

## CHAPTER 1: INTRODUCTION

- 1.1 This report has been prepared within the Office of the Australian Government Actuary for the Department of Defence. It sets out estimates of the net long term superannuation costs of the Military Superannuation and Benefits Scheme (MSBS) and the Defence Force Retirement and Death Benefits Scheme (DFRDB) that will be charged to the Consolidated Revenue Fund (CRF). The estimates are based on an examination of scheme data supplied by ComSuper (the schemes' administrator) relating to experience during the period 1 July 2002 to 30 June 2005.
- 1.2 The Military Superannuation and Benefits Scheme was established on 1 October 1991 to provide benefits for persons joining the ADF after that date. Serving ADF personnel at that time were given the option of transferring to the MSBS or retaining their membership in the DFRDB.
- 1.3 This report analyses the experience of the MSBS and DFRDB since 1 July 2002 and assesses the long term costs of the schemes in the light of this experience. Estimates of the long term costs of military superannuation have been provided by the Australian Government Actuary in a series of reports since the commencement of the DFRDB on 1 October 1972. The most recent estimate of the long term costs of the DFRDB and MSBS was carried out using data as at 30 June 2002 and was presented in my report dated June 2003.
- 1.4 This report has been completed in accordance with the principles recommended in the separate actuarial paper 'The Financing and Costing of Government Superannuation Schemes'. That paper provides a full explanation of the methods used and the reasons for their adoption.
- 1.5 Three measures of long term costs are provided:
  - Notional employer contribution rate

This is the employer contribution rate that would be required to fund the benefits accruing over the next three years, on the basis that superannuation benefits are accrued uniformly over a member's period of service. It represents the employment cost that arises from the superannuation schemes, and has been expressed as a percentage of salaries.
  - Projection of actual employer costs

This is a projection of the actual cash outlays payable annually by the Commonwealth in respect of superannuation benefits for ADF personnel. The cost, which is explained in paragraph 2.9, has been projected over

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the next 40 years and expressed as a percentage of Gross Domestic Product.

- Net present value of unfunded liabilities

This indicates the total level of the accrued Commonwealth liability for superannuation benefits in respect of service up to 30 June 2005 for which no assets are held by the schemes.

- 1.6 Although a formal actuarial review of the schemes is carried out every three years, approximate updated estimates of the net present value of the unfunded liabilities have been provided on an annual basis. These estimates have been used in the Department of Defence Financial Statements. The updated estimates are based on the projections generated in the Long Term Cost Report adjusted to reflect more recent MSBS and DFRDB scheme experience.
- 1.7 The report has had regard to the Institute of Actuaries of Australia Professional Standard 400 (Investigations of Defined Benefit Superannuation Funds) and complies with the Standard insofar as it deals with unfunded superannuation schemes. Professional Standard 400 is designed to primarily apply in the context of funded private sector defined benefit superannuation funds. The schemes under review in this report operate on an unfunded or substantially unfunded basis with an implicit Government guarantee. Given the different context, there are substantial sections of Professional Standard 400 that are not relevant to this report.