This leaflet has been prepared by the Military Superannuation and Benefits Scheme (MSBS) Implementation Team to provide you with information on the operation of the MSBS Fund. The leaflet is not a substitute for the legislation or matters requiring specific interpretation of the legislation.

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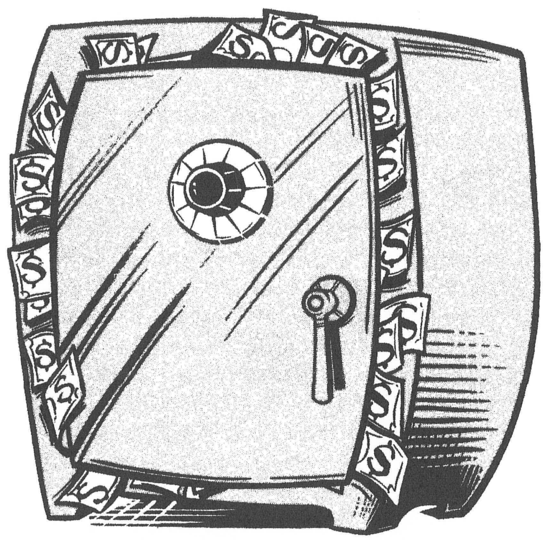
THE MSBS FUND



MSBS
MILITARY SUPERANNUATION AND BENEFITS SCHEME

THE MSBS FUND

In the DFRDB Scheme your contributions are paid into Consolidated Revenue — that is they are paid to the Commonwealth. Similarly, all benefits are paid from Consolidated Revenue. For the MSBS, only the employer component is paid from Consolidated Revenue. Your own contributions will be paid into the MSBS Fund. They will be invested and will earn interest. When you leave the ADF you will receive a lump sum made up of your own contributions and all the interest earned, unless you elect to leave your contributions in the Fund to a later date. This is called the *employee* or *member financed benefit.*

Who manages the Fund?

The MSBS will be administered by a Board of Trustees. There will be five Trustees — two representing the Commonwealth, two members of the ADF representing all MSBS members, and an independent chairperson. The Trustees will be selected before 1 October 1991 — the MSBS start date.

The Trustees will set the investment strategy for the Fund. They will be assisted in this by professional investment advisers. Because Trustees are obliged to act in the best interests of all members they will attempt to maximise the rate of return on investments consistent with the level of risk they have judged as acceptable. In essence, the lower the risk, the lower the rate of return and the lower the variability of returns. Thus, interest bearing deposits give a steady return with minimal risk but at a relatively conservative rate. At the other extreme, returns on entrepreneurial shares offer the prospect of higher returns but at much higher risk and variability of return.

Having set the overall strategy the Trustees will appoint professional funds managers to look after day to day investment decisions. Initially, the funds manager will be the Superannuation Fund Investment Trust (SFIT) which is responsible for managing the major Commowealth public sector funds. Currently, SFIT's assets exceed $5 000 million. In the future the Trustees may change the Fund manager, or appoint more than one manager if they see fit. However, SFIT was chosen in the first instance because it has:

- the systems and the experience to handle the investment;
- a good performance record; and
- competitive management fees.

SFIT has issued a separate leaflet setting out the details of their operations and their performance record.

In the future SFIT will known as Commonwealth Funds Management Limited.

Where will my money be invested?

The areas in which the MSBS Fund will be invested will be decided by the Trustees. Typically, superannuation funds invest in the sharemarket — both in Australia and overseas, in commercial and other property, in long term fixed interest securities and in the short term money market.

What rate of return will I receive?

Each six months the total amount earned by the Fund in that period, less any administrative charges and provision for taxation, will be allocated to members' accounts. The amount allocated will depend on how well the Fund has performed.

In contrast to the MSBS, many superannuation funds do not allocate all the available earnings. Instead they operate a *reserve*. This means at times of high investment returns some of the funds' earnings are set aside and not allocated to members' accounts. During periods of low returns money is withdrawn from the reserve and allocated to members. A reserve can be used to smooth out the rates of return members receive. In addition, any losses made by such funds are offset against the reserve.

Funds which operate reserves are often criticised by their members because those who resign during a period of high investment returns do not receive all the money their contributions have earned — instead some of that money is set aside for later allocation to other members.

The MSBS will not operate a reserve. A reserve could reduce the investment return credited to members by, say, 2% per annum over a five to ten-year period, particularly in the first decade of the MSBS while the Fund is growing rapidly. A reserve also raises the issue of equity because it implies a transfer of funds earned from one generation of contributors to another group of contributors. However, the offset of not having a reserve could be a slightly greater variability of return. In the long term the presence or absence of a reserve has little effect on the returns to members; average long term returns depend on the investment strategies adopted by Trustees.

Because there is no reserve the rate of interest may vary significantly from one accounting period — that is, each six months, to the next. It could mean also that occasionally the Fund will have a negative rate of return. This has been estimated by the Australian Government Actuary to occur on average once in four or five years, depending on the investment strategy adopted by the MSBS Trustees. Over the long term many large superannuation funds have achieved average investment returns of around 3% per annum above the rate of inflation, or slightly more. If these results continue, and inflation averages around 7% per annum, the long term average return from superannuation funds could be expected to be 10% per annum or slightly higher. In comparing the rate of returns from superannuation funds with other forms of investment it must be noted that benefits

paid from superannuation funds are taxed at concessional rates.

Contributing to a superannuation fund is a quite secure form of investment. Not only are the Trustees obliged to act in members' best interests, funds are subject to Commonwealth Government investment standards. In particular, funds generally are not permitted to borrow money.

My MSBS benefits include an employer financed benefit as well as my member financed benefit. Will the employer's contribution be paid into the MSBS Fund?

The *employer financed benefit* will include the 3% Productivity Benefit which was introduced on 1 January 1988 as a result of a National Wage Case. From when you join the MSBS the 3% Benefit will be paid by the Commonwealth into the MSBS Fund and it will earn interest at the same rate as your contributions. The balance of the employer benefit will be unfunded — in other words the Commonwealth will meet the cost of the benefit at the time it becomes payable, normally at age 55.

The total amount of the employer benefit, as at the date you leave the ADF, will be determined by your salary and length of service. In other words, although part of the employer contribution is invested in the Fund the amount of the employer benefit, at the date of leaving the ADF is guaranteed by the Commonwealth. Between that date and the time the benefit becomes payable, the funded 3% component will continue to earn interest at the earning rate of the fund. The balance will be updated by CPI.

For more details on how the employer benefit is calculated you should refer to the booklet, *MSBS — The Guide.*

How will I know what the Fund is earning?

The Trustees will send you a report each year which will set out the amount of your *member financed benefit.* It will show:

- the amount of contributions and interest in your account at the start of the year;
- the contributions made and the amount of interest earned during the year; and
- the total amount in your account at the end of the year.

As well as information on your own contributions, the report will show the amount of the 3% benefit and the interest it has earned. Also, it will show the total *employer financed benefit* and the benefit which would be paid to your dependants in the event of your death.

Will the MSBS Fund pay tax?

All superannuation funds are liable to pay tax at the rate of 15% on the earnings on their investments and on any employer contributions. However, most funds can reduce the tax they pay through their investment strategies. Over the two-year period to 30 June 1990, the tax payable by SFIT was 3.1% of taxable income.

Do I have to take my member financed benefit as a lump sum when I resign or can I leave it in the Fund?

You will have a number of alternatives when you leave the ADF:

- take your member benefit as a lump sum;
- leave all or part of your member financed benefit in the MSBS — your benefit will continue to grow at the earning rate of the Fund;
- roll over all or part of your member financed benefit to an approved deposit fund or deferred annuity fund; or
- if you join another superannuation fund and that fund will accept your member financed benefit you can pay it to that fund.

By paying your benefit to another fund or by leaving it in the MSBS you will defer payment of tax on the lump sum and, in some circumstances, you can reduce the tax payable.

If you leave your lump sum in the MSBS Fund withdrawals of all or part of the lump sum can be made, with the minimum amount of each withdrawal being $10 000 (or the balance in the fund, whichever is the lesser). Withdrawals can be made at six-monthly intervals, if required and a small administrative charge will apply to each withdrawal after the first. The entire lump sum must be withdrawn by the age of 65.