of these economies does not bode well for these levels coming down in the near future.

Australia's resilience and improving outlook continues to be underwritten by its links to the Asian economies, especially China's, and the continuing bullish prospects for commodity prices. It is expected that the Australian Government will withdraw the recent significant fiscal stimulus and that the Reserve Bank will lift official interest rates in response to inflationary pressures over the course of 2010. The ability of the Australian economy to wean itself off these structural supports and adjust to a post GFC environment will be important.





Irrespective of how good a job our economy might do in this respect, the old maxim that when the rest of the world sneezes Australia catches a cold is still pertinent. So arguably what may be most influencing on our economic performance more than any other single factor is the ability of other leading economies to similarly come through over the course of the next 12-18 months. This is by no means a given, especially in light of the current concern over the ability of some European countries to meet their sovereign (government) debt repayments as these fall due.

MilitarySuper's Investment Performance

The current financial year is proving to be one of the most challenging MilitarySuper has experienced.

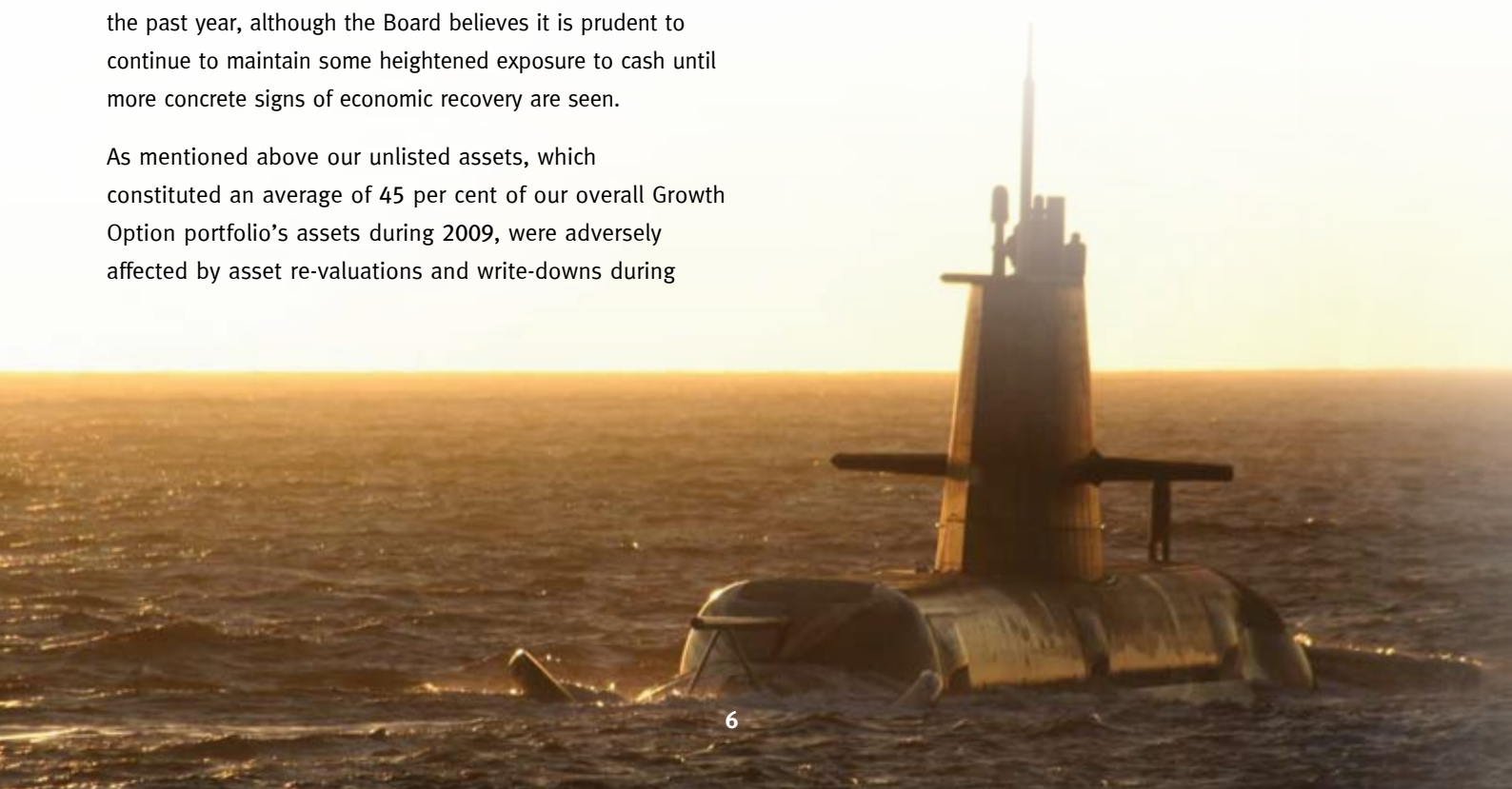
Like many super funds MilitarySuper has sought to learn from the GFC in reviewing and setting future investment strategies. The Board has recently reviewed its investment strategy and has increased the Fund's exposure to listed Australian shares, and to a lesser extent international shares, in preference to unlisted assets. The Board has also continued to progressively reduce its overweight cash holdings over the past year, although the Board believes it is prudent to continue to maintain some heightened exposure to cash until more concrete signs of economic recovery are seen.

As mentioned above our unlisted assets, which constituted an average of 45 per cent of our overall Growth Option portfolio's assets during 2009, were adversely affected by asset re-valuations and write-downs during

the past 18 months. While listed markets have enjoyed a rally of some 50 per cent since March 2009, unlisted asset valuations remain subdued. This has seen MilitarySuper's investment performance over the short-term (that is, less than 12 months) lag that of peer funds with lesser exposures to unlisted assets in their portfolios.

While MilitarySuper's investment performance has fallen in both absolute and relative terms over the past 18 months, it has demonstrated a superior and less volatile performance to many peer funds over the longer-term (that is, three years or more).

Supporting this view, the industry regulator, the Australian Prudential Regulation Authority (APRA), collates and reports superannuation funds' overall performance on a Rate of Return (RoR) basis, which measures the combined earnings of a superannuation fund's assets across all of its investment options. The following table highlights MilitarySuper's RoR across a number of periods.





	Annual RoR					3 yr avg. (pa)	5 yr avg. (pa)
	2005	2006	2007	2008	2009		
MilitarySuper	11.8%	15.9%	16.1%	-2.7%	-13.1%	-0.6%	4.9%

Source: APRA, Superannuation Fund-level Rates of Return, June 2009 (issued 24 March 2010)

The above results reflect MilitarySuper’s general out-performance as against the majority of other superannuation funds with a similar asset allocation (listed/unlisted) to MilitarySuper’s and highlights its three and five year results as exceeding the majority of the 200 largest funds in Australia as monitored by APRA over these periods.

Notwithstanding MilitarySuper’s longer-term performance as demonstrated above, the Board is mindful of its short-term performance as compared to other peer funds. Reflective of the continuing challenging investment environment, for the financial year to the end of April 2010, MilitarySuper has posted the following investment returns, net of taxes, fees and charges:

Investment Options Performance (as at 30 April 2010)*

Option	Percentage change since 1 July 2009**
Cash	2.93%
Conservative	0.88%
Balanced	3.73%
Growth (default)	4.88%
High Growth	4.53%

* Refer to www.militarysuper.gov.au for details of the latest unit prices and performance

** Financial year to date (2009-10) rates of return are net of taxes and fees.

The Board is actively reviewing MilitarySuper’s longer-term strategic and short-term tactical investment strategies to provide the best risk-adjusted outcomes for Members. In doing so the Board continues to expect the valuation of the Fund’s unlisted assets to improve throughout 2010 and beyond, although it is reasonable to expect that these increases in value will take longer and be more modest than the sharp rebound seen in the listed markets since mid 2009.

Superannuation is a tax-effective savings vehicle for retirement and as such is best formulated on the basis of long-term, risk-adjusted, investment strategies and plans. MilitarySuper will continue to develop and implement strategies that seek to preserve Member’s capital and over the longer-term grow their retirement savings. The reviews that the Board has already undertaken and the continuing re-assessment and tuning of its longer-term investment strategy will be important in achieving that outcome.

Finally, MilitarySuper is a ‘hybrid’ defined benefit scheme. This means your Member Benefit (that is, your accumulated contributions and interest) accumulates separately from your employer-funded benefit, which is a guaranteed amount and is unaffected by investment conditions.

The employer-funded component of your benefit generally forms the larger and arguably most valuable component of your MilitarySuper retirement benefit. This component is calculated on the basis of your length of service and your average superannuation salary over the last three years of service.

Contributing to MilitarySuper

While a Contributing Member of MilitarySuper, you contribute 5 per cent of your Superannuation Salary (which includes service allowances, higher duties allowances and certain environmental allowances) into the Fund. You may increase your contributions up to a maximum of 10 per cent or may choose to make additional voluntary contributions on either an after-tax or pre-tax salary basis.

There are limits to both after-tax and pre-tax contributions you can pay into your superannuation fund(s) without incurring additional tax and these are set out below.

Pre-tax (or salary sacrifice) contributions are **concessional contributions** and for MilitarySuper Members include both salary sacrifice contributions and productivity contributions paid by the Department of Defence. After-tax contributions are **non-concessional contributions** and for MilitarySuper Members include mandated Member contributions and any additional personal contributions.

You should regularly review your contributions to MilitarySuper against the limits to avoid paying additional tax. If you also contribute to other superannuation funds you need to be aware that contributions are added together by the Australian Taxation Office for the purposes of assessing whether you have exceeded your contribution cap limits.

To avoid paying penalty tax you should consider whether you are expecting a promotion, pay rise or bonus that might affect any salary sacrifice arrangements you currently have in place and also take account of productivity contributions being paid by the Department of Defence. You may wish to seek advice from a licensed or appropriately authorised financial adviser before making decisions about your super. An adviser can help you decide whether to make or increase the level of any voluntary contributions, and if so, whether they should be salary sacrifice or after-tax contributions.

Summary of Contributions Caps

	Concessional cap*	Transitional concessional cap**	Non-concessional cap***
2009-10 financial year	\$25,000	\$50,000	\$150,000
2008-09 and 2007-08 financial year	\$50,000	\$100,000	\$150,000
Tax on amounts over the cap	31.5% (in addition to the 15% paid by the super fund)	31.5% (in addition to the 15% paid by the super fund)	46.5%
Other information	Any concessional contributions in excess of the cap will also count towards your non-concessional contributions cap.	Any concessional contributions in excess of the cap will also count towards your non-concessional contributions cap.	If you are under 65 years old at any time during the financial year, you may be able to bring forward the next two years of contributions, but certain conditions apply. This effectively allows you to contribute up to three times the cap at once, or at any time during the three financial years.

* The \$25,000 concessional cap will be indexed annually from 2010-11 onwards to average weekly ordinary time earnings (AWOTE) and rounded down to the nearest multiple of \$5,000.

** The transitional concessional contributions cap is for those who are 50 years old or older on 30 June in a financial year and is available until 30 June 2012 and is not indexed.

*** While industry wide taxation rules permit you to pay the full amount of \$450,000 in one year and not contribute in the following two years, you need to be aware that as far as MilitarySuper is concerned, unless you have reached your Maximum Benefit Limit and ceased contributing to MilitarySuper, you must contribute 5% of your salary while in service.

Source: Australian Taxation Office



Compulsory Retirement Age (CRA)

On 22 October 2009 the Hon Greg Combet, the then Minister for Defence Personnel, Materiel and Science, announced a change in death and invalidity benefits for Members of MilitarySuper.

Benefits for death and invalidity payments will now be calculated in line with changes to the compulsory retirement age for ADF Members (which for most ADF Members is now age 60). This change will be backdated to apply from 1 July 2007.

This change affects the calculation of Class A and B invalidity and death (in service) benefit entitlements provided for under the MilitarySuper scheme. Eligible benefit payments are currently being reviewed and where necessary adjustments made.

Members and pensioners will be advised of any change to their current benefits as soon as the review has been completed and any increased benefit amount will be paid with interest.





Seminars and individual information sessions

On behalf of the Board and as part of the ADF Transition Seminars, ComSuper (the scheme's administrator) provides a Membership Seminar Program to assist Members understand how MilitarySuper works. The seminars provide awareness of the level and type of superannuation benefits provided in the event of invalidity or death and the benefits options available following discharge.

These seminars are free to all Members and are held continuously throughout Australia during the calendar year. The seminar schedule for 2010 can be accessed at www.militarysuper.gov.au.

Individual information sessions are also available to Members. These sessions provide the opportunity for Members to obtain benefit estimates, gain a better understanding of MilitarySuper and what superannuation options apply to them as individuals. Sessions are available at any time in Canberra or at Transition Seminars held around Australia. Bookings are essential and can be made by phoning the Customer Service Centre on **1300 006 727**.

Online seminars can also be downloaded from www.militarysuper.gov.au. Topics include 'Overview for New Recruits' and 'How does invalidity retirement cover work?' These seminar topics are based on the most commonly asked questions of the seminar team.

Please note ComSuper representatives can provide general information only. If you require personal financial advice, including assistance to help you decide which option best suits your circumstances, we encourage you to seek assistance from a licensed and appropriately experienced financial adviser.

Receive Your Statement Online

2009 was the first year that Members could choose to receive their Annual Member Statement online. Many Members have taken advantage of this efficient and environmentally friendly way of receiving their annual statements. We hope to further minimise our carbon footprint and have as many Members as possible sign up to receive their statement online.

Other benefits of online delivery include:

- it's more convenient for you
- greater delivery security
- receive your Statement earlier
- you can access your Statement any time, and
- all your information is conveniently available in one secure place.

How to receive your Member Statement online

1. Go to www.militarysuper.gov.au.
2. Log into Member Services Online using your Access Number.
3. Follow the links to sign up and receive your updates online.

If you have not previously used Member Services Online, simply call our Customer Service Centre on **1300 006 727** to receive your individual Access Number.



Don't become a lost member

Please remember to keep us up to date with any changes to your postal address so we can keep in touch with you.

Contributing Members are asked to update their address details in the Defence PM Keys system before 30 June 2010 to ensure you receive your 2010 Annual Member Statement.

If you are a Preserved Benefit Member you can contact our Customer Service Centre on **1300 006 727** to update your address or, if you have an Access Number, simply log in to Member Services Online to update your address details before 30 June 2010.





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