



The PSS Board

ANNUAL REPORT

2000
2001



PUBLIC SECTOR
SUPERANNUATION SCHEME

PUBLIC SECTOR SUPERANNUATION SCHEME

The **PSS** Board

Public Sector Superannuation Scheme

Annual Report
2000–2001

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Note: All contribution, benefit and membership and exit statistics are derived solely from records available to the Commissioner for Superannuation as they stood at the time these statistics were compiled. Where statistics for earlier financial years are quoted, these may vary from those previously published due to the application of retrospective adjustments that are now reflected in this report. For similar reasons statistical information in this report may also vary from that presented by other agencies.

Letter of **Transmittal**

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

Dear Minister

In accordance with section 28 of the *Superannuation Act 1990*, (the PSS Act), the PSS Board is pleased to present to you the annual report on its operations during 2000–2001. The Report details the Board's activities in respect of the administration of the Public Sector Superannuation Scheme and includes audited financial statements in respect of the management of the PSS Fund during the year ended 30 June 2001.

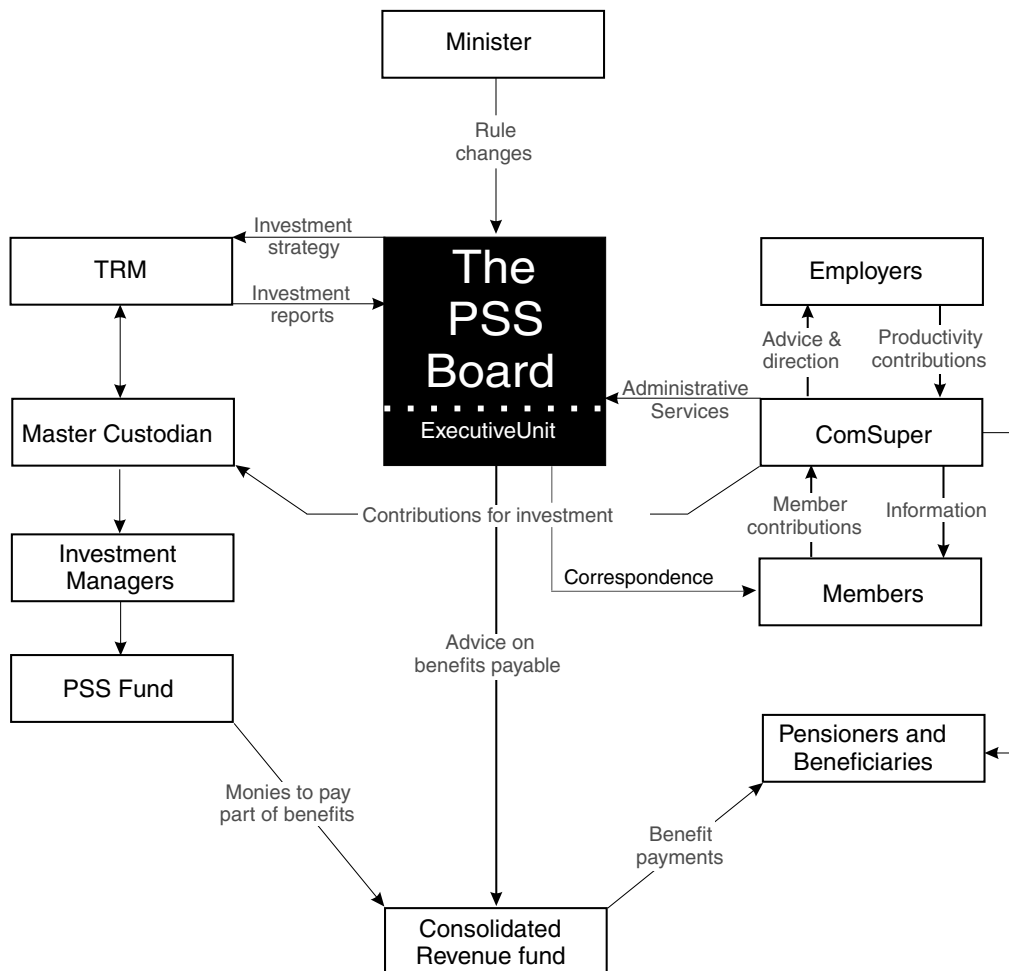
Subsection 28(3) of the PSS Act requires you to cause a copy of the report to be laid before each house of Parliament within 15 sitting days after you receive it.



Peter Reynolds
Chairperson
PSS Board
17 September 2001

Operational Chart

This diagram shows the major interactions involved in administration of the PSS and investment of the PSS Fund.



**The PSS Board
Its responsibilities and administrative arrangements**

Year in brief

Highlights from the 2000–2001 year were:

- A year of more modest investment returns (1.4%) with the reserve being used to credit 6.9% for the year;
- Despite a poorer year in investment markets an average crediting rate of 11.2% per annum over the last 5 years;
- A thorough review of the Board's current arrangement for receiving investment advice leading to the appointment of its first Chief Investment Officer; and
- Further significant improvements in the Board's services and communications to members.

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From the Chairperson

Annual results—Earning Rates and Crediting Rates

As I reported last year volatility in investment markets had increased and was likely to continue. Due primarily to the poor performance of almost all equity markets (except Australia) the Fund's investment performance was significantly lower than in recent years, with an earning rate of 1.4%.

Members of the PSS have become used to very strong returns in recent years. The 2000-2001 financial year investment returns were lower for all superannuation funds in Australia. Despite all International share markets declining in value over the year the Board's investment strategy, built around diversification, achieved a small positive result.

The Board's investment strategy actually anticipates that there will be years when returns are low or negative. Superannuation is about the long term and an investment strategy must be constructed to maximise long-term results.

Despite the poor performance of investment markets the Board was able to declare a crediting rate of 6.9% due to the operation of its reserving policy. The average crediting rate over the last five years is therefore still a very healthy 11.2% per annum.

The Board maintains a Reserve as it is prevented under legislation from declaring a negative interest rate. In years when investment returns are high the Board declares a crediting rate a little less than the earning rate and thereby adds to the Reserve, which is used to 'top up' earning rates when returns are not so good. The only alternative to the operation of a Reserve would be for the Board's to only invest in 'capital guaranteed' type investments. Such a strategy would lead to much lower investment returns over time.

The Board has effectively used all of the Reserve this year. The difference between the CSS crediting rate of 5% and the PSS crediting rate of 6.9% is due to the higher reserve in the PSS at the start of the year – that difference being caused primarily by the transfer of funds from the CSS to the PSS due to the finalisation of the choice campaign – as was explained in last year's report.

After determining the crediting rates for 2000-2001 the Reserve in both the CSS and PSS is virtually zero. Another poor year for investment markets will mean that the Board will have no option but to declare much lower crediting rates.

Major events and developments

The Board continues to focus on its own governance and compliance issues. Each year the Board reviews the terms of reference for, and composition of, its committees to ensure that those committees remain effective, are operating under proper delegation from the Board and are reporting to the Board in a timely and appropriate way.

The Board appointed an audit advisory firm during the year to carry out various 'internal audit' functions. The audit advisor reports to the Board's Audit Committee, which now works with both the Board's internal and external auditors to ensure that all potential audit issues are addressed and resolved. The improvements, which have been made in recent years, have largely been due to the Audit Committee's diligence.

The Administration Committee continues to deal with a wide range of matters on behalf of the Board. This Committee receives regular reports from the Scheme's administrator (ComSuper) about future directions and administration issues. It also deals with invalidity applications (in conjunction with the invalidity assessment panel), claims made against the Board and other administrative matters affecting the Board's Executive Unit.

The Communications Committee has been responsible for the complete review of the Board's Communications Strategy. Extensive research has been undertaken amongst scheme members and the revised communications strategy has already delivered improved member statements and a total revamp of the look and content of the Annual Report to Members. The other major developments during the year have been the implementation of redesigned websites and the adoption by the Board of a branding strategy. It was very pleasing that the significant improvement in the Board's communications was acknowledged when the Conference of Major Superannuation Funds awarded a gold award to the Board for the 1999-2000 Annual Reports to Members.

The next stage of the Board's Communications Strategy is about to commence with the application of the Scheme's new brand to all communications and the further development of on line services.

In conjunction with ComSuper the Board has commenced the process of offering more on-line services to members. The first stage in this process involved a campaign to provide members with a

secure access number, to facilitate the provision of on-line services. The outstanding success of this campaign has resulted in over 70,000 members of both the PSS and CSS schemes activating their access number on-line.

The Board subjects its major service providers to an annual effectiveness review. Service standards are agreed between the Board and ComSuper, which are reviewed, and improvements agreed. Improved customer service continues to be a major focus of both ComSuper and the Board. Not only does the Board review ComSuper's performance against the service standards, but the Board also receives reports about how ComSuper compares to both Australian and North American peers through an international Benchmarking exercise. The Board is very supportive of ComSuper's participation in this benchmarking service and the Board has noted that ComSuper rates very well in a number of key service areas.

Future directions

Last year I reported that the Board had commenced reviewing the asset consulting and investment advisory services which it receives and that a 'thorough investigation of alternate models and methods of service delivery will be undertaken before the Board tests the market for these services'.

The foreshadowed review was comprehensive and resulted in the Board deciding that a small team of investment professionals would be employed within the Executive Unit to provide the Board with dedicated investment advice and analytical resources. The Board subsequently appointed Mr Andre Morony as Chief Investment Officer. Mr Morony was most recently Chief Investment Officer at BT Funds Management, having held a number of positions with that organisation since the mid 1980's. Prior to joining BT, Mr Morony was with the Treasury and was Australia's representative at the OECD.

As well as employing a small team of investment professionals to be led by Mr Morony the Board will continue to seek the best possible external advice about its investment strategy, strategic asset allocation and the selection and monitoring of the investment managers who undertake the investment on the Board's behalf. The tendering process for this advice will be completed in the first half of the forthcoming financial year.

SIS compliance

The PSS is a complying fund under SIS legislation and so continues to be eligible to have tax payable on net income of the Fund assessed at the concessional rate of 15 per cent. During 1999-2000 a review of both CSS and PSS was conducted by APRA (the first review of the Funds by APRA) and no major issues were identified by APRA in that review.

Thank you

It is a privilege to work with such a committed and competent group of people who make up the PSS Board. The Trustees have again applied themselves to the significant challenges with diligence and in a most effective way and they should all be thanked for the professional way in which they carry out their duties and meet their considerable responsibilities.

John Flitcroft, who has been a Board member since the Board was formed in 1990 did not seek reappointment following the expiry of his term on 30 June 2001. John has made an enormous contribution to the working of the Board over the years and this contribution will be sorely missed. There is no doubt that the members of the Scheme are in a much better position today because of John's input.

The Board's Executive Unit and all of its service providers must also be thanked for their hard work in contributing towards another successful year. As the challenges increase and the pace of change expands we will all have to work together as a team to meet the expectation of Government and Scheme members.



Peter Reynolds
Chairperson
PSS Board

Scheme Overview

PSS Board

The PSS Board administers the Public Sector Superannuation (PSS) scheme in accordance with the provisions of the *Superannuation Act 1990* (the PSS Act), the Trust Deed and the Scheme Rules. It is also responsible for the management and investment of the PSS 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 five Trustees—two with experience in the formulation of government policy and public administration; two nominated by the ACTU and an independent chairperson. All are appointed to the Board by the Minister for Finance and Administration under section 23 of the PSS Act.

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 for such period as the Minister determines.

Members holding office during the year were:



Mr Peter Reynolds—*appointed Chairperson on 28 July 1999 to 27 July 2002.*

Mr Reynolds is a Director of State Super Financial Services Pty Ltd and Chairman of the Local Government Financial Services Pty Ltd. He was the Chairman of the NSW State Authorities Superannuation Board and has wide experience in business and financial management through various positions in the public and private sectors. He is also Chairperson of the CSS Board.



Mr John A. Flitcroft—*appointed 1 July 1990, reappointed to 30 June 2001.*

Mr Flitcroft is a member of the CPSU, and is Manager, Compensation Reviews (NSW) at the Department of Veterans' Affairs. He is Chair of the Communications Committee and also a member of the CSS Board. His alternate is Mr Noel Speers of the CPSU.



Ms Winsome Hall—*appointed 1 July 1996, reappointed to 30 June 2001.*

Ms Hall is a member of both the CSS and PSS Boards. She is Chair of the Audit Committee and a member of the Communications Committee. She is also a member of the CPSU. Her alternate is Mr David Irons of the Communications Workers Union, Melbourne.



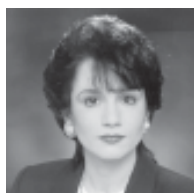
Ms Louise McBride—*appointed 28 July 1999 to 27 July 2002.*

Ms McBride is the lead partner for the Financial Services Tax Group at Deloitte Touche Tohmatsu. She currently leads a team of partners at Deloitte that specialises in international and domestic banking and financial services. Before joining Deloitte she was partner with a major Australian Law firm. She has had extensive experience in tax-based financing and has played an active role in the tax reform debate. Ms McBride is a member of the Board of the Export Finance and Insurance Corporation and is a member of the Corporations and Securities Panel. She is also a member of the CSS Board. Her alternate is Ms Sandra Wilson, Branch Manager, Commonwealth Superannuation Group, Department of Finance and Administration.



Mr Graham Kelly—*appointed 25 July 1997 to 24 July 2000.*

Mr Kelly was replaced by Ms Cathy Manolios.



Ms Cathy Manolios—*appointed 25 July 2000 to 24 July 2003.*

Ms Manolios is a Special Counsel with Ernst and Young Law. She has extensive experience in the life insurance and superannuation industry, most recently as a Company Secretary and General Manager, Legal and Corporate Services with the Colonial Group. She is also a member of the CSS Board. Her alternate is Ms Sandra Wilson, Branch Manager, Commonwealth Superannuation Group, Department of Finance and Administration.

Board and Board committee meetings

The CSS and PSS Boards have three combined committees of Board members :

- the Audit Committee comprising Ms Winsome Hall, Chairperson; Ms Joy Palmer, Member and Ms Louise McBride, Member;
- the Communications Committee comprising Mr John Flitcroft, Chairperson; Ms Winsome Hall, Member and Mr Richard Balderstone, Member; and
- the Administration Committee comprising Ms Joy Palmer, Chairperson; Mr John Flitcroft, Member and, Ms Cathy Monolios Member. (Mr Graham Kelly was Chairperson until 24 July 2000).

There is also a Reconsideration Advisory Committee comprising senior ComSuper officers Ms Christine Goode, Mr Peter Skinner and Mr Pat Hayes.

Table 1: Board and Board committee meeting attendance 2000–2001

	Board	Audit	Communications	Administration
P Reynolds	7/8			
J Flitcroft	8/8		8/9	4/5
G Kelly ¹				1/1
W Hall	8/8	4/4	9/9	5/5 ²
J Palmer	8/8	4/4	8/9 ³	5/5
R Balderstone	8/8		8/9	
L McBride	8/8	3/4		
C Manolios	8/8			4/4

Notes

¹ Mr Kelly Retired 24 July 2000

² Although Ms Hall is not an official member of the Administration Committee, she attended the meetings

³ Although Ms Palmer is not an official member of the Communications Committee, she attended the majority of the meetings

Purpose

The combined PSS/CSS Audit Committee advises the Board on accountability and audit related matters. The Committee operates as a check on the management practices of the scheme administrator (ComSuper), fund investment managers, and master custodians.

Responsibilities and role

The Committee assures the Board that its financial statements are based on appropriate accounting concepts, systems and techniques; that the audit arrangements within service providing agencies (ComSuper, fund managers, the master custodian and the Department of Finance and Administration) are operating effectively, and that appropriate fraud control strategies are in place.

Terms of Reference

The Audit Committee is the point of communication between the Board and the Internal Audit Committees of ComSuper, and with the Australian National Audit Office (ANAO).

The Audit Committee reviews:

- financial statements with both internal and external auditors prior to their approval by the Board;
- accounting policies adopted or any changes which are made or contemplated by ComSuper, and which affect the Board's 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;
- interim financial information; and
- from 1996–97, the annual crediting rate.

The Committee provides regular reports to the Board as to whether the internal controls employed by ComSuper and other service providers give reasonable assurance that the Board's objectives and goals are being met efficiently and economically.

With the agreement of the Board, the Committee may initiate specific audit investigations.

Membership

The Audit Committee is appointed by the Board and usually comprises three members, at least two of whom are members of both the PSS and CSS Boards. The term of appointment of individual members of the Audit Committee is at the discretion of the Board. The Committee meets as necessary, but in any event, not less than twice per year.

Issues considered 2000–2001

The Audit Committee met during the year to consider a wide range of issues associated with annual auditing and accounts processes. These issues included:

- actively monitoring audit processes;
- actively managing financial statements and accounts processes;
- actively monitoring the Board's compliance responsibilities, including SIS; and
- the appointment of an internal audit adviser to the Board.

Communications **Committee**

Key Function

The combined PSS/CSS Communications Committee advises the Board on communication related matters. The Committee is to focus on those external policy matters that touch the membership and so are covered in member communications. The Committee also guards the interests of the Board in the existing and future communications programs.

Responsibilities and role

The Committee is to ensure that the Board meets the information disclosure requirements imposed by the *Superannuation Industry Supervision Act (SIS)* through clear, timely and accurate reporting to members; to ensure that communications keep members in close contact with Trustee decisions and developments which may affect members' interests.

Terms of Reference

The Communications Committee is to be the point of communication between the Board, the scheme administrator and other service providers in respect of communication issues.

The Communications Committee is to:

- approve the content and oversight the production timetable and budget for the annual report to parliament;
- approve the content of reports to members before they are issued;
- ensure that new member information is provided at the earliest practicable time after a member joins the fund;
- review member information statements to ensure they will be understood by a majority of members;
- ensure member information statement information is up to date, correct and provided in a timely fashion in accordance with the provisions of SIS;
- establish procedures to ensure members receive their information statements and annual reports;

- inform members of significant events in accordance with the provisions of SIS; and
- examine and report to the Board on additional services to members which the Board should consider providing.

Membership

The Communications Committee is appointed by the Board and usually comprises three members, two of whom are members of both the PSS and CSS Boards. The term of appointment of individual members of the Communications Committee is at the discretion of the Board. The Committee meets as necessary, but in any event, not less than four times per year.

Issues considered 2000–2001

The Communications Committee met during the year to consider a wide range of issues associated with member communications. These issues included:

- the establishment of a Communications Strategy;
- the development of a new brand with more relevance to scheme members;
- continuous member research;
- improvement of all brochures, booklets and other information material to reflect plain English and the new brand;
- launch of a new look website;
- continuous improvement to member statements and annual report to members;
- preparing for the launch of a new interactive online service for members;
- the establishment of stronger links with key media commentators; and
- information seminars to members.

SIS requirements

As a regulated fund under the *Superannuation Industry (Supervision) Act 1993* (SIS) the PSS must comply with all the information disclosure standards set out in the SIS Act and 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 also believes that it is important to keep members informed of developments in superannuation that might affect their future entitlements. A number of different and interrelated communications mechanisms are used to meet these requirements.

Member Statements

The Board's principal means of communicating with members is through its Annual Report to Members which is sent to all contributing members and preserved benefit members.

The report provides comprehensive information about the PSS Fund's investment performance and also details changes to scheme rules and changes in the superannuation industry at large, insofar as these are relevant to scheme members.

The Board's Annual Report to Members is packaged with the member statements providing detailed personalised information about each individual's entitlements. The Board has retained the services of communications experts, Social Change Media in order to improve the quality and content of this year's package.

For 2000–2001 the Board has made considerable efforts to bring forward the timetable within which this information is normally distributed and also to package the combined information in a consistent and understandable format. These changes were made in line with examples of industry best practice.

Scheme publications

A wide range of booklets, pamphlets and leaflets is available to assist scheme members to understand the workings of the PSS Scheme. These publications can be obtained from employer personnel counters, on order from a contracted mailing house, direct from the Board's administrator (ComSuper) or through the internet. Relevant forms are also made available to personnel officers and to scheme members through the same channels.

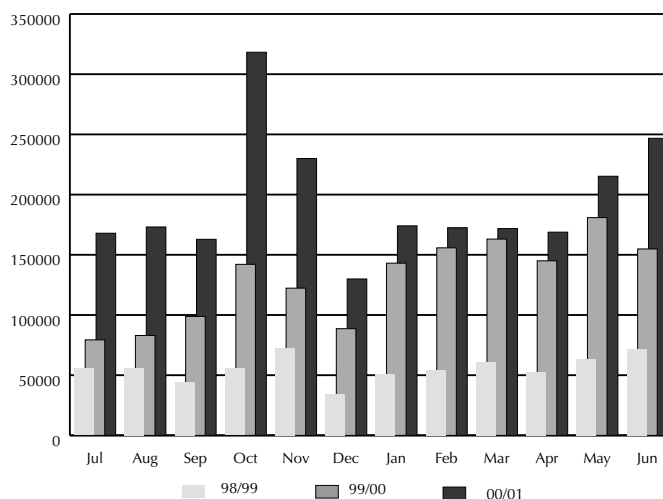
During the year an internet based on-line ordering system for hard copies of publications was introduced.

The Board's communications consultants (Social Change Media) also directed considerable efforts towards the redevelopment of key publications, with a view to encouraging members to value their scheme benefits.

Growing the Web

Member usage of the Board's web site continued to grow during the year, to the point where the internet has been a significant communication tool. At year's end preparations for the introduction of on-line services were well advanced with secure PIN's being issued to all contributing scheme members. This initiative was accompanied by the development of a new scheme based web site to replace the previous site provided by the boards administrator (ComSuper). The new website address is www.pss.gov.au

Chart 1: Number of website page views per month 1998-2001



Performance indicator

The success of the Board's communications strategies can be gauged from the positive feedback received through the member satisfaction surveys (see page 65) where high quality performance was achieved across a range of customer service dimensions e.g. member information statements.

Inquiries about any of the publications mentioned above or the Board's website can be addressed to:

Schemes Publications Section
ComSuper
PO Box 22
Belconnen ACT 2616
Telephone: 62526274 Fax: (02) 6252 7838

Administration Committee

Key Function

The combined PSS/CSS Administration Committee advises the Board on those internal policy matters that drive the operational standards of the administrator and service providers other, than the Scheme's auditors.

Responsibilities and role

The role of the Administration Committee is to become familiar with the policy activities carried out by the Scheme's Administrator and the Department of Finance and Administration (DoFA). It supervises such activities by the Scheme's Administrator, and monitors those of DoFA to enable it to respond or influence as necessary.

The Committee is to assure the Boards that adequate processes are followed by the Scheme's Administrator and other service providers to ensure compliance with legislative requirements.

The Committee also monitors any legislative changes which will impact upon the operations of the scheme.

Terms of Reference

The Administration Committee is the point of communication between the Board, the Scheme's Administrator and other service providers.

The Administration Committee:

- establishes performance agreements and arrangements for service providers to report regularly to the trustees;
- monitors the performance of service providers, other than the Fund's auditors;
- ensures all activities of the administrator and service providers are carried out in accordance with Board policy;
- oversees relationships between the Board and service providers;
- advises the Board of the implications arising from legislative changes;

- acts as an advisory body, deciding which delegated Board member will take a decision in accordance with those powers delegated by the Board in respect of decisions on Invalidity including:
 - applications under Scheme rules 10.7.5, 10.8.3, and 10.9.3
- submits copies of all decisions taken in respect of invalidity applications to the PSS Board;
- reviews and makes recommendations to the Board with respect to legal claims;
- deals with any investment-related matters referred to it by the Board and/or Chairperson of the Board; and
- considers and makes recommendations to the Board as appropriate on matters with respect to pricing (i.e. charges to employers), billing arrangements and the Board's budget.

Membership

The Administration Committee is appointed by the Board and comprises three members, at least two of whom are members of both the PSS and CSS Boards. The term of appointment of individual members of the Administration Committee is at the discretion of the Board. The Committee meets as necessary, but in any event, not less than four times per year.

Issues considered 2000–2001

The Administration Committee met during the year to consider the following issues:

- the appointment of a full time Chief Investment Officer;
- the appointment of an internal audit advisor;
- the review of the Board's Investment Advisory Services;
- the review of the Board's Corporate Governance Policy and its Investment Corporate Governance Policy;
- the Board's Business Plan;
- the relocation of the Board's accommodation;
- the review by APRA of the Scheme's operations;

- the process for considering, and the assessment of individual applications for invalidity retirement;
- proposed amendments to the PSS and CSS legislation;
- the introduction of legislation impacting on the Board's operations; and
- compliance and risk management.

Mission and Operating Principles

Charter 2000–2001

The Board's charter is:

- to administer the Public Sector Superannuation Scheme in accordance with the PSS Act and Trust Deed; and
- to manage and invest the PSS Fund so as to maximise the real return earned on investments subject to a tolerable level of short-term volatility.

Operating principles

In the operation of the PSS, the aims of the trustees are:

- to identify and capture the best investment opportunities for increasing the real value of the Scheme's assets, keeping in mind the need to protect their future integrity;
- to ensure that all our administrative transactions are carried out in accordance with relevant legislation;
- to provide our members with appropriate services so that their interaction with the Scheme will be as satisfactory as the best of their experiences as a client elsewhere;
- to continuously seek ways to improve the efficiency and effectiveness of our activities and those of our delegates;
- to ensure the assets of the Scheme and the interests of its beneficiaries are properly safeguarded at all times;
- to keep all relevant parties informed of the condition, conduct, benefits and services of the PSS, according to the interests of each party; and
- to maintain proper records and accounts in respect of operational and financial activities.

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 Performance*, page 34);
- the time taken to process benefit payments (see *Benefit Processing*, page 51);
- the time taken to finalise applications for Invalidity Retirement Certificates (see *Invalidity Processing*, page 54);
- the number of appeals against decisions taken under delegation and the outcome of those appeals (see *Reconsideration and Review*, page 55);
- the success of the communications strategies used to inform members of relevant superannuation matters and of the Board's activities (see *Communications Committee*, page 16); and
- the monitoring of member service satisfaction (see *Board Governance*, page 60).

In addition, the Board reviewed the effectiveness of all aspects of its administrator's performance in a thorough evaluation. It intends to undertake such an effectiveness review annually.

Board executive

The Executive Unit is responsible for providing advice to the Board for implementing Board decisions and for the ongoing management of the Board's functions and responsibilities. Specifically the Executive Unit is responsible for:

- the development and implementation of corporate strategies and plans;
- the management of the relationships between the Board and service providers;
- ensuring compliance with SIS and scheme rules and legislation;
- member communications generally and in particular the preparation and production of annual reports to members and Parliament, and member statements; and
- comprehensive administrative and support services to the Board.

Scheme membership

CONTRIBUTORS AT 30 JUNE	2000	2001
Male	48 110	51 088
Female	64 326	69 990
Total	112 436	121 078

PENSIONS IN FORCE AT 30 JUNE	2000	2001
Age retirement	918	1162
Retrenchment (involuntary)	3841	4209
Invalidity	763	880
Spouses & orphans	192	601
Total	5714	6852

OTHER SUMMARY AT 30 JUNE	2000	2001
Average yearly pension	\$13 483	\$14 253
Preserved benefits in force	58 959	68 305

Fund size

FINANCIAL YEAR	VALUE (\$M)	CHANGE (%)
1996-97	2448.0	+15.6
1997-98	3219.0	+31.4
1998-99	3472.9	+7.9
1999-00	4126.9	+18.8
2000-01	4433.9	+7.4

Addressing priorities

In 1997 the Minister for Finance and Administration announced the Government's intention to introduce a range of new superannuation arrangements for Commonwealth civilian employees. In line with the Government's policy intentions, a number of changes were made to the structure of services and administration arrangements to more clearly define the responsibilities of the Boards of Trustees and to implement a clearer separation between the Board as the purchaser of service and its administrator (ComSuper) and other external service providers. Legislation to introduce the new arrangements was not, however, passed by the Parliament. The board is, however, pressing ahead with arrangements to more clearly separate its role and those of its service providers.

Commonwealth Superannuation

In the context of the 1998–99 Budget, new funding arrangements were announced covering the administration of the Commonwealth's civilian employee superannuation schemes which have applied since 1 July 1998.

Under these arrangements, the Board's administrator (ComSuper) was established (from 1 July 1998) as a Business Unit and its Budget was devolved to employer agencies. From that date ComSuper and other service providers have charged the Board directly for their services and the Board has recovered its costs from employer departments and agencies.

Other Arrangements

Although the CSS and PSS Boards of Trustees have statutory responsibility for the activity for which the charging arrangements apply, the existing CSS and PSS legislation does not authorise the separate Boards to hold moneys (other than that related to the management and investment of the Fund) in their own right. Consequently other arrangements were made to implement the Budget decision.

Under these arrangements ComSuper is commissioned to undertake billing and cost recovery arrangements on behalf of the Boards. The Commissioner for Superannuation is required to bring to account in her financial statements the Board's revenue and expenditure in respect of the administration of the scheme.

Management and Investment of the Fund

Investment structure

The Board has adopted a modular approach to funds management, dividing the portfolio up into its component parts, and appointing professional fund managers to invest each component. In some cases we have split the components further, and divided them between three or four specialist managers.

The table on page 27 shows how the PSS investment portfolio is structured. Notice that we hold a mixture of core, specialist and alternative investment assets.

Total Risk Management (TRM)

TRM continues to be the Board's strategic adviser and its principal adviser on investment issues. TRM has been appointed by the Board as its agent and provides practical day-to-day management of the investment portfolio, including asset/liability modelling, strategic asset allocation, investment style research, portfolio construction, selection of investment managers, negotiation of investment management fees, mandates and contracts, selection of fund custodians and performance reporting and mandate compliance.

Custodial services

The Fund's master custodian is Chase Manhattan Bank. Its 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 on the advice of TRM, to investment managers in accordance with the mandates set down by the Board.

Chase Manhattan Bank also holds (but does not own) the assets which comprise the Fund; collects and disburses dividends; maintains consolidated accounts and tax records for the Fund; and reports 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 2000–2001 financial year are presented below.

Table 2: Investment managers at 30 June 2001

SECTOR/TYPE OF ACTIVITY INVESTMENT MANAGERS	
AUSTRALIAN SHARES	
Core	Commonwealth Investment Management Limited
Specialist	Balanced Equity Management Pty Limited First State Fund Managers Limited Perpetual Asset Management Limited Westpeak Investment Advisors (Australia) Limited
Direct	Jupiters
Alternative	Various (20 managers)
INTERNATIONAL SHARES	
Core	Vanguard Investments Australia Limited
Specialist (US)	Westpeak Investment Advisors (Small Cap) Westpeak Investment Advisors (Enhanced S&P 500)
Alternative (US)	Wilshire Associates Inc
Specialist (Japan)	JP Morgan Investment Management Inc Schroder Investment Management (Australasia) Limited
Specialist (UK/ Continental Europe)	Friends Ivory & Sime (SRI) Mercury Asset Management plc ABN AMRO Asset Management (Australia) Limited
Specialist (Emerging markets)	Blairlogie Capital Management Deutsche Asset Management Limited Paribas Asset Management Limited
Currency Overlay	Pareto Partners
DEBT	
Core	Commonwealth Investment Management Limited Superannuation Member's Home Loan
HIGH YIELD DEBT	
Specialist	Loomis, Sayles & Company, LP J&W Seligman & Co Incorporated
Currency Hedge	Pareto Partners
PROPERTY	
Specialist (Australian)	Commonwealth Investment Management Limited
Alternative (Australian)	Various (2 managers)
Alternative (International)	Various (3 managers)
CASH	
Cash	Commonwealth Investment Management Limited

Investment objective

The total benefit payable to members is set by the rules and methodology embodied in the legislated constitution of the Scheme. It does not depend on the earning rate of the Fund.

The difference between the total benefit payable to a member and the accumulated member and productivity contributions (including interest) invested in the Fund, is paid by the employer from Consolidated Revenue. The call on Consolidated Revenue will depend on the investment performance of the Fund. The better the investment performance of the Fund, the smaller the call on Consolidated Revenue. In these circumstances, it is the employer that bears the investment risk arising from the investment of the Fund.

If the call on Consolidated Revenue is to be minimised, achieving a good return over the long term is of vital importance. This is explicitly recognised by the Fund's investment objective which is:

to maximise the long term real return of the Fund.

Fundamentally, the Fund has a long term perspective (maximising real returns in the accumulation fund), but managing shorter-term volatility (variation in annual crediting rates) is also an imperative. 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).

The Board expects to achieve an average real return of 5 per cent per annum after tax and fees, which derives from a nominal return of 7.5 per cent per annum over the longer term.

In developing the investment strategy for the Fund to achieve its objective, the Board has adopted the following constraints, in order to manage the level of short term volatility of returns:

- on average, nominal Fund returns will be positive at least four years out of five;
- on average, the crediting rate will exceed the bank interest rate by one per cent or more, at least three years out of five; and
- not more than 25 per cent of the Fund's investments are to be in illiquid assets, with a minimum cash allocation of two per cent.

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).

Total Risk Management identify the risks, quantifies them as far as possible and manages 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.

Interim review

An interim review of the Fund's strategic investment approach was completed during the year. The purpose of an interim review is to conduct an annual assessment of the adequacy of the present strategy in continuing to meet the scheme's investment objectives. Changes to the approach are only proposed if changes to the economic outlook or other factors since the last major review (conducted every three years, the last being in 1999) render the current approach inappropriate. The review concluded that the present strategic approach remains appropriate.

In addition to the interim strategic review, the Fund maintains a continuous appraisal of the investment markets, looking for new investment opportunities and identifying any inherent risks. This ongoing monitoring resulted in one risk management enhancement and two new investments for the Funds.

To safeguard against the potential impact to the Fund should a significant correction occur in the US share market, an investment bias (tilt) towards cheap value stocks away from expensive growth stocks was put in place from October 2000 for risk management purposes. This tilt proved very beneficial in softening the impact of the sharp decline in the value of technology stocks and was removed in February 2001 when it was judged that the risk of a further significant decline in US shares had subsided.

Strategic targets

The Board supervised a number of investment activities during the year. Some changes, as described below, were made after conducting a number of reviews.

Alternative investments: The Board continued to build the Fund's exposure to alternative investments during the year. Deutsche Asset Management was appointed during the year to manage the Fund's domestic infrastructure investments. Following an International manager search conducted in early 2001, two additional managers have been selected to manage International private equity exposures of the Fund.

Risk monitoring: The Board maintained a commitment to its long-term strategy despite extreme market volatility during the year. The Board received regular topical reports during the year including reports on an analysis of the Australian Technology, Media and Telecom sectors, the Russian recovery, the changing role of the IMF, and the envisaged US Presidential election impact on US economic policies.

Hedge Funds: Hedge Funds are an area of growing interest and opportunity amongst investors. Hedge funds are private investment structures that pursue a range of investment strategies and approaches not available from traditional investing. The Board is aware of this growing interest and is keen to explore opportunities where hedge funds may bring benefits to the Fund. TRM is currently conducting a search on the Fund's behalf for an appropriate Fund Manager to facilitate the Fund's first investment in hedge funds.

Table 3: Strategic asset allocation

Asset Class	Type	Asset allocation	Allocation range	Benchmark
Shares	Domestic	30%	27–33%	S&P/ASX 200 Accumulation Index
	International Developed Markets	42%	39–45%	MSCI Developed World Index (ex-Australia) Half unhedged and half hedged back to Australian Dollars.
	International Emerging Markets	5%	4–6%	MSCI Emerging Markets Free Index
Debt	Domestic Fixed Interest	8%	7–9%	UBS Warburg Composite Bond Index
	Cash	2%	0–3%	UBS Warburg Bank Bill Index
	International High Yield Debt	3%	2–4%	Merrill Lynch High Yield Master Index Hedged back to Australian Dollars
Property	Domestic	10%	7–15%	Mercer Direct Property Index
Total Fund		100%	N/A	Composite of above, weighted according to Strategic Asset Allocation

Each asset class (except property and high yield debt) 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 S&P/ASX 200 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 the Fund’s investment holdings.

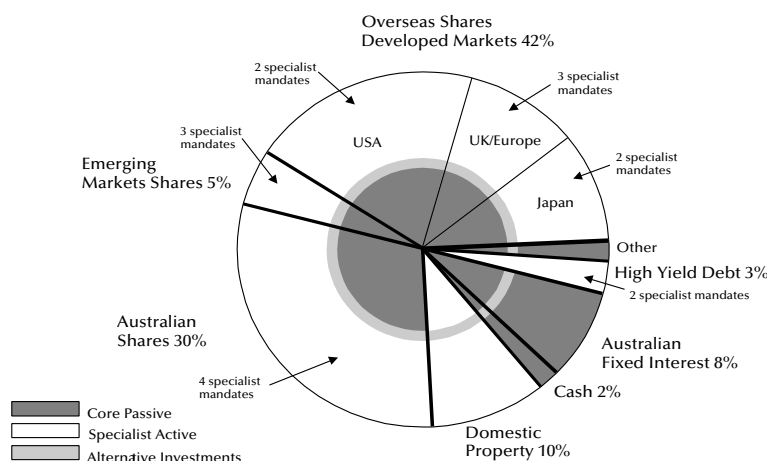
Active assets, as the name suggests, are actively managed. That is, the specialist fund managers that hold these assets must actively operate in the market, buying and selling them with a view to outperforming the sectoral index.

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 ten per cent of total assets in non-traditional or alternative investments. Alternative investments include infrastructure, buy-out funds, hedge funds and venture capital. At the end of the year, the size of the Alternative Investments program was \$208.3 million across 26 managers (a little less than 5 per cent of the total Fund).

The Fund’s exposure to international equities has regard to the inherent limits on return opportunities through investment solely in the Australian equities market and the opportunities provided by investing in the much larger world markets.

Chart 2: PSS Fund composition & portfolio construction at 30 June 2001



Note: The diagram above depicts the Fund’s asset class holdings which comprise different combinations of core, specialist and alternative investment exposures. There are one or more specialist managers in each asset class.

Market overview

The past financial year was a challenging one for investors. The key influence on markets has been the uncertainty surrounding the strength of the global economy. The volatility that dominated many international equity markets last financial year continued for the first half of this year. As the year progressed, concerns of a prolonged economic recession spreading around the globe caused many investors to dwell on negative economic news, resulting in weaker performance by international equity markets. The actions of policy makers and central banks around the world, particularly where actions may impact economic growth, were intently scrutinised by investors for signs as to the future direction of the markets. Last year produced a range of returns for the Fund. The Fund returned 1.4 per cent, outperforming its strategic benchmark by over 2 per cent. Superannuation fund returns for the year were considerably weaker than prior years for the reasons discussed above, with the PSS Fund being no exception.

Markets were volatile during the September quarter 2000. The Australian Dollar fell to new lows, the US Dollar and oil prices soared to new highs, and most central banks tightened official interest rates at least once, fearing rising inflation. All these woes made investors wary, dragging global equity markets down. In addition, the much sought after Technology, Media and Telecommunications sectors of the previous year continued to lose their gloss, with many companies warning of reduced profits. In Australian dollar terms, the US share market fared better than continental Europe, Japan and Emerging Markets. Against this performance backdrop of global equity markets, debt markets did not perform as strongly as expected. The Fund returned a modest 1.6 per cent for this quarter.

Like the previous quarter, the December 2000 quarter continued to be volatile. Economic data confirmed a global slowdown and major US corporations issued numerous profit warnings. In response, most global equity markets ended the quarter in negative territory. In an attempt to relieve the psychological fear of an impending "hard landing" in the US, the US Federal Reserve signalled an ease in their policy stance late in the quarter. Major global markets, including the Australian market, followed the lead of the US market for much of the quarter. The Australian Dollar rebounded from its low September quarter, primarily due to the poor performance of the International markets, with the Fund returning a negative 2.3 per cent for the quarter.

The slowdown in global growth which accelerated in the final stages of 2000 spilled over into the March quarter 2001, negatively impacting most regions. The Fund returned negative 1.2 per cent for the quarter. The continuation of weak economic data again resulted in poor US sharemarket performance that was repeated in varying degrees around the world. This poor equity market performance was partly offset by a solid performance by debt markets.

Global equity markets spent the majority of the past year retreating from their highs of 1999. After several quarters of negative global equity market returns, the final quarter of the year saw global markets begin to rebound. For the first time since late 1999 the US equity market, in Australian Dollar terms, finished the quarter in positive territory. Other global equity markets, including Emerging Markets, Europe and Japan also strengthened, albeit ending the quarter negatively in Australian Dollar terms through the appreciation of the AUD. The improvement in equity performance was a result of growing optimism that pre-emptive easings of interest rates by major central banks had minimised the risk of a recession in key countries. The Fund returned a solid 3.6 per cent for the June 2001 quarter, with most of this performance coming from the broader market rebound in April/ May.

Investor perceptions of the global economic outlook were the key influence on stock and sector performance during the year. Conflicting macro economic evidence and the large volume of earnings downgrades throughout the year resulted in a very volatile environment. This volatility highlights the way markets can react to specific events, rather than fundamentals. The Fund controls volatility through diversification, as the equity markets fall, holdings in fixed-interest and properties generally provide greater returns and vice versa. The asset allocation of the Fund proved to be successful in reducing the impact of negative global markets that were experienced throughout the year.

Performance by asset class

Australian Share Market: Despite extreme volatility in global share markets, the Australian share market finished the year strongly. The Australian share market reached several new highs during the year. Australia's relative underexposure to the technology sector and the view that it is a defensive market given its high weighting of banks, provided it with a platform to outperform global markets over the past twelve months. The Australian share market suffered towards the end of 2000 as growing evidence emerged that confirmed a slowing of global growth with companies, both in the US and Australia, issuing profit warnings. To minimise the impact of the slowing

domestic economy the Reserve Bank of Australia (RBA) followed the lead of the US Federal Reserve Bank (Fed) by cutting interest rates several times in the third quarter of the year. These cuts restored the confidence of domestic investors, prompting a short-lived cyclical rally in the last quarter of the year. In contrast from the technology-inspired behaviour that engulfed investors last year, the Building Materials sector was the main domestic equity sector winner, climbing 39 per cent, surpassing every other sector. Consolidation in this sector, coupled with the improving domestic housing market, caused the sector to surge. Other strongly performing sectors this year included the Health Care & Biotechnology and Diversified Industrial sectors. The Fund's Australian shares portfolio solidly outperformed the market over the year, particularly due to the success of active managers in stock selection and over-weighting defensive stocks, in particular banks.

International Shares - Developed Markets: The performance of global markets was dictated by investors' concerns about growth, in particular the US economy, and a focus on alleviating those woes as many central banks cut interest rates in the second half of the year. The over-riding theme for the past year was the revival of the "old" economy sectors, notably defensive stocks, at the expense of the so-called "new" economy sectors, namely Telecommunications, Media and Technology ("TMT"). The TMT sectors negative slide impacted all major markets. As a result, declining profitability and business capital spending, weak expansion of consumption and declining exports in the US, caused the US Federal Reserve to methodically lower interest rates six times for a total of 275 basis points (2.75%) during the year, in an effort to stimulate the weakening economic growth. In Australian dollar terms, Japan, which is the second largest economy in the world, was the worst performing market during the year. Heading towards its fourth recession in ten years, the Japanese stock market hit seventeen-year lows, while the yen shed 20 per cent of its value. A recession followed as demand for Japanese exports were hit hard by the slowdown in the Japanese economy, resulting in business deterioration, and reduced consumer spending and industrial production. The universal slowdown in the global economy did not escape the continental European markets. European markets were disappointing due to weakening business confidence and falling production. The Fund's international share holdings significantly outperformed the Fund's international benchmark by over 3 per cent. This positive result was due to the success of our active managers' stock selection skill and lower exposures to the highly volatile TMT sectors.

International Shares - Emerging markets: The emerging markets ended the year dismally, losing most of the previous year's momentum. The slowdown in global growth and the volatility in international equity markets significantly impacted emerging markets, in particular emerging Asia. Emerging markets tend to be more affected by share price volatility than developed markets. The main drivers of the weak performance were the same trends as in the developed markets, such as concerns over global growth slowing, the timing and frequency of interest rate cuts by the Federal Reserve and falling Technology, Media and Telecommunications (TMT) share prices. Setbacks to US technology stocks have led to even sharper falls in the emerging market sectors. Emerging Europe and South Africa were the strongest performing regions over the year. These regions generally benefited from their strong links with developed Europe, which has not experienced as sharp a slowdown as witnessed in the US. Performance in emerging Asia was weak, primarily as their economies reacted to the impact of the US slowdown on demand for technology equipment, together with the impact of local political instability. Despite the poor performance of the emerging markets, the Fund's emerging markets share holdings slightly outperformed their benchmark due to the success of our managers' stock selection ability.

Debt: Debt markets commenced the year poorly as investors received mixed signals on whether inflationary pressures, as a result of accommodative market conditions the previous year, were on the rise in the major economies. The performance of the Australian debt market over the past year surpassed that of the international share markets. The RBA first raised and then cut official interest rates during the year. In reaching its decision to lift interest rates the RBA gave the increase in inflation, the strength of the domestic economy and the pace of credit expansion as the key reasons. However, as the year progressed it became evident that world economic growth, including Australia's own growth, was weakening. Since January 2001 the RBA, in an attempt to minimise Australia's risk of falling into an economic recession, cut domestic interest rates, pushing domestic debt market performance up. As the year closed the debt market was weakening. More optimistic expectations of improving global growth, declining financial market risk aversion and signs of greater financial health confirmed an upturn in the Australian economy. The Fund's Australian debt holdings performed on par with the market benchmark.

High Yield Debt: The high yield debt market produced a marginally positive result for the year. For most of the year, the performance of high yielding debt, with the exception of January, followed that of the last two years where the asset class was in the midst of its worst bear market since 1990. Above average default rates and significant

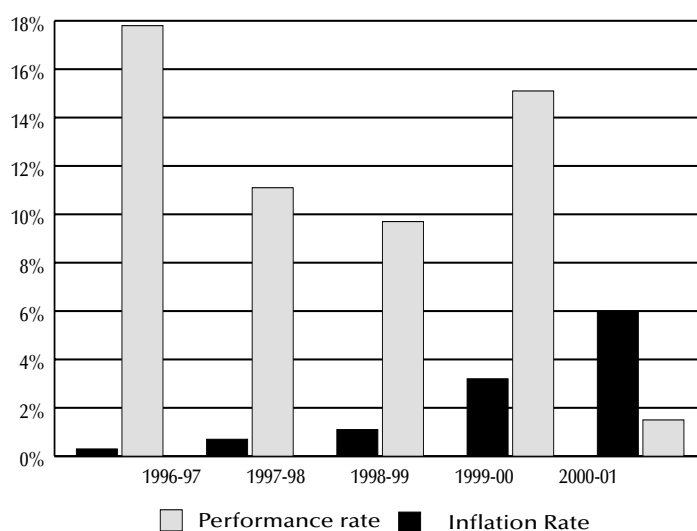
outflows from high yield mutual funds, combined with concerns about an economic slowdown, rising oil prices, higher interest rates and deteriorating credit quality all negatively impacted the high yield market over the first three quarters of the year. The high yield market is particularly sensitive to mutual fund flows as they make up a large portion of the high yield debt demand. As the year closed and the impact of recent US interest rate cuts filtered through to the US economy, the high yield debt market was showing signs of recovering from its recent lacklustre performance. The Fund's high yield holdings underperformed relative to the benchmark. This underperformance was due to the poor performance of the Fund's active high yield debt managers.

Property: Property market fundamentals are tied to the strength of the economy and investor sentiment. Relatively healthy economic conditions and buoyant investor sentiment for the first half of the year, resulted in a solid performance from the property asset class. The second half of the year saw the Australian property market soften, in-line with the broader Australian equity market, as the economy provided a benign background. Growth in rentals, although lower than last year, was achieved for all sectors during the year. Retail fundamentals continued to be sound for most of the year despite a weakening economy, supported by strong consumer spending. A shortage of quality investment properties earlier in the year, forced rental prices up. The Office sector performed well during the year, recording net positive absorption rates for most CBD markets, albeit lower than last year. The Fund's property holdings outperformed the benchmark over the year due to the strong performance of the quality properties that the Fund has invested in. Most Industrial markets in Australia experienced an increase in investment activity towards the end of the year.

Currency: The Australian dollar has been very volatile over the past twelve months. The central theme for currency markets over the year was the continuing strength of the US dollar, boosted by risk-averse investors flocking to invest in US denominated assets, expecting them to provide a safe haven from the global economic uncertainty that emerged during the year. Declining sharemarkets and a bleak outlook for global growth provided the backdrop for the demise of the Australian dollar. In March, the Australian dollar hit a record low against the broad Trade Weight Index, in which the dollar is measured against 20 different currencies. The performance of the weak Australian dollar during the year, combined with dismal performance of Developed International Equities and Emerging Market Equities, dragged on the Fund's performance, particularly as hedging had a negative impact (approximately half the Fund's offshore assets are hedged).

Table 4: PSS Fund Performance 2000–2001 (after tax and fees)

Asset Class	Holdings at 30 June 2000	Holdings at 30 June 2001	Proportion of Fund	One-year performance	
				Portfolio	Benchmark
Sector	\$m	\$m	%	%	%
Australian equities	1264.3	1405.7	31.7	11.9	9.8
Int'l Equities (Developed)	1694.6	1656.3	37.4	-6.9	-10.2
Int'l Equities (Emerging Markets)	218.7	197.6	4.5	-10.9	-11.2
Debt	349.6	347.7	7.8	6.4	6.2
High Yeild Debt	119.5	130.3	2.9	-8.3	1.2
Cash	52.6	115.2	2.6	5.2	5.1
Property	427.6	581.1	13.1	9.7	8.8
Total Fund	4126.9	4433.9	100.0	1.4	-0.8

Chart 3: Fund performance compared with inflation rate 1997 to 2001

Investment information

In 1997–98 the Board issued a detailed description of the investment policy for the PSS Fund. This document is currently being reviewed.

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

Executive Unit

PSS Board

PO Box 1907

Canberra City ACT 2601

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E-mail: secretary.csspss@csb.gov.au

Website: www.pss.gov.au

Crediting Rate and Reserving Policy

Crediting Rate 2000–2001

The crediting rate is the rate of interest that is credited to members' contributions and employer productivity contributions. The PSS Board declared a crediting rate of 6.9% per annum for the financial year 2000–2001. This crediting rate was determined using a revised formula for crediting rates adopted by the Board in June 2001. The PSS earned 1.4% for the 2000–01 financial year after fees and taxes. The crediting rate of 6.9% per annum was declared after drawing on the Reserve within the Fund.

Whilst both the earning and the crediting rate were lower in the 2000–2001 financial year than in prior years the five year annual average crediting rate of 11.2% per annum is still well above the Board's expected average return of 7.5% per annum (after fees and taxes).

Table 5 : Annual crediting rates 1997 to 2001

Financial year	Crediting rate (%)
1996–97	14.0
1997–98	10.4
1998–99	9.3
1999–00	15.5
2000–01	6.9
5 Year Average	11.2

Crediting rate policy

The PSS Board's investment objective is to maximise the long term real return of the Fund. The Board expects to deliver an average real return of 5% per annum after tax and fees, based on a nominal return averaging 7.5% per annum and an inflation rate averaging 2.5% per annum over the long term.

In developing the investment strategy to achieve this objective, the Board has adopted the following constraints in order to manage the level of short term volatility of returns:

- a) on average, nominal fund returns will be positive at least four years out of five;
- b) on average, the crediting rate will exceed the Bank Interest Rate by 1% or more, at least three years out of five; and
- c) not more than 25% of the Fund's investments are to be invested in illiquid assets with a minimum cash allocation of 2%.

The Board maintains a Reserve within the PSS Fund to smooth out fluctuations in annual crediting rates. The Reserve underpins the requirement that no negative exit or crediting rates may be declared and allows the Board to adopt a higher allocation to long term growth assets in its investment strategy. In years where there are high returns part of the investment earnings are transferred to the Reserve, thereby reducing the rate credited to members. In years where there are poor or negative returns transfers from the Reserve are used to top up the interest rate credited to members.

The crediting rate formula takes into account the actual earning rate of the Fund, a target rate of bank interest plus 1% and the level of the Reserve (the Reserve will generally fall within the range of plus/minus 5% of the Fund).

The following is a summary of the impact of the Board's reserving policy.

Where the Reserve is positive:

- if the earning rate exceeds the target rate, the crediting rate will be the earning rate less a proportional transfer to bolster the Reserve; and
- if the earning rate is less than the target rate, the crediting rate will be the earning rate plus the Reserve percentage (subject to the minimum crediting rate being zero and the maximum crediting rate being the target rate.)

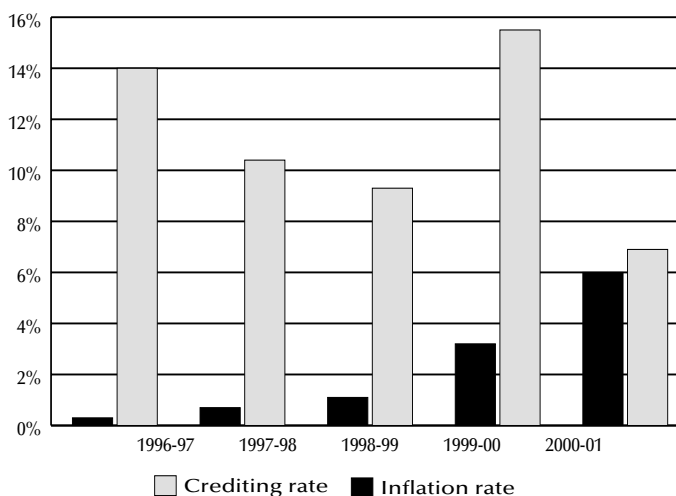
Where the Reserve is negative:

- if the earning rate exceeds the target rate, the crediting rate will be the earning rate less a proportional transfer to bolster the Reserve; and
- if the earning rate is less than the target rate, the crediting rate will be the earning rate (subject to the minimum crediting rate being zero);

The Reserve is calculated as the difference between the net assets of the Fund and the value of the funded entitlements to be included in member annual information statements. The Reserve is estimated to represent \$14.7m or 0.4% the PSS Fund at 30 June 2001.

Reserve opening balance at 30 June 2000	\$252.0m
Re-estimation of opening balance	\$0.5m
Earnings on opening balance	\$3.4m
Allocation to members	(\$240.2m)
Reserve closing balance at 30 June 2001	\$14.7

Chart 4: Crediting rates compared with inflation rates 1997 to 2001



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.

The crediting rate formula applies to exit rates, however, the earning rates used are based on an adjusted rate, which is calculated by using the actual earning rate for the financial year to date plus the target rate for the remainder of the year.

Table 6 : Exit rates

The Exit rates declared in the 2000–01 financial year were:

Effective Date	Exit rate (annualised)
10 July 2000	15.1%
17 August 2000	7.2%
11 September 2000	7.9%
11 October 2000	7.4%
9 November 2000	7.4%
11 December 2000	7.4%
10 January 2001	7.2%
9 February 2001	7.2%
9 March 2001	4.5%
10 April 2001	3.0%
9 May 2001	5.0%
12 June 2000	6.9%

Note: Each new exit rate replaces the previous one.

The Trustees retain the right to change the timing of exit rate determinations and adjust the methodology used to calculate the rate as appropriate to the circumstances of the Fund at any particular time. The Board exercised this right during the year where Fund returns fluctuated significantly.

Fund investment

ASSET ALLOCATION				
	30 June 2000		30 June 2001	
Sector	\$m	%	\$m	%
Australian equities	1264.3	30.6	1405.7	31.7
Int'l equities (Developed)	1694.6	41.1	1656.3	37.4
Int'l equities (Emerging markets)	218.7	5.3	197.6	4.5
Debt	349.6	8.5	347.7	7.8
High Yield Debt	119.5	2.9	130.3	2.9
Cash	52.6	1.3	115.2	2.6
Property	427.6	10.3	581.1	13.1
Total	4126.9	100.0	4433.9¹	100.0

INVESTMENT PERFORMANCE ²				
	30 June 2000		30 June 2001	
Sector	Portfolio	Benchmark	Portfolio	Benchmark
	%	%	%	%
Australian equities	16.9	15.5	11.9	9.8
Int'l equities (Developed)	16.8	17.4	-6.9	-10.2
Int'l equities (Emerging markets)	23.0	18.4	-10.9	-11.2
Debt	5.1	5.1	6.4	6.2
High Yield Debt	–	–	-8.3	1.2
Cash	4.8	4.6	5.2	5.1
Property	11.4	8.9	9.7	8.8
RETURN ON INVESTMENT	15.1	14.2	1.4	-0.8

ANNUAL CREDITING RATE ³		
	15.5 %	6.9 %

Notes

- 1 This represents the funds under management at 30 June 2001, and will differ from the investments shown in the financial statements because of necessary accounting adjustments.
- 2 Performance figures are after tax and fees.
- 3 Annual crediting rates may differ from earning rates because of various adjustments, including transfers to and from the Reserve (see also *Crediting rate policy* on page 41).

Scheme Administration

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 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 through regular reports on all main activities. This process is also facilitated by an effectiveness review undertaken jointly between the Board and ComSuper during the course of the financial year.

A detailed description of all ComSuper's activities is contained in the *Commissioner for Superannuation Annual Report 2000–2001*.

Benefit design

The PSS is a defined-benefit superannuation scheme. The final benefit is calculated as a multiple of final average salary over the period prior to exit from the Scheme. Retirement benefits can be paid as lump sums with the option to exchange the lump sum (or part of it) for an indexed pension. The benefit consists of the following parts:

a) **a member-financed component**

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

b) **an employer-financed component**

The employer component includes two parts–

- The first part comprises the superannuation productivity

contributions paid by the employer into the Fund plus accumulated interest.

- The second part of the employer component is the ‘benefit balance’, which is determined at the time the member exits from the Scheme. The amount is the balance after the member and productivity components are deducted from the (defined) total lump-sum benefit.

Members' contributions

Members may choose to contribute between two and 10 per cent of their salary. They may vary their contribution rate at any time, which enables them to adjust to changing financial circumstances.

In 2000–2001 the Fund received \$319m in member contributions and \$134m in productivity contributions. Benefits paid from the Fund during the year totalled \$337m, giving a net contributions inflow of \$116m for 2000–2001.

Number of members

At 30 June 2001, the PSS had 121 078 contributing members—an increase of about 7.14 per cent over the population at 30 June 2000.

Table 7: Scheme membership 1997 to 2001

Year ending	Male	Female	Total
30 June 1997	50 097	63 352	113 449
30 June 1998	47 420	61 730	109 150
30 June 1999	48 430	63 469	111 899
30 June 2000	48 110	64 326	112 436
30 June 2001	51 088	69 990	121 078

Entry medical requirements

New PSS members must complete a Confidential Medical and Personal Statement (CMAPS) within 14 days of commencing membership. In the case of temporary or casual employees the CMAPS form must be completed within 14 days of electing to join the PSS.

In February 2000 the CMAPS procedures were amended so that the forms are returned to the employer on completion rather than to ComSuper. On receipt, the employer examines the CMAPS forms and retains forms for members who they consider to be healthy enough to

perform their duties for three years without taking excessive sick leave and those members are accorded full benefits member status.

Employers forward to ComSuper those forms where the responses on the CMAPS indicate the existence of one or more conditions that suggest that the member may not be fit for three years' employment (without taking excessive sick leave).

These forms are examined by a delegate of the Board who, on the basis of information provided by the member, generally determines the member's benefit status. The delegate may classify the new entrant as either a Full or Limited Benefits Member. In a small number of cases, the delegate may require additional medical information to determine the member's PSS medical status. A new entrant may be required to attend a medical examination. Where the member has already had a medical examination for employment purposes, ComSuper may seek the member's authority to have access to that report to avoid the need for a further medical examination.

If a limited benefits member dies, or is retired or redeployed for any medical reason within three years of becoming a member, the member's benefit is limited to a lump-sum refund of his/her accrued benefit, i.e., there is no prospective service component in the lump sum. Limited benefits status ceases to have effect after three years' membership.

During the year, ComSuper staff assessed 7571 CMAPS with only 102 being accorded limited benefit status. There was an increase of 1.34 per cent in the number of members assessed with an Limited benefit status compared to the previous year.

Additional death and invalidity cover

From 1 July 1990, eligible members have been able to take out additional death and invalidity cover under a group life policy effected between ComSuper and a life office. This cover is provided by AXA.

At 30 June 2001 there were 2578 members paying premiums for additional death and invalidity cover, compared with 2254 at 30 June 2000. The gross amount of cover has grown from \$170.09m to \$202.16m. The average value of additional cover was \$78 420 per member. The average age for persons accepted for additional cover was 43 years.

Pensions in force

There were 6852 pensions in force at 30 June 2001, an increase of approx 16.6 per cent from the 5714 pensions in force at 30 June 2000. Table 8 below gives a breakdown of those pensions by type.

Table 8: Pensions in force at 30 June 2001

Type of pension	Number
Age retirement	1162
Involuntary retirement	4209
Invalidity	880
Spouses & orphans	601
Total	6852

Benefit applications

The rate of benefit applications received in ComSuper in 2000–2001 eased slightly compared with the numbers received in the 1999–2000 financial year.

ComSuper received 14 582 benefit applications during the year (compared with 16 253 in the previous financial year), representing more than 1210 applications per month throughout the year.

Benefit processing

Under the service level agreement with the Board of Trustees, from April 2000, ComSuper agreed to process 70 per cent of benefits within 10 days, and 90 per cent within 20 days, of the later of the date of exit or the date all documentation is received. It was also agreed that ComSuper would achieve an overall average processing time of 10 days, with an average 8 days in 9 months of the year. Under a further agreement applying from February 2001, ComSuper agreed to process 75 per cent of applications within 10 working days and 95 per cent within 20 working days and also that it would achieve an overall average processing time of 7.5 days and achieve this average in at least 9 months of the year.

Performance indicator

ComSuper was able to achieve the agreed standard throughout the year with an overall average of 92 per cent of benefit applications processed within 10 working days and 99 per cent within 20 working days. The average processing time throughout the year was 4.35 working days with the average equalling 7.5 days or better in each month.

Exits by type

During 2000–2001, 14 582 members left the scheme. The bulk of the exits came from the resignation category (11 036 or 76 per cent). The retrenchment rate was significantly lower than the rate for 1999–2000, falling from 4536 (or 28 per cent) to 2132, less than 15 per cent of the total.

Table 9: Exits by type 2000–2001

Type	Number
Age (including Preserved age claims)	1199
Retrenchment	2132*
Invalidity (includes Preserved invalidity)	166
Death	49
Resignation and other	11 036#
Total	14 582

*There were no Sale of Assets in this total (174 last year)

#Includes early release on grounds of Financial Hardship (996)

Retrenchment exits

Table 10: Retrenchment exits 1997 to 2001

Financial year	No. in receipt of Pension	Retrenchment exits
1996–97	1373	7799
1997–98	1054	7738
1998–99	1328	8858
1999–00	1336	4844
2000–01	378	2078

Invalidity Processing

Invalidity Retirement Process

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.

During the year the Board, or a delegate, approved invalidity retirement for 90 per cent of applications considered.

Pre-assessment payments

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.

Applications for the issue of an invalidity retirement certificate are normally made to ComSuper through the applicant's employer. Eligibility for pre-assessment payments will be routinely determined by ComSuper after consideration of medical evidence which must include a medical report completed by a Health Services Australia medical adviser (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 2000-2001, pre-assessment payments were approved in respect of 103 applicants. Two applicants were refused pre-assessment payments on the ground that there was little likelihood that they 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 2000–2001, assessment panel services were provided by Independent Claims Management Pty Ltd (ICM). Of the 154 cases considered by ICM, 139 were recommended for invalidity retirement, 9 were recommended to be refused and 6 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 2000–2001 139 invalidity retirement certificates were approved. Of those, 14 were fast-tracked by the invalidity assessment panel in less than four days.

Performance indicator

During the year, 72 per cent of cases were processed to completion within three months—the standard agreed with the PSS Board being 70 per cent.

The Board is satisfied that ComSuper, in conjunction with the Administration Committee (see page 17), 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. ComSuper manages these processes.

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 Reconsideration Advisory Committee (RAC) for examination. The RAC normally consists of any two of the Commissioner for Superannuation, her deputy and another SES officer. The RAC's recommendation is taken into account by the Board in deciding whether to affirm, vary or set aside the 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 the purposes of section 101 of the *Superannuation Industry (Supervision) Act 1993*. [SIS]

Applications received

Twenty seven applications for reconsideration were received, compared with 30 last year. Seven applications concerned the limited benefits status of members; three concerned change of election benefit option; three concerned invalidity retirement; and three concerned spouse's benefits. The remainder included applications concerning the early release of preserved benefits, pre-assessment payments, determination of benefit multiple and overpayments.

The annual effectiveness review, undertaken by ComSuper on the Board's behalf, revealed that the overall ratio of persons seeking reconsideration of adverse decisions was 14 per cent with, as expected, a higher proportion of applicants seeking reconsideration where the decision involved substantial benefits, e.g. invalidity retirement and spouse cases.

From the relatively small number of requests for reconsideration, the Board was satisfied with the high standard of decisions taken by delegates. While it set aside or varied earlier decisions in favour of the applicant in forty per cent of cases, this was primarily as a result of additional evidence rather than any obvious deficiency in the original decision.

Cases finalised

Forty two cases were finalised during the year, compared to 44 for the previous year.

Performance indicator

Agreed service level standards exist between ComSuper and the PSS Board. The service level agreement with the Board sets standards of 35 per cent of cases to be completed within 6 months, 55 per cent within 9 months and 75 per cent within 12 months. The se targets were exceeded for the 6 and 9 month standards and only fell short by two per cent for the 12 month standard. The Board regularly monitors outstanding cases, and expects that all standards will be met in the forthcoming financial year.

Table 11: Reconsideration applications received & outcomes 2000–2001

	1999–00		2000–01	
	Delegate decisions	Board decisions	Delegate decisions	Board decisions
Brought forward	34	3	23	1
Received	27	3	27	0
Withdrawn or lapsed	13	1	7	0
Decisions affirmed	11	1	18	0
Decisions varied	0	0	0	0
Decisions set aside	17	1	16	1
Resolved	41	3	41	1
Carried forward*	22	4	9	0

*The cases carried forward were under investigation by ComSuper or with the RAC.

External review

Superannuation Complaints Tribunal

On 29 June 1995 the PSS Board elected to become a regulated superannuation fund for SIS purposes. As a regulated fund any decision taken by the PSS Board can be the subject of a complaint before the Superannuation Complaints Tribunal (SCT), which was established under the *Superannuation (Resolution of Complaints) Act 1993* (the SRC Act).

In early 1998 the Full Federal Court handed down several decisions which brought into question the power of the SCT to review decisions of superannuation trustees under the SRC Act.

The Commonwealth Attorney-General appealed all of the Federal Court's decisions to the High Court. While the appeal was pending, the SCT ceased to review decisions of superannuation trustees.

On 17 June 1999, the High Court unanimously upheld the power of the SCT to review decisions of trustees of regulated superannuation funds. Following the High Court decision, the SCT has resumed its review of trustee decisions which are the subject of complaints before the SCT.

Complaints lodged with the SCT

During the year, seven complaints were lodged with the SCT against the PSS Board and 14 were carried over from the previous year. Fourteen cases were completed during the year. Five decisions of the Board were affirmed whilst two were set aside, one complaint was

dismissed for lack of jurisdiction; two complaints were withdrawn by the complainants and four complaints were treated as withdrawn on the basis that they were misconceived. Five SCT complaints remained outstanding as at 30 June 2001.

Federal Court

Decisions taken in the administration of the PSS 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. During the year there were no PSS cases reviewed by the Federal Court under the AD(JR) Act.

Performance indicator

Under the Administrative Agreement with the Board, ComSuper maintains a quality standard whereby 70 per cent of cases dealt with on external review by Courts and Tribunals are decided in favour of the PSS Board. As reported above, the SCT cases completed during the year resulted in a majority of cases being resolved in favour of the Board, thus affirming the quality of decisions being made.

Claims against the Board

During the year the Board or its delegates considered five claims for compensation arising from disputes about benefit entitlements. From its consideration of the number of claims made and accepted and their generally low monetary value, the Board was satisfied that there was not any systemic weakness in the administration of benefit entitlements.

Summary of claims: 1 July 2000 to 30 June 2001

- Five claims against the PSS Board were finalised.
- Liability was denied in four cases.
- One claim was settled by payment of compensation.
- A total of \$4081 was paid in settlements.

Focus on Governance

Corporate Governance Statement

The PSS Board is constituted by the *Superannuation Act 1990*. Accountable to the members of the Scheme under that Act, under the *Superannuation Industry (Supervision) Act 1993* and under other legislation, the Board stands independent of the government of the day and independent of any other constituency. The principal responsibility of the Board is to act in good faith, with prudence and in the members' best interests in respect of the investment and administration of the Scheme.

Board's principal duties

The Board's principal duties are:

- To manage and invest moneys to meet the purposes of the Scheme;
- To cause the payment of moneys in and out of the Fund to occur as prescribed;
- To safeguard the assets of the Scheme and the interests of the beneficiaries;
- To keep all relevant parties informed of the condition and conduct of the Scheme; and
- To cause proper records and accounts to be maintained about the operation and financial activities of the Scheme.

In undertaking these duties, the Board has wide discretions. This factor, together with the reliance the members have on the Board for the value and delivery of their retirement benefits, makes it essential that the Board, its officers, employees and delegates act at all times in a manner that is appropriate to the fiduciary duties owed to the members.

The following Statement sets out the principles which the Board, its officers, employees and delegates are intended to uphold as they each carry out their duties. In some instances specific conduct is stipulated, reflecting the particular importance of the action for the Board's proper governance.

The Board does not intend this Statement to be read as a set of rules, where each word is scrutinised for its legal meaning. It intends to convey in plain words the obligations placed on, and the behaviour expected of both trustees as individuals and those other persons covered by this Statement.

Governance matters outside the Board's control

The Board does not control its own composition or trustee remuneration. The power to appoint Board members is vested in the Minister under the *Superannuation Act 1990*, subject to consultations specified in that Act.

The Remuneration Tribunal sets the remuneration of Board members, including their remuneration for Committee representation and expense reimbursement.

General governance principles

The Board's duties shall be carried out in good faith, prudently, and in accord with the relevant legislation so that the best interests of the members are served.

The Board will at all times act ethically and impartially. No person covered by this Statement may place their own interests above that of the members in respect of the fiduciary duties owed to the members.

The Board's business of running the Scheme is supported by business planning, business risk assessment, management reporting, and arrangements for audit, internal control and compliance, all conducted on a regular basis.

The Board's appointments and delegations are in writing and the Board regularly reviews its own activities and the activities of the persons through whom it works, to ensure that a clear and proper set of accountabilities remains in effect.

Board's own conduct

Continuing Qualifications and Disclosure of Interests

Board members will lodge annually a Disclosure of Interests Statement and a Declaration of Related Party Transactions.

Board members will advise no later than the start of the next Board or Committee meeting:

- if any event has changed their continuing compliance with the trustee qualification requirements set out in the *Superannuation Industry (Supervision) Act 1993*; or
- if any agenda item requires a disclosure of interest; and
- if any change in their business relationships has occurred that might have a connection with the Board's duties or activities.

Where a Board member has a conflict of interest in respect of any matter, that member will not engage in discussion or decision of the matter.

Securities Dealing

The Board members are mindful of their obligations under the law to not misuse non-public information of which they become aware in the course of carrying out their duties. Board members will maintain a register of their dealings in securities and will provide a copy of this register to the Board Secretary if requested by the Board.

This requirement applies to the Board's staff, and any other persons connected with the Board who have access to the investment information of the Board to also maintain such a register.

Gifts and Entertainment

Board members should decline or disclose instances of repeated or significant entertainment or gift from any service provider. Board member contact with current and potential service providers is recognised as useful to enhance the knowledge and understanding of the Board. It is recognised that service providers to the Board provide modest entertainment and small gifts from time to time.

Insurance

The Board will maintain insurance in respect of its own actions and in respect of past Board members in order to protect the interests of Scheme members.

Board Committees

The Board has constituted several Board Committees to increase its own efficiency and to provide a means of more detailed consideration of matters important to the running of the Scheme.

Board Committees are subject to written terms of reference and care is taken to ensure the activities of the Committees remain consistent with the Board's duty of governance.

Meetings and Agenda

The Board will meet at least four times each year and will ensure that it receives appropriate and reliable reporting on the condition of the Scheme and the actions of its staff, delegates and other service providers.

Although the Board's agenda are initiated by the Chief Executive Officer on behalf of the Board, the Board or any Board member may require a matter to be brought before the Board at its next or any subsequent meeting.

Training and Education

The Board's policy is that Board members should engage in continuing training and education relevant to the operation of the Board as a whole and to their individual Board duties. The Board provides organisational and financial support for such education and training. This policy also applies to the Board's direct staff and the Board encourages its service providers to adopt similar policies in respect of their employees.

Financial Controls

Financial Budgeting

The Board prepares an annual financial budget in respect of the whole of its and the Scheme's activities each year. Financial results are reported regularly to the Board against this budget.

Appointment of Auditor

The Board is required by legislation to use the Australian National Audit Office as its auditor. Nonetheless, the Board provides a written brief to the auditor in respect of the annual audits and ensures that all advice from the Auditor is given due consideration, which is documented through Committee or Board minutes.

Internal Audit and Internal Controls

The Board has completed a detailed analysis of compliance and risks and appointed an internal audit advisor during the year.

Supervision of Service Providers

Adequacy of Resources

The Board regularly considers the resources required for the effective and proper running of the Scheme and acts to ensure that its available resources align with these requirements.

Written Appointments

All appointments, delegations and arrangements with service providers are recorded in writing and with adequate and proper description of the terms of the appointment. Where required by law or appropriate to the circumstances, such appointments take the form of formal contracts.

The Board encourages its staff, delegates and service providers to advise the Board of any lack of clarity in the terms of their delegated authority or accountability, or of any impediment in their ability to carry out their duties to the standards expected by the Board.

Periodic Reporting and Reviews

The Board ensures that it receives adequate, reliable and relevant reports on the activities of all those appointed by it. The Board is concerned to use resources of appropriate quality and capacity to its needs, at a reasonable cost. For this reason, all appointments are periodically reviewed, and where the Board concludes that it is appropriate, such reviews will include market testing.

Risk Analysis and Compliance

Business Risk

The Board periodically reviews its business risks and protection against the risks identified. Consideration of these reviews is documented through Committee or Board minutes.

Compliance Program

The Board has a systematic compliance program carried out under the direction of the Audit Committee, with a report provided to the Board annually. Breaches of compliance are reported to the Board as these occur but following consideration by the Audit or, if appropriate, another Committee.

It is the Board's policy to encourage any person connected with the Board, who may know or suspect a breach of compliance, to report this to the Chief Executive Officer to the Board, the Chair of the Audit Committee or the Chair of the Board.

Client satisfaction surveys

The Board regards direct feedback from scheme members as being an important part of its corporate governance program.

During 2000–2001, a comprehensive series of client satisfaction surveys was undertaken with the assistance of Canberra-based firm, Orima Research.

PSS members who had recent contact were surveyed at three separate times throughout the year. Generally, members rated the quality of service favourably on a range of customer service dimensions.

The Quality Service Index (QSI) introduced to measure the survey results and to enable comparisons between survey periods, ranked in the region of 84 per cent with an average score over the previous nine trimesters of 82.9 per cent. The QSI is an assessment on a 100 point scale of the services provided and is a measure of client satisfaction.

The consistently high QSI outcomes illustrate that the Board has maintained a consistent and very high client satisfaction rating from its members.

The survey results feed into continuous improvement processes. Action plans are derived and reported against, and changes made to procedures as a result of the survey feedback, with the objective of improving client service.

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Changes to the legislation

Changes to the PSS Act

Nil.

Statutory rules

Superannuation (PSS) Approved Authority Inclusion Amendment Declaration 2000 (No.1) (No.371, 2000) declares Queensland Orchestras Pty Ltd to be an approved authority for the PSS.

Determinations made

Nine interest rate determinations were made during the year; one for setting the crediting rate for the 1999-2000 financial year. Others to vary the prevailing exit rate.

Nine determinations were made setting the interest rate applicable after a benefit becomes payable.

Two further determinations were made on the following topics:

- setting annual increments to productivity contribution rates to reflect changes in the general salary levels of members; and
- setting annual increases to maximum benefit levels for ordinary scheme members and scheme members employed by the Australian Federal Police.

Appendix B

Departments and approved authorities

At 30 June 2001, the following departments and authorities were employers of people who were eligible to contribute to the PSS.

Departments

Agriculture, Fisheries and Forestry
Attorney-General's
Communications, Information Technology and the Arts
Defence
Education, Training and Youth Affairs
Employment, Workplace Relations and Small Business
Environment and Heritage
Family and Community Services
Finance and Administration
Foreign Affairs and Trade
Health and Aged Care
House of Representatives
Immigration and Multicultural Affairs
Industry, Science and Resources
Joint House
Parliamentary Library
Parliamentary Reporting Staff
Prime Minister and Cabinet
Reconciliation and Aboriginal and Torres Strait Islander Affairs
Senate
Transport and Regional Services
Treasury
Veterans' Affairs

Approved authorities

Aboriginal Hostels
Aboriginal and Torres Strait Islander Commercial Development Corporation
ACTEW Corporation Ltd
Adelaide Symphony Orchestra Pty Ltd
Albury Wodonga Development Corporation
Anglo-Australian Telescope Board
Australia Council
Australia Foundation for Culture and the Humanities Ltd
Australian Broadcasting Corporation
Australian Capital Territory
Australian Dairy Corporation
Australian Film Commission
Australian Film, Television and Radio School
Australian Fisheries Management Authority
Australian Institute of Aboriginal and Torres Strait Islander Studies
Australian Institute of Family Studies
Australian Institute of Marine Science
Australian International Hotel School
Australian Marine Science and Technology Limited
Australian Maritime Safety Authority
Australian National Training Authority
Australian Nuclear Science and Technology Organisation
Australian Pork Corporation
Australian Sports Commission
Australian Sports Drug Agency
Australian Tourist Commission
Australian Trade Commission
Australian Wine and Brandy Corporation
Calvary Hospital ACT Incorporated
Canberra Theatre Trust
Civil Aviation Safety Authority
Commonwealth Scientific and Industrial Research Organisation
Cotton Research and Development Corporation
Dairy Research and Development Corporation
Export Finance and Insurance Corporation
Fisheries Research and Development Corporation
Forest and Wood Products Research and Development Corporation
Grains Research and Development Corporation
Health Insurance Commission
Health Services Australia Ltd
High Court of Australia
Horticultural Research and Development Corporation
Indigenous Land Corporation
Land and Water Resources Research and Development Corporation

Law Courts Limited
Legal Aid Commission (ACT)
Melbourne Symphony Orchestra
Murray Darling Basin Commission
National Gallery of Australia
National Registration Authority of Agriculture and Veterinary Chemicals
National Standards Commission
NEPC Service Corporation
Nuclear Safety Bureau
Pig Research and Development Corporation
Private Health Insurance Administration Council
Private Health Insurance Complaints Commissioner
Queensland Orchestras Pty Ltd
Rural Industries Research and Development Corporation
Snowy Mountains Hydro-Electric Authority
Special Broadcasting Service
Sugar Research and Development Corporation
Sydney Symphony Orchestra Holdings Pty Limited
Symphony Australia Holdings Pty Ltd
Tasmania Symphony Orchestra Holdings Pty Ltd
Totalcare Industries Limited
West Australian Symphony Orchestra Holdings Pty Ltd

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 Administration and the Board to be an eligible superannuation scheme for the purposes of the Public Sector Superannuation (PSS) Scheme (Rule 6.8.1).

The following schemes have been declared eligible.

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

- The superannuation schemes known as:

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 (GoSuper) (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;
Superannuation Scheme for Australian Universities (SSAU);
Townsville Port Authority Staff Superannuation Scheme; and
University of Newcastle Staff Superannuation Scheme.

Appendix D

Member complaints

The Board has established formal procedures for dealing with member complaints received in accordance with Section 101 of the *Superannuation Industry (Supervision) Act 1993*.

During 2000–2001, the Complaints Officer received 59 complaints with two complaints carried over from the previous year. The complaints covered a wide range of issues and the majority of cases were able to be resolved or satisfactorily answered within the legislative time frame of 90 days. Fifty seven complaints were processed.

Freedom of Information

Matters associated with the administration of the *Freedom of Information Act 1982* are dealt with by ComSuper's Corporate Governance Liaison Unit.

PSS members made 45 requests for access to documents during 2000–2001. Forty three of these requests were granted in full, one was partially granted and one refused. The requests took an average of 1 day to process.

Freedom of Information Act statement

This statement is provided in accordance with section 8 of the *Freedom of Information Act 1982* (the FOI Act).

Functions of ComSuper

The general functions of ComSuper are described in the main body of this report and in the Commissioner for Superannuation Annual Report.

Decision-making powers

The decision-making powers of the PSS Board are set out in clause three of the PSS Trust Deed. The authority for the PSS Board to delegate its powers and functions is contained in clause 12 of the PSS Trust Deed.

The PSS Board retains full responsibilities in relation to fund investment and invalidity assessment.

FOI internal procedures

All requests for documents are referred to ComSuper's Corporate Governance and Parliamentary Liaison Unit. Compliance with the application fee provisions of the FOI Act are verified and the request is registered and acknowledged. The documents are then obtained and the request is considered by the Unit.

Decisions to grant access, levy charges, or refuse access are made by an APS Level 6 in the Corporate Governance and Parliamentary Liaison Unit.

Requests for internal review of FOI decisions are also referred to the FOI Unit. They are then forwarded to the Legal Services section where they are investigated prior to submission to the PSS Board for decision under section 54 of the FOI Act.

Officers currently designated to carry out such investigations are APS Level 8 officers in the Legal Services Section. All decisions on internal reviews are made by the PSS Board.

Facilities for access

Facilities for viewing documents are provided only at the ComSuper office in Canberra, as ComSuper has no regional offices. Publications may be inspected at ComSuper's FOI Unit, and copies (for which there may be a charge) can be obtained by writing to ComSuper.

Information about facilities for access by people with disabilities can be obtained by contacting: The FOI Unit, ComSuper, PO Box 22, Belconnen ACT 2616. Tel: (02) 6252 7514 Fax: (02) 6252 6509.

Consultative arrangements

Informal and ad hoc arrangements exist whereby the national, State and Territory branches of the Superannuated Commonwealth Officers' Association, and those unions whose members are covered by the PSS may make representations relating to the general administration of the schemes. Representations are also received which relate to the determination of individual contributors' benefit entitlements.

Requests for consultation and/or representations relating to policy aspects of the schemes and their underlying legislation are referred to the Superannuation Branch of the Department of Finance and Administration which has responsibility for advising the Minister for Finance and Administration on such matters.

Categories of documents

The PSS Board maintains no categories of documents that are open to public access as part of a public register or otherwise, in accordance with an enactment other than the FOI Act, where that access is subject to a fee or other charge.

Books and leaflets that describe various aspects of the superannuation schemes, and annual reports, are made available to the public free of charge upon request. They are also available free of charge via ComSuper's Internet site.

Appendix E**Client service charter**

What is a service charter?

A service charter is a public commitment by an agency to deliver high quality services to its clients.

The PSS Board asked ComSuper to prepare charters following government initiatives to develop and promote a more open and customer-focused Commonwealth Public Service. The charters were distributed to members along with the 1997–98 Member Statements. Revised charters were made available in May 2000. A further review has been undertaken with the publication of a single amalgamated charter due for issue around October 2001. The new service charter can be viewed at the Board's website (www.pss.gov.au).

Who is a charter for?

The charters are for members who have contributed to the Public Sector Superannuation (PSS) scheme. This scheme is administered by ComSuper on behalf of the PSS Board.

What does a charter do?

The charters set out the service standards that members can expect to receive when they deal with ComSuper. As well, the charters identify members' responsibilities and seek their help in maintaining these standards.

The year in review

The table on the next page summarises the key outcomes against which service standards contained in the service charters are measured.

Service	Standard	Outcome
Member Communications		
Written enquiries for benefit estimates	<ul style="list-style-type: none"> •Process 80% in 10 working days •Process 100% in 20 working days 	All were processed within the agreed service standards.
Member information statements	To be issued before 15 September	The despatch of information statements was completed by 28 September.
Manually generated information statements	To be issued before 31 October	It is expected that all manually generated statements will be completed by Mid November.
Telephone enquiries: Abandoned rate Average Speed of Answer	<ul style="list-style-type: none"> •Overall less than 5% •Overall less than 30 seconds 	The standards were met for most of the year. Minor variations were experienced in the months when demand for services were particularly high.
Benefit Payments		
Benefit application	<ul style="list-style-type: none"> •Process 75% in 10 working days •Process 95% in 20 working days 	An overall average of 92 per cent of applications were processed within 10 days and 99 per cent within 20 days.

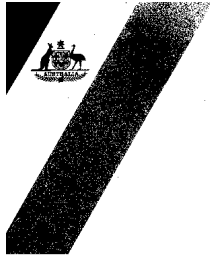
Appendix F**List of abbreviations**

ACTEW	ACT Electricity and Water Corporation Ltd
ACTU	Australian Council of Trade Unions
AD(JR) Act	<i>Administrative Decisions (Judicial Review) Act 1977</i>
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
ASX	Australian Stock Exchange
CAA	Civil Aviation Safety Authority
CBD	Central Business District
CEO	Chief Executive Officer
CFM	Commonwealth Funds Management Ltd
CMAPS	Confidential Medical and Personal Statement
ComSuper	Commonwealth Superannuation Administration
CPSU	Community and Public Section Union
CSB	Commonwealth Superannuation Board
CSS	Commonwealth Superannuation Scheme
CSS Act	<i>Superannuation Act 1976</i>
DoFA	Department of Finance and Administration
FOI	Freedom of Information
ICM	Independent Claims Management Pty Ltd
MSCI	Morgan Stanley Capital International
NEPC	National Environment Protection Council
PSS	Public Sector Superannuation (scheme)
PSS Act	<i>Superannuation Act 1990</i>
QSI	Quality Service Index
RAC	Reconsideration Advisory Committee
RBA	Reserve Bank of Australia
SES	Senior Executive Service
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SCT	Superannuation Complaints Tribunal
SRC Act	<i>Superannuation (Resolution of Complaints) Act 1993</i>
SSAU	Superannuation Scheme for Australian Universities
TMT	Telecommunications, media and technology
TRM	Total Risk Management Pty Ltd

Appendix G

Financial statements _____

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Independent Audit Report

To the Minister for Finance and Administration

(A) Financial Statements

Scope

I have audited the financial statements of the Public Sector Superannuation Scheme (PSS) which includes the PSS Fund (the Fund), for the year ended 30 June 2001. The financial statements comprise:

- Statement of Changes in Net Assets
- Statement of Net Assets
- Notes to and forming part of the Financial Statements

The PSS Board 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 audit has been in accordance with Australian National Audit Office Auditing Standards, which incorporate the 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 estimates. 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 requirements and statutory requirements in Australia so as to present a view of the PSS and the PSS Fund which is consistent with my understanding of its net assets and changes in net assets.

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

GPO Box 707 CANBERRA ACT 2601
Centenary House 19 National Circuit
BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

Audit Opinion

In my opinion:

- (i) the statements are in the form agreed by the Minister for Finance and Administration in accordance with sub-section 28(1) of the *Superannuation Act 1990*;
- (ii) the statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the changes in net assets of the PSS for the year ended 30 June 2001 and the net assets of the PSS at that date;

(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 whether the PSS Fund 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), 36, 65, 66, 67, 69-85, 86-93A, 95, 97, 98, 101, 102, 103, 104, 105, 106, 107, 109, 111, 112, 113, 117, 118, 121, 122, 124, 125, 152, 153, 154, 163, 169;
 - regulations 2.10(1), 2.13(1), 2.21(3), 2.33(2), 2.43(1), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30,, 13.14, 13.17, 13.17A; and
- (b) adhered to the Guidelines for preparing risk management statements (“Guidelines”) issued by APRA in Circular II.D.7 on Derivatives (to the extent applicable)

for the year ended 30 June 2001.

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 regulation 6.17 included testing whether amounts identified by the trustee as preserved and restricted non-preserved have been cashed or transferred only in accordance with the requirements of Part 6 of the regulations. These procedures did not include testing of the calculation of the preserved and restricted non-preserved amounts.

My procedures with respect to the Guidelines consisted of confirming whether any Risk Management Statement was to be prepared by the superannuation entity's trustee under the Guidelines contained in APRA Circular II.D.7 at any time during the year of income.

These procedures indicated that only a Part A Risk Management Statement should be prepared by the PSS Board. This has been prepared and is broadly consistent with the requirements of the Guidelines.

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 and Guidelines apart from those specified. The Fund's trustee is responsible for ensuring compliance with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations and Guidelines.

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

Opinion

The PSS Fund, 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 2001.

Australian National Audit Office



David C. McKean
Executive Director

Delegate of the Auditor-General
Canberra

21 September 2001

Public Sector Superannuation Scheme

Statement by the Trustee of the PSS Fund

The Trustee hereby states that in its opinion:

- (a) the attached financial statements of the Public Sector Superannuation Scheme show a true and fair view of the matters required by Australian Accounting Standard, AAS 25, Financial Reporting by Superannuation Plans and Schedule 1 of the Financial Management Accountability (Financial Statements 2000-2001) Orders to the extent that the latter is not inconsistent with the former;
- (b) the attached financial statements of the Public Sector Superannuation Scheme show a true and fair view of the net assets of the Scheme as at 30 June 2001 and the changes in net assets of the Scheme for the year ended 30 June 2001;
- (c) 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;
- (d) the financial statements are in a form agreed by the Minister for Finance and Administration and the PSS Board in accordance with sub-section 28(1)(b) of the Superannuation Act 1990 and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements; and,
- (e) the operations of the Fund were conducted in accordance with the Superannuation Act 1990, the Trust Deed establishing the Scheme and the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations.

Signed at Sydney this 10th day of September 2001 in accordance with a resolution of members of the PSS Board as Trustee of the PSS Fund.



P. Reynolds
Chairperson



W. Hall
Member

PSS Board

PUBLIC SECTOR SUPERANNUATION SCHEME

**Statement of Changes in Net Assets
For the Year Ended 30 June 2001**

	Note	2001 \$'000	2000 \$'000
Net assets available to pay benefits at the beginning of the financial year		4,161,742	3,480,540
Add:			
Revenue from ordinary activities			
Net investment revenue			
Interest		39,774	35,034
Dividends		99,298	101,839
Other investment income		1,058	251
Changes in net market values	3	(80,072)	431,735
Direct investment expenses		(8,474)	(7,393)
		<u>51,584</u>	<u>561,466</u>
Contribution revenue			
Employee contributions	4a	319,009	274,450
Employer contributions	4a	133,721	126,670
Appropriation from CRF	4b	120,443	249,030
Transfers from CSS		(26,024)	33,319
		<u>547,149</u>	<u>683,469</u>
Total revenue from ordinary activities		<u>598,733</u>	1,244,935
Less:			
Expenses from ordinary activities			
General administration expenses	1k, 4c	(902)	(668)
Benefits paid			
Benefits paid	4b	(337,097)	(508,066)
Total expenses from ordinary activities		<u>(337,999)</u>	<u>(508,734)</u>
Total revenue less expenses and benefits paid before income tax		260,734	736,201
Income tax expense	5	(12,217)	(54,999)
Total revenue less expenses and benefits paid after income tax		<u>248,517</u>	<u>681,202</u>
Net assets available to pay benefits at the end of the financial year		<u>4,410,259</u>	<u>4,161,742</u>

The attached notes form part of these financial statements.

PUBLIC SECTOR SUPERANNUATION SCHEME**Statement of Net Assets
As at 30 June 2001**

	Note	2001 \$'000	2000 \$'000
Investments	1c		
Cash and short term deposits		84,826	77,456
Australian money market		116,765	74,435
Australian fixed interest		330,439	323,946
International fixed interest		109,237	102,322
Australian equity investments		1,400,610	1,304,983
International equity investments		1,715,606	1,677,271
Unlisted property trusts		515,389	406,770
Pooled superannuation trusts		238,101	248,512
Currency contracts		(26,624)	(16,527)
Other investments		12,156	7,608
Total investments		<u>4,496,505</u>	<u>4,206,776</u>
Other assets			
Cash at bank		5,266	4,909
CRF Special Account		6,265	274
Interest receivable		9,428	9,702
Dividends receivable		8,070	8,816
Trade settlements receivable		10,587	10,818
GST recoverable		103	-
Sundry debtors		6	30
Benefits payable to be funded by Appropriation		19,305	58,546
Amounts due from the CSS Scheme		700	62,591
Deferred tax assets		4,305	226
Total other assets		<u>64,035</u>	<u>155,912</u>
Total assets		<u>4,560,540</u>	<u>4,362,688</u>
Less: Liabilities			
Benefits payable		68,782	95,626
Trade settlements payable		11,031	17,501
Sundry creditors	7	4,494	3,027
Current tax liabilities		13,434	16,662
Deferred tax liabilities		52,540	68,130
Total liabilities		<u>150,281</u>	<u>200,946</u>
Net assets available to pay benefits	9	<u>4,410,259</u>	<u>4,161,742</u>

The attached notes form part of these financial statements.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Preparation

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

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.

The form of these financial statements has been agreed by the Minister for Finance and Administration and the PSS Board in accordance with sub-section 28(1)(b) of the Superannuation Act 1990.

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

As a result of applying the revised Accounting Standard AAS1 Statement of Financial Performance, AAS37 Financial Report Presentation and disclosures and AAS36 Statement of Financial Position for the first time, a number of comparative amounts were represented or reclassified to ensure comparability with the current reporting period.

(b) Revenue

Investment revenue and contributions are brought to account on an accruals basis. Dividends on quoted shares are deemed to accrue on the date the dividend is declared. Changes in the net market value of assets are recognised in the statement of changes in net assets in the period in which they occur. Transfers from other funds are brought to account when received.

(c) Valuation of Investments

Assets of the PSS 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 - these securities are valued at the market closing price on 30 June and include accrued interest.
- (ii) Fixed Interest - these securities are valued at their market value on 30 June. Interest is accrued over the period and is recorded as part of other assets.
- (iii) Futures Contracts - open futures contracts are revalued to closing price quoted at close of business on 30 June.
- (iv) Equities - the security prices used for equities are the last sale price of a security on the relevant exchange at close of business on 30 June.
- (v) 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.

PUBLIC SECTOR SUPERANNUATION SCHEME**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2001

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)**(c) Valuation of Investments (Cont.)**

- (vi) Unlisted alternative investments - investments are valued on an annual basis in accordance with the guidelines set out in the relevant Trust Deed or by an independent qualified valuer.
- (vii) Units in Unlisted Property Trusts and Pooled Superannuation Trusts - units are valued at their most recent redemption price as determined by the manager of the relevant trust, consistent with the methods listed above that are relevant to the underlying assets held by the unit trusts.

(d) 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. Resulting exchange differences are brought to account in determining the change in market value of investments for the year and hence the net assets available to pay benefits at the end of the financial year.

(e) Use of Derivatives

The investment 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 gearing the portfolio.

(f) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Changes in Net Assets is matched with total revenue less expenses and benefits paid before income tax, after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on net cumulative timing differences is set aside to deferred income tax or future income tax benefit accounts at rates which are expected to apply when those timing differences occur.

(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.

(h) Benefits Payable

Benefits payable represents benefits in respect of members who ceased employment with the employer sponsor prior to year end who are entitled to receive a benefit but had not been paid by that date.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)

(i) Liability for Accrued Benefits

The liability for accrued benefits is not included in the statement of net assets, but the liability at the latest measurement date is reported at note 13. Where accrued benefits are measured during the reporting period, the benefits which have accrued since the latest measurement date are also reported by way of note.

The liability for accrued benefits is actuarially measured on at least a triennial basis, and represents the value of the fund's present obligation to pay benefits to members and other beneficiaries at the date of measurement. The liability is determined as the present value of expected future payments which arise from membership of the Fund up to the date of measurement.

The present value reported in the notes is determined by reference to expected future salary levels and by application of a current, market-determined, risk-adjusted discount rate and appropriate actuarial assumptions.

(j) Superannuation Contributions Surcharge

The surcharge is accounted for as and when the amount becomes payable to the Australian Taxation Office.

(k) Expenses of the PSS Board

In accordance with a determination issued by the Minister for Finance and Administration pursuant to section 34 of the Superannuation Act 1990, those costs of the PSS Board which are related to its responsibilities for the management of the PSS Fund and the investment of its moneys are a charge against the Fund. Fees paid to the Chairman of the PSS Board are also a charge against the Fund.

All other costs incurred by the Board are met from revenues generated through user charging arrangements with employer agencies and the Department of Finance and Administration. These revenues and the associated expenditure of the CSS Board have been brought to account in the financial statements of the Commissioner of Superannuation.

(l) Comparative Information

The presentation of comparative information has changed from that shown in previous financial statements so as to conform with changes to the current year's format.

(m) Goods and services Tax (GST)

Where applicable GST incurred by the fund that is not recoverable from the Australian Taxation Office, has been recognised as part of the expense to which it applies. Receivables and payables are stated with any applicable GST included in their carrying amounts.

The amount of any GST recoverable from, or payable to, the Australian Taxation Office is included as an asset or liability in the Statement of Net Assets.

(n) Sundry Debtors and Creditors

Sundry debtors are recognised at the amounts receivable, which approximate net fair value. Sundry creditors represent liabilities for goods and services provided to the scheme prior to the end of the financial year and which are unpaid. The amounts are unsecured. Other debtors and creditors are subject to normal trade credit terms.

PUBLIC SECTOR SUPERANNUATION SCHEME**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2001

2. NATURE OF SCHEME AND PRINCIPAL ACTIVITIES

(a) The Public Sector Superannuation Scheme is a defined benefits scheme which provides benefits to its members under the Superannuation Act 1990 (which has been subsequently amended).

(b) Member and Employee Numbers

	2001	2000
Number of members		
- Contributors	121,078	112,436
- Deferred beneficiaries/preservers	68,305	58,959
- Pensioners	6,688	5,880
	<u>196,071</u>	<u>177,275</u>
Number of employees	<u>1</u>	<u>1</u>

3. CHANGES IN NET MARKET VALUES

	2001	2000
	\$'000	\$'000
Changes in net market values of investments:		
(a) Investments held at 30 June		
Australian money market	255	430
Australian fixed interest	(889)	(2,212)
International fixed interest	503	(303)
Australian equity investments	86,982	132,012
International equity investments	(52,498)	256,881
Unlisted property trusts	29,296	8,041
Pooled superannuation trust	(13,944)	37,977
Currency contracts	(27,944)	(64,824)
Other investments	(1,595)	(548)
	<u>20,166</u>	<u>367,454</u>
(b) Investments realised during the year:		
Australian money market	4,781	4,929
Australian fixed interest	210	(1,259)
International fixed interest	(4,570)	(48)
Australian equity investments	(5,014)	17,865
International equity investments	1,646	61,160
Unlisted property trusts	333	(2,564)
Pooled superannuation trust	86	(278)
Currency contracts	(93,096)	(21,035)
Other investments	(4,614)	5,511
	<u>(100,238)</u>	<u>64,281</u>
(c) Total changes in net market values of investments	<u>(80,072)</u>	<u>431,735</u>

The net loss on foreign currency contracts for the year was \$121.0m (2000: \$85.9m loss).

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 investments.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

4. FUNDING ARRANGEMENTS

(a) Contributions

Members contribute to the Scheme at optional rates ranging from a minimum of 2 per cent to a maximum of 10 per cent of salary paid to the member. Employers contribute employer (productivity) contributions to the Scheme on a sliding scale averaging 3 percent of salaries paid to the members.

(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 held in the Fund in respect of the member are paid into the Consolidated Revenue Fund (CRF) and the Commonwealth which assumes responsibility for the payment of the benefit.

Benefits payable by the Consolidated Revenue Fund as at 30 June 2001 total \$19.3m (2000: \$58.5m). The Commonwealth is the corresponding debtor for this amount in accordance with the funding arrangements described above.

The following provides a breakdown of benefits paid by both the Fund and the Consolidated Revenue Fund:

	2001	2000
	\$'000	\$'000
Gross Appropriation from CRF	279,680	456,717
less: Transfers from Fund to CRF	(159,237)	(207,687)
Net Appropriation	<u>120,443</u>	<u>249,030</u>
 PSS Fund		
Lump-sum Benefits	<u>57,417</u>	<u>51,349</u>
 Consolidated Revenue Fund		
Lump-sum Benefits	183,373	374,411
Transfer Values	5,973	6,504
Pensions	89,156	75,081
Other	1,178	721
	<u>279,680</u>	<u>456,717</u>
Total benefits paid	<u>337,097</u>	<u>508,066</u>

(c) Costs of Administration

The Superannuation Act 1990 requires the Commissioner for Superannuation to provide administrative services to the PSS Board to enable the Board to perform its functions under the Act. The costs of the Commissioner for Superannuation and the staff of ComSuper are met from revenues collected by ComSuper on behalf of the PSS Board. These revenues and the administration costs met by ComSuper have been brought to account in the financial statements of the Commissioner for Superannuation.

PUBLIC SECTOR SUPERANNUATION SCHEME**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2001

5. INCOME TAX

The taxation liability at 30 June 2001 has been calculated on the basis that the PSS Fund is a complying superannuation fund within the meaning of the Superannuation Industry (Supervision) Act 1993 and that tax will be payable at a concessional 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 not equal to 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:

	2001	2000
	\$'000	\$'000
Total revenue less expenses and benefits paid before income tax	260,734	736,201
Prima facie income tax expense calculated at 15%	39,110	110,430
Add/(Less) Permanent Differences		
Employee contributions	(47,851)	(44,934)
Benefits paid	32,498	38,855
Income from Pooled Superannuation Trusts	1,822	(5,655)
Imputation credits from franked dividends received	3,111	1,864
Other	7,909	(30,193)
	36,599	70,367
Less: Imputation and foreign tax credits	(21,865)	(13,620)
Less: Under (over) provision in prior years	(2,517)	(1,748)
Income Tax Expense	12,217	54,999
Income tax expense comprises:		
Income tax payable current year	10,481	16,662
Amount paid during 2000-01	22,326	5,232
Movement in deferred income tax provisions	(18,073)	34,853
Under/over provision in prior year	(2,517)	(1,748)
	12,217	54,999

6. TRANSFER OF NET ASSETS FROM THE COMMONWEALTH SUPERANNUATION SCHEME

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.

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

During 1997-98 the CSS Board, in agreement with the PSS Board, made an advance of \$423.1m 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.

The residual amount to be transferred from the CSS Fund to the PSS Fund at 30 June 2000 was estimated to be \$62.6m. The actual amount required to be transferred was subsequently determined to be \$35.9m and this amount was paid by way of an in-specie transfer of assets in 2000-01. A transfer of \$26.7m from the PSS Fund to the CSS Fund for 2000-01 corrects the over estimate of the amount due to the PSS Fund at 30 June 2000.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

6. TRANSFER OF NET ASSETS FROM THE COMMONWEALTH SUPERANNUATION SCHEME (Cont.)

Certain former contributors to the CSS who again become members of the CSS are entitled to elect to transfer to the PSS. During the period 1 July 1999 to 30 June 2001 a small number of returning CSS members exercised their election to transfer to the PSS.

As at 30 June 2001 the Ministerial determination to effect these transfers had not been completed. Therefore, as at 30 June 2001, \$700,000 has been brought to account as a current asset of the PSS Fund.

7. SUNDRY CREDITORS	2001	2000
	\$'000	\$'000
Investment expenses payable	2,377	1,848
Contributions in advance	1,677	696
Accrued expenses	367	123
Other	73	360
	<u>4,494</u>	<u>3,027</u>

8. AUDITOR'S REMUNERATION

The amount paid and payable in respect of external audit services is \$43,000 (2000: \$40,000).

9. RESERVE

The annual crediting rate is determined after transfers of income into and out of the Reserve. The principal purpose of the Reserve is to assist in managing short term mismatches between fund's earning rates and crediting rates which arise from the capital guarantee applying to members' accumulated contributions and the smoothing of investment returns. The Reserve enables the Fund to pursue a more diversified investment strategy which can be expected to provide higher returns over the long term.

The Reserve is calculated as the difference between the net assets of the fund and the estimated value of the funded entitlements to be advised to members in their annual information statements. The value of the Reserve is affected by changes in the estimates of funded entitlements, the exit rates applying at various times during the year and the difference between the earning and crediting rates of the Fund. The reserve is estimated to represent 0.4% of the net assets of the Fund at 30 June 2001.

	2001	2000
	\$'000	\$'000
Balance at beginning of year	252,034	174,027
Less: Reestimation of opening balance	(485)	-
Plus: Earnings on opening balance	3,446	26,278
Less: Allocation to members	<u>(240,325)</u>	<u>51,729</u>
Balance at end of year	<u>14,670</u>	<u>252,034</u>

PUBLIC SECTOR SUPERANNUATION SCHEME**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2001

10. SUPERANNUATION CONTRIBUTIONS SURCHARGE

The Superannuation Contributions Surcharge applies to the surchargeable superannuation contributions of members, whose adjusted taxable income exceeds the surcharge threshold. Surcharge liabilities are calculated by the Australian Taxation Office (ATO) and recorded against PSS member accounts. The surcharge liability may be paid by the member in full or in part during the period of scheme membership. Any surcharge liability remaining at the end of the financial year incurs interest. The scheme rules provide for any outstanding surcharge liability to be recovered from the benefit payable to the member.

A summary of transactions recorded during 2000-01 follows:

	2001	2000
	\$'000	\$'000
Total Surcharge Liability Outstanding at start of year	6,090	4,476
Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year	3,807	2,304
	9,897	6,780
Less: Amount paid by members and CRF	(1,044)	(1,071)
	8,853	5,709
Plus: Interest on outstanding surcharge liability at end of year	561	381
Total Surcharge liability outstanding at end of year	9,414	6,090

The PSS Board has lodged objections under the *Superannuation Contributions Tax (Assessment and Collection) Act 1997* against the superannuation contribution assessments received from the ATO. The Board has instructed that the Scheme continue to be administered in accordance with the superannuation contributions surcharge legislation until the outcome of the objections has been determined.

The surcharge liability in respect of surchargeable superannuation contributions for the period 1 July 2000 to 30 June 2001 has not been disclosed because the assessments have not, as yet, been issued by the ATO and there is no reliable basis on which an assessment of the likely surcharge liability can be made.

No liability is recognised in the financial statements for the estimated value of the surcharge liability because the liability will be either met by the members during their period of membership or will be recovered from member benefits which are funded to a significant extent from the Consolidated Revenue Fund.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

11. FINANCIAL INSTRUMENT DISCLOSURES

The investments of the Fund (other than cash held for meeting daily administrative and benefit expenses), are managed on behalf of the Trustee by specialist sector fund managers who are required to invest the assets allocated for management in accordance with the terms of a written investment mandate. The Trustee has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Trustee’s investment strategy.

Chase Manhattan Bank acts as master custodian on behalf of the Trustee and as such provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting of investment transactions.

The Trustee also employs Total Risk Management Pty Ltd (TRM) to oversee the general management of the portfolio on a day-to-day basis, within the overall investment strategy and asset allocation limits set. TRM subsequently provides the Trustee with regular reports on the nature of the investments made on their behalf and the associated risks. Such reports include receipt of formal Risk Management Statements as required by the Australian Prudential Regulation Authority.

(a) Use of Derivative Financial Instruments

The Fund’s investment managers use a number of financial instruments such as futures, options and forward exchange contracts to both facilitate increases or decreases in exposures in the equity, bond and currency markets and to reduce risk consistent with the investment policy of the Fund. Derivatives are not used for speculation in any of these markets or for ‘gearing’ the portfolio. At 30 June, the notional principal amounts and net fair value of derivatives held by the Fund was as follows:

	Notional Principal Amounts		Net Market Value	
	2001 \$'000	2000 \$'000	2001 \$'000	2000 \$'000
Australian Share Price Index Futures	14,001	-	98	193
Australian Exchange Traded Options	11,720	7,432	2,066	(698)
International Share Price Index Futures	53,084	42,317	(828)	2,356
Currency Contracts	963,056	985,645	(26,624)	(16,527)
Total	1,041,861	1,035,394	(25,288)	(14,676)

(b) Credit Risk

The net market value of financial assets, with the exception of derivative positions, included in the statement of net assets represent the Fund’s exposure to credit risk in relation to those assets. For derivative positions, the credit risk is equal to the net market value of positive (asset) derivative positions which amount to \$9.7m (2000: \$4.8m). The Fund does not have significant exposures to any individual counterparty or industry.

PUBLIC SECTOR SUPERANNUATION SCHEME**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2001

11. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)**(c) Interest Rate Risk**

The Fund invests in financial investments for the primary purpose of obtaining a return on investments on behalf of its members. As such, the Fund's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in market interest rates. The Fund's exposure to interest rate movements on investments at 30 June 2001 was as follows:

	Fixed Interest Rate					Total \$'000
	Floating Interest Rate \$'000	1 Year or Less \$'000	1 - 5 Years \$'000	Over 5 Years \$'000	Non Interest Bearing \$'000	
30 June 2001						
Assets						
Cash and short term deposits	84,826					84,826
Australian money market	116,765					116,765
Australian fixed interest		37,158	164,662	128,619		330,439
International fixed interest		417	13,293	95,527		109,237
Australian equity investments					1,400,610	1,400,610
International equity investments					1,715,606	1,715,606
Unlisted property trusts					515,389	515,389
Pooled superannuation trust					238,101	238,101
Currency contracts					(26,624)	(26,624)
Other investments	3,548				8,608	12,156
Other assets	12,232				47,498	59,730
Deferred tax assets					4,305	4,305
Liabilities						
Benefits payable					(68,782)	(68,782)
Trade settlements payable					(11,031)	(11,031)
Sundry creditors					(4,494)	(4,494)
Current tax liabilities					(13,434)	(13,434)
Deferred tax liabilities					(52,540)	(52,540)
Total	217,371	37,575	177,955	224,146	3,753,212	4,410,259
Weighted average interest rate	4.31%	5.41%	6.32%	8.70%		

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

11. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

(c) Interest Rate Risk

	Floating Interest Rate \$'000	Fixed Interest Rate			Non Interest Bearing \$'000	Total \$'000
		1 Year or Less \$'000	1 - 5 Years \$'000	Over 5 Years \$'000		
30 June 2000						
Assets						
Cash and short term deposits	77,456					77,456
Australian money market	74,435					74,435
Australian fixed interest		17,919	165,323	140,704		323,946
International fixed interest			8,830	93,492		102,322
Australian equity investments					1,304,983	1,304,983
International equity investments		3,730			1,673,541	1,677,271
Unlisted property trusts					406,770	406,770
Pooled superannuation trust					248,513	248,513
Currency contracts					(16,527)	(16,527)
Other investments	5,064				2,544	7,608
Other assets	67,773				87,913	155,686
Deferred tax assets					226	226
Liabilities						
Benefits payable					(95,626)	(95,626)
Trade settlements payable					(17,501)	(17,501)
Sundry creditors					(3,028)	(3,028)
Current tax liabilities					(16,662)	(16,662)
Deferred tax liabilities					(68,130)	(68,130)
Total	<u>224,728</u>	<u>21,649</u>	<u>174,153</u>	<u>234,196</u>	<u>3,507,016</u>	<u>4,161,742</u>
Weighted average interest rate	8.77%	6.22%	6.18%	7.83%		

(d) Currency Risk

The Fund's exposure at 30 June to foreign exchange rate movements on its international investments was as follows:

	USA A\$'000	JPY A\$'000	GBP A\$'000	EURO A\$'000	Other A\$'000	Total A\$'000
30 June 2001						
Gross investment amounts denominated in foreign currency	1,097,323	180,587	173,529	275,842	145,963	1,873,244
Amount effectively hedged	(583,411)	(89,499)	(75,076)	(156,091)	(85,603)	(989,680)
Net Exposure	<u>513,912</u>	<u>91,088</u>	<u>98,453</u>	<u>119,751</u>	<u>60,360</u>	<u>883,564</u>

PUBLIC SECTOR SUPERANNUATION SCHEME**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2001

11. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)**(d) Currency Risk**

30 June 2000	USA	JPY	GBP	EURO	Other	Total
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
Gross investment amounts denominated in foreign currency	965,581	227,130	168,378	293,870	188,968	1,843,927
Amount effectively hedged	(570,079)	(111,168)	(78,959)	(158,684)	(83,280)	(1,002,170)
Net Exposure	<u>395,502</u>	<u>115,962</u>	<u>89,419</u>	<u>135,186</u>	<u>105,688</u>	<u>841,757</u>

(e) Net Fair Values of Financial Assets and Liabilities

The Fund's financial assets, liabilities and derivative instruments are included in the Statement of Net Assets at amounts that approximate net fair value.

12. 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 Australian Government Actuary has advised that the amount of vested benefits at 30 June 2001 is \$15.3 billion (2000: \$13.9 billion). The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June 2001 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 vested benefits have been calculated on the basis of current legislative arrangements for indexation of pension of payments. No adjustment has been made for the proposed changes to indexation as the legislative changes have not yet occurred.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2001

13. 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, by the Commonwealth, from the Consolidated Revenue Fund at the time the superannuation benefits become payable.

The amount of accrued benefits in respect of the PSS is calculated on a triennial basis. The most recent valuation of the accrued benefits was undertaken by Towers Perrin as part of a comprehensive review during 1999-00 (an extract of the Towers Perrin report is attached).

Accrued Benefits as at 30 June 1999 were:	1999 \$billion	1996 \$billion
Funded component	3.5	2.1
Unfunded component	5.7	4.3
	<u>9.2</u>	<u>6.4</u>

14. SEGMENT REPORTING

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

15. RELATED PARTIES

(a) Members of the PSS Board

The PSS Board, had the following members during the financial year:

- P. Reynolds (Chairman)
- G. Kelly (appointment expired 24 July 2000)
- C. Manolios (appointed as Mr Kelly's replacement 25 July 2000)
- J.A. Flitcroft
- W. Hall
- L. McBride
- N. Speers (alternate for J.A. Flitcroft)
- D. Irons (alternate for W. Hall)
- S. Wilson (alternate for G. Kelly, C. Manolios and L. McBride)

Ms S. O'Loughlin was appointed as a member of the Board with effect from 1 July 2001 replacing Mr J.A. Flitcroft whose term of appointment expired on 30 June 2001.

Mr J.A. Flitcroft was appointed as alternate for Ms S. O'Loughlin from 1 July 2001 and Mr N. Speers appointment as alternate expired on 30 June 2001.

(b) Trustee Related Transactions

Some members of the PSS Board may, as a result of their current employment or as a result of their tenure on the Board, be members of the PSS and, as such, would be required to have made contributions to the scheme during the 2000-01 financial year on the same terms and conditions applicable to all scheme members.

Total fees paid by the scheme in respect of PSS Board members entitled to receive fees during the year amounted to \$102,000 (2000: \$95,000).

PUBLIC SECTOR SUPERANNUATION SCHEME**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**

For the year ended 30 June 2001

15. RELATED PARTIES (Cont)**(c) Executive Remuneration**

The number of executive officers whose remuneration is greater than \$100,000 is within the following bands.

	2001	2000
\$170,001 to \$180,000	1	-

(d) Associated Entities

In 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 February 1998. The Boards appointed directors, who are current nominated trustees of the CSS and PSS Boards, to manage the company and act as trustee on the transfer of the assets of the CFM PST. Total Risk Management provide day-to-day administration services for CSS/PSS Pty Ltd. Costs associated with the operations of CSS/PSS Pty Ltd are borne by the CSS and PSS Funds on an equal basis.

16. CONTINGENT LIABILITIES**(a) Investments**

At 30 June the Fund had outstanding investment capital commitments of \$317.9m (2000: \$116.9m).

	2001	2000
	\$'000	\$'000
Within 12 months	98,550	34,740
Greater than 12 months but less than 5 years	209,900	82,170
Greater than 5 years	9,460	-
	<u>317,910</u>	<u>116,910</u>

(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 Trustee, these requests do not represent a material liability on the Scheme.

The Trustee is not aware of any other potential contingent liabilities.

ACTUARIAL STATEMENT FOR AAS 25 PURPOSES

REPORTING PERIOD ENDED 30 JUNE 1999

PUBLIC SECTOR SUPERANNUATION SCHEME

This statement has been prepared for the purposes of AAS 25 as at 30 June 1999 for the Public Sector Superannuation Scheme (PSS) at the request of the Department of Finance and Administration.

ACCRUED AND VESTED BENEFITS

AAS 25 requires the disclosure of Accrued and Vested Benefits at the reporting date.

For the purpose of AAS 25 the following amounts have been determined:

Reporting Date	Accrued Benefits \$m	Vested Benefits \$m
30 June 1999	9,189	11,638

Accrued Benefits have been determined as the present value of expected future benefit payments which arise from membership of the PSS up to the reporting date.

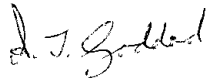
Vested Benefits are benefits which the PSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elected the benefit option which is most costly to the Scheme.

The method and assumptions used to determine Accrued and Vested Benefits are summarised in Attachment 1 to this Statement.

Accrued Benefits have been calculated in a manner consistent with Guidance Note 454 and Professional Standard 402 issued by The Institute of Actuaries of Australia.

SUMMARY OF ACTUARIAL REPORT

AAS 25 also requires the notes to the scheme accounts to include a summary of the most recent actuarial report of the PSS. Attachment 2 to this Statement provides a summary of my report dated 19 June 2000 on the long term cost of the PSS and the Commonwealth Superannuation Scheme (CSS) carried out as at 30 June 1999. The summary has been prepared in accordance with Professional Standard 401 issued by The Institute of Actuaries of Australia and contains the information required under AAS 25.



Andrew J Goddard, FIAA, FIA
4 August 2000

ATTACHMENT 1 TO AAS 25 STATEMENT
PUBLIC SECTOR SUPERANNUATION SCHEME

METHOD OF DETERMINING ACCRUED AND VESTED BENEFITS

Accrued Benefits were determined as the present value of expected future benefit payments that arise from membership of the PSS up to the date of calculation. The expected future benefits were determined allowing for future salary growth to the date of exit. Benefits were apportioned between past and future membership by reducing the projected benefit by the ratio of membership to the calculation date to membership at the date of exit.

The Accrued Benefit also includes an amount of \$1,877 million in respect of pensioners and preserved beneficiaries of the PSS.

Vested Benefits are determined as the value of benefits which the PSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elected the option which is most costly to the PSS.

ASSUMPTIONS USED TO DETERMINE ACCRUED BENEFITS

With the exception of the financial assumptions, the other assumptions used to determine Accrued Benefits are the same as those used for the most recent actuarial investigation into the long term cost of the PSS and the CSS as at 30 June 1999.

The financial assumptions adopted for AAS25 purposes are essentially (in real terms) the same as the assumptions adopted for the long term cost report. Therefore, the Accrued Benefit calculated for AAS25 purposes is the same as that calculated for the purposes of the long term report.

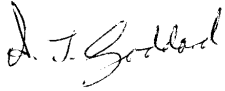
The financial assumptions used to determine the Accrued Benefits along with those used for the most recent actuarial investigation are shown in the table below:

Item	AAS25	Long Term Cost Report
CPI increases	2.5% per annum	3.5% per annum
Investment Returns	6.0% per annum	7.0% per annum
General Salary Increases	4.0% per annum	5.0% per annum

The discount rate for AAS25 purposes has been taken as the long term bond rate as at 30 June 1999 of 6.3% per annum, adjusted to take into account investment expenses and anticipated future reinvestment rates. Allowance has not been made for investment tax as the employer financed portion of the benefit is paid as an untaxed benefit and funding of such benefit is not subject to tax.

The expected average future term of liabilities is considerably in excess of 10 years.

A summary of the other assumptions used is contained in Appendix B of the long term cost report of the PSS and the CSS dated 19 June 2000.



Andrew J Goddard, FIAA, FIA
4 August 2000

ATTACHMENT 2 TO AAS 25 STATEMENT
PUBLIC SECTOR SUPERANNUATION SCHEME
SUMMARY OF THE LONG TERM COST REPORT

The latest actuarial investigation into the long term cost of the CSS and PSS was conducted at 30 June 1999 and the results presented in my report dated 19 June 2000. This report was presented to Parliament in June 2000.

This attachment provides a summary of that report, including my opinion as to the financial condition of the PSS.

MEMBERSHIP DATA

Data relating to the membership of the PSS and the CSS was provided by ComSuper, on behalf of the PSS and CSS Boards, the schemes' administrator, for the purposes of this investigation.

The table below summarises the total membership of the PSS as at 30 June 1999.

PSS MEMBERSHIP AS AT 30 JUNE 1999			
	Male	Females	Total
Number of Contributors	45,933	60,208	106,141
Salaries – Total	\$2,063 m	\$2,404 m	\$4,467 m
- Average	\$44,918	\$39,936	\$42,092
Number of Preserved Beneficiaries	21,057	30,119	51,176
Number of Age Pensioners	2,505	1,775	4,280
Number of Invalid Pensioners	346	324	670
Number of Reversionary Pensioners	76	134	210

ASSUMPTIONS

The key financial assumptions adopted for this review are shown in the table below. The assumptions adopted for the previous review (which was carried out as at 30 June 1996) are shown for comparison purposes.

Item	Assumption	Previous Review
CPI increases	3.5% per annum	4.0% per annum
Investment Returns	3.5% per annum (real)	3.5% per annum (real)
General Salary Increases	1.5% per annum (real)	1.5% per annum (real)
GDP Increases	2.5% per annum (real)	2.5% per annum (real)

The differences between the key financial assumptions at 1999 are the same as the corresponding differences in 1996. Therefore, the change in assumption relating to CPI increases will not lead to a material change in the results of the investigation.

I have made a few changes to the assumptions relating to the future decisions of the members of the PSS. The significant changes relate to the number of members who retain their benefits within the PSS and the percentage of benefits that are taken as a pension.

In the case of the PSS, I have assumed that 35% of all members who resign will retain their member accumulation within the scheme. The corresponding assumption made in the previous report was that 30% of males and 25% of females would do so.

Based on the experience over the last three years, I have assumed that, on average, 40% of all eligible PSS lump sum benefits will be converted to pensions (compared to 30% assumed in the previous report).

These changes in assumptions have resulted in an increase in the PSS Notional Commonwealth Employer Contribution Rate.

VALUE OF ASSETS

The PSS and CSS are partly funded to the extent that real assets are held in respect of member contributions and productivity superannuation contributions. The realisable value of the PSS assets as 30 June 1999 was \$3,481 million.

ACCRUED BENEFITS

The value of Accrued Benefits for the PSS as at 30 June 1999 was \$9,189 million.

Accrued Benefits were determined as the present value of expected future benefit payments that arise from membership of the PSS up to the date of calculation. The expected future benefits were determined allowing for future salary growth to the date of exit. Benefits were apportioned between past and future membership by reducing the projected benefit by the ratio of membership to the calculation date to membership at the date of exit.

The Accrued Benefit also includes an amount of \$1,877 million in respect of pensioners and preserved beneficiaries of the PSS.

VESTED BENEFITS

Vested Benefits of the PSS were not calculated as a part of the long term cost report as at 30 June 1999 but were separately calculated.

Vested Benefits are determined as the value of benefits which the PSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elected the benefit option which is most costly to the PSS.

The estimated value of the Vested Benefits of the PSS as at 30 June 1999 is \$11,638 million.

FINANCIAL CONDITION

The PSS is a partially funded scheme. Therefore, as would be expected in such a scheme, the value of Accrued Benefits and Vested Benefits is significantly more than the realisable value of scheme assets at the same date.

However, the PSS operates under an underlying guarantee from the Commonwealth Government. Further, my investigations show that the projected combined Commonwealth costs in respect of the PSS and the CSS reduce as a percentage of projected Gross Domestic Product over the next 45 years.



Andrew J Goddard, FIAA, FIA
4 August 2000

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