



The MSB Board  
**annual report 2004-05**





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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. De-Anne Kelly, 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 2005, together with financial statements in respect of the management of the Military Superannuation and Benefits Fund during 2004–05, and the Auditor-General's report in respect of those statements.

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

Yours sincerely



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

4 October 2005



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# chairman's overview

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In the Board's Annual Report for 2003–04 I noted that research from around the world had indicated that there would remain a low return environment for equity markets in the immediate future. Indeed, with most observers forecasting returns from equity markets of between 7-9% pa over the next ten years.

In such an environment MilitarySuper's previous high exposure to listed equity markets represented a risk to long-term, sustainable investment returns. Consequently the Board informed members of changes to the Fund's investment strategy, which will see a reduction in the Fund's exposure, over time, to market generated returns - through the introduction of new classes of investments whose return characteristics are not closely correlated to those of listed equities.

## **investment returns for 2004–05**

2004–05 was once more a year of challenge, characterised by significant volatility in worldwide markets. Rising interest rates and higher commodity prices pressured nearly every equity market in the developed world during much of the year.

The Australian Share Market defied expectations rising to record levels during the year on the back of rising commodity prices and record corporate profits. However, going forward the common prediction is that slack domestic demand and a slowing global economy will lead to subdued earnings growth in domestic markets in 2005–06.

In these highly volatile market conditions MilitarySuper's investment return (net of all fees, taxes and expenses) of 12.0% (14.5% gross) in the Growth (Default) investment option, in which the bulk of the assets of the MSB Fund are invested, was a good result given that the Fund is only part way through implementation of the new long-term investment strategy. The High Growth option achieved a net return of 14.1% (16.6% gross).

## **returns from listed equity markets**

International equity markets returned 9.8% in local currencies for the twelve months to 30 June 2005. However, when the returns were translated back to the Australian dollar the market return (on an unhedged basis) was only 0.06%. The appreciation of the Australian dollar over the twelve months resulted in the difference between the two returns.

Fortunately, as part of a strategic review the Fund moved from a 50% to a 100% hedge on all foreign currency exposures in December 2004 and the Fund benefited from this strategy in the second half of the year. On a hedged basis the net contribution

made by the international equity sector to overall fund performance was 8.7% for the year.

Most serious observers of the world economy believe that the long-term dominance of the global economy by the US, Western Europe and Japan will gradually be diluted in the next few decades. The emergence of China continues to impact the rest of the world, both as a consumer of materials (causing higher commodity prices) and as an exporter of manufactured goods. Apart from China, the future grouping of economic “super powers” is likely to include countries such as Brazil, Russia and India. With the assistance of its advisors, the Board is monitoring developments in these four economies to identify potential future investment opportunities.

Strong performances in the first three quarters of the financial year saw the Australian Share Market rise to record highs by late February/early March, before declining, along with other share markets, in the latter part of March in response to rising oil prices and indications of emerging inflationary pressures in the US. In April 2005 Australian shares followed the lead of global equity markets, succumbing to increasing investor nervousness. The All Ordinaries Accumulation Index lost 3.1% with rising domestic concerns over company earnings, profit warnings and signs of slowing global growth causing investors to sell off domestic equities in search of more defensive assets and investments.

The last quarter of the financial year saw markets around the world, but particularly in Australia, recover some lost ground; due largely to the China-driven resources boom - which has created the best conditions for miners in decades as prices have risen for most metals. Indeed, by 30 June the Australian Share Market had recorded its second consecutive year of double digit growth.

It is this very volatility which prompted the Board to undertake the detailed review of the Fund’s investment strategy during 2003–04. This review led to the decision to reduce the Fund’s exposure to listed equity markets and to replace that exposure over time with increased investments in a range of alternative asset classes (such as Private Equity, Infrastructure and Property) whose return characteristics are not directly linked to listed equity markets. Although this process of transition is proceeding, the Fund is already starting to see the benefits which these new asset classes add to the Portfolio of investments, especially in periods of volatile returns from traditional listed markets.

## **returns from unlisted asset classes**

### **private equity**

The Fund made its first investment in Private Equity (P/E) in 2000 and has since made regular additional commitments to this asset

class in the intervening years. These are long-term investments which do not generally show a return in the early years of the investment because of initial set up and management cost. The investment gains usually come in the later years as the underlying portfolio of companies mature and increase in value.

As the Fund's initial investments are maturing we are now starting to see the benefits with significant returns starting to flow back to the Fund. Indeed at the portfolio level P/E Investments provided a return of 11.1% for the year; with one of our domestic P/E investments achieving an impressive 56% net internal rate of return since the inception of the investment in December 2003.

The Fund's more mature international Private equity investments are also starting to provide strong returns, although in 2004–05 these have been diluted somewhat by the impacts of the appreciating AUD.

### **infrastructure**

The Fund's initial Infrastructure investment, involving an investment in one of Australia's major international airports, has to this point been a particularly successful one producing both access to secure income streams and fortuitously a significant immediate capital gain. The investment was initially placed in late December 2004, and for the six months to 30 June has produced a net return of 25.9% (52% annualised) on the amount invested.

The Board will continue to seek opportunities, both in Australia and internationally, for investments in this sector that will provide exposure to strong long-term income streams and opportunity for capital growth. With the advice of its investment advisors the Board is looking to achieve a long-term exposure of 10% of total fund assets to this investment sector. However, this will be done progressively and prudently as new and sustainable investment opportunities emerge.

This sector produced an overall return of 11.7% (23.4% annualised) for the six months that the investments have been in place.

### **property**

The Fund's Property Portfolio has a significant weighting to listed property and therefore the Board has benefited from the strong performance of listed property during 2004–05; producing a return of 17.0% for the year.

Notwithstanding the strong performance of listed property in 2004–05, the Board will continue to explore investments in unlisted areas. This will be done having regard to the objective of identifying opportunities providing access to long-term sustainable

income streams and capital growth potential consistent with the new investment strategy.

## **transition to the new long-term asset allocation**

The Board, with the assistance of its advisors, has made considerable progress in the transition of the Fund to its new long-term investment strategy, but much remains to be done. However, the Board is strongly focussed and committed to implementing an investment strategy for the Fund and its members which is capable of producing consistent and sustainable returns over the lifetime of members' investment. The Board believes that the steps already taken are beginning to bear fruit and that the new strategy will place the MSB Fund at the forefront of investment philosophy and strategy in Australia.

## **in-house investment activities**

During the year the resources of the Board's Executive Unit were expanded to enable a range of previously outsourced administrative functions associated with the Fund's investment activities to be brought in-house within the Executive Unit. This action has resulted in increased levels of control and supervision of investment activities and enabled the Board to receive more timely and efficient reporting on Fund and manager performance on a daily basis.

## **introduction of ancillary benefits**

It has been a long-term goal of the Board to expand the design of the Scheme to enable members to make personal, salary sacrifice and spouse contributions into the Fund and to allow members to transfer benefits held in other superannuation schemes into MilitarySuper. The necessary legislative changes have been made and these new features are available from 1 August 2005.

## **trustee retirements and appointments**

During the course of the year Mr Phil Charley retired from his role as Trustee on the MSB Board. Mr Charley had been a trustee since September 2000 and, prior to that, served as an alternate Trustee from August 1999. On behalf of the Board I express my appreciation for the valuable contribution made by Phil during his period as Trustee and wish him every success in his future endeavours.

I also welcome Mr Felix Bleeser to the Board as Phil's replacement. As a senior executive within the Department of Defence, Felix brings to the role a detailed knowledge and understanding of ADF superannuation requirements and of government administration.

## **acknowledgements**

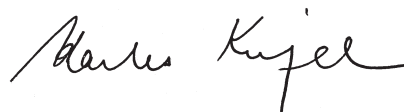
I commend my fellow trustees for their continuing commitment, co-operation, support and hard work during what was a full and sometimes difficult year.

On behalf of the Board I would like to particularly commend the work of our Lead Investment Advisor, Strategic Capital Management, and express appreciation to the other advisors to the Board's Investment Committee, Ipac Portfolio Management, and Sovereign Investment Research for the enormous amount of work undertaken during the year in the research, monitoring and review of the Fund's investment strategy and manager configurations. The outcome of this work will have significant long-term benefits for all members of the Scheme.

I would also like to express the Board's thanks to the Board Executive for sound advice, assistance and support and to the Scheme administrator (ComSuper), the Fund Custodian (National Custodian Services), and all of the Board's advisors for their continuing good work throughout the year.

## **ongoing commitment**

It is the Board's ongoing commitment to ensure that MilitarySuper is seen by members and its peers within the Superannuation Industry as one of the very best Superannuation Funds in Australia; providing valuable services to its members and ensuring that members' moneys entrusted to its care achieve good and sustainable investment returns over the lifetime of a member's investment. We believe that with the continuing support of ComSuper and the Department of Defence we will continue to improve service delivery to members. In addition, we strongly believe that the changes to investment strategy already commenced will help ensure that members' investments are insulated, as far as is practicable, from the vagaries of market fluctuations and that members should enjoy substantial long-term returns in most, if not all, market conditions.



Charles Kiefel  
Chairman

# about the MSBS

description of the scheme

the MSB Board

indemnity insurance

schedule of Board meetings





*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 earnings (based on the member's investment choice); 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 member 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 and employer productivity contributions made each fortnight are paid into an investment fund (the MSB Fund). The management and investment of the Fund is the responsibility of the MSB Board.

**table 1: MSBS employer benefit accrual rates**

Years of service	% of FAS* per year
< 7 years	18%
7–20 years	23%
> 20 years	28%

\*FAS (Final Average Salary) is salary averaged over the last three years of service.

MSBS benefit accrual rates are significantly higher than the community average.

Where a member resigns from the Defence Force the member benefit accrued to 30 June 1999 can be paid as a lump sum to the member but the balance of the member benefit must be preserved, either in the Fund or in another complying superannuation fund selected by the member, until the member's preservation age. The employer component, including productivity contributions, must be preserved in the Fund until the member reaches age 55, or another complying superannuation fund until the member's 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 2005 were:

### *Chairman:*

**Mr Charles Kiefel** BCom, FCA, FAICD  
Trustee since 11 July 1997

Mr Kiefel is a Director of a number of private companies and was formerly Managing Director of Corporate Finance at ANZ Investment Bank. He has a Bachelor of Commerce degree, is a Fellow of the Institute of Chartered Accountants and a Fellow of the Australian Institute of Company Directors. In addition to his role as Chairman of the Board, Mr Kiefel is Chairman of the Board's Investment Committee.



### *Minister's Nominees:*

**Dr Michael Sharpe** AO, Hon DScEcon (Syd.), BEc, FCA, FAICD  
Trustee since 29 April 1998

Dr Sharpe is a Director of The Australian Stock Exchange Limited and Babcock and Brown Australia Pty Ltd. 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 as an adviser to Government. He serves as Chairman of the Board's Audit and Risk Management Committee and is a member of the Board's Investment Committee.





**Mr Felix Bleeser**

Trustee since 1 March 2005

Mr Bleeser is the Assistant Secretary Financial Training in the Defence Chief Finance Office and was previously the Director General Defence Occupational Health Safety and Compensation. He has extensive experience in personnel policy and management in Defence, and has been a member of numerous Defence review bodies, including the review of the Defence Force Retirement and Death Benefits Scheme, the Defence Efficiency Review and the Strategic Review of Defence Personnel Policies into the 21st Century. He is a past Director of superannuation policy in Defence and an alternate member of the Defence Force Retirement and Death Benefits Authority, the Military Rehabilitation and Compensation Commission and the Government's Safety Rehabilitation and Compensation Commission. He is a member of the Board's Audit and Risk Management Committee.

*ADF Nominees:*



**Air Commodore Lee Roberts** CSC, MSc, GradDip Strat Studies, BSc, FAICD

Trustee since 26 September 2003

Air Commodore Lee Roberts is currently the Director General Personnel - Air Force. He has served as a pilot and flying instructor extensively within Australia and overseas during his 33-year Air Force career. He is a Fellow of the Australian Institute of Company Directors, holds a Certificate of Superannuation Trusteeship and has previous experience as an Alternate Trustee of the MilitarySuper Scheme. He currently serves as Chairman of the Military Superannuation Communication Committee.



**WOFF Robert Swanwick** MAICD, JP

Trustee since 22 September 1997

Warrant Officer Swanwick is Loadmaster with No.37 Squadron RAAF Base Richmond. He has served throughout Australia and overseas for 26 years as a 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 nine years, he has held the position of Other Rank Trustee, and is a member of the Board's Audit and Risk Management Committee and a member and former Chairman of the MilitarySuper Communication Committee.

## 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 insurance policy, nor have any regulatory penalties been applied.

## schedule of Board meetings

	<i>15 Jul 2004</i>	<i>18 Aug 2004</i>	<i>8 Sep 2004</i>	<i>20 Oct 2004</i>	<i>15 Dec 2004</i>	<i>16–18 Feb 2005</i>	<i>27 Apr 2005</i>	<i>16 Jun 2005</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 <sup>1</sup>	P	P	P	P	P	P		
Mr Felix Bleeser <sup>2</sup>							P	P
AIRCDRE Lee Roberts	P	P	P	P	P	P	P	P
WOFF Robert Swanwick	P	A	P	P	P	P	P	P

P—present at meeting    A—apologies

- 1 Mr Phil Charley resigned as Trustee on 28 February 2005.
- 2 Mr Felix Bleeser was appointed Trustee on 1 March 2005.



# fund investment

investment policy

investment objectives

investment strategy

strategic asset allocations

investment management

investment managers

custodian services

member investment choice

investment performance

fund growth

unitisation



***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.***

## **investment policy**

The investment of funds must comply with the legislative and regulatory requirements promulgated under the *Superannuation Industry (Supervision) Act 1993* and the Corporations Act. These Acts provide general prudential guidelines for superannuation trustees, and specifically address non-arms length transactions, borrowing, loans to members, “in-house” assets, insider trading and derivative controls.

## **investment objectives**

The general investment objectives for the Fund are to:

- i. Contribute to the support of members’ lifestyles in retirement, by enhancing the purchasing power of their investment through prudent and efficient management.
- ii. Maximise return for the chosen level of risk.

The Board has set investment objectives for the Fund and developed strategies to pursue them. As a general principle Fund assets should be allocated in a way that provides the best chance of meeting the Fund’s objectives within the risk tolerances set for each investment choice option. Subject to specific risk controls and the other fund investment principles specified below, the best return on assets should therefore always be sought.

The Board has adopted the following principles regarding the expression of its investment objectives:

### **(i) Return Objective**

The return objective is expressed as a margin above cash (UBS Bank Bill Index) over a rolling period after investment fees and taxes for the three conservative investment choice options of Cash, Conservative and Balanced. However, in respect of the Growth (Default) and High Growth options, the investment objectives are expressed in the form of Absolute Return targets of 10% and 11% per annum, respectively, over the long-term.

### **(ii) Risk Budget**

The Risk Budget is an expression of the level of risk that the Fund is prepared to accept to achieve its target return. Standard deviation is used as the main measure of risk. The Risk Budget is expressed as a standard deviation for each of the

investment options. The focus of risk control is for the Strategy as a whole and not just the individual components. This focus is designed to prevent the individual mandates from causing the Strategy to be either too aggressive (thus creating an excessive possibility of loss) or too defensive, given the return objective of the Strategy.

## investment strategy

Given the volatility of investment returns from traditional listed markets, and acting with the advice of its professional investment advisors, the Board has developed a revised investment strategy for the Fund. This has at its core an absolute return objective in the Growth (Default) option of achieving sustainable long-term investment returns of 10% (net) per annum over the long-term with an acceptable level of risk of negative return. This new investment strategy will lead to a reduction in the Fund's exposure over time to market generated returns and seeks to add value from a diverse range of non-traditional asset classes whose return characteristics are not closely aligned to listed equity markets.

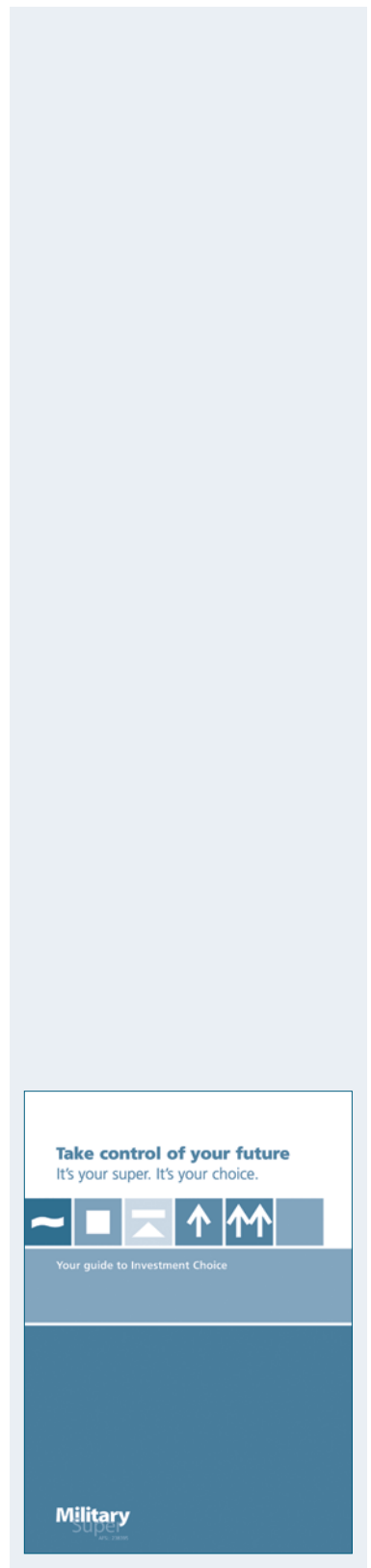
Where the Fund retains an exposure to listed markets it will seek to add value by pursuing active management strategies capable of delivering above market returns. Because superior stock selection provides the most consistent and reliable opportunity for generating excess return, the manager selection process favours managers with exceptional bottom-up fundamental research capabilities. Therefore, recognising the difficulty of outperforming the market on a consistent basis, emphasis is on selection of managers with high integrity, sound investment philosophies, strong track records, superior organisations, and sustainable competitive advantage.

The process of transitioning the Fund to its new long-term strategic asset allocation commenced in 2004 and is continuing.

## reserves

The Board does not maintain a reserve account. In general terms a reserve account is used to smooth rates of return members receive. Members of MilitarySuper benefit by having all Fund earnings distributed to their accounts (after tax and all expenses are deducted). That is, they generally receive a higher return 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.

Fund earnings are fully reflected in the unit prices declared each day for each of the investment options.





## **risk control**

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 neither be too aggressive (creating an excessive possibility of losses), nor too defensive (limiting growth potential).

The Board's investment 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, but cannot be used to leverage the Fund.

In addition, no single asset class 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 counterparty, must not exceed 10% of the total Fund value (Australian Government debt is excluded from this).

## **a focus on quality investment performance**

The Board is concerned with the quality and reliability of the investment strategy that is implemented on behalf of members. The Board prefers a portfolio philosophy that is likely to perform well through the full economic cycle rather than those that are very dependent on specific market conditions that are not likely to last a full cycle or are subject to investment market shocks.

## **adding value through active management**

The Board adopts the view that in some sectors active investment management can add value to the Fund. To achieve this increase in value requires adherence to well considered strategies throughout different investment circumstances. On average this approach is expected to yield better returns. Over time these returns should compound to provide substantial increases in the Fund's value, and thus improve the financial position of the Fund's stakeholders.

Adding value over a passive investment requires active positions to be taken compared to the benchmark (typically a market index such as the SP/ASX 300 Accumulation Index for Australian shares). These positions represent a risk to the Fund and are incorporated into the Risk Budget for each of the investment options.

## strategic asset allocations

Consistent with its objectives of reducing dependence on market generated returns (Beta) the Board has begun to implement investments in Alternative Asset classes; such as Private Equity, Unlisted Property, Infrastructure, and Uncorrelated Alpha products such as Hedge Funds whose return characteristics are not aligned with the returns of traditional listed markets. Although it is the Board's intention to maintain the current five choice options, with their current exposure to assets with growth and defensive characteristics, the new asset classes being introduced may, from time to time, display characteristics of both a growth and a defensive nature (see page 13 for more detail).

The Board has therefore approved the following long-term asset allocation for the Fund:

**table 2: long-term strategic asset allocation for the investment options**

asset class	cash option %	conservative option %	balanced option %	growth option %		high growth option %
				a	b	
Cash	100	20	5	1	5	0
Debt Instruments (1)	0	50	25	12	5	0
Property	0	7	6	8	10	10
Australian Shares	0	14	22	32	25	35
Private Equity	0	0	5	6	10	10
International Shares	0	9	27	28	30	35
Infrastructure	0	0	5	5	10	0
Non-correlated Alpha Products (incl. Hedge Funds)	0	0	5	8	5	10
Total assets	100	100	100	100	100	100
Total growth assets	0	30	70	85	85	100
Range of growth assets	0	25-35	65-75	80-90	80-90	95-100

(1) Infrastructure Debt is included in this category as is Australian and International Fixed Interest.

(a) Represents the Growth Option's exposure as at 30 June 2005.

(b) Represents the long-term Strategic Asset Allocation for the Growth Option.

The strategic allocation to private equity includes an amount of funds committed but not yet invested. As these funds are required they will be drawn from Australian and International shares as per the following:

60% invested in International shares

40% invested in Australian shares

## investment management

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 advisors 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 MSB Fund.

During the year the Board's Investment Committee, supported by its specialist advisors, continued the detailed analysis and review of investment managers and investment products consistent with the implementation of the Fund's new investment strategy. This research, which included site visits to a number of managers in the US and UK, resulted in the replacement of a number of existing managers whose investment styles and approaches were no longer suited to the new investment strategy adopted by the Board. It also led to the identification of a number of exciting new opportunities for investment in unlisted asset classes, consistent with the Board's long-term strategy of reducing the Fund's reliance on listed market returns. Some of these new investments have produced spectacular early results, which are reported on in more detail under Investment Performance on page 16.

## investment managers

The investment 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 does not, however, involve itself in individual stock selection, relying on the demonstrated skills of the manager in the area of the market in which it has been selected to operate on behalf of the MSB Fund.

The Board's investment managers at 30 June 2005 are shown in Table 8 (page 24).

## custodian services

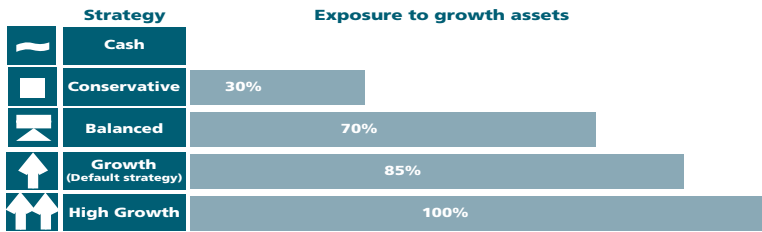
The Master Custodian safeguards and maintains the assets of the Scheme on behalf of the Board, performing various

functions such as settlement of trades, physical custody and safekeeping of securities, collection of dividends and preparation of accounts.

The Board has appointed National Custodian Services Limited as Master Custodian of the Scheme’s funds.

## member investment choice

Members have the choice of five investment strategies for investing their member benefit. They can choose one, or a combination of the strategies and if a member chooses not to elect an investment choice, the default option (Growth) is applied. The five options are depicted in the following diagram:



## impacts on choice options of new investment strategy

Members continue to be able to experience choice in relation to their individual tolerance for risk and appetites for exposure to “Growth Assets”.

Growth Assets is a general term for assets such as shares and property, which provide investment returns (comprising both capital growth and income), which are generally expected to outperform inflation. Growth Assets compare with more defensive assets such as fixed interest and cash.

The new alternative asset classes being introduced into the Fund, but particularly Private Equity, direct property and uncorrelated alpha products also display growth characteristics which are generally unaffected by movements in traditional listed markets such as shares. Investments in infrastructure, on the other hand, may take the form of investments in start up projects or in established facilities. Investments in the latter provide access to strong cash flows and potential for future capital growth. Therefore this form of investment displays similar defensive characteristics to more traditional defensive assets such as cash and bonds. Indeed investments in infrastructure project may comprise elements of both equity and debt, with the latter providing opportunity for senior debt lending producing bond-like rates of return.

As the bulk of the assets of the Fund (ie over 95%) are invested in the Growth (Default) investment option, it is possible for each of the remaining four options to be balanced on a daily basis to the long-term asset allocation set for that option. As a result, each of these options is fully exposed to the range of assets (including the new alternative asset classes) set for that option and their returns reflect the full impact of those exposures consistent with the new investment strategy.

Given the volume of funds invested in the growth option it is not currently possible for that option to be fully transitioned to the new long-term strategic asset allocation set by the Board. This will occur progressively over time as new opportunities for investments in alternative asset classes arise. In the interim the growth option will carry higher physical exposures to listed equities and debt instruments, which will be sold down progressively to fund new investments in those alternative asset classes. As a consequence the investment returns for the growth option in 2004-05 are not fully reflective of the returns which would have been achieved had it been possible for that option to be fully transitioned to the new strategy.

Although the Fund will retain its growth focus (and will continue to have a significant exposure to listed markets in both Australia and overseas) the Board will increasingly seek, in line with the new investment strategy, to diversify away from reliance on market-generated returns alone. This will be achieved by increasing allocations to other forms of assets with return characteristics which are not directly correlated with movements in listed equity markets. These will comprise:

- Property (including Direct/Listed) 10%
- Private Equity 10%
- Infrastructure 10%
- Uncorrelated Alpha 10%

Allocations to each of these asset classes may vary according to the quality of the investment options available in each asset class.

The Board has adopted the following specific investment objectives for each of the five investment strategies of the Fund.

Strategy	Outline	Investment Objective	Risk Budget (likelihood of a negative return)
<b>Cash</b>	This strategy aims to maximise protection against capital loss. To do this it invests only in secure cash investments such as bank deposits, bills, mortgages and short-term funds.	Achieve returns that match the UBS Bank Bill Index over 1 year periods.  The investment focus of this option is short term and is provided for members expecting to access their funds within 1-2 years and therefore seeking a greater degree of certainty in investment returns.	Very low.
<b>Conservative</b>	This strategy invests in a conservative mix of assets, mostly debt instruments (such as fixed interest, infrastructure debt and cash), with some investment in shares and property.	Achieve returns that are greater than 1% over the UBS Bank Bill Index over most rolling 3 year periods.  This strategy is aimed at maintaining an extremely low risk of capital loss and is therefore provided for members expecting to access their superannuation within 2-5 years and have a low appetite for investment risk.	Low.
<b>Balanced</b>	This strategy invests in a diversified mix of assets such as debt instruments (including infrastructure debt), but with a bias towards Growth Assets.	Achieve returns that are greater than 2% over the UBS Bank Bill Index over most rolling 5 year periods.	Approximately 1 year in 8.
<b>Growth (default)</b>	This strategy invests mainly in assets with growth characteristics (including Private Equity, Infrastructure and un-correlated Alpha products) with some investment in property, debt instruments and cash. This option currently has a strong bias towards listed equity markets (both domestic and international). However, over the coming years this bias towards market generated returns will be reduced through the introduction of unlisted growth asset classes such as Private Equity, Infrastructure (via both equity and debt), real property and hedge funds.	Achieve absolute returns of 10% per annum over most rolling 5 year periods.  This strategy has a long-term investment focus and is provided for those members seeking higher rates of return over the lifetime of their investment.	Approximately 1 year in 7.
<b>High Growth</b>	This is the most aggressive strategy. It invests totally in growth assets, with no direct investment in cash or debt instruments such as fixed interest.  The option's high dependence on returns generated by listed equity markets was reduced through increased allocations to unlisted growth assets such as Private Equity, Property and un-correlated Alpha products such as hedge funds. This option does not have exposure to infrastructure investments.	Achieve absolute returns of 11% per annum over most rolling 7 year periods.  This strategy has a long-term investment focus and is provided for those members seeking higher rates of return over the lifetime of their investment and able to tolerate variability in returns over the shorter term.	Approximately 1 year in 6.

## investment performance

MilitarySuper delivers on its absolute return objective despite a volatile investment environment; returning 12% (net) in the growth (default) options for the year.

The war in Iraq, the ongoing threat of terrorism, rising interest rates and higher commodity prices pressured nearly every equity market in the developed world during much of the 2004–05 financial year. Against this trend the Australian share market performed strongly, particularly in the last quarter, delivering double digit returns for the second consecutive year.

As indicated in the Chairman's Overview it is this volatility which prompted the Board to undertake a detailed review, supported by international research and advice from independent experts, aimed at developing an investment strategy capable of delivering sustainable investment returns in most, if not all, market conditions. Given that the strategy involves a shift away from reliance on 'market' generated returns this means that MilitarySuper may not fully participate in the 'upside' when traditional listed markets perform strongly, but importantly when listed markets perform poorly, the Fund will be better insulated from the 'down side' due to its exposure to alternative asset classes.

The absolute return objective set for the Growth (default) options is 10% net of all fees, taxes and expenses. The return of 12.0% achieved for 2004–05 is consistent with that objective, notwithstanding that the Fund is still in the process of transition to the new range of alternative assets which will underpin the long-term investment strategy for this option.

The four other investment options are already fully exposed to the new asset classes and therefore their returns reflect the long-term return expectations for those options; with the High Growth option returning 14.1% (net) for the year.

Many retail superannuation funds or products, and comparative surveys of fund investment returns, report investment performance only in gross terms. For MilitarySuper the Board's intentions have always been to report investment performance net of all fees charges and taxes as this is truly reflective of the return to members of the Scheme. However, on this occasion the returns achieved by each of the five investment options are detailed below in both net and gross return terms for comparison purposes.

**table 3: returns achieved by each investment option**

OPTION	NET	GROSS
Cash	4.3%	5.5%
Conservative	7.8%	9.4%
Balanced	12.5%	14.7%
Growth	12.0%	14.5%
High Growth	14.1%	16.6%

**table 4: average net returns over rolling five-year periods for the Growth option**

5 years ending	Average annual rate of return
30 June 2005	3.5%
30 June 2004	3.8%
30 June 2003	2.4%
30 June 2002	4.6%
30 June 2001	10.5%

The negative returns achieved by the Fund in 2001–02 and 2002–03 had a significant impact on average fund investment returns over the last five years. However, since inception in 1991 the Fund has achieved an average return of 8% in the Growth Option. This compares favourably with the Fund's investment objectives at that time of achieving returns of CPI + 5%.

Table 5 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 5: investment performance by sector 2004–05**

Sector	Effective exposure at 30 June 2004		Effective exposure at 30 June 2005		Performance 2004–05	
	\$m	%	\$m	%	Fund <sup>1</sup> %	Benchmark <sup>2</sup> %
Cash	69	5	20	1	5.8	5.6
Australian fixed interest	66	5	-	-	-	-
International fixed interest	67	5	-	-	-	-
Debt instruments <sup>3</sup>	-	-	211	12	1.2	1.5
Australian and International Property interest	76	5	145	8	17	16.8
Australian shares	534	37	571	33	23.3	26
Private equity <sup>4</sup>	72	5	104	6	11.1	na
International shares <sup>5</sup>	469	33	502	29	8.7	13.3
Non-Correlated Alpha	55	4	128	7	13	5.3
Infrastructure <sup>6</sup>	-	-	78	4	11.7	na
Global emerging markets	20	1	-	-	-	-

1. Figures shown are gross of management fees and tax.
2. The benchmark return for an asset class represents the minimum performance objective, assuming that all dividends and interest payments are reinvested in the market.
3. Return is for the three months that these investments have been in place.
4. Private equity is a long-term investment and does not generally show a return in the early years of the investment because of set-up and management costs. The investment gains usually come in the later years as the underlying companies mature and increase in value. The effect of this timing is known as the J-curve Effect.
5. The Fund moved from a 50% to a 100% hedge on foreign currency exposure on its investments from December 2004. International shares include currency investments.
6. Return is for the six months that these investments have been in place.

## returns from listed equity markets

### international equities

Investments in international markets carry two distinct forms of risk; one related to the impact of local market forces on the underlying value of the investment in local currency terms. The second relates to the value of that same investment when viewed in Australian dollars (AUD) terms due to movements (both positive and negative) in international currency exchange rates.

International equity markets struggled throughout much of 2004–05 but rallied in the last quarter to post benchmark returns of 9.8% for the year in local currency terms. However, when those returns were translated back, on an unhedged basis, to the AUD that level of return was reduced to 0.06%.

As part of a strategic review the Board moved the Fund from a 50% to a 100% hedge ratio on all of its foreign currency exposures in December 2004. The Fund benefited from this hedging strategy throughout the year but particularly during the second half of the year.

On a hedged basis the net contribution made by the international equity portfolio to overall Fund performance was 8.7% for the year.

Notwithstanding the difficult market conditions in 2004–05 the new managers appointed during the year in this sector performed well against the benchmark when that performance is viewed against the native currency exposure.

Importantly the new manager configuration has significantly outperformed the old, consistent with the Board's belief that it is possible to add value through use of active management. With the new manager configuration the Fund is well placed to take advantage of any upswing in growth and any recovery in the small cap end of international markets (that is, companies listed outside the top 100 shares on a stock exchange) particularly in the US.

### **Australian equities**

The restructuring of the Fund's Australian equities portfolio commenced at the end of August 2004 and was completed by the end of March 2005. In this period 80% of the domestic equity portfolio was transitioned to a suite of new investment managers.

Given that most of these new managers were in place for a relatively short part of the year, the performance of the domestic equity portfolio was noteworthy, notwithstanding the strength in the market over much of the year. The new manager configuration is comprised of a larger number of smaller (in terms of assets under management) managers; six of whom are classified as broad market managers, two are long-biased managers and two specialize in small companies.

Going forward the Fund believes that the new managers will provide increased opportunity to achieve above benchmark returns reflecting the concentrated and index insensitive approach of the individual managers.

The contribution made by this sector to overall Fund performance for the year was 23.3%.

### **property**

In the finance industry, property usually refers to real estate, including land and buildings that can be bought, sold or leased. A Property Trust is a collective investment vehicle which owns a portfolio of real property, thus providing for a wider spread of ownership. Listed Property Trusts are quoted on the stock exchange, and their prices fluctuate with supply and demand. Unlisted Property Trusts are transacted directly with the Trust's manager, who sets prices in relation to the asset backing of the trust based on independent valuation.

Many property investments have fixed income streams attached to them that ensure a minimum level of return on

the investment, unaffected by movements in investment markets. Accordingly, many property investments will exhibit characteristics similar to traditional defensive assets.

The Fund's exposure to Property is at present achieved largely through exposure to listed property trusts and, to a lesser extent, through exposure to unlisted funds which invest in opportunistic property development projects. The latter act in a similar way to Private Equity investments in that commitments are drawn down progressively as investment opportunities arise over a number of years.

The listed property sector continued its run of strong returns, producing a sector return of 17.0% for the 2004–05 year.

Notwithstanding the strong performance of listed property in recent years the Board will continue to explore investment opportunities in unlisted areas. This will be done having regard to the objective of identifying opportunities providing access to long-term sustainable income streams and capital growth potential consistent with the new investment strategy.

## **infrastructure**

Infrastructure involves investment in the development of facilities and services required by the community and for production, such as government buildings, airports, toll roads, power, telecommunications and water supply.

Investment in infrastructure may take the form of investments in start-up projects or in established facilities. Investments in the latter provide access to strong cashflows and potential for future capital growth. Therefore, this form of investment displays similar defensive characteristics to more traditional defensive assets.

During the year the Fund made its first investments in the Infrastructure sector as part of its strategy of developing a portfolio of infrastructure investments. These initial investments included an investment in the Brisbane Airport.

The exposure to Brisbane Airport is through a specialist fund managed by Colonial First State Global Asset Management (the Colonial First State Airports Fund). Brisbane Airport is a major international gateway to Australia and has enjoyed strong growth in air traffic. The Airport was recently recognised as the world's most efficient and customer focused privatised airport by the International Air Transport Association (IATA). This investment has made a strong contribution to the performance of the infrastructure portfolio, producing a net return of 25.9% (annualised 52%) since the investment was made in December 2004.

Other investments have been made in the Macquarie Global Infrastructure Fund and most recently in the ANZ Energy Infrastructure Trust. These investments too have posted significant gains through capital appreciation.

Importantly with infrastructure investments the Fund has access to co-investment opportunities through its established relationships. These co-investment opportunities will enable the Fund to participate in investment projects not normally available to superannuation schemes, offering access to superior long-term capital growth and stable cashflows.

This sector produced an overall return of 11.7% in the six months that the investments have been in place.

## private equity

Private equity is generally described as acquiring an equity interest in an unlisted company or enterprise. This type of investment usually refers to investments in relatively small, unlisted companies which have an established track record in their field of business and which require new sources of funding to finance their expansion. This contrasts with venture capital, which in Australian usage tends to refer to investments in start-up companies only. The Fund has not yet invested in venture capital proposals.

Private equity investments offer extremely attractive long-term risk-adjusted return characteristics consistent with the absolute return focus of the Fund's new investment strategy. This type of investment has return characteristics which are of a growth nature.

The Yale University Private Equity program, one of the first of its kind, is generally regarded as among the best in the institutional investment community. The University is frequently cited as the role model by other investors pursuing this asset class. Since the inception of its program in 1973, private equity investments have generated a 30.7% annualised return for the university.

Private equity is a long-term investment and does not generally show a return in the early years of the investment because of initial set-up and management costs. The investment gains usually come in later years as the underlying portfolio of companies mature and increase in value. This timing is known as the J-curve effect.

However, the potential for this form of investment to provide returns over the longer term which significantly exceed returns from listed markets can be seen from the following table which compares the returns achieved from US private equity funds against those from public (listed) markets.



**Brisbane Airport**

**table 6: returns achieved from US private equity funds compared with those from public (listed) markets**

Top quartile funds	1 year	5 years	10 years
Venture	24.5%	178.9%	57.7%
Buyout	31.9%	17.2%	24.4%
Mezzanine	16.3%	13.6%	14.9%
All Private Equity	29.9%	49.7%	40.0%
Public markets			
Dow Jones	25.3%	2.6%	10.8%
S&P 500	26.4%	-2.0%	9.1%
NASDAQ	50.0%	-1.8%	9.9%

Source: Venture Economics and Bloomberg

The Fund made its first investment in Private Equity in 2000 and has since made regular additional commitments to this asset sector, both domestically and internationally.

As the initial investments are maturing, the Fund is now starting to see the benefits from this asset class, with significant returns starting to flow back to the Fund. Indeed at the portfolio level Private Equity investments provided a return of 11.1% for the year; with one of the domestic private equity investments achieving an impressive 56% net internal rate of return since the inception of the investment in December 2003.

The Fund's more mature international private equity investments are also starting to provide strong returns, although in 2004–05 these have been diluted somewhat by the impacts of currency exchange.

### **uncorrelated alpha**

This asset class involves investment in a range of assets whose performance is not directly correlated to the performance of listed equity markets. This type of investment includes investments in real assets (toll roads, timberland, oil and gas) or in hedge funds which act as a powerful diversification tool and a generator of strong returns.

Such investments also display characteristics which are of a growth nature but with returns which are not directly correlated with performance in listed markets.

## fund growth

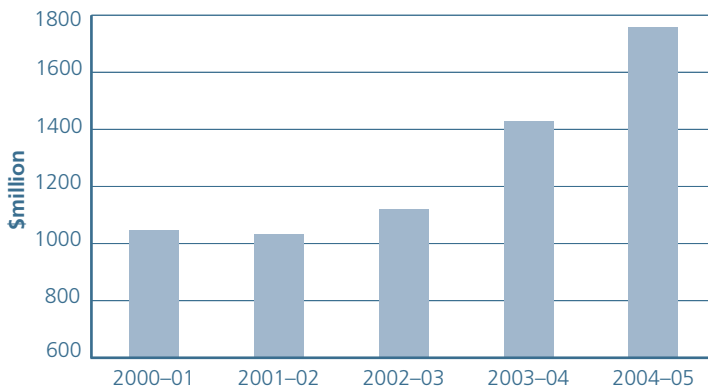
Fund assets available for investment at 30 June 2005 totalled \$1749m.

After accounting for non-investment related assets and liabilities the Fund totalled \$1749m, a 22.4% increase from 2003–04 (see Table 7). Chart 1 shows how the Fund has grown since 2000–01.

**table 7: Fund net assets at 30 June 2005 (after tax, charges and benefits)**

<b>Fund net assets at 30 June 2004</b>	<b>\$m</b> <b>1 429</b>
Inflow	
Member contributions	127
Employer contributions	71
Co-contributions	5
Appropriation from CRF	131
Investment earnings	210
Outflow	
Benefits paid	(181)
Investment and other expenses	(16)
Tax expenses	(27)
<b>Fund net assets at 30 June 2005</b>	<b>1 749</b>
<b>Value of investments at 30 June 2005</b>	<b>\$m</b> <b>1 759</b>
Less	
Benefits payable	(2)
Other liabilities	(25)
Plus	
Cash on hand	5
Other assets	12
<b>Value of Fund at 30 June 2005</b>	<b>1 749</b>

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



**table 8: investment managers as at 30 June 2005**

<b>Asset class</b>	<b>Investment manager</b>	<b>Allocation \$m</b>
<b>Cash</b>	National Custodian Services	19.6
<b>Debt Instruments</b>	Braemer Power Project Debt Credit Suisse Cash Enhanced	16 194.8
<b>Australian Property</b>	AMP Core Property Trust APN Development Fund 1 CitiGroup Asset Management Macquarie ICA Property 4 SG Hiscock & Company	49.7 2.1 44.9 1.0 43.4
<b>International Property</b>	Fiduciary International Real Estate Fund	3.6
<b>Australian shares</b>	Acorn Capital Barclays Global Investors Challenger Australian Equities Herschel Asset Management JM Australian Equities K2 Australian Absolute Return MIR Australian Equities PM Australian Opportunity Fund S G Hiscock Small Company Trust Tyndall Australian Equities	19.2 125.9 71.4 30.6 73.4 36.6 70.7 61.6 17.6 64.2
<b>International shares</b>	Artha Emerging Markets Axiom Investors International Causeway Capital (EAFE) Causeway Capital (Large Cap) Driehaus International Dresdner International (Long/Short) Gardner Lewis (Large Cap) Gardner Lewis (Long/Short) Hodgkis and Wiley Sterling Johnston (Long/Short) Sterling Johnston (Small Cap) T.Rowe Price TCW Pluris TCW Value Opportunities International Cash Holding Account	13.7 50.0 71.2 36.6 28.6 15.3 41.8 22.1 43.2 17.0 27.7 30.6 29.4 41.5 25.4
<b>Private equity</b>		
<i>Global</i>	CSFB IV HarbourVest IV (Partnership) HarbourVest VII (Mezzanine) HarbourVest VII (Venture) HarbourVest IV (Buyout) Northgate Capital Partners II* Pantheon Europe III Pantheon Global Secondary Fund II Panteheon USA Fund IV Rosemont Partners II Rosemont Partners II - Cadence co-investment* Sentient Singular Guff BRIC Investments* TCW Shop 5	5.8 13.0 2.5 3.2 4.4 0.0 1.2 6.1 2.3 1.0 0.0 4.2 0.0 2.6

<i>Domestic</i>	Babcock & Brown Direct Investment Fund	16.7
	CHAMP Buyout II Trust*	0.0
	CHAMP Ventures Investment Trust 5a	1.4
	CHAMP Ventures Investment Trust 5b	1.4
	Crescent Capital Partners II	0.5
	Deutsche Private Equity Fund	5.7
	Deutsche Private Equity Fund 2	2.3
	GBS BioVentures*	0.0
	Gresham Fund No. 1	3.5
	Gresham Fund No. 1A	1.2
	Gresham Private Equity Fund 2A	1.4
	Gresham Private Equity Fund 2B	1.4
	GS Private Equity Fund 3*	0.0
	GS Private Equity Fund 3A	0.7
	GS Private Equity Fund 3B	0.7
	NBC Private Equity Fund IIA	1.1
	NBC Private Equity Fund IIB	1.1
	Pacific Equity Partners	3.3
	Pacific Equity Partners Supplementary Fund	4.3
	Private Equity Cash	11.1
<b>Infrastructure</b>	ANZ Infrastructure Services	28.8
	- Energy Infrastructure	
	Colonial First State Airports Fund	15.8
	Macquarie GIF A	7.5
	Macquarie GIF B	7.8
	Macquarie GIF C	1.2
	Macquarie GIF D	1.3
	Macquarie GIF II	15.4
<b>Non-Correlated Alpha</b>	BGI Equity Market Neutral Fund	37.5
	BGI Total Return GI Equity Mkt Neutral Fund	27.0
	CFS Wholesale Global Diversified	31.2
	Harris Alternative Aurora 2	32.1
<b>Currency</b>	Bridgewater Associates	3.1
	FX Concepts	5.3
	Pareto Partners	0.0
<b>Total investments</b>		<b>1 759.0</b>
<b>MilitarySuper net assets / (liabilities)<sup>1</sup></b>		<b>(10)</b>
<b>Net assets of Scheme<sup>2</sup></b>		<b>1 749</b>

1 MilitarySuper net assets / (liabilities) represents benefits payable, tax provisions and cash at bank.

2 The value of the Scheme represents the investments of the Scheme. Net assets of the Scheme shows the amount available to members at 30 June after allowing for tax, cash at bank and benefits payable to former contributors.

3. Investment Managers include Fund Managers, Trusts and limited liability partnerships.

\*Note: Calls against capital commitments for these investments had not been made as at 30 June 2005.



## unitisation

The MSB Fund was unitised with effect from 1 July 2002. Unitisation refers to the conversion of member interest-bearing accounts to unit-based accounts within the Fund. Since 1 July 2002, Fund earnings have been reflected in a change in the value of a unit.

Members' closing account balances as at 30 June 2002 (after the application of the crediting rate for 2001–02) were converted to units, with each unit having a value of \$1.00 at 30 June 2002. This unit holding became the members' opening balance with the introduction of unitisation on 1 July 2002.

From 1 July 2002, contributions to the MSB Fund result in the issuing of new units at the issue price for the day the money is received by the Fund. Benefit payments result in the withdrawal of existing units at the withdrawal price on the day the completed application for payment is received (but this can be no earlier than the day after the applicant ceases to be a member of the MSBS).

The most current issue and withdrawal prices are provided on the MilitarySuper website for the information of members. The unit prices at 30 June 2005 are provided in Table 9. If there is a difference between the unit price figures on the website and what is on the scheme's administration system, the figures in the administration system apply.

**table 9: unit prices as at 30 June 2005**

Strategy	Price	% change YTD
Cash	\$1.089529	+4.3222%
Conservative	\$1.164356	+7.7521%
Balanced	\$1.277561	+11.9186%
Growth	\$1.262020	+11.4930%
High Growth	\$1.351856	+13.7010%

The screenshot shows a 'Military fact sheet' titled 'UNITISATION'. It explains that unitisation is an alternative means by which the net assets of the MSB Fund can be unitised for the individual members of the MSBS. It details how the MSB Fund is converted into a number of units, and each MSBS member receives a number of units based on the value of their account at the time of unitisation. It also lists the benefits of unitisation, such as allowing assets from existing units to be equally distributed amongst future units, and provides information on why the MSB Board unitised the Fund. The document is dated MAY 2002, NO. MS07.

Daily unit prices are struck for each day of the year on the basis of the market value of listed investments on the previous day's close of trading, and on the basis of the best available valuation data on non-listed investments. Provisions are also made for taxes, fees and expenses on the income derived from those investments on a daily basis.

Non-listed investments by their nature are illiquid and the true value of these investments is determined on the basis of periodic independent valuations or as a result of a sales event.

At the end of a financial year Fund performance is calculated on the basis of "hard close" data which only becomes available some time after 30 June. Given this timing difference the unit price for each investment option declared for 30 June may vary from the investment performance of that option subsequently determined on the basis of fully audited accounting and taxation information.



# **governance**

**business plan**

**administrative agreement**

**delegations**

**Board committees**

**status under the SIS and corporations legislation**

**evaluation**



*During the year the Board continued to give particular attention to processes supporting decision-making, accountability and standards of service.*

## **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.

## **directions for 2005–06**

Key features of the Board Business Plan for 2005–06 include:

- Completion of the implementation of the revised investment strategies.
- Introduction and communication of the ancillary benefits for members.
- Application for the Boards APRA License.

## **administrative agreement**

The Commissioner for Superannuation and, through that office, Commonwealth Superannuation Administration (ComSuper), is the legislated provider of administration services to the Board. The cost of these services is met by the Department of Defence.

During the year negotiations commenced on the establishment of a new agreement covering the relationship between the Board, the Department of Defence (as the Employer) and ComSuper (the Scheme Administrator). The purpose of these negotiations is to clarify the roles and responsibilities of each party and to formally acknowledge the accountabilities of each

A revised agreement is expected to be in place from 1 July 2005.

## delegations

The Board has delegated the majority of its general administrative powers and functions to the Commissioner for Superannuation and to ComSuper staff.

The major areas of delegation include the maintenance of membership records, the receipt of member and employer contributions and the calculation and payment of benefits.

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 and Risk Management Committee

The Audit and Risk Management Committee is a subcommittee of the full Board. During 2004–05 the Committee comprised Dr Michael Sharpe (Chairman), WOFF Robert Swanwick, Mr Phil Charley, and on the retirement of Mr Phil Charley, Mr Felix Bleaser.

The 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 advisers and managers, the Master Custodian and other service providers.

The role of the Committee encompasses the Board's responsibilities for risk management.

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;
- appropriate audit and fraud control strategies are in place to protect Board and member interests; and
- proper assessment of risks is carried out for consideration by the Board.

The Committee met four times during the year.

The Committee has appointed the accounting firm PricewaterhouseCoopers (PwC) to act in the role of Audit Adviser. PwC is also the Board's taxation consultant and tax agent.

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

- 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 daily unit prices.

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

## **Investment Committee**

The Investment Committee is a subcommittee of the full Board. During 2004–05 the Committee comprised Mr Charles Kiefel (Chairman) and Dr Michael Sharpe.

The primary objective of the Committee is to act as a stimulant to the promotion of new investment ideas and concepts and to act as a filter for those investment ideas and concepts. Its primary role is to advise the Board on investment issues and related matters that are central to the Board's functions of managing and investing the MSB Fund. It acts as the point of contact and focus between the Board and its key external advisers on investment matters. For this purpose it meets regularly with the Board's primary advisers to monitor Fund performance and actions taken to implement the Board's investment strategy.

The Committee's responsibilities are to:

- keep the Board informed on matters within the Committee's authority; and
- provide analysis and advice to the Board on outcomes relating to new investment opportunities.

The Committee's responsibilities do not extend to the establishment of investment strategy or the selection of investment products or service provider (although it might advise on these issues). These responsibilities remain the province of the full Board, which may have regard to recommendations of the Committee.

The specific duties the Committee is expected to undertake in meeting its principal purpose are to:

- consider, review and advise on the Fund's investment objectives;
- consider and review the Fund's investment strategies and make recommendations to the Board;
- review and evaluate the investment performance of the Fund;
- evaluate and advise the Board on specific strategic investment proposals;
- monitor investment manager performance;
- review and evaluate the performance of asset consultants and other investment related service providers;
- evaluate appropriate investment structures for the holding of the Fund's assets and make recommendations to the Board;
- consider and advise on investment manager mandates; and
- report and make recommendations to the Board on investment matters, including risk and overlay matters.

The Committee met six times during the year.

## **Military Superannuation Communication Committee (MSCC)**

The Military Superannuation Communication Committee is a subcommittee of the full Board. During 2004–05 the Committee comprised AIRCDRE Lee Roberts (Chairman), WOFF Robert Swanwick, Mr Brian Paule (representative of the Department of Defence) and Major Ron Tattersall (representative of the DFRDB Authority).

The primary objective of the Committee is to act as an agent of and an advisory body to the full Board in relation to ensuring the Board meets the information disclosure requirements flowing from the Board's AFS Licensing obligations and as otherwise imposed by SIS. This is done through clear, timely and accurate reporting to members and ensuring that members are informed of Trustee decisions and other developments which may affect members' interests. It also provides a forum by which



the communications activities of the MSBS can be coordinated with those related to members and beneficiaries of the DFRDB Scheme.

The Committee is, therefore, the point of communication between the Board, the DFRDB Authority, the Department of Defence, the scheme administrator and other service providers for communication issues relating to members and beneficiaries of the MSB and DFRDB schemes.

The Committee met six times during the year.

## **Reconsideration Committee**

As at 30 June 2005, the Committee comprised Brigadier David Buring AM (Chairman and pensioner representative), Colonel M Charles (representative from a service office), Mr P Charley (representative of the MSB Board), and Mr Noel Cock (representative of ComSuper)

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

The Committee met on eleven occasions during the year.

## **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.

## **Board Executive**

Major tasks undertaken by the Board Executive during the year includes the bedding down of new operating processes and procedures related to the operation of the Scheme under the new Australian Financial Services (AFS) Licensing regime.

Both the General Manager and Board Compliance Officer hold appointments as Responsible Officers under the terms of the Board's AFS License.

Significant work was also commenced on preparations to enable the Board to lodge an application for an APRA License. During the course of this work a significant issue arose in relation to the relationship between the Board and its legislated administrator, ComSuper. The MSB Act provides an absolute indemnity to the Commissioner for Superannuation and staff of ComSuper for all acts or omissions in respect of the administration of the Scheme on the Board's behalf. The extent of the indemnities provided raised concerns about the Board's ability to renegotiate its Trustee Indemnity Insurance policy on reasonable terms and to otherwise meet the operating standards required to enable the Board to successfully apply for an APRA License.

Following extensive consultation at Departmental and Ministerial levels, agreement was reached on the need for urgent legislative amendment. Pending legislative change, and as an interim measure, the Commonwealth has agreed to provide a guarantee to the Board and the MSB Fund in respect of claims or losses arising from actions of ComSuper in the course of the administration of the Scheme on the Board's behalf. This has enabled the Board to successfully renegotiate trustee indemnity insurance to protect individual trustees and the assets of the MSB Fund and to proceed with its application for an APRA License, which is expected to be lodged during July 2005.

Arrangements to finalise the physical separation of the Board from the Administrator were completed, with the Board taking up separate office accommodation in the Canberra CBD during September 2004. In addition, the Board, ComSuper and the Department of Defence are continuing to pursue processes which will enable the Board to exercise a greater degree of financial independence from the Administrator in relation to its own administrative expenditures.

During the year the resources of the Executive Unit were expanded to enable a range of previously outsourced administrative functions associated with the Fund's investment activities to be brought in-house. This action has resulted in increased levels of control and supervision of investment activities and enabled the Board to receive more timely and efficient reporting on fund and manager performance on a daily basis.

## status under the SIS and corporations legislation

The MSBS is a regulated superannuation fund under the *Superannuation Industry (Supervision) Act 1993* (the SIS Act). The Board has established extensive compliance arrangements to ensure that operational and legislative changes are independently reviewed to assess their impact against SIS requirements and to ensure that ComSuper's practices remain in concert with the SIS legislation.

Since March 2004 the MSBS has operated under the requirements of the Financial Services Reform (FSR) legislation. This legislation is designed to provide increased consumer protection for members of superannuation funds.

### product disclosure statement

One of the key requirements of the Financial Services Reform legislation is for MilitarySuper to issue a Financial Services Guide (FSG) and a Product Disclosure Statement (PDS).

The Financial Services Guide explains what financial services the Board provides for MilitarySuper and who delivers them, and can be found on the MilitarySuper website ([www.militarysuper.gov.au](http://www.militarysuper.gov.au)).

The Product Disclosure Statement for MilitarySuper consists of the following four documents:

- *The Annual Report to Members;*
- *Your Guide to Investment Choice;*
- *The MilitarySuper Book;* and
- *Supplementary PDS*

Together these documents describe all the main features of MilitarySuper. Members are provided with these documents on joining MilitarySuper and can obtain electronic copies of them, and order paper copies, from the website.

### what financial product advice the Board can provide

The Board is only licensed to provide general financial product advice. General financial product advice means that the Board has not considered the member's individual objectives, financial situation or needs in providing the information or advice. If members wish to have financial product advice in circumstances where the provider of that advice has considered one or more

of a member's objectives, financial situation or needs, the member is advised to consult a licensed financial planner.

The only kind of financial product the Board is licensed to provide, and in respect of which it may provide financial services, is the Military Superannuation and Benefits Scheme (MSBS). In providing its authorised services, whether directly, or through its authorised representatives, the Board is acting for itself. Entitlement to join the MSBS, and benefits derived from it, are determined by the MSB Act and Rules.

## **general product advice provided by authorised representatives of the Board**

General financial product advice can also be provided by authorised representatives of the Board who are employees of Commonwealth Superannuation Administration (ComSuper) ABN: 77 310 752 950.

Authorised representatives are trained to provide general financial product advice in accordance with the standards set out in the Australian Security and Investments Commission's Policy Statement Number 146 (PS146).

The Board's General Manager and Compliance Officer have been appointed 'Responsible Officers' for the purposes of the Board's AFS licence and one Trustee has successfully undertaken training to enable him to provide general financial product advice in accordance with PS146.

## **evaluation**

### **annual effectiveness reviews**

The Board conducts an annual effectiveness review of all its major outsourced service providers as part of its annual business planning process.

In addition, the Scheme's internal auditor undertakes a review of one major service provider (the Administrator, Custodian and Asset Consultant/Advisor) each year, so that all major service providers are reviewed once over a three year cycle.

The performance standards referred to in this report are those defined in the current 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 2004–05 the Board’s administrator continued to conduct client satisfaction surveys with the assistance of the Canberra-based firm Orima Research. Clients who had recent contact were surveyed once during the year. On a point scale of 1–10 the quality of services surveyed was consistently rated highly.

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 85% satisfaction level. Chart 8 (page 49), which shows ComSuper’s QSI scores for the military schemes in each of the twenty survey periods since data collection began in 1997–98, shows a consistent level of client satisfaction within the 80–85% range.

The survey results feed into a 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.

# account maintenance

collection, recording and maintenance of  
member information

system changes

collection, banking, recording and maintaining  
contributions remittances



*The maintenance of MSBS contributing member, preserved benefit member and pension member 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.*

## **collection, recording and maintenance of member information**

The Board's administrator:

- maintains records of contributing members, preserved benefit members and pension members to facilitate, among other things, the accurate and timely publication of member statements, accurate and timely communications, the accurate and timely payment of benefits, various reporting requirements and 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;
- at the direction of the Audit and Risk Management Committee of the Board, arranges for an independent audit of those systems and controls to be undertaken from time to time; and
- maintains a system for locating and reporting lost members.

## **system changes**

In the 2002–03 annual report, details were provided of the implementation of the new CAPITAL system that was commissioned on 4 June 2002 and developed for military schemes administration.

In 2004–05 the Applications Development area delivered additional major functionality for the CAPITAL product in the form of:

- Co-Contributions and Ancillary Contributions Phase 1 and 2 functionality enabling the acceptance and distribution of ancillary contributions to members' accounts.
- Major overhaul of the Actuary Statistics production functionality.

CAPITAL system was upgraded to version 6.3.4 along with its backend Oracle database to version 10g.

Support, fault rectification and tuning were ongoing for the Military administration and pension payments systems.

During the period 847 trackers (System Change Requests) were released into production for the Capital system, including 637 data fixes.

## collection, banking, recording and maintaining contributions remittances

The basic rate of member contribution to the MSBS is 5% of salary, including higher duties and Environmental Allowance, although members can elect to contribute up to 10% of salary, and from early in 2005–06 will be able to make additional pre and post tax contributions. The employer benefit is unfunded except for the 3% productivity contribution which is paid into the Fund by the Department of Defence.

Total contributions to the Fund during 2004–05 were \$180.9m, of which member contributions comprised \$112.8m, as shown in Table 11. Employer contributions amounted to \$68.1m. The net appropriation for benefits for the year was \$131.5m (\$119.7m for 2004–05).

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

**table 10: contributors and contributions for the past five years**

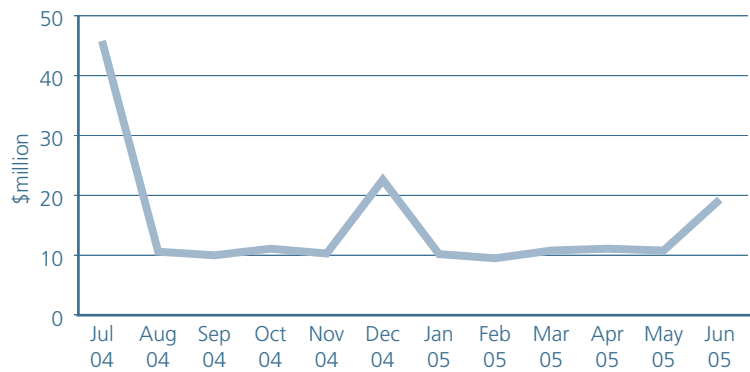
Year	Contributors at year's end	Member contributions (\$m)	Employer-funded contributions (\$m)	Net appropriation contributions from Consolidated Revenue (\$m)
2000–01	39 513	86.7	47.9	108.3
2001–02	42 703	93.2	51.6	119.9
2002–03	45 215	102.1	57.0	118.2
2003–04	46 892	112.2	62.7	119.7
2004–05	45 861	112.8	68.1	131.5



As the Board's administrator, ComSuper:

- maintains appropriate banking arrangements for the payment of contribution remittances into the Fund;
- lodges moneys with the Board's 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 contributions and pursues any late remittance of contributions with the Department of Defence.

**chart 2: MSB Fund cashflow (contributions received less benefits paid) 2004–05**



# member communications

overview

communications focus for 2004–05

counselling and information services

annual report project

member statements

mid year newsletter

website development



## overview

*Communication with MilitarySuper contributing, preserved benefit and pensioner 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;*
- *half yearly reports to members;*
- *the Board's Annual Report to Members;*
- *written correspondence;*
- *telephone enquiry services;*
- *wide distribution of various scheme publications; and*
- *regular member information seminars throughout Australia.*

At the Board's direction, a comprehensive communications program has been developed that is 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 FSR and a recognition of the particular needs of members.

Specifically, a range of communications is provided to members on benefit entitlements and queries relating to the general administration of the scheme in writing, over the phone and by electronic means.

In addition, a range of seminars is offered broadly in accordance with demand, member information statements are issued and various scheme publications made available both in hard copy and electronic format.

## Communication focus for 2004–05

The work plan established by the Military Superannuation Communications Committee included the following key objectives:

- provide targeted communications to members during key periods of their service—for example, on entry to the scheme, annually throughout their membership, on transition from one membership category to another, on exit from the scheme and to beneficiaries on death of a member;
- focus communications activities on key areas of member concern as determined by reference to issues raised through the client Contact Centre;

- continue to deliver a communication/education program to cover the scheme’s ancillary benefits initiatives (such as spouse accounts and roll-ins);
- promote the availability of MilitarySuper seminars and increase the accessibility of seminars to new entrants to the ADF; and
- communicate the Board’s approach to proposed new government initiatives.

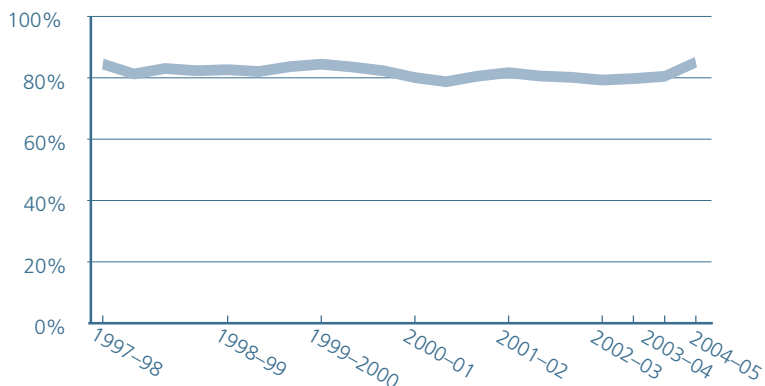
## performance indicators

Member satisfaction with ComSuper’s services continued the upward trend, showing a significant increase in the last quarter surveyed for 2004–05. The results of the most recent survey recorded an increase in MilitarySuper member satisfaction to a **high of 85%** and are consistent with the high levels of satisfaction among ComSuper’s clients in relation to:

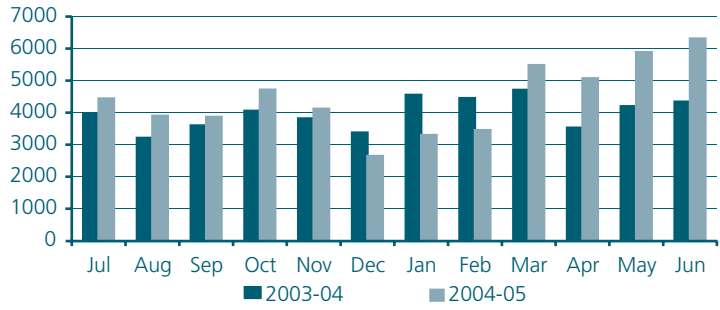
- timeliness and quality of service;
- skills and knowledge of ComSuper staff; and
- relevance and readability of information provided.

In addition to the regular client satisfaction surveys conducted by ComSuper, surveys are also arranged for specific communication activities including the annual reports to members and seminar program.

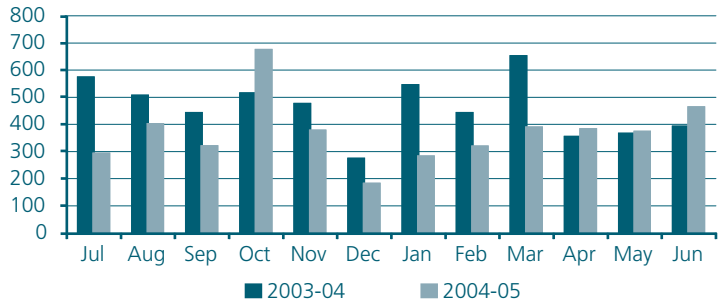
**chart 3: Quality Service Index (QSI) scores for military client satisfaction 1997–98 to 2004–05**



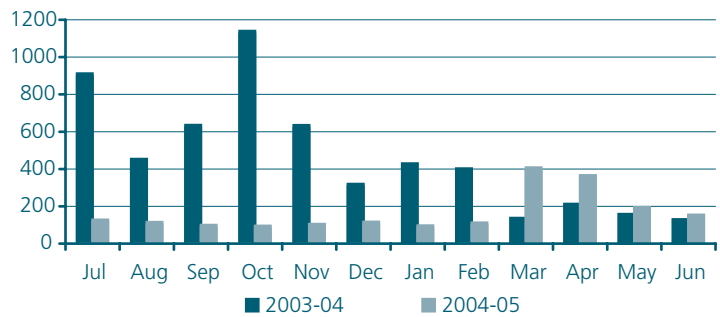
**chart 4: monthly call volume comparisons**



**chart 5: monthly email volume comparisons**



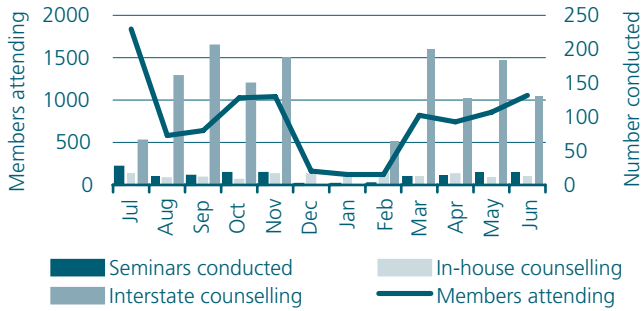
**chart 6: monthly written volume comparisons**



## counselling and information services

Information about the scheme is provided to members over the telephone, in writing, by email, and through presentations at resettlement seminars at various bases and units throughout Australia. Members may also speak to an information officer on a one-to-one basis in Canberra and at some resettlement seminars throughout Australia.

**Chart 7: information seminars**



With the development of the MilitarySuper 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.

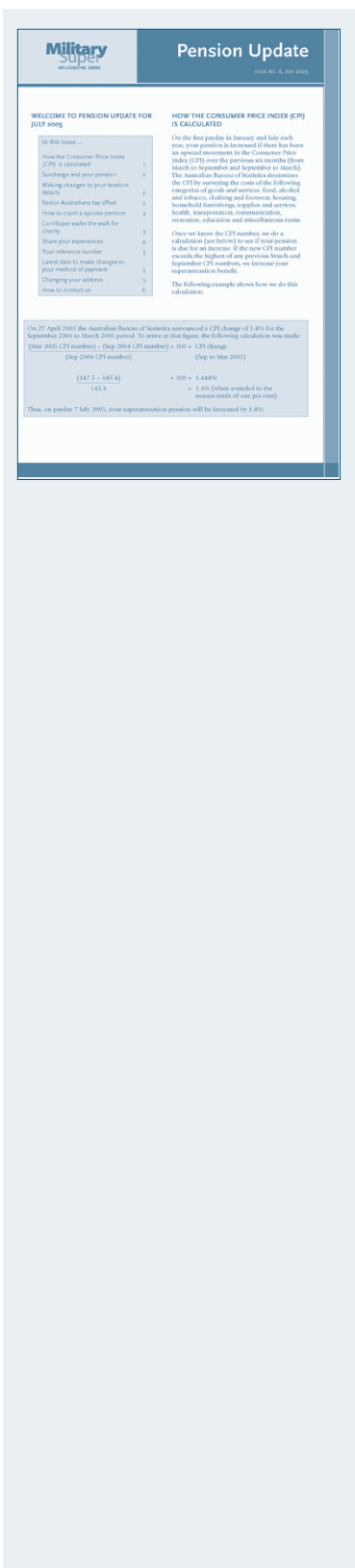
Most member contacts are by telephone, with an average of 1275 telephone calls recorded per week compared with 912 last year. The Interactive Voice Response (IVR) telephone service recorded receipt of 66 321 calls from military (MSBS and DFRDB) members, an increase from last year's figure of 47 463.

Emails from military members answered totalled 5787, an increase on the 3628 completed last year.

ComSuper staff responded to 2724 written enquiries from military members, a decrease on 6583 completed last year.

During the year, ComSuper presented 67 seminars to a total of 5470 MSBS members and provided personal counselling for 1941 military members. The seminars were primarily conducted in conjunction with transition seminars. A further 17 seminars relating to medical discharge were presented to 723 military members.

Additionally, the Contact Centre responded to 603 requests for information about the superannuation entitlements of DFRDB or MSBS members under the new family law arrangements.



## pensioner communications

The Contact Centre assists military pensioners to understand their superannuation entitlements and maintain their pension accounts in accordance with the service standards agreed between the Board and ComSuper.

Information officers can be contacted by telephone, letter, facsimile or email. Pensioners with hearing impairments can use a special teletypewriter (TTY) facility. Information officers are available for personal counselling at ComSuper's office. Pensioners who use the Internet can get general information from the MilitarySuper website.

## annual report project

A key communication from the Board to the MilitarySuper members is through the Annual Report to Members, which is distributed to all contributory and preserved benefit members.

The 2003–04 Annual Report to Members was distributed in October 2004 and received a positive response from members. The 2004–05 Annual Report to Members will be issued with the annual member statements to members in October 2005.

## member statements

Corporations law requires the Board to distribute annual member statements by 31 December each year. 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.

The 2003–04 MSBS statements included an additional feature in the form of a transaction summary, which reported all member and productivity contributions made by and on behalf of the member, the effective date of the payment, the applicable unit price at the date of the transaction and the number of units purchased with each transaction.

Statements for contributing members were distributed by 13 September 2004 and those for preserved members by 17 September 2004. The manual statements were distributed to members by early December.

The Corporations 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 and the administrator the service standard for this function is

10 days, which exceeds the SIS requirement. A facility introduced in November 2002 now enables replacement statements to be issued within two working days.

## mid year newsletter

The Board continuously seeks ways to improve communications with members. An example of this was the introduction of a mid year newsletter from the Board to members. The purpose of the newsletter is to advise members of issues of interest or significance in relation to MilitarySuper and in respect of development in superannuation policy within the wider community.

The first newsletter was issued in March 2005 and informed members of the developments relating to the investment of the Fund, and in particular, the implementation of the Fund's revised investment strategy and the implications for member investment choice.

## website development

The MilitarySuper website ([www.militarysuper.gov.au](http://www.militarysuper.gov.au)) is designed to position it as a primary communications channel to reach scheme members.

Website users were surveyed during the year as part of ComSuper's cyclical research. Key findings of this research were:

- 77% of members said that the website was easy to find;
- 79% said they were satisfied with the website;
- 65% said that the website met their information needs.

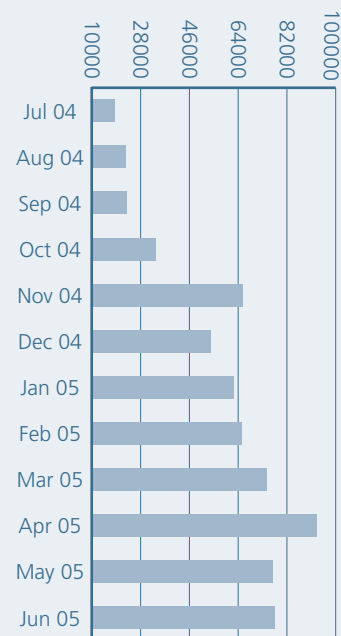
Chart 8 shows usage of the website in 2004–05. Table 11 shows the ten most requested web pages during the current year. It also demonstrates that member website access has peaked at times when the Board has communicated to members via the mid year newsletter and annual report.

The Board remains committed to further enhancing its web facility and the development of online services.

## secure website access

Member Services Online provides members with a range of secure services, including the calculation of benefits and the ability to view their annual statement online. During the year 2496 statements were accessed and 2660 benefit estimates produced online.

**chart 8: MilitarySuper website page requests 2004–05**



**table 11: most requested web pages 2004–05**

1	MilitarySuper Book
2	Unitisation
3	Member Services Online
4	FAQs
5	Benefits
6	Contact Us
7	Access Number Application Form
8	MIC Booklet
9	MSBS Rules
10	MIC Homepage

**table 12: website page requests 2001–02 to 2004–05**

2001–02	106 703
2002–03	426 561
2003–04	208 676
2004–05	665 973





# benefit payments

benefits

benefit payments

pension variations

pension payments

invalidity benefits

invalidity classification process

invalidity classification review

accounts, records and funding of benefit payments

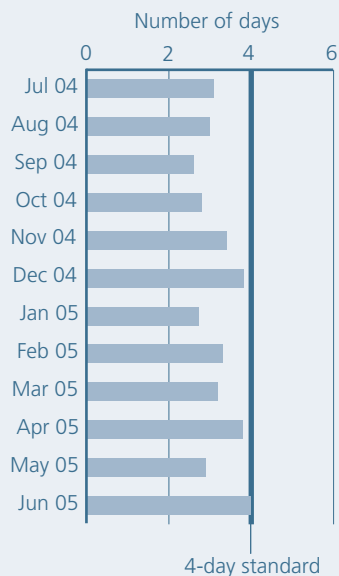


**All exiting members are entitled to a member-financed benefit regardless of their reason for leaving the ADF. Members are also entitled to an employer-financed benefit, which varies according to the reason for exit.**

**table 13: benefits paid 2004–05**

Pensions	\$89.3m
Lump sums	\$91.8m
<b>Total</b>	<b>\$181.1m</b>
Fund share	\$49.6m
Consolidated Revenue share	\$131.5m
<b>Total</b>	<b>\$181.1m</b>

**chart 9: average time to process benefit payments 2004–05**



## benefits

### member-financed benefits

The MSBS member benefit is derived from the member's own contributions, including any amounts notionally brought over from the DFRDB Scheme, plus the earnings on those contributions in the Fund. Members can exercise choice of investment strategy for this component of their benefit. 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 funded while the balance of the defined benefit is unfunded prior to the total employer benefit payable is not affected by market fluctuations.

### discharge benefits

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

Discharging members may preserve their total benefit or take that part of their member benefit that accrued up to 30 June 1999. Any contributions paid and earnings 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 from the MSB Fund part of a member benefit that has been preserved in the scheme that is not compulsorily preserved; however, it must be withdrawn in \$10 000 multiples and at intervals of no less than six months.

### benefit payments

All applications for benefits from contributors and preserved benefit members are processed in accordance with relevant legislation and within the timeframes agreed between the Board and its administrator. For members whose applications are processed outside 15 days, late payment interest is added.

For 2004–05, the Board adopted a soft close policy on year end prices that allowed the processing of benefit payments to continue during the first week of July.

## early release of preserved benefits

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

Of the 1022 preserved benefits paid in full or part during 2004–05, 347 were released on permanent physical or mental incapacity, severe financial hardship, or compassionate grounds.

## pension variations

### reversionary benefits

All applications for reversionary benefits following the death of a member or a pensioner (that is, eligible spouses, children and orphan pensions) are processed in a timely manner and in accordance with relevant legislation.

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

In 2004–05, the Australian Bureau of Statistics announced a CPI change of 1.4% for the period to March 2004 and 0.9% for the period to September 2004.

Pensioners received statements in July 2004 and January 2005 showing their new rate of pension. Their income tax payment summary and other relevant information were also included with the July statement.

## pension payments

### employer-financed benefits paid as pension

During the year, 428 new pensions were granted and at 30 June 2005, 5564 members were receiving MSBS pensions. The total number of pensioners for each class of benefit is detailed in Table 14 for the end of each financial year since 30 June 2000.

The total amount paid as pensions during the year was \$89 million. The average pension amounted to \$16 461 per annum.

**DEPENDANTS' BENEFITS**  
PROTECT YOUR FAMILY

**Military Super**  
Military Superannuation and Benefits (Income Information Series)

**Introduction**  
If you die while in Military Super, your dependants may be eligible for a pension. The pension is subject to a means test and is payable for the life of the dependant.

**Benefits payable**  
The benefit payable may vary according to whether you die as a pensioner or as a member.

**Death in service**  
Your member benefit (that is, your contributions and accumulated interest) is payable immediately as a lump sum to the person entitled (for example, to your eligible spouse or children).

**Death as a pensioner**  
If you die while in Military Super, your dependants may be eligible for a pension. The pension is subject to a means test and is payable for the life of the dependant.

**Dependants**  
If you have no other eligible dependants, you may be eligible for a pension. If you have more than one eligible dependant, you may be eligible for a pension for that person or those persons or you may be eligible for a pension for that person or those persons, in the event that there is no such person or persons, then the benefit is payable as a lump sum to your estate.

**Need more information?**  
See the Military Super team (available to contact on 1300 300 300) or visit our website [www.militarysuper.gov.au](http://www.militarysuper.gov.au) or by calling 13 12 34 for more detailed information on benefits payable following death in service.

**Death as a pensioner**  
If you die while in Military Super, your dependants may be eligible for a pension. The pension is subject to a means test and is payable for the life of the dependant.

[www.militarysuper.gov.au](http://www.militarysuper.gov.au)



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 169 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 receive advice of decisions of the Board and the ICC and also receive a copy of the minute recording the decision.

### invalidity retirements by classification

From 1 July 2004 to 30 June 2005, 703 members received initial invalidity classifications, although in 61 of these cases Rule 32 (relating to pre-existing conditions) was applied. This is an increase of 82 invalidity cases on the previous year (total 621). Of those who received an invalidity classification, 350 (63 Class A and 287 Class B) became entitled to an invalidity pension. The remaining 292 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, by service, of invalidity classifications 2004–05**



## invalidity classification review

The Board or its delegates may from time to time review the classification of invalidity pensioners either of their own volition or at the request of pensioners.

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 2004–05, 829 cases were examined, 25 of which were reviews requested by members. As a result of these reviews 133 classifications were changed, as shown in Table 15.

**table 15: Invalidation entitlements reviewed in the past five years**

	2000 –01	2001 –02	2002 –03	2003 –04	2004 –05
Entitlements examined	548	545	475	684	829
Review with medical exam	138	187	222	255	274
Classification raised	23	25	21	38	12
Classification reduced	67	124	123	177	121
Total classification changes	90	149	144	215	133

# dispute resolution

internal review

reconsideration of decisions

external review

family law

enquiries and complaints

freedom of information





***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 review**

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 took the original decision, the application for reconsideration must be supported by new and relevant evidence. Applications for the reconsideration of a delegate's decision need not be supported by new evidence. The time limit for requesting reconsideration is within 30 days of receiving advice of the decision. The Board may extend this period in special circumstances.

Requests for reconsideration are investigated in a thorough, objective and effective manner and in accordance with any guidelines issued by the Board.

## **reconsideration of decisions**

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

Following determination 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 2004–05, 231 requests for reconsideration of decisions were received, an increase from the 177 requests received the previous year. Of these, seven requests related to reconsideration of a decision of a Reconsideration Committee or the Board compared with five during 2003–04.

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 seventy-two cases were finalised during the year, compared with 165 cases last year. Fifty-eight decisions were affirmed and in 47 cases the decision was set aside or varied in favour of the applicant. Another 67 cases were lapsed or withdrawn with the applicant failing to pursue the matter.

One hundred and ten cases remained under investigation on 30 June 2005.

**table 16: reconsideration applications for the past five years**

	2000–01	2001–02	2002–03	2003–04	2004–05
Requests on hand	74	55	47	39	51
Requests received	90	141	169	177	231
Requests resolved	109	149	177	165	172
Carried forward	55	47	39	51	110

## external review

On 29 June 1995, the Trustees of the MSBS signed an election to become a regulated superannuation fund for the 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).

Thirteen complaints were lodged with the SCT during the year and six cases were carried over from 2003–04. Nine complaints were resolved during the year: four decisions were affirmed, two complaints were treated as withdrawn, and three decisions were set aside. There were ten SCT cases outstanding as at the end of June 2005.

In 2004–05 one SCT decision was appealed to the Federal Court and remained outstanding at 30 June 2005. 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.

Systems are in place 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).

The Board also monitors the outcome of external appeals and their implications.

## family law

The *Family Law Act 1975* states that where a member proposes to split his or her superannuation interest, the Trustee of the superannuation fund where the interest is held must be notified and given an opportunity to object to the terms of the split if it wishes. The *Family Law Rules 2004* state that the Trustee has a period of 28 days from the date of notification to state its objections.

During the year, between 98 and 302 written responses to members and non-members and their solicitors were completed each month within 28 days of receipt of the enquiries.

## **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*.

## **complaints, ministerials and ombudsman enquiries and freedom of information requests**

Systems are in place for dealing with SIS-registered complaints and representations made by Parliamentarians and the Ombudsman; requests made under the *Freedom of Information Act 1982* (the FOI Act); and correspondence directed to the Board.

## **complaints and parliamentary enquiries**

Thirty-five complaints and six parliamentary representations were received during the year. One complaint was carried over as at 30 June 2005.

The complaints covered a range of issues such as payment delay, interest rate concern and inability to withdraw preserved amounts.

In addition, Ministerial Representations relating to policy issues are received and responded to within the Department of Defence. In 2004–05 those relating to the MSBS totalled 30 (including 19 regarding MSBS employer benefit preservation arrangements). There were also 90 on pension indexation arrangements 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 Parliamentary, FOI and Complaints Unit.

MSBS members made 115 requests for access to documents during 2004–05. One hundred and nine requests were granted in full and two partially. Four requests were refused.

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:

Parliamentary, FOI and Complaints Unit  
ComSuper  
PO Box 22  
Belconnen ACT 2616

Telephone: (02) 6272 9080  
Facsimile: (02) 6272 9802  
TTY: (02) 6272 9827  
Email: [foi@enq.militarysuper.gov.au](mailto:foi@enq.militarysuper.gov.au)



# membership

contributors

preserved benefit members

pensioners



*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.*

## contributors

At 30 June 2005, there were 45 861 contributors to the MSBS, 41 196 (89.8%) of whom were male and 4 665 (10.2%) female. Table 17 shows the number of new entrants and exits and the total contributor membership at 30 June 2005. Table 18 shows the number of contributors by years of service and by gender.

**table 17: contributor composition**

	<i>Male members</i>	<i>Female members</i>	<i>Total</i>
Membership at 30 June 2004	41 657	5 235	46 892
Plus new contributors	5 095	228	5 323
Less members left the ADF	5 556	798	6 354
Membership at 30 June 2005	41 196	4 665	45 861

**table 18: male and female contributors by years of service**

<i>Years of service</i>	<i>Male</i>	<i>Female</i>	<i>All</i>
0–9	31 074	3 181	34 255
10–14	4 948	828	5 776
15–19	3 293	521	3 814
>19	1 881	135	2 016
Total	41 196	4 665	45 861

## commencements

There were 5323 new MSBS members in 2004–05.

## exits

There were 4699 exits from the MSBS during the year. Another 1655 unclaimed cases from previous years were also processed. The types of exit are shown in Table 19.

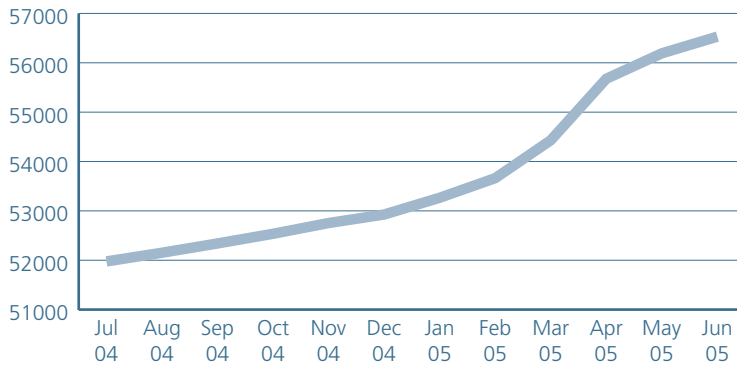
**table 19: modes of exit in the past five years**

Mode of exit	2000-01	2001-02	2002-03	2003-04	2004-05
Age retirement	103	110	71	71	80
Resignation	4 891	3 744	3 426	2 028	2 299
Redundancy	171	12	11	10	5
Invalidity retirement	623	497	487	397	456
Death	10	17	12	15	19
Not yet determined	-	-	-	388	-
Other	150	-	-	833	1 840
<b>Total</b>	<b>5 948</b>	<b>4 380</b>	<b>4 007</b>	<b>3 742</b>	<b>4 699</b>

## preserved benefit members

There were 56 530 preserved benefit members in the MSBS as at 30 June 2005. Chart 11 shows the growth of preserved benefit members during 2004-05.

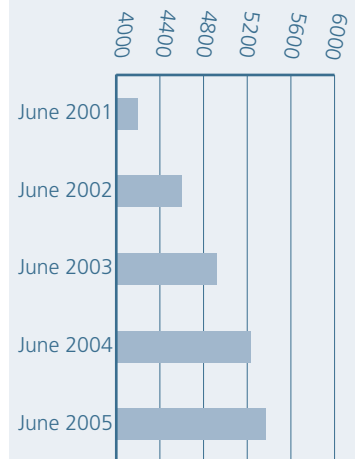
**chart 11: growth in preserved benefit member population 2004-05**



## pensioners

There were 5370 pensioners in the MSBS as at 30 June 2005. Chart 12 shows the growth of pensioners since 30 June 2001.

**chart 12: growth in pensioner population in the past five years**







# accounting services

SIS and corporations law compliance  
audit of financial statements



## SIS and corporations law compliance

To ensure that the Board complies with the *Superannuation Industry (Supervision) Act 1993*, the Audit and Risk Management Committee has adopted a comprehensive SIS/corporations law checklist. The Board's Compliance Officer is responsible for the SIS/corporations checklist as well as ensuring the Board's compliance with other legislative requirements.

A detailed compliance report was provided to the Audit and Risk Management Committee in September 2004 and March 2005.

As the Board's administrator, 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 quarterly BAS and pays tax instalments by the due date;
- manages the annual taxation return in collaboration with the Fund's taxation adviser;
- calculates daily unit prices for five options in concert with the Fund Custodian;
- 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's Audit and Risk Management Committee meetings and to advise on audits completed or in progress; and
- provides a quality assurance role on accounting information provided by the Custodian or other sources.

## **audit of financial statements**

In the course of the annual audit the Auditor-General identified three areas where the systems and procedures used by the Administrator (ComSuper) in the administration of the Scheme on the Board's behalf were deficient. In one case the deficiency resulted in incomplete information being provided to a small number of members on exit from the Scheme.

Although the member's entitlements in all cases were calculated and paid correctly, and no enquiries or complaints have been received from those affected, the Board considered that this represented a technical breach of its responsibilities to provide complete information. Consequently the Board reported this breach to the Regulator (ASIC).

The Auditor-General has issued a qualified audit opinion on the Scheme financial statements for 2004–05 as a result of this breach.

Although the remaining two errors were not material, and did not result in qualification to the Scheme financial statements, the Board has nonetheless reported these incidents to the Regulator as breaches of its responsibilities under the Corporations Law.

Corrective action has been taken by the Administrator in respect of all these matters. The Board and its Executive Unit are working closely with ComSuper on the ongoing review and update of systems and procedures required for scheme administration.



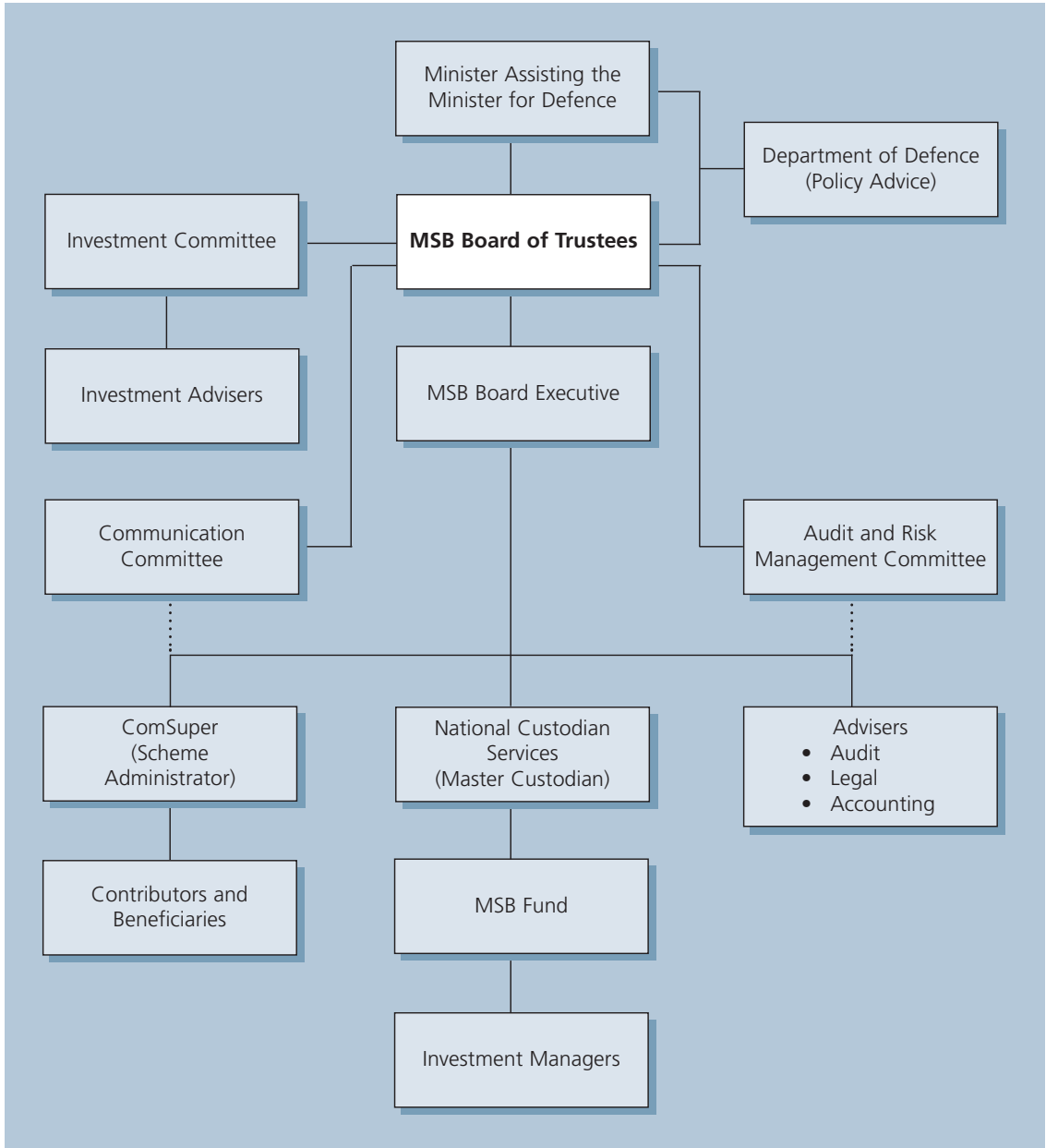
# administrative arrangements

organisational structure of the msbs

financial resources



# organisational structure of the msbs



## financial resources

The administrative costs of the MSB Board of Trustees for 2004–05 totalled \$2.530m. These costs include office accommodation lease and operating costs, fees paid to trustees, trustee travel costs and the cost of Board Executive and ComSuper accounting staff.

In accordance with section 4 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. Under section 27 of the Act the Commissioner for Superannuation and the staff of ComSuper provide scheme administration services to the Board. The Department of Defence pays ComSuper for the costs of administering the scheme on the Board's behalf, including a component of the administration fee which is provided specifically to meet administration costs directly incurred by the Board and its staff.

The breakdown of administrative expenses met by the MSB Fund and the Department of Defence in respect of 2004–05 is as follows:

MSB Fund	\$2.083m
Department of Defence	\$0.447m
Total	\$2.530m

Further details are contained in the financial statements.





# scheme financial statements

**Auditor-General's report**

**Statement by the Trustees**

**Financial statements for the MSB Fund**

**Actuarial report**





## MILITARY SUPERANNUATION AND BENEFITS SCHEME

### 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 for the year ended 30 June 2005 as set out on pages 2 to 24. The superannuation entity's trustee is responsible for the financial statements. I have conducted an independent audit of the financial statements in order to express an opinion on them to you.

My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate Australian Auditing and Assurance 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 in Australia, so as to present a view which is consistent with my understanding of the superannuation entity's net assets and changes in net assets.

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

##### Audit Opinion

In my opinion:

- (i) The financial statements are in the form agreed by the Minister Assisting the Minister for Defence in accordance with sub-section 26(1) of the *Military Superannuation and Benefits Act 1991*; and
- (ii) The financial statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, the net assets of the Military Superannuation and Benefits Scheme as at 30 June 2005 and the changes in net assets for the year ended 30 June 2005.

#### (B) Compliance

##### Scope

I have conducted tests in accordance with the Australian National Audit Office Auditing Standards, which incorporate Australian Auditing and Assurance Standards, as necessary to provide reasonable assurance whether the trustee of the Military Superannuation and Benefits Scheme 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 to 85, 86 to 93A, 95, 97, 98, 101, 103, 104, 105, 106, 107, 109, 111, 113, 117, 118, 121, 121A, 122, 124, 125, 152, 154;  
  
Regulations 2.33(2), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and
- (b) complied with the Reporting Standards made under section 13 of the *Financial Sector (Collection of Data) Act 2001* (FSCODA) that are subject the audit (to the extent applicable); and

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

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

Sections 1012A, 1012B, 1012C, 1012F, 1012H(2), 1012I, 1013D, 1013K(1), 1013K(2), 1016A(2), 1016A(3), 1017B(1), 1017B(5), 1017C(2), 1017C(3), 1017C(5), 1017C(8), 1017D(1), 1017D(3), 1017D(3A), 1017DA(3), 1017E(2), 1017E(3), 1017E(4), 1020E(8) and (9); and

Regulation 7.9.32(3); and

- (d) adhered to regulation 13.15A of the *Superannuation Industry (Supervision) Regulations 1994* (the SIS Regulations) and the guidelines for preparing Derivative Risk Statements ("Guidelines") issued by APRA in Circular I.D.7 on Derivatives (to the extent applicable);

for the year ended 30 June 2005; and

- (e) complied with the requirement to prepare and lodge the respective forms comprising the APRA Annual Return.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the SIS Act and Regulations, the FSCODA and the Corporations Act and Regulations.

My procedures with respect to the Guidelines consisted of confirming whether any Derivatives Risk Statement was to be prepared by the superannuation entity's trustee under the Guidelines contained in APRA Circular I.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 superannuation entity's trustee. This has been prepared and is broadly consistent with the requirements of the Guidelines.

These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the SIS Act and Regulations or guidelines, the FSCODA or the Corporations Act and Regulations apart from those specified. The superannuation entity's trustee is responsible for complying with the SIS Act and Regulations, the FSCODA and the Corporations Act and Regulations and appropriately applying the Guidelines.

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

#### Qualification

Section 1017D(5) of the *Corporations Act 2001* requires a periodic statement to include certain details relevant to the financial product. The Trustee breached this requirement in that the periodic statement to exiting members for the period 1 July 2004 to March 2005 omitted disclosure of members' opening balances and a summary of transactions in relation to the product. The Trustee has addressed this matter by including this information in all members' periodic statements from 29 March 2005.

#### Qualified Audit Opinion

In my opinion, except for the matter referred to in the qualification paragraph, the trustee of the Military Superannuation and Benefits Scheme has complied, in all material respects, with the requirements of the SIS Act and Regulations, the Reporting Standards made under section 13 of the FSCODA and the Corporations Act and Regulations and applied the Guidelines specified above for the year ended 30 June 2005.

AUSTRALIAN NATIONAL AUDIT OFFICE



Carla Jago  
Executive Director

Delegate of the Auditor-General

Canberra  
29 September 2005

## 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 the attached financial statements give a true and fair view:

- (a) of the matters required by AAS 25 and Schedule 1 of the *Commonwealth Authorities and Companies (Financial statements for reporting periods ending on or after 30 June 2005), Orders*, as amended from time to time except that where there is a conflict between Schedule 1 and Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans (AAS 25)*, the latter shall take precedence;
- (b) of the net assets of the Scheme as at 30 June 2005 and the changes in net assets of the Scheme for the year ended 30 June 2005;
- (c) that 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;
- (d) that the financial statements are in a form agreed by the Minister Assisting the Minister for Defence and the MSBS Board in accordance with subsection 26(1) of the *Military Superannuation and Benefits Act 1991* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;
- (e) that the financial statements have been prepared based on properly maintained financial records;
- (f) that the operations of the Fund were in accordance with the *Military Superannuation and Benefits Act 1991*; and
- (g) that the Fund complied with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations and the relevant requirements of the *Corporations Act 2001* and Regulations (to the extent applicable) except for a breach of section 1017D(5) of the *Corporations Act 2001*. The Trustees breached this requirement in that the Periodic Statement to exiting members for the period 1 July 2004 to 28 March 2005 omitted disclosure of members' opening balances and a summary of transactions in relation to the product. The Trustees have addressed this matter by including this information in all members' periodic statements from 29 March 2005.

Signed at Canberra this <sup>27<sup>th</sup></sup> day of September 2005 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*

STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 \$'000	2004 \$'000
<b>Net Assets Available to Pay Benefits at The Beginning of The Period</b>		<b>1 428 974</b>	1 120 022
<b>Add:</b>			
<b>Revenue from Ordinary Activities</b>			
<b>Investment Revenue</b>			
Interest	4	2 722	3 182
Dividends and Trust Distributions	4	79 268	50 681
Other Investment Income	4	383	283
Changes in Net Market Values	4	127 614	164 165
Less: Direct Investment Expenses	6	(13 888)	(8 796)
		<u>196 099</u>	<u>209 515</u>
<b>Contributions Revenue</b>			
Member Contributions		126 638	112 217
Employer Contributions		70 840	62 747
Co-contributions		5 445	-
Appropriation from Consolidated Revenue Fund (CRF)	5	131 489	119 708
		<u>334 412</u>	<u>294 672</u>
<b>Total Revenue from Ordinary Activities</b>		<b>530 511</b>	504 187
<b>Less:</b>			
<b>Expenses from Ordinary Activities</b>			
General Administration Expenses	6	(2 083)	(2 112)
Benefits Paid and Payable	5	(181 093)	(162 250)
<b>Total Expenses from Ordinary Activities</b>		<b>(183 176)</b>	(164 362)
<b>Total Revenue less Expenses and Benefits Paid Before Tax</b>		<b>347 335</b>	339 825
Income Tax Benefit/(Expense)	7	(26 969)	(30 873)
<b>Total Revenue less Expenses and Benefits Paid After Tax</b>		<b>320 366</b>	308 952
<b>Net Assets Available to Pay Benefits at The End of The Period</b>		<b>1 749 340</b>	1 428 974

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

STATEMENT OF NET ASSETS  
AS AT 30 JUNE 2005

	Note	2005 \$'000	2004 \$'000
<b>Investments</b>			
Cash and Short Term Deposits		285 997	115 718
Debt Instruments		-	68 732
International Fixed Interest		-	68 805
Australian Equities		513 078	479 503
International Equities		478 492	437 200
Property Trusts		170 506	113 012
Currency Contracts		5 840	(6 317)
Private Equity		90 871	71 853
Hedge Funds		127 769	55 327
Emerging Markets		-	20 411
Infrastructure		77 786	-
Futures and Options		79	174
Total Investments		<u>1 750 418</u>	<u>1 424 418</u>
<b>Other Assets</b>			
Cash at Bank		15 064	4 897
Consolidated Revenue Fund (CRF) Special Account		86	90
Interest Receivable		14	10
Dividends Receivable		3 959	3 711
Trade Settlements Receivable		5 398	2 157
GST Recoverable		299	258
Sundry Debtors		239	276
Benefits Payable to be funded by Appropriation	5	1 010	1 638
Current Tax Recoverable		-	557
Deferred Tax Assets		-	2 569
Total Other Assets		<u>26 069</u>	<u>16 163</u>
<b>Total Assets</b>		<u>1 776 487</u>	<u>1 440 581</u>
<b>Less: Liabilities</b>			
Benefits Payable	5	2 215	3 415
Trade Settlements Payable		6 130	5 146
Sundry Creditors	8	6 065	3 046
Current Tax Liability		3 971	-
Deferred Tax Liability		8 766	-
<b>Total Liabilities</b>		<u>27 147</u>	<u>11 607</u>
<b>Net Assets Available to Pay Benefits</b>		<u>1 749 340</u>	<u>1 428 974</u>

The attached notes form part of these financial statements.

**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. Dividend income is recognised on a receivable basis on the date shares are quoted ex-dividend. 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 Military Superannuation and Benefits Scheme (MSBS) 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) International Investments - international 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.



**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 latest date of valuation of private equity investments as at 30 June:

<b>Fund</b>	<b>Latest valuation</b>
<b>Domestic Private Equity</b>	
Babcock and Brown Direct Investment Fund	30 June 2005
CHAMP Ventures Trusts No. 5A and 5B	30 June 2005
Crescent Capital Partners II	30 June 2005
Deutsche Private Equity Fund	30 June 2005
Deutsche Private Equity Fund No. 2	30 June 2005
Gresham Private Equity Fund 1 & 1a	30 June 2005
Gresham Private Equity Fund No. 2A and 2B	30 June 2005
GS Private Equity Fund 3, 3A and 3B	30 June 2005
PEP Funds No. 2 and Supplementary No. 2	30 June 2005
<b>International Private Equity</b>	
CSFB Fund Investment VI Bermuda	31 March 2005
HarbourVest Partners IV	31 March 2005
HarbourVest Partners VII Buyout	31 March 2005
HarbourVest Partners VII Mezzanine	31 March 2005
HarbourVest Partners VII Venture	31 March 2005
Pantheon Europe Fund III, L.P.	31 March 2005
Pantheon Global Secondary Fund II, L.P.	31 March 2005
Pantheon USA Fund IV, L.P.	31 March 2005
Rosemont Partners II, L.P.	31 March 2005
Sentient Global Resources Trust No. 1	31 March 2005
TCW Shared Opportunity Fund V, L.P.	New investment held at cost price (no valuation received as at 30 June)

All valuations are unaudited.

**(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.

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

**(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 Scheme'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 Scheme. Derivatives are not used for speculation in any of these markets or for gearing the portfolios.

**(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 deferred tax asset 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 tax liability or deferred tax asset 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 Scheme'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 Scheme 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) Goods and Services Tax (GST)**

Where applicable GST incurred by the Scheme 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.

**(k) 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. ADOPTION OF AUSTRALIAN EQUIVALENT TO INTERNATIONAL FINANCIAL STANDARDS**

The Australian Accounting Standards Board has issued replacement Australian Accounting Standards to apply for financial years beginning on or after 1 January 2005. The new standards are the AASB Equivalents to International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board. The new standards cannot be adopted any earlier. The standards being replaced are to be withdrawn and will cease to apply to financial years beginning on or after

1 January 2005, but continue to apply in the meantime.

*Accounting Standard AASB 1047 Disclosing the impact of Adopting Australian Equivalents to IFRSs* requires that the financial statements for year ending 30 June disclose:

- any known or reliably estimable information about the impacts on the financial report had it been prepared using the Australian equivalents to IFRSs; or
- if the impacts in above are not known or reliably estimable, a statement to that effect.

The purpose of this Note is to make these disclosures.

Changes in accounting policies under AEIFRS are applied retrospectively i.e. as if the new policy had always applied except in relation to the exemptions available under *AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This rule means that an AEIFRS compliant balance sheet had to be prepared as at 1 July 2004. This will enable the 2005-06 financial statements to report comparatives under AEIFRS.

Changes to major accounting policies are discussed in the following paragraphs.

- Income Tax

*AASB 112 Income Taxes* requires the income tax to be calculated based on the "balance sheet" approach. This approach has the potential to result in the carrying value of deferred tax assets and liabilities being different to those determined under the current Australian Accounting Standards.

It is anticipated that the adoption of AASB 112 will not require material changes to deferred tax balances.

The actual effects of the impacts of AEIFRS may differ due to:

- continuing review of the impacts of AEIFRS on our operations;
- potential amendments to the AEIFRS and AEIFRS Interpretations; and
- emerging interpretation as to the accepted practice in the application of AEIFRS and the AEIFRS Interpretations.

# MILITARY SUPERANNUATION AND BENEFITS SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

### 3. NATURE OF THE SCHEME

- (a) The Military Superannuation and Benefits Scheme is a hybrid accumulation–defined benefits scheme which provides benefits to its members under the *Military Superannuation and Benefits Act 1991*.
- (b) Member and Employee Numbers:

	<b>2005</b>	2004
Number of Members	<b>#</b>	<b>#</b>
– Contributors	<b>45 860</b>	46 892
– Deferred Beneficiaries / Preservers	<b>56 530</b>	51 126
– Pensioners	<b>5 565</b>	5 232
Total Number of Members	<b>107 955</b>	103 250
Number of Employees	<b>6</b>	4

### 4. INCOME AND CHANGES IN NET MARKET VALUES

	Interest	Dividends and Trust Distributions	Other	Realised Capital Gain (Loss)	Unrealised Capital Gain (Loss)	Total
<b>30 June 2005</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cash and Short Term Deposits	918	3 251	35			4 204
Debt Instruments	938	1 332		(233)		2 037
International Fixed Interest	6	4 644		(468)		4 182
Australian Equities	621	20 472	121	27 980	59 927	109 121
International Equities	118	7 026	217	(19 409)	14 931	2 883
Property Trusts	8	6 761	4	107	13 803	20 683
Currency Contracts	51			34 625	5 842	40 518
Private Equity	46	24 392	6	(4 701)	(10 660)	9 083
Hedge Fund		6 484			3 628	10 112
Emerging Markets		589		(1 547)		(958)
Infrastructure	16	4 317		2 605	(1 283)	5 655
Futures and Options				2 547	(80)	2 467
Total	2 722	79 268	383	41 506	86 108	209 987

**4. INCOME AND CHANGES IN NET MARKET VALUES (Cont.)**

	Interest	Dividends and Trust Distributions	Other	Realised Capital Gain (Loss)	Unrealised Capital Gain (Loss)	Total
<b>30 June 2004</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cash and Short Term Deposits	547	248				795
Debt Instruments	2 018	3		(1 515)	31	537
International Fixed Interest		7 965		(952)	(2 983)	4 030
Australian Equities	475	19 561	84	18 252	53 859	92 231
International Equities	132	6 394	174	44 490	17 099	68 289
Property Trusts		5 969	18	(636)	7 687	13 038
Currency Contracts	7			25 734	(6 317)	19 424
Private Equity	3	8 570	7	(21)	400	8 959
Hedge Fund		1 693			3 166	4 859
Emerging Markets		278		(1 586)	7 354	6 046
Futures and Options				(78)	181	103
<b>Total</b>	<b>3 182</b>	<b>50 681</b>	<b>283</b>	<b>83 688</b>	<b>80 477</b>	<b>218 311</b>

The net gain on foreign currency contracts for the year was \$40.5m (2004: \$19.4m). This amount does not include gains and losses on foreign currency transactions that may have occurred in the pooled trust investments.

**5. FUNDING ARRANGEMENTS**

The Military Superannuation and Benefits Scheme is a hybrid accumulation defined benefit scheme governed by a Trust Deed and Rules established under the *Military Superannuation and Benefits Act 1991*.

Members contribute to the Scheme each fortnight at optional rates ranging from a minimum of 5% of salary to a maximum of 10% of salary. The Department of Defence contributes to the Scheme each fortnight in respect of each member at the rate of 3% of the member's salary. These member and employer contributions, accumulated with investment earnings, equate to the net assets available to pay benefits as shown in the Statement of Net Assets.

The benefits payable from the Scheme comprise a lump sum of accumulated member contributions and a defined benefit financed by the employer and calculated on the basis of the member's final average salary and length of service. The defined benefit may be taken as a lump sum or as a pension or as a combination of lump sum and pension. The defined benefit consists of a funded component (the accumulated value of the 3% of salary contributions made to the Scheme by the Department of Defence) and an unfunded component (the balance of the defined benefit).

In general, when a benefit becomes payable to a member, the accumulated member and employer contributions held in the Scheme in respect of the member are transferred to the Consolidated Revenue Fund (CRF) which pays out the total benefit (both funded and unfunded components).

Appropriation refers to the total amount paid from CRF. The Appropriation from CRF shown in the Statement of Changes in Net Assets is the net amount after taking into account transfers from MSBS Fund to CRF.

**5. FUNDING ARRANGEMENTS (Cont.)****Total Benefits Paid and Payable**

	<b>2005</b>	2004
	<b>\$'000</b>	\$'000
Lump Sums	<b>91 767</b>	81 568
Pensions	<b>89 326</b>	80 682
Total	<b>181 093</b>	162 250
<b>Financed by:</b>		
Military Super Fund	<b>49 604</b>	42 542
Consolidated Revenue Fund	<b>131 489</b>	119 708
Total	<b>181 093</b>	162 250

Of the \$2.2m benefits payable as at 30 June, the Fund's share amounted to \$1.2m (2004: \$1.8m) with the Consolidated Fund's share being \$1.0m at 30 June (2004: \$1.6m).

**6. COST OF SCHEME ADMINISTRATION AND MANAGEMENT OF THE FUND**

Under Clause 9(3) of the Trust Deed set up under section 4 of the *Military Superannuation and Benefits Act 1991*, the costs and expenses of the management and investment of the Fund are met from the Fund.

	2005 \$'000	2004 \$'000
<b>Fund management and investment expenses met by Fund</b>		
<b>General administration costs</b>		
Accounting services	271	271
Professional advisers	315	588
Share of trustee fees, travel and incidental costs	739	528
Taxation services	100	203
Communications	98	187
APRA lodgement fees and industry levy	234	85
Insurance	78	62
External audit	43	42
Internal audit	177	65
Non-recoverable GST	28	81
Total	<u>2 083</u>	<u>2 112</u>
<b>Direct investment costs</b>		
Investment management fees	10 015	6 895
Asset consultancy and portfolio management	2 049	395
Custodian	1 612	1 209
Other Investment Costs	16	114
Non-recoverable GST	196	183
Total	<u>13 888</u>	<u>8 796</u>

Fund expenses are classified as either direct investment expenses or general administration expenses.

**6. COST OF SCHEME ADMINISTRATION AND MANAGEMENT OF THE FUND (Cont.)**

Significant variations within general administration costs borne by the Fund are explained as follows:

- decrease in professional advisor fees – in 2003-04 one-off fees arose from work on establishing investment agreements on new private equity investments and replacement of international fund managers;
- decrease in taxation services – lesser demand for consulting services relating to GST and tax provisions due to new procedures being set in place;
- decrease in communications – in 2003-04 annual report costs for both 2002-03 and 2003-04 were expensed. This was a result of the 2002-03 costs not being accrued at the end of that year;
- increase in the salaries of the Board executive staff resulting from additional recruitment of staff;
- increased fees paid to APRA due to the payment of a financial assistance levy for grant recovery for the period 2001-2004; and
- internal audit expenses primarily due to an audit advisory work program on prior year interest rate determination.

The \$5.1m (58%) increase in direct investment costs reflects the combined effect of higher average assets under management (22%) and an increase in the number of managers, particularly in alternative asset sectors, consistent with the Fund's revised investment strategy. In addition, in limited cases performance fees are payable where specific advisers and managers exceed agreed investment performance targets on behalf of the Fund.



**6. COST OF SCHEME ADMINISTRATION AND MANAGEMENT OF THE FUND (Cont.)**

Under section 27 of the *Military Superannuation and Benefits Act 1991* the Commissioner for Superannuation and the staff of ComSuper provide scheme administration services to the Board. The Department of Defence pays ComSuper for the costs of scheme administration and ComSuper recognises this administration revenue in the annual financial statements prepared by the Commissioner for Superannuation. A component of the ComSuper administration fees is used to meet administration costs directly incurred by the Board and its staff.

	<b>2005</b>	2004
	<b>\$'000</b>	\$'000
<b>Scheme administration costs met by Department of Defence</b>		
<b>ComSuper administration fees</b>		
Contributors	<b>5 086</b>	3 983
Preservers	<b>3 802</b>	2 845
Pensioners	<b>344</b>	260
Total	<b>9 232</b>	7 088
<b>Board administration costs</b>		
Share of trustee fees, travel and incidental costs	<b>74</b>	72
Support staff and facilities	<b>348</b>	178
Communication	<b>5</b>	67
Professional advisers	<b>20</b>	41
Total	<b>447</b>	358

The \$0.890m (25%) increase in Board administration costs is largely due to increases in staff numbers and the Board renting new accommodation.

**7. INCOME TAX EXPENSE**

The taxation liability at 30 June 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.

The difference is reconciled as follows:

	<b>2004</b>	2004
	<b>\$'000</b>	\$'000
Prima facie income tax expense on		
Total Revenue less Expenses and Benefits Paid before Income Tax	<b>347 335</b>	339 825
Prima Facie Income Tax Expense Calculated at 15%	<b>52 100</b>	50 974
Add/(Less) Permanent Differences		
Employee contributions	<b>(19 813)</b>	(16 833)
Benefits Paid	<b>7 441</b>	6 381
Difference between accounting and tax gains	<b>(6 490)</b>	(3 516)
Less:		
Imputation and Foreign Tax Credits	<b>(5 893)</b>	(6 135)
Under Provision in Prior Years	<b>(376)</b>	2
Income Tax Expense	<b>26 969</b>	30 873
Income Tax Expense comprises:		
Current Tax Recoverable	<b>3 971</b>	(557)
Amount Paid during 2004–05	<b>12 039</b>	14 278
Movement in Deferred Tax balances	<b>11 335</b>	17 150
Under Provision in Prior Years	<b>(376)</b>	2
	<b>26 969</b>	30 873

Income tax paid during the period amounted to \$11.1m (2004: \$17.4m).

**8. SUNDRY CREDITORS**

	<b>2005</b>	2004
	<b>\$'000</b>	\$'000
Investment Expenses Payable	<b>4 394</b>	1 384
Unallocated Contributions	<b>1 151</b>	1 084
Accrued Expenses	<b>435</b>	487
Tax Payable to the ATO	<b>85</b>	91
Total	<b>6 065</b>	3 046

**9. 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.

National Custodian Services 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.

**(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.

**9. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)**

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	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Futures and Options	748	(62 399)	79	174
Currency Contracts	(457 122)	(228 663)	5 840	(6 317)
Total	<b>(456 374)</b>	(291 062)	<b>5 919</b>	(6 143)

**(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 \$1.1m (2004: \$7.7m).

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

**(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 was as follows:

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

	Floating Interest Rate	Fixed Interest Rate			Non- Interest Bearing	Total
		1 Year or Less	1-5 Years	Over 5 Years		
30 June 2005	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>						
Cash & Short Term Deposits	91 347				194 650	285 997
Australian Equities			1 893		511 185	513 078
International Equities					478 492	478 492
Property Trusts					170 506	170 506
Currency Contracts					5 840	5 840
Private Equity					90 871	90 871
Hedge Fund					127 769	127 769
Infrastructure					77 786	77 786
Futures and Options					79	79
Other Assets	14 910				11 159	26 069
<b>Liabilities</b>						
Trade Settlements Payable					(6 130)	(6 130)
Accrued Expenses					(435)	(435)
Sundry Creditors					(5 630)	(5 630)
Benefits Payable					(2 215)	(2 215)
Current Tax Liability					(3 971)	(3 971)
Deferred Tax Liability					(8 766)	(8 766)
<b>Total</b>	<b>106 257</b>	<b>0</b>	<b>1 893</b>	<b>0</b>	<b>1 641 190</b>	<b>1 749 340</b>
Weighted Average Interest Rate	4.37%	0.00%	4.85%	0.00%		

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

	Floating Interest Rate	Fixed Interest Rate			Non- Interest Bearing	Total
		1 Year or Less	1-5 Years	Over 5 Years		
<b>30 June 2004</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>						
Cash & Short Term Deposits	55 285				60 433	115 718
Australian Fixed Interest		38 815	14 674	15 243		68 732
International Fixed Interest					68 805	68 805
Australian Equities					479 503	479 503
International Equities					437 200	437 200
Property Trusts					113 012	113 012
Currency Contracts					(6 317)	(6 317)
Private Equity					71 853	71 853
Hedge Fund					55 327	55 327
Emerging Markets					20 411	20 411
Futures and Options					174	174
Other Assets	4 897				8 140	13 037
Current Tax Recoverable					557	557
Deferred Tax Assets					2 569	2 569
<b>Liabilities</b>						
Trade Settlements Payable					(5 146)	(5 146)
Accrued Expenses					(442)	(442)
Sundry Creditors					(2 604)	(2 604)
Benefits Payable					(3 415)	(3 415)
<b>Total</b>	<b>60 182</b>	<b>38 815</b>	<b>14 674</b>	<b>15 243</b>	<b>1 300 060</b>	<b>1 428 974</b>
Weighted Average Interest Rate	1.42%	5.38%	6.09%	4.13%		

**9. 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
<b>30 June 2005</b>	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>
Gross investment amounts denominated in foreign currency	370 849	16 742	42 459	62 928	36 999	529 977
Amount effectively hedged	(216 157)	(24 174)	(34 897)	(150 509)	(31 385)	(457 122)
Net Exposure	<b>154 692</b>	<b>(7 432)</b>	<b>7 562</b>	<b>(87 581)</b>	<b>5 614</b>	<b>72 855</b>

	USA	JPY	GBP	EUR	Other	Total
<b>30 June 2004</b>	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>
Gross investment amounts denominated in foreign currency	307 099	26 836	35 281	51 559	29 033	449 808
Amount effectively hedged	(181 892)	1 500	4 387	(51 269)	(1 389)	(228 663)
Net Exposure	<b>125 207</b>	<b>28 336</b>	<b>39 668</b>	<b>290</b>	<b>27 644</b>	<b>221 145</b>

**(e) Net Fair Values of Financial Assets and Liabilities**

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

**10. 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:

	<b>2005</b>	2004
	<b>\$m</b>	\$m
Funded component	<b>1 746</b>	1 435
Unfunded component	<b>7 839</b>	6 968
Total vested benefits	<b>9 585</b>	8 403

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

	<b>2005</b>	2004
	<b>\$m</b>	\$m
Funded component	<b>1 746</b>	1 435
Net assets adjusted for benefits payable and cost of disposal	<b>1 755</b>	1 435
Surplus	<b>9</b>	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 and elected the option which is most costly to the Scheme. The likelihood of such an occurrence is extremely remote.



**11. 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 2002–03. An extract of the Australian Government Actuary's report is attached.

	<b>2002</b>	1999
	<b>\$b</b>	\$b
Funded component	<b>1.0</b>	0.8
Unfunded component	<b>5.9</b>	4.2
Total accrued benefits	<b>6.9</b>	5.0

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

	<b>2002</b>	1999
	<b>\$b</b>	\$b
Funded component	<b>1.0</b>	0.8
Net assets	<b>1.0</b>	0.8
Surplus/(deficiency) Reserve	<b>0.0</b>	0.0

The liability for accrued benefits has been updated following the comprehensive actuarial review, which was completed early 2003 using data as at 30 June 2002. The next valuation of accrued benefits is as at 30 June 2005 and is expected to be completed by June 2006.

**12. RELATED PARTIES**

**(a) Members of the Board**

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

Members of the Board:

- Mr C P H Kiefel (Chairman)
- Dr M J Sharpe, AO
- Air Commodore L Roberts
- Warrant Officer R C Swanwick
- Mr P J Charley [resigned effective 28 February 2005]
- Mr F Bleeser [appointed effective 1 March 2005]

A Director of the Board is also a Director of a company in which the Scheme has a material investment. The Director takes no part in any decisions affecting this investment.

**(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 2004–05 financial year on the same terms and conditions applicable to all scheme members.

The number of trustees is within the following bands:

	<b>2005</b>	2004
\$60 001 to \$70 000	<b>1</b>	1
\$30 001 to \$40 000	<b>1</b>	0
\$20 001 to \$30 000	<b>1</b>	1
\$10 001 to \$20 000	<b>1</b>	1
\$0 to \$10 000	<b>2</b>	2

The aggregate amount of remuneration paid to trustees during the financial year was \$170 942 (2004: \$149 741). The Scheme share of those remuneration expenses was \$129 779 (2004: \$114 869).

**(c) Executive Related Transactions**

The number of executives who received or were due to receive total remuneration of \$100 000 or more:

	<b>2005</b>	2004
\$110 001 to \$120 000	<b>1</b>	0
\$190 001 to \$200 000	<b>1</b>	1

The aggregate amount of remuneration paid to executives during the financial year was \$316 786 (2004: \$200 000). The Scheme share of those remuneration expenses was \$178 348 (2004: \$120 000).

**13. AUDITORS REMUNERATION**

	2005	2004
	\$	\$
The amount paid and payable in respect of audit services provided by ANAO (excludes GST)	<u>42 000</u>	<u>41 000</u>

Deloitte Touche Tohmatsu (Deloitte) have been contracted by the Australian National Audit Office (ANAO) to provide audit services on the ANAO's behalf. Fees for those services are included above.

No other services were provided by the Auditor-General during the reporting period.

**14. SEGMENT REPORTING**

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

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

At 30 June the Fund had outstanding investment capital commitments of \$411m (2004: \$181.2m). These commitments relate to investments in private equity, infrastructure and direct property.

**(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 contingent liabilities of \$0.270m (2004: nil).

**16. 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:

	<b>2005</b>	2004
	<b>\$'000</b>	\$'000
Total Surcharge Liability Outstanding at start of year	<b>12 202</b>	9 840
Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year	<b>2 626</b>	2 383
Adjustments to previous years balance	<b>(10)</b>	(5)
	<b>14 818</b>	12 218
Less: Amount paid by members	<b>(164)</b>	(211)
Less: Amounts deducted from members' benefit payments	<b>(514)</b>	(480)
<i>Plus:</i>	<b>14 140</b>	11 527
Interest applied to outstanding surcharge liability at 30 June 2005	<b>719</b>	675
Total surcharge liability outstanding at end of year	<b>14 859</b>	12 202

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 \$14.9m does not include assessments in respect of 2004-05, which have not yet been calculated by the ATO.

1 August, 2003

## MILITARY SUPERANNUATION AND BENEFITS SCHEME SUMMARY OF THE 2002 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 2002 by the Australian Government Actuary. This report was presented to Parliament in June 2003.
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. For the MSBS, amounts not paid from Fund assets are paid from Consolidated Revenue. 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 43 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 2002 was satisfactory.
4. The value of net assets of the MSBS available to pay benefits as at 30 June 2002 reported in the audited financial statements of the Fund was \$1,034 million.
5. Vested benefits of the MSBS were not calculated as part of the Long Term Cost Report as at 30 June 2002, but were calculated separately and covered contributors, preserved members and pensioners. They amounted to \$6.7 billion.

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 2002 and elected the most costly option to the scheme. The likelihood of such an occurrence is extremely remote.

6. The value of Accrued Benefits for the MSBS using the actuarial Projected Unit Credit (PUC) methodology as at 30 June 2002 was \$6.9 billion. This comprised \$5.9 billion in unfunded Accrued Benefits and \$1.0 billion in funded Accrued

Benefits. The value of Accrued Benefits is the present value of the portion of projected benefit payments that had accrued in respect of membership of the MSBS to 30 June 2002. The employer component of the benefits for contributors was apportioned on a pro-rata basis using the ratio of current length of membership to the total length of projected membership at exit for each individual.

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  
(unchanged from the 1999 review)
  - Investment return: 3.5% per annum real (net of tax and investment expenses)  
(unchanged from the 1999 review)
  - Inflationary salary increases: 1.5% per annum real  
(unchanged from the 1999 review)
  - Promotional salary increases: scales based upon age and length of service  
(slightly revised from the 1999 review)
  - GDP increases: a series of rates falling from 3.5% per annum (real) in 2003/04 to 1.6% per annum (real) in 2044/45  
(the 1999 review used a constant real rate of 2.5% per annum)



Peter Martin  
Fellow of the Institute of Actuaries of Australia  
Australian Government Actuary



# appendixes

- 1: msbs in brief
- 2: glossary
- 3: publications
- 4: service charter
- 5: contact officer
- 6: legislation
- 7: compliance
- 8: freedom of information
9. msb board executive unit
10. staffing statistics





# appendix 1: msbs in brief

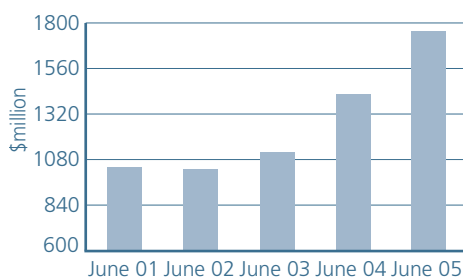
## investment

EFFECTIVE ASSET ALLOCATION Sector	30 June 2004		30 June 2005	
	\$m	%	\$m	%
Cash	69	5	20	1
Australian fixed interest	66	5	-	-
International fixed interest	67	5	-	-
Debt instruments	-	-	211	12
Australian and International property interest	76	5	145	8
Australian shares	534	37	571	33
Private equity	72	5	104	6
International shares	469	33	502	29
Non-correlated alpha	55	4	128	7
Infrastructure	-	-	78	4
Global emerging markets	20	1	-	-
<b>Total under management</b>	<b>1 428</b>	<b>100</b>	<b>1 759</b>	<b>100</b>

INVESTMENT PERFORMANCE Sector	2003-04		2004-05	
	Fund %	Benchmark %	Fund <sup>1</sup> %	Benchmark <sup>2</sup> %
Cash	5.0	5.3	5.8	5.6
Australian fixed interest	3.0	2.3	-	-
International fixed interest	4.9	4.1	-	-
Debt instruments <sup>3</sup>	-	-	1.2	1.5
Australian and International property interest	17.3	17.3	17	16.8
Australian shares	21.7	21.7	23.3	26
Private equity <sup>4</sup>	15.6	na	11.1	na
International shares <sup>5</sup>	22.4	21.9	8.7	13.3
Non-correlated alpha	10.0	5.1	13	5.3
Infrastructure <sup>6</sup>	-	-	11.7	na
Global emerging markets	26.6	28.2	-	-

### Fund growth in the past five years



#### Notes

1. Figures shown are gross of management fees and tax.
2. The benchmark return for an asset class represents the minimum performance objective, assuming that all dividends and interest payments are reinvested in the market.
3. Return is for the three months that these investments have been in place.
4. Private equity is a long-term investment and does not generally show a return in the early years of the investment because of set-up and management costs. The investment gains usually come in the later years as the underlying companies mature and increase in value. The effect of this timing is known as the J-curve Effect.
5. The Fund moved from a 50% to a 100% hedge on foreign currency exposure on its investments from December 2004. International shares include currency investments.
6. Return is for the six months that these investments have been in place.

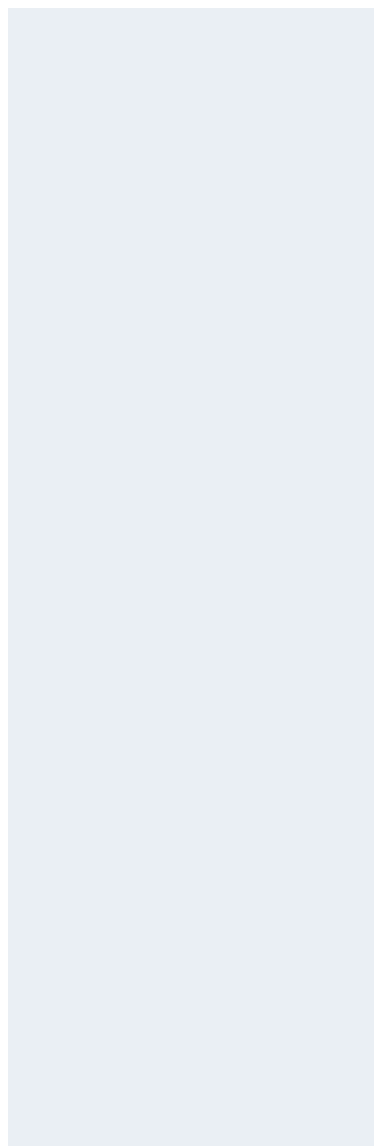
## membership

Contributors at 30 June	2004	2005	Increase (decrease)
Males	41 657	41 196	(461)
Females	5 235	4 665	(570)
<b>Total</b>	<b>46 892</b>	<b>45 861</b>	<b>(1 031)</b>
<b>Total member contributions</b>	<b>\$112.2m</b>	<b>\$112.8</b>	<b>6</b>
<b>Contributor exits</b>			
Age retirement	71	80	9
Resignation	2 028	2 299	271
Redundancy	10	5	(5)
Invalidity	397	456	59
Death	15	19	4
Not yet determined	388	–	(388)
Other	833	1 840	1 007
<b>Total</b>	<b>3 742</b>	<b>4 699</b>	<b>927</b>
<b>Pensions in force</b>			
Retirement	796	881	85
Redundancy	1 916	1 916	–
Invalidity	2 356	2 573	217
Reversionary	164	194	30
<b>Total</b>	<b>5 232</b>	<b>5 564</b>	<b>332</b>
<b>Pensions paid</b>	<b>\$81m</b>	<b>\$89m</b>	<b>8</b>
<b>Average pension</b>	<b>\$16 021</b>	<b>\$16 461</b>	<b>440</b>
<b>Preserved benefits</b>	<b>51 126</b>	<b>56 530</b>	<b>5 404</b>

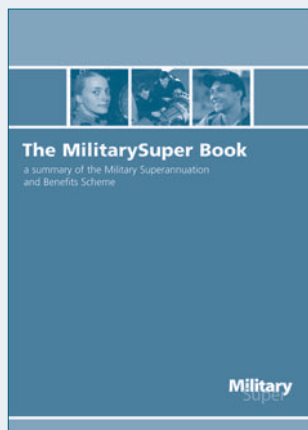
## appendix 2: glossary

<b>active management</b>	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.
<b>ADF</b>	Australian Defence Force
<b>AD(JR) Act</b>	<i>Administrative Decisions (Judicial Review) Act 1977</i>
<b>APRA</b>	Australian Prudential Regulation Authority
<b>ASIC</b>	Australian Securities and Investment Commission
<b>CDF</b>	Chief of the Defence Force
<b>ComSuper</b>	Commonwealth Superannuation Administration
<b>core management</b>	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
<b>CPI</b>	Consumer Price index
<b>defensive assets</b>	assets (such as cash and bonds) that are not very susceptible to market fluctuations
<b>derivatives</b>	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
<b>DFRDB</b>	Defence Force Retirement and Death Benefits
<b>direct property</b>	property that is purchased by an investor to be held by that investor (see also <b>indirect property</b> )
<b>FSG</b>	Financial Services Guide
<b>FSR</b>	Financial Services Reform
<b>growth assets</b>	assets (such as shares and property) that are very responsive to market fluctuations.
<b>ICC</b>	Incapacity Classification Committee
<b>indirect property</b>	an investment in property made by purchasing units in a property trust, or shares in a property company
<b>IVR</b>	Interactive Voice Response telephone system
<b>LWOP</b>	leave without pay
<b>MilitarySuper</b>	Military Superannuation and Benefits Scheme
<b>MSB</b>	Military Superannuation and Benefits
<b>MSBS</b>	Military Superannuation and Benefits Scheme
<b>MSCC</b>	Military Superannuation Communication Committee

- 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
- PDS** Product Disclosure Statement
- RC** Reconsideration Committee
- SCT** Superannuation Complaints Tribunal
- SIS** *Superannuation Industry (Supervision) Act 1993*
- SRC Act** *Superannuation (Resolution of Complaints) Act 1993*
- surcharge** *Superannuation Contributions Tax (Assessment and Collection) Act 1997*, a tax on employer-financed superannuation contributions
- unitisation** the conversion of member interest-bearing accounts to unit-based accounts within the MSB Fund



## appendix 3: publications



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

*The MilitarySuper 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*  
*Family Law and Splitting Super*  
*Invalidity Benefits*  
*Leave Provisions*  
*Rejoining the ADF*  
*Summary of the Scheme*  
*Superannuation Contributions Surcharge*  
*Taxation Concessions*  
*Taxation of Lump Sums*  
*The Productivity Benefit*

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

*Additional Personal Contributions*  
*Death and Dependants' Benefits*  
*Early Access to MilitarySuper Benefits*  
*Family Law and Your Super*  
*Government (Super) Co-Contributions*  
*Maximum Benefit Limits*  
*Invalidity Benefits–The Classification Process*  
*Unitisation*

Copies of the *MSBS Business Plan* and *Your Guide to Investment Choice* are also available.

Also available is the *ComSuper Service Charter 2005*.

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

## appendix 4: service charter

ComSuper maintains a service charter for scheme members. The service charter for 2005 is available in hard copy and on the MilitarySuper website (see Appendix 3).

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



## appendix 5: contact officer

Information is 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:

Parliamentary, FOI and Complaints Unit  
ComSuper

*Postal address:* PO Box 22  
Belconnen ACT 2616

*Street address:* Unit 4  
Cameron Offices  
Chandler Street  
Belconnen ACT 2616

*Telephone:* (02) 6272 9081  
*Facsimile:* (02) 6273 9804  
*TTY:* (02) 6272 9827

# appendix 6: legislation

## legislation amendments

The Military Superannuation and Benefits Trust Deed was amended several times in the 2004–2005 financial year as follows:

- The Military Superannuation and Benefits Amendment Trust Deed 2004 (No. 2) – amended the definition of ‘salary’ to include certain allowances;
- The Military Superannuation and Benefits Amendment Trust Deed 2004 (No. 3) – changed the interest rate in Schedule 12 of the Rules;
- The Military Superannuation and Benefits Amendment Trust Deed 2004 (No. 4) – inserted provisions to enable the fund to accept Government co-contributions in respect of MSB and DFRDB members and to insert new rules relating to the payment of associate benefits arising from family law splits.

Family law legislation relating to the Military Super was also amended in 2004–2005 as follows:

- Family Law (Superannuation) (Methods and Factors for Valuing Particular Superannuation Interests) Amendment Approval 2004 (No. 4) – made revisions to several methods which were previously approved in May 2004 for valuing MSB interests for family law purposes.
- The Family Law (Superannuation) (Provision of Information – Military Superannuation and Benefits Scheme) Amendment Determination 2005 (No.1) prescribes information that the Trustees are required to provide for the purpose of valuing a superannuation interest which is in the payment phase.



## appendix 7: compliance

While this report is not a Departmental annual report, the Board 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 2004–05*. Annual reporting requirements that are met in the Commissioner for Superannuation's report are indicated below by an asterisk.

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# appendix 8: 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 2003–04*.

### 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 Parliamentary, FOI and Complaints 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 Parliamentary, FOI and Complaints 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 Parliamentary, FOI and Complaints 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 Parliamentary, FOI and Complaints Unit at the address and telephone numbers shown on page 61 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.

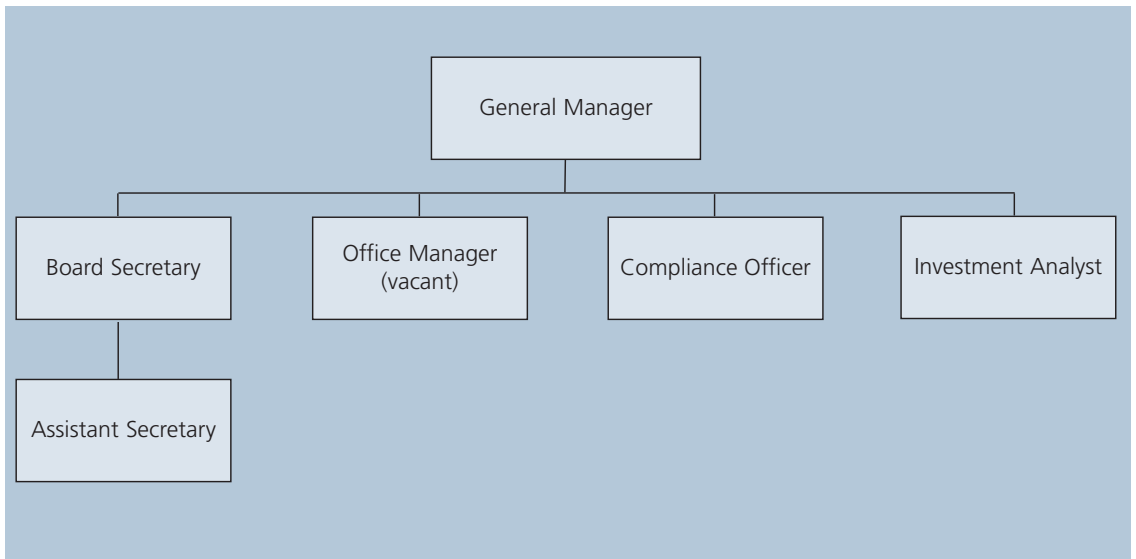
## **categories of documents**

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 MilitarySuper website ([www.militarysuper.gov.au](http://www.militarysuper.gov.au)).

# appendix 9: msb board executive unit

organisational structure of the msb board executive unit



## **fund administrator**

The Board has delegated the bulk of its general administrative powers and functions to the Commissioner for Superannuation and to his staff.

The Board's administrator's major areas of activity encompass the calculation and payment of benefits (including invalidity benefits), the maintenance of records of contributors and pensioners, the receipt of and accounting for contributions from employing agencies in respect of their employees, the reconsideration and review of decisions on entitlements and the provision of information to the membership.

## **human resources**

Staff providing secretariat support to the Board in its operations have in the past been provided by the Administrator under a Service Level Agreement and were employees of ComSuper.

In 2004 the Board established an independent Executive Unit with key staff employed directly by the Board under contracts of employment. The Board General Manager, Board Secretary and Investment Analyst are employed under contract to the Board. However, the Board Compliance Officer and Assistant Secretary are currently employees of ComSuper.

Statistics on Board staff by gender and employment category are provided in appendix 10.

## **professional development**

Ongoing staff training and development is an important component of the Board's human resource management as well as a specific requirement for the Board in maintaining its Australian Financial Services (AFS) Licence. During 2004–05 all Trustees and Board staff had access to a range of continuing professional development activities including attendance at major industry conference and education forums as part of the Board's education and training policy.

## **occupational health and safety**

Under the *Occupational Health and Safety (Commonwealth Employment) Act 1991* and the *Safety, Rehabilitation and Compensation Act 1988*, the MSB Board has a general duty of care which must be met by taking all reasonably practicable steps to protect the health and safety of its employees and third parties at work. Staff employed by the MSB Board are covered by Workers' Compensation which is managed by Comcare.

During the year:

- there were no dangerous occurrences under section 68 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*;
- there were no workplace inspections carried out by Comcare; and
- there were no remedial Provisional Improvement Notices issued.

## financial resources

### Board administration costs

The MSB Board is responsible for the administration of the MSB and the management and investment of the MSB Fund. Costs of the MSB Board which are related to its responsibilities for the management of the MSB Fund and the investment of its monies are a charge against the Fund. Fees paid to the Chairman of the MSB Board and a proportion of those paid to Board members are also a charge against the Fund.

All other costs incurred by the MSB Board are met from moneys appropriate to the Department of Defence and paid to ComSuper in relation to the administration of the MSB Scheme.

### funding arrangements

The MSB legislation only allows the Board to hold monies belonging to the MSB Fund. The legislation does not provide any capacity for the Board to hold monies in respect of an administration activity.

The Board has sought legislative change to enable it to be financially accountable and responsible for its own administration expenses. Until such time as separate funding arrangements can be made administration expenses related to the MSB Board's non-investment activities are drawn by ComSuper from the administration fees paid by Defence and maintained separately from ComSuper's own operating budget. These funds may only be used to meet Board administrative expenditure as determined by the Board.

## **ecologically sustainable developments and environmental performance**

In conducting its operations, the MSB Board makes every effort to minimise the environmental impact of its activities by ensuring that:

- all waste paper and cardboard are recycled;
- lighting and energy use are minimised; and
- the Board's offices, where practicable, use recycled paper and other products in its activities.

## **fraud control**

The Board's Fraud Control and Fraud Risk Assessment Plan is reviewed and updated at least annually and forms an integral part of the Board's overall risk management strategy.

# appendix 10: staffing statistics

## staffing profile

*staff numbers at 30 June 2005*

Employment Category	Male	Female	Total
Staff employed directly by the Board	1	2	3
Staff employed by ComSuper	-	2	2
Totals	1	4	5



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