



# THE MSB BOARD

MILITARY SUPERANNUATION AND BENEFITS SCHEME

1997-98  
Annual Report

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

Annual Report  
1997–98

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

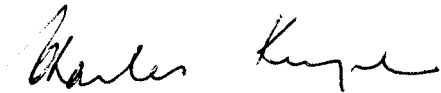
The Hon. Bronwyn Bishop, MP  
Minister for Defence Industry, Science and Personnel  
Parliament House  
Canberra ACT 2600

Dear Minister

In accordance with section 26 of the *Military Superannuation and Benefits Act 1991* (the MSB Act), the Military Superannuation and Benefits Board of Trustees No. 1 is pleased to submit to you its annual report on the performance of its functions for the year ended 30 June 1998, together with financial statements in respect of the management of the Military Superannuation and Benefits Fund No. 1 during 1997-98, and the Auditor-General's report in respect of those statements.

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

Yours sincerely

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

Charles Kiefel  
Chairman  
MSB Board of Trustees No. 1

8 October 1998

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# MSBS in brief

## Investment

ACTUAL ASSET ALLOCATION		1996-97		1997-98	
Sector	\$M	%	\$M	%	
Australian shares	211.5	36.4	242.5	33.9	
International shares	143.8	24.8	192.3	26.9	
Property securities	61.4	10.6	73.0	10.2	
Direct property	5.4	0.9	6.2	0.9	
Australian fixed interest	74.8	12.9	100.6	14.1	
International fixed interest	22.3	3.9	35.9	5.0	
Cash	61.0	10.5	64.7	9.0	
<b>Total under management<sup>2</sup></b>	<b>580.2</b>	<b>100.0</b>	<b>715.2</b>	<b>100.0</b>	

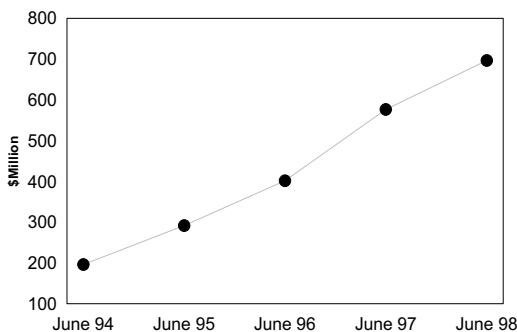
  

INVESTMENT PERFORMANCE <sup>3</sup>		1996-97		1997-98	
Sector	Fund %	Benchmark %	Fund %	Benchmark %	
Australian shares	27.8	26.6	-1.9	1.6	
International shares	31.4	28.6	40.0	42.1	
Property securities	27.7	28.5	9.2	10.0	
Direct property	3.3	8.2	9.0	10.2	
Australian fixed interest <sup>1</sup>	15.0	16.8	10.4	10.9	
International fixed interest	11.6	12.1	10.9	11.2	
Cash	8.8	6.8	3.8	5.1	
<b>Total</b>	<b>20.6</b>	<b>18.8</b>	<b>7.7</b>	<b>8.9<sup>4</sup></b>	

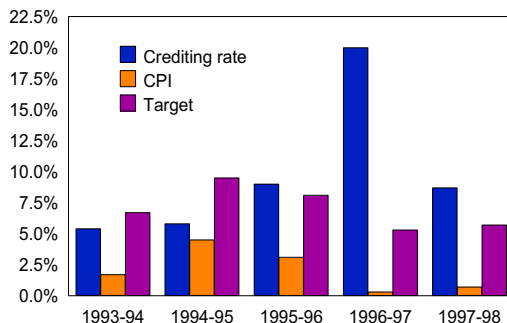
  

	1996-97	1997-98
Annual crediting rate <sup>5</sup>	20%	8.7%
Annual inflation rate	0.3%	0.7%

Fund growth since 1993-94



Crediting and target rates<sup>6</sup> since 1993-94



- Notes: 1 Includes all Australian bonds.
- 2 Asset allocation figures are as reported by the portfolio manager.
- 3 Performance figures are after tax and fees related to investment activity.
- 4 The figure shown is the industry average, using the InTech Performance Survey of Market-Linked Pooled Funds.
- 5 The crediting rate is derived after allowance for all non-investment related fees and expenses and therefore differs from the investment return.
- 6 The target rate is inflation plus 5%.

**MSBS** in brief**Membership**

<i>Contributors at 30 June</i>	<i>1996-97</i>	<i>1997-98</i>	<i>Increase (decrease)</i>
Males	31 466	31 425	
Females	6 778	6 436	5.0%
<b>Total</b>	<b>38 244</b>	<b>37 861</b>	<b>(1.0%)</b>
<b>Total member contributions</b>	<b>\$80 714 424</b>	<b>\$82 383 000</b>	<b>2.1%</b>
<b>Contributor exits</b>			
Age retirement	80	94	17.5%
Resignation	4 065	3 209	(21.1%)
Redundancy	4	64	1 600.0%
Invalidity	366	473	29.2%
Death	19	18	(5.2%)
Other	267	213	(20.2%)
<b>Total</b>	<b>4 801</b>	<b>4 071</b>	<b>(15.2%)</b>
<b>Pensions in force</b>			
Age retirement	349	412	18.0%
Redundancy	1 609	1 674	4.0%
Invalidity	830	1 029	24.0%
Preserved > age 55	54	88	63.0%
Spouses & orphans	26	29	11.5%
<b>Total</b>	<b>2 868</b>	<b>3 232</b>	<b>12.7%</b>
<b>Pensions paid</b>	<b>\$30.4m</b>	<b>\$36.3m</b>	<b>19.4%</b>
<b>Average pension</b>	<b>\$10 614</b>	<b>\$12 396</b>	<b>16.8%</b>
<b>Preserved benefits at 30 June 1998</b>			
	<b>Number</b>	<b>Value</b>	
Member benefit	1 603	\$22.8m	
Employer benefit	27 260	\$829.1m	

# **Chairman's** overview

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Critical activities for the Board during the year included reviewing the MSB fund's investment objectives, strategy and implementation, and overhauling the Board's accountability and reporting arrangements.

## **Review of Investment Strategy**

The Board held a two day workshop in January 1998 to review the MSB Fund's investment objectives, strategy and implementation. This review involved an Asset Benefit Analysis (ABA) which enabled the Board's investment advisor, IPAC Portfolio Management Ltd, to assist the Board in assessing the impact of different investment policies on the retirement incomes of Fund members.

The ABA, which focused on the estimated payout at age 55 (in today's dollars) for members resigning at ages 19, 24, 29 and 39, showed that a considerable increase in retirement wealth is likely to accrue to members by the adoption of a strategy which will provide a higher return. The Board is also mindful of the fact that, given the defined benefit structure of the Scheme, sustained high Fund performance acts to reduce the unfunded liabilities of the employer.

Following the review and with the assistance of IPAC, the Board endorsed the current investment strategy, which aims to produce a higher return and consequently has a higher exposure to growth assets (shares and property) than to defensive assets (cash and fixed interest). The strategy aims to ensure that the chance of a negative return in any one year is no greater than one in six, and to exceed inflation by at least 5% over rolling five to seven year periods.

## **Review of the Board's Accountability Arrangements**

During the year the Board commissioned a review of its accountability and reporting arrangements, with the aim of ensuring that the Board's prudential responsibilities were being met and there were appropriate arrangements to properly safeguard the assets of the Scheme.

The review concluded that the existing arrangements were appropriate and met or exceeded industry standards, although they could be enhanced by independent audit advice. The accounting firm KPMG has been appointed to that role. Board member Michael Sharpe AM has taken the role of Chairman of the Audit Committee and will be reviewing the quality of Custodian and Investment Manager, reporting to the Board to ensure that all procedures meet industry best practice.

## **Development of a Business Plan**

The Board spent considerable time working with its investment advisor and its Administrator formulating a strategic business plan. The plan has been developed to clarify the roles and functions of the MSB Board and its service providers and to identify environmental and other factors which affect the Board's responsibility for the

administration of the Scheme and the management and investment of members' monies which comprise the MSB Fund.

### **Monitoring the Scheme's Administrator**

The Board's Administrator, ComSuper, undertook a comprehensive series of client satisfaction surveys in 1997/98 with the assistance of Canberra based research firm ORIMA Research.

The client satisfaction survey results have been fed into ComSuper's continuous improvement process. Action plans have been derived and reported against, and adjustments made to their processes and procedures as a result of the survey process.

### **Year 2000 Readiness**

The Board has required its Administrator, ComSuper, and its other service providers, such as the Master Custodian and investment adviser, to report on their progress in achieving Year 2000 readiness and compliance. We will continue to monitor this issue.

### **Superannuation Contributions Surcharge**

The implementation of the superannuation contributions surcharge has proven to be a difficult and complex issue for the Board.

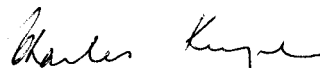
The Board has been provided with MSB Notional Surcharge Calculation Factors for the period 20 August 1996 to 30 June 1997. The factors were calculated by the Australian Government Actuary and consist of several thousand individual factors for various categories of scheme members. In May the Board adopted these factors for the purposes of calculating the employer superannuation contributions.

The MSB Scheme Administrator, ComSuper, is scheduled to report the first round of MSB employer superannuation contributions (for the period 20 August 1996 to 30 June 1997) to the Australian Taxation Office (ATO) by 31 August 1998.

### **Thanks**

I am very appreciative of the hard work and excellent cooperation by all Trustees throughout the year. Trustees Air Vice Marshal Frank Cox AO and WOFF Dave Sutherland left during the year and were replaced by Air Commodore Nick Ford and WOFF Robert Swanwick. Mr Michael Sharpe AM was appointed in place of the previous appointment of the Commissioner for Superannuation.

On behalf of the Board as a whole I would also like to thank ComSuper, the Scheme Administrator, and IPAC, the Board's investment advisor for their excellent service during the year.



Charles Kiefel, Chairman

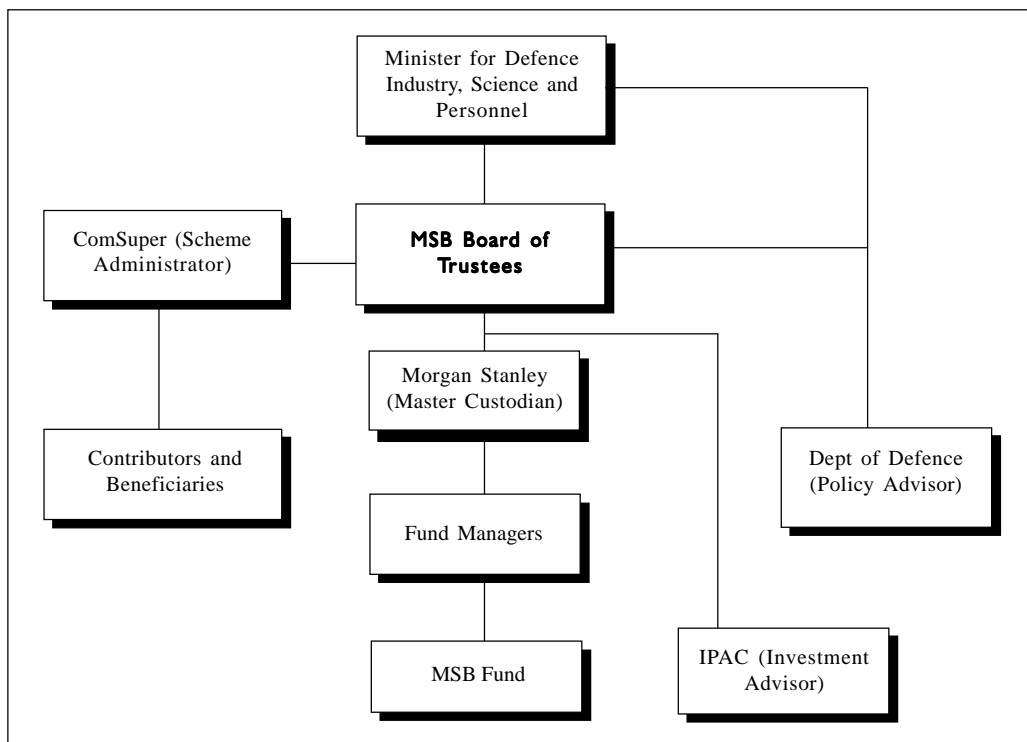
# Introduction

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

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

ComSuper's operations are detailed in the *Commissioner for Superannuation Annual Report 1997-98*.

## Organisational structure of the MSBS



# **Board of Trustees**

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## Board membership as at 30 June, 1998

The Board consists of five Trustees appointed by the Minister for Defence Industry, Science and Personnel (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 1998 were:

### ***Chairman:***

#### **Mr Charles Kiefel**

*Appointed 11 July 1997.* Mr Kiefel is a director of ANZ Securities Limited and is experienced in providing advice to a number of multinational corporations and governments.

### ***Minister's Nominees:***

#### **Mr Patrick Gourley**

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

#### **Mr Michael Sharpe AM**

*Appointed 29 April 1998.* Mr Sharpe is chairman of State Super Financial Services Ltd and a director of the Australian Stock Exchange Ltd. He was awarded membership of the Order of Australia in 1991 for his services to the accounting profession.

### ***CDF Nominees:***

#### **AIRCDRE Nick Ford**

*Appointed 11 July 1997.* AIRCDRE Ford is Director General, Financial Conditions, Defence Personnel Executive.

#### **WOFF Robert Swanwick**

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

## **Board** Committees

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### **Audit Committee**

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

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

The Audit Committee is appointed by the full Board and for the majority of 1997-98 comprised two members, Mr Claude Neumann and Air Commodore Nick Ford. However, following a number of changes in Trustee appointments, the Board reviewed the structure and membership of the Audit Committee at its June 1998 meeting and, in addition to Mr Neumann and AIRCDRE Ford, appointed Mr Michael Sharpe AM as chairman.

### **The Military Superannuation Communications 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 current Chairman is WOFF Robert Swanwick and members include representatives from the Department of Defence, the Defence Force and ComSuper. The MSCAG's role is to:

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

## **Indemnity** insurance

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

# Corporate Governance

## Committee activities

### Audit Committee

The primary issue of the year was the appointment of an independent audit advisor. The Board commissioned a review of the current accountability and reporting arrangements for the MSB Board of Trustees, with the aim of ensuring the Board's prudential responsibilities are met and the appropriate arrangements are in place to ensure the assets of the Scheme are properly safeguarded.

On the advice received, the Board decided to appoint an independent auditor. The Board called for submissions from major firms and after examining the tenders supplied appointed KPMG as the Board's independent audit advisor for an initial period of two years.

### MSCAG

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

In addition, the MSCAG was active in the development of the MSB Board Investment Policy document. This document was nearing completion at the end of June 1998 and is scheduled to be distributed with the 1998 member statements. Another priority was the communication of information on the superannuation surcharge and its implementation. An ongoing strategy for dissemination of relevant information was established.

## Schedule of Board meetings

	Jul 97	Aug 97	Sept 97	Oct 97	Nov 97	Jan 98	Mar 98	Apr 98	May 98	Jun 98
Mr Charles Kiefel	N	P	P	P	P	P	P	P	P	P
Mr P Gourley	P	P	P	P	P	P	P	P	P	P
AIRCDRE Nick Ford	P	P	P	P	P	P	P	P	P	P
WOFF Rob Swanwick	N	N	N	P	P	P	P	P	P	P
Mr Peter Skinner	P	A	P	P	P	P	P	P	P	N
WOFF Peter Alomes	N	N	N	N	N	N	P	N	N	N
Mr Michael Sharpe	N	N	N	N	N	N	N	N	N	P
WO David Sutherland	P	P	N	N	N	N	N	N	N	N

P - present at meeting

A - apologies

N - not a Board member at that time

## **Delegations** review

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During the year a thorough review was made of all delegations exercised by ComSuper on behalf of the Trustees. The Trustees adopt a practice whereby relevant powers are delegated to the Commissioner who then authorises ComSuper staff to exercise powers for and on her behalf. This practice streamlines the delegation process and allows faster updating of authorisations to accommodate changes in the organisational structure of ComSuper. A register of Instruments authorised by the Commissioner is made available to the Trustees.

In revising its delegations the Trustees reaffirmed that certain powers are to be exercised by the Board themselves and not delegated.

Examples are:

- application of the legislation that produces a result not in the spirit of the legislation;
- reconsideration of decisions;
- treatment of persons non-medically discharged as if they had been medically discharged.

## **Standards** of service

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The Government requires all Commonwealth agencies that provide services direct to the public to develop service charters to develop and promote a more open and customer focused culture. The charters represent a public commitment by each agency to deliver high quality services to their clients.

After extensive consultation with ComSuper staff and client representative groups, service charters for preserved benefit members and retired members in receipt of a fortnightly benefit were prepared. A third service charter is being prepared for current contributors and it is expected that this will be distributed with 1997-98 annual member statements.

## **Business** plan

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The MSB Board of Trustees relies on the services provided by its administrator, fund managers, folio advisor, investment advisor and the providers of a range of specialist services in areas such as law, taxation and accounting. Specific agreements exist between the Board and its various service providers. The Trustees determined that a formal business plan would usefully provide an overall accountability and overview framework which would ensure that individual agreements are consistent with higher level goals and objectives and provide greater clarity of roles and functions.

With the assistance of its administrator and investment advisor, during the course of the year the Board developed a business plan setting out the main objectives and goals of the MSBS. The plan summarises the main activities and issues outlined in the key operational documents for investment, administration, communications and corporate governance.

Copies of the business plan can be obtained by contacting ComSuper. Please see the Publications section of the appendices.

## **Year 2000** compliance

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A Year 2000 compliance project was established in ComSuper following a survey carried out in 1996 to assess potential problems. A project manager was appointed in 1997 with responsibility for ensuring Year 2000 certification of all ComSuper's hardware and software. Test plans for all hardware and software have been developed and discussions commenced with external agencies on testing of the major interfaces with ComSuper systems.

The Military Superannuation System that processes MSBS members' contributions and benefits will be redesigned to comply with Year 2000 requirements and to be compatible with the new Department of Defence Military Pay System (ADFPAY). Work on the project, named the Military Integration Project, began in June 1997.

## **Performance** indicators

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

- *achievement of investment benchmarks (see **Investment performance**, pp. 15);*
- *the time taken to process benefit applications (see **Payment of benefits**, p. 25);*
- *the time taken to determine invalidity classifications (see **Invalidity**, p. 27);*
- *the number of appeals against decisions taken under delegation from the Board, and the outcome of those appeals (see **Reconsideration and review**, p. 31)*

# Fund investment

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## Investment Policy

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In January 1998, with the assistance of IPAC Portfolio Management Ltd (IPAC), the Board's investment advisor and portfolio manager, the Board conducted a full review of the Fund's investment objectives, strategy and implementation.

Following the review the Board endorsed the current investment strategy, which sets the Fund's proportion of growth assets (see below) between 58% and 89%.

The Board intends to hold a similar review on an annual basis.

IPAC, on behalf of the Board, regularly monitors the performance of the Board's fund managers and advises the Board accordingly. As a result of this regular review the Board, acting with the advice of IPAC, made changes in January to fund manager mandates in the Australian fixed interest, Australian shares and property securities portfolios.

These changes were:

*Australian fixed interest* - to sell the active portfolio held by BT Funds management and buy a passive portfolio with Westpac Investment management;

*Australian equities* - to sell the core portfolio held by Macquarie Investment Management and buy an active portfolio with Tower Portfolio Management Australia; and

*Property securities* - to sell the active portfolio held by Paladin and buy an active portfolio with Axiom Funds Management.

### 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.

## **Publications**

A new booklet providing a comprehensive explanation of the Board's investment strategy has been produced for members and sent out with the 1997-98 Member Statements. Additional copies can be obtained from the ComSuper internet site or offices.

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

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

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

## **Investment strategy**

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

- \* The Fund's proportion of growth assets is kept between 58% and 89% of total resources.
- \* The Fund does not have a reserve account. All investment earnings (after tax, fees and expenses) are distributed to members' accounts.
- \* 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 Company 'A'.
- \* The exposure to a single economic entity, as an investment issuer or a counterparty, must not exceed 10.0% of the total Fund value. (Australian Government debt is excluded from this restriction). For example, if the Fund had 7.5% of its funds in Company 'A' shares, then it could not own more than 2.5% in Company 'A' debentures.

## **Investment** management

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### Custodial services

The Board's Master Custodian is Morgan Stanley 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 1998 were:

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

The fund managers' addresses are given in the Appendices, on page 54.

## **Asset** allocation

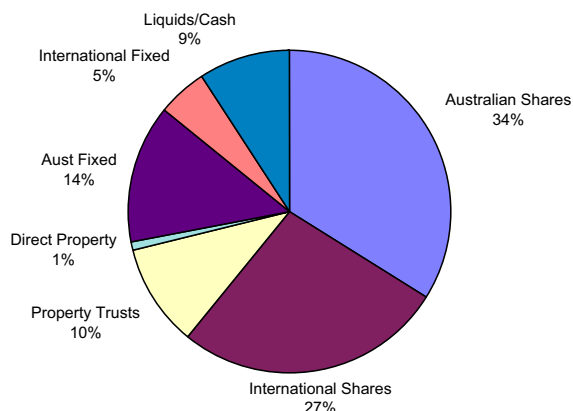
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The asset allocation ranges and actual asset allocation for each investment sector as at 30 June 1998 are shown in Table 1 and Chart 1 (overleaf). The asset allocation ranges are designed to ensure that the appropriate fund risk is maintained while allowing managers the flexibility to maximise returns. The Fund's total allocation to international assets was 25.9%.

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

<b>Asset Class</b>	<b>Allocation</b>	<b>Range</b>	<b>Benchmark</b>
Australian shares	33.9%	27%–47%	ASX All-Ordinaries Accumulation Index
International shares	26.9%	15%–35%	Morgan Stanley Capital International (MSCI) World Index (excluding Australia)
Property securities	10.2%	5%–18%	ASX Property Trust Accumulation Index
Direct property	0.9%	0%–18%	MSCI Property Trust Accumulation Index
Australian fixed-interest	14.1%	5%–25%	SBC WDR Composite Bond Index
International fixed-interest	5.0%	1%–15%	J.P Morgan Hedged Global Bond Index
Cash	9.0%	0.5%–20%	SBC WDR Bank Bill Accumulation Index

**Chart 1. Sectoral allocation as a proportion of the Fund**



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

## Investment performance

Despite the depressed Australian market, the MSB Fund performed comparatively well in 1997-98. The Fund's weighting of its portfolio towards international equities helped protect it against the market downturn in late 1997.

Table 2 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 2. Investment performance by sector 1996-97 and 1997-98**

Sector	Effective exposure		Effective exposure		Performance	
	at 30/6/97		at 30/6/98		1997/98	
	\$M	%	\$M	%	Fund Benchmark	
Australian shares	211.2	36.4	242.5	33.9	-1.9	1.6
International shares	117.8	20.3	149.6	20.9	40.0	42.1
Property trusts	61.4	10.6	73.0	10.2	9.2	10.0
Direct property	5.4	0.9	6.2	0.9	9.0	10.2
Australian fixed interest	74.8	12.9	100.6	14.1	10.4	10.9
International fixed interest	22.6	3.9	36.0	5.0	10.9	11.2
Liquids/cash	87.0	15.0	107.3	15.0	3.8	5.1
<b>Total fund</b>	<b>580.2</b>	<b>100.0</b>	<b>715.2</b>	<b>100.0</b>	<b>7.7</b>	<b>8.9</b>

\* InTech Performance Survey, Market-linked Pooled Funds, June 1998

## Fund growth

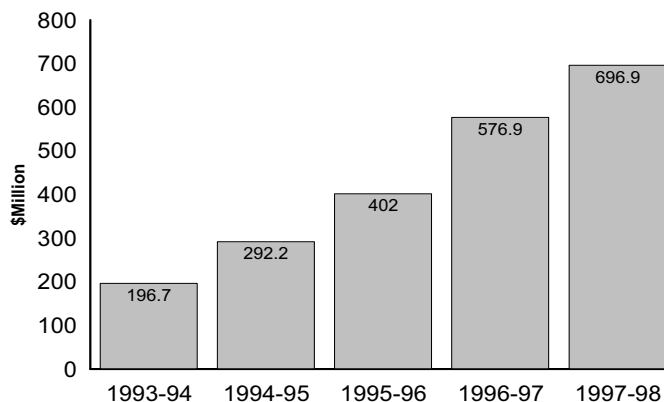
Fund assets at 30 June 1998 totalled \$725.8 million, an increase of 21.3% on the funds under management at 30 June 1997 (due as much to strong growth in contributions as it was to investment performance).

After provision for all taxes, charges and benefits (as shown in Table 3), the Fund totalled \$696.9m, a 20.8% increase from 1996-97. This figure differs from that quoted on page vi because it takes account of all fund transactions and tax provisions not provided for by the portfolio manager. Chart 2 shows how the Fund has grown since 1993-94.

**Table 3. Fund size at 30 June 1998 (after tax, charges and benefits)**

	<b>\$ m</b>
<b>Fund size at 1 July 1997</b>	<b>576.9</b>
<i>Inflow</i>	
Contributions	\$124.6M
Investment earnings	\$56.9M
<i>Outflow</i>	
Benefits paid	(\$46.8M)
Investment and other expenses	(\$3.7M)
Taxation	(\$11.0M)
<b>Value of Fund at 1 July 1998</b>	<b>\$696.9M</b>

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



## Annual crediting rate

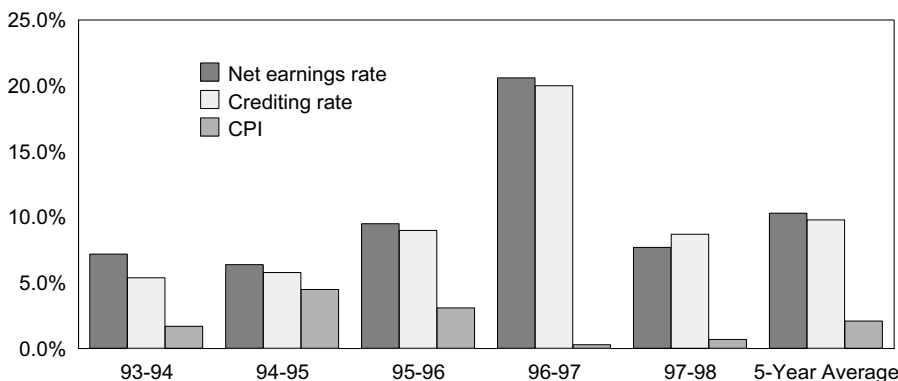
The annual crediting rate is the rate at which fund earnings are attributed to members' accounts. It is determined at the end of the financial year and is based on the Fund's investment performance after allowance for fees, charges and administrative costs. Because of this allowance, the crediting rate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

It is industry practice to calculate the rate of return and the Fund's performance on a time weighted basis, which minimises the effect of the

flow of money throughout the financial year in order to measure the performance of fund managers equitably. The Fund's accounting records and financial statements, on the other hand, are calculated on a money weighted basis, which takes into account the full impact of the amount and timing of cash flow during the year. This provides an accurate measure of the rate of growth.

Differences between the two methods can occur, but these are usually insignificant. However, in 1997-98, the Fund experienced low rates of return in the first half of the year, which were then countered by very strong performance and inward cash flow in the second half. This unusual pattern of growth has enabled the Board to declare a crediting rate for 1997-98 of 8.7%, 1% higher than the 7.7% return achieved on investment performance alone. A comparison of the crediting rates declared since 1993-94 is shown against the Fund's earnings rate and the CPI in Chart 3.

**Chart 3. Annual earning, crediting and CPI rates since 1993-94**



## Exit rates

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

In January 1998 the Board decided that the policy on exit rates should be amended so that the rate set accurately reflects the member's share of actual investment performance for the period from 1 July to the date of exit irrespective of the final investment outcome for the financial year and that exit rates should be declared on this basis each month. This new policy is to come into effect in financial year 1998-99.

The new policy opens the possibility of a negative exit rate being set, especially in the early part of the financial year. However, the Board believes the overall advantages of the new system outweigh the disadvantage of this possibility.

The Board determined four rates during 1997-98 as shown in Table 4. Each new exit rate replaces the previous one and is credited to an exiting member's account for the period from 1 July until exit. For example, the interest rate of 5% per cent per annum was applied to the accumulated contributions of members who exited on or after 9 Mar 1998 for the period from 1 July 1997 until their date of exit.

**Table 4. Exit rates determined in 1997/98**

<u>25 Aug 1997</u>	<u>28 Nov 1997</u>	<u>9 Mar 1998</u>	<u>21 May 1998</u>
6.7%pa	6.6%pa	5%pa	8.3%pa

# Membership and administration

## Contributors

There are two main groups of contributors to the MSBS, those who transferred from the DFRDB and those who have become members of the MSBS upon joining the ADF. There is also a small group of members who had been receiving a DFRDB benefit, rejoined the ADF and elected to join the MSBS.

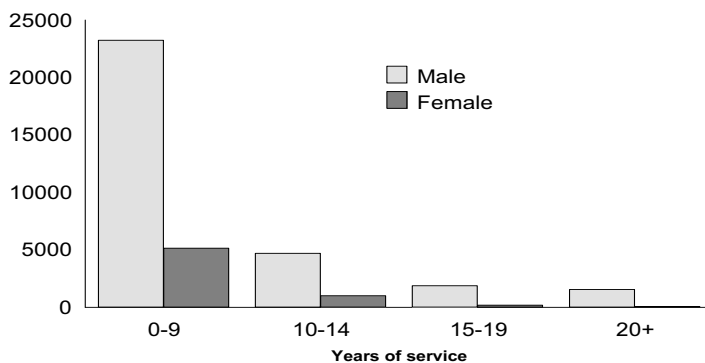
At 30 June 1998, there were 37 861 contributors to the MSBS, 31 425 (83%) of whom were male and 6 436 (17%) female. Table 5 shows the number of new entrants and exits and the total contributor membership at 30 June 1998. Chart 4 shows the number of contributors by years of service and by sex.

**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 1997	18 822	20 114	38 936
Plus new contributors	0	2996	2996
Less exits	(2 352)	(1 719)	(4 071)
<b>Membership at 30 June 1998</b>	<b>16 470</b>	<b>21 391</b>	<b>37 861</b>

Note: The membership figures given in this table for 30 June 1997 differ from those on page 1 and in the 1996-97 Report due to retrospective adjustments not reported last year.

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



As has been the case since the Scheme's establishment, the largest number of contributors in 1997-98 was aged between 20 and 25 years, 31.6% of members being in that age group. The next largest group (25-30 years) comprised 30.2% of the Scheme's contributor population.

The following table breaks down the number of contributors by sex and age group.

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

<i>Age group (yrs)</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>	<i>Percentage</i>
<20	3 614	785	4 399	11.6%
21-25	9 991	2 078	12 069	31.9%
26-30	8 872	2 148	11 020	29.1%
31-35	4 264	912	5 176	13.7%
36-40	2 351	353	2 704	7.1%
41-45	1 199	106	1 305	3.4%
46-50	700	42	742	2.0%
51-55	408	12	420	1.1%
>55	26	0	26	0.1%
<b>Total</b>	<b>3 1425</b>	<b>6 436</b>	<b>37 861</b>	<b>100%</b>

## Contributions

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The basic rate of member contribution to the MSBS is 5% of salary, including higher duties and service allowances, although members can elect to contribute up to 10% of salary. The employer contribution represents only the funded part (the productivity component of 3% paid into the Fund by the Department of Defence) of the contribution. The majority of the employer contribution is unfunded.

Total contributions during 1997-98 were \$124 568 715, of which member contributions comprised \$ 82 383 000. Table 7 compares the total member and employer contributions that have been received each year since 1992-93.

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

<i>Year</i>	<i>Contributors</i>	<i>Member contributions</i>	<i>Employer contributions</i>	<i>Total contributions</i>
1993-94	35 297	\$73 544 686	\$34 369 834	\$107 914 520
1994-95	36 908	\$73 583 761	\$34 621 940	\$108 205 701
1995-96	38 331	\$77 526 715	\$37 763 099	\$115 289 814
1996-97	38 244	\$80 714 424	\$40 823 723	\$121 538 147
1997-98	37 861	\$82 383 000	\$42 185 882	\$124 568 715

## Exits

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There were 4 071 exits from the MSBS during the year. The types of exit are shown in Table 8.

**Table 8. Modes of exit since 1993-94**

<i>Mode of exit</i>	<i>1993-94</i>	<i>1994-95</i>	<i>1995-96</i>	<i>1996-97</i>	<i>1997-98</i>
Age retirement	115	78	84	80	94
Resignation	4 522	4 617	4 808	4 065	64
Redundancy	923	2	1	4	3 209
Invalidity retirement	390	505	435	366	473
Death	25	22	17	19	18
Other*	208	309	251	267	213
<b>Total</b>	<b>6 183</b>	<b>5 533</b>	<b>5 596</b>	<b>4 801</b>	<b>4 071</b>

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

## **Benefits**

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### **Member benefits**

The member benefit is a lump sum of the member's contributions, including any amounts notionally brought over from the DFRDB Scheme, plus the interest earned on those contributions in the Fund. The member benefit is payable as a lump sum, and cannot be converted to a pension. Part or all of the member benefit may be taken on exit, rolled over to an approved deposit fund or preserved within the Fund for any period until age 65.

Of the 4 071 members who left the Scheme during the year, 3 605 elected to claim their member benefit and received payments totalling \$95 915 704. The largest proportion of this sum represented DFRDB money notionally held in the Scheme in respect of those members who had transferred from the DFRDB Scheme.

### **Employer-financed benefits**

Employer benefits provided under the MSBS are defined benefits guaranteed by the Commonwealth and are such are not subject to 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.

### **Employer-financed benefits paid as lump sum**

Between 1 July 1997 and 30 June 1998, 1 035 members received lump-sum employer benefit payments under MSBS legislation, as detailed in Table 9. These lump-sum benefits from the Scheme amounted to \$53 225 260.

**Table 9. Partial and full lump-sum employer benefit payments, 1997-98**

<i>Reason for exit</i>	<i>Number</i>	<i>Total lump-sum</i>	<i>Average lump-sum</i>
		<i>payments</i>	<i>payment</i>
		\$	\$
Retirement	59	11 351 604	192 400
Redundancy	0	0	0
Preserved > age 55	30	5 299 133	176 637
Reversionary benefits			
spouses	8	2 245 587	280 698
orphans	0	0	0
estates	8	2 129 847	266 230
Early payment			
ISC approved	562	6 812 196	12 121
Board approved	368	25 386 890	68 986
<b>Total</b>	<b>1 035</b>	<b>53 225 260</b>	<b>51 425</b>

**Employer-financed benefits paid as pension**

At 30 June 1998, 3 232 members were receiving MSBS pensions. Pensions paid during 1997-98 totalled \$36 286 365. The total number of pensioners for each class of benefit is detailed in Table 10 for the end of each financial year since 30 June 1994.

The MSBS legislation provides for an increase to pensions on the first payday in July if the Consumer Price Index (CPI) number for the preceding 31 March exceeds the previous highest March CPI number.

The 31 March 1998 CPI number did not exceed the previous highest number and hence no increase was payable. All pensioners were notified in late June that their pensions would not be increased in 1998.

During the year, 447 new pensions were granted, while 131 pensions ceased. A breakdown of new pensions by class of benefit is contained in Table 11. Table 11 also shows the estimated liability for 1998-99 of the pensions granted in 1997-98 and the average pension estimated to be received by each person.

**Table 10. Number of pensioners since 30 June 1994, by type of benefit**

<i>Class of pension benefit</i>	<i>Number of pensioners</i>				
	<i>30 June 1994</i>	<i>30 June 1995</i>	<i>30 June 1996</i>	<i>30 June 1997</i>	<i>30 June 1998</i>
Retirement	209	250	306	349	412
Redundancy	1 623	1 621	1 619	1 609	1 674
Preserved > age 55	8	20	32	54	1 029
Invalidity	341	522	683	830	88
Reversionary benefits*					
spouses	17	19	21	26	29
orphans	0	0	0	0	0
<b>Total</b>	<b>1 025</b>	<b>2 198</b>	<b>2 432</b>	<b>2 661</b>	<b>3 232</b>

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

**Table 11. New pensions granted during 1997-98 and annual liability**

<i>Class of benefit</i>	<i>Number</i>	<i>Annual liability</i> \$	<i>Annual average pension</i> \$
Retirement	56	1 236 627	22 803
Redundancy	74	1 482 803	20 038
Invalidity	281	4 151 079	14 773
Preserved > age 55	33	517 219	15 673
Reversionary benefits*			
spouses	3	57 732	19 244
orphans	0	0	0
<b>Total</b>	<b>447</b>	<b>7 445 460</b>	<b>16 657</b>

## **Preservation of benefits**

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

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

### **Preserved member benefits**

At 30 June 1998, there were 1 603 preserved member benefits totalling \$22 829 226 as shown in Table 12.

**Table 12. Member benefits paid or preserved**

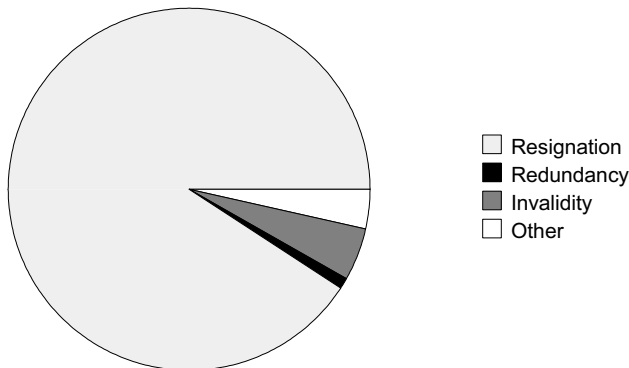
	<i>Number</i>	<i>Lump sums</i>	<i>Average amount</i>
Benefits paid on exit	3605	\$95 915 704	\$26 606
Benefits preserved	1603	\$22 829 226	\$14 242
Withdrawal of preserved benefits	174	\$4 778 268	\$27 461

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

### **Preserved employer-financed benefits**

In most exit categories, the employer-financed benefit must be preserved until compulsory retirement age or upon genuine retirement from the workforce, whichever is the later. At 30 June 1998, there were 27 260 preserved employer-financed benefits.

Chart 5. Preserved employer-financed benefits



### Early release of employer-financed benefits

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

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

- the member has been in receipt of prescribed income support payments for a continuous period of over six months; and
- the member is unable to meet reasonable and immediate family living expenses; and
- the amounts being released do not exceed \$10,000 in any 12 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 1997–98, the Board approved the early release of 930 benefits, totalling \$32 199 086, on the grounds of permanent physical or mental incapacity; permanent departure overseas; severe financial hardship; or on compassionate grounds.

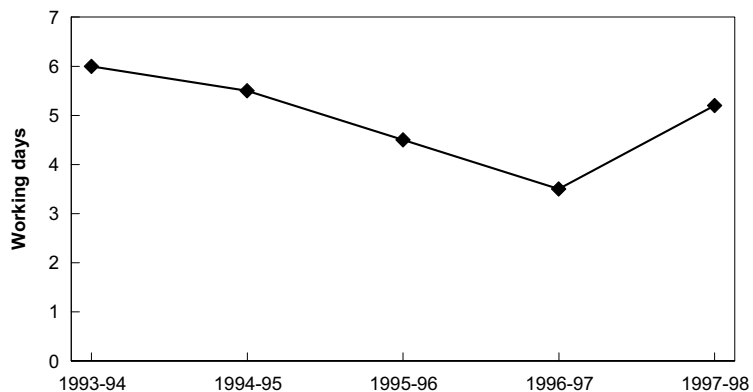
## **Payment of benefits**

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All exiting members are entitled to a member-financed benefit regardless of their reason for leaving the ADF. Members are also entitled to an employer-financed benefit, which varies according to the reason for exit. Full details of entitlements are given in the publications available from Pay Offices and ComSuper (see page 53).

The Board and ComSuper have an agreement on the level of service to be provided by ComSuper. Under this agreement, ComSuper is to pay benefits in 85% of cases within eight working days of the receipt of correctly completed applications, and in 95% of cases within 13 working days. The 13-day target was met in 10 of the 12 reporting periods during 1997–98. The periods when the targets were not met coincided with peak exit times and with processing periods following a retrospective pay increase. The average time taken to process a benefit had been falling for a number of years, but rose slightly in the current year.

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



## **Surcharge**

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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, ComSuper employed the services of the Australian Government Actuary to develop Notional Surchargeable Contributions Factors.

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

## **Invalidity**

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

Members of the MSBS retired on invalidity grounds receive an A, B or C classification, reflecting the member’s loss of capacity to obtain appropriate civilian employment. If there is a discrepancy between the classification nominated by the Service Office and the assessment of the medical specialist, the case is passed from the ComSuper delegate to the Incapacity Classification Committee (ICC) for decision. The ICC is established under the provisions of MSB Rule 17 and is required to determine the classification of members retired on invalidity grounds and to review the existing classification of invalidity pension recipients. The ICC made 194 initial classification decisions during 1997–98.

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 77 reclassification decisions during the year.

After a classification decision has been made, the member is advised in writing and informed of the right to request reconsideration of the

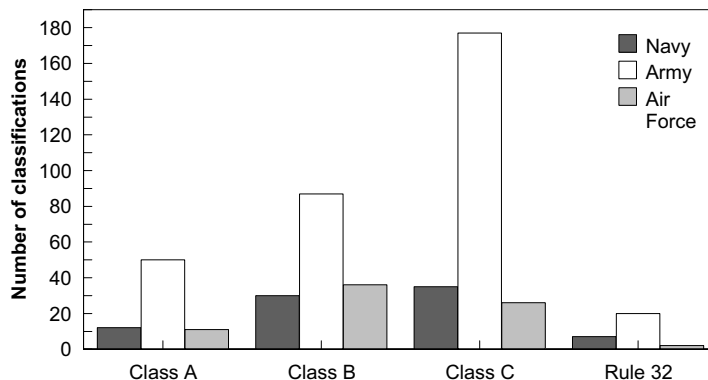
decision. Members who receive advice of decisions of the Board and the ICC also receive a copy of the minute recording the decision. Members who receive advice of decisions made by other delegates receive a copy of the decision itself.

During 1997-98, in 93% of cases initial and review classifications were determined or forwarded to the ICC within 15 days. Letters of advice were despatched to applicants within two days of a decision in 99% of cases.

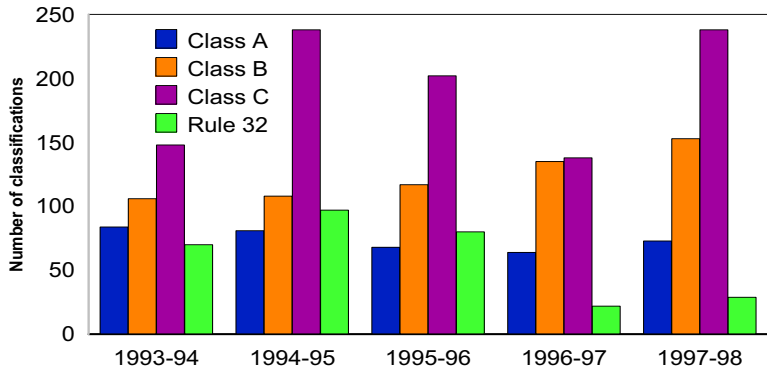
### Invalidity retirements by classification

From 1 July 1997 to 30 June 1998, 464 members received initial invalidity classifications. The total number of invalidity discharges was 493, although in 29 of these cases Rule 32 (relating to pre-existing conditions) was applied. This is an increase of 134 invalidity discharges on the previous year (total 359) and following the implementation of new medical and deployment standards this upwards trend in medical discharges is expected to continue for the next two years. Of those who received an invalidity classification, 226 (73 Class A and 153 Class B) became entitled to an invalidity pension. The remaining 238 were classified as Class C incapacity. The proportion of invalidity classifications for each Service is shown in Chart 7.

**Chart 7. Comparison of invalidity classifications in 1997-98, by Service**



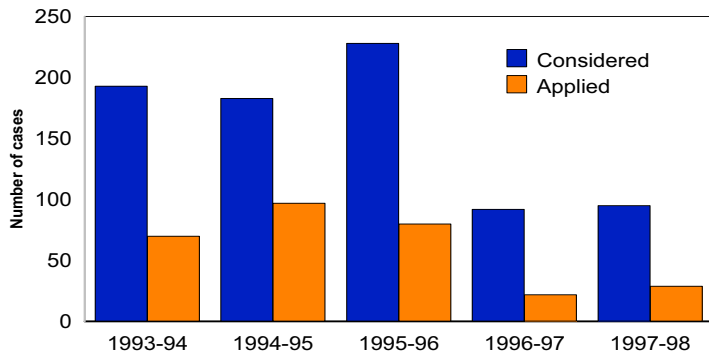
**Chart 8. Invalidation classifications since 1993-94**



**Pre-existing incapacity (MSB Rule 32)**

MSB Rule 32 prevents the payment of invalidity benefits to contributors who had a pre-existing incapacity and who were discharged on invalidity grounds within two years of entry to the Defence Force. During the year, 95 invalidity retirees’ cases were considered under Rule 32 and it was applied in 22 cases. Chart 9 shows the number of cases where Rule 32 was considered and applied since 1993–94.

**Chart 9. Cases since 1993–94 where Rule 32 was considered**



**Retrospective entitlement (MSB Rule 30)**

MSB Rule 30 provides for retrospective invalidity retirement where the Board is satisfied that grounds existed for invalidity retirement at the time the member was retired. The cases of 16 retirees were considered under Rule 30 during 1997–98. In 10 of these cases, the Board was satisfied that grounds existed for retrospective entitlement. These members were granted an invalidity benefit.

## Invalidity review

### Review of invalidity beneficiaries

Decisions by the Board to classify members as Class A or B are reviewable at intervals determined by the Board. A member who believes that his or her classification has altered since it was last considered may request that the classification be reviewed. Cases of reclassification from Class A or B to Class C are also reviewable should the member write and request a review on the grounds that the impairment has deteriorated to the extent that it should be reclassified to Class B or A. During 1997-98, 300 such cases were examined, of which 148 received full medical reviews. As a result of these reviews 77 classifications were changed, as shown in Table 13.

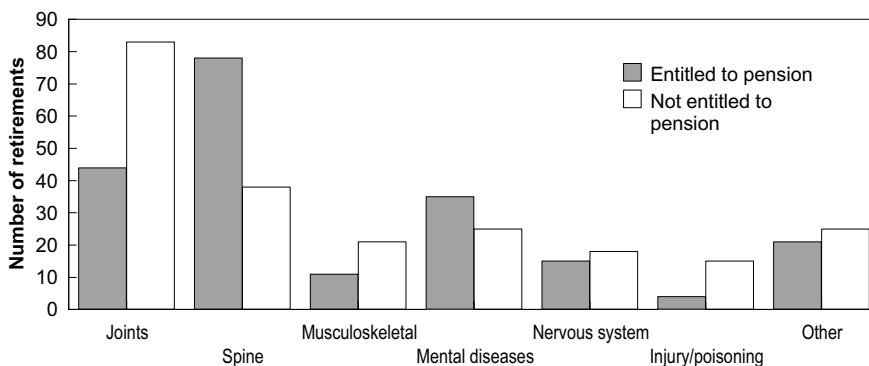
**Table 13. Invalidity entitlements reviewed**

	1993-94	1994-95	1995-96	1996-97	1997-98
Entitlements examined	40	110	184	257	300
Review with medical exam	14	55	63	105	148
Classification raised	5	7	5	13	10
Classification reduced	2	13	24	57	67
<b>Total classification changes</b>	<b>7</b>	<b>20</b>	<b>29</b>	<b>70</b>	<b>77</b>

### Causes of invalidity retirement

During 1997-98, the most common causes of invalidity retirement were disorders of the joints and spine. Of the 337 invalidity classifications determined, 177 retirees were in this category. A comparison of the causes of invalidity retirement is shown in the following Chart.

**Chart 10. Causes of invalidity retirement during 1997-98**



## **Reconsideration and review**

Decisions by the Board and its delegates, including the Incapacity Classification Committee, are subject to internal reconsideration and external review. These processes are managed by ComSuper.

### **Internal reconsideration**

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

### **Reconsideration Advisory Committee**

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

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

### **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 an RAC on its own motion. Each applicant receives a comprehensive written statement of reasons for the Board's decision on reconsideration. If necessary, applicants are advised of further appeal rights.

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

During 1997-98, 62 requests for reconsideration of decisions taken by delegates of the Board were made, a significant increase from the 38 requests received the previous year. The increase reflected the rise in the number of invalidity discharges from the Army and the Air Force resulting from the introduction of revised fitness standards. One request for reconsideration of a Board decision was received.

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

Of the 45 cases finalised during the year, the Board affirmed 15 cases, varied 8 cases in favour of the applicant and set aside 11 cases. Another 11 were lapsed because the applicant failed to pursue the matter. Fifty-three cases remained under investigation at 30 June 1998.

**Table 14. Reconsideration applications**

Year	1993-94	1994-95	1995-96	1996-97	1997-98
Requests on hand	26	24	29	34	35
Requests received	17	25	32	38	63
Requests resolved	19	20	27	37	45
Carried forward	24	29	34	35	53

Under the Service Level Agreement with the Board, ComSuper's Reconsideration Section undertakes to prepare cases for the RAC within 30 days of receipt of evidence considered necessary for a decision to be made. Throughout the year an average of 65% of cases on hand met that target, a fall from the previous year. This was due to the significant increase in cases received. Reallocation of resources to meet the extra workload should result in improved performance next year.

### External review

The MSBS is a regulated superannuation fund under the *Superannuation Industry (Supervision) Act 1993*. Any decision taken by the Board can be the subject of a complaint before the Superannuation Complaints Tribunal (SCT), established under the *Superannuation (Resolution of Complaints) Act 1993* (the SRC Act).

However, a decision of the Full Bench of the Federal Court handed down on 12 February 1998 has affected the powers of the SCT to review decisions of superannuation trustees. In *Neil Wilkinson, Tony Tuohey & Marita Wall v Clerical Administrative & Related Employees Superannuation Pty Ltd & Bishop* (1998) 152 ALR 332, the majority of the Court held that the power purportedly conferred by the SRC Act on the SCT (to review trustee decisions) was an exercise of the judicial power of the Commonwealth. Under the separation of powers doctrine inherent in the Commonwealth Constitution, the functions of the legislature, the executive and the judiciary must be kept separate and only a Court may act judicially. In effect, the majority of the Court held that in every case where the SCT reviews a trustee decision, the SCT purports to act judicially which it cannot do.

Hence, the SCT is currently unable to review Board decision save where both parties to a dispute agree to a conciliation process. Even so, the outcome is not enforceable unless the parties agree.

Special leave has been granted in June 1998 to appeal the *Bishop* case to the High Court, together with another Federal Court case - *Daniel Nathan Breckler & Ors v Shirley Leshem* (1998) No WAG 60 of 1997. The decision in the latter case raised the same issues as in the *Bishop* case and the judges who constituted the Full Bench in *Bishop* were the same judges which heard the *Breckler* case.

In the meantime, the SCT has continued its inquiry and conciliation functions following its receipt of advice from the Australian Government Solicitor that such powers are not affected by the Full Court's decision. During that time the SCT has made no determinations.

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.

In 1997-98 there were no applications for review lodged with the Federal Court in respect of decisions of the MSB Board or its delegates.

Five applications were made to the SCT during the year and one was carried over from 1996-97. Two applications were resolved during the year. The Board's decision in one case was affirmed and the other was treated as withdrawn. The remaining four cases had not been heard by the end of June 1998.

## **Enquiries and complaints**

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The Board has established formal procedures for dealing with members' complaints received in accordance with Section 101 of the *Superannuation Industry (Supervision) Act 1993*.

During 1997-98, the Complaints Officer received 23 complaints pertaining to the MSBS scheme. The complaints covered a wide range of issues and the majority of cases were able to be resolved or satisfactorily answered within the legislative time frame.

Table 16 shows the volume of complaints received and processed by the Board's administrator ComSuper during the 1997-98 financial year.

Table 15. Complaints received and processed in 1997-98

Month	Received	Processed	Month	Received	Processed
July 1997	5	4	Jan 1998	3	0
Aug	2	0	Feb	2	2
Sept	1	6	Mar	0	5
Oct	3	0	April	1	0
Nov	2	2	May	1	2
Dec	2	2	June	1	1
			<b>Total</b>	<b>23</b>	<b>23</b>

## **Counselling** and information

Advice to members is provided through telephone advice, written responses to queries, e-mail advice, addressing members at Resettlement Seminars and talking to members and Administrative Staff at various Bases and Units throughout Australia.

Overall, the workload remained very similar to last year although there has been a slight increase in all services provided.

With the advent of the ComSuper internet site there has been a significant increase in the general information available to those with Internet access. Also, greater computer awareness among the members has seen an increasing number of e-mail enquiries received by the Team.

However, the most popular means of contact remains the telephone and we average some 870 telephone calls per week. The Interactive Voice Response (IVR) telephone service recorded receipt of some 45,468 calls from members (MSBS & DFRDB), up slightly on last year's figure of 44 811 calls. (Unfortunately, figures for the MSBS only cannot be determined as the system is not capable of differentiating between members of the two Schemes.)

During the year, ComSuper staff provided personal counselling to 58 members and gave presentations at 26 resettlement seminars, which were attended by a total of 4883 people (both MSBS and DFRDB members). A combined MSBS/DFRDB session was attended by five members. Twenty-one MSBS member sessions and seven Information Sessions for Administrative/Discharge Staff were also conducted and were attended by 1 680 members and 78 staff respectively. The member sessions were primarily conducted in conjunction with the resettlement seminars. A total of 1 178 retirement advice letters were issued during the year.

## **Freedom** of information

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

There were 83 requests for access to documents relating to the MSBS received during 1997-98. All were granted in full, taking an average of 7.5 days to process.

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

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

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

Internet: [www.comsuper.gov.au](http://www.comsuper.gov.au)

# **Appendices**

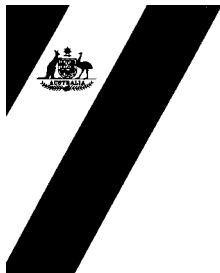
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**Financial** statements

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## INDEPENDENT AUDIT REPORT

To the Minister for Defence Industry, Science and Personnel

### (A) Financial Statements

#### Scope

I have audited the financial statements of the Military Superannuation and Benefits Scheme (MSBS) which includes the Military Superannuation and Benefits Fund No. 1, for the year ended 30 June 1998. The financial statements comprise:

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

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

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

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

**Audit Opinion**

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

- (i) the statements are based on proper accounts and records;
- (ii) the statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the changes in net assets of the MSBS for the year ended 30 June 1998 and the net assets of the MSBS at that date;
- (iii) the receipt of moneys into the Fund, and the payment of moneys out of the Fund and investment of moneys standing to the credit of the Fund, during the year have been in accordance with the *Military Superannuation and Benefits Act 1991*; and
- (iv) the statements are in the form agreed by the Minister for Defence Industry, Science and Personnel in accordance with sub-section 26(1) of the *Military Superannuation and Benefits Act 1991*.

**(B) SIS Compliance**

**Scope**

I have conducted tests in accordance with Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards, as necessary to provide reasonable assurance as to whether the Military Superannuation and Benefits Fund No. 1 has complied, in all material respects, with:

(a) the relevant requirements of the following provisions (to the extent applicable) of the *Superannuation Industry (Supervision) Act 1993* and Regulations,

Sections 19(2), 19(3), 65, 66, 67, 69-85, 86-93A, 95, 97, 98, 102, 103, 104, 106, 107, 108, 109, 111, 112, 113, 117, 118, 122, 124, 125, 152, 153, 154, 169;

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

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

for the year ended 30 June 1998.

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

My procedures with respect to the Guidelines consisted of confirming that the relevant Risk Management Statements (where required to be prepared by the Trustees) have been prepared and are broadly consistent with the requirements of the Guidelines. No opinion has been expressed on the appropriateness of the Risk Management Statements or whether the Fund has complied with the procedures set out in the Risk Management Statements.

These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the *Superannuation Industry (Supervision) Act 1993* and Regulations 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 Military Superannuation and Benefits Fund No. 1, in all material respects, has complied with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations specified above for the year ended 30 June 1998.

Australian National Audit Office



Trevor Burgess  
Executive Director

Delegate of the Auditor-General

Canberra

2 October 1998

**MILITARY SUPERANNUATION AND BENEFITS SCHEME**

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

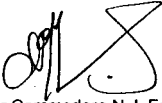
The Trustee hereby states that in its opinion:

- (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 1998 and the changes in net assets of the Scheme for the year ended 30 June 1998;
- (b) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;
- (c) the financial statements are in a form agreed by the Minister for Defence Industry, Science and Personnel and the Military Superannuation and Benefits Board of Trustees No. 1 in accordance with sub-section 26(1) of the Military Superannuation and Benefits Act 1991 and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views); and
- (d) the operations of the Fund have been conducted in accordance with the Trust Deed, the Military Superannuation and Benefits Act 1991 and the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations.

Signed at Canberra this 24th day of September 1998 in accordance with a resolution of members of the Military Superannuation and Benefits Board of Trustees No. 1.



M. J. Sharpe AM  
Member



Air Commodore N.J. Ford  
Member

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

MILITARY SUPERANNUATION AND BENEFITS SCHEME

**STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30 JUNE 1998**

	Note	1998 \$'000	1997 \$'000
<b>Net Assets Available to Pay Benefits at 1 July</b>		<b>576,873</b>	<b>402,017</b>
<b>MSB FUND</b>			
<b>Investment Revenue</b>			
Interest		11,560	9,017
Dividends		15,813	12,274
Other Investment Income		329	91
Changes in Net Market Values	2	29,223	89,948
Investment Expenses		(3,491)	(3,435)
		<b>53,434</b>	<b>107,895</b>
<b>Other Expenses</b>			
Administration Expenses	1d	(236)	(237)
<b>Net Investment Revenue Before Tax</b>		<b>53,198</b>	<b>107,658</b>
<b>Contributions Revenue</b>			
Employee Contributions	3a	82,383	80,714
Employer Contributions	3a	42,186	40,824
		124,569	121,538
Benefits Paid	3b	(46,748)	(34,828)
<b>Net Contributions Revenue Before Tax</b>		<b>77,821</b>	<b>86,710</b>
<b>Net Investment Revenue and Net Contributions Revenue</b>		<b>131,019</b>	<b>194,368</b>
Income Tax Expense	4	(11,013)	(19,512)
<b>Net Investment Revenue and Net Contributions Revenue After Tax</b>		<b>120,006</b>	<b>174,856</b>
<b>CONSOLIDATED REVENUE FUND</b>			
Moneys Appropriated by Parliament	3	185,440	161,486
Less: Benefits Paid	3b	(181,269)	(158,075)
Costs of Administering the MSBS Act and Rules	3c	(4,171)	(3,411)
<b>Net Assets Available to Pay Benefits at 30 June</b>		<b>696,879</b>	<b>576,873</b>

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

# MSB Board of Trustees No. 1 Annual Report 1997-98

MILITARY SUPERANNUATION AND BENEFITS SCHEME

## STATEMENT OF NET ASSETS AS AT 30 JUNE 1998

	Note	1998 \$'000	1997 \$'000
<b>MSB FUND</b>			
<b>Investments</b>	1e		
Cash and Short Term Deposits		42,724	68,441
Australian Fixed Interest		99,410	74,333
Overseas Fixed Interest		35,382	21,811
Australian Equities		234,505	201,323
Overseas Equities		211,973	147,835
Property Trusts		76,918	67,353
Other Investments		9,928	9,807
<b>Total Investments</b>		<b>710,840</b>	<b>590,903</b>
<b>Other Assets</b>	5	<b>14,980</b>	<b>7,511</b>
<b>Total MSB Fund Assets</b>		<b>725,820</b>	<b>598,414</b>
<b>Less: Liabilities</b>			
Trade Settlements Payable		8,726	2,117
Accrued Expenses	6	355	662
Sundry Creditors		189	146
Benefits Payable		1,404	1,997
Provision for Income Tax		5,502	4,984
Provision for Deferred Income Tax		12,765	11,635
<b>Total MSB Fund Liabilities</b>		<b>28,941</b>	<b>21,541</b>
<b>CONSOLIDATED REVENUE FUND</b>			
<b>Other Assets</b>			
Sundry Debtors		4,832	13,021
<b>Total Consolidated Revenue Fund Assets</b>		<b>4,832</b>	<b>13,021</b>
<b>Less: Liabilities</b>			
Benefits Payable		4,832	13,021
<b>Total Consolidated Revenue Fund Liabilities</b>		<b>4,832</b>	<b>13,021</b>
<b>Net Assets Available to Pay Benefits</b>		<b>696,879</b>	<b>576,873</b>

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

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

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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 paragraph 22(a) of AAS 25 whereby the financial statements include a Statement of Net Assets, a Statement of Changes in Net Assets and Notes thereto.

The form of these financial statements has been agreed by the Minister for Defence Industry Science and Personnel and the Military Superannuation and Benefits Board of Trustees No. 1 in accordance with sub-section 26(1) of the Military Superannuation and Benefits Act 1991.

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

(b) *Taxation*

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

(c) *Foreign Currency Conversion*

Foreign currency transactions are converted to Australian currency using the currency exchange rate in effect at the point of recognition of each transaction. Foreign currency balances are converted to Australian currency using the exchange rate as at balance date.

(d) *Fund Management Expenses*

Costs of the Military Superannuation and Benefits Board of Trustees No. 1 which are related to its responsibilities for the management of the MSB Fund and the investment of its moneys are a charge against the Fund. All other costs incurred by the Board are paid from moneys appropriated by Parliament.

(e) *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 are reduced by an amount for selling costs which would be expected to be incurred if the investments were sold. The bases of market valuations are summarised below.

- (i) Short-term Money Market - these securities are valued by marking to market using yields supplied by independent valuers.
- (ii) Fixed-interest - these securities are valued by marking to market using yields supplied by independent valuers.

# MSB Board of Trustees No. 1 Annual Report 1997-98

MILITARY SUPERANNUATION AND BENEFITS SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

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

- (iii) Futures Contracts - open futures contracts are revalued to closing price quoted at close of business on 30 June by the 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.
- (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.

#### (f) Use of Derivatives

The investment 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.

#### (g) Comparative Information

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

### 2. CHANGES IN NET MARKET VALUES

	1998 \$'000	1997 \$'000
Changes in Net Market Values of Investments:		
<b>(a) Investments Held at 30 June</b>		
Australian Fixed-interest	(1,424)	2,354
Overseas Fixed-interest	3,493	(277)
Australian Equities	(6,008)	35,972
Overseas Equities	46,751	31,555
Property Trusts	(63)	6,922
Cash	(6,876)	(1,524)
	<b>35,873</b>	<b>75,002</b>
<b>(b) Investments Realised During the Period:</b>		
Australian Fixed-interest	3,233	4,308
Overseas Fixed-interest	2,772	809
Australian Equities	(6,207)	3,431
Overseas Equities	11,164	4,033
Listed Property Trusts	1,146	1,713
Cash	(18,758)	652
	<b>(6,650)</b>	<b>14,946</b>
	<b>29,223</b>	<b>89,948</b>

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

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. The Department of Defence contributes employer superannuation contributions to the MSB Fund at the rate of 3 per cent of salary paid to the member.

The net assets available to pay benefits, as shown in the Statement of Net Assets at 30 June 1998, is the accumulated employee and employer contributions held in the MSB Fund as at 30 June 1998.

(b) Benefits

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

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

Benefits payable by the Commonwealth as at 30 June 1998 total \$4.832m (1997 \$13.021m). The Commonwealth is the corresponding debtor for this amount in accordance with the funding arrangements described above.

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

	1998 \$'000	1997 \$'000
<b>MSB Fund</b>		
Payments to Commonwealth	39,521	29,798
Lump-sum Benefits	7,227	5,030
	<b>46,748</b>	<b>34,828</b>
<b>Consolidated Revenue Fund</b>		
Lump-sum Benefits	144,983	127,635
Pensions	36,286	30,440
	<b>181,269</b>	<b>158,075</b>

(c) Costs of Administration

The Military Superannuation and Benefits Act 1991 requires the Commissioner for Superannuation to provide administrative support to the Military Superannuation and Benefits Board of Trustees No. 1 to enable the Board to perform its functions under the Act. Under the provisions of the Act, only those expenses of the Board in respect of its responsibilities for the management of the MSB Fund and investment of its moneys are paid from the MSB Fund. Accordingly, all other expenses of the Board, the Commissioner for Superannuation and the staff of ComSuper who assist the Commissioner for Superannuation are met from moneys appropriated by the Parliament. The amount shown as the Cost of Administering the MSBS Act and Rules in the Statement of Changes in Net Assets has been calculated on a full accrual basis.

# MSB Board of Trustees No. 1 Annual Report 1997-98

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

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

For the year ended 30 June 1998

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#### 4. INCOME TAX EXPENSE

The taxation liability at 30 June 1998 has been calculated on the basis that the Scheme complies with the standards contained in the Superannuation Industry (Supervision) Act 1993 and Regulations and that tax will be payable on the income received by the MSB Fund at a rate of 15 per cent.

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

	<b>1998</b>	<b>1997</b>
	<b>\$'000</b>	<b>\$'000</b>
Prima facie income tax expense on		
Net Investment Revenue and Net Contributions Revenue Before Tax	19,653	29,155
Add/(Less) Permanent Differences		
Employee contributions	(12,357)	(12,107)
Benefits Paid	7,012	5,224
Foreign Tax Credits	(216)	(171)
Imputation Credits from Franked Dividends Received	(2,939)	(2,306)
Difference between accounting and tax gains	188	(43)
Tax Free/Tax Deferred Distributions	(174)	(100)
Over/(Under) Provision in Prior Year	(154)	(140)
Income Tax Expense	<b>11,013</b>	<b>19,512</b>

Income tax paid during the period amounted to \$9,440,809 (1997: \$10,792,000)

#### 5. OTHER ASSETS

Bank	3,771	2,455
Trade Settlements Receivable	5,358	1,140
Accrued Income	5,746	3,870
Sundry Debtors	105	46
	<b>14,980</b>	<b>7,511</b>

#### 6. ACCRUED EXPENSES

Investment Consultant Fees	60	383
Fund Management & Custodial Fees	262	189
Audit Fees	27	30
Other	6	60
	<b>355</b>	<b>662</b>

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

**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.

Morgan Stanley Trust Company act as master custodian on behalf of the Trustee and as such provide 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 its behalf and the associated risks. Such reports include receipt of formal Risk Management Statements as required by the Australian Prudential Regulation Authority (formerly the Insurance and Superannuation Commission)

**(a) Use of Derivative Financial Instruments**

The Fund's investment managers use a number of financial instruments such as futures, options and forward exchange contracts to both facilitate increases or decreases in exposures in the equity, bond and currency markets and to reduce risk consistent with the investment policy of the Fund. Derivatives are not used for speculation in any of these markets or for 'gearing' the portfolio.

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

	<b>Notional Principal Amounts</b>	<b>Net Market Value</b>
	<b>\$'000</b>	<b>\$'000</b>
Exchange Traded Options	(40,448)	(1,284)
Exchange Traded Warrants	1,330	1,091
Futures	2,355	(567)
Currency Contracts	121,895	(5,619)
Total	85,132	(6,379)

**(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 \$5.004m

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

# MSB Board of Trustees No. 1 Annual Report 1997-98

MILITARY SUPERANNUATION AND BENEFITS SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

### 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 1998 was as follows:

	Floating Interest Rate \$'000	Fixed Interest Rate			Non Interest Bearing \$'000	Total \$'000
		1 Year or Less \$'000	1 - 5 Years \$'000	Over 5 years \$'000		
<b>30 June 1998</b>						
<b>Assets</b>						
Cash & Short Term Deposits	8,999	33,725				42,724
Australian Fixed Interest		2,896	44,977	51,537		99,410
O'seas Fixed Interest			4,390	30,992		35,382
Australian Equities					234,505	234,505
Overseas Equities					211,973	211,973
Property Trusts					76,918	76,918
Other Investments	16,308				(6,380)	9,928
Other Assets	3,771				11,209	14,980
<b>Liabilities</b>						
Trade Settlements Payable					(8,726)	(8,726)
Accrued Expenses					(355)	(355)
Sundry Creditors					(189)	(189)
Benefits Payable					(1,404)	(1,404)
Provision for Income Tax					(5,502)	(5,502)
Provision for Deferred Income Tax					(12,765)	(12,765)
<b>Total</b>	<b>29,078</b>	<b>36,621</b>	<b>49,367</b>	<b>82,529</b>	<b>499,284</b>	<b>696,879</b>
Weighted Average Interest Rate	2.90%	5.06%	8.62%	6.36%		

#### (d) Currency Risk Exposures

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

	US\$ A\$'000	Japanese Yen A\$'000	Pounds Sterling A\$'000	Deutsche Marks A\$'000	Other A\$'000	Total A\$'000
<b>30 June 1998</b>						
Gross investment amounts denominated in foreign currency	143,940	26,179	18,358	21,252	37,625	247,354
Amount effectively hedged	(75,089)	(13,334)	(10,157)	(17,669)	(11,088)	127,337
Net Exposure	68,851	12,845	8,201	3,583	26,537	120,017

#### (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.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

**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 at 30 June 1998 is \$4,406m (1997: \$3,828m).

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 1998 and elected the option which is most costly to the Scheme.

**9. LIABILITY FOR ACCRUED BENEFITS**

The amount of accrued benefits has been determined on the basis of the present value of expected future payments which arise from membership of the Scheme up to the membership date. The accrued benefits are comprised of a funded component, which will be met from the Fund, (ie. accumulated member contributions and, where applicable, productivity contributions, plus interest) and an unfunded component to be financed, by the Commonwealth, from the Consolidated Revenue Fund, at the time the superannuation benefits become payable. The valuation of the accrued benefits was undertaken by the Australian Government Actuary as part of a comprehensive review during 1996-97. (A copy of the Australian Government Actuary's report is attached.)

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

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

**10. RELATED PARTIES**

**(a) Members of the Board**

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

- Mr C.P.H. Kiefel (Chairman) [appointed 11 July 1997]
- Air Vice Marshal F.D. Cox AO [resigned 10 July 1997]
- Air Commodore N.J. Ford [appointed 11 July 1997]
- Mr M.J. Sharpe AM [appointed 29 April 1998]
- Mr P.D. Gourley
- Mr P.G. Skinner [resigned 30 June 1998]
- Warrant Officer R.C. Swanwick [appointed 22 September 1997]
- Warrant Officer D.J. Sutherland [appointment ceased 22 September 1997]
- Colonel M.J. Hannan [appointed 27 May 1998] - alternate for Air Commodore Ford
- Colonel R. Brown [resigned 26 May 1998]
- Warrant Officer P.D. Alomes [appointed 23 December 1997] - alternate for WOFF Swanwick
- Mr C. Neumann - alternate for Mr P.D. Gourley

## MILITARY SUPERANNUATION AND BENEFITS SCHEME

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

For the year ended 30 June 1998

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#### 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 1997-98 financial year on the same terms and conditions applicable to all scheme members.

Fees and associated superannuation contributions paid to, or in respect of, the members of the Board during the financial year totalled \$77,900 (1996-97: \$70,200)

#### 11. AUDITORS REMUNERATION

The amount paid and payable in respect of external audit services is \$27,000 (1996-97 : \$28,500).

#### 12. FOREIGN CURRENCY GAINS

The foreign currency gain on overseas investments for the year was \$10.098m (1996-97: gain of \$4.113m). This amount is included in the 'Changes in Net Market Values of Investments' disclosed in Note 2.

#### 13. SEGMENT REPORTING

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

#### 14. CONTINGENT LIABILITIES

In the normal course of business, requests are made by members and former members for the review of decisions relating to benefit entitlements of the Scheme which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. In the opinion of the Trustee, these requests do not represent a material liability on the Scheme.

The Trustee is not aware of any other potential contingent liabilities.

#### 15. SUPERANNUATION CONTRIBUTIONS SURCHARGE

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

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

The Trustee has advised the ATO of the 1996-97 and 1997-98 surchargeable superannuation contributions in respect of members of the Scheme. However, at the time of preparing the financial statements, the Trustee had not received the assessment of the surcharge liability from the ATO.

Pending calculation of the liability by the ATO there is no reliable basis on which an estimate of the likely surcharge liability can be made.

The Trustee does not anticipate that the superannuation contribution surcharge in respect of 1996-97 and 1997-98 will materially affect the amount of "Net Assets Available to Pay Benefits at 30 June 1998" as disclosed in the financial statements.



**AUSTRALIAN GOVERNMENT ACTUARY**

PO Box 9836 CANBERRA ACT 2601

212 Northbourne Ave

CANBERRA ACT 2600

Telephone: (06) 247 2299

Facsimile: (06) 267 6862

DX: 5766 Canberra

**MILITARY SUPERANNUATION AND BENEFITS SCHEME  
SUMMARY OF THE 1993 LONG TERM COST REPORT**

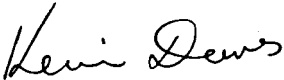
1. A report long term cost of the Defence Force Superannuation Schemes (Military Superannuation and Benefits Scheme (MSBS) and the Defence Force Retirement and Death Benefits Scheme (DFRDB)) was carried out using data as at 30 June 1993 by the Australian Government Actuary, Mr Donald Duval, FIA, FIAA. This report was presented to Parliament in June 1994.
2. The MSBS is partially funded and the DFRDB (closed to new entrants since October 1991) is unfunded. Both schemes have an underlying Government guarantee. Projections of the actual annual employer costs of the two schemes combined as a percentage of Gross Domestic Product (GDP) were made over a period of 45 years. These projections showed a progressive fall in costs as the more expensive DFRDB scheme phased out. The actuary was thus of the opinion that the financial position of the MSBS as at 30 June 1993 was satisfactory.
3. The realisable value of the MSBS's assets at 30 June 1993 was \$104 million.
4. Vested benefits for the MSBS were not calculated as part of the Long Term Cost Report as at 30 June 1993 but were calculated separately. They amounted to \$2,172 million.

It should be noted that the actuary commented that

'The value of vested benefits represents the liability that would have fallen on the scheme if all members had ceased service on 30 June 1993 and elected the option which is most costly to the scheme. The likelihood of such an occurrence is remote in the extreme. The value quoted does not in any way represent the scheme's liability under circumstances which have any reasonable possibility of arising.'

INSURANCE AND SUPERANNUATION COMMISSION

5. The value of Accrued Benefits for the MSBS as at 30 June 1993 was \$2,574 million. The value of Accrued Benefits is the present value of the proportion of projected future benefit payments that has accrued in respect of membership of the MSBS to 30 June 1993.
6. As would be expected in a substantially unfunded arrangement, the value of Accrued Benefits is more than the realisable value of scheme assets at the same date.



K.E. Deeves  
Fellow of the Institute of Actuaries of Australia  
Acting Australian Government Actuary  
3/August 1994

**INSURANCE AND SUPERANNUATION COMMISSION**

**Note 1: Summary of Method of Attributing Benefits to Past Membership**

The past membership components of all benefits are projected forward allowing for future salary increases and then discounted back to the valuation date at the valuation rate of interest.

The past membership component for each type of exit benefit (ie, on retirement, death, disablement or resignation) is taken to be the proportion of the discounted projected benefit payable on exit that -

- membership completed at the valuation date; bears to
- membership to the projected date of exit

The method used for calculating the past membership component was considered the most appropriate given the nature of the benefit structure of the Scheme.

**Note 2: Summary of the Actuarial Assumptions**

*Financial Assumptions*

Investment returns:	7% pa net of investment tax and investment expenses
Inflationary salary increases:	5.5% pa
Promotional salary increases:	an age related scale was used
Pension increases (CPI):	4% pa

*Other Assumptions*

Assumptions have been made regarding rates at which in service members will leave the Scheme on account of retirement, death, disablement and resignation and the proportions of the employer financed benefit which will be taken in pension form. Assumptions were also made about pensioner mortality. These rates have been based on the experience of the Scheme. Full details are set out in the report on the long term cost of the Military Superannuation and Benefits Scheme and the Defence Force Retirement and Death Benefits Scheme using data to 30 June 1993.

*Reasonableness of Assumptions*

Taking into account the circumstances of the Scheme, its membership, assets and benefit structure, I believe the assumptions used are appropriate in relation to the determination of the present value of Accrued Benefits for the purposes of AAS25.



K E Deeves  
31 August 1994

# **Fund Managers**

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**Barclays Global Investors N.A.**

45 Fremont St  
San Francisco CA 94105  
USA

**Portfolio Partners Ltd**

Level 39  
385 Bourke St  
Melbourne VIC 3000

**Commonwealth Funds Management Ltd**

Level 9  
12 Moore St  
Canberra ACT 2601

**Tower Portfolio Management Australia**

Level 10, 80 Alred Street  
Milson's Point  
NSW 2061

**Credit Suisse Investment Management  
(Australia)**

Level 32  
1 Macquarie Place  
Sydney NSW 2000

**Wellington Management Company**

75 State St  
Boston MA 12109  
USA

**Morgan Grenfell Australia  
(formerly Axiom Funds Management)**

Level 20  
83 Clarence Street  
Sydney NSW 2000

**Westpac Investment Management Ltd**

Level 36  
60 Margaret St  
Sydney NSW 2000

**Morgan Stanley Australia Ltd**

Level 33  
2 Chifley Square  
Sydney NSW 2000

# Glossary

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active management	an approach to investment where the manager varies its strategy depending on current market conditions. Active managers regularly review their investments with a view to benefitting from changes in the market or from growth in specific assets.
ADF	Australian Defence Force
AD(JR) Act	<i>Administrative Decisions (Judicial Review) Act 1977</i>
CDF	Chief of the Defence Force
CFM	Commonwealth Funds Management Limited
ComSuper	Commonwealth Superannuation Administration
core management	a manager whose portfolio is constructed so as to provide a high probability of capturing the market return for a particular asset class. Core managers are used to control liabilities
CPI	Consumer Price index
defensive assets	assets (such as cash and bonds) that are not very susceptible to market fluctuations
derivatives	investment products (such as an option on a share) that are derived from other securities or assets. Their value is linked to the value of the underlying security
direct property	property that is purchased by an investor to be held by that investor (see also <i>indirect property</i> )
DFRDB	Defence Force Retirement and Death Benefits
growth assets	assets (such as shares and property) that are very responsive to market fluctuations.
ICC	Incapacity Classification Committee
indirect property	an investment in property made by purchasing units in a property trust, or shares in a property company
ISC	Insurance and Superannuation Commission
IVR	Interactive Voice Response telephone system
LWOP	leave without pay
MSB	Military Superannuation and Benefits
MSBS	Military Superannuation and Benefits Scheme
MSCAG	The Military Superannuation Communications Advisory Group
passive	an approach where the manager does not actively change the proportions held in the various investment sectors according to market conditions, but fixes them for an extended period
RAC	Reconsideration Advisory Committee
SCT	Superannuation Complaints Tribunal
SIS	<i>Superannuation Industry (Supervision) Act 1993</i>
SRC Act	<i>Superannuation (Resolution of Complaints) Act 1993</i>
surcharge	the <i>Superannuation Contributions Tax (Assessment and Collection) Act 1997</i> , a tax on employer financed superannuation contributions

# Publications

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

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

The *Investment Policy Statement* is an overview of the general objectives that underpin the Board's investment policy and the specific strategy through which these objectives will be realised.

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

*Dependants Benefits*

*Invalidity Benefits*

*Maximum Benefit Limit*

*Preservation of Benefits*

*Provisions for LWOP*

*Rejoining the ADF*

*Resignation and Retirement Benefits* and

*Taxation of Benefits*

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

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

## **Contact officer**

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

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

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

# Legislation

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## Changes to the MSB Act

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During 1997-1998, the following Acts were passed to amend the MSB governing rules:

*Audit (Transitional and Miscellaneous) Amendment Act 1997*

This Act imposes certain accounting and auditing requirements.

*Superannuation Legislation Amendment (Superannuation Contributions Tax) Act 1997*

Makes minor amendments to facilitate the operation of the Superannuation Contributions Surcharge legislation.

### Amending Deeds

The following amendments have been made to the MSBS Rules:

*Amending Deed 1 of 1998*

#### **LWOP to engage in full time employment**

Amendment to allow the employer benefit costs, that can accrue when a member continues to contribute whilst on leave without pay to engage in other employment, to be fully recovered through arrangements between the Commonwealth and the other employer.

#### **Preservation of unclaimed member benefits**

Amendment to ensure that a benefit must be preserved where a member has failed to make an election to either claim the benefit or preserve it in the MSB Fund within 3 months of separation.

*Amending Deed 2 of 1998*

#### **Preserved benefits**

A person can no longer access a preserved benefit on permanent departure from Australia unless the person requested the Board to release the benefit before 1 July 1998 and intended to leave Australia before 1 July 1998.

Specific provision is made for the release of benefits on compassionate grounds or for severe financial hardship.

#### **Surcharge**

A Superannuation Contributions Surcharge is payable on a person's superannuation employer contributions when the a person's taxable income plus employer superannuation contributions exceed \$70 000

(1996-97). This amount is indexed annually by Average Weekly Ordinary Time Earnings (AWOTE).

Because the MSBS is an unfunded defined benefits scheme, payment of a Superannuation Contributions Surcharge can be delayed until the member's benefits become payable. Alternatively, the member can elect to make payments from their own resources at any time during their membership.

This Deed makes provisions for the deduction of superannuation contributions surcharge tax amounts from MSBS employer benefits when a surcharge is owing at the time benefits become payable.

#### *Amending Deed 3 of 1998*

##### **Invalidity classification**

Amendment to permit invalidity classification shortly before retirement, as well as after retirement. Earlier classification means that benefits can be paid immediately the member is discharged on invalidity grounds without any delay attendant to classification.

##### **Abolition of employer benefit seven year phase-in**

Change in the Rules to permit access to the full accrued employer benefit during the first seven years of service. Previously, access to the benefit was phased in over the member's first seven years.

##### **Determinations**

Four determinations were made during the year setting the crediting interest rate for the 1997-98 financial year and the prevailing exit interest rate applicable during the period of scheme membership.

Four determinations were made setting the interest rate applicable in the period after the benefit becomes payable.

# **Compliance** details

While this report is not a Departmental annual report, the Authority has endeavoured to comply with the 'Requirements for Departmental Annual Reports', where applicable. Details of ComSuper's operations are provided in the *Commissioner for Superannuation Annual Report 1996-97*. Annual reporting requirements that are met in the Commissioner for Superannuation's report are indicated below by an asterisk.

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