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MILITARY SUPERANNUATION AND BENEFITS BILL 1991 - Second Reading

Mr BILNEY (Minister for Defence Science and Personnel)(4.11)  I move:

That the Bill be now read a second time.

This Bill gives effect to a Government decision announced last August to introduce a new superannuation scheme for Australia's regular Defence Force personnel. The scheme, to be known as the military superannuation and benefits scheme (MSBS), is intended to take effect from 1 October 1991. The scheme was recommended in the report of the Defence Force Retirement and Death Benefits Scheme Review Committee under the chairmanship of Sir William Cole, a former Secretary to the Department of Defence. The report was tabled in this House last year.

The MSBS has been designed to comply with the Occupational Superannuation Standards Act 1987, which sets out the Government's guidelines on the structure and operations of superannuation funds. The scheme also finalises arrangements for the treatment of the 3 per cent productivity benefit, which has been paid in respect of members of the Defence Force since 1988. In compliance with the Occupational Superannuation Standards Act, provision is made for the scheme to be governed by a trust deed and be administered by a board of trustees.

An important feature of the MSBS is that it provides equitable treatment for members of the Defence Force who serve for less than 20 years. Under the present defence force retirement and death benefits (DFRDB) scheme, these members receive only a refund of their contributions when they leave the Defence Force. They receive no interest on their contributions and no employer benefit except the 3 per cent productivity benefit. This is contrary to community standards. Under the MSBS, members will have returned to them not just their contributions but also whatever these contributions earn in the MSBS investment fund, and will accrue an entitlement to a substantial employer benefit in addition to the 3 per cent benefit. The MSBS will have the following features:

A. Contributions at a rate elected by the member, in the range of 5 to 10 per cent of salary. Contributions will be invested in a fund and returned to members with earnings when they leave the Defence Force.

B. An employer benefit which will provide a full range of options, that is, lump sum payments, pensions calculated at a rate more generous than that available in the commercial annuities market, or a combination of both. The 3 per cent productivity benefit will be part of this. The total employer benefit must be preserved until age 55 or later retirement from the Defence Force except in special cases.

C. Invalidity benefits for those members retired from the Defence Force on medical grounds with a disability which appreciably affects the person's civil employment.

D. Reversionary benefits for spouses and children of deceased members or deceased pensioners.

E. An appeals system for persons dissatisfied with decisions of the Board of Trustees or its delegates.

The occupational superannuation standards prevent the inclusion in the MSBS of the benefits structure of the DFRDB scheme which allows members to receive a life-indexed pension, part of which can be commuted to a lump sum, on resignation at any age provided they have served for 20 years. The existence of this benefit has encouraged many members to serve to the 20-year point who might otherwise have resigned earlier. Its necessary omission from the MSBS, combined with the availability of a lump sum refund of members' contributions, with earnings, on resignation will lessen the incentive for members to serve to the 20-year point and thus has the potential to increase the premature loss of personnel.

To offset this, the Bill provides a retention benefit payable to certain members who complete 15 years continuous full time service and undertake to serve for another five years. The benefit is equal to one year's salary and is taxable as income. Conditions attaching to payment of the benefit are set out in the Bill. The benefit will be administered by the Department of Defence, not by the trustees of the MSBS.

Persons joining the regular Defence Force on or after 1 October 1991 will automatically join the MSBS. Members who are contributors to the DFRDB scheme on that date will have the option of remaining in that scheme or joining the MSBS. Membership of the MSBS will also be available to reservists who render continuous full time service for periods of or exceeding three months, and to reservists who render continuous full time service for less than three months with a unit of the Defence Force allotted for duty in an operational area.

Members will have until the end of September 1992 to decide whether to join the MSBS unless they retire or resign earlier, in which case an earlier decision will have to be made. Each member will be provided with the information necessary to enable him or her to make a considered choice and individual counselling will be available.

Permanent Part-Time Service

The report of the review committee included a proposal for inclusion in the new scheme of provisions which would be appropriate for permanent part-time service if this were to be introduced for the regular Defence Force. However, the present legislation governing the rendering of service by members of the Defence Force makes no provision for the rendering of permanent part-time service and, until it does, it would not be appropriate to make provision in MSBS. If permanent part-time service is introduced changes will be required to a number of Acts and the necessary changes to MSBS would be included.

Financial Impact

The introduction of MSBS has a number of financial impacts resulting from:

A. The funding of MSBS member contributions.

B. The funding of the 3 per cent productivity benefit for MSBS members.

C. The provision of a retention benefit to members of the requisite rank who have completed 15 years service.

D. The credit of notional interest to the DFRDB contributions of members transferring to the MSBS.

E. Increased administrative costs during the MSBS implementation period including the provision of advice to members on their transfer options.

F. The change in the form of the primary superannuation benefit from a pension in the DFRDB scheme to a lump sum in the MSBS.

G. The deferral of payment of the MSBS employer-financed superannuation benefit until members reach 55 years of age in the majority of cases.

It should be recognised that these costings are dependent on assumptions made about future behaviour and circumstances-such as transfer rates, commutation decisions and consumer price index increases-many of which cannot be tested against actual experience for many years.

Short and Medium Term Impacts

There are bring-forward costs associated with the introduction of MSBS in the short and medium terms. These will result mainly from the funding of member contributions and the 3 per cent productivity benefit in MSBS, the provision of the retention benefit, and the transfer provisions. The estimated net impact of the introduction of MSBS on annual budgetary outlays for Defence Force superannuation is expected to be \$151m, rising during the transitional period to \$209m for 1994-95. Budgetary savings are expected to commence in about 35 years.

Longer Term Impacts-Current Defence Force Membership

The Australian Government Actuary and the consulting actuaries have forecast that the expected net long term employer costs, after tax and social security clawbacks, for current members who join MSBS will be less than the projected net long term employer costs of the DFRDB scheme for these members if they remained in that scheme.

Net Employer Liabilities for Current Defence Force Membership

The estimated net reduction in costs of superannuation for the past and future service of current members of the Defence Force is \$690m.

I commend the Bill to the House. I present the explanatory memorandum to this Bill.

Debate (on motion by Mr Downer) adjourned.