



Military Superannuation and Benefits Scheme

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2001 - 2002

Annual Report of the MSB Board

Military
Superannuation and Benefits Scheme



**The Military Superannuation and
Benefits Board of Trustees**

Annual Report 2001–02

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

The Hon. Danna Vale, MP
Minister Assisting the Minister for Defence
Parliament House
Canberra ACT 2600

Dear Minister

In accordance with section 26 of the *Military Superannuation and Benefits Act 1991* (the MSB Act), the Military Superannuation and Benefits Board of Trustees is pleased to submit to you its annual report on the performance of its functions for the year ended 30 June 2002, together with financial statements in respect of the management of the Military Superannuation and Benefits Fund during 2001–02, 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 blue ink, reading "Charles Kiefel". The signature is fluid and cursive, with the first name "Charles" and the last name "Kiefel" clearly distinguishable.

Charles Kiefel, BCom, FCA, FAICD
Chairman
MSB Board of Trustees

8 October 2002

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msb Chairman's overview

The 2001–02 financial year proved to be a difficult and challenging year for the MSB Board. Many individual investors have been hard hit by the difficult investment environment, and most superannuation funds have recorded negative returns for the first time in many years.

It was an extremely challenging year, with international shares recording their largest fall over a financial year in more than 20 years, and Australian shares also delivering negative returns. These falls were driven by the global economic slowdown and weaker corporate profits. The September 11 terrorist attacks affected confidence, as did the collapse of a number of large companies such as Enron in the United States and HIH in Australia.

The crediting rate for the MSB Fund for the year to 30 June 2002 was –8.9%. It's worth noting that, with the exception of last year, the Fund has achieved strong positive investment performance every year since it began in 1991.

5 years ending	Average annual crediting rate
30 June 2002	4.6%
30 June 2001	10.5%
30 June 2000	11.8%

Since its inception in 1991, Military Super has delivered an average annual crediting rate of 7.3% while inflation has averaged 2.4% per year. This represents an average real return of 4.9%, a result that is very close to the Fund's investment objective of a return of 5% above inflation.

Military Super aims to deliver strong, long-term investment returns to maximise the superannuation benefits of members when they retire. To do this, it invests primarily in 'growth assets' such as Australian and international shares and listed property. This strategy makes good sense because, over time, growth assets are likely to deliver higher returns than 'defensive' assets such as cash and bonds. However, they are also more volatile than defensive assets, which means members need to be prepared for bigger ups and downs along the way than would occur with a balanced or conservative investment strategy.

There are signs that a global recovery may already be under way. Military Super is well positioned to capture the rebound in international share markets when it occurs.

The introduction of unitisation on 1 July 2002 has led to the Board looking at offering members a choice of investment profiles, depending on their individual preferences which reflect their specific needs and risk tolerances. The Board is working towards the introduction of 'investment choice' by 1 July 2003. Updated information will be available on the Military Super website (www.militarysuper.gov.au).

The Board is also examining other ways to continually improve Military Super for members. We are working to introduce additional ancillary benefits in the near future such as spouse contributions, salary sacrifice and rollovers into the Fund.

It is our ambition to see Military Super become 'the best super scheme in Australia'.

APRA audit

The Audit Committee and the Board's Secretary met with representatives from APRA on 21 March 2002. APRA had asked high-level questions with an emphasis on investments and unfunded liabilities. APRA were keen to move to a 'continuous disclosure' arrangement.

APRA was impressed with the way in which the Board is communicating to members. It was aware of the Board's recent gold medal win at the CMSF 2002 Conference.

Overall APRA appeared to be impressed with the performance of the Board.

Member communications

Major initiatives included:

- the production of an electronic media educational program, including three videos, for Military Super members—the introductory video received a Gold Award in the CMSF 2002 Communications Awards);
- the implementation of a communications campaign promoting Super Members Home Loans—an ancillary service provided to both Military Super and DFRDB members;
- a review of seminar resources, content and coverage;

- the development of a new, pocket-sized annual report to members;
- the ongoing promotion of the five highlights of the scheme, the i-Estimator, and educational videos;
- the development of a comprehensive Communications Strategy for 2002–03;
- the production of an educational Compact Disc including 2001–02 educational videos, website and other key information for members to be distributed with the Annual Member Statements; and
- the development of a communications campaign for unitisation of the fund.

Acknowledgements

I commend my fellow Trustees for their commitment, co-operation and support during a period of great volatility and change.

On behalf of the Board I would also like to express my sincere thanks to the Board Secretariat for sound advice and assistance, to ComSuper, the scheme administrator, which was instrumental in the change to unitisation, and to IPAC, the Board's investment adviser, for its continuing service throughout a very difficult year.



Charles Kiefel
Chairman

msb

About the MSBS

Establishment of the Scheme

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

Description of the Scheme

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

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

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

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

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

the Fund or in a complying superannuation fund until preservation age. The employer component, including productivity contributions, must be preserved in the Fund until age 55, or another complying superannuation fund until preservation age.

The MSB Board

Membership

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

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

Trustees holding office at 30 June 2002 were:

Chairman:

Mr Charles Kiefel BCom, FCA, FAICD

Reappointed 5 June 2000

Mr Kiefel is the former Managing Director of Corporate Finance at ANZ Bank and is a Director of a number of private companies.

Minister's Nominees:

Mr Phil Charley GradDip Strat Studies, GDTax, MFinMgt, FCPA, FAICD

Appointed 14 September 2000

Mr Charley is Director, Superannuation, Department of Defence.

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

Appointed 29 April 1998

Dr Sharpe is Director, Australian Stock Exchange Limited. During his career, he has served as Chairman of the International Accounting Standards Committee; President of the Institute of Chartered Accountants in Australia; Senior Audit Partner of the firm now known as PricewaterhouseCoopers; a trustee of State Super NSW; Chairman and Director of many companies; and an adviser to Government.

*CDF Nominees:***BRIG Bob Brown** CSC

Appointed 29 October 1999

Brigadier Brown is Head, Theatre HQ Project.

WOFF Robert Swanwick JP

Reappointed 14 September 2000

Warrant Officer Swanwick is Manager of Operations, Directorate of Alternative Dispute Resolution and Conflict Management, National Operations Division. He has served throughout Australia and overseas for 24 years as an Aircrewman Loadmaster, been posted to Air Force and Army units, and attached to Navy establishments. He holds diplomas in frontline management and aviation and has extensive training in investment and superannuation administration. Over the past eight years he has also been a member of the Board's Audit Committee.

**The MSB Board**

Standing (L–R): BRIG Bob Brown, Mr Phil Charley, WOFF Robert Swanwick
Seated (L–R): Mr Charles Kiefel, Dr Michael Sharpe

Indemnity insurance

The Board is insured with American Home Assurance Company against losses, liabilities, actions, claims or demands arising from the performance of its functions. To date there has never been a claim against the Board or a Trustee that has resulted in the loss of members' moneys, nor have any regulatory penalties been applied.

Schedule of Board meetings

	<i>15 Aug 2001</i>	<i>14 Sep 2001</i>	<i>24 Oct 2001</i>	<i>21 Nov 2001</i>	<i>5 Dec 2001</i>	<i>20–22 Feb 2002</i>	<i>17 Apr 2002</i>	<i>6 Jun 2002</i>
Mr Charles Kiefel	P	P	P	P	P	P	P	P
Dr Michael Sharpe	P	P	P	P	P	P	P	P
Mr Phil Charley	P	P	P	P	P	P	P	P
BRIG Bob Brown	P	P	P	P	P	P	P	P
WOFF Robert Swanwick	P	P	A	P	A	P	P	P
GPCAPT Lee Roberts	P	P	P	P	P	P	P	
CAPT Marcus Peake ¹								P
WO Michael Doncaster ²	P	P	P	P	P	P	P	P

P—present at meeting A—apologies

- 1 CAPT Marcus Peake was appointed as alternate to Brigadier Brown on 15 April 2002, replacing GPCAPT Lee Roberts.
- 2 WO Michael Doncaster is alternate to WOFF Swanwick.

msb Fund investment

Investment policy

Meeting the Fund's investment objectives

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

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

Investment strategy

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.

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

- The strategic or target asset allocation is 86% to growth assets and 14% to defensive assets.
- The MSBS does not have a reserve account. A reserve account is used to smooth out the rates of return members receive. Members of the MSBS benefit by having all Fund earnings distributed to their accounts (after tax and all expenses are deducted). That is, they generally receive a higher crediting rate than would be the case if some of the funds were diverted to a reserve. It also follows that any losses are also passed on to members as they occur, which means that remaining members are not subsidising those who leave.

- The focus of risk control is the total Fund, not individual sectors. The overall Fund risk is kept within a specified range, so the Fund can be neither too aggressive (creating an excessive possibility of losses), nor too defensive (reducing growth potential).
- The Board's policy allows managers to use derivatives subject to strictly controlled limits. Derivatives such as options, futures and forward foreign exchange contracts may be used to reduce the Fund's exposure to market fluctuations. These instruments cannot be used to leverage the Fund or to place the Fund in a position where it is short an asset class.
- No single asset can exceed 7.5% of the Fund's total value. For example, the fund cannot hold more than 7.5% of its total assets in shares of a particular company.
- The exposure to a single economic entity, as an investment issuer or a counterparty, must not exceed 10.0% of the total Fund value (Australian Government debt is excluded from this restriction). For example, if the Fund had 7.5% of its funds in Company 'A' shares, then it could not own more than 2.5% in Company 'A' debentures.

Key investment decisions

During 2001–02 the Board made a number of changes to the MSB Fund to make it more robust to the current investment environment. Key developments in 2001–02 were:

- The unitisation of the MSB Fund from 1 July 2002. The introduction of unitisation allows the Fund to offer its members a choice of investment options with different risk and return profiles. The Board is considering implementation of investment choice from 1 July 2003.
- The restructure of the Australian equities mandates, which led to the appointment of four new managers—Schroder Investment Management, Alpha Investment Management, JB Were and Maple-Brown Abbott—and to the termination of Jardine Fleming. This restructure strengthened the manager diversification benefits with the Fund's other two Australian equities managers, Colonial First State and Barclays Global Investors.
- The appointment of a third international equities manager, Bernstein Investment Management, to complement the Fund's other two international equities managers, Wellington International Management and Dresdner RCM Global.
- The Board has continued its ongoing strategy to increase its investment in private equity. Three new private equity managers were appointed during the year, Pantheon USA, Sentient Global

Resources and HarbourVest Partners. This increase in allocation to private equity will provide effective diversification to the current portfolio and strong long-term returns. The Board has increased its strategic asset allocation in private equity to 7.5%.

Investment management

The fund managers appointed by the Board manage their portfolios in accordance with specific mandates agreed by the Board. Those mandates include directions as to the types of investments to be pursued, the maximum and minimum holdings for each type of investment, and the expected rates of return.

The Board reviews its long-term investment strategy and plan on an annual basis and monitors the performance of its fund managers against that plan progressively throughout the year. Assessments of the long-term performance of each fund manager are made on an ongoing basis. For this purpose each fund manager meets with the Board as necessary to discuss strategies, portfolio activity and investment performance.

The Board employs professional consultancy advice to assist it with the review of its investment policy, and to examine the performance of funds managers and the adequacy of the returns achieved by the Board. The role of investment adviser and portfolio manager is undertaken by IPAC.

Custodian services

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

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

At the end of the financial year the Board had sought tenders for custodian services with the objective of replacing State Street from September 2003. The new custodian arrangements were a consequence of State Street changing its strategic focus to fund managers and away from corporate superannuation.

Fund managers

The Board's 23 fund managers at 30 June 2002 were:

Cash	State Street Australia Limited Super Member Home Loans
Australian fixed interest	Westpac Investment Management Pty Limited
International fixed interest	Credit Suisse Asset Management (Australia) Limited
Australian property securities	Deutsche Asset Management (Australia) Limited
Australian shares	Alpha Investment Management Pty Limited Barclays Global Investors Australia Limited Colonial First State Investment Managers (Australia) Limited JB Were Limited Maple-Brown Abbott Limited Schroder Investment Management Australia Limited
International shares	Bernstein Investment Management Barclays Global Investors Australia Limited Dresdner RCM Global Investors Australia Limited Wellington International Management Company Pte Limited
Private equity	Credit Suisse First Boston International (Australia) Limited Deutsche Asset Management (Australia) Limited Gresham Private Equity Limited Macquarie Specialised Asset Management Limited Pantheon USA, LP Sentient Global Resources, LP HarbourVest Partners, LLC
Global emerging markets	Nicholas-Applegate Capital Management

The fund managers' contact details are given in Appendix 2 on page 86.

Investment performance

Having experienced difficult market conditions throughout the year the Fund declared a crediting rate of -8.9% for 2001–02.

The prolonged global economic slowdown of 2001 and early 2002 continued to exert downward pressure on stock prices. In this environment many companies found it difficult to generate consistent earnings growth—a key criterion in our growth strategy.

The decline in performance during 2001–02 was caused primarily by the underperformance in international shares and global emerging markets. In addition, the appreciation of the Australian dollar by

11% against the US dollar has compounded the performance of international equities in Australian dollar terms. The Fund's currency hedge of 40% on international assets worked to offset some of the effects of the appreciating Australian dollar.

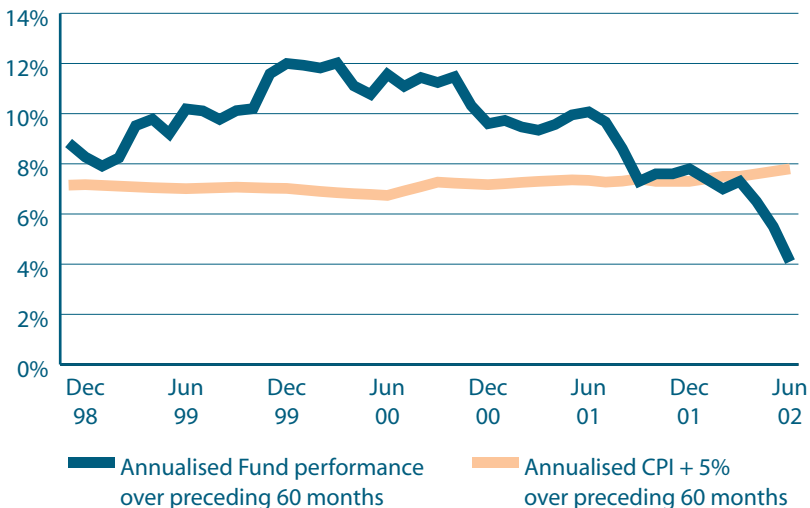
Table 1 shows the percentage return on investments achieved in each sector, compared with the benchmark for that sector. Effective asset exposure takes into account the impact on liquids/cash holdings of derivative positions held in international shares.

Table 1: Investment performance by sector, 2001–02

Sector	Effective exposure at 30 June 2001		Effective exposure at 30 June 2002		Performance 2001–02	
	\$m	%	\$m	%	Fund ¹ %	Benchmark ² %
Cash	10.6	1.0	8.0	0.8	4.1	4.7
Australian fixed interest	88.5	8.4	95.9	9.4	6.2	6.2
International fixed interest	33.1	3.1	35.9	3.5	8.4	7.7
Australian property securities	57.9	5.5	56.3	5.5	15.6	15.3
Australian shares	413.0	39.2	392.4	38.3	-4.6	-4.5
Private equity ³	18.3	1.7	37.8	3.6	na	na
International shares	400.9	38.0	370.5	36.1	-24.9	-23.5
Global emerging markets	32.5	3.1	28.3	2.8	-12.8	-8.5

- 1 Figures shown are gross of management fees and tax.
- 2 Benchmark return is the return of the nominated market index for each asset class.
- 3 Private equity is a long-term investment and does not generally show a return in the first 1–2 years.

Chart 1: MSB Fund performance over the 60 months since December 1998



Fund growth

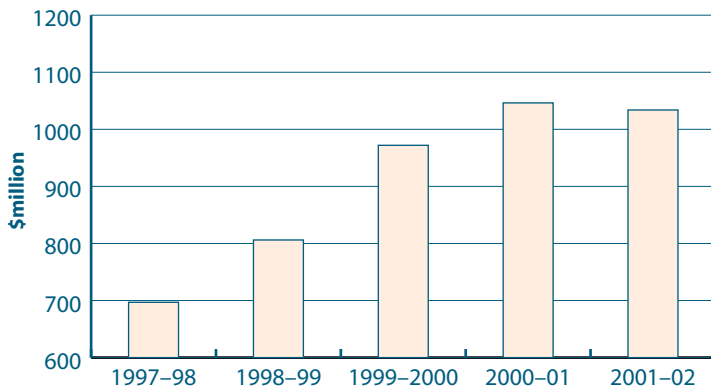
Fund assets available for investment at 30 June 2002 totalled \$1 025.1 million.

After accounting for non-investment related assets and liabilities the Fund totalled \$1 033.9 million, a 1.2% decrease from 2000–01. Chart 2 shows how the Fund has grown since 1997–98.

Table 2: Fund net assets at 30 June 2002 (after tax, charges and benefits)

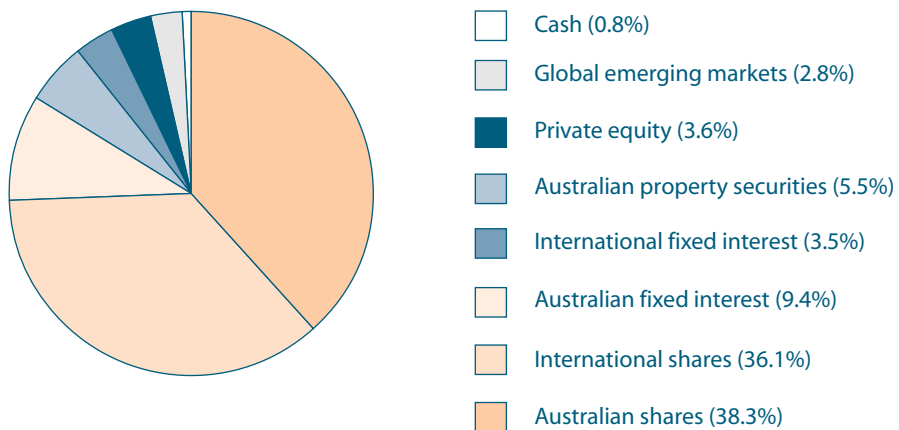
	\$m
Fund net assets at 30 June 2001	1 046.3
Inflow	
Contributions after tax	256.9
Investment earnings after tax	-88.7
Outflow	
Benefits paid	-173.8
Investment and other expenses	-6.8
Fund net assets at 30 June 2002	1 033.9

	\$m
Value of investments at 30 June 2002	1 025.1
Less	
Benefits payable	-7.1
Other liabilities	-4.5
Plus	
Cash on hand	1.4
Other assets	19.0
Value of Fund at 30 June 2002	1 033.9

Chart 2: Fund size at 30 June for past five years

Asset allocation

The asset allocation ranges (measured in terms of effective exposure) for each investment sector as at 30 June 2002 are shown in Chart 3 and Table 3. The asset allocation ranges are designed to ensure that the appropriate fund risk is maintained while allowing managers the flexibility to maximise returns.

Chart 3: Sectoral allocation as proportion of the Fund

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

Table 3: Asset allocation

Asset class	Fund manager	Allocation		Market benchmark
		\$m	% ¹	
Australian shares	Colonial	69.0	38.3	S&P/ASX 300 Accumulation Index
	Barclays	96.5		As above
	Schroder	38.0		As above
	Alpha	76.6		As above
	JB Were	23.2		As above
	Maple-Brown Abbott	89.1		As above
International shares	Wellington	184.6	36.1	MSCI World ex. Australia International Share Index including dividends (in \$A)
	Barclays	55.5		As above
	Bernstein	56.6		As above
	Dresdner RCM	73.8		As above
Australian fixed interest	Westpac	95.9	9.4	UBS Warburg Australian Composite Bond Index
Australian property securities	Deutsche	56.3	5.5	S&P/ASX 300 Property Trust Accumulation Index
International fixed interest	Credit Suisse	35.9	3.5	JP Morgan Global Government Bond (Hedged) Index (in \$A)
Global emerging markets	Nicholas-Applegate	28.3	2.8	MSCI Emerging Markets Free Index (in \$A)
Private equity	Gresham	5.6	3.6	Not yet applicable
	Deutsche	5.7		Not yet applicable
	Credit Suisse	4.4		Not yet applicable
	Macquarie	17.6		Not yet applicable
	Pantheon	1.2		Not yet applicable
	HarbourVest	3.1		Not yet applicable
	Sentient	0.2		Not yet applicable
Cash	State Street	2.7	0.8	UBS Warburg Australian Bank Bill Index
	Super Members Home Loans	5.3		As above
Total		1 025.1	100.0	

1 Percentages refer to the asset class as a whole.

Crediting rate policy

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

In determining the crediting rate, Trustees endeavour to distribute all available earnings to members in the year in which they accrue. Minor variations between the Fund's net earning rates and crediting rates occur from time to time due to accounting adjustments for tax and other liabilities carried over from one year to another.

Table 4 shows the Fund's declared crediting rates compared with inflation rates since inception.

Table 4: Crediting rates since inception

Year	Crediting rate	Inflation
1991–92	5.9%	1.2%
1992–93	12.1%	1.8%
1993–94	5.4%	1.7%
1994–95	5.8%	4.3%
1995–96	9.0%	3.0%
1996–97	20.0%	0.3%
1997–98	8.7%	0.7%
1998–99	8.3%	1.1%
1999–00	13.6%	3.2%
2000–01	2.7%	6.0%
2001–02	-8.9%	2.8%
5-year average (1998–2002)	4.6%	2.7%

Exit rate policy

Until the end of financial year 2001–02 the Board had set a rate of interest to apply to the accounts of members who exited the Scheme. This rate of interest was used to calculate total interest from the previous 1 July to the date of exit. This was called the exit rate.

The exit rate was calculated each month based on cumulative Fund performance to the end of the previous month.

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

The rates determined by the Board during 2001–02 are shown in Table 5. Each new exit rate replaced the previous one.

With the introduction of unitisation from 1 July 2002 this practice was discontinued.

Table 5: Exit rates declared in 2001–02

Effective date	Daily compound exit rate
24 July 2001	0.00519%
23 August 2001	-0.07581%
28 September 2001	-0.08041%
22 November 2001	-0.04842%
21 December 2001	-0.02556%
23 January 2002	-0.00965%
21 February 2002	-0.01100%
25 March 2002	-0.01570%
23 April 2002	-0.01060%
23 May 2002	-0.01667%
29 May 2002	-0.01393%

Unitisation

MSB Rule and Trust Deed changes were signed by the Minister on 4 July 2002 which allowed for the unitisation of the MSB Fund with effect from 1 July 2002. A considerable amount of systems work was undertaken throughout 2001–02 to prepare for this change.

Under unitisation, all members' interest-bearing accounts at 30 June 2002 were converted to unit-based accounts within the Fund. This conversion applies after the distribution of the 2001–02 crediting rate, with each unit having a value of \$1.00 at 30 June 2002. From 1 July 2002, Fund earnings have been reflected in the change in the value of a unit.

Contributions to the Fund lead to the issue of new units at the issue price for the day the money is received into the Fund. Benefit payments result in a withdrawal of existing units at the withdrawal price on the day the application for payment is received. However, this cannot be earlier than the day after the applicant ceases to be a member of the MSBS.

The Board has determined that whilst it has one investment strategy, the issue and withdrawal price will have the same value.

Business Plan

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

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

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

The Board reviews its business plan each year.

Administrative Agreement

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

During the year ComSuper, in consultation with the Board, developed a new Administrative Agreement setting out revised levels of service to be provided to the Board. This agreement was signed on 21 November 2001 by the Chairman of the Board and the CEO of ComSuper.

A companion agreement sets out the level of service to be provided between the Department of Defence and the MSB Board.

Delegations

The Board adopts a practice whereby relevant powers are delegated to ComSuper staff to exercise powers for and on its behalf. This practice streamlines the delegation process and allowed faster updating of authorisations to accommodate changes.

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

Board Committees

Audit Committee

The Audit Committee is a subcommittee of the full Board. During 2001–02 the Committee comprised Dr Michael Sharpe (chairman), Mr Phil Charley and WOFF Robert Swanwick.

The Audit Committee was established to advise the Board on accountability and audit-related matters. It operates as a check on the Board's own accountability arrangements as well as on the management practices of the Scheme Administrator, Fund Investment adviser and managers, the Master Custodian and other service providers.

Primary responsibilities of the Committee are to assure the Board that:

- its financial statements are derived from appropriate accounting systems and methods and reflect current accounting standards;
- the audit arrangements within service-providing agencies are operating effectively; and
- appropriate audit and fraud control strategies are in place to protect Board and member interests.

The Committee has appointed the accounting firm KPMG to act in the role of independent audit adviser. KPMG is also the Board's taxation consultant and tax agent.

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

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

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

The Military Superannuation Communication Advisory Group (MSCAG)

The Board uses MSCAG to assist with, monitor and improve the effectiveness of communication with its members. MSCAG was established in 1996 and the current Chairman is BRIG Bob Brown. Members include representatives from the Department of Defence, the ADF and ComSuper.

MSCAG's role is to:

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

The Group met on a monthly basis throughout the year.

Reconsideration Committee

The role of Chairman of this Committee passed from the Deputy Commissioner for Superannuation to Brigadier David Buring AM (Rtd), the MSBS pensioner representative, with effect from the August 2001 meeting. The Committee continues to also include representatives from the Board and ComSuper as well as an ADF member of the rank of Colonel or equivalent. The Committee met on eleven occasions during the year.

The Committee's role is:

- to consider requests for reconsideration of a delegate's decision made under the MSB Rules and either affirm the decision, vary it or set it aside and substitute another decision for it; and
- to make recommendations to the Board in respect of requests for reconsideration of decisions made either by itself or the Board under the MSB Rules.

Complaints Committee

The powers of the Reconsideration Committee are limited to reconsidering decisions made under the MSB rules and do not currently extend to decisions made under the MSB Act. Pending legislative change to remove this restriction, the Board approved the establishment of a Complaints Committee, with the same membership and chairman as the Reconsideration Committee. The Complaints Committee met on two occasions during the year.

The Committee's role is:

- to consider requests for reconsideration of a delegate's decision made under the MSB Act and either affirm the decision, vary it or set it aside and substitute another decision for it; and
- to make recommendations to the Board in respect of requests for reconsideration of decisions made either by itself or the Board under the MSB Act.

Ministerial Media Liaison Group (MMLG)

The Defence Adviser to the Minister chairs the Group and membership includes the Chairman of MSCAG, representatives from the Department of Defence, and the Board's Executive Unit.

The key roles of the MMLG, which meets bimonthly, are:

- to provide regular updates on issues dealt with by the MSB Board, Fund performance and any significant trends to the Minister after every Board meeting;
- to monitor developing issues and provide prompt suitable material for the Minister to release to the media.

Status under the SIS legislation

The MSBS is a regulated superannuation fund under the *Superannuation Industry (Supervision) Act 1993* (the SIS Act). All operational and legislative changes are independently reviewed within ComSuper to assess their impact against SIS requirements and to ensure that ComSuper's practices remain in concert with the SIS legislation. Further details of SIS compliance are given at page 55.

Evaluation

Annual Effectiveness Reviews

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

In September 2001 the Board considered a report from ComSuper on the efficiency and effectiveness of the systems and procedures used in the administration of the MSB Scheme. As a result of that review the Board entered into a revised administrative agreement with ComSuper (see page 15).

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

Client feedback

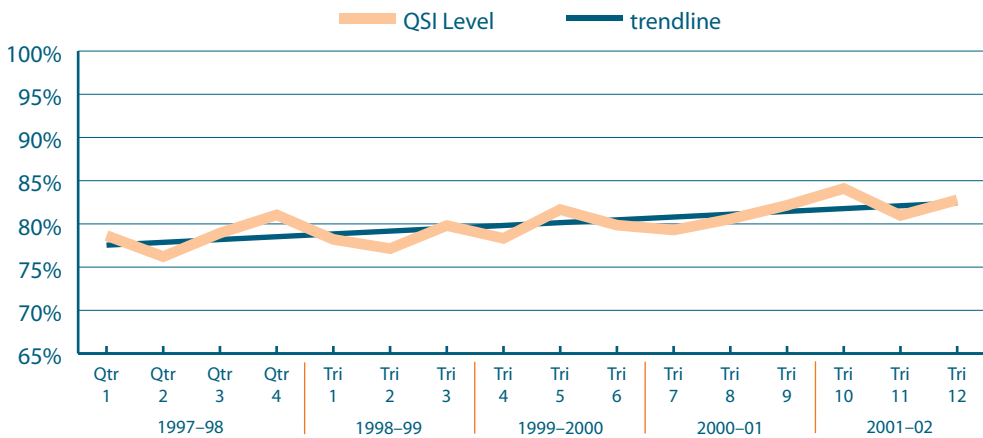
During 2001–02 ComSuper again undertook a comprehensive series of client satisfaction surveys with the assistance of Canberra-based firm Orima Research. Military clients who had recent contact with one of ComSuper's services were surveyed at three separate times throughout the year. ComSuper's clients have again rated the quality of ComSuper's service favourably on a range of customer service dimensions.

The Quality Service Index (QSI) for military clients, introduced to measure the survey results and to enable comparison between survey periods, currently ranks in the region of an 82% satisfaction level, Chart 4, which shows ComSuper's QSI scores for the military schemes in each of the sixteen survey periods since data collection began in 1997–98, shows a gradual improvement in client satisfaction.

At year's end, ComSuper was in the process of extending regular client surveys to cover services offered to employers.

The survey results feed into ComSuper’s continuous improvement process. Action plans are derived and reported against, and changes made to procedures as a result of the survey feedback, with the objective of improving client service.

Chart 4: Quality Service Index (QSI) scores for military client satisfaction, 1998-99 to 2001-02



msb

Contributors

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

Account maintenance

The maintenance of MSBS contributor accounts is a major function provided by the Board's administrator (ComSuper) in conjunction with the Department of Defence. The principal aims of this function are defined by the Administrative Agreement between the MSB Board and ComSuper, as summarised below.

SERVICE

ComSuper (the Board's administrator):

- maintains records of scheme contributors to allow, among other things, the accurate and timely publication of member statements, the accurate and timely payment of benefits to members, and to facilitate reconciliation against Fund accounts;
- ensures that adequate systems, procedures and controls are in place to meet the administration and reporting requirements of the Act and associated legislation; and
- at the direction of the Audit Sub-committee of the Board, arranges for an independent audit of those systems and controls to be undertaken from time to time.

STANDARD

Receipt of assurance (in a format agreed by the Board) in the annual management representation letter in respect of the systems used to maintain member records..

OUTCOMES

Management representation letters containing the assurances referred to were presented on 11 September 2002. These letters were subject to internal and external audit scrutiny.

At 30 June 2002, there were 42 703 contributors to the MSBS, 36 659 (85.8%) of whom were male and 6 044 (14.2%) female. Table 6 shows the number of new entrants and exits and the total contributor membership at 30 June 2002. Table 7 shows the number of contributors by years of service and by sex.

Table 6: Contributor composition

	<i>Members who transferred from DFRDB</i>	<i>Members who first joined MSB</i>	<i>Total</i>
Membership at 30 June 2001	11 013	29 546	40 559
Plus new contributors	0	6 524	6 524
Less exits	(1 478)	(2 902)	(4 380)
Membership at 30 June 2002	9 535	33 168	42 703

Note: The membership figures given in this table for 30 June 2001 differ from those in the 2000–01 report and in the summary table on page 85 due to retrospective adjustments not reported last year. Also, the introduction of new computer systems has made some changes to the way membership records are counted.

Table 7: Male and female contributors by years of service

<i>Years of service</i>	<i>Male</i>	<i>Female</i>	<i>All</i>
0–9	27 790	4 715	32 505
10–14	4 975	904	5 879
15–19	2 322	353	2 675
20+	1 572	72	1 644
Total	36 659	6 044	42 703

The largest number of contributors in 2001–02 was aged between 20 and 24 years, 27.8% of members being in that age group. The next largest group (25–29 years) comprised 25.9% of the Scheme's contributor population.

System changes

The new Capital system developed for military schemes administration was commissioned on 4 June 2002.

The remaining pays for the 2001–02 financial year were processed successfully in the new system.

There were some delays in paying benefits up to mid-June. This was due primarily to a backlog of claims for payment building up during the data migration period in late May and early June. This issue was further compounded by some essential system functionality that required urgent rework, and the normal learning and take-up time of a new system by operational staff. Notwithstanding these initial 'teething problems', benefit claims were soon being processed successfully using the new system.

The system and supporting operational processes were ready to go live with unit pricing on 1 July 2002.

Military pensions were paid through the new system from pay 24 in May. Payment summaries for the 2001–02 financial year were produced through the new system, and pensions were indexed to the past six months CPI with effect from pay 1 in the 2002–03 financial year.

Contributions

The basic rate of member contribution to the MSBS is 5% of salary, including higher duties and Service Allowance, although members can elect to contribute up to 10% of salary. The employer benefit is, for the most part, unfunded except for the 3% productivity contribution which is paid into the Fund by the Department of Defence.

Total contributions to the Fund during 2000–02 were \$144.8 million, of which member contributions comprised \$93.2 million, as shown in Table 8. Employer-funded contributions amounted to \$51.6 million. The net appropriation for benefits for the year was \$119.9 million (\$161.9 million in gross benefits paid from Consolidated Revenue less \$42.0 million transferred from the Fund to Consolidated Revenue for the Fund's share of benefit costs).

Table 8: Contributors and contributions for past five years

<i>Year</i>	<i>Contributors at year's end</i>	<i>Member contributions (\$m)</i>	<i>Employer-funded contributions (\$m)</i>	<i>Net appropriation from Consolidated Revenue (\$m)</i>
1997–98	37 356	\$82.4	\$42.2	\$141.8
1998–99	37 416	\$84.2	\$43.6	\$121.6
1999–2000	38 829	\$83.1	\$45.0	\$114.7
2000–01	39 513	\$86.7	\$47.9	\$108.3
2001–02	42 703	\$93.2	\$51.6	\$119.9

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

SERVICE

ComSuper:

- maintains appropriate banking arrangements for the payment of contribution remittances into the Fund;
- lodges moneys with the Board’s investment custodian for investment by investment managers to the extent that moneys held in the Board’s bank account are not required for the purpose of the payment of benefits and other expenses;
- maintains appropriate accounting systems for the recording of contribution remittances received; and
- monitors the collection of contribution remittances and pursues any late remittance of contributions with the Department of Defence and collects penalty interest where appropriate.

STANDARD

Contribution remittances to be deposited into the Board’s bank account on the same day as received.

Balance of funds held in the Board’s bank account to be monitored daily and any funds not required for the purpose of paying benefits and other expenses paid to the Board’s investment custodian.

Contribution remittances to be recorded in the MSBS accounting systems within one week of receipt.

All known contribution remittances not received within 14 days of the due date will be pursued with the Department of Defence and penalty interest will be levied where appropriate.

Daily reconciliations will be undertaken to ensure that all moneys received are banked.

OUTCOMES

The Department of Defence directly credits all contributions into the MSB bank account on the due date.

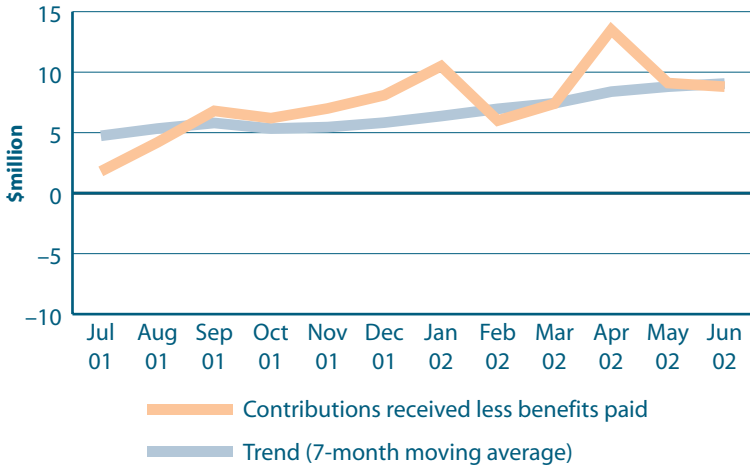
The balance of the MSB bank account was monitored on a daily basis and excess funds were transferred to the Board’s custodian.

Contribution remittances were recorded in the MSBS accounting systems generally within one week of receipt.

All contribution remittances were received from the Department of Defence by the due date.

Bank reconciliations were performed on a daily basis.

Chart 5: MSB Fund cash flow (contributions received less benefits paid), 2001-02



Contributor communications

Communication with MSB Scheme members is achieved through a variety of means including:

- regular newsletters issued by ComSuper;
- articles in Service newspapers;
- email and the Internet;
- annual member statements;
- the Board’s Annual Report to Members;
- written correspondence;
- telephone inquiry services;
- wide distribution of various scheme publications;
- regular member information seminars throughout Australia; and
- the communications officer’s activities.

Performance standards, as described below, are set for these activities.

SERVICE

ComSuper, at the direction of the Board, undertakes a communication program aimed at improving members’ knowledge and understanding of the Scheme so that they are in a position to make informed decisions at times when these need to be made. This includes the range of communications required by SIS and a recognition of the particular needs of members.

Specifically, ComSuper undertakes to provide a range of seminars broadly in accordance with demand, to issue member information statements and to make available various scheme publications both in hard copy and electronic format.

ComSuper also provides a range of communications to members on benefit entitlements and queries relating to the general administration of the Scheme in writing, over the phone and by electronic means. ComSuper continuously seeks ways to improve these communications.

STANDARD

Increased knowledge and understanding of the schemes by members as gauged by surveys.

Where applicable, ComSuper will provide relevant information within the timeframes imposed by SIS and generally speaking will significantly better those times.

OUTCOMES

Arrangements are being made to survey members to gauge the success of recent communications efforts.

All SIS standards were met.

STANDARD

Where no statutory timeframe exists, ComSuper provides the required information or service as soon as possible, but in any event no later than 20 working days after the request is received.

Written enquiries/ requests for benefit estimates	85% in 10 working days
	100% in 15 working days
Email enquiries	95% in 24 hours
	100% in 48 hours
Personal counselling in Canberra	Immediately, if urgent
	Otherwise within 5 working days
Member statements	By 10 September
Manually generated member statements	By 15 November
Replacement member statements	Within 10 days of request
Telephone abandoned rate	Average abandoned rate less than 3% for each month
Telephone average speed of answer	Daily—on 85% of days the response time will be less than 30 seconds
	Monthly—average speed of answer will be less than 30 seconds
Website changes	Critical updates— within one working day
	Routine updates— 90% within 3 working days

OUTCOMES

Written enquiries/ requests for benefit estimates	100% in 10 working days
	100% in 15 working days
Email enquiries	96.6% in 24 hours
	100% in 48 hours
Personal counselling in Canberra	Immediately when urgent
	Others within 5 working days
Member statements	By 12 September
Manually generated member statements	By 31 October
Replacement member statements	Within 10 days of request
Telephone abandoned rate	Average abandoned rate 1.8% for each month
Telephone average speed of answer	Daily—on 64.4% of days the response time was less than 30 seconds
	Monthly—average speed of answer was less than 29 seconds
Website changes	Critical updates— 100% within one working day
	Routine updates— 100% within 3 working days

MSCAG activity

The key communication initiatives achieved throughout the year include:

- the development, production and promotion of an electronic media educational program of three videos for Military Super members, of which the introductory video received a Gold Award in the CMSF 2002 Communications Awards;
- the development and implementation of an extensive communications campaign promoting Super Members Home Loans, an ancillary service provided to both Military Super and DFRDB members;
- a review of seminar resources, content and coverage;
- the development of a new, pocket-sized annual report to members;
- promotion of the five highlights of the scheme, the i-Estimator, and three educational videos;
- the design and implementation of a comprehensive Communications Strategy for 2002–03;
- the production of a promotional compact disc including 2001–02 educational videos, website and other key information for members to be distributed with the Annual Member Statements; and
- the development and implementation of a communications campaign for unitisation of the fund.

Counselling services

Advice to members is provided through telephone advice, written responses to inquiries, email advice, addressing members at resettlement seminars and talking to members and administrative staff at various bases and units throughout Australia.

With the development of the Military Super website 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 email enquiries received.

However, the most popular means of contact remains the telephone, with an average of some 956 telephone calls per week.

During the year, ComSuper gave presentations at 24 resettlement seminars, which were attended by a total of 2 000 people. Forty-four MSBS member sessions and 34 information sessions for administrative/discharge staff were also conducted and were attended by 3 172 MSBS members and 675 staff (both MSBS and DFRDB) respectively. The member sessions were primarily conducted in conjunction with the resettlement seminars. A total of 3 369 retirement advice letters were issued during the year.

Member statements

SIS legislation requires the Board to distribute annual member statements by 31 December each year. During the 2001–02 financial year, statements for contributing and preserved members were distributed in mid-September. The statements provide members with equity figures and withdrawal benefits at the beginning and end of the financial year. Members are also sent a copy of the MSB Fund 'Annual Report to Members' and an 'About Your Statement' leaflet in their statement kit.

SIS legislation also requires that the Board issue replacement member statements within one month of being advised that a member's statement is missing or incorrect. Under the service level agreement with the MSB Board the relevant service standard for this function is 10 days (see page 27), which exceeds the SIS requirement.

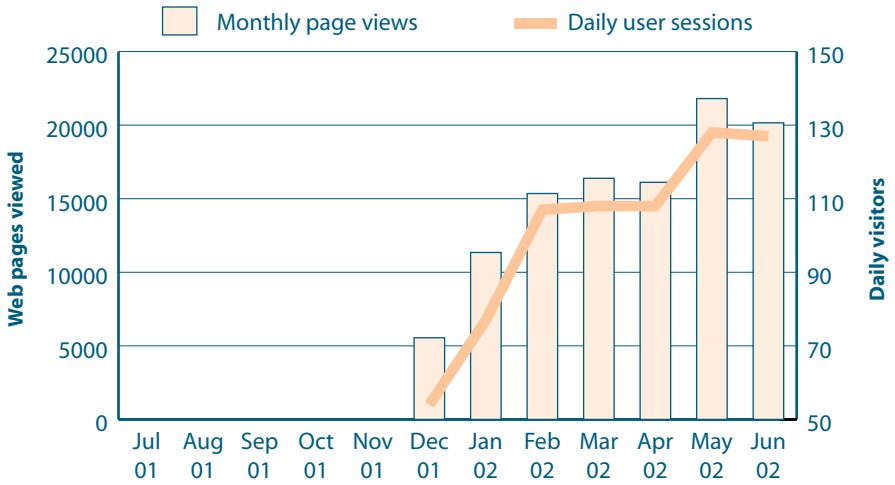
Website development

During the year a new website was developed specifically for Military Super members and communications material tailored for the Internet audience. The results of Contact Centre research into the types of questions asked by scheme members were extensively used in this effort. Previously web services had been provided through a common site for all schemes administered by ComSuper.

Chart 6 shows usage of the new website since its development.

Recent improvements to the Military Super website are designed to position it as a primary communications channel to reach scheme members.

Chart 6: Military Super website usage, 2001–02



Note: The Military Super website began operating in December 2001. Before this, web services for military members were provided through the ComSuper website.

Benefit payments

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

SERVICE

ComSuper processes all applications for benefits in a timely manner and in accordance with the Act. For applications processed outside 15 days, late payment interest is paid.

STANDARD

Processing time	Proportion processed
within 5 working days	85%
within 15 working days*	95%

Average processing time	4 working days
-------------------------	----------------

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

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

OUTCOMES

Processing time	Proportion processed
within 5 working days	90.5%
within 15 working days*	97.6%

Average processing time	3.3 working days
-------------------------	------------------

The above standards were exceeded in all months except June, when they were not met during the commissioning of the Capital system (see page 22). There has since been an improvement resulting in a greater number of benefits being processed per month.

Chart 7: MSBS benefit processing against standards, 2001–02

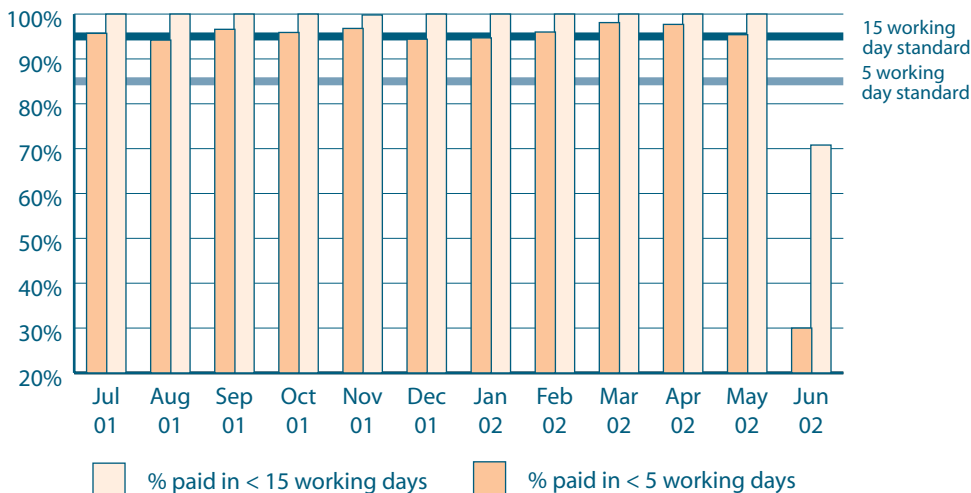
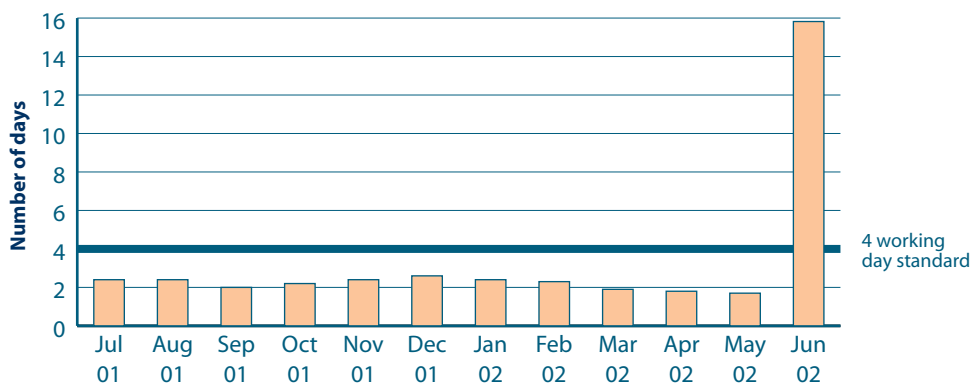


Chart 8: MSBS average time to process benefit payments, 2001–02



Benefits

Member-financed benefits

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

Employer-financed benefits

Employer benefits provided under the MSBS are defined benefits guaranteed by the Commonwealth. Part of the benefit, the productivity benefit, is a funded component and the balance, which is unfunded, is calculated to make up the difference for the total defined benefit. In this way the total employer benefit payable is not affected by market fluctuations..

Table 9: Benefits paid, 2001–02

Pensions	\$ 64.7m
Lump sums	\$109.1m
Total	\$173.8m
Fund share	\$ 53.9m
Consolidated Revenue share	\$119.9m
Total	\$173.8m

Exits

There were 4 380 exits from the MSBS during the year. The types of exit are shown in Table 10.

Table 10: Modes of exit since 1997–98

<i>Mode of exit</i>	<i>1997–98</i>	<i>1998–99</i>	<i>1999–2000</i>	<i>2000–01</i>	<i>2001–02</i>
Age retirement	94	81	89	103	110
Resignation	3 209	3 654	4 084	4 891	3 744
Redundancy	64	90	29	171	12
Invalidity retirement	473	653	697	623	497
Death	18	19	12	10	17
Other	213	243	294	150	–
Total	4 071	4 740	5 205	5 948	4 380

Invalidity benefits

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

SERVICE

Decisions are taken either by the Board's Incapacity Classification Committee (ICC) or, in straightforward cases, under delegation held by ComSuper. In determining invalidity benefits ComSuper ensures that due process is followed, that claims are processed expeditiously, that legislative requirements are met and that guidelines issued by the Board are followed.

STANDARD

Cases for submission to delegate

Will be submitted within 10 working days of receipt of supporting documentation and any additional information that may be required or by date of discharge, whichever is the later*.

*Supporting documentation includes medical documentation, the member's employment experience, advice of conditions causing retirement, confirmation of date and mode of exit, and the member's application.

OUTCOMES

ComSuper met this standard in 100% of cases.

STANDARD

Cases for submission to the ICC

Will be submitted to the meeting of the Committee immediately prior to the discharge date or to the next available meeting of the Committee after receipt of supporting documentation and any additional information that may be required*, whichever is the later.

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

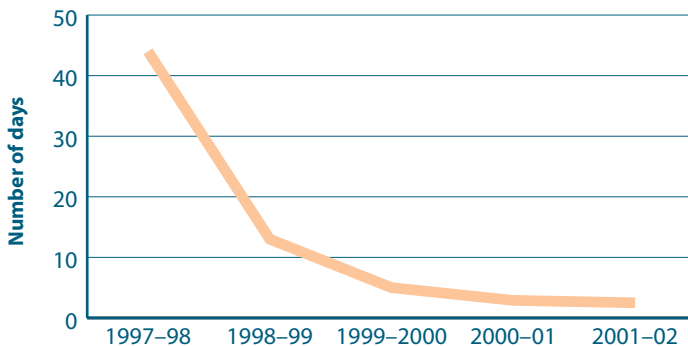
*Supporting documentation includes medical documentation, the member's employment experience, advice of conditions causing retirement, confirmation of date and mode of exit, and the member's application.

OUTCOMES

ComSuper met this standard in 100% of cases.

The marked improvement in processing times for new invalidity cases, evident from Chart 9, is the result of recent efforts to streamline procedures. This process has now been fine-tuned to the point where further reductions are not expected.

Chart 9: Average time taken to determine new invalidity cases in past five years



Classification process

Incapacity Classification Committee (ICC)

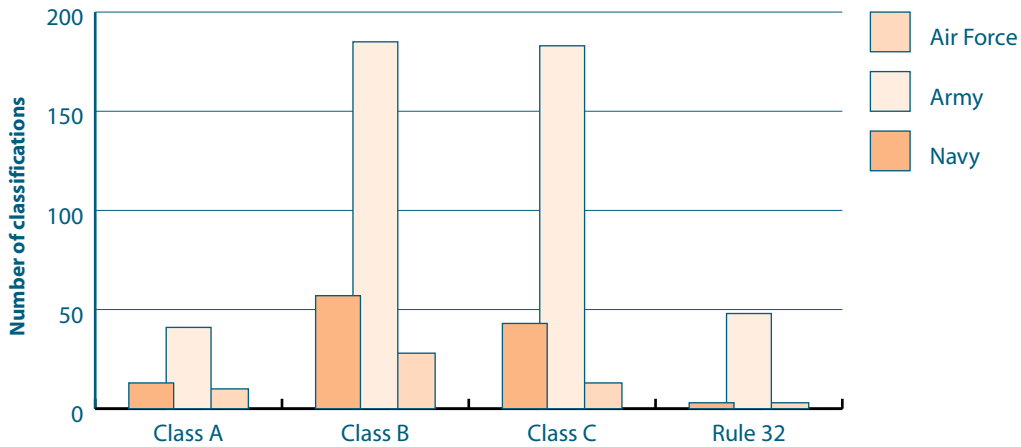
Members of the MSBS retired on invalidity grounds receive an A, B or C classification, reflecting the member's loss of capacity to obtain appropriate civilian employment. If there is a conflict in the medical information, or reasonable doubt as to the classification, the case is passed from the ComSuper delegate to the Incapacity Classification Committee (ICC) for decision. The ICC is established under the provisions of MSB Rule 17 and is required to determine the classification of members retired on invalidity grounds and to review the existing classification of invalidity pension recipients. The ICC made 107 initial classification decisions during 2001–02.

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 186 reclassification decisions during the year.

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

Invalidity retirements by classification

From 1 July 2001 to 30 June 2002, 573 members received initial invalidity classifications. The total number of invalidity cases processed was 627, although in 54 of these cases Rule 32 (relating to pre-existing conditions) was applied. This is a decrease of 51 invalidity cases on the previous year (total 667). Of those who received an invalidity classification, 334 (64 Class A and 270 Class B) became entitled to an invalidity pension. The remaining 239 were classified as Class C incapacity. (Note: These figures vary slightly from the number of invalidity exits quoted elsewhere because some of the cases relate to members who were discharged in a previous financial year.) The proportion of invalidity classifications for each Service is shown in Chart 10.

Chart 10: Comparison of invalidity classifications in 2001–02, by Service

Accounts, records and funding of benefit payments

SERVICE

ComSuper:

- liaises with the Board's investment custodian to ensure that funds are available to meet benefits and other payments from the Fund as they fall due; and
- maintains proper accounts and records in respect of benefits paid..

STANDARD

Immediate availability of funds from Trustees' bank account to meet benefit payments.

OUTCOMES

See Chart 6 on page 25 which indicates that the MSB cash flow was positive for all months during the year.

msb Preserved benefit members

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

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

Account maintenance

SERVICE

ComSuper maintains records and documentation of all members with a preserved benefit entitlement to allow, among other things, the accurate and timely distribution of member statements and payment of benefits, and to facilitate reconciliation against Fund accounts.

ComSuper maintains a system for locating and reporting lost members.

STANDARD

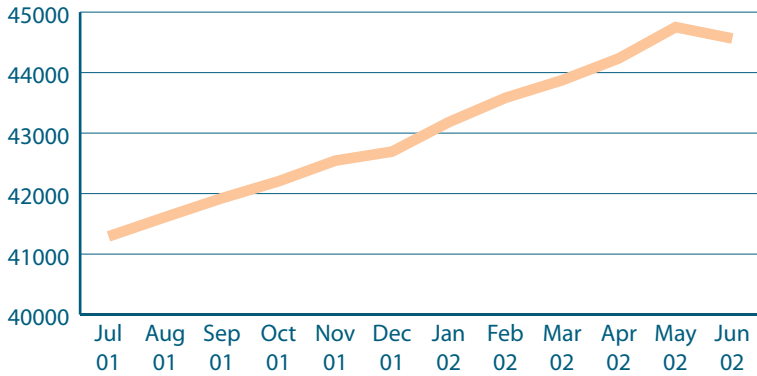
Receipt of assurance (in a format agreed by the Board) in the annual management representation letter in respect of the systems used to maintain preserved benefit member accounts.

A search for lost members aged 50 years and over will be conducted at six-monthly intervals and the results will be reported to the Board.

OUTCOMES

Management representation letters containing the assurances referred to were last presented on 11 September 2002. These letters were subject to internal and external audit scrutiny.

ComSuper met all legal requirements for reporting of lost members.

Chart 11: Growth in MSBS preserved benefit member population, 2001–02

Preserved benefit member communications

SERVICE

The services outlined on page 26 also apply to this activity.

STANDARD

The commitments given on pages 26–27 also apply to this activity.

OUTCOMES

Standard met.

Preserved benefit payments

SERVICE

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

STANDARD

Processing time	Proportion processed
within 5 working days	85%
within 15 working days*	95%
Average processing time	4 working days

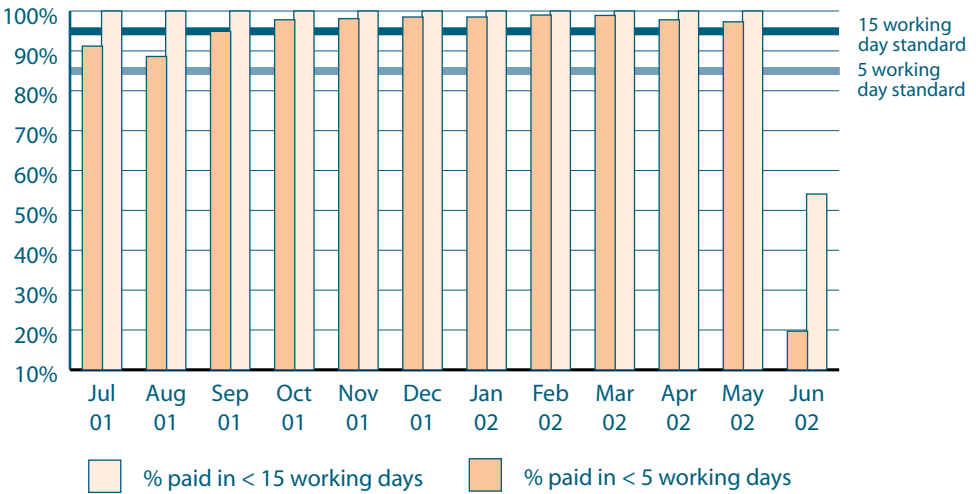
*A report is provided on the number of applications processed outside 15 days and the amount of late payment interest paid.

OUTCOMES

Processing time	Proportion processed
within 5 working days	90.0%
within 15 working days*	96.2%
Average processing time	Standard met

The above standards were exceeded in all months except June, when they were not met during the commissioning of the Capital system (see page 22). There has since been an improvement resulting in a greater number of benefits being processed per month.

Chart 12: MSBS preserved benefit processing against standards, 2001–02



Early release of preserved benefits

Under certain circumstances, a compulsorily preserved benefit may be paid before retirement.

Of the 1 099 preserved benefits paid in full or part during 2001–02, 537 were released on the grounds of permanent physical or mental incapacity or severe financial hardship, or on compassionate grounds.

msb Pensioners

Account maintenance

SERVICE

ComSuper maintains appropriate records and documentation of all persons eligible to receive a pension under the Rules. This includes the setting up of a new record when a pensioner commences, processing amendments to personal details, processing altered payment arrangements, processing cessations on death, where applicable commencing reversionary benefits following death, processing variations to child/student pensions, processing variations to invalidity pensions following reclassification and initiating recovery of overpaid pension when advice of death is delayed.

STANDARD

Changes to pension payment arrangements will be made within the first available fortnightly pay cycle following receipt of a request.

Receipt of assurance (in a format agreed by the Board) in the annual management representation letter in respect of the systems used to maintain pensioner records.

OUTCOMES

Most requests are made by telephone and actioned at the time the call is answered. Written requests are given similar priority and processed within the indicated timeframe in all but unusual circumstances.

Management representation letters containing the assurances referred to were last presented on 11 September 2002. These letters were subject to internal and external audit scrutiny.

Chart 13: Growth in MSBS pensioner population in past five years

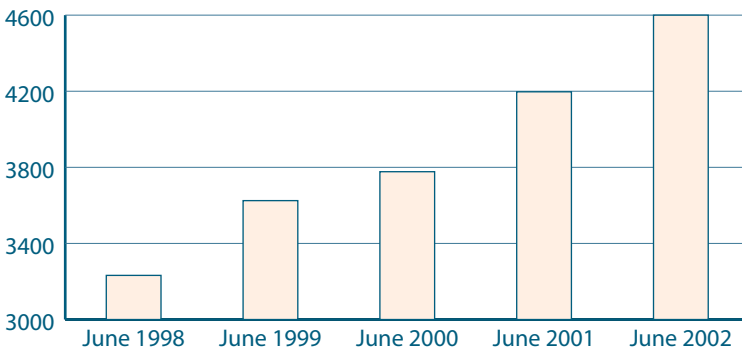
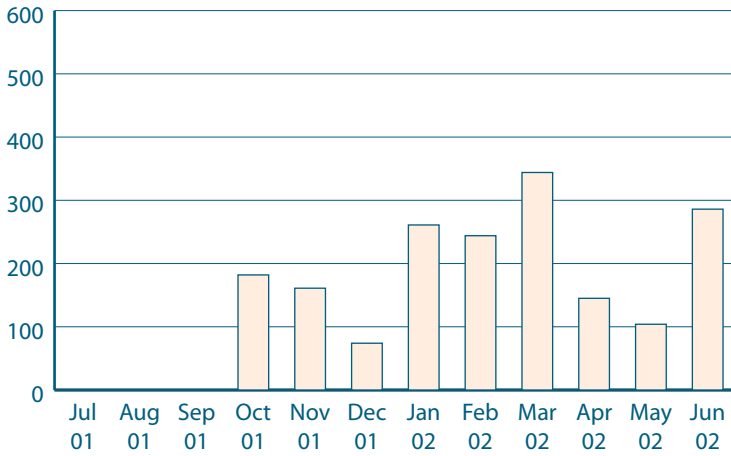


Chart 14: MSBS pension variations, 2001–02

Note: Separate monitoring of MSBS pension variations began in October 2001.

Pensioner communications

SERVICE

ComSuper, at the direction of the Board, provides a range of communications to pensioners to assist their understanding of the Scheme, to facilitate enquiries and to facilitate changes to personal or payment details. This includes any communications that may be required by SIS.

In response to guidance from Trustees, ComSuper also seeks to improve the quality and effectiveness of its communications with pensioners in part through regular reviews and in part through surveys.

STANDARD

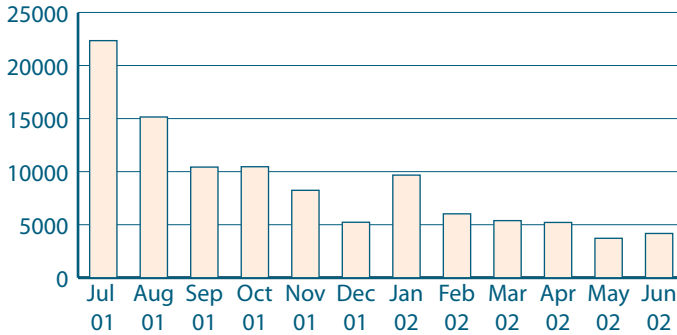
Members who request a variation to their method of payment will be sent an acknowledgement when the change has been effected.

Pension increase advice	Send out before the payday on which the increase is paid
Annual payment / tax summary	Send out before first pension payday in July
Written enquiries	85% in 10 working days
	100% in 15 working days
Email enquiries	95% in 24 hours
	100% in 48 hours
Telephone abandoned rate	Average abandoned rate less than 3% for each month
Telephone average speed of answer	Daily—on 85% of days the response time will be less than 30 seconds
	Monthly—average speed of answer will be less than 30 seconds
Website changes	Critical updates—within one working day
	Routine updates—90% in 3 working days

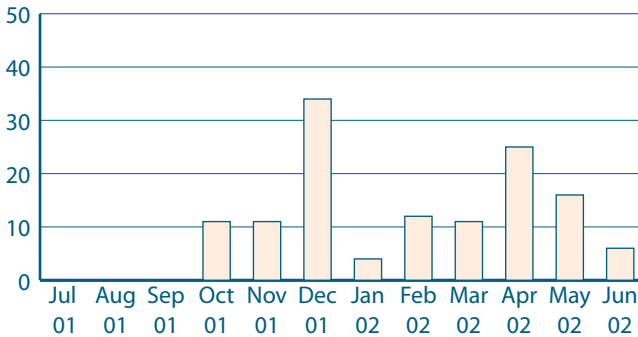
OUTCOMES

All variations to method of payment were acknowledged when the changes had been effected.

Pension increase advice	Standard met
Annual payment / tax summary	Standard met
Written enquiries	Standard met
	Standard met
Email enquiries	96.2% in 24 hours
	100% in 48 hours
Telephone abandoned rate	Average abandoned rate 1.4% for each month
Telephone average speed of answer	Daily—on 83.3% of days the response time was less than 30 seconds
	Monthly—average speed of answer was less than 25 seconds
Website changes	Critical updates—100% within one working day
	Routine updates—100% in 3 working days

Chart 15: Telephone calls received by the Retired Member Information Service in 2001–02

Note: Telephone calls until April 2002 include those made by Commonwealth and military retired members. Those for May and June 2002 were made by military retired members only.

Chart 16: Written enquiries received from MSBS retired members in 2001–02

Note: Separate monitoring of written enquiries by MSBS retired members began in October 2001.

Counselling and enquiry services

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

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

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

Benefit payments

Employer-financed benefits paid as pension

During the year, 434 new pensions were granted and at 30 June 2002, 4 600 members were receiving MSBS pensions. The total number of pensioners for each class of benefit is detailed in Table 11 for the end of each financial year since 30 June 1998.

Table 11: Number of pensioners since 30 June 1998, by type of benefit

Class of pension benefit	Number of pensioners				
	30 June 1998	30 June 1999	30 June 2000	30 June 2001	30 June 2002
Retirement	500	470	531	556	621
Redundancy	1 674	1 713	1 748	1 877	1 885
Invalidity	1 029	1 248	1 436	1 724	2 010
Reversionary benefits*	29	35	62	40	84
Total	3 232	3 466	3 777	4 197	4 600

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

The number of pensions over the course of 2001–02 averaged 4 382 and the total amount paid as pensions during the year was \$64.7 million. The average pension amounted to \$14 774.

Review of invalidity classifications

SERVICE

ComSuper may from time to time review the classification of invalidity pensioners either of its own volition or at the request of pensioners.

STANDARD

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

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

OUTCOMES

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

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

Decisions by the Board to classify members as Class A or B are reviewable at intervals determined by the Board. A member who believes that his or her classification has altered since it was last considered may request that the classification be reviewed. During 2001–02, 545 cases were examined, 37 of which were member requested reviews. As a result of these reviews 149 classifications were changed, as shown in Table 12.

Table 12: Invalidation entitlements reviewed in past five years

	1997–98	1998–99	1999–2000	2000–01	2001–02
Entitlements examined	300	289	677	548	545
Review with medical exam	148	159	215	138	187
Classification raised	10	17	14	23	25
Classification reduced	67	90	121	67	124
Total classification changes	77	107	135	90	149

Reversionary benefits

SERVICE

ComSuper processes all applications for reversionary benefits following the death of a pensioner (that is, eligible spouses, children and orphan pensions) in a timely manner and in accordance with relevant legislation.

STANDARD

Commence all reversionary pensions on the next available payday following receipt of application subject to eligibility criteria being clearly met and subject to there being no counterclaims.

OUTCOMES

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

Pension increases

SERVICE	
ComSuper undertakes to process pension increases in accordance with the Rules.	
STANDARD	OUTCOMES
Process the July pension increase for payment on the first payday in July. Process the January increase for payment before the end of January.	<p>This standard was met for 2001–02.</p> <p>In accordance with the agreed service standards, pension advice letters were sent to pensioners before the first pension payday in July 2001.</p>

MSBS pensions are automatically increased twice yearly in line with upward movements in the Consumer Price Index (CPI) for the six months ending 31 March and 30 September each year. The increases are paid on the first pension payday in January and July each year.

In 2001–02, the Australian Bureau of Statistics announced a CPI change of 1.1% for March–September and 1.8% for September–March.

Pensioners receive a statement in January and July showing their new rate of pension. Their income tax payment summary and other relevant information is included with the July statement.

msb

Dispute resolution

Avenues of review

Decisions by the Board and its delegates, including the Incapacity Classification Committee and the Reconsideration Committee, are subject to internal reconsideration and external review by the Superannuation Complaints Tribunal. 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 or the Reconsideration Committee or the Complaints Committee took the decision, the application must be supported by new and relevant evidence. Applications for the reconsideration of a delegate's decision need not be supported by new evidence.

SERVICE

Under Part 9 of the MSB Rules, the Board is required to establish a Reconsideration Committee (RC). The RC's role is to reconsider decisions of delegates of the Board and to make recommendations to the Board in respect of requests for reconsideration of the Committee's own or Board decisions. The RC's role is limited to decisions made under the MSB Rules and a separate Complaints Committee exists to reconsider decisions made under the MSB Act. ComSuper undertakes to investigate requests for reconsideration in a thorough, objective and effective manner in accordance with any guidelines issued by the Board.

STANDARD

Processing of reconsideration requests	Proportion completed
within 6 months	40%
within 9 months	65%
within 12 months	95%

Average processing time	9 months
-------------------------	----------

ComSuper will handle claims against the Board objectively and expeditiously.

Submissions to the RC and the Complaints Committee will be prepared within 30 days of receipt of supporting documentation.

OUTCOMES

There were 140 MSBS requests for reconsideration received in 2001–02. The proportions of cases completed against the relevant agreed standards were as follows:

Processing of reconsideration requests	Proportion completed
within 6 months	57%
within 9 months	88%
within 12 months	99%

Average processing time	6.4 months
-------------------------	------------

The Board regularly monitored outstanding cases, particularly those remaining unresolved for more than 12 months after having been received. As at 30 June 2002 there was no case in this category.

Reconsideration of decisions

Requests for reconsideration are treated as complaints for the purposes of section 101 of the *Superannuation Industry (Supervision) Act 1993*.

Following consideration of a request for reconsideration each applicant receives a comprehensive written statement of reasons for the decision. Applicants are also advised of further appeal rights.

During 2001–02, 141 requests for reconsideration of decisions taken by or on behalf of delegates of the Board were received, an increase from the 90 requests received the previous year. Two requests for reconsideration of a Board decision and seven requests for reconsideration of a Committee decision were also received during 2001–02 compared with five and one respectively during 2000–01.

The majority of requests for reconsideration concerned invalidity retirement benefit classification or reclassification decisions, the latter rising, as expected, as the invalidity pensioner membership grows. The primary issue to be determined in these cases is the member's level of physical or mental incapacity to undertake suitable civilian employment.

One hundred and forty-nine cases were finalised during the year, compared with 109 cases last year. The Board affirmed 63 cases, varied

24 cases in favour of the applicant and set aside 19 cases. Another 37 cases lapsed because the applicant failed to pursue the matter. Six requests were withdrawn. Forty-seven cases remained under investigation on 30 June 2002.

Table 13: Reconsideration applications for past five years

Year	1997–98	1998–99	1999–2000	2000–01	2001–02
Requests on hand	35	53	65	74	55
Requests received	63	73	98	90	141
Requests resolved	45	61	89	109	149
Carried forward	53	65	74	55	47

External review

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

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

Ten complaints were lodged with the SCT during the year and seven cases were carried over from 2000–01. Seven complaints were resolved during the year: five Board decisions were affirmed, one complaint was withdrawn by the complainant, and one Board decision was set aside. There were ten SCT cases outstanding as at the end of June 2002.

In 2001–02 one SCT decision was appealed to the Federal Court in addition to two appeals lodged in 2000–01. The Court handed down its judgment in one of these cases, allowing the Board's appeal and remitting the matter to the SCT for consideration according to law. There were no applications for review lodged with the Federal Court under the AD(JR) Act in respect of decisions of the Board or its delegates.

Enquiries and complaints

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

External appeals

SERVICE

ComSuper undertakes to do all things necessary to facilitate the expeditious processing of matters that go to the Superannuation Complaints Tribunal, the Federal Court and other jurisdictions such as the Human Rights and Equal Opportunity Commission (HREOC).

STANDARD

Process all external cases both objectively and expeditiously.

OUTCOMES

ComSuper complied with the specified procedures and deadlines for all cases considered by the SCT. One case appealed to the Federal Court was heard during the year and decided in favour of the Board.

Complaints, ministerials and Ombudsman enquiries and Freedom of Information requests

SERVICE

ComSuper will maintain systems for dealing with SIS registered complaints and representations made by Parliamentarians and the Ombudsman.

ComSuper will also maintain systems for dealing with requests under the *Freedom of Information Act 1982*.

Systems will also be maintained to monitor enquiries directed to the Board.

STANDARD

Provide a substantive response to 85% of SIS registered complaints (excluding requests for internal review) within 15 working days.

Parliamentarian and Ombudsman representations will be dealt with within 30 calendar days (unless requested earlier by the Minister).

Freedom of Information requests will be dealt with within 10 calendar days

Respond to 90% of Trustee correspondence within 15 working days of receipt and the remainder within 30 working days.

OUTCOMES

A substantive response was made to 76% of SIS registered complaints (excluding requests for internal review) within 15 working days.

All Parliamentarian and Ombudsman requests were processed within 30 calendar days.

All Freedom of Information requests were processed within 30 calendar days.

All Trustee correspondence was responded to within 15 working days.

Complaints and parliamentary enquiries

Seventeen complaints and four ministerials were received during the year. One complaint was carried over as at 30 June 2002.

These enquiries covered a range of issues, such as payment delay, Fund interest rate concern and dissatisfaction with medical review. There were no Ombudsman enquiries.

Table 14 shows the timetable of responding to complaints or Parliamentary enquiries in 2001–02.

Table 14: Responses to complaints or parliamentary enquiries, 2001–02

	<i>Less than 15 days</i>		<i>16–30 days</i>		<i>31–90 days</i>		<i>More than 90 days</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
Complaints	13	76	2	12	2	12		
Ministerials			4	100				

In addition, ministerials relating to policy issues are received and responded to within the Department of Defence without referral to ComSuper. In 2001–02 those relating to the MSBS totalled 40 (including 31 regarding MSBS employer benefit preservation arrangements). There were also 61 ministerials (including 41 on twice-yearly pension indexation) that related to both the MSBS and the DFRDB Scheme.

Freedom of Information

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

MSBS members made 76 requests for access to documents during 2001–02. All requests were granted in full. The requests took an average of 2.5 days to process.

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

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

Facsimile: (02) 6272 9809

Telephone: (02) 6272 9262

TTY: (02) 6272 9827

Internet: www.comsuper.gov.au

msb

Accounting services

SERVICE

ComSuper:

- maintains the Fund's 'general ledger' summarising monthly contributions, benefits and investment transactions as reported by the Fund Custodian;
- prepares the annual financial statements of the Scheme in a form agreed by the Board and the Minister;
- prepares monthly (unaudited) financial statements in a form agreed with the Board;
- prepares annual APRA returns and the annual report to the Minister in accordance with relevant guidelines for reporting by Government agencies and the directions of the Board;
- prepares annual taxation returns and pay quarterly tax instalments by the due date;
- calculates annual crediting rates and monthly exit rates of interest to apply to member accounts;
- provides annual letters of comfort to the Board and to the Board's external auditor regarding information provided for annual financial statements;
- arranges payment of the Board's administrative expenses;
- liaises with the Board's specialist advisers on accounting, taxation and investment issues;
- provides the Board with the opportunity to participate in the development of ComSuper's annual internal audit program to identify areas of mutual interest and to examine reports of specific internal audits where there is a coincidence of interest;
- provides reasonable access to internal audit staff to attend Board Audit Committee meetings and to advise on audits completed or in progress;
- provides a quality assurance role on accounting information provided by the Custodian or other sources;
- prepares the Board's administration budget in a form agreed with the Board;
- maintains comprehensive and up to date delegations.

STANDARD

ComSuper undertakes to deliver:

- unqualified financial statements in respect of services provided by ComSuper under this agreement;
- the Board's annual report within the statutory time limits;
- accurate and timely calculations of crediting and exit rates based on best available (but unaudited) accounting information;
- payment of the Board's administrative expenses (including income tax) by due dates;
- report on expenditure against the Board's Budget.

Note: ComSuper's role relates specifically to accounting matters. As the administrator, ComSuper relies on investment performance data provided by the Custodian or IPAC to deliver some of the services listed above.

OUTCOMES

- ComSuper produced unqualified financial statements to the Board in an accurate and timely manner.
- ComSuper delivered the Board's 2000–01 Annual Report within the statutory time limits and expects the same for the 2001–02 Annual Report.
- Exit rate calculations were given to the Board each month for the declaration of interest rates.
- The Board's administrative expenses were paid as and when they became due.
- ComSuper reported on the Board's expenditure on a monthly basis for monitoring and comparison against the Board's Budget.

SIS compliance

To ensure that the Board complies with the *Superannuation Industry (Supervision) Act 1993*, the Audit Committee has adopted a comprehensive SIS compliance checklist prepared by KPMG. In order to meet its compliance obligation, the Board has appointed, in conjunction with ComSuper, a dedicated SIS Compliance Officer whose role is to take responsibility for the MSBS checklist as well as to ensure the Board's compliance with other legislative requirements.

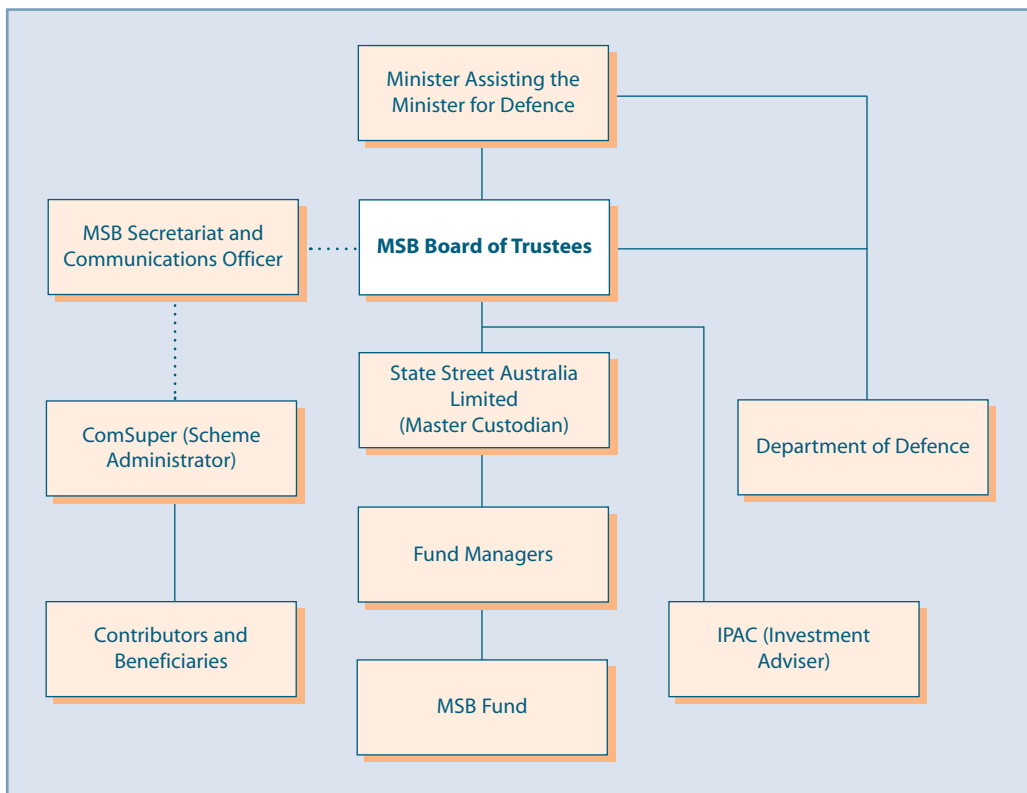
A detailed compliance report was provided to the Board in September 2001 and March 2002.

Audit of financial statements

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

Administrative arrangements

Organisational structure of the MSBS



Human resources

ComSuper provides secretariat services to the Board in line with the standards outlined in the Administrative Agreement.

Financial resources

The administrative costs of the MSB Board of Trustees for 2001–02 totalled \$1 545 071. These costs include fees paid to trustees, trustee travel costs and the cost of ComSuper secretariat and accounting staff.

In accordance with the provisions of the *Military Superannuation and Benefits Act 1991* only those expenses of the Board in respect of its responsibilities for the management of the MSB Fund and investment of its moneys are paid from the MSB Fund. All other expenses are met from moneys appropriated by Parliament to the Department of Defence.

The breakdown of administrative expenses met by the MSB Fund and the Department of Defence in respect of 2001–02 is as follows:

MSB Fund	\$ 945 968
Department of Defence	\$ 599 103
<u>Total</u>	<u>\$1 545 071</u>

Further details are contained in the financial statements.

msb Financial statements

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F2001/359

18 September 2002

Ms Sandra Dahl
MSBS Board Secretary
Comsuper
PO Box 22
BELCONNEN ACT 2616

Dear Sandra,

**MILITARY SUPERANNUATION AND BENEFITS SCHEME
FINANCIAL STATEMENTS 2001-2002**

Our audit of the financial statements of the Military Superannuation and Benefits Scheme for the period ended 30 June 2002 has now been completed. I have pleasure in attaching the unqualified audit report together with the associated financial statements for the Scheme.

Thank you and your staff for your assistance over the last 12 months.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'David C. McKean'.

David C. McKean
Executive Director

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



**Military Superannuation and Benefits Scheme (MSBS)
Independent report by approved auditor to the Minister
assisting the Minister for Defence**

(A) Financial Statements

Scope

I have audited the financial statements of the Military Superannuation and Benefits Scheme (MSBS) which includes the Military Superannuation and Benefits Fund No. 1 (the Fund), for the year ended 30 June 2002. The financial statements comprise:

- Statement of Changes in Net Assets
- Statement of Net Assets
- Notes to and forming part of the Financial Statements

The Military Superannuation and Benefits Board of Trustees (MSBS Board) is responsible for the financial statements. I have conducted an independent audit of the financial statements in order to express an opinion on you.

My audit has been conducted in accordance with Australian National Audit Office Auditing Standards which incorporate the Australian Auditing Standards, to provide reasonable assurance whether the financial statements are free of material misstatement. My 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 whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements, so as to present a view of the MSBS and the Fund which is consistent with my understanding of its net assets and changes in net assets.

These Accounting Standards and other mandatory professional reporting requirements are those applicable in Australia.

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

Audit Opinion

In my opinion:

- (i) the financial statements are in the form agreed by the Minister assisting the Minister for Defence and the MSBS Board in accordance with sub-section 26(1) of the Military Superannuation and Benefits Act 1991;
- (ii) the financial statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the net assets of the MSBS as at 30 June 2002 and the changes in net assets for the year ended 30 June 2002.

(B) Compliance

Scope

I have conducted tests in accordance with Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards, as necessary to provide reasonable assurance whether the MSBS Board has, in all material respects:

- a) complied with the relevant requirements of the following provisions (to the extent applicable) of the Superannuation Industry (Supervision) Act 1993 and Regulations:

sections 19(2), 19(3), 36, 65, 66, 67, 69-85, 86-93A, 95, 97, 98, 101, 103, 104, 105, 106, 107, 109, 111, 112, 113, 117, 118, 121, 122, 124, 125, 152, 153, 154, 163, 169;

regulations; 2.10(1), 2.13(1), 2.21(3), 2.33(2), 2.43(1), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and

My procedures with respect to regulation 6.17 included testing whether amounts identified by the CSS Board as preserved and restricted non-preserved have been cashed or transferred only in accordance with the requirements of Part 6 of the regulations. These procedures did not include testing of the calculation of the preserved and restricted non-preserved amounts.

- b) complied with the relevant requirements of the following provisions (to the extent applicable) of the Corporations Act 2001 and Regulations:

sections 1012F, 1013D, 1013K, 1016A(2), 1016A(3), 1017B(5), 1017D(3), 1017D(3A), 1017E;

and regulation 7.9.32(3).

- c) adhered to the Guidelines for preparing risk management statements ("Guidelines") issued by APRA in Circular I.D.7 on Derivatives (to the extent applicable)

for the year ended 30 June 2002.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations and the Corporations Act 2001 and Regulations.

My procedures with respect to the Guidelines consisted of confirming whether any Risk Management Statement was to be prepared by the superannuation entity's trustee under the Guidelines contained in the APRA Circular II.D.7 at any time during the year of income.

These procedures indicated that only a Part A Risk Management Statement should be prepared by the MSBS Board. This has been prepared and is broadly consistent with the requirements of the Guidelines.

These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the Superannuation Industry (Supervision) Act 1993 and Regulations or Guidelines or the Corporations Act 2001 and Regulations apart from those specified. The MSBS Board is responsible for complying with the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations and the Corporations Act 2001 and Regulations and appropriately applying the Guidelines.

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

Audit Opinion

In my opinion, the MSBS Board has complied, in all material respects, with the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations and the Corporations Act 2001 and Regulations and applied the Guidelines specified above for the year ended 30 June 2002.

Australian National Audit Office



David C. McKean
Executive Director

Delegate of the Auditor General
Canberra

18 September 2002

MILITARY SUPERANNUATION AND BENEFITS SCHEME

Statement by the Trustees of the Military Superannuation and Benefits Fund

The Board of Trustees 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 2002 and the changes in net assets of the Scheme for the year ended 30 June 2002;
- (b) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;
- (c) the financial statements are in a form agreed by the Minister Assisting the Minister for Defence and the Military Superannuation and Benefits Board of Trustees in accordance with sub-section 26(1) of the *Military Superannuation and Benefits Act 1991* and have been prepared in accordance with applicable Australian Accounting Standards and mandatory professional requirements; and
- (d) the operations of the Fund have been conducted in accordance with the Trust Deed and the *Military Superannuation and Benefits Act 1991*.

Signed at Canberra this 11th day of September 2002 in accordance with a resolution of members of the Military Superannuation and Benefits Board of Trustees.



C.P.H Kiefel
Chairman



M. Sharpe, AO
Member

*Military Superannuation and Benefits
Board of Trustees*

MILITARY SUPERANNUATION AND BENEFITS SCHEME

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2002**

	Note	2002 \$'000	2001 \$'000
Net Assets Available to Pay Benefits at 1 July		1,046,336	972,757
Add:			
Revenue from Ordinary Activities			
Net Investment Revenue			
Interest		8,404	11,627
Dividends		21,624	25,533
Other Investment Income		161	340
Changes in Net Market Values	3	(137,139)	(16,535)
Less: Direct Investment Expenses		(5,924)	(5,502)
		<u>(112,874)</u>	<u>15,463</u>
Contributions Revenue			
Employee Contributions	4a	93,226	86,742
Employer Contributions	4a	51,636	47,877
Appropriation from CRF	4b	119,853	108,308
		<u>264,715</u>	<u>242,927</u>
Total Revenue from Ordinary Activities		<u>151,841</u>	<u>258,390</u>
Less:			
Expenses from Ordinary Activities			
General Administration Expenses	1j, 4c	(946)	(765)
Benefits Paid	4b	(173,791)	(180,452)
Total Expenses from Ordinary Activities		<u>(174,737)</u>	<u>(181,217)</u>
Total Revenue less Expenses and Benefits Paid Before Tax		(22,896)	77,173
Income Tax Benefit/(Expense)	5	10,429	(3,594)
Total Revenue less Expenses and Benefits Paid After Tax		<u>(12,467)</u>	<u>73,579</u>
Net Assets Available to Pay Benefits at 30 June		<u>1,033,869</u>	<u>1,046,336</u>

The attached notes form part of these financial statements.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

**STATEMENT OF NET ASSETS
AS AT 30 JUNE 2002**

	Note	2002 \$'000	2001 \$'000
Investments			
Cash and Short Term Deposits		24,946	39,402
Australian Fixed Interest		99,425	91,626
Overseas Fixed Interest		33,975	28,555
Australian Equities		461,165	399,247
Overseas Equities		304,833	419,287
Property Trusts		55,244	57,864
Currency Contracts		(2,414)	(5,871)
Other Investments		38,039	18,528
Total Investments		<u>1,015,213</u>	<u>1,048,638</u>
Other Assets			
Cash at Bank		1,430	1,983
CRF Special Account		194	2,285
Interest Receivable		2,159	2,341
Dividends Receivable		3,734	7,007
Trade Settlements Receivable		12,512	4,313
GST Recoverable		152	189
Sundry Debtors		-	279
Benefits Payable to be funded by Appropriation	4b	3,532	2,547
Deferred Tax Assets		15,121	755
Total Other Assets		<u>38,834</u>	<u>21,699</u>
Total Assets		<u>1,054,047</u>	<u>1,070,337</u>
Less: Liabilities			
Benefits Payable	4b	7,074	6,034
Trade Settlements Payable		8,533	7,557
Sundry Creditors	6	987	1,004
Current Tax Liability		2,596	4,212
Deferred Tax Liability		988	5,194
Total Liabilities		<u>20,178</u>	<u>24,001</u>
Net Assets Available to Pay Benefits		<u>1,033,869</u>	<u>1,046,336</u>

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

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

These financial statements have been prepared in accordance with the Defined Benefit Plan provisions of AAS 25 Financial Reporting by Superannuation Plans, other applicable Australian Accounting Standards (AAS) and Urgent Issues Group Consensus Views. A Defined Benefit Plan refers to a superannuation plan where the amounts to be paid to members on retirement are determined at least in part by a formula based on years of membership and salary levels. The Scheme has adopted the provisions of AAS 25 whereby the financial statements include a Statement of Net Assets, a Statement of Changes in Net Assets and Notes thereto. The form of these financial statements has been agreed by the Minister Assisting the Minister for Defence and the Military Superannuation and Benefits Board of Trustees in accordance with sub-section 26(1) of the *Military Superannuation and Benefits Act 1991*. Unless otherwise stated, these accounting policies were also adopted in the corresponding preceding reporting period.

(b) Revenue

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

(c) Valuation of Investments

Assets of the MSB Fund are recorded at net market value as at the reporting date and changes in the net market value of assets are recognised in the Statement of Changes in Net Assets in the periods in which they occur. Net market values of investments includes an amount for selling costs which would be expected to be incurred if the investments were sold. The bases of market valuations are summarised below.

- (i) Short-term Money Market—these securities are valued by marking to market using yield supplied by independent valuers.
- (ii) Fixed-interest—these securities are valued by marking to market using yields supplied by independent valuers.
- (iii) Futures Contracts—open futures contracts are revalued to closing price quoted at close of business on 30 June by the futures exchange.
- (iv) Equities—listed securities, including listed property trusts, are valued based on the last sale price quoted at close of business on 30 June by the relevant stock exchange, or last bid where a sale price is unavailable.
- (v) Exchange Traded Options—options are valued as the premium payable or receivable to close out the contracts at the last buy price quoted at close of business on 30 June by the relevant stock exchange.
- (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.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)**(c) Valuation of Investments (Cont.)**

- (viii) Currency hedges—these securities are valued at the relevant exchange rate at close of business on 30 June.
- (ix) Private equity—this asset class is valued according to the most recent valuation obtainable from:
- an independent external valuer;
 - a third party arms length transaction;
 - the current and future earnings of companies in the portfolio; or
 - cost (less any diminution in value).

The following table details the valuation of private equity investments as at 30 June 2002:

Fund	Latest valuation (unaudited)	Next valuation
Deutsch Private Equity Fund	30 June 2002	30 June 2003
Gresham Private Equity Fund	30 June 2002	30 June 2003
Macquarie GIF	30 April 2002	30 June 2002
Sentient Global Resources Trust No. 1	31 March 2002	31 December 2002
Pantheon USA Fund IV, L.P.	31 March 2002	31 December 2002
HarbourVest Partners IV—Fund L.P.A7	31 March 2002	31 December 2002
CSFB Fund Investment VI-B (Bermuda)	31 December 2001	31 December 2002

The 30 June 2002 preliminary unit prices from Macquarie GIF, which were released on 31 July 2002, have no material effect to the reported value of Macquarie GIF in the MSB Financial Statements of 2001–02.

(d) Foreign Currency Translation

Foreign currency transactions are converted to Australian currency using the currency exchange rate in effect at the point of recognition of each transaction. Foreign currency balances are converted to Australian currency using the exchange rate as at balance date. Resulting exchange differences are brought to account in determining the change in market value of investments for the year and hence the net assets available to pay benefits at the end of the financial year.

(e) Use of Derivatives

The investment fund managers use a number of financial instruments such as futures, options and forward exchange contracts which are known as ‘derivatives’. The objective of their use is to reduce the risks in the equity, bond and currency markets and to increase or decrease the Fund’s exposure to a particular market. The use of derivatives for this purpose is called hedging in the various markets. The likely effect of their use is reduction of risk to the Fund. Derivatives are not used for speculation in any of these markets or for gearing the portfolios.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)**(f) Taxation**

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Changes in Net Assets is matched with total revenue less expenses before income tax, after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on net cumulative timing differences is set aside to deferred income tax or future income tax benefit accounts at rates which are expected to apply when those timing differences occur.

(g) Benefits Payable

Benefits payable include benefits in respect of members who ceased employment with the employer sponsor prior to year end who are entitled to receive a benefit but had not been paid by that date.

(h) Liability for Accrued Benefits

The liability for accrued benefits is not included in the statement of net assets, but the liability at the latest measurement date is reported by way of note. Where accrued benefits are measured during the reporting period, the benefits which have accrued since the latest measurement date are also reported by way of note. The liability for accrued benefits is actuarially measured on at least a triennial basis, and represents the value of the Fund's present obligation to pay benefits to members and other beneficiaries at the date of measurement. The liability is determined as the present value of expected future payments which arise from membership of the Fund up to the date of measurement.

The present value reported in the notes is determined by reference to expected future salary levels and by application of a current, market-determined, risk-adjusted discount rate and appropriate actuarial assumptions.

(i) Superannuation Contributions Surcharge

The surcharge is accounted for as and when the amount becomes payable to the Australian Taxation Office.

(j) Fund Management Expenses

Costs of the Military Superannuation and Benefits Board of Trustees which are related to its responsibilities for the management of the MSB Fund and the investment of its moneys are a charge against the Fund. All other costs incurred by the Board of Trustees are paid from moneys appropriated to the Department of Defence by Parliament.

(k) Goods and Services Tax (GST)

Where applicable GST incurred by the Fund that is not recoverable from the Australian Taxation Office has been recognised as part of the expenses to which it applies. Receivables and payables are stated with any applicable GST included in their carrying amounts.

The amount of any GST recoverable from, or payable to, the Australian Taxation Office is included as an asset or liability in the Statement of Net Assets.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)**(I) Sundry Debtors and Creditors**

Sundry debtors are recognised at the amounts receivable which approximate net fair value. Sundry creditors represent liabilities for goods and services provided to the scheme prior to the end of financial year and which are unpaid. The amounts are unsecured. Sundry debtors and creditors are subject to normal trade credit terms.

2. NATURE OF THE FUND

(a) The Military Superannuation and Benefits Scheme is a defined benefits scheme which provides benefits to its members under the *Military Superannuation and Benefits Act 1991*.

(b) Member and Employee Numbers:

	2002	2001
Number of Members		
Contributors	42,703	39,513
Deferred Beneficiaries / Preservers	44,501	41,029
Pensioners	4,600	4,164
Total Number of Members	<u>91,804</u>	<u>84,706</u>
Number of Employees (refer 4(c))	<u>3</u>	<u>2</u>

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

3. CHANGES IN NET MARKET VALUES

	2002	2001
	\$'000	\$'000
(a) <i>Investments Held at 30 June</i>		
Australian Fixed Interest	(661)	(121)
Overseas Fixed Interest	(814)	1,206
Australian Equities	(15,632)	32,272
Overseas Equities	(53,593)	(13,958)
Property Trusts	3,214	2,751
Currency Contracts	(1,428)	(5,849)
Other Investments	–	70
	<u>(68,914)</u>	<u>16,371</u>
(b) <i>Investments Realised During the Period</i>		
Australian Fixed Interest	(18)	101
Overseas Fixed Interest	346	673
Australian Equities	(21,359)	(6,029)
Overseas Equities	(53,469)	(46,301)
Property Trusts	1,415	1,345
Currency Contracts	5,212	16,982
Other Investments	(352)	323
	<u>(68,225)</u>	<u>(32,906)</u>
(c) <i>Total Change in Net Market Values of Investments</i>	<u>(137,139)</u>	<u>(16,535)</u>

The net gain on foreign currency contracts for the year was \$3.8m (2001 \$11.1m gain). This amount is the net of the realised and unrealised gains and losses on foreign currency contracts identified above. This does not include gains and losses on foreign currency transactions that may have occurred in the pooled trust investments.

4. FUNDING ARRANGEMENTS**(a) *Contributions***

Members contribute to the Scheme at optional rates ranging from a minimum of 5 per cent to a maximum of 10 per cent of salary paid to the member and the Department of Defence contributes employer superannuation contributions to the MSB Fund at the rate of 3 per cent of salary paid to the member.

The net assets available to pay benefits, as shown in the Statement of Net Assets at 30 June 2002 is equivalent to the accumulated employee and employer contributions held in the MSB Fund as at 30 June 2002.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

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

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

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

Benefits payable to members by the Commonwealth as at 30 June 2002 total \$3.5m (2001 \$2.5m). Benefits payable by the MSB Fund (i.e. amounts to be transferred to the Consolidated Revenue Fund), totalled \$3.5m at 30 June 2002 (2001 \$3.5m).

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

	2002	2001
	\$'000	\$'000
Gross Appropriation from CRF	161,851	164,331
Less: Transfers from Fund to CRF	(41,998)	(56,023)
Net Appropriation	<u>119,853</u>	<u>108,308</u>
MSB Fund		
Lump-sum Benefits	<u>11,940</u>	<u>16,121</u>
Consolidated Revenue Fund		
Lump-sum Benefits	97,110	109,012
Pensions	64,741	55,319
	<u>161,851</u>	<u>164,331</u>
Total Benefits Paid	<u>173,791</u>	<u>180,452</u>

(c) Costs of Administration and Management of the MSB Fund

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 to enable the Board to perform its functions under the Act. Under the provisions of the Act, the MSB Fund meets those expenses of the Board in respect of its responsibilities for the management and investment of the Fund. Accordingly, all other expenses of the Board, the Commissioner for Superannuation and the staff of ComSuper who assist the Commissioner for Superannuation in the administration of the *Military Superannuation and Benefits Act 1991* and Rules are met from moneys paid to ComSuper by the Department of Defence. Transactions in respect of the receipt of these moneys and the costs of administration have been brought to account in the financial statements of the Commissioner for Superannuation.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

4. FUNDING ARRANGEMENTS (Cont.)

The breakdown of administrative expenses met by the MSB Fund and the Department of Defence in respect of 2001–02 is as follows:

	2002	2001
	\$'000	\$'000
MSB Fund	946	765
Department of Defence—Board administration	599	160
Department of Defence—ComSuper administration	5,503	5,072
	<u>7,048</u>	<u>5,997</u>

The increase in the Board administration to \$599,000 in the 2001–02 financial year was attributable to the commitment of the Board to expand its communication program to members.

Direct investment expenses include charges levied by the Portfolio Manager, Fund Investment Managers and Custodian to invest and manage the assets of the MSB Fund. The direct investment expenses for 2001–02, which are met by the MSB Fund, are as follows:

	2002	2001
	\$'000	\$'000
Portfolio Manager	450	500
Investment Managers	4,498	4,006
Custodian	854	879
Other	6	17
	<u>5,808</u>	<u>5,402</u>
GST Expense	116	100
Total	<u>5,924</u>	<u>5,502</u>

5. INCOME TAX EXPENSE

The taxation liability at 30 June 2002 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 not equal to 15 per cent of the Net Investment Revenue and Net Contributions Revenue Before Tax as shown in the Statement of Changes in Net Assets.

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

5. INCOME TAX EXPENSE (Cont.)

The difference is reconciled as follows

	2002	2001
	\$'000	\$'000
Prima facie income tax expense on		
Total Revenue less Expenses and Benefits Paid before Income Tax	(22,896)	77,173
Prima Facie Income Tax Expense Calculated at 15%	(3,434)	11,576
Add/(Less) Permanent Differences		
Employee contributions	(13,984)	(13,011)
Benefits Paid	8,090	10,822
Difference between accounting and tax gains	3,037	(559)
Tax Free / Tax Deferred Distributions	(434)	(812)
Less:		
Imputation and Foreign Tax Credits	(3,716)	(4,430)
Under/(Over) Provision in Prior Years	12	8
Income Tax Expense	(10,429)	3,594
Income Tax Expense comprises:		
Income Tax Payable Current Year	1,656	2,330
Amount Paid during 2001–02	6,267	11,165
Movement in Deferred Income Tax Provision	(18,364)	(9,909)
Under/(Over) Provision in Prior Years	12	8
	(10,429)	3,594

Income tax paid during the year amounted to \$9,758,468 (2001: \$15,521,544).

6. SUNDRY CREDITORS

	2002	2001
	\$'000	\$'000
Investment Expenses Payable	495	504
Contributions Creditors	206	356
Audit Fees	30	21
Accrued Expenses	134	96
Surcharge payable to the ATO	122	27
	987	1,004

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

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 Board of Trustees 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 Board of Trustees has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Board of Trustees' investment strategy.

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

The Board of Trustees 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 Board of Trustees with regular reports on the nature of the investments made on their behalf and the associated risks. Such reports include formal Risk Management Statements as required by the Australian Prudential Regulation Authority.

(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:

	Notional Principal Amounts		Net Market Value	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
Futures	3,108	8,470	12	70
Currency Contracts	(178,320)	(176,825)	(2,414)	(5,871)
Total	<u>(175,212)</u>	<u>(168,355)</u>	<u>(2,402)</u>	<u>(5,801)</u>

(b) Credit Risk

The net market value of financial assets, with the exception of derivative positions, included in the statement of net assets represents 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 \$18.8m (2001: \$16.4m).

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

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

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 2002 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		
30 June 2002						
Assets						
Cash & Short Term Deposits	24,946					24,946
Australian Fixed Interest		5,434	50,597	43,394		99,425
Overseas Fixed Interest			15,088	18,887		33,975
Australian Equities					461,165	461,165
Overseas Equities					304,833	304,833
Property Trusts					55,244	55,244
Currency Contracts					(2,414)	(2,414)
Other Investments	55				37,984	38,039
Other Assets	1,430				22,283	23,713
Deferred Tax Assets					15,121	15,121
Liabilities						
Trade Settlements Payable					(8,533)	(8,533)
Accrued Expenses					(164)	(164)
Sundry Creditors					(823)	(823)
Benefits Payable					(7,074)	(7,074)
Provision for Income Tax					(2,596)	(2,596)
Provision for Deferred Income Tax					(988)	(988)
Total	26,431	5,434	65,685	62,281	874,038	1,033,869
Weighted Average Interest Rate	3.30%	5.13%	5.20%	5.02%		

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

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

	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		
30 June 2001						
Assets						
Cash & Short Term Deposits	39,402					39,402
Australian Fixed Interest		10,463	44,924	36,239		91,626
Overseas Fixed Interest			8,608	19,947		28,555
Australian Equities			257		398,990	399,247
Overseas Equities					419,287	419,287
Property Trusts					57,864	57,864
Currency Contracts					(5,871)	(5,871)
Other Investments					18,528	18,528
Other Assets	1,983				18,961	20,944
Deferred Tax Assets					755	755
Liabilities						
Trade Settlements Payable					(7,557)	(7,557)
Accrued Expenses					(96)	(96)
Sundry Creditors					(908)	(908)
Benefits Payable					(6,034)	(6,034)
Current Tax Liability					(4,212)	(4,212)
Deferred Tax Liability					(5,194)	(5,194)
Total	41,385	10,463	53,789	56,186	884,513	1,046,336
Weighted Average Interest Rate	5.32%	5.15%	5.62%	5.40%		

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

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

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

	USA	JPY	GBP	EUR	Other	Total
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
30 June 2002						
Gross investment amounts denominated in foreign currency	212,042	29,768	29,942	59,213	20,067	351,032
Amount effectively hedged	(93,154)	(19,669)	(15,348)	(47,975)	(2,174)	(178,320)
Net Exposure	118,888	10,099	14,594	11,238	17,893	172,712
	USA	JPY	GBP	EUR	Other	Total
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
30 June 2001						
Gross investment amounts denominated in foreign currency	221,970	33,632	37,610	42,222	17,506	352,940
Amount effectively hedged	(96,200)	(20,822)	(20,239)	(37,870)	(1,694)	(176,825)
Net Exposure	125,770	12,810	17,371	4,352	15,812	176,115

(e) Net Fair Values of Financial Assets and Liabilities

The Fund's financial assets, liabilities and derivative instruments are included in the Statement of Net Assets at amounts that approximate net fair value.

8. VESTED BENEFITS

Vested benefits are benefits which are not conditional upon continued membership of the Scheme (or any other factor other than resignation from the Scheme) and include benefits which members were entitled to receive had they terminated their plan membership as at the reporting date.

The Australian Government Actuary has advised that the estimated amount of vested benefits is as follows:

	2002	2001
	\$m	\$m
Funded component	1,037	1,050
Unfunded component	5,649	5,116
Total Vested Benefits	6,686	6,166

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

8. VESTED BENEFITS (Cont.)

The net assets of the fund compared to the vested benefits are as follows:

	2002	2001
	\$m	\$m
Funded component	1,037	1,050
Net assets adjusted for benefits payable	1,037	1,050
Surplus/(deficiency) Reserve	0	0

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 2002 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.

9. LIABILITY FOR ACCRUED BENEFITS

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

Accrued Benefits as at 30 June 1999 were:

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

The net assets of the Fund compared to the vested benefits are as follows:

	1999	1996
	\$b	\$b
Funded component	0.8	0.4
Net assets	0.8	0.4
Surplus/(deficiency) Reserve	0.0	0.0

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

9. LIABILITY FOR ACCRUED BENEFITS (Cont.)

The liability for accrued benefits will be updated following the next comprehensive actuarial review, which is scheduled for completion early in 2003 using data as at 30 June 2002.

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

The Military Superannuation and Benefits Board of Trustees had the following members during the financial year:

Mr C.P.H. Kiefel (Chairman)
 Dr M.J. Sharpe, AO
 Brigadier R.C. Brown, CSC
 Warrant Officer R.C. Swanwick
 Mr P.J. Charley
 Captain M. Peake (replaced Group Captain L. Roberts as alternate for Brig. R.C. Brown, appointed 15 April 2002)
 Warrant Officer M.E. Doncaster (alternate for WO Swanwick).

(b) Trustee Related Transactions

Some members of the Board may, as a result of their current employment, be members of the Scheme and as such would be required to have made contributions to the scheme during the 2001–02 financial year on the same terms and conditions applicable to all scheme members.

Fees and associated superannuation contributions paid by the Scheme in respect of the members of the Board during the financial year totalled \$133,212 (2001: \$119,869).

11. AUDITORS REMUNERATION

	2002	2001
	\$m	\$m
The amount paid and payable in respect of audit services provided by ANAO (excludes GST)	<u>27,000</u>	<u>27,000</u>

PricewaterhouseCoopers (PWC) have been contracted by the ANAO to provide audit services. Fees for these services have been included in above. PWC were paid no other fees during the year.

12. SEGMENT REPORTING

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

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

13. CONTINGENT LIABILITIES**(a) Capital Commitments**

At 30 June the Fund had outstanding investment capital commitments of \$125.7m (2001: \$67.0m). These commitments relate to private equity investment funds managed by Deutsche Bank, Credit Suisse First Boston, Gresham Private Equity, Macquarie Specialised Asset Management, Pantheon Private Equity Specialists, HarbourVest Partners and Sentient Global Resources.

(b) Benefit Entitlements

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

At 30 June the Fund had a contingent liability of \$0.06m (2001: Nil).

14. 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).

A summary of transactions follows:

	2002	2001
	\$'000	\$'000
Total Surcharge Liability Outstanding at start of year	8,464	5,282
Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year	1,952	3,370
Adjustments to previous year's balance	(2,822)	–
	7,594	8,652
Less: Amount paid by members	(303)	(309)
Less: Amounts deducted from members' benefit payments	(69)	(214)
	7,222	8,129
Plus: Interest applied to outstanding surcharge liability at 30 June 2002	427	335
Total surcharge liability outstanding at end of year	7,649	8,464

MILITARY SUPERANNUATION AND BENEFITS SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

14. SUPERANNUATION CONTRIBUTIONS SURCHARGE (Cont.)

An adjustment of \$2.8m was required to be made to the surcharge assessments recorded against member accounts from previous years. This adjustment relates to incorrect recognition of surcharge assessments, which the establishment of the new membership system and the associated data cleansing exercises identified.

No liability is recognised in the 'Statement of Net Assets' for the estimated value of the surcharge liability because the liability will be either met by the members during their period of membership or will be recovered from member benefits when they are paid. The above liability of \$7.6m does not include assessments in respect of 2001–02, which have not yet been calculated by the ATO.



21 August, 2000

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

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

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

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



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

Appendix 1: MSBS in brief

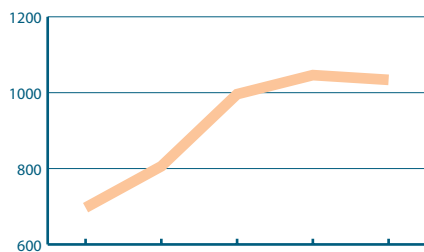
Investment

EFFECTIVE ASSET ALLOCATION Sector	30 June 2001		30 June 2001	
	\$m	%	\$m	%
Cash	10.6	1.0	8.0	0.8
Australian fixed interest	88.5	8.4	95.9	9.4
International fixed interest	33.1	3.1	35.9	3.5
Australian property securities	57.9	5.5	56.3	5.5
Australian shares	413.0	39.2	392.4	38.3
Private equity	18.3	1.7	37.8	3.6
International shares ¹	400.9	38.0	370.5	36.1
Global emerging markets	32.5	3.1	28.3	2.8
Total under management	1 054.8	100.0	1 025.1	100.0

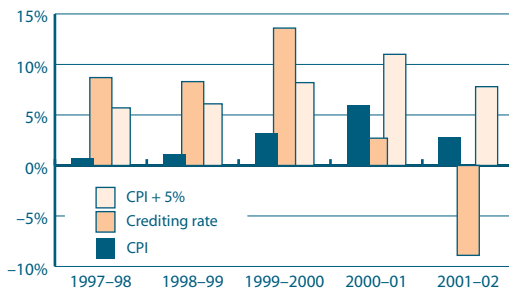
INVESTMENT PERFORMANCE ² Sector	2000–01		2001–02	
	Fund %	Benchmark %	Fund %	Benchmark %
Cash	5.6	6.1	4.1	4.7
Australian fixed interest ³	7.3	7.4	6.7	6.2
International fixed interest	9.5	9.0	8.4	7.7
Australian property securities	14.8	13.9	15.6	15.3
Australian shares	10.7	9.1	-4.6	-4.5
Private equity	na	na	na	na
International shares	-3.0	-6.1	-24.9	-23.5
Global emerging markets	-26.4	-12.5	-12.8	-8.5

	2000–01	2001–02
Annual crediting rate ⁴	2.7%	-8.9%
Annual inflation rate	6.0%	2.8%

Fund growth since 1997–98



Crediting rates since 1997–98



- Notes:
- 1 International shares shown here include currency and options overlays.
 - 2 Asset allocation figures are as reported by the portfolio manager.
 - 3 Performance figures are after tax and fees related to investment activity.
 - 4 The crediting rate is derived after allowance for all non-investment related fees and expenses and can differ from the investment return.

Membership

Contributors at 30 June	2001	2002	Increase (decrease)
Males	33 391	36 659	3 268
Females	6 122	6 044	(78)
Total	39 513	42 703	3 190
Total member contributions	\$86.7m	\$93.2m	\$6.5m
Contributor exits			
Age retirement	103	110	7
Resignation	4 891	3 744	(1 147)
Redundancy	171	12	(158)
Invalidity	623	497	(126)
Death	10	17	7
Other	150	–	–
Total	5 948	4 380	(1 568)
Pensions in force			
Age retirement	474	621	147
Redundancy	1 877	1 885	8
Invalidity	1 724	2 010	286
Reversionary	40	84	44
Total	4 197	4 600	403
Pensions paid	\$55.2m	\$64.7m	\$9.5m
Average pension	\$13 145	\$14 774	\$1 629
Preserved benefits	41 029	44 501	3 472

Appendix 2: Fund and private equity managers

Fund managers

Alpha Investment Management Pty Ltd

Level 13,
350 Collins Street
Melbourne Vic. 3000

Bernstein Research & Investment Management

Alliance Capital Australia Limited
Level 29, Grosvenor Phillip Tower
1 Farrer Place
Sydney NSW 2000

Barclays Global Investors Australia Limited

Level 1
111 Harrington Street
Sydney NSW 2000

Colonial First State Investment Managers (Australia) Limited

Level 29
52 Martin Place
Sydney NSW 2000

Credit Suisse Asset Management (Australia) Limited

Level 32, Gateway
1 Macquarie Place
Sydney NSW 2000

Deutsche Asset Management (Australia) Limited

Level 21
83 Clarence Street
Sydney NSW 2000

Dresdner RCM Global Investors Australia Limited

Level 19, Maritime Trade Towers
207 Kent Street
Sydney NSW 2000

IPAC Portfolio Management Limited

Level 31, Grosvenor Place
225 George Street
Sydney NSW 2000

JB Were Limited

Level 17,
101 Collins Street
Melbourne Vic. 3000

Maple-Brown Abbott Limited

Level 30,
20 Bond Street
Sydney NSW 2000

Nicholas-Applegate Capital Management

600 West Broadway
San Diego CA 92101
USA

State Street Australia Limited

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

Super Members Home Loans

ME Portfolio Management
Level 17,
360 Collins Street
Melbourne Vic. 3000

Wellington International Management Company Pte Limited

Level 61, MLC Centre
19–29 Martin Place
Sydney NSW 2000

Westpac Investment Management Pty Limited

Level 36
60 Margaret Street
Sydney NSW 2000

Private equity managers

Credit Suisse First Boston International (Australia) Limited

Level 32, Gateway
1 Macquarie Place
Sydney NSW 2000

Deutsche Asset Management (Australia) Limited

Level 21
83 Clarence Street
Sydney NSW 2000

Gresham Private Equity Limited

Level 6,
175 Macquarie Street
Sydney NSW 2000

Macquarie Specialised Asset Management Limited

1 Martin Place
Sydney NSW 2000

Sentient (Australia) Pty Limited

Level 1,
130 Phillip Street
Sydney NSW 2000

Pantheon USA Fund, LP

50 California Street, Suite 906
San Francisco, CA 94111
USA

Schroder Investment Management Australia Limited

Level 20, Angel Place
123 Pitt Street
Sydney NSW 2000

HarbourVest Partners, LLC

One Financial Center
44th Floor
Boston MA 02111
USA

Appendix 3: Glossary

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

Appendix 4: Publications

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

Military Super: The MSBS Book is a general information book that intended as a reference book for members and pay officers. A *Summary of the Scheme* leaflet is also available.

The *MSB Fund Investment Policy* 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:

About to leave the ADF?

Dependants' Benefits

Invalidity Benefits

Leave Provisions

Rejoining the ADF

Summary of the Scheme

Superannuation Contributions Surcharge

Taxation Concessions

Taxation of Benefits

The Productivity Benefit

A series of fact sheets are being produced. Titles released to date are:

Early Access to Military Super Benefits

Maximum Benefit Limits

Dependants' Benefits

Death and Dependants' Benefits

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

All of these publications can be obtained from members' Pay Offices; from National Mailing and Marketing on telephone (02) 6269 1020 or facsimile (02) 6260 2770; or from the Military Super website (www.militarysuper.gov.au).

Appendix 5: Service charters

During the year ComSuper redeveloped and reissued the service charters it maintains for scheme members. ComSuper also received a gold award at the 2002 Client Service Charter Awards for its service charters.

Performance against the standards set out in these charters is included in this report.

Appendix 6: Contact officer

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

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

	Ministerial Liaison Officer
<i>Postal address:</i>	ComSuper PO Box 22 Belconnen ACT 2616
<i>Street address:</i>	Cameron Offices Chandler Street Belconnen ACT
<i>Telephone:</i>	(02) 6272 9262
<i>Facsimile:</i>	(02) 6273 9809
<i>TTY:</i>	(02) 6272 9827

Appendix 7: Legislation

Changes to the MSB Act

Defence Legislation Amendment (Application of Criminal Code) Act (No. 141, 2001) ensures that offence provisions under the MSB Act operate consistently with criminal code policy.

Changes to the MSB Rules

Military Superannuation and Benefits Amendment Trust Deed 2001 (No. 1) provides for twice-yearly indexation of pensions paid under the MSB Act.

Appendix 8: Compliance

While this report is not a Departmental annual report, the Authority has endeavoured to comply with the 'Requirements for Departmental Annual Reports', where applicable. Details of ComSuper's operations are provided in the *Commissioner for Superannuation Annual Report 2001–02*. Annual reporting requirements that are met in the Commissioner for Superannuation's report are indicated below by an asterisk.

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Organisation chart	56
Social justice and equity	*
Internal and external scrutiny	*
Industrial democracy	*
Occupational health and safety	*
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Appendix 9: Freedom of Information

Freedom of Information Act statement

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

Functions of ComSuper

The general functions of ComSuper are described in the main body of this report and in the *Commissioner for Superannuation Annual Report 2001–02*.

Decision-making powers

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

FOI internal procedures

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

Decisions to grant access, levy charges, or refuse access are made by an APS Level 5 in the Corporate Governance and Parliamentary Liaison Unit.

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

Officers currently designated to carry out such investigations are APS Level 7 officers in the Reconsideration Section. All decisions on internal reviews are made by the MSB Board.

Facilities for access

Facilities for viewing documents are provided only at the ComSuper office in Canberra, as ComSuper has no regional offices. Publications may be inspected at ComSuper's Corporate Governance and

Parliamentary Liaison Unit, and copies (for which there may be a charge) can be obtained by writing to ComSuper.

Information about facilities for access by people with disabilities can be obtained by contacting the Corporate Governance and Parliamentary Liaison Unit at the address and telephone numbers shown on page 53 of this report.

Consultative arrangements

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

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

Categories of documents

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

Books, leaflets and fact sheets that describe various aspects of the Military Superannuation and Benefits Scheme, and annual reports, are made available to the public free of charge upon request. They are also available free of charge via the Military Super website (www.militarysuper.gov.au).

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