

CHAPTER 2: THE MSBS AND THE DFRDB

The MSBS

- 2.1 The Military Superannuation and Benefits Scheme was introduced on 1 October 1991. The documents setting out the provisions of the MSBS are the *Military Superannuation and Benefits Act 1991* and the Trust Deed and Rules of the Scheme. Membership is compulsory for those joining the ADF as permanent employees.

The DFRDB (and the DFRB)

- 2.2 The Defence Force Retirement and Death Benefits Scheme came into existence on 1 October 1972 when it replaced the Defence Forces Retirement Benefits Scheme (DFRB). All contributory members of the DFRB transferred to the DFRDB at that time. While DFRB pensioners continue to receive pensions payable under the DFRB legislation, their costs are shown under the DFRDB. The DFRDB was itself closed to new entrants from 1 October 1991. The documents setting out the provisions of the DFRDB are the *Defence Force Retirement and Death Benefits Act 1973* as amended, together with the associated Regulations and the Defence Force (Superannuation) (Productivity Benefit) Determination made under the *Defence Act 1903*. The DFRDB covers all members of the DFRDB as at 30 September 1991, with the exception of those contributory members who subsequently transferred to the MSBS.

Benefits

- 2.3 Details of benefits payable under the MSBS and the DFRDB are set out in Appendices A and B respectively. They can be described briefly as follows:

MSBS A member financed benefit equal to member contributions accumulated with fund earnings plus an employer financed lump sum benefit based on a multiple of final average salary and total service. On age retirement, the employer financed lump sum may be wholly or partially converted to an indexed pension.

DFRDB An indexed pension benefit based on a multiple of final salary and total service. Part commutation of the pension to a lump sum is permitted on age retirement.

Changes to military superannuation over the review period

- 2.4 There have been no major changes in the benefit scale or structure of the MSBS or DFRDB between the previous report as at 30 June 2002 and this report as at 30 June 2005. There were, however, two significant changes potentially affecting superannuation entitlements over the period.
- 2.5 The first relates to amendments to the governing legislation and associated instruments to allow the splitting of superannuation benefits as part of a Family Law settlement. This followed changes to the Family Law Act to bring superannuation explicitly into the Family Law regime. Such splits may arise where partners divorce or separate. Where a split occurs, the member benefits are reduced and new associate benefits are provided for the former (non-member) spouse. The second significant change was the inclusion of certain Qualification and Skill allowances in superannuation salary.
- 2.6 Following the reduction in the maximum rates of the superannuation surcharge tax, changes were made to the methodology for calculating the cap on maximum reductions in benefits due to the superannuation surcharge. This is unlikely to affect many members and, for costing purposes, is immaterial.

Funding and payment of benefits

- 2.7 Member contributions and productivity superannuation contributions to the MSBS are invested by the Military Superannuation and Benefits Board of Trustees No 1 (the trustees). Contributions are accumulated with interest at the actual investment earnings rates of the MSBS Fund. That part of benefit entitlements which is not covered by the accumulated value of member and productivity superannuation contributions, is financed from the CRF on an unfunded basis. In practice, the accumulation is transferred to the CRF when a benefit commences to be paid and the entire benefit is financed from the CRF.
- 2.8 Member contributions to the DFRDB are paid direct to the CRF and not accumulated in a fund. All benefits from the DFRDB (and DFRB pensions) are provided from the CRF on an unfunded basis.
- 2.9 The estimates in Chapter 6 of this report relate to the actual employer cost payable by the Commonwealth, with the cost in each year being calculated as follows.

- (i) **MSBS**
Funded productivity superannuation contributions to the MSBS Fund
plus
Unfunded portion of benefits paid from the CRF
- (ii) **DFRDB**
Benefits (unfunded) paid from the CRF
less
Member contributions paid to the CRF
- (iii) **DFRB**
Pensions paid from CRF

For simplicity, DFRB is treated as being part of DFRDB in this report.

Retention benefit

2.10 The *Military Superannuation and Benefits Act 1991* also provides for a retention benefit which is payable to eligible personnel who, on completion of 15 years service, undertake to complete a further five years service. The benefit is a lump sum of one times salary which is paid directly to the individual at the time he or she commits to the additional service and is taxed as assessable income in the hands of the individual. As the retention benefit is not a superannuation benefit (being payable prior to exit from service), the benefit outgo and associated employer costs have not been included in this report.