

Submission by Peter Thornton – The ‘Governance of Australian Government Superannuation Schemes Bill 2010’

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5 March 2010

Committee Secretary
Senate Standing Committee on Finance and Public Administration
PO Box 6100, Parliament House
CANBERRA ACT 2600

Dear Senators,

GOVERNANCE OF AUSTRALIAN GOVERNMENT SUPERANNUATION SCHEMES BILL 2010

INTRODUCTION

By way of introduction, my name is Peter Thornton and I am a recipient of both DFRDB and PSS retirement benefits. Whilst my retirement status serves no purpose other than to allow comments from a dual hated perspective, I believe the data and brief analysis that follows will help to underpin and substantiate the veracity of other submissions and will leave no doubt in the minds of the Committee that the proposed Bill in the ‘Governance of Australian Government Superannuation’ is flawed and should be defeated in its current form.

GENERAL

The “Unique Nature of Military Service”

The committee will undoubtedly receive many submissions reminding them about the “unique nature of military service” and that on this basis alone, a very clear division of labour needs to prevail in the management and administration of Military Superannuation as distinct from other Government (‘Civilian’) Schemes.

Whilst I subscribe to this notion on the basis of the significant “risks and outcomes” that are assumed by Defence Force personnel, I am less likely (as compared to others) to concede that this notion remains resolute or distinctive in the fair treatment of retirement benefits for extant defined benefit schemes currently in force¹.

Irrespective of this latter ideological indifference, one very clear way to illustrate and substantiate the significant “risks and outcomes” that results from military service, as opposed to that of broader civilian service, is to analyse the data surrounding contemporaneous superannuation as offered by the Commonwealth.

¹ The injustice being perpetrated against former Defence Force and Commonwealth employees by the Government in the fair indexation & taxation of their respective benefits is the case in point here. Also, one needs to reflect on the fact that when a member retires either voluntarily or as a consequence of disability or death, all members and/or dependents are reduced to the same common denominator, irrespective of service.

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In light of this, the Military Superannuation Benefits Scheme (MSBS) and the Public Sector Superannuation Scheme (PSS) have been compared^{2, 3}. The comparison is by reference to the data contained within Table 1 below, which is a basic compendium of information captured from the 2009 Annual Reports to Parliament⁴.

	PSS	% of Total Pensions in Force	MSBS	% of Total Pensions in Force
Age Retirement	15,818	84.06	1,220	16.88
Redundancy	*	*	1,914	26.48
Invalidity	2,169	11.53	3,913	54.14
Death (for year 2008/2009)	103	0.55	108	1.49
Reversionary	831	4.42	180	2.49
Total Pensions in Force	18,818		7,227	
Total Scheme Membership	253,394		127,584	

Table 1 - Pensions in Force as @ 30 June 2009 (Death is for FY 08/09 only)

As can be seen, the percentage of invalidity pensions as a total of all pensions paid out of the MSBS is extremely high at 54.14% as opposed to only 11.53% for the PSS⁵. Also, the data would suggest that Military members are potentially 2-3 times more prone to a risk of dying in service as compared to the broader Commonwealth community. These stark distinctions are heightened even further by the fact that the total population of the PSS (which was closed to new members in 2005) is still approximately double that of MSBS membership.

Furthermore, ‘invalidity’ and ‘age retirement’ data from MSBS implies that it is generally a younger cohort that has been cut down in the prime of their lives: resulting not only in the diminished physical/mental and economic capacity for the member concerned, but also creating a deteriorating multiplier effect for dependent families, or where the member is single, that of his or her parent family⁶. I know only too well the consequences of forced retirement due to severe disability and the resultant affects on family.

Additionally, the plight of dependents came to public prominence approximately 12 months ago when Army SGT Brett Till’s widow, Brianna, further highlighted the grave inadequacies of superannuation arrangements for dependents whose spouse/parent dies from military service⁷.

² PSS is a partly funded, defined benefit scheme, which was established in 1990 but was closed to new entrants on 1 July 2005. MSBS is also a partly funded scheme that was opened to members in 1991 and remains open at the time of this submission.

³ Time constraints and the lack of data granularity precluded a more detailed analysis of all schemes involved including older schemes such as CSS and DFRDB. However, initial investigations of the CSS, which shows a high rate of invalidity pensions being paid, suggests that the data may be reflective of invalidity claims resulting from war/military service from WW1, WW2, Korea and Vietnam. Also, it is assumed that a small proportion of the invalidity figures contained in the MSBS data set were as a result of Defence “individual readiness” policies that were being postulated in the late 80s and early 90s, which transferred some of the invalidity liability from the DFRDB to MSBS.

⁴ For the benefit and quick reference of the Committee, Annual Report data is reproduced, in part, in Annexure A and B of this document.

⁵ However, it should be noted that a small percentage of PSS invalidity pensions would also be as a result of injuries sustained through Defence/war service. My circumstances are a case in point!

⁶ This assertion is made on the basis that both schemes started about the same time but that 84% of pensions in force for the PSS are old age related as opposed to only 16.88% for the MSBS.

⁷ For those who don’t remember, Brianna Till disclosed at a public forum held by the Minister for Veteran’s Affairs that her husband’s superannuation death benefit was not much better than the Dole, and that she would find it hard

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Committee Members should be aware that the preparation and training for war and/or war itself results in considerable isolation for extended durations of time (normally several months at a time), which generally precludes military personnel from being able to adequately manage their financial affairs in a timely fashion or on an informed basis. In addition, military personnel are generally not able to take advantage of favourable financial opportunities or avert from potential catastrophes when they arise⁸.

With the forgoing in mind, this situation demands special consideration and treatment by the Parliament to ensure that the design, implementation and longer term management and administration of Military Superannuation and associated insurance coverage is not diluted, but indeed goes well beyond the normal constructs and benefits of community based superannuation^{9,10}.

The Merger and Proposed Composition of the Governing Board(s)

Whilst I believe the foregoing analysis provides more than reasonable grounds for the clear separation of Military and Commonwealth Super schemes, I am not generally opposed to the collective merger of Military Super Boards in themselves; or that of Commonwealth Schemes separately, because it is intuitive that some efficiency would be derived. However, I feel that the proposed composition of the Board(s) is flawed for the following reasons.

Firstly, when you consider the totality of all the schemes concerned, the data shows that there are a high percentage of members that have already retired or have benefits preserved¹¹. It therefore seems illogical that the Board(s) does not have, as part of its composition, representative members from retiree organisations. Retiree organisations have a demonstrated history in providing considerable assistance and advice to their respective constituents and non-constituents alike and they are generally better versed about scheme benefits and limitations than most employers¹². In fact, I would ask how many employer representatives have in fact responded to this Senate Review?

Secondly, the proposed Board(s) seems to be stacked with political appointees with the voting balance being potentially in favour of the Minister/Government. Whilst not wanting to question the integrity of the Minister or future Board members, the proposed composition has the potential to undermine the objectivity and independence of the Board, thereby compromising the interests of Parliament and/or Scheme members themselves.

With the foregoing in mind, I would recommend that the Committee/Parliament consider and/or mandate that at least one Board member position on Civilian and Military Schemes is permanently assigned to a

(outside of DVA welfare provisions) to support herself and three children. The sad fact is that SGT Till's death benefit will end up being quite a bit less than the dole over time because of benefit erosion, caused by poor indexation mechanisms, that will ultimately relegate his surviving family onto an ever increasing spiral of welfare into the future.

⁸ Recommendations of standard Accumulation styled Super funds "only" for the military are flawed. The design of military super requires legislative protection of super capital to reduce the market risk for those who serve. There is an additional analysis that I have completed (in part) in this respect and I would be happy to provide it upon request.

⁹ The very fact that the Defence Department have advised military members that they should consider additional insurances just illustrates the lack of adequate cover provided by the Commonwealth. This must be addressed otherwise the Defence of Australia will be continually compromised by a young well informed and intelligent generation who will not to commit to the increased risk.

¹⁰ Higher rates of invalidity would suggest that specialist administration services should be in place. As such, Comsuper staff should be afforded additional specialist training in order to meet the underlying circumstances of Defence members (e.g. higher rates of mental illness require specialist management & admin).

¹¹ Please consult Annex A & B to obtain better visibility of the demographic data involved.

¹² I am lead to believe that there is a very distinct hand over of responsibility and mutual understanding between the CPSU and SCOA when a Commonwealth civilian member retires or resigns.

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representative of the Superannuated Commonwealth Officer’s Association (SCOA) and the Defence Force Welfare Association / Returned Services League (ESO)¹³, respectively.

If in the unlikely event that the proposed merger of all Boards was to prevail as per the draft Bill, then I would recommend that one ACTU position be relinquished in favour of a SCOA nominee and that one employer position be relinquished in favour of an ESO nominee¹⁴. These measures would then at least provide a fairer representation for all scheme members, both in service and retired.

Other Serious Matters

Upon reading submissions by representative organisations and individuals alike, I too call upon the Senate to delay any decision until all related documents are made publicly available for review and comment. Quite frankly, after Senate revelations of possible impropriety in the conduct of the Matthew’s Review, a review which has been completely discredited by many representative organisations, parliamentary members and individuals like, the Senate and Parliament should be extremely cautious about any Government interpretation or moves regarding of other review recommendations, particularly when it comes to Government provided superannuation.

In line with this, I believe the Senate and Parliament should have considerable concern as to what the longer term agenda is for merging Defence Force and Commonwealth Superannuation arrangements. Given the Government’s demonstrated propensity to outsource some schemes without Parliamentary approval (e.g. the new PSSap scheme)¹⁵ one remains sceptical about its longer term agenda and/or objectives given the possible impropriety cited.

CONCLUSION

The Senate and the Parliament more generally should reject any and all notions that Military Retirement benefits and insurances can be equated to community norms. The preceding evidence should be evidence enough that the “unique nature of military service” requires special treatments, legislative protections and enhanced provisions that don’t currently exist.

Furthermore, the Senate and Parliament should reject any move by the Government to rationalise government provided superannuation facilities or benefits down to a commercial basis. History and the outcomes of the GFC don’t support the idea that commercial entities can do it any better. The Parliament can ill afford to surrender control of legislative benefits of its most valuable resource, its employees (both current and past)!

I hope this helps

Original signed and mailed today, 5 March 2010

PETER THORNTON

¹³ Currently, the Defence Force Welfare Association is considered to be the lead specialist Ex-Service Organisation in representing the interests of Military superannuants. However, specialist representatives in this area wear senior executive hats in both the DFWA and the RSL.

¹⁴ It is recommended that remuneration that would normally fall to that specific Board member is instead provided to each respective organisation. Each organisation can then provide a subsequent honorarium to their nominee. This arrangement ensures that each representative organisation remains viable in their representative capacity.

¹⁵ As advised via the Finance Minister’s media release of 26 November 2009.

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ANNEX A

	30 June 2008	30 June 2009	Increase (decrease)
Contributors			
Males	5420	4474	(946)
Females	180	156	(24)
Total	5600	4630	(970)
Pensions in force			
Retirement	43 394	43 372	(22)
Invalidity	2396	2428	32
Dependants	5984	6186	202
Redundancies	983	988	5
Total	52 757	52 974	217
Exits			
Retirement	828	1143	315
Resignation	1	1	-
Invalidity	45	44	(1)
Death	2	7	5
Other	19	37	18
Total	895	1232	337
Other			
	\$	\$	
Contributions received	25 311 828	24 769 662	(542 166)
Total benefits paid	1 321 721 000	1 415 977 085	94 256 085
Total pensions paid	1 133 548 899	1 260 071 732	(126 522 833)
Average annual pension	21 486	22 092	606

Source: DFRDB Authority Annual Report 2008-2009, Appendix 1, Pg 48

	2008	2009	Increase (decrease)
Contributors at 30 June			
Males	42 513*	44 262	1749
Females	6842*	7393	551
Total	49 355	51 655	2300
Total Member contributions	\$167.5m	\$186.5m	\$19m
Contributor Exits			
Age retirement	143	262	119
Resignation	3523	1081	(2442)
Redundancy	6	9	3
Invalidity	718	633	(85)
Death	55	108	53
Unclaimed	2803	4008	1205
Other	-	44	44
Total	7248	6145	(1103)
Pensions in force			
Retirement	1106	1220	114
Redundancy	1910	1914	4
Invalidity	3531	3913	382
Reversionary	163	180	17
Total	6710	7227	517
Pensions paid	\$128m	\$146m	\$18m
Average pension	\$19 196	\$19 690	\$494
Preserved Benefit Members at 30 June	72 812	75 929	3117

* The split between male and female Membership at 30 June 2008 does not accord with those in the 2007-08 report. Data quality fixes to the scheme Administrator's system have amended the status of females incorrectly recorded as males.

Source: MSB Board Annual Report 2008-2009, Appendix 1, Pg 137

Membership data

Table 19: Membership summary 30 June 2009

		Contributors	Preserved/deferred benefit members	Penstoners	Total membership 07/08*	Total membership 08/09*	Total change	% change
CSS	Male	12 828	7 803	65 340	149 442	146 277	(3 165)	(2.12)
	Female	6 979	3 054	50 273				
	Total	19 807	10 857	115 613				
PSS	Male	52 272	44 629	9 263	252 487	253 394	907	0.36
	Female	72 715	64 960	9 555				
	Total	124 987	109 589	18 818				
PSSap	Male	25 485	8 875	n/a	73 983	85 202	11 219	15.16
	Female	36 322	14 520					
	Total	61 807	23 395					
Total		206 601	143 841	134 431	475 912	484 873	8 961	1.88

Note: CSS pensioners include 1922 Act scheme members.

* Total membership also includes child/student pensions which are not split by gender.

Source: ARIA Annual Report 2008-2009, Section 8, Pg 34

Table 21: Total number of benefit payments (by type)

	Age/retirement	Involuntary retirement	Invalidity	Death	Resignation/other	Early release	Total 08/09
Contributor exits	827	571	77	46	1 016	12	2 549
Preserved claims	2 093	0	12	12	2	4	2 123
CSS total	2 920	571	89	58	1 018	16	4 672
Contributor exits	2 294	1 641	280	103	6 267	215	10 800
Preserved claims	1 333	0	34	136	0	496	1 999
PSS total	3 627	1 641	314	239	6 267	711	12 799
PSSap total	500	0	11	22	2 649	42	3 224
Total	7 047	2 212	414	319	9 934	769	20 695

Note: These figures reflect benefits processing and not cases where a member has necessarily taken out all of their funds.

Pensions

Table 22: Pensions summary

Pensions in force at 30 June 2009						Pensions paid \$	Weighted average yearly pension \$
	Age retirement/ involuntary retirement	Invalidity retirement	Spouse	child/ other	Total		
CSS	70 374	16 504	28 674	61	115 613	3 136m	26 058
PSS	15 818	2 169	740	91	18 818	352m	18 616
Total	86 192	18 673	29 414	152	134 431	3 488m	25 050

Note: CSS pensioners include 1922 Act scheme members.

Source: ARIA Annual Report 2008-2009, Section 8, Pg 38