



The

**CSS BOARD**

Commonwealth Superannuation Scheme

Annual Report  
1996-97

---

# The **CSS Board**

Commonwealth Superannuation Scheme

Annual Report  
1996–97

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Australian Government Publishing Service. Requests and inquiries concerning reproduction rights should be directed to the Manager, Commonwealth Information Services, Australian Government Publishing Service, GPO Box 84, Canberra ACT 2601.

### The CSS Board

<b>Street address :</b>	Unit 1 Cameron Offices Chandler Street Belconnen ACT 2617
<b>Postal address :</b>	PO Box 22 Belconnen ACT 2616
<b>Telephone :</b>	(02) 6252 7911
<b>Facsimile :</b>	(02) 6253 1116
<b>Annual Report inquiries :</b>	Chan Foo Schemes Promotion Group ComSuper PO Box 22 Belconnen ACT 2616
<b>Telephone :</b>	(02) 6252 6865
<b>Facsimile :</b>	(02) 6252 7838

**Note:** All contribution, benefit and membership and exit statistics are based on events related to the annual reporting period as reflected in the records of the Commissioner for Superannuation at the time these statistics were compiled. As such, the statistics may vary from the records of these events as recorded by departments and authorities. Where historical statistics are quoted, these may vary from previously published statistics due to the application of retrospective adjustments that are now reflected in this report.

# Letter of **Transmittal**

---

The Hon. John Fahey, MP  
Minister for Finance  
Parliament House  
Canberra ACT 2600

Dear Minister

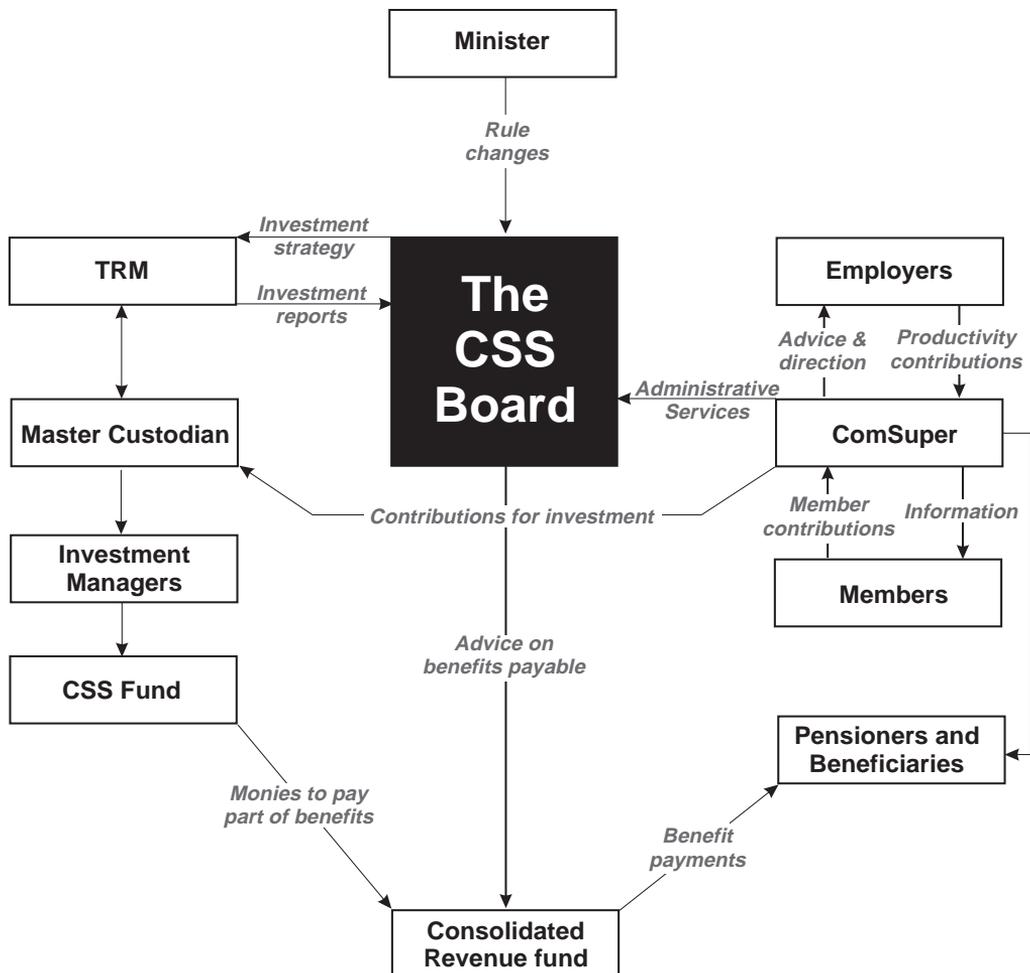
In accordance with section 161 of the *Superannuation Act 1976*, the CSS Board is pleased to present to you the annual report on its operations during 1996–97. The Report details the Board's activities in respect of the administration of the Commonwealth Superannuation Scheme and includes audited financial statements in respect of the management of the CSS Fund during the year ended 30 June 1997.

Ron Brown  
Chairperson  
CSS Board

October 1997

# Operational **Chart**

There are a considerable number of entities involved in scheme administration and fund investment.  
This chart shows the more significant interrelationships.



The CSS Board  
Its responsibilities and administrative arrangements

## Year In brief

During 1996–97, in addition to administration of the Fund and the Scheme, the Board's attention was primarily focused on:

- issues arising from the sale of Commonwealth Funds Management (CFM) and Total Risk Management (TRM);
- establishing arrangements to assume the trusteeship role in relation to pooled investment vehicles formerly held by CFM;
- the development of a business plan for the Board;
- establishing improved reporting arrangements to enable the Board to more effectively monitor the performance of the scheme administrator;
- reviewing the strategic asset allocation adopted by the Board in April 1996 (this review resulted in a net increase in the level of investment return in Australian shares); and
- developing a cash flow strategy to manage large scale transfers from the CSS to the PSS (as a result of the second 'Choice' campaign) and to meet redundancy payouts during a period of significant staffing reduction in the public service.

# Table of **Contents**

---

<b>Letter</b> of Transmittal	iii
<b>Operational</b> Chart	iv
<b>Year</b> in Brief	v

---

## **Introduction**

<b>Chairperson's</b> Report	1
<b>Significant</b> Statistics	8
<b>Board</b> of Trustees	10

---

## **Management & Investment of the Fund**

<b>Fund</b> Investment	14
<b>Risk</b> Management	19
<b>Asset</b> Allocation	21
<b>Fund</b> Performance	24
<b>Crediting</b> Rates	27

---

## **Scheme Administration**

<b>Member</b> Entitlements	31
<b>Invalidity</b> Processing	34
<b>Reconsideration</b> and Review	36
<b>Member</b> Communications	41
<b>Audit</b> Committee	43
<b>Future</b> Directions	45

---

## **Appendixes**

A: <b>Legislation</b> matters	51
B: <b>Departments</b> and approved authorities	53
C: <b>Eligible</b> superannuation schemes	57
D: <b>List</b> of abbreviations	59
E: <b>Financial</b> statements	61

<b>Index</b>	83
--------------	----

---

## **Tables**

1	Investment managers at 30 June 1997	16
2	Strategic asset allocation and benchmark portfolio	21
3	CSS Fund performance 1996–97	25
4	Annual crediting rates 1993 to 1997	28
5	Exit rates declared in 1996–97	30
6	Scheme membership 1993 to 1997	32
7	Pensions in force at 30 June 1997	32
8	Exits by type 1996–97	33
9	Reconsideration applications received and outcomes 1996–97	38

---

## **Charts**

1	CSS Fund composition and portfolio construction at 30 June 1997	23
2	Fund performance compared with inflation rate 1993 to 1997	26
3	Crediting rates compared with inflation rates 1993 to 1997	29



## **Summary** of events

---

In 1996–97 major events included the sale of CFM and TRM, the ‘Choice’ campaign, an increased level of public sector redundancies and a new investment focus.

The CSS Board implemented a new strategic asset allocation. As a result of this move, the CSS Fund performed very well.

The implementation of ComSAS resulted in overcoming accounting difficulties relating to separation of CSS and PSS Funds.

## **Return** on investments

---

The after-tax and fees return on investments achieved by the Fund in 1996–97 was a very creditable 17.95 per cent, thanks mainly to a timely increase in domestic and overseas shares. That move was made as a result of our decision to implement a more aggressive investment policy.

In line with that decision we increased the Fund’s exposure to international shares from 25 per cent to 40 per cent and its exposure to domestic shares from 28 per cent to 33 per cent. At the same time, we reduced the Fund’s holdings in fixed-interest and indexed bonds. As a result the Fund was well placed to take advantage of the excellent returns achieved by all major share markets during the last quarter of 1996–97.

## **Public** sector redundancies

---

During 1996–97, 5962 CSS members left the scheme as a result of APS-wide redundancy programs.

Through careful forward planning we were able to manage the cash flow needs of those payments in an orderly manner to meet our commitments to exiting members without impacting on our investment performance.

With the possibility of continuing large-scale redundancy programs next year, we will continue to follow strategies aimed at managing the cash-flow consequences of redundancy payments. We expect the net cash-flow for 1997–98 to be negative.

## **Sale** of CFM and TRM

---

Prior to 30 June 1995 Commonwealth Funds Management Ltd (CFM) held an exclusive (legislatively imposed) mandate for the investment of the CSS Fund. However, with effect from 1 July 1995 this exclusive mandate expired, and during 1995–96 the Board implemented an innovative approach to the management and investment of the Fund. This involved a move away from the more traditional balanced fund approach to a modular fund structure wherein each asset class consists of both core and specialist components. The core components are passively-managed (with no active stock selection) and aim to capture market returns for the particular asset class. The specialist components allow for controlled diversity through a range of active investment managers, with complementary management styles, who focus on different market segments.

In implementing this new investment approach, significant elements of funds under management were progressively moved away from CFM to some 20 or so active specialist managers. Further work to review the management arrangements for core components of the Fund was under way at the time of the announcement by the Government of its intention to sell CFM and its subsidiary company Total Risk Management Pty Ltd (TRM), but the Board agreed to delay that further work until sales negotiations had been completed.

In December 1996 the government announced that CFM had been sold to Commonwealth Financial Services (CFS—the investment arm of the Commonwealth Bank) and that TRM had been sold separately to the actuarial firm Towers Perrin.

CFS currently has responsibility for the management of most of the core portfolios (representing approximately 70 per cent of the total fund) but the Board has agreed a timetable for the review of the core mandates which should see that process finalised by the end of 1997.

Key personnel within TRM have been retained by the new owner and as a result TRM continues to act as the Board's primary adviser on investment matters.

## **Investment** strategy

In April 1996, with the assistance and advice of TRM, the Board adopted a new strategic asset allocation which was implemented during the early part of the 1996–97 financial year. The combination of assets which best met the Fund's investment objectives included a large proportion of shares, both Australian and overseas, together with smaller proportions of property, bonds and other asset classes, including alternative investments.

The greatest proportion of the Fund is invested in overseas shares, while more than 30 per cent is in Australian shares. The move to increase the Fund's exposure to international shares had regard to the inherent limits on return opportunities through investment solely in the Australian equities market. The wider opportunity provided by investing in the much larger world markets also takes into account that there are some growth industry sectors not represented in Australian shares. The Board's research indicates that the strategic asset weightings now adopted will position the fund to capture higher real rates of return for the Fund and its members over the longer term.

## **Investments** in overseas shares

During the course of the year the Board received a number of expressions of concern regarding the level of offshore investment by the Fund. Those concerns were mostly based on the assumption that concentration on investment in domestic shares would increase employment opportunity in Australia.

The Board does not believe that employment generation should or could (given the objectives of the Fund and the requirement for the Board to act in the financial interests of its members) be an objective of the Fund. However, we have given some thought to the effect of investment decisions on employment generation.

From the evidence, it appears that increased trading in a share market does not necessarily lead to increased employment opportunity; rather it leads to a change in the value of the share traded. More important factors affecting employment include the operations of the capital, product and labour markets.

Recent research has shown that the injection of equity capital for new development ventures or infrastructure projects has the potential to impact on job creation. The research shows that this type of investment has been a major factor in the creation of new jobs in the United States for the past decade. It has been an important part of the process which has seen the US economy move away from manufacturing and towards service industries.

The same trend has been observed in the Australian economy. While the domestic opportunities for investments in new development ventures or infrastructure projects are modest, they are growing. The Board has already made a number of such investments and continues to place a high priority on investigating new opportunities as they arise.

## **Crediting** rate

---

As a result of the very satisfactory 1996–97 investment performance, the Board declared an annual crediting rate of 14.5 per cent. This result exceeds the annual inflation rate by 14.2 per cent. When taken with the returns for recent years, the Board has more than met its objective of achieving a real return on members' accumulated contributions of at least three per cent above the rate of inflation.

## **Development** of Business Plan

---

During a review of administrative arrangements conducted in the 1995–96 financial year, the Board commenced the development of a fully integrated business plan. The Board embarked on this process during the 1996–97 financial year and considerable progress has been achieved.

The Board engaged Mr Paul Cheever of PlanPerform Pty Ltd initially to assist with the development of the structure of the business plan. This arrangement was then extended for a twelve month period (commencing on 6 March 1997) to assist the Board in the further development of the business plan, in implementation of the actions set out in that plan, in the review of the Board's relationships with its administrator and investment adviser, and in the provision of advice on general policy matters.

As one of the initiatives flowing from the business plan, the Board has established a Communications Sub-Committee. Its task is to oversee the Board's communications strategy with members.

## **Choice** campaign

---

As a result of representations by the ACTU, the previous government decided to give eligible CSS members a second chance to elect to transfer to the PSS (eligible CSS members had previously been given the opportunity to transfer in 1990–91 when the PSS was first introduced).

The six-month ‘Choice’ period opened on 1 March 1996 and closed on 2 September 1996.

During the campaign, 8690 eligible CSS members transferred to the PSS. This represents about 13 per cent of the eligible CSS population.

## **No** Audit qualification

---

The Board’s Audit Committee participated in the development of ComSuper’s forward internal audit program for 1997–98 and monitored the progress of audits undertaken in the course of the 1996–97 program.

In previous annual reports, the Board has reported on the major project being undertaken to redevelop the computer systems used by ComSuper to administer the CSS. A major aim of the project was to overcome accounting shortcomings, which had in the past led to the Board having its financial statements qualified by the Auditor-General. Following successful implementation of the first phase of the new computer system it is pleasing to be able to report that for the first time since 1992–93, the Board’s financial statements have been completed without audit qualification.

## **SIS** standards

---

The CSS remained a complying Fund under the *Superannuation Industry (Supervision) Act 1993* (SIS) and so continues to be eligible for concessional tax treatment.

## **Thank** you

---

I would like to thank the Trustees for their hard work and cooperation throughout the year, and in particular I thank those trustees who contributed to the working of the Board's sub-committees, the Audit Committee, the Reconsideration Advisory Committee and the newly formed Communications Committee.

Two of our Trustees left the Board during the year. Ken Searson resigned on 14 February 1997 and Michael Hutchinson's appointment came to an end on 30 June 1997. Each brought particular skills and experience to the Board's work, which was greatly valued, and I here record the thanks of the Board as a whole to each of them. Mr Searson has been replaced by Mr Peter Reynolds while Mr Hutchinson's replacement, Mr Graham Kelly, was formally appointed to the Board on 25 July 1997. I welcome both of these new Trustees to the Board.

Ron Brown  
Chairperson  
CSS Board



## Fund investment

ASSET ALLOCATION		1995-96		1996-97	
Sector	\$m	%	\$m	%	
Property	941.4	19.1	879.3	15.9	
Australian equities	1 378.1	28.0	1 718.1	30.9	
International equities	1 974.4	40.1	2 317.9	41.7	
Australian Fixed-interest <sup>1</sup>	634.5	12.8	640.7	11.5	
<b>Total</b>	<b>4 928.4</b>	<b>100.0</b>	<b>5 556.0 <sup>2</sup></b>	<b>100.0</b>	
INVESTMENT PERFORMANCE <sup>3</sup>		1995-96		1996-97	
Sector	Benchmark %	Fund %	Benchmark %	Fund %	
Property	6.3	4.6	4.8	0.4	
Australian equities	13.4	12.6	24.6	27.2	
International equities	5.7	4.6	24.8	22.8	
Australian Fixed-interest	8.0	9.0	12.6	11.6	
<b>Return on investment</b>	<b>8.5</b>	<b>8.3</b>	<b>19.0</b>	<b>18.0</b>	
<b>ANNUAL CREDITING RATE <sup>4</sup></b>		<b>7.3 %</b>		<b>14.5 %</b>	

### Notes

- 1 Includes cash and indexed bonds.
- 2 This represents the funds under management at 30 June 1997, and will differ from the investments shown in the financial statements because of necessary accounting adjustments.
- 3 Performance figures are after tax and fees.
- 4 Annual crediting rates differ from earning rates because of various adjustments, including transfers to and from the Reserve Account (see also *Note on calculations* on page 27).

## Scheme membership

<b>CONTRIBUTORS AT 30 JUNE</b>			
	<b>1996</b>	<b>1997</b>	<b>plus/(minus) %</b>
Male	54 364	47 922	(11.8)
Female	23 195	20 627	(11.1)
<b>Total</b>	<b>77 559</b>	<b>68 549</b>	<b>(11.6)</b>
<b>PENSIONS IN FORCE AT 30 JUNE</b>			
	<b>1996</b>	<b>1997</b>	<b>plus/(minus) %</b>
Age retirement	45 482	46 279	1.8
Retrenchment (involuntary)	9 782	12 288	25.6
Invalidity	32 488	32 378	(0.3)
Spouses & orphans	27 093	26 125	(3.6)
<b>Total</b>	<b>114 845</b>	<b>117 070</b>	<b>1.9</b>
	<b>1995-96</b>	<b>1996-97</b>	<b>plus/(minus) %</b>
Average yearly adult pension	\$19 978	\$20 308	1.7
Deferred benefits members	8 434	9 735	15.4
Benefits deferred during year	404	905	124.0

## **CSS** Board

---

The CSS Board is a body corporate, by virtue of Section 27B of the *Superannuation Act 1976* (the CSS Act). The Board administers the Commonwealth Superannuation Scheme (CSS) in accordance with the provisions of the CSS Act and is responsible for the management and investment of the CSS Fund.

The Board has delegated the bulk of its general administration powers and responsibilities to Commonwealth Superannuation Administration (ComSuper).

## **Board** members

---

The Board consists of seven members appointed by the Minister for Finance under Section 27F of the CSS Act. Membership comprises all of the members of the PSS Board and two additional members. Of the two additional members one is required to be a person with experience in the formulation of government policy and public administration, while the other is nominated by the ACTU.

The chairperson and the ACTU nominees are appointed for periods not exceeding three years (but are eligible for reappointment), and the other members hold office ‘at the Minister’s pleasure’ or for such period as the Minister determines.

Members holding office at 30 June 1997 were:



**Mr Ronald L. Brown** (independent chairperson)—*appointed 25 July 1990, reappointed to 30 June 1998.*

Mr Brown is a consultant to both State and Federal governments and is a member of a number of government and semi-government boards and commissions. He was Secretary of DILGEA and Chief Executive of SBS. Mr Brown is also chairperson of the PSS Board.



**Mr Michael J. Hutchinson**—*appointed 22 June 1995; ceased 30 June 1997.*

Mr Hutchinson is the Chief Executive of the Office of Asset Sales and a member of the PSS Board. His alternate was Ms Sandra Wilson, Assistant Secretary, Commonwealth Superannuation Group, Department of Finance, Canberra. Mr Hutchinson’s appointment ceased on 30 June 1997.



**Mr John A. Flitcroft**—*appointed 1 July 1990, reappointed to 30 June 1998.*

Mr Flitcroft is a member of the CPSU, and is Manager, Compensation Reviews (NSW) at the Department of Veterans' Affairs. He is also a member of the PSS Board. His alternate is Mr John Murphy, Public Service and Merit Protection Commission.



**Ms Winsome Hall**—*appointed 1 July 1996, reappointed to 30 June 1998.*

Ms Hall is a policy adviser with the Office of the Status of Women in the Department of Prime Minister and Cabinet. She is a member of the CPSU and also a member of the PSS Board. Her alternate is Mr David Irons of the Communications Workers Union, Melbourne.



**Mr Angus J. McKenzie**—*appointed 1 July 1990.*

Mr McKenzie is Group Manager, Superannuation, with Australia Post. He is also Chief Executive Officer of PostSuper Pty Ltd, the trustee of the Australia Post Superannuation Scheme.



**Ms Joy Palmer**—*appointed 1 July 1996, reappointed to 30 June 1998.*

Ms Palmer is a Director of the AGEST Superannuation Fund, a board member of WorkCover Corporation, Independent Chairperson of the CPSU Super Fund, and a Panel Review Officer with the PSMPC. Her alternate is Mr Paul Smith, Bureau of Meteorology, Melbourne.



**Mr Peter Reynolds**—*appointed 7 May 1997 to 6 May 2000.*

Mr Reynolds is a Director of a number of Local and State government bodies in NSW. He was the Chairman of the NSW State Authorities Superannuation Board and has wide experience in business and financial management through various appointments and position in the public and private sectors. He is also a member of the PSS Board.



**Mr Kenneth Searson**—*appointed 8 April 1992; resigned 14 February 1997.*

Mr Searson resigned in February 1997 and was replaced by Mr Peter Reynolds on 7 May 1997.

## **Charter** | 1996–97

---

The Board's charter is:

- to administer the *Superannuation Act 1976* (other than section 154); and
- to manage and invest the CSS Fund so as to maximise the real return earned on investments subject to a tolerable level of short-term volatility.

## **Objectives** of the Board

---

The Board's objectives in 1996–97 were:

- to implement the Total Risk Management investment strategy to maximise the return earned on the Fund for the chosen level of risk;
- to maintain appropriate banking and related administration arrangements for the receipt of monies directed to the Fund and the payment of benefits;
- to maintain appropriate arrangements, including delegation of Board powers and functions under the Act and Trust Deed, for the proper administration of the Scheme;
- to comply with the *Superannuation Industry (Supervision) Act 1993*; and
- to develop a comprehensive strategy for communication, to CSS members, of information relating to the Fund performance and their superannuation entitlements.

## **Performance** indicators

---

Indicators of performance, other than those relating to investment, are set down in the Service Level Agreement between the Board and ComSuper. Details of performance against the indicators can be found on the following pages:

- the investment performance of the Fund relative to appropriate benchmarks (see *Fund Investment*, p.14);
- the time taken to process benefit payments (see *Member Entitlements*, p.31);

- the time taken to finalise applications for Invalidity Retirement Certificates (see *Invalidity Processing*, p.34);
- the number of appeals against decisions taken under delegation and the outcome of those appeals (see *Reconsideration and Review*, p.36); and
- the success of the communications strategies used to inform members of relevant superannuation matters and of the Board’s activities (see *Member Communications*, p.41).

## **Secretariat** to the Board

---

The Secretary to the Board has specific responsibilities in relation to the maintenance of the formal transcript of Board proceedings, the safe custody and control of the Common Seal, and the dissemination of Board decisions. The Secretary also acts as the conduit between the Board, the government’s policy advisers (Department of Finance), the scheme administrator (ComSuper), the Board’s investment adviser, CSS members, members of parliament and the media.

Secretariat services to the Board are provided by ComSuper staff. More detailed commentary can be found in the *Commissioner for Superannuation Annual Report 1996–97*.

## **Note** of appreciation

---

The Board would like to acknowledge the diligence and efficiency of the staff of ComSuper and to express its appreciation for the assistance given by a range of specialists in the public and private sectors throughout the year.

## **Sale** of CFM and TRM

---

In May 1996 the Federal government announced its intention to sell Commonwealth Funds Management Ltd (CFM) and its subsidiary company, Total Risk Management Pty Ltd (TRM).

TRM was established as a joint initiative between the Board and CFM to assist in the transition from CFM's monopoly position as fund manager for the CSS Fund to a deregulated environment. TRM is the principal adviser to the Board and also acts as the Board's portfolio manager.

The Board's intention had been to consider the core portfolios as the next step in the review process and, had the sale not eventuated, this review would have commenced from 1 July 1996.

In the circumstances, the Board agreed to continue with the review on a sector-by-sector basis over a 12 month period.

## **New** owners

---

The Board was consulted by the Federal Office of Asset Sales during the course of the sales negotiations.

CFM was sold to Commonwealth Financial Services (CFS), the investment arm of the Commonwealth Bank of Australia. TRM was sold to the actuarial firm Towers Perrin. The separate sales of CFM and TRM were finalised in December 1996.

TRM is now a wholly-owned subsidiary of Towers Perrin. The key personnel within TRM have remained with the company which continues to provide the full range of advisory services to the Board.

## **Trustee** company

---

During the 1996-97 financial year the CSS Board, in conjunction with the PSS Board, formed a company (CSS/PSS Pty Ltd) for the sole purpose of acting as a trustee for existing pooled superannuation trusts. CFM was the former trustee of these pooled superannuation trusts.

## **Corporate** governance

---

The principal feature of the Board's policy on corporate governance is to abide by the basic principles of corporate governance as summarised in the Australian Investment Managers' Association (AIMA) Statement of Recommended Corporate Practice. This includes setting strategic directions, reviewing business plans established by the Board and monitoring performance against those plans both directly and through its committees.

## **Custodial** services

---

Following a review of custodial arrangements during the 1995–96 financial year, a new Master Custody Agreement was signed with the Chase Manhattan Bank on 2 May 1996 with a reduction in fees (the saving in fees under the new agreement for the 12 months ended 31 March 1997 was 22 per cent).

Their custodial function in relation to investment management includes settlement of trades, physical custody and safekeeping of securities, collection of dividends, and account preparation.

Chase Manhattan Bank receives all monies available for investment from ComSuper, and allocates them to the investment managers in accordance with the mandates set down by the Board.

They also hold (but do not own) the assets which comprise the Fund; collect and disburse dividends; maintain consolidated accounts and tax records for the Fund; and report to the Board on individual fund manager and aggregated investment returns.

## **Investment** managers

---

All investment managers are paid a fee which is generally based on the value of assets under their control. The fee reflects the investment costs applicable to each particular sector, and the investment style (i.e. active or passive) employed by each manager.

The investment managers appointed by the Board for the 1996–97 financial year are presented overleaf.

Table 1: Investment managers at 30 June 1997

ASSET CLASS	INVESTMENT MANAGERS
<b>Australian equities</b>	
Core	CFM AMP
Active	AMP Balanced Equity Management Pty Ltd First State Fund Managers Ltd HSBC Asset Management Australia Ltd
<b>International equities</b>	
Core	CFM
Asia	IDS Fund Management Ltd
USA	Brinson Partners IDS Fund Management Ltd Sasco Capital Westpeak Investment Advisors
Japan	Acadian Asset Management Inc. JP Morgan Investment Management Inc. Schroder Investment Management (Australasia) Ltd
UK/Europe	Dresdner Bank AG Mercury Asset Management Plc Schroder Investment Management (Australasia) Ltd
Emerging Markets	Blairlogie Capital Management Morgan Grenfell Funds Management Emerging Markets Management
Indexed core	Paribas Asset Management
<b>Australian Fixed-Interest</b>	
Core	CFM
Active	BT Funds Management Ltd Citicorp Investments Ltd
Indexed Bonds	CFM
<b>Cash</b>	CFM
<b>Property</b>	CFM
<b>Currency overlay</b>	Pareto Partners

## **Benefit** design

---

The CSS is a split-benefit superannuation scheme, with benefits generally being made up of two parts:

a) **a member-financed component**

This benefit is based on the contributions paid by the member into the Fund plus accumulated interest. Interest is credited at rates determined by the Board, in line with earnings of the Fund; and

b) **an employer-financed component**

The employer component includes two parts—

- The first part, which in most circumstances is paid as a non-commutable indexed pension out of Consolidated Revenue, is a defined amount. The amount payable depends on the reason for exit and has regard to several factors including final salary, age and length of contributory membership. It does not depend on the earning rate of the fund.
- The second part of the employer component is the superannuation productivity benefit, which comprises employer contributions and accumulated interest.

## **Investment** objective

---

With the accumulation part of members' total benefits tied to the investment performance of the Fund, achieving a good return over the long term is clearly of vital importance. This is explicitly recognised in the objective that the Board has set for the Fund, which is:-

**To maximise real returns on members' accumulation fund subject to a tolerable level of shorter-term volatility.**

The objective refers to both a long and a short term perspective. Members' interests are best served by seeking to maximise real returns over the long term. However, managing shorter-term volatility (that is, reducing the variation in annual crediting rates) is also important, particularly for members exiting from the scheme.

The investment objectives of the Fund specify the target, or acceptable levels of portfolio risk and return. They are distilled from the characteristics of the scheme (including benefit design, reserving/crediting rate policy and liability position). These are also captured in the Fund objective which is to maximise the long-term real rate of return subject to:

- a less than 20 per cent probability that nominal fund returns will be negative in any given year;
- a more than 60 per cent probability that the crediting rate will exceed CPI by three per cent in any given year; and
- a more than 70 per cent probability that the crediting rate will exceed CPI in any given year.

The above three criteria define the ‘tolerable’ level of volatility specified in the Fund objective.

## **Investment** strategy

---

The investment strategy of the Fund is guided by a set of principles about the nature of investment management to which the Board subscribes. Those principles include:

- i) attention to both the short and long term (multiple time horizons) with emphasis on the long-term behaviour of asset classes;
- ii) a global view of investment opportunities;
- iii) broad diversification of investments; and
- iv) a portfolio structure designed to capture market returns with confidence.

Asset allocation is the most critical factor in deciding the investment strategy. It is the primary determinant of both the investment risk and investment return of the Fund. Two main decisions are involved in this process:

- asset composition—deciding the types of assets in which the Fund will invest; and
- asset weighting—deciding how much to invest in each asset type.

The investment strategy, through which the investment objectives of the Board are met, also encompasses the identification and management of all the risks associated with a portfolio of investments. These risks are:

- specific risks (those attached to individual assets);
- factor risks (those broader influences that attach to groups of related individual assets); and
- systemic risks (those attached to the whole of a particular investment market).

The Total Risk Manager's job is to identify the risks, quantify them as far as possible and manage them in combination to produce the Fund's required investment return.

The primary focus on risk (the essential component of total risk management) identifies:

- what risks exist within the investment structure;
- where those risks reside within the structure;
- how great the risks are; and
- what effect the combination of the parts has on diversifying those risks.

By applying the principles of total risk management the Board aims to achieve the following outcomes:

- to increase investment returns by taking greater risks, where those risks can be shown to be appropriately rewarded;
- to reduce risk (by diversification and other means) without decreasing return; and
- to combine investments in such a way (using options, derivatives and other means) to minimise downside risk (risk of falling prices or returns) while maximising upside return potential.

## Strategic target

The Board's policy is to review the continuing effectiveness of its strategic asset allocation on an annual basis. A full tactical review is to be carried out every three years (commencing from the 1996 allocation) with the intervening years focusing on specific issues related to current market conditions. The review carried out in April 1997 focused on policy parameters, international exposure and the property portfolio.

With the assistance and advice of TRM, the Board adopted a new strategic target asset allocation in April 1996. This asset allocation was implemented during the first half of the 1996–97 financial year.

As a result of the April 1997 review, the strategic allocation to Australian shares was raised from 28 per cent to 33 per cent and the strategic allocation to property was reduced from 20 per cent to 15 per cent.

**Table 2 : Strategic asset allocation and benchmark portfolio**

Asset Class	Type	Asset allocation	Benchmark
Shares	Domestic	33%	ASX All Ordinaries Accumulation Index
	International	40%	MSCI World Index (ex Australia) with net dividends reinvested MSCI Emerging Markets Free Index (ex Malaysia) with gross dividends reinvested
Debt	Domestic	12%	SBC Warburg Australia Composite Bond Index & Bank Bill Index
Property	Domestic	15%	Mercer Australian Unlisted Property Index
Total Fund		100%	

Each asset class consists of core and specialist components. The core is constructed so as to provide a high probability of capturing market return whereas the specialist component allows for controlled diversity through a range of specialist active managers with different, yet complementary management styles.

**Core assets** are passively managed (with no active stock selection). Their purpose is to capture market returns by replicating—or tracking—the relevant sectoral index. For instance, core holdings in the Australian shares sector track the ASX All-Ordinaries Accumulation Index.

The composition and weightings of the items that make up the index change slightly over time. The core asset managers must mirror those changes by adjusting the composition of their core portfolio. In that way, the earnings (or losses) on core assets over any period will mirror the increase (or decrease) in the index over the same period.

Generally, core assets make up the bulk of a fund's investment holdings.

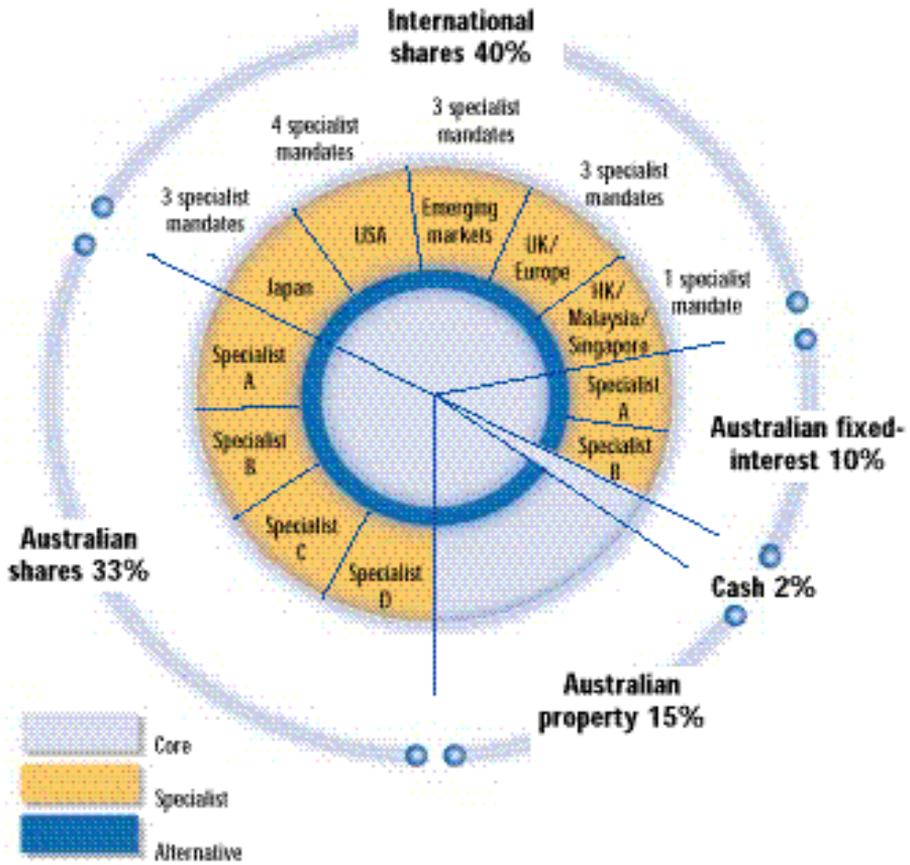
**Active assets**, as the name suggests, are actively managed. That is, the specialist fund managers who hold these assets must actively operate in the market, buying and selling them with a view to outperforming the sectoral index.

An exposure to emerging markets is included in the portfolio, with the level of exposure to be no more than five per cent of total portfolio assets.

The Board has also made provision for investment of up to five per cent of the total assets in non-traditional or alternative investments. These investments are to be included within sectors, with no more than ten per cent exposure in any single asset sector.

The move to increase the Fund's exposure to international equities had regard to the inherent limits on return opportunities through investment solely in the Australian equities market and the increased opportunities provided by investing in the much larger world markets. The Board's research indicates that the strategic asset weightings now adopted will position the Fund to achieve higher real rates of return for the Fund and its members over the longer term.

Chart 1: CSS Fund composition and portfolio construction at 30 June 1997



## **Market** overview

---

At the end of 1996–97, the value of the Fund was \$5.5 billion, an increase of \$628m on last year's total. During the year, the CSS Fund recorded a return of 17.95 per cent, after tax and fees.

Equity markets performed exceptionally well around the world, culminating with share prices in Australia and all G7 countries (excepting Japan) reaching new record levels in each of the months of the June quarter, although the performance of the property sector continued to constrain results.

This strong performance in virtually all major equity markets reflects the continuation of an easy global monetary environment, a consequence of the moderate growth/low inflation conditions that prevailed in most countries and an expectation that such conditions will continue.

The key question remains whether the principles underlying the Fund's investment strategy are coming through in these one-year results. While this is a relatively brief timeframe, the trends are encouraging.

First, we have placed emphasis on equity as the asset class to carry the load in achieving the Fund's objective of maximising returns (73 per cent of the portfolio). Equity has clearly outperformed other asset classes.

Second, we have reallocated from fixed-interest to international equity, with an appropriate currency strategy. Again, the expected superiority in the performance of international equity is evident when international equity returns are combined with currency.

Third, we have continued to gradually reduce property despite consistent advice from a variety of sources that outperformance was imminent. In point of fact, property continues to underperform. Consequently, implementation of the Fund's property strategy continues to be critical.

Finally, we have set quite demanding targets for portfolio construction. The major portfolio construction position is active management. In aggregate, active management has added value although not to the level targeted at this stage.

Table 3 : CSS Fund Performance 1996–97 (after tax and fees)

Asset sector	Value of investment <sup>1</sup>		Benchmark portfolio performance <sup>2</sup>	Fund performance <sup>3</sup>
	at 30/06/96	at 30/06/97		
	\$m	\$m	%	%
Property	941.4	879.3	4.8	0.4
Australian equities	1 378.1	1 718.1	24.6	27.2
International equities	1 974.4	2 317.9	24.8	22.8
Australian Fixed-interest <sup>4</sup>	634.5	640.7	12.6	11.6
<b>Total</b>	<b>4 928.4</b>	<b>5 556.0</b>	<b>19.0</b>	<b>18.0</b>

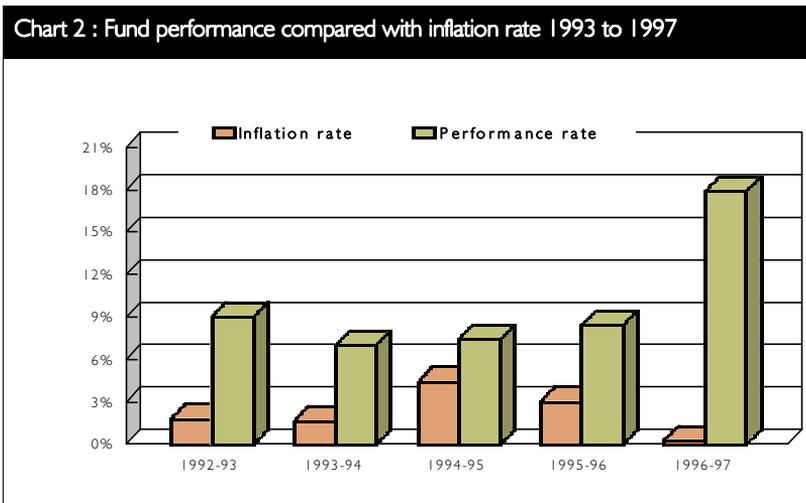
- 1 The **Value of Investment** figures represent the funds under management and differ from the value of investments in the financial statements because of necessary accounting adjustments.
- 2 The investment performance of the **Benchmark Portfolio** represents the minimum expected performance position for the actual fund or portfolio.
- 3 **Fund performance** figures are after tax and management fees, and reflect income as well as realised and unrealised capital gains and losses.
- 4 Includes cash and indexed bonds.

## Comparison of Fund performance

When comparing the performances of superannuation funds, it is important to recognise that superannuation is, for the majority of members, a long-term investment.

Therefore, the primary objective of a superannuation fund is to maximise the expected rate of returns over the long-term while investing prudently. However, the Board must also be aware of the need to achieve acceptable levels of short-term returns (to meet the needs of exiting members), while pursuing this longer-term strategy.

A fund's investment strategy must be consistent with the nature of its liabilities. In addition, its strategy will be affected by its risk profile, the existence (or not) of a Reserve Account, its cash flow, the scheme's benefit design and a host of other considerations. Consequently, comparisons between the CSS Fund's returns and the returns of other funds may be misleading without a full understanding of how all these factors influence the respective investment strategies.



The Board believes that its objective of increasing the value of member accumulation accounts by outperforming the rate of inflation by at least three percentage points per annum over the longer term has represented a reasonable basis on which to judge the Fund’s performance.

## **Investment** information

Further information on the investment activities of the Fund can be obtained from:

The Secretary  
CSS Board  
PO Box 22  
Belconnen ACT 2616  
Phone : (02) 6252 5268 Fax : (02) 6252 7965

## **Note** on calculations

---

The Fund earning rates quoted in this report differ from the rates calculated by ComSuper for annual crediting rate purposes. Time-weighted rates of returns are used within the investment management industry as the basis of comparing the performance of different funds in which cash flows can vary considerably. The investment manager usually cannot control the timing or the amount of contributions to the Fund. Because the time-weighted rate eliminates the impact of money flows into or out of the Fund, it is an efficient means of appraising the fund manager's ability to make the Fund's assets perform.

The returns calculated for crediting rate purposes are money-weighted i.e. the return is calculated by reference to the amount and the timing of cash flows during a given time period. This approach gives an effective measure of the Fund's rate of growth, giving full weight to the impact of cash flows on Fund assets.

Annual crediting rates also differ from earning rates because of the working of the Reserve Account (p. 29) and the Deferred Losses Account (p. 30).

## **Crediting** rate policy

---

The key features of the crediting rate policy are:

- the target rate is the June-to-June CPI plus three per cent;
- the Reserve Account bounds are plus/minus five per cent of Fund assets (based on the size of the Fund at the end of the financial year); and
- there are proportional adjustments into and out of the Reserve Account.

At the end of the year, the earning rate for the year is determined and compared to the target rate as follows:

- if the earning rate is *higher* than the target rate, the crediting rate will be reduced in proportion to the reserve but subject to a limit on the amount which can be transferred to the Reserve.
- if the earning rate is *lower* than the target rate, the crediting rate will be increased to the target rate by transferring funds from the Reserve Account.

Transfers to and from the Reserve Account are subject to the restriction that the balance of the Reserve Account cannot exceed five per cent of the balance of the Fund, nor can it be less than minus five per cent of the Fund, at the end of the financial year.

If the Reserve Account is *greater than* five per cent of the balance of the Fund at the end of the financial year, the excess above five per cent is used to raise the crediting rate.

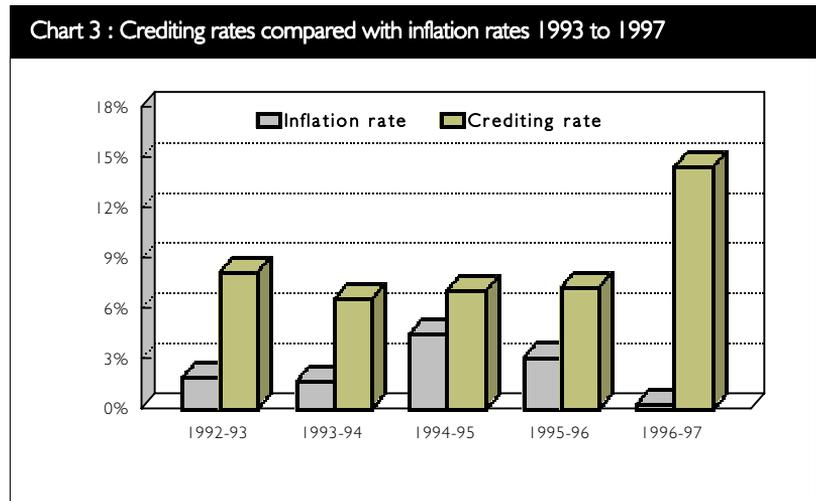
The lower limit on the Reserve Account does not apply if a larger transfer is needed to ensure that the crediting rate is not negative.

## **Crediting** rates

Every year, interest is credited to members’ accumulated contributions at rates determined by the Board. Table 4 lists the annual crediting rates for the past five years.

Table 4 : Annual crediting rates 1993 to 1997	
Financial year	Crediting rate %
1992–93	8.2
1993–94	6.6
1994–95	7.1
1995–96	7.3
1996–97	14.5

Over the years, the annual crediting rate has consistently outperformed the rate of inflation, as the following chart shows.



## **Reserve** Account

The Board is precluded by legislation from declaring a negative crediting rate. Given this prohibition, the options available to the Board to reduce the volatility of returns and guard against negative returns include:

- investment in conservative products such as cash-based products or capital-stable products with high cash content; or
- investment in capital-protected products (such as capital-guaranteed funds offered by life offices).

In both cases, the expected long-term return is reduced as a trade-off for less volatile returns.

Consequently, the Board has adopted a more growth-oriented, higher expected return investment strategy coupled with a reserve account to smooth out fluctuations in annual crediting rates. Under this approach, the rates credited to members' accounts may differ from the actual rates earned on the Fund's investments. In years when high returns are earned, part of the investment earnings are transferred to the Reserve Account, at the expense of a reduction in the rate credited to members. In years when poor or negative returns are earned, transfers from the Reserve are used to 'top up' the interest rate credited to members.

The advantage of smoothing lies in the limitation of downside risk for those nearing retirement, which allows a higher investment risk profile than might otherwise be the case. A higher risk profile should deliver higher real returns to all members over the long term.

This year, a net \$170.2m was transferred to the Reserve. The balance of the Reserve Account at 30 June 1997 was \$255.2m.

## **Deferred** Losses Account

The annual crediting method also entails small quarterly transfers from earnings to the Deferred Losses Account (DLA) to continue the process of reducing the balance of that account to zero by 1 July 1999. The DLA was created on 1 July 1984 as a means of spreading over 15 years the effect of a one-off loss in Fund value arising from a change to market-value accounting for determining the value of the Fund's assets.

This year, a net \$9.3m was transferred to the DLA. The balance of the DLA at 30 June 1997 was \$14.8m.

## **Exit** rates

When a member leaves the Scheme, an exit rate of interest is applied to cover the period between the date of the last annual crediting rate and the member's date of exit. Exit rates are determined by the Board quarterly, in a manner consistent with the method for determining annual crediting rates. The exit rates for 1996–97 are shown in Table 5 below.

Effective Date	Exit rate (annualised)
9 September 96	6.2%
11 December 96	6.4%
17 February 97	7.6%
12 May 97	7.2%

Each new exit rate replaces the previous one. For example, members who exited on or after 12 May 1997 had an interest rate of 7.2 per cent per annum applied to their accumulated contributions for the period from 1 July 1996 until their date of exit.

## **General** introduction

---

The Board has delegated the bulk of its general administrative powers and functions to the Commissioner for Superannuation and to staff of ComSuper.

As the Board's scheme administrator, ComSuper's major areas of activity encompass the calculation and payment of benefits (including the significant area of invalidity benefits), the maintenance of records of contributors and pensioners, the receipt of and accounting for contributions from employing agencies in respect of their employees, the reconsideration and review of decisions on entitlements and the provision of information to the membership.

The Trustees set the standards of performance for ComSuper in its delivery of services to members for these areas of activity, and the Trustees also monitor the administrator's performance.

A detailed description of all ComSuper's activities is contained in the *Commissioner for Superannuation Annual Report 1996–97*.

## **Members'** contributions

---

Members must pay basic contributions of five per cent of their superannuation salary into the Fund each fortnight. They may also elect to make supplementary contributions (up to a further five per cent of salary) in order to increase their member benefit upon retirement. Contributions are deducted from their salary and are paid on their behalf by employing agencies to ComSuper, which in turn pays them into the Fund. ComSuper is responsible for receiving and recording members' basic and supplementary contributions, as well as their productivity contributions (which are paid by the employer), and for calculating benefits when they become payable.

In 1996–97, ComSuper received contributions totalling \$270.3m, which comprised \$203.9m in member contributions and \$66.4m in productivity contributions. Benefits paid from the Fund during the year totalled \$439.6m and transfers to other schemes totalled \$437.0m, giving a net contributions flow out of the Fund for 1996–97 of \$606.3m.

## Number of members

The CSS was closed to new members following the introduction of the PSS Scheme on 1 July 1990. Table 6 shows CSS membership for the last five years.

Year ending	Male	Female	Total
30 June 1993	75 914	35 265	111 179
30 June 1994	69 037	31 953	100 990
30 June 1995	63 992	29 254	93 246
30 June 1996	54 364	23 195	77 559
30 June 1997	47 922	20 627	68 549

*Note: As a result of the Choice campaign conducted between 1 March 1996 and 2 September 1996, members who elected to transfer from the CSS to the PSS became members of the PSS effective from 1 March 1996. If a member so elected but did so after 30 June 1996, that member would reflect as being both a member of the CSS and the PSS on 1 July 1996. This is due to the date of cessation in the CSS being later than 30 June 1996 but the date of commencement in the PSS being prior to 1 July 1996. Thus, the figures for year ending 30 June 1996 and 30 June 1997 do not properly account for scheme transfers made after 1 July 1996 which are effective from 1 March 1996.*

## Pensions in force

At 30 June 1997, there were 117 070 pensions in force, an increase of 1.9 per cent from the previous year, incurring an annual pension liability of \$2.38 billion. Table 7 gives a breakdown of those pensions by type and their annual liability.

Type of pension	Number	Annual Liability
Age retirement	46 279	\$895.62m
Involuntary retirement	12 288	\$368.04m
Invalidity	32 378	\$685.91m
Spouses & orphans	26 125	\$427.82m
<b>Total</b>	<b>117 070</b>	<b>\$2 377.39m</b>

## **Benefit** applications

The year 1996–97 saw a significant increase in the number of benefit applications received in ComSuper, primarily as a result of significant retrenchment programs initiated by public sector agencies.

ComSuper received more than 4600 benefit applications in the first six months of the financial year or more than 750 per month.

## **Benefit** processing

The high rate of benefit applications had a serious effect on benefit application turnaround times. ComSuper, in its service level agreement with the Trustees, agrees to process 60 per cent of CSS member benefits within 10 days of the later of the date of exit or the date all documentation necessary for processing is received. Although ComSuper diverted experienced processing staff from other areas of the office and implemented a significant overtime program, it was unable to maintain the agreed turnaround times for the period from August 1996 to March 1997 given the significant increase in workload, with the number processed within the agreed standard falling to as low as 35 per cent in October 1996.

In the early part of 1997 the number of benefit applications declined so that from April onwards, ComSuper was able to achieve the benefit turnaround time standards once again.

## **Exits** by type

During 1996–97, 8286 members left the scheme. The bulk of the exits came from the retrenchment category (72 per cent). Table 8 gives a summary of contributor exits.

<b>Type</b>	<b>Number</b>
Age retirement	1 449
Retrenchment (involuntary)	5 962
Invalidity	179
Death	48
Resignation and other	648
<b>Total</b>	<b>8 286</b>

## **Payment** of invalidity benefits \_\_\_\_\_

Members who are totally and permanently incapacitated to the extent that they are unlikely to work again in a position for which they are reasonably qualified by education, training or experience (or could become so after retraining), may be retired on invalidity grounds and become entitled to payment of invalidity benefits. The invalidity retirement process is designed to ensure a thorough assessment of a person's condition and to fully consider prospects of rehabilitation and/or retraining before the Board issues an invalidity retirement certificate. The success of this assessment process is borne out by the fact that the Board, or a delegate, approved invalidity retirement for more than 90 per cent of applications considered.

The legislation provides for pre-assessment payments to be made, to ensure that a person who is (or is likely to become) totally and permanently incapacitated is not left without income while his or her case is assessed.

## **Pre-assessment** payments \_\_\_\_\_

Applications for pre-assessment payments and/or the issue of an invalidity retirement certificate are normally made to ComSuper through the applicant's employer. If the applicant wishes to be paid pre-assessment payments, the employer must include a medical report completed by a Health Services Australia medical advisor (or other Board-approved medical practitioner) who has examined the person and considers that the person is, or is likely to become, totally and permanently incapacitated.

During 1996–97, pre-assessment payments were approved in respect of 147 applicants and three applicants were refused pre-assessment payments on the ground that there was little likelihood that he/she would be unable to work again.

---

## **Assessment** panel

The decision-making process requires the Board to engage an assessment panel, experienced in assessing invalidity claims for superannuation purposes, to help the Board determine whether a person is totally and permanently incapacitated. During 1996–97, assessment panel services were provided by Disability Claims Management & Counselling Service (DCMC). Of the 211 cases considered by DCMC, 189 were approved, 18 were refused and four cases were deferred for further consideration.

---

## **Board** decisions

When all the necessary information is available, ComSuper is in a position to place the matter before the Board (or in certain circumstances to approve the invalidity retirement under delegation from the Board). At this time, the Board is required to decide whether to approve the retirement and, if so, to issue a certificate having regard to:

- (a) the advice of the panel; and
- (b) the ‘practicality’ of the person being able to find a job for which he or she is qualified or could become qualified after retraining.

During 1996–97, 190 invalidity retirement certificates were approved. Of those, 16 were fast-tracked by the invalidity assessment panel in less than one week.

The Board is satisfied that ComSuper is meeting the standards set for turnaround times in the processing of invalidity benefits.

# Reconsideration and **Review**

---

## **Role** of the Board

---

Decisions of the Board and its delegates are subject to internal reconsideration and external review. These processes are managed by ComSuper.

## **Internal** reconsideration

---

A person affected by a decision of the Board or a delegate may apply in writing to have it reconsidered. If the Board took the decision, the application must be supported by evidence not previously known to the Board. A fee of \$150 is payable. If the appeal is successful or withdrawn, the fee is refunded.

Decisions are reconsidered on the basis of new evidence provided by the applicant or obtained by ComSuper. A request for reconsideration of a decision is usually referred to the relevant Reconsideration Advisory Committee (RAC)<sup>1</sup> for examination. The RAC's recommendation is taken into account by the Board in deciding whether to affirm or vary the original decision. The Board can also refer a decision to the RAC on its own motion. Each applicant receives a comprehensive written statement of reasons for the Board's decision on reconsideration.

Requests for reconsideration are treated as complaints for purposes of Section 101 of the SIS Act.

<sup>1</sup> Two RACs have been established. One reviews delegates' decisions and normally consists of any two of the Commissioner for Superannuation, her deputy and another SES officer. The other reviews decisions of the Board and consists of two Trustees.

Sixty one applications for reconsideration were received, compared with 60 last year. Nine concerned elections to transfer from the CSS to the PSS; nine concerned the provisions for reducing invalidity benefit on medical grounds; five concerned benefit payable to spouses or children. Three applications, compared with seven last year, concerned the issue of invalidity retirement certificates.

Twenty three applications (compared with 27 last year) concerned late elections to preserve entitlements accruing from a previous period of contributory service. During the year, the Board issued guidelines to facilitate the administration of such elections.

## **Legislative** changes

To streamline the resource intensive reconsideration process, the following legislative changes are being sought at the request of the CSS and PSS Boards:

- removal of provisions prohibiting the Boards from delegating their power to reconsider decisions;
- retention of the RACs as presently constituted, but as decision-making bodies with powers to reconsider decisions identical with those currently possessed by the Boards;
- removal of the requirement that an RAC make a recommendation to a reconsideration decision-maker;
- provision of power to dismiss an application for reconsideration or treat an application as having been withdrawn where the Board considers it trivial, misconceived or without substance; and
- provision of a time limit, of 28 days or such further period as the Board allows, in which to request reconsideration.

**Table 9 : Reconsideration applications received and outcomes 1996–97**

	1995–96		1996–97	
	Delegate's decisions	Board's decisions	Delegate's decisions	Board's decisions
Brought forward	22	22	44	17
Received	47	13	56	5
Withdrawn or lapsed	9	3	13	4
Decisions affirmed	7	6	19	4
Decisions varied	6	4	6	2
Decisions set aside	3	5	2	1
Resolved	25	18	40	11
Carried forward <sup>1</sup>	44	17	60	11

<sup>1</sup> The cases carried forward were under investigation by ComSuper or with the RAC.

## **External** review

### **Superannuation Complaints Tribunal**

As a result of amendments to the CSS Act introduced by the *Superannuation Legislation Amendment Act 1994*, virtually all decisions previously taken by the Commissioner under the CSS Act have, since 1 July 1994, been taken by the Board.

Decisions taken by the Board are reviewable by the Superannuation Complaints Tribunal (SCT), which was established under the *Superannuation (Resolution of Complaints) Act 1993* (the SRC Act).

When it commenced operation on 1 July 1994, the SCT was precluded by regulations from dealing with complaints that involved the assessment or evaluation of medical evidence and/or consideration of a person's incapacity. This restriction was subsequently removed by regulations and the *Superannuation Industry (Supervision) Legislation Amendment Act 1995* (the SISLA Act), which took effect on 12 December 1995, amended the SRC Act to enable the SCT to review medical complaints.

However, under the SRC Act, as amended by the SISLA Act, the SCT cannot deal with the CSS Board decisions relating to the payment of a disability benefit because of total and permanent incapacity if :

- the primary decision was made prior to 1 November 1994;
- the primary decision was made on or after 1 November 1994 and the complaint was not lodged with the SCT within one year from the time the primary decision was made; and
- before the date of the primary decision, the person permanently ceased working because of a physical or mental disability that gave rise to the claim for disability benefit, and the person did not lodge the claim with the Board within one year after he/she permanently ceased employment.

Under the SRC Act, a party to a proceeding before the SCT may appeal to the Federal Court on a question of law from any decision of the SCT in that proceeding.

### **Complaints lodged with the SCT**

During the year, five complaints were lodged with the SCT against the CSS Board and six were carried over from the previous year. Of the four complaints resolved during the year, the SCT affirmed one decision and one case was dismissed by the SCT following withdrawal of the application for review by the applicant. The SCT had no jurisdiction in the other two matters lodged with the SCT. The complaints dealt with issues such as late elections for preservation, and salary regulations and overtime. Seven matters remained outstanding as at 30 June 1997.

Of significance during the year was a SCT determination in *Duilio Valenti and the CSS Board* (1996) D97/62. That case concerned the definition of 'shift allowance' for the purposes of the Salary Regulations made under the CSS Act and whether 'rostered overtime' was included in that definition. The Board considered that on the authority of *Commissioner for Superannuation v Carpenter* (1982) 48 ALR 230, the 'rostered overtime' was a payment for overtime worked and not a shift allowance. The SCT upheld the decision under review finding that the Board's interpretation of the both the CSS Act and the Regulations was both fair and reasonable and therefore was obliged to affirm the decision pursuant to the requirements of the SRC Act. It is considered that the significance of this case is that the SCT will affirm decisions under review where the Board's interpretation of the legislation is fair and reasonable, notwithstanding that there are other possible interpretations.

### **Federal Court**

Decisions taken in the administration of the CSS are subject to review by the Federal Court under the *Administrative Decisions (Judicial Review) Act 1977* (the AD(JR) Act). Appeals to the Federal Court may be based on any of the legal grounds set out in sections 5, 6 and 7 of the AD(JR) Act, including:

- errors of law;
- improper exercise of power;
- denial of the rules of natural justice;
- failure to observe procedures; or
- unreasonable delay in making a decision.

The ambit of decisions which may be reviewed under the AD(JR) Act includes decisions made by the Board and its delegates. No appeals were lodged with the Federal Court by an applicant during 1996–97.

## **SIS** requirements

---

As a regulated fund under the SIS Act, the Fund must comply with all the standards as set out in the SIS regulations. One of the major requirements is to maintain ongoing communication with scheme members, giving assurance that the superannuation industry operates in a fair, honest and open manner.

The Board believes that it is important to keep members informed of developments in superannuation that might affect their future entitlements.

As part of its ongoing communication campaign, each year the Board sends members details of Fund performance and information about developments that have occurred during the year. This information is provided in the *Annual Report to Members*, which is prepared with assistance from ComSuper.

## **Information** statements

---

Along with the Board's report, members (including those members who have a preserved benefit in the Fund) are sent an *Annual Information Statement*. The information statement shows members their share in the Fund, including the amount of contributions they have paid, the amount of productivity contributions paid by their employer and the interest added to both components.

## **Scheme** publications

---

ComSuper, on the Board's behalf, also provides members with publications that help them to find out more about their superannuation scheme. These publications include a comprehensive information book, *Your Super Scheme*, and a series of leaflets explaining specific aspects of the Scheme. The leaflets are regularly updated to reflect changes that occur from time to time. As well, ComSuper keeps agency personnel sections informed of administrative changes through a monthly newsletter, *ComSuper News*.

The cost of producing and distributing all these publications is charged to ComSuper's budget appropriation.

ComSuper has developed a comprehensive home page on the Internet and is increasingly using this new technology as a means of improving communications with scheme members.

ComSuper's Website address is **<http://www.comsuper.gov.au>**

Inquiries about any of the publications mentioned above or our Website can be addressed to:



Schemes Promotion Group  
ComSuper  
PO Box 22  
Belconnen ACT 2616  
Phone : (02) 6252 7685 Fax : (02) 6252 7838

## **Key** function

---

The combined CSS/PSS Audit Committee advises both Boards of Trustees on accountability and audit-related matters.

## **Responsibilities** and role

---

The Committee's responsibility is to assure the Boards that their financial statements are based on appropriate accounting concepts, systems and techniques; that the audit arrangements within service-providing agencies (ComSuper, fund managers, master custodian and the Department of Finance) are operating effectively, and that appropriate fraud control strategies are in place.

The Audit Committee is appointed by the Boards and comprises three members, at least two of whom are members of both the CSS and PSS Boards.

The term of appointment of individual members of the Audit Committee is at the discretion of the Boards.

## **Terms** of reference

---

The terms of reference of the Audit Committee are as follows:

- The Audit Committee is the point of communication between the Boards and the Internal Audit Committees of ComSuper and with the Australian National Audit Office (ANAO).
- The Committee meets when its members think it is necessary (but, in any event, not less than twice per year). In 1996–97, the Audit Committee comprising Mr Angus McKenzie (chair), Ms Winsome Hall and Mr Michael Hutchinson met on four occasions.

- The Audit Committee reviews:
  - financial statements with both internal and external auditors prior to their approval by the Boards;
  - accounting policies adopted or any changes which are made or contemplated by ComSuper, and which affect the Boards' areas of responsibility;
  - the annual audit plans of ComSuper where they relate to areas of Board responsibility;
  - the audit reports of major audits undertaken;
  - the extent to which internal audit recommendations are implemented; and
  - interim financial information.
- The Committee provides a regular report to the Boards as to whether the internal controls employed by ComSuper and other service providers give reasonable assurance that the Boards' objectives and goals are being met efficiently and economically.
- With the agreement of the Boards, the Committee may initiate specific audit investigations.

The Audit Committee participated in the development of ComSuper's forward internal audit program for 1997–98 and monitored the progress of audits undertaken in the course of the 1996–97 program.

## **Computer** systems upgrade \_\_\_\_\_

A major objective of the Board's Audit Committee was to monitor the financial statement preparation and audit process progressively during the year. The Committee needed to assure itself that all reasonable efforts were made by the administrator to minimise the risk of qualification pending the completion of its computer systems redevelopment project.

More detail in relation to this matter can be found in the Financial statements on page 61.

## **Preservation** arrangements

The Government has made a number of important announcements aimed at substantially increasing preservation requirements. These measures will significantly reduce access to lump sum benefits before retirement.

Existing rights to take benefits in the form of pension, however, are not affected. The main changes will be:

- (a) The preservation age will be gradually increased from 55 so that by 2025 it will be 60 years for anyone born after 30 June 1964. The phase in schedule will be:

People born	Preservation age
Before 1 July 1960	55
1 July 1960 - 30 June 1961	56
1 July 1961 - 30 June 1962	57
1 July 1962 - 30 June 1963	58
1 July 1963 - 30 June 1964	59
After 30 June 1964	60

- (b) From 1 July 1999, all future member contributions and interest earnings will be preserved. It is expected that transitional arrangements will apply such that existing members will retain access to their accumulated member component as at 30 June 1999. The productivity benefit is already required to be preserved.
- (c) Until 30 June 1999 the Federal Government will allow access to superannuation redundancy benefits for Commonwealth employees who are made redundant as a consequence of their jobs being outsourced or the sale of the enterprise for which they work. From 1 July 1999, however, the employer-financed component of all redundancy benefits will have to be preserved. This restriction will apply irrespective of the reason for the redundancy.

## **Choice** of Fund \_\_\_\_\_

- From 1 July 2000, members of the closed Commonwealth Superannuation Scheme (CSS) will have the choice of remaining in their scheme, with no change to existing arrangements or, to cease membership and have future employer superannuation paid to a complying superannuation fund or RSA of their choice.
- There will be no change to superannuation funding provided to agencies but employer contributions for employees who leave the CSS will be able to be negotiated with the employer subject to a safety net (minimum) of the Superannuation Guarantee Rate.

The interaction between the new arrangements and workplace agreement making will be considered as part of the implementation details to be developed and announced at a later date.

## **Taxation** rebate \_\_\_\_\_

Also as part of the budget the government announced that a taxation rebate will be available in respect of undeducted member superannuation contributions and net personal income from other savings and investments up to an annual cap of \$3000. In 1998-99 a transitional rebate of 7.5 per cent will apply providing an initial rebate of up to \$225. From 1 July 1999, the rebate rate will increase to 15 per cent providing a maximum rebate of \$450 per annum.

## **Collection** of Tax File Numbers \_\_\_\_\_

An amendment to the *Superannuation Industry (Supervision) Act 1993* requires that superannuation funds ask their existing members to provide their Tax File Numbers (TFNs). Requests for TFNs from existing members are required to be made within seven days of the 1996–97 Information Statement being issued to members. It is proposed to seek TFNs from existing members through a one-off exercise in September/October 1997. Members will be required to agree to their TFN being transmitted from their pay system to ComSuper.

The Board will use members' TFNs for superannuation purposes which will enable tax on eligible termination payments to be at concessional rates;

- multiple superannuation accounts to be amalgamated;
- the TFN to be passed onto the ATO to assist in locating any unclaimed moneys;
- the TFN to be passed onto another superannuation fund receiving the member's rollover; and
- the TFN to be passed onto the ATO with details of the member's surchargeable contributions for assessment of any surcharge liability.

## **Superannuation** Surcharge

A package of legislation implementing the superannuation surcharge came into effect on 5 June 1997. The surcharge legislation imposes a surcharge of up to 15 percent of member's surchargeable contributions where the member's adjusted taxable income exceeds \$70 000.

### **Surchargeable Contributions**

Surchargeable contributions in respect of the CSS are defined as salary for superannuation purposes multiplied by a Notional Surchargeable Contribution Factor (NSCF). The NSCF is determined by the Australian Government Actuary. Surchargeable contributions are intended to represent the cost of employer financed benefits accruing to the member.

ComSuper, as the Board's administrator, will advise the ATO of the amount of each member's surchargeable contributions for the period 21 August 1996 to 30 June 1997. This information is due to be provided to the ATO by 15 December 1997. Surchargeable contributions for each subsequent financial year are to be provided to the ATO by 30 October of that year.

### **Tax File Number for Surcharge Purposes**

Identification of members for the purposes of the surcharge will be by means of the tax file number (TFN) which will be forwarded to the ATO along with the amount of surchargeable contributions. The ATO will cross match the information supplied with tax returns lodged by tax payers. This will enable the ATO to determine the member's adjusted taxable income and assess liability for the surcharge.

### **Adjusted Taxable Income**

The ATO will determine the member's adjusted taxable income by adding the surchargeable contributions to the member's taxable income. If adjusted taxable income is greater than \$70 000 the ATO will determine an amount of surcharge payable in respect of that member.

### **Paying the Surcharge**

ComSuper, as the Board's administrator, will maintain a surcharge account for each member. Where the surcharge account is in debit at 30 June each year, interest at the 10 year bond rate will be applied to that debit amount.

Alternatively members can make periodic payments to ComSuper to reduce the amount of their surcharge debit. If the surcharge account is in debit at the time a benefit becomes payable the debit amount will be deducted from the member's benefit and paid to the ATO.

# Appendixes

---

A: <b>Legislation</b> matters	51
B: <b>Departments</b> and approved authorities	53
C: <b>Eligible</b> superannuation schemes	57
D: <b>List</b> of abbreviations	59
E: <b>Financial</b> statements	61
<b>Index</b>	83



## Appendix A

### Legislation **matters**

#### **Determinations**

Four determinations were made by the CSS Board during the year which set various interest rates during scheme membership.

One further determination was made to set interest rates to be paid on late-remitted employer contributions.

#### **Summary of amendments** (to the *Superannuation Act 1976*)

- The *Income Tax (Consequential Amendments) Act 1997* added a reference to the *Income Tax Assessment Act 1997*.
- The *Retirement Savings Accounts (Consequential Amendments) Act 1997* provided that a Retirement Savings Account is a preservation fund for the purposes of the 1976 Act.



## Appendix B

### Departments and approved **authorities**

At 30 June 1997, the following departments and authorities were employers of people who were eligible to contribute to the CSS.

#### **Departments**

Administrative Services  
Attorney-General's  
Communications and the Arts  
Defence  
Employment, Education, Training and Youth Affairs  
Environment, Sport and Territories  
Finance  
Foreign Affairs and Trade  
Health and Family Services  
Immigration and Multicultural Affairs  
Industrial Relations  
Industry, Science and Tourism  
Parliamentary:  
• House of Representatives  
• Joint House  
• Parliamentary Library  
• Parliamentary Reporting Staff  
• Senate  
Primary Industries and Energy  
Prime Minister and Cabinet  
Social Security  
Transport  
Treasury  
Veterans' Affairs

## Approved authorities

Aboriginal Areas Protection Authority\*  
Aboriginal and Torres Strait Islander Commercial Development Corporation  
ACT Institute of Technical and Further Education  
Aerospace Technologies of Australia Pty Ltd  
Airservices Australia  
Alice Springs College of Technical and Further Education  
Anglo-Australian Telescope Board\*  
ANL Limited\*  
Australian and Overseas Telecommunications Corporation  
Australian Airlines Limited  
Australian Broadcasting Corporation\*  
Australian Capital Territory\*  
ACTEW Corporation Ltd  
Australian Defence Industries Pty Ltd\*  
Australian Film Commission\*  
Australian Fisheries Management Authority  
Australian Foundation for Culture and the Humanities Ltd  
Australian International Hotel School  
Australian Marine Science and Technology Limited  
Australian Maritime College\*  
Australian Maritime Safety Authority  
Australian Meat and Livestock Corporation\*  
Australian National Gallery  
Australian National Training Authority  
Australian Nuclear Science and Technology Organisation\*  
Australian Pork Corporation\*  
Australian Sports Commission\*  
Australian Sports Drug Agency  
Australian Securities Commission  
Australian Trade Commission\*  
Australian Wool Research and Promotion Organisation\*  
Australian Wine and Brandy Corporation\*  
Batchelor College\*  
Board of Health established under the *Health Services Act 1990* of the Australian  
Capital Territory  
Calvary Hospital ACT Incorporated\*  
Canberra Institute of the Arts  
Centralian College  
Civil Aviation Safety Authority  
Commonwealth Funds Management Limited  
Conservation Commission of the Northern Territory\*  
Construction Industry Development Agency

Cotton Research and Development Corporation  
 Dairy Research and Development Corporation  
 Energy Research and Development Corporation  
 Export Finance and Insurance Corporation  
 Film Australia Pty Ltd\*  
 Fire Service of the Northern Territory\*  
 Fisheries Research and Development Corporation  
 Forest and Wood Products Research and Development Corporation  
 Grains Research and Development Corporation  
 High Court of Australia\*  
 Horticultural Research and Development Corporation\*  
 Indigenous Land Corporation  
 Institute of Family Studies\*  
 Katherine Rural College\*  
 Land and Water Resources Research and Development Corporation  
 Law Courts Limited\*  
 Legal Aid Commission (ACT)\*  
 Meat Research Corporation (formerly the Australian Meat and Livestock  
 Research and Development Corporation)\*  
 Menzies School of Health Research\*  
 Milk Authority of the Australian Capital Territory  
 National Exhibition Centre Trust  
 National Registration Authority of Agriculture and Veterinary Chemicals  
 National Training Board\*  
 Northern Territory of Australia\*  
 Northern Territory Open College of Technical and Further Education\*  
 Northern Territory Tourist Commission\*  
 Northern Territory University\*  
 Pig Research and Development Corporation  
 Power and Water Authority\*  
 Private Health Insurance Administration Council  
 Private Health Insurance Complaints Commissioner  
 Rural Industries Research and Development Corporation  
 Snowy Mountains Engineering Corporation Limited\*  
 Sydney Symphony Orchestra Holdings Pty Limited  
 Special Broadcasting Service  
 Sugar Research and Development Corporation  
 Totalcare Industries Limited  
 Trade Development Zone Authority\*  
 University College, the college established by the University of New South  
 Wales within the Australian Defence Force Academy\*  
 University of Canberra\*  
 Wool International

\* Excluded from participating in the PSS Scheme. Personnel of these authorities, who were members of the CSS at 30 June 1990, could elect to remain in the CSS.

**The following GBEs and statutory marketing authorities have established their own superannuation schemes:**

Aerospace Technologies Australia  
Airservices Australia  
Australian National Line Ltd  
Army and Air Force Canteen Service  
Australia Post  
Australian Defence Industries  
Australian Industry Development Corporation  
Australian Maritime College  
Australian Meat and Livestock Corporation  
Australian National Railways Commission  
Australian National University  
Australian Wool Corporation  
Bureau of the Northern Land Council  
Commonwealth Serum Laboratories  
Coselco Mimotopes Pty Ltd  
Federal Airports Corporation  
Film Australia  
Joint Coal Board  
Qantas  
Reserve Bank of Australia  
Sirotech Ltd  
Snowy Mountains Hydro-Electric Authority  
Telstra  
University of Canberra

Note: Some agencies which have not established their own superannuation schemes participate in other private schemes. Personnel of the above agencies who were members of the CSS as at 30 June 1990 could have elected to remain in the CSS.

## Appendix C

Eligible superannuation **schemes**

A Transfer Value may be paid to a superannuation scheme which has been declared by the Minister for Finance and the Board to be an eligible superannuation scheme for the purposes of the Commonwealth Superannuation Scheme 1976 (Section 134).

The following schemes have been declared eligible.

- Superannuation schemes established under the following acts:  
*Superannuation (State Public Sector) Act 1990 (QLD);  
Parliamentary Contributory Superannuation Act 1948; and  
Defence Force Retirement and Death Benefits Act 1973.*
- The superannuation schemes known as:

AIDC Executive Superannuation Plan;  
AIDC Staff Superannuation Plan;  
Army and Air Force Canteen Service Superannuation Scheme;  
Australian Wool Corporation Provident Fund;  
AUSSAT Superannuation Fund;  
AV Super (previously known as the CAA Staff Superannuation Fund);  
Gladstone Area Water Board Staff Superannuation Scheme;  
Gladstone Port Authority Staff Superannuation Scheme;  
Gold Coast Waterways Staff Superannuation Scheme;  
Government Officers' Superannuation Scheme (GO Super) (Queensland);  
Livestock and Meat Authority of Queensland Superannuation Scheme;  
Northern Territory Government and Public Authorities Superannuation Scheme;  
Queensland Ambulance Transport Brigade Staff Superannuation Scheme;  
Queensland Electricity Supply Industry Superannuation Scheme;  
Queensland Industry Development Corporation Superannuation Scheme;  
Queensland Local Government Employees Superannuation Scheme;  
Queensland Parliamentary Contributory Superannuation Scheme;  
Queensland Police Superannuation Scheme;  
Queensland State Service Superannuation Scheme;  
Suncorp Insurance and Finance Superannuation Plan;  
Superannuation Scheme for Australian Universities (SSAU);  
Townsville Port Authority Staff Superannuation Scheme; and  
University of Newcastle Staff Superannuation Scheme.



## Appendix D

### List of **abbreviations**

<b>AAS</b>	Australian Accounting Standard
<b>ACTU</b>	Australian Council of Trade Unions
<b>AD(JR) Act</b>	<i>Administrative Decisions (Judicial Review) Act 1977</i>
<b>ANAO</b>	Australian National Audit Office
<b>ASX</b>	Australian Stock Exchange
<b>ATO</b>	Australian Taxation Office
<b>CFM</b>	Commonwealth Funds Management Ltd
<b>ComSAS</b>	Commonwealth Superannuation Administration System
<b>ComSuper</b>	Commonwealth Superannuation Administration
<b>CPI</b>	Consumer Price Index
<b>CPSU</b>	Community and Public Section Union
<b>CSS</b>	Commonwealth Superannuation Scheme
<b>CSS Act</b>	<i>Superannuation Act 1976</i>
<b>DCMC</b>	Disability Claims Management & Counselling Service
<b>DILGEA</b>	Department of Immigration, Local Government and Ethnic Affairs
<b>DLA</b>	Deferred Losses Account
<b>GBE</b>	Government Business Enterprise
<b>ISC</b>	Insurance and Superannuation Commission
<b>MSCI</b>	Morgan Stanley Capital International
<b>PSMPC</b>	Public Service and Merit Protection Commission
<b>PSS</b>	Public Sector Superannuation (scheme)
<b>PSS Act</b>	<i>Superannuation Act 1990</i>
<b>RAC</b>	Reconsideration Advisory Committee
<b>RBL</b>	Reasonable Benefit Limit
<b>SBS</b>	Special Broadcasting Service
<b>SIS Act</b>	<i>Superannuation Industry (Supervision) Act 1993</i>
<b>SCT</b>	Superannuation Complaints Tribunal
<b>SRC Act</b>	<i>Superannuation (Resolution of Complaints) Act 1993</i>
<b>TRM</b>	Total Risk Management Pty Ltd



## Appendix E

### Financial **statements**

Auditor–General's report	62
CSS Fund financial statements	65
Actuarial report	77

Australian  
National  
**Audit**  
OFFICE

**INDEPENDENT AUDIT REPORT  
COMMONWEALTH SUPERANNUATION BOARD OF TRUSTEES NO. 2**

To the Minister for Finance

**(A) Financial Statements**

**Scope**

I have audited the financial statements of the Commonwealth Superannuation Scheme (CSS) which includes the Commonwealth Superannuation Fund No. 2 (CSS Fund), for the year ended 30 June 1997. The financial statements comprise:

- Statement of Changes in Net Assets
- Statement of Net Assets
- Notes to and formi gpart of the Financial Statements, and
- Statement by the Trustees.

The Commonwealth Superannuation Board of Trustees No. 2 is responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you the Minister for Finance.

The audit has been conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate &e Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimate s. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Australian Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and statutory requirements so as to present a view of the Fund and the Scheme which is consistent with my understanding of its net assets and changes in net assets.

The audit opinion expressed in this report has been formed on the above basis.

Address all mail to: GPO Box 707 CANBERRA ACT 2601  
Centenary House | 9 National Circuit BARTON ACT 2600 Phone (06) 203 7300 Fax (06) 203 7777

|

---

## **Audit Opinion**

In accordance with sub section 161(2) of the Superannuation Act 1976, I now report that the statements are in agreement with the accounts and records of the Board and, in my opinion:

- (i) the statements are based on proper accounts and records;
- (ii) the statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the changes in net assets of the CSS for the year ended 30 June 1997 and the net assets of the CSS at that date;
- (iii) the receipt of moneys into the Fund, and the payment of moneys out of the Fund and investment of moneys standing to the credit of the Fund, during the year have been in accordance with the Superannuation Act 1976; and
- (iv) the statements are in the form agreed by the Minister for Finance in accordance with subsection 161(1A) of the Superannuation Act 1976.

## **(B) SIS Compliance**

### **Scope**

I have conducted tests in accordance with Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards, as necessary to provide reasonable assurance as to whether the Superannuation Fund No.2 has complied, in all material respects, with

(a) the relevant requirements of the following provisions (to the extent applicable) of the Superannuation Industry (Supervision Act)1993 and Regulations:

Sections 19(2), 19(3), 65, 66, 67, 69-85, 86-93A, 95, 97, 98, 102, 103, 104, 106, 107, 108, 109, 111,112,113,117,118,122,124,125,152,153,154,169;and

Regulations 2.10(1), 2.13(1), 2.21(3), 2.33(2), 2.43(1), 3.10, 4.08(3), 5.08, 9.09, 9.14, 9.29, 9.30, 13.14, 13.17, 13.17A; and

(b) the Guidelines issued by the ISC on Risk Management Statements For Superannuation Entities Investing in Derivatives (to the extent applicable);

for the year ended 30 June 1997.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the Superannuation Industry (Supervision Act 1993 and Regulations as specified.

My procedures with respect to the Guidelines consisted of confirming that the relevant Risk Management Statements have been prepared and are broadly consistent with the requirements of the Guidelines. No opinion has been expressed on the appropriateness of the Risk Management Statements or whether the Fund has complied with the procedures set out in the Risk Management Statements.

These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the *Superannuation Industry (Supervision) Act 1993* and Regulations apart from those specified. The Fund's trustees are responsible for ensuring compliance with the requirements of the *Superannuation Industry (Supervision) Act 1993* Regulations and Guidelines.

The opinion on compliance expressed in this report has been formed on the above basis.

**Opinion**

The Superannuation Fund No. 2, in all material respects, has complied with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations specified above for the year ended 30 June 1997.

Australian National Audit Office

(signed)

Trevor Burgess  
Executive Director  
For the Auditor-General  
Canberra  
30 September 1997

## **Commonwealth Superannuation Scheme**

### **Statement by the Trustees of the CSS Fund**

The Trustees hereby state that in their opinion:

- (a) the attached financial statements of the Commonwealth Superannuation Scheme show a true and fair view of the net assets of the Scheme as at 30 June 1997 and the changes in net assets of the Scheme for the year ended 30 June 1997:
- (b) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;
- (c) the financial statements are in a form agreed by the Minister for Finance and the CSS Board in accordance with sub-section 161(1A) of the Superannuation Act 1976 and have been prepared in accordance with applicable Australian Statements of Accounting Concepts and applicable Australian Accounting Standards; and
- (d) the operations of the Fund have been conducted in accordance with the Superannuation Act 1976.

Signed at Canberra this 19th day of September 1997 in accordance with a resolution of members of the CSS Board as Trustee of the CSS Fund.

W. Hall  
Trustee

J.A. Flitcroft  
Trustee

CSS Board

**STATEMENT OF CHANGES IN NET ASSETS**

<b>STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 1997</b>			
	Note	1997 \$'000	1996 \$'000
<b>Net Assets Available to Pay Benefits at 1 July</b>		<b>4,870,221</b>	<b>4,566,853</b>
<b>CSS FUND</b>			
<b>Investment Revenue</b>			
Interest		18,878	26,022
Dividends		56,239	56,272
Other Investment Income		142	160
Changes in Net Market Values	2	815,861	305,726
Direct Investment Expenses		(9,560)	(15,884)
		<u>881,560</u>	<u>372,296</u>
General Administration Expenses	1d	(396)	(505)
<b>Net Investment Revenue Before Tax</b>		<b>881,164</b>	<b>371,791</b>
<b>Contributions Revenue</b>			
Employee Contributions	3a	203,886	228,185
Employer Contributions	3a	66,400	78,939
		<u>270,286</u>	<u>307,124</u>
Benefits Paid	3b	(439,603)	(282,364)
<b>Net Contributions Revenue Before Tax</b>		<b>(169,317)</b>	<b>24,760</b>
<b>Net Investment Revenue and Net Contributions Revenue</b>		<b>711,847</b>	<b>396,551</b>
Income Tax Expense	5	(40,962)	(17,467)
<b>Net Investment Revenue and Net Contributions Revenue After Tax</b>		<b>670,885</b>	<b>379,084</b>
<b>Less:</b>			
Withdrawals from the Commonwealth Superannuation Scheme	10	(437,041)	(75,716)
<b>Net Investment Revenue and Net Contributions Revenue After Tax and Withdrawals from Scheme</b>		<b>233,844</b>	<b>303,368</b>
<b>CONSOLIDATED REVENUE FUND</b>			
Moneys Appropriated by Parliament	3	2,600,395	2,201,268
Less: Benefits Paid	3b	(2,587,426)	(2,186,839)
Costs of Administering the CSS Act and Rules	3c	(12,969)	(14,429)
<b>Net Assets Available to Pay Benefits at 30 June</b>		<b><u>5,104,065</u></b>	<b><u>4,870,221</u></b>

*The attached notes form part of these financial statements.*

~~CONFIDENTIAL~~

<b>STATEMENT OF NET ASSETS</b>
<b>AS AT 30 JUNE 1997</b>

	Note	1997 \$'000	1996 \$'000
<b>CSS FUND</b>			
<b>Investments</b>			
	1e		
Short-term Money Market		218,410	186,190
Australian Fixed Interest		169,970	96,658
Australian Equities		1,601,540	1,257,950
Units in Commonwealth Funds Management Ltd Pooled Superannuation Trust	4	3,668,006	3,356,464
Other Investments		(52,858)	5,351
<b>Total Investments</b>		<b>5,605,068</b>	<b>4,902,613</b>
<b>Other Assets</b>			
Cash at Bank and on Hand		16,454	10,284
Contributions Receivable		371	906
Sundry Debtors		49	134
Accrued Income		13,226	8,576
Future Income Tax Benefit		1,059	-
<b>Total Other Assets</b>		<b>31,159</b>	<b>19,900</b>
<b>Total CSS Fund Assets</b>		<b>5,636,227</b>	<b>4,922,513</b>
<b>Less: Liabilities</b>			
Benefits Payable		24,922	33,869
Sundry Creditors	7	4,437	5,077
Amounts due to Other Superannuation Schemes	10	437,041	(3,736)
Outstanding Settlements		8,906	(17,014)
Provision for Income Tax		10,631	14,003
Provision for Deferred Income Tax		46,225	20,093
<b>Total CSS Fund Liabilities</b>		<b>532,162</b>	<b>52,292</b>
<b>CONSOLIDATED REVENUE FUND</b>			
<b>Other Assets</b>			
Sundry Debtors		114,792	114,113
<b>Total Consolidated Revenue Fund Assets</b>		<b>114,792</b>	<b>114,113</b>
<b>Less: Liabilities</b>			
Benefits Payable		114,792	114,113
<b>Total Consolidated Revenue Fund Liabilities</b>		<b>114,792</b>	<b>114,113</b>
<b>Net Assets Available to Pay Benefits at 30 June</b>		<b>5,104,065</b>	<b>4,870,221</b>

*The attached notes form part of these financial statements.*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 1997

---

**1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES**

**(a) Basis of Preparation**

The form of these financial statements has been agreed by the Minister for Finance and the CSS Board in accordance with sub-section 161(1A) of the Superannuation Act 1976.

These financial statements have been prepared in accordance with applicable Australian Accounting Standards (AAS), Urgent Issues Group Consensus Views, Statements of Accounting Concepts, and the Defined Benefit Plan provisions of AAS 25 "Financial Reporting by Superannuation Plans.

A Defined Benefit Plan refers to a superannuation plan where the amounts to be paid to members on retirement are determined at least in part by a formula based on their years of membership and salary levels.

The Scheme has adopted the provisions of paragraph 22(a) of AAS 25 whereby the financial statements include a Statement of Net Assets, a Statement of Changes in Net Assets and Notes thereto.

Unless otherwise stated, these accounting policies were also adopted in the corresponding preceding reporting period.

**(b) Foreign Currency Translation**

Foreign currency positions are converted to Australian currency using the currency exchange rate in effect at the point of recognition of each transaction. Foreign currency amounts receivable and amounts payable are converted to Australian currency using the exchange rate as at balance date.

**(c) Income Tax**

Income tax has been brought to account using the liability method of tax effect accounting. A provision for deferred income tax has been brought to account in order to recognise the timing effect of income earned during the period that is not assessable for taxation purpose in the current period but is expected to reverse in future periods.

**(d) Expenses of the CSS Board**

Costs of the CSS Board which are related to its responsibilities for the management of the CSS Fund and the investment of its moneys are a charge against the Fund. Fees paid to the Chairman of the CSS Board are also a charge against the Fund. All other costs incurred by the CSS Board are paid from moneys appropriated by Parliament.

**CONTENTS**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 1997

---

**1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)**

**(e) Valuation of Investments**

Assets of the CSS are recorded at net market value as at the reporting date and changes in the net market value of assets are recognised in the Statement of Changes in Net Assets in the periods in which they occur. Net market values of investments include an amount for selling costs which would be expected to be incurred if the investments were sold.

The bases of market valuations are summarised below.

- (i) Short-term Money Market and Fixed Interest - these securities are valued by marking to market using yields supplied by independent valuers.
- (ii) Futures Contracts - open futures contracts are revalued to closing price quoted at close of business on 30 June by the Sydney Futures Exchange.
- (iii) Equities - listed securities, including listed property trusts, are valued based on the last sale price quoted at close of business on 30 June by the Australian Stock Exchange, or last bid where a sale price is unavailable.
- (iv) Exchange Traded Options - options are valued as the premium payable or receivable to close out the contracts at the last buy price quoted at close of business on 30 June by the Australian Stock Exchange.
- (v) Overseas Investments - overseas securities are valued on the basis of last sale price quoted at close of business on 30 June by the relevant securities exchange. In the case of UK securities, the basis of valuation is the average of the bid and offer prices.
- (vi) CFM Pooled Superannuation Trust (PST) - units in the PST are valued at their net realisable value, which is determined by reference to the net realisable values of units held by the PST in a number of underlying unit trusts. Units in these underlying unit trusts are valued on a basis consistent with the methods listed above that are relevant to the assets held by the underlying unit trusts.

**(f) Use of Derivatives**

The investment fund managers use a number of financial instruments such as futures, options and forward exchange contracts which are known as "derivatives". The objective of their use is to facilitate increases or decreases in exposures in the equity, bond and currency markets consistent with the investment policy of the Fund.

Derivatives are not used for speculation in any of these markets or for the gearing the portfolio.

**(g) Contributions Receivable**

Employee and employer (productivity) contributions are due and payable on each fortnightly contribution day. The contributions do not accrue on a daily basis. Therefore, employee and employer (productivity) contributions in respect of the fortnightly contribution days that fell within the reporting period have been included in the financial statements.

**CONTENTS****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 1997

**2. CHANGES IN NET MARKET VALUES**

	1997 \$'000	1996 \$'000
Changes in Net Market Values of Investments:		
<b>(a) Investments Held at 30 June</b>		
Short-term Money Market	673	1,190
Australian Fixed Interest	3,641	(1,379)
Australian Equities	273,184	68,916
Currency contracts	(52,727)	-
CFM Pooled Superannuation Trust:		
- CFM International Equities Fund class	385,975	75,120
- CFM Fixed Interest Trust class	38,611	28,819
- CFM Rural Investment Fund class	(1,302)	4,648
- CFM Property Fund class	11,168	40,945
CFM Australian Equities Fund	27,570	(7,582)
Commonwealth Funds Management Ltd Pooled Superannuation Trust	50,112	(1,736)
Other Unit Trusts	-	301
	<u>736,905</u>	<u>209,242</u>
<b>(b) Investments Realised During the Period:</b>		
Short-term Money Market	2,295	2,145
Australian Fixed Interest	5,585	3,493
Overseas Fixed Interest	(1)	(1)
Australian Equities	39,711	62,467
Currency contracts	26,529	-
CFM Pooled Superannuation Trust:		
- CFM International Equities Fund class	7,693	-
- CFM Fixed Interest Trust class	-	26,978
- CFM Rural Investment Fund class	(6,029)	129
- CFM Property Fund class	513	2,321
CFM Australian Equities Fund	2,660	(1,426)
Commonwealth Funds Management Ltd Pooled Superannuation Trust	-	378
	<u>78,956</u>	<u>96,484</u>
	<u>815,861</u>	<u>305,726</u>

The net loss on foreign currency transactions for the year was \$26.198m (1995-96: n). This amount is the net of the realised and unrealised gains and losses on foreign currency contracts identified above. This does not include gains and losses on foreign currency transactions that may have occurred in the Pooled Trust investment.

**3. FUNDING ARRANGEMENTS****(a) Contributions**

Members contribute to the Scheme at optional rates ranging from a minimum of 5 per cent to a maximum of 10 per cent of salary paid to the member and employers, who do not operate their own productivity schemes, contribute employer (productivity) contributions to the Scheme on a sliding scale averaging 3 per cent of salaries paid to the members.

**COMMONWEALTH****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 1997

**3. FUNDING ARRANGEMENTS (continued)****(b) Benefits**

Where a benefit that becomes payable under the Scheme can be fully met from moneys held in the Fund, the benefit is paid to the beneficiary from the Fund. Where a benefit that becomes payable under the Scheme cannot be fully met from moneys held in the Fund, all moneys in the Fund in respect of the member are paid into the Consolidated Revenue Fund and the Commonwealth is responsible for the payment of the benefit to the beneficiary from the Consolidated Revenue Fund.

The following provides a breakdown of benefits paid by both the Fund and the Commonwealth

	<b>1997</b>	<b>1996</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>CSS Fund</b>		
Payments to Commonwealth	439,603	281,373
Lump-sum Benefits	-	991
	<u><b>439,603</b></u>	<u><b>282,364</b></u>
<b>Consolidated Revenue Fund</b>		
Lump-sum Benefits	765,403	432,321
Transfer Values	971	3,245
Pensions	1,819,758	1,750,184
Other	1,294	1,089
	<u><b>2,587,426</b></u>	<u><b>2,186,839</b></u>

**(c) Costs of Administration**

The Superannuation Act 1976 also requires the Commissioner for Superannuation to provide administrative services to the CSS Board to enable the Board to perform its functions under the Act. The cost of the Commissioner for Superannuation and the staff of ComSuper who assist the Commissioner for Superannuation in the administration of the Superannuation Act 1976 are met from moneys appropriated by Parliament. The amount shown as the Cost of Administering the CSS Act and Rules in the "Statement of Changes in Net Assets" has been calculated on a full accrual basis.

**4. UNITS IN COMMONWEALTH FUNDS MANAGEMENT LTD POOLED SUPERANNUATION TRUST**

Class of Unit	<b>1997</b>	<b>1996</b>
	<b>\$'000</b>	<b>\$'000</b>
Australian Equities Fund	94,050	75,514
International Equities Fund	2,056,737	1,730,594
Fixed-interest Trust	346,095	365,219
Property Fund	855,610	863,748
Rural Investment Fund	19,528	77,649
Emerging Markets	295,986	243,740
	<u><b>3,668,006</b></u>	<u><b>3,356,464</b></u>

**CONTENTS**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 1997

**5. INCOME TAX**

The taxation liability at 30 June 1997 has been calculated on the basis that the Scheme complies with the standards contained in the Superannuation Industry (Supervision) Act 1993 and Regulations and that tax will be payable at a rate of 15% on net investment earnings, employer contributions and capital gains with deductions allowable for administration expenses.

The aggregate amount of income tax attributable to the period is less than 15 per cent of the Net Investment Revenue and Net Contributions Revenue Before Tax' as shown in the Statement of Changes in Net Assets. The difference is reconciled as follows:

	<b>1997</b>	<b>1996</b>
	<b>\$'000</b>	<b>\$'000</b>
Prima facie income tax expense on		
Net Investment Revenue and Net Contributions		
Revenue Before Tax	106,777	59,483
Add/(Less) Permanent Differences		
Employee contributions	(30,561)	(34,228)
Benefits Paid	65,940	42,355
Income from Pooled Superannuation Trusts	(77,546)	(25,289)
Imputation Credits from Franked		
Dividends Received	3,556	3,358
Other	(3,175)	(5,625)
	<u>64,991</u>	<u>40,054</u>
Less: Imputation and foreign tax credits	(23,856)	(22,617)
Less: Under (over) provision in prior years	(173)	30
	<u><b>40,962</b></u>	<u><b>17,467</b></u>

**6. SUPERANNUATION CONTRIBUTIONS SURCHARGE**

Pending necessary changes to the scheme rules, no provision has been made in these financial statements for the amount of the superannuation contributions surcharge which may be payable under the Superannuation Contributions Surcharge (Assessments and Collection) Act 1997. The Trustees do not anticipate that the superannuation contribution surcharge in respect of 1996-97 will affect the amount of "Net Assets Available to Pay Benefits at 30 June 1997" as disclosed in the financial statements.

**7. SUNDRY CREDITORS**

	<b>1997</b>	<b>1996</b>
	<b>\$'000</b>	<b>\$'000</b>
Investment Expenses Payable	1,619	2,303
Accrued Expenses	432	447
Other	2,386	2,327
	<u><b>4,437</b></u>	<u><b>5,077</b></u>

**CONTENTS****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 1997

**8. AUDITOR'S REMUNERATION**

The amount paid and payable in respect of external audit services is \$47,500 (1995-96 : \$47,500).

**9. RESERVE AND DEFERRED LOSSES ACCOUNTS****(a) Reserve Account**

The income allocation policy provides for the determination of an annual crediting rate. The method for determining the crediting rate involves the transfer of amounts into and out of the Reserve Account. Calculation of the amounts for transfer to and from the Reserve Account for allocation is both a function of the level of income and the level of the Reserve Account as a percentage of the Fund. In general, a higher level of income will tend to result in transfers to the Reserve Account and a relatively high level in the Reserve Account will result in transfers from the Reserve Account. Whilst the current policy does have a smoothing effect on income allocation, its principal purpose is to accumulate adequate reserves which enables the Fund to pursue a more active investment strategy. This has actuarially been shown to provide higher level returns to members over the longer term.

	<b>1997</b>	<b>1996</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of year	84,963	56,555
Plus: Transfer from Amount Available for Allocation to Contributors	<u>176,704</u>	<u>29,253</u>
	261,667	85,808
Less: Withdrawals from the CSS	<u>(6,464)</u>	<u>(845)</u>
Balance at end of year	<u><b>255,203</b></u>	<u><b>84,963</b></u>

**(b) Deferred Losses Account**

This account exists to provide a mechanism for allocating the loss on revaluation of the assets of the CSS Fund on 1 July 1984 (\$215,109,953) to contributors' entitlements.

	<b>1997</b>	<b>1996</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of year	(24,160)	(32,701)
Add: Transfer from Amount Available for Allocation to Contributors	<u>7,441</u>	<u>8,053</u>
	(16,719)	(24,648)
Add: Withdrawals from the CSS	<u>1,838</u>	<u>488</u>
Balance at end of year	<u><b>(14,881)</b></u>	<u><b>(24,160)</b></u>

**CONTENTS**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 1997

---

**10. WITHDRAWALS FROM THE CSS**

During the period 1 March to 31 August 1996 members of the CSS were provided with a second opportunity to elect to transfer to the PSS. In addition there was a small number of CSS members returning from leave without pay and invalidity benefits in prior years who had the option of also transferring to the PSS and a small number of CSS members who elected, during 1996-97 to join a superannuation scheme established by their employer.

Section 248 of the Superannuation Act 1976 provides for the Minister for Finance to determine such assets and liabilities to be transferred from the CSS to the PSS and other superannuation schemes in respect of those members of the CSS who elected to transfer.

As at 30 June the Ministerial determinations to effect these transfers had not been completed. Therefore, as at 30 June, the following amounts have been brought to account as current liabilities of the CSS Fund:

	<b>\$'000</b>
Transfer for 2nd Choice campaign	430,845
Transfer for returning members	4,006
Transfer to other superannuation scheme	2,190
	<u><b>437,041</b></u>

Since the 30 June, the CSS Board, in agreement with the PSS Board, has made an advance of \$423,000,000 under section 249 of the Superannuation Act 1976 to the PSS Board in respect of the assets that are to be transferred to the PSS.

**11. VESTED BENEFITS**

Vested benefits are benefits which are not conditional upon continued membership of the Scheme (or any other factor other than resignation from the Scheme) and include benefits which members were entitled to receive had they terminated their plan membership as at the reporting date.

The value of vested benefits has been estimated from the value of vested benefits at 30 June 1996, which was calculated from membership data as at that date, and the trend shown in a projection of accrued benefits made by the Australian Government Actuary as part of an investigation of the scheme during 1996-97. The value of vested benefits could not be calculated from current membership data as at 30 June 1997 as such data was not available.

The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June 1997 and elected the option which is most costly to the Scheme. The value quoted does not in any way represent the Scheme's liability under circumstances which have any reasonable possibility of arising.

The Australian Government Actuary has advised that the estimated amount of vested benefits at 30 June 1997 is \$45,000m (1996: \$47,000m).

**CONTENTS****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 1997

**12. LIABILITY FOR ACCRUED BENEFITS**

The amount of accrued benefits is the present value of expected future payments which arise from membership of the Scheme up to the measurement date. The accrued benefits are comprised of a funded component, which will be met from the Fund, (ie. accumulated member contributions and, where applicable, productivity contributions, plus interest) and an unfunded component to be financed from the Consolidated Revenue Fund at the time the superannuation benefits become payable.

The amount of accrued benefits in respect of the CSS is calculated on a triennial basis by the Australian Government Actuary. The most recent valuation of the accrued benefits was undertaken by the Australian Government Actuary as part of a comprehensive review during 1996-97 (a copy of the Australian Government Actuary's report is attached).

Accrued Benefits as at 30 June 1996 were:	\$m
Funded component	4,870
Unfunded component	<u>37,389</u>
	<u><b>42,259</b></u>

The movement in the liability for Accrued Benefits since the last actuarial review is:

Balance reported at prior review of 30 June 1993	41,854
Less: Benefits paid	<u>(7,511)</u>
Plus: Increase in Accrued benefits	<u>7,916</u>
Balance at 30 June 1996	<u><b>42,259</b></u>

**13. RELATED PARTIES****(a) Trustees**

The Trustee of the CSS, the CSS Board, had the following members during the year:

Mr R.L. Brown (Chairman)  
 Mr J.A. Flitcroft  
 Ms W. Hall  
 Mr A.J. McKenzie  
 Ms J. Palmer  
 Mr K.A. Searson (resigned 14 February 1997)  
 Mr M.J. Hutchinson (resigned 30 June 1997)  
 Mr P.G. Skinner (Alternate for Mr K.A. Searson)  
 Ms S. Wilson (Alternate for Mr M.J. Hutchinson)  
 Mr J.P. Murphy (Alternate for Mr J.A. Flitcroft)  
 Mr P.R. Smith (Alternate for Ms J. Palmer)  
 Mr D.J. Irons (Alternate for Ms W. Hall)

Fees and associated superannuation contributions paid to, or in respect of, those members entitled to receive fees during the year (the Chairman and ACTU nominated trustees) totalled \$81,000 (1995-96: fees \$69,000)

**CONTENTS**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 1997

**13. RELATED PARTIES (continued)**

**(b) Associated Entities**

During 1996-97 the CSS and PSS Boards formed a common controlled company, CSS/PSS Pty Ltd for the purpose of taking over trusteeship of the CFM Pooled Superannuation Trust (PST) from Commonwealth Funds Management as of 1 July 1997. As such the Boards have appointed directors, who are current nominated trustees of the CSS and PSS Boards, to manage the company and act as trustees on the transfer of the assets of the CFM PST. Total Risk Management are providing day-to-day administration services for CSS/PSS Pty Ltd. The company was not active during the 1996-97 financial year and is not expected to generate any revenue or costs with costs being paid on an equal basis by the CSS and PSS Funds. As at 30 June the associated entity status between the the CSS and CSS/PSS Pty Ltd wa

CSS/PSS Pty Ltd	
Total Shares on Issue	2
CSS Board Shares Held	1
Holding (%)	<u>50%</u>
Total cost incurred by the CSS in relation to the set up of CSS/PSS Pty Ltd and related issues for the period to 30 June 1997	<u><u>\$37,900</u></u>

**14. SEGMENT REPORTING**

The CSS Scheme operates in the superannuation fund investment industry in Australia however, as part of its investment activities, it also maintains significant overseas investments.

**15. CONTINGENT LIABILITIES**

**(a) Investments**

At 30 June the Fund had outstanding investment capital commitments of \$22,100,000

**(b) Benefit Entitlements**

In the normal course of business, requests are made by members and former members for the review of decisions relating to benefit entitlements of the Scheme which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. In the opinion of the Trustees, these requests do not represent a material liability on the Scheme.

The Trustees are not aware of any other potential contingent liabilities.



## **AUSTRALIAN GOVERNMENT ACTUARY**

PO Box 9836 CANBERRA ACT 2601  
243-251 Northbourne Ave  
LYNEHAM ACT 2602

*Telephone: (02) 6213 5499*

*Facsimile: (02) 6213 S250*

*DX: 5766 Canberra*

## **COMMONWEALTH SUPERANNUATION SCHEME**

### **Accrued Benefits as at 30 June 1996**

1. The Australian Government Actuary has been requested by ComSuper to calculate the value of Accrued Benefits for accounting purposes under Australian Accounting Standard 25 (AAS25) as at 30 June 1996 for the Commonwealth Superannuation Scheme.
2. The assumptions used to calculate the value of Accrued Benefits were the same as those used by the Australian Government Actuary, Mr C Thorburn, FIAA in his report on the long term cost of the Public Sector Superannuation Scheme and the Commonwealth Superannuation Scheme as at 30 June 1996. A summary of the assumptions and methods adopted in calculating the value of Accrued Benefits is set out in the attached Notes.
3. The value of Accrued Benefits as at 30 June 1996 was \$39,620 million for active members, former members with deferred benefits and current pensioners. In addition to this amount, there is an accrued amount relating to benefits of former members who have transferred to Government Business Enterprise schemes. This amount was \$2,639 million as at 30 June 1996 and is to be paid to those schemes in a manner approximating the transfer benefit due on exit of transferred members from those schemes. These amounts compare with values of \$38,755 million and \$3,059 million respectively, as at 30 June 1993.
4. Figures have been calculated in a manner consistent with the Institute of Actuaries of Australia Guidance Note 454.

K.E. Deeves

Fellow of the Institute of Actuaries of Australia

Deputy Australian Government Actuary

16 September 1996

**INSURANCE AND SUPERANNUATION COMMISSION**

### **Note 1: Summary of Method of Attributing Benefits to Past Membership**

Firstly, total benefits payable:

- on retirement, death, and disability;
- on resignation where a superannuation guarantee top-up benefit is payable; and
- on resignation where a deferred pension option is available,

are projected forward allowing for future salary increases and then discounted back to the valuation date at the valuation rate of interest.

The past membership component for each of these types of benefit is then taken to be the proportion of the discounted projected benefit payable on exit that

- membership completed at the valuation date; bears to
- membership to the projected date of exit

The past membership component of member financed lump sum resignation benefits and of productivity superannuation benefits is taken to be the accumulated amount of contributions and interest at the valuation date.

The method used for calculating the past membership component was considered the most appropriate given the nature of the benefit structure of the Scheme.

### **Note 2: Summary of the Actuarial Assumptions**

#### *Financial Assumptions*

Discount rate:	7.5% pa
Inflationary salary increases:	5.5% pa
Promotional salary increases:	an age and service related scale was used
Pension increases (CPI):	4% pa

The discount rate has been taken as the long term bond rate as at 30 June 1996 of 8.88% pa, adjusted to take into account investment tax, investment expenses and anticipated future reinvestment rates. The result is rounded to the nearer 0.5%pa.

The weighted average term of the liabilities is considerably in excess of 10 years.

It should be noted that the 2% gap between investment earnings and salary inflation assumed at this review is 0.5% greater than that assumed at the 30 June 1993 review. The effect of this change has been to reduce the notional employer contribution rate by about 2.2% and the present value of unfunded liabilities by about \$2.5 billion from what would have been the case if the 1.5% gap had been retained.

*Other Assumptions*

Assumptions have been made regarding rates at which in service members will leave the Scheme on account of retirement, death, disablement and resignation. Assumptions were also made about pensioner mortality. These rates have been based on the experience of the Scheme. Full details are set out in the report on the long term cost of the Public Sector Superannuation Scheme and the Commonwealth Superannuation Scheme using data to 30 June 1996.

*Reasonableness of Assumptions*

Taking into account the circumstances of the Scheme, its membership, assets and benefit structure, I believe the assumptions used are appropriate in relation to the determination of the Present value of Accrued Benefits for the purposes of AAS25.

K E Deeves

16 September 1997

**AUSTRALIAN GOVERNMENT ACTUARY**

PO BOX 9836 CANBERRA ACT 2601

243-251 Northbourne Ave

LYNEHAM ACT 2602

*Telephone:* (02) 6213 5499

*Facsimile:* (02) 6213 5250

DX 5766 Canberra

**COMMONWEALTH SUPERANNUATION SCHEME**

**SUMMARY OF THE 1996 LONG TERM COST REPORT**

1. A Long Term Cost Report on the Public Sector Superannuation (PSS) scheme and Commonwealth Superannuation Scheme (CSS) was carried out using data as at 30 June 1996 by the Australian Government Actuary, Mr Craig Thorburn, FIAA. This report was presented to Parliament in June 1997.
2. These schemes are partially funded and both schemes have an underlying Government guarantee. The CSS has been closed to new entrants since July 1990. Projections of the actual annual employer costs of the two schemes combined as a percentage of Gross Domestic Product (GDP) were made over a period of 45 years. These projections showed a progressive fall in costs as the more expensive CSS scheme phased out. The actuary was thus of the opinion that the financial position of the schemes as at 30 June 1996 was satisfactory.
3. The realisable value of assets of the CSS as at 30 June 1996 was \$4,870 million.
4. Vested benefits of the CSS were not calculated as part of the Long Term Cost Report as at 30 June 1996 but were calculated separately. They amounted to \$44 billion.

It should be noted that this value of vested benefits represents the liability that would have fallen on the scheme if all members had ceased service on 30 June 1996 and elected the option which is most costly to the scheme. The likelihood of such an occurrence is remote in the extreme. The value quoted does not in any way represent the scheme's liability under circumstances which have any reasonable possibility of arising.

**INSURANCE AND SUPERANNUATION COMMISSION**

5. The value of Accrued Benefits for active employees who are members of the CSS, former members with deferred benefit entitlements in the CSS and persons receiving pensions from the CSS as at 30 June 1996 was \$39,620 million, being the sum of:

- (i) the present value of the proportion of projected future superannuation guarantee top-up benefit and pension benefit payments that has accrued in respect of membership of the CSS to 30 June 1996;
- (ii) the value of accumulated member contributions with interest at 30 June 1996; and
- (iii) the value of productivity superannuation contributions (both funded and unfunded) with interest at 30 June 1996.

In addition to these amounts, there is an accrued amount relating to benefits of former members who have transferred to Government Business Enterprise schemes. This amount was \$2639 million as at 30 June 1996 and is to be paid to those schemes in a manner approximating the transfer benefit due on exit of transferred members from those schemes.

6. As would be expected in a substantially unfunded arrangement, the value of accrued benefits is more than the realisable value of scheme assets at the same date.

7. The report was based on data supplied by ComSuper. In that data, those CSS members who elected to transfer to the PSS during the 1996 period of transfer from the CSS to PSS were recorded as PSS members at 30 June 1996.

8. The major assumptions used in the calculations were as follows:

- Investment earnings rate: 7.5% pa (net of tax and investment expenses)
- Inflationary salary increases: 5.5% pa
- Promotional salary increases: an age and service related scale was used
- Pension increases (CPI): 4% pa

It should be noted that the 2% gap between investment earnings and salary inflation assumed at this review is 0.5% greater than that assumed at the 30 June 1993 review.

The effect of this change has been to reduce the notional employer contribution rate by about 2.2% and the present value of unfunded liabilities by about \$2.5 billion from what would have been the case if the 1.5% gap had been retained.

K.E. Deeves

Fellow of the Institute of Actuaries of Australia

Deputy Australian Government Actuary

16 September 1997



## Alphabetical **Index**

### **A**

administration of CSS Board, Comsuper, 10  
*Administrative Decisions (Judicial Review) Act 1977*, reconsideration and review, 40  
 annual crediting rate, 4  
 annual crediting rates since 1993, 28  
 appeals taken under delegation, CSS Board, 13  
   applications received and outcomes, reconsideration and review, 38  
 assessment panel, invalidity processing, 35  
   Disability Claims Management & Counselling Service, 35  
 asset allocation, 21–22  
   active assets, 22  
   core assets, 22  
   fund composition, 23  
 Audit Committee, Australian National Audit Office, 43  
   computer systems upgrade, 44  
   CSS Board, 5, 43–44  
   function, 43  
   responsibilities and role, 43  
   terms of reference, 43–44  
 Australian equities, investment managers, 16  
 Australian fixed-interest, investment managers, 16  
 Australian National Audit Office, Audit Committee, 43  
   audit qualification, 5

### **B**

benchmark portfolio, strategic asset allocation, 21  
 benefit design, Fund investment, 17

### **C**

cash, investment managers, 16  
 Chairperson's report, crediting rate, 4  
   choice campaign, 5  
   development of business plan, 4  
   investment in overseas shares, 3  
   investment strategy, 3

  no audit qualification, 5  
   public sector redundancies, 1  
   return on investments, 1  
   sale of CFM & TRM, 2  
   SIS standards, 5  
   year in brief, v  
 charter, CSS Board, 12  
 choice campaign, Chairperson's report, 5  
*Commissioner for Superannuation Annual Report 1996–97*, choice campaign, 5  
 Commonwealth Financial Services, fund investment, 14  
 Commonwealth Superannuation Scheme, invalidity processing, 34–35  
   Member entitlements, 31–33  
   members' contributions, 31  
   membership, 32  
   pensions, 32  
   Scheme Administrator, 31  
 complaints lodged, Superannuation Complaints Tribunal, 39  
 computer systems upgrade, Audit Committee, 44  
 ComSuper, 1, 5, 31, 47, 48  
   Audit Committee, 43–44  
 crediting rate policy, 27  
   crediting rates, 28  
   exit rates, 30  
 crediting rates, 27  
   annual crediting rates since 1993, 28  
   crediting rate policy, 27  
   Deferred Losses Account, 30  
   Reserve Account, 29  
 CSS Board, Audit Committee, 5, 43–44  
   charter, 12  
   choice of fund, 46  
   collection of tax file numbers, 46  
   decisions invalidity processing, 35  
   future directions, 46  
   preservation, 45  
   superannuation surcharge, 47  
   taxation rebate, 46  
   investment objective, 17  
 CSS Board of Trustees, 10–13  
   Board members, 10–11  
   objectives, 12  
   operational chart, iv  
   performance indicators, 12  
   appeals taken under delegation, 13  
   communications strategies, 13

investment performance, 12  
payment of invalidity benefits, 13  
CSS fund performance 1996–97, investment  
performance, 25  
currency, investment managers, 16  
custodial services, fund investment, 15  
Chase Manhattan Bank, 15

---

## D

Deferred Losses Account, crediting rates, 30  
Department of Finance, 13  
Disability Claims Management & Counselling Service,  
invalidity processing, 35  
diversification of investments, strategic asset  
allocation, 21

---

## E

exit rates, crediting rate policy, 30  
external review,  
*Superannuation Industry (Supervision) Legislation  
Amendment Act 1995*, 38  
*Superannuation (Resolution of Complaints) Act  
1993*, 38  
Superannuation Complaints Tribunal, 38

---

## F

fund composition at 30 June 1997, asset  
allocation, 23  
fund investment,  
benefit design, 17  
Commonwealth Funds Management Ltd, 14  
corporate governance, 15  
custodial services, 15  
investment managers, 16  
investment objective, 17  
sale of CFM & TRM, 14  
statistics, 8  
Total Risk Management Pty Ltd, 14  
fund performance, 24–26  
future directions,  
choice of fund, 46  
collection of Tax File Numbers, 46  
preservation, 45  
superannuation surcharge, 47  
taxation rebate, 46

---

interest credited to members' accounts, 4  
invalidity benefits, payment of, 13  
invalidity processing,  
assessment panel, 35  
CSS Board decisions, 35  
payment of invalidity benefits, 34  
requests to approve invalidity retirement, 34  
investment objectives, CSS Board, 17  
investment managers, 16  
investment performance, comparison of fund  
performance, 25–26  
CSS Board, 12–13  
CSS fund performance 1996–97, 25  
fund composition at 30 June 1997, 23  
fund investment, 14  
investment strategy, Chairperson's report, 3

---

## M

member communications,  
annual information statements, 41  
annual report to members, 41  
*ComSuper News* newsletter, 41  
*Your Super Scheme* information booklet, 41  
website, 42  
member entitlements, 31  
benefit applications, 33  
benefit processing, 33  
exits by type, 33  
members' contributions, CSS, 31  
membership, CSS, 32

---

## O

objectives, CSS Board, 12  
*Superannuation Industry (Supervision)  
Act 1993*, 5  
operational chart, CSS Board, iv

---

## P

payment of invalidity benefits, invalidity  
processing, 34  
performance indicators, CSS Board, 12  
portfolio and investment manager appointments,  
Australian equities, 16  
Australian fixed-interest, 16  
cash, 16  
currency, 16  
international equities, 16

investment objective, 17  
 investment strategy, 19  
 property, 16  
 strategic asset allocation, 21–23  
 pre-assessment payments, invalidity processing, 34  
 preservation, future directions, 45  
 public sector redundancies, 1

## R

reconsideration and review,  
*Administrative Decisions (Judicial Review) Act 1977*, 40  
 applications received and outcomes, 38  
 complaints lodged with Superannuation Complaints Tribunal, 39  
 external review, Superannuations Complaints Tribunal, 38  
 Federal Court, *Administrative Decisions (Judicial Review) Act 1977*, 40  
 internal reconsideration, 36–37  
 Reconsideration Advisory Committee, 6, 36  
 SIS Act, section 101, 36  
*Superannuation Industry (Supervision) Legislation Amendment Act 1995*, 38  
*Superannuation Legislation Amendment Act 1994*, 38  
*Superannuation (Resolution of Complaints) Act 1993*, 38  
 Reserve Account, crediting rates, 29–30  
 Risk management, 19–20

## S

Scheme Administrator, Commonwealth Superannuation Scheme, 31  
 Scheme membership, CSS, 32  
 statistics,  
   fund investment, 8  
   scheme membership, 9  
 strategic asset allocation, Total Risk Management Pty Ltd, 21–22  
 strategic benchmark portfolio, 21  
 Superannuation Complaints Tribunal, complaints lodged, 39  
*Superannuation Industry (Supervision) Legislation Amendment Act 1995*, 38  
*Superannuation Legislation Amendment Act 1994*, 38  
*Superannuation (Resolution of Complaints) Act 1993*, 38

## T

terms of reference, Audit Committee, 43–44

## Y

year in brief, v  
*Your Super Scheme* information booklet, member communications, 41