

SUBMISSION TO GOVERNMENT
by
The Returned & Services League Of Australia
about
The Proposal to Merge the Military Superannuation Boards Into
One Commonwealth Superannuation Board

1. Introduction

- 1.1 On 31st October 2008 the Minister for Finance and Deregulation, the Hon Lindsay Tanner announced in a press release that "on 1 July 2010 the Boards of the Australian Reward Investment Alliance (ARIA), the Military Superannuation and Benefits Scheme (MSBS) and the Defence Force Retirement and Death Benefits Scheme (DFRDB) will merge to form a single trustee board." The reason cited for this merger was that "consolidation will bring more than 650,000 members and pensioners under a single trustee board, establish a greater pool of assets for investment purposes and apply best practice management approaches across all schemes."
- 1.2 A further press release by Minister Tanner on 26th November 2009 quoted him as saying that "the Government is committed to ensuring governance arrangements for its superannuation schemes are effective and consistent with the broader superannuation industry."
- 1.3 To give effect to these intentions, the Government introduced the *Governance of Australian Government Superannuation Schemes Bill 2010*, the *Comsuper Bill 2010* and the *Superannuation Legislation (Consequential Amendments and Transitional Provisions) Bill 2010* into the House of Representatives on 4 February 2010.
- 1.4 The Government did not consult the RSL about these proposed changes to the governance of military superannuation schemes affecting many RSL members.

2. Reasons cited for changes to the governance of military superannuation schemes

2.1 These are contained in:

- a. Joint media release 51/2008 of 31st October 2008 by the Minister for Finance and Deregulation and the Minister for Superannuation and Corporate Law;
- b. Media release 80/2009 of 26th November 2009 by the Minister for Finance and Deregulation;
- c. House of Representatives Hansard of Thursday 4th February 2010 pages 1 to 3; and
- d. Explanatory notes provided by the Minister for Defence Personnel, Materiel and Science as a consequence of a meeting at Parliament House on 11th February 2010.

2.2 Ministerial Media Release 51/2008.

In its initial statement about this matter, the Government claimed it was "a package of reforms to improve and consolidate governance and administration of Australian Government superannuation schemes." It was significant that no other justification was cited and that there was no attempt to discriminate between civilian and military superannuation schemes despite the Parliament having thrice legislated for military superannuation schemes separate from civilian superannuation schemes.

- 2.3 Concurrent with its announcement about merging the boards of Australian Reward Investment Alliance(ARIA)with the Defence Force Retirement and Death Benefits Scheme (DFRDB) and Military Superannuation and Benefits Scheme(MSBS) on 1 July 2010, the Government said the Department of Finance and Deregulation would undertake "a comprehensive review of the current administration arrangements relating to the main civilian and military schemes, including long-term IT requirements for administration of the schemes." This suggests the change was driven by ideology and not by need.

2.4 Ministerial Media Release 80/2009.

The reasons cited for seeking to change the governance arrangements of the military superannuation schemes were non-specific. Minister Tanner stated that the Government "has been reforming governance and administration of Government superannuation schemes to ensure they are best placed to deliver more sustainable and cost-effective practices." He said that his Department "with specialist assistance provided by PricewaterhouseCoopers, completed a comprehensive review of the current administration arrangements relating to the main civilian and military schemes, including long term IT requirements for administration of the schemes."

2.5 Minister Tanner also stated that the "review found that the current Public Sector Superannuation Accumulation Plan (PSSap) administrative arrangements can be delivered more cost effectively by accessing the available competitive market" and that the Government "will outsource the administration services of PSSap which is estimated to save taxpayers \$5 million annually." He went on to claim that "outsourcing arrangements are expected to be implemented by July 2011 delivering savings and enabling ComSuper to focus on improving administration of the larger and more complex defined benefit schemes."

2.6 Further detail included the statement that the Government "will invest \$22.4 million of the savings in reforms to improve member superannuation data, IT infrastructure, and ComSuper's defined benefit scheme administration systems" and that it was expected these improvements would result in further savings of about \$3 million per year.

2.7 House of Representatives Hansard of 4th February 2010.

When introducing the *Governance of Australian Government Superannuation Schemes Bill 2010* into Parliament, Minister Tanner claimed "the outcomes will benefit members as well as the Commonwealth as the employer sponsor of the schemes, and will provide a more sustainable basis for delivering Commonwealth superannuation in the future." He provided no substantiation for this claim.

2.8 Explanatory Notes provided by the Minister for Defence Personnel, Materiel and Science.

The aim of the reforms is cited as "strengthening the governance and administration of Commonwealth superannuation to provide a more sustainable and cost effective platform for delivering Commonwealth superannuation into the future." It is also claimed that the merger of the superannuation schemes will provide opportunities for "greater efficiency in trustee operations, increased scale of operations and more streamlined investment operations, higher levels of service and greater opportunities and options for investment of fund money, and a greater ability for the trustee to attract and retain quality board members and staff."

2.9 The notes explain that the merger of existing trustees is consistent with trends in the broader superannuation industry, and recognise the benefits to be achieved through economies of scale enjoyed by larger superannuation funds.

2.10 Benefits to members from these changes are cited as resulting from "the potential for lower costs and higher investment returns, thereby increasing superannuation savings," and for retiring and retired members "cost effective and timely payment of superannuation benefits into the future."

3. Discussion

3.1 The RSL has concerns about several aspects of this proposal and relevant legislation.

These are:

- a. the findings and recommendations of the Government review (with PricewaterhouseCoopers) cited as underpinning the need for the merger have not been made public for critical review;

- b. assertions about prospective improvements resulting from the proposed merger are not substantiated;
- c. benefits to military superannuants are ephemeral;
- d. as evidenced during the global financial crisis, bigger financial institutions do not necessarily deliver either prospective savings or improved long term benefits; and
- e. the intended merger of military and civilian superannuation schemes is inconsistent with the principle of separateness underlying the legislation under which the schemes were established by the Parliament.

3.1 The Superannuation Board Merger Review.

The RSL does not understand why the findings and recommendations of the review into the management of commonwealth funded superannuation schemes have not been advanced in support of the assertions by Government of the need for the merger of the DFRDB and MSBS Boards with ComSuper. The current and future wellbeing of military superannuants and their dependants is a matter of prime importance to former service personnel. They have a right to be kept fully informed about the reasons for changes to the management and governance of their superannuation schemes.

- 3.2 RSL military superannuants accept that developments in the broader national and international superannuation and financial industries may require changes to the governance and management of their superannuation schemes. They are not opposed to change *per se* but have the reasonable expectation they will be told why changes driven by the global superannuation industry require that the governance of their schemes must also change. These military superannuants also have reason to question the objectivity of a review undertaken by the Department of Finance notwithstanding the involvement of a respected national accountancy firm. The fact that the Government announced its intention to proceed with the merger of superannuation boards before the review was undertaken adds further to their concern.

3.3 Assertions versus facts.

A review of the four sources of information about the proposed merger of the superannuation boards made available to the RSL has failed to find any factually based reason why the merger must take place. On the available evidence it appears the merger is planned because it appears to offer prospective savings for the Commonwealth. The statement by Minister Tanner in his media release of 26th November 2009 that outsourcing administration services for the combined superannuation schemes is estimated to save taxpayers \$5 million annually suggests that these prospective and perhaps ephemeral gains for the Government budget bottom line are the real reason for the proposed merger. This outsourcing is a further concern for military superannuants because it is yet a further separation between them and any say in the way in which their superannuation schemes are managed or governed. Who will be accountable when, as is almost inevitable, something goes wrong with the outsourced administration of the superannuation schemes? More to the point, what are the findings of the Risk Analysis which should have been conducted before any decision was taken to outsource administration of the superannuation schemes?

- 3.4 A careful examination of Minister Tanner's speech during the second reading of the *Governance of Australian Superannuation Schemes 2010* shows that he chose not to include reasons for the need for change to the governance of military superannuation schemes. He said that "these changes will benefit members as well as the Commonwealth...and will provide a more sustainable basis for delivering Commonwealth superannuation in the future" – but he provided no substantiation for this assertion. It is not unreasonable for RSL military superannuants to ask why? There were lots of reassuring words in the speech but no hard facts backing up the need for change.

3.5 Questionable benefits for military superannuants.

It is particularly disappointing that the title of the Joint Ministerial Media Release of 31 October 2008 "Streamlined Administration Arrangements for Australian Government Superannuation

Schemes" appears to be the prime reason for the proposed merger of the superannuation boards. Benefits for members of these schemes seem to have been of scant importance given the texts listed in paragraph 2.1 above. Minister Sherry is quoted as saying "the reforms will not affect members' superannuation benefits in any way;" and Minister Tanner claimed the "outcome will be a more efficient trustee operation and improved service delivery to members."

3.6 On the basis of these and other ministerial statements it appears that the legislated right of military superannuants to their own boards of governance for their military superannuation schemes is to be traded away for an unquantified and uncertain efficiency in "trustee operation and improved service delivery to members." Why are military superannuants being treated so shabbily?

3.7 Bigger is not necessarily better.

The Government's premise that a merger of the military superannuation boards with ComSuper will result in improvements in effectiveness and efficiency and will ensure the best talent is recruited for these boards is questioned. Events on the world stage during the global financial crisis have shown that large mergers are as apt to fail as any other institution, and that some relatively small superannuation funds have produced very creditable results despite the financial down turn.

3.8 The RSL notes that the services have operated and managed their own private health insurance schemes for more than half a century. By industry standards these private health insurance businesses are small. Despite this, they remain competitive and successful in a challenging market, and they have continued to recruit expert experienced staff to ensure their continued viability. Military superannuants are proud of the achievements of these private health funds and note that their governance continues to include military representatives.

3.9 The merger is inconsistent with legislation.

The Parliament has thrice legislated for separate military superannuation schemes, and has thrice decided to include in this legislation the need for a separate military board of governance for the schemes. No reasons have been advanced as to why this will of the Parliament should be overturned. The RSL submission to Government about the indexation of military superannuation of 22nd February 2010 is relevant.

4. Conclusions and Recommendation

4.1 RSL military superannuants:

- a. are not persuaded that the Government has made a case for the proposal to merge the DFRDB and MSBS Boards with ComSuper;
- b. seek factually based sound reasons why the merger should take place; and
- c. request the RSL be supplied with the Department of Finance Review on which the merger is based and with the Risk Analysis of the proposal to outsource administration of the merged system.

4.2 The RSL recommends that further Parliamentary consideration of the *Governance of Australian Government Superannuation Schemes Bill 2010*, *Comsuper Bill 2010* and *Superannuation Legislation (Consequential Amendments and Transitional Provisions) Bill 2010* be deferred to allow military superannuants time to examine relevant information and make an informed assessment about this material.

(This submission was forwarded to the Senate Standing Committee on Finance and Public Administration on 1 March 2010)