



DEFENCE FORCE WELFARE ASSOCIATION

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Letter to the Editor Canberra Time

Julianne Strachan's article on the 4th May 2014 titled '**Super in the line of fire**' is a well-balanced commentary on the Commission of Audit's recommendation to close the Military Superannuation and Benefits Scheme (MSBS) to new members. However the description in the opening paragraph that MSBS is '*one of the most generous superannuation schemes in the country*' is in my opinion seriously flawed.

Far from being generous, for most members it has a sting in the tail that is very costly for their retirement income planning. This is because there is no portability provision and members cannot get access to the "employer benefit" benefit component until they reach preservation age. Since most ADF members discharge well before this age and there are no actual funds held on their behalf, their entitlement is calculated as a notional figure and then is indexed annually to the CPI until they can access it. If they were able to roll over the employer benefit to a complying super fund of their choice they would be significantly better off over the long term.

Australian Super investment returns have been about 7% on average, over the past 20 years while the CPI has been about half that. This can mean the loss of 100's of thousands of dollars to the member in the long term. That is hardly a 'generous' scheme that does that.

Witness the following case study where a person joins the ADF at say 17 years of age, serves for 10 years and then discharges:

- The employer benefit would be \$115k (as per MSBS calculator);
- At 65 this grows to \$293k (indexed to CPI as per MSBS Calculator);
- However if funds were to be invested in a well performing super fund the individual could expect \$635k (ASIC Jun 30 2010 estimate of 10 yr average returns by Australian super funds).

The difference is \$342k and represents a huge economic loss to the member.

In addition, as the indexation in the pension phase is also pegged to the CPI, the purchasing power of the pension is continually eroded over time. That is because, as most know, CPI is a measure of inflation not purchasing power. Over time this forces a significant number of former ADF members into the social security safety net.

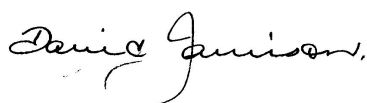
To add insult to injury, long-term ADF members contributing to MSBS are subjected to a Maximum Benefit Limit (MBL) that has never been adjusted (although the public service scheme MBL was). The effect of this is to force these most experienced and valuable service personnel to stop contributing to the accumulation component of their fund while at the same time the government ceases contributing as well due to the member's total payout having peaked.

Why has this situation come about? Most likely because a previous government made the decision not to pay its obligation into an investment fund but rather wait until a member is discharged and has reached preservation age before paying its obligation to the member either as a lump sum or a pension. This ensures the taxpayer foots the bill in the most expensive way possible. Because of this, we see outlandish so-called unfunded liability figures quoted in the tens of billions of dollars.

This was partly rectified with the creation of the Future Fund but the government of the day stumbled by not at the same time making an annual provision for its superannuation liability to be paid into the Future Fund for investment and growth to meet its commitments to its employees. This political decision is now used to put the squeeze on Commonwealth employees, including ADF members, and deny each of them equitable and fair treatment. To its credit, the current government has partly rectified this by properly indexing DFRB/DFRDB superannuation pensions for our oldest superannuants, meaning those 55 years and over.

This Government has committed to consult with the leadership of the Alliance of Defence Service Organisations (ADSO) on a regular basis and I for one, am looking forward to some positive outcomes to eliminate inequities in the service (employment) conditions of serving and former ADF members, including those outlined in this letter-to-the editor.

Yours Sincerely



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National President
Defence Force Welfare Association