



THE PSS BOARD

ANNUAL REPORT

Public Sector Superannuation Scheme
20012002



The Public Sector Superannuation (PSS) Scheme is a superannuation scheme for employees of the Australian Public Service and other participating Commonwealth and Territory agencies. The PSS Scheme is administered by the PSS Board under a Trust Deed and Rules with administrative support provided by the Chief Executive Officer and the staff of ComSuper. The PSS Board of Trustees is responsible for the overall management of the PSS Scheme and the direction of investment. The Board is appointed to represent both employers and employees. There is a chairperson and four other Trustees.



The PSS Board

Annual Report 2001–02

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ISSN 1442 1216
ISBN 0 642 99686 5

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The PSS Board

Street address:	Suite 2, Level 10 12 Moore Street Canberra City 2600
Postal address:	PO Box 1907 Canberra City 2601
Telephone:	(02) 6263 6999
Facsimile:	(02) 6263 6900
Internet:	www.pss.gov.au
Annual Report:	www.pss.gov.au/pss/forms/annual.html
PSS Fund ABN:	74 172 177 893
SPIN:	CMS0101AU

ComSuper

Street address:	ComSuper Unit 1, Cameron Offices Chandler Street Belconnen ACT 2617
Postal address:	PO Box 22 Belconnen ACT 2616
Telephone:	(02) 6272 9000
Facsimile:	(02) 6272 9001
TTY:	(02) 6272 9827
Annual report inquiries:	Publications Section, ComSuper
Telephone:	(02) 6272 9317
Internet:	www.comsuper.gov.au

Note: All contribution, benefit, 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.

Senator the Hon. Nick Minchin, 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 2001–2002. 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 2002.

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.

Yours sincerely



Peter Reynolds
Chairperson
PSS Board
25 September 2002



Chairperson's overview	ix
The PSS Board	1
PSS Board membership	1
Mission and operating principles	3
Administrative arrangements	5
PSS Fund administrator	5
Human resources	5
Financial resources	6
Overview	9
Description of the scheme	9
Governance	11
Corporate governance statement	11
Principal duties	11
Governance matters outside the Board's control	12
General governance principles	12
Board's own conduct	13
Financial controls	16
Supervision of service providers	17
Risk analysis and compliance	18
Client feedback	19
Board Committees	21
Board and Board committee meetings	21
Investment Committee	21
Audit Committee	23
Administration Committee	25
Communications Committee	28
Governance Committee	32
Fund investment	35
Investment management	35
Fund performance	41
Crediting rate and reserving policy	44
Exit rate	47

Contributors	49
Account maintenance	49
Entry medical requirements	53
Additional death and invalidity cover	54
Surcharge	54
Contributor communications	55
Benefit payments	60
Processing of invalidity claims	63
Accounts, records and funding of benefit payments	65
Pensioners	67
Account maintenance	67
Pensions in force	68
Pensioner communications	69
Dispute resolution	71
Avenues of review	71
Internal reconsideration	71
External review	74
Complaints and enquiries	76
Financial statements	79
Auditor Generals report	79
Statement by the Trustees	82
Financial statements for the PSS Board and PSS Fund	83
Actuarial report	101
Appendixes	109
A: PSS in brief	110
B: Changes to legislation	112
C: Departments and approved authorities	113
D: Eligible superannuation schemes	116
E: Freedom of information	117
F: Publications	120
G: Contact officer	121
H: Compliance	122
I: Staffing statistics	123
J: Consultancies	124
K: Commonwealth Disability Strategy	126
L: Glossary	127
Index	128

Tables

Table 1:	The Board's fund managers at 30 June 2002	37
Table 2:	Former strategic asset allocation	40
Table 3:	New strategic asset allocation	40
Table 4:	PSS Fund performance 2001–02	43
Table 5:	Annual crediting rates 1998–2002	44
Table 6:	Exit rates declared in 2001–02	47
Table 7:	Contributor membership 1998–2002	51
Table 8:	Summary of surcharge activity 2001–02	54
Table 9:	Exits by type 2001–02	61
Table 10:	Reconsideration applications received and outcomes 2001–02	73
Table 11:	Complaints, Ministerial, Ombudsman enquiries 2001–02	77

Charts

Chart 1:	Quality Service Index (QSI) scores	19
Chart 2:	Fund performance comparison over 5 years	43
Chart 3:	Crediting rates compared with inflation rates 1998–2002	46
Chart 4:	Data quality index (DQI) 2001–02	50
Chart 5:	Commonwealth emails processed within 24 hours	58
Chart 6:	Commonwealth telephone calls average speed of answer	58
Chart 7:	Information seminars and personal counselling 2001–02	59
Chart 8:	PSS web site hits 2001–02	60
Chart 9:	Benefit processing against standards, 2001–02	62
Chart 10:	Applications received processed & on hand, 2001–02	62
Chart 11:	Time taken to determine invalidity cases	65
Chart 12:	PSS Fund—contributions received less benefits paid—2001–02	66
Chart 13:	Growth in PSS pensioner population 2001–02	68
Chart 14:	Pensioner telephone enquiries	70
Chart 15:	Pensioner emails received and processed 2001–02	70
Chart 16:	Age analysis of Commonwealth reconsideration cases	73



Chairperson's overview

Annual results – Earning rates, crediting rates and reserving policy

As anticipated in last year's report, poor performance of investment markets, particularly equities, continued in 2001–02 and is still likely to continue.

This is reflected in the Fund's investment performance which delivered an earning rate of negative 5.6% (-5.6%) for the year just ended. The last time the Fund experienced a negative return was in 1990–91.

The 2001–02 financial year has been very difficult for investment markets with international equities falling by 21% and Australian equities by 5%.

Like most superannuation funds, the PSS Fund allocates investments across a wide range of asset classes, including both international and Australian equities, in order to spread risk, take advantage of the specific investment opportunities offered by individual assets and balance the different return cycles of each. This strategy resulted in the Fund exceeding its investment objective of providing real returns of 5% per annum after fees and taxes over 10 years.

In the year just ended, however, clearly any allocation to equities would have hurt performance for superannuation funds, many of which will be showing very low or negative returns for this year.

Many Australians will be experiencing their first low or negative return, and will not be aware that the consistently high level of returns over the past 15 years is the exception rather than the rule and that negative returns are part of a normal long-term investment cycle. In keeping with Market expectations, the Board's strategy anticipates the likelihood of a negative return on average once every five years.

As the Board is prevented by legislation from declaring a negative interest rate, the resulting crediting rate for members for the 2001–02 financial year is zero. However, the long-term performance of the PSS is still strong with a 5-year average crediting rate of 8.3% and a 10-year rate of 8.4%, significantly above inflation.

In order to meet legislative requirements preventing a negative crediting rate and to assist in smoothing out fluctuations in the crediting rates, the PSS operates a reserving strategy whereby in years of strong returns some earnings are held back from members and placed in reserve to top up crediting rates when earnings are weaker.

Given current market volatility at the time of writing this report results showed further negative performance it is impossible to say when markets will stabilise and rebound sufficiently for negative reserves to be eliminated. To ensure fairness for all members, the reserve will be replenished as quickly as possible with crediting rates remaining at zero until this is achieved.

Major events and developments

Governance program launched

In a year which has seen corporate governance dominate the news, the PSS Board continues to lead the way with its practices in this area.

In December 2001, the Board appointed a primary governance advisor, Westpac Investment Management, for its \$3 billion investment in Australian equities.

The Minister for Finance and Administration, Senator Nick Minchin, welcomed the appointment as 'a commitment by the Boards to protect the superannuation funds under their management, and therefore the future retirement incomes of scheme members.'

This initiative is a first for Australia and was reported by media as 'raising the bar for standards across the corporate sector'.

Research conducted by Monash University, as part of the Board's governance activities, has already identified audit and environmental disclosure practices as areas for improvement for Australian companies in which the PSS invests. The Board and Westpac continue to consult with companies to raise standards in these areas in order to create sustainable investment value and safeguard the long-term interests of members.

Investment advisors selected

Following a rigorous tender and evaluation process, the Board appointed three investment advisors to deliver the best possible external advice about its investment strategy, strategic asset allocation and the selection and monitoring of investment managers.

The tendering process was completed in the first half of the financial year and resulted in the appointment of: Towers Perrin Australia as overall strategic investment advisor; JANA Investment Advisors Pty Ltd as investment advisor on manager selection and monitoring, and on alternative investments excluding Australian private equity; and Wilshire Australia Pty Ltd as investment advisor in the specialist area of Australian private equity.

Investment review concluded

Every three years the Board conducts a major review of its investment strategy to assess factors that may influence returns both in Australia and overseas, review the appropriateness of the Board's investment objectives and formulate an investment strategy to meet those objectives.

One such review was undertaken in the second half of the 2001–02 year, resulting in changes to the Board's investment objective and strategic asset allocation in response to market projections which indicate global investment returns will be lower than have been seen over much of the last decade. This requires a change in direction for the next few years if the PSS is to adhere to its constraint of delivering a negative return on average only once every five years.

This triennial review, conducted in conjunction with strategic investment advisor, Towers Perrin, has resulted in:

- The Board lowering its average real return objective from 5% per annum after tax and fees to 4.5% per annum after tax and fees;
- changes in specific asset allocations, most notably a reduction in investment in international equities from 47% to 25% and an increase in international bonds from 0% to 13%; and
- a slight variance in the strategic asset allocation between the PSS and CSS, reflecting the net outflow situation of the CSS which, as a closed fund, has withdrawals exceeding contributions.

July 2002 continued to show weak results, however the decision to reduce international equities and increase international bonds reduced losses by around 2%, adding about \$85 million to the PSS Fund's performance.

Committee initiatives

The Audit Committee continues to work with the Board's internal and external auditors to ensure all potential audit issues are addressed and resolved. This Committee's diligence has resulted in continued improvements in recent years.

The Administration Committee continues to work with the Scheme's administrator ComSuper on 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.

To assure appropriate attention is given to increasingly complex investment matters, in April 2002, the Board established an Investment Committee (which comprises all Trustees) to focus on investment issues and related matters that are central to the Board's functions of managing and investing the PSS Fund. It is also the primary contact between the key external advisors on investment matters and the Board.

In June 2002, the Board established a Governance Committee (which superseded the Investment Governance Committee which arose from a Board working party) to address governance matters on two broad fronts: corporate governance and investment governance. The Committee oversees the development, implementation and review of corporate and investment governance policy for the Board, and is the point of communication between the Board and external parties with respect to investment governance and proxy voting matters.

The Communications Committee continues to develop the Board's communications and education resources for members, supported by research conducted with members and employers throughout the year. Major developments included the completion of the web site redevelopment which was awarded a Silver Medal by the Conference of Major Superannuation Funds in 2002 and the completion of a communications strategy, including extensive consultation with members, employers and other key stakeholders, to see the Scheme through the next two years.

Service provision

In conjunction with its administrator ComSuper, the Board continues to focus on developing online services for members. This year the Board launched two new online services, called 'CEO online', which provides regular updates by the Board's Chief Executive Officer, and 'Investment Info' which provides background information to investment performance. In addition, we increased the functionality of our online calculator, the i-Estimator. All these services have been introduced in direct response to member feedback.

ComSuper works closely with the Board to improve customer services overall.

The Board subjects ComSuper to an annual effectiveness review, which concluded in April this year with service standards being agreed for the Board to continually review performance against.

Also, ComSuper participates in an international benchmarking service which allows the Board to compare its services to those of peers both in Australia and overseas. The Board is very supportive of ComSuper's participation in this benchmarking service and has noted that ComSuper continues to rate very well in a number of key service areas.

Up until three years ago, the Board was reliant on a small secretariat provided by its administrator ComSuper. The Board has now established an independent Executive Unit. The Executive Unit provides the Board with a structure and team dedicated to providing access to investment, finance, communications, research and administration professionals in house.

Future directions

The Board looks forward to further evolving its governance program started this year. Initial research studies have been undertaken to identify key governance issues facing Australian companies – these issues will drive a series of proactive policy submissions, awareness-building exercises with media and other opinion leaders, discussions with the companies in which we invest and, of course, other new governance initiatives.

One such governance-driven initiative, which will commence in the 2002-03 year, is the undertaking by the Board to exercise its right to cast proxy votes in the companies in which it invests. This more active role for the Board underscores its commitment to ensuring long-term shareholder value for PSS members and sends a clear signal to company management groups that the Board, as a shareholder, will vote and actively consider every resolution in the best interests of its members. The PSS will be one of the first Australian super funds to take this proactive step.

Finally, the Board, in conjunction with its strategic investment advisors, will, in the short-term, be focused on the transition from old to new asset allocation including the assessment of its investment manager configuration. Changes to international equities and international fixed interest allocations occurred in early July 2002, and the other asset reallocations will occur over time.

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 2001–02, a prudential consultation of both the PSS and CSS was conducted by APRA and no major issues were identified.

Thank you

It is my privilege to work with the committed and competent people who make up the PSS Board. The Trustees continue to demonstrate their commitment to managing the schemes in the best interest of members, devoting considerable time to carrying out their diverse duties and meeting their responsibilities.

Louise McBride, who has been a member of both the PSS and CSS Board, and devoted considerable time to her additional role on both the Investment and Audit Committees, concluded her term on 27 July 2002. Since her appointment in 1999, Louise made a significant contribution to the Board which benefited greatly from her expertise.

The Board's Executive Unit and its service providers, most particularly ComSuper, must also be thanked for their contribution over the past 12 months.

Clearly the next 12 months will be more challenging than ever as we work together to meet our responsibilities to our members and other key stakeholders.



Peter Reynolds
Chairperson
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).

PSS Board membership

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.

Trustees holding office at 30 June 2002 were:



Mr Peter Reynolds—appointed Chairperson on 28 July 1999 to 27 July 2003.

Mr Reynolds is a Director of State Super Financial Services Proprietary 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.



Ms Winsome Hall—appointed 1 July 1996, reappointed to 30 June 2005.

Ms Hall is a member of both the CSS and PSS Boards. She is also a Director of H-G Ventures a listed venture capital investment company. Winsome has had extensive experience in superannuation policy as a Senior Advisor in the Department of Prime Minister and Cabinet. She is 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 Boards of the Export Finance Insurance Corporation, the Taxation Advisory Panel and the National Portrait Gallery. She is also a member of the Corporations and Securities Panel and the Corporations and Market Advisory Committee. She is also a member of the CSS Board. Her alternate is Ms Sandra Wilson, Branch Manager, Superannuation Branch, Department of Finance and Administration.

Ms McBride's appointment ceased on 28 July 2002, Ms Sandra Wilson filled the vacancy until 19 September 2002 when the Minister appointed Mr David Connolley as a replacement.



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

Ms Manolios is a General Counsel with Zurich Financial Services Australia Limited. She has extensive experience in the life insurance and superannuation industry. She is also a member of the CSS Board. Her alternate is Ms Sandra Wilson, Branch Manager, Superannuation Branch, Department of Finance and Administration.



Ms Sally O'Loughlin—appointed 1 July 2001.

Ms O'Loughlin worked in the Australian Public Service in various Agencies between 1971 and 1983. In 1983 she was elected Assistant Secretary, then Secretary of the WA Branch of the CPSU, and from 1991 until 2000 was Assistant National Secretary based in the union's head office in Sydney where she was spokesperson on public service superannuation. She was also an employer nominated Trustee of the CPSU superannuation fund. She is a Director of NRMC Pty Ltd. She is also a member of the CSS Board. Her alternate is Mr John Flitcroft (a member of the CPSU and a Board member from 1990 to 2001).

Mission and operating principles

Charter 2001–02

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 administrative transactions are carried out in accordance with relevant legislation;
- to provide 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 the Board's activities and those of its 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, 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 41);
- the time taken to process benefit payments (see *Benefit Processing*, page 60);
- the time taken to finalise applications for Invalidation Retirement Certificates (see *Invalidation Processing*, page 63);

- the number of appeals against decisions taken under delegation and the outcome of those appeals (see *Dispute resolution*, page 71);
- the success of the communications strategies used to inform members of relevant superannuation matters and of the Board's activities (see *Communications Committee*, page 28); and
- the monitoring of member service satisfaction (see *Governance*, page 11).

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 provision of investment advice and analytical resources;
- the management of the relationships between the Board and service providers;
- ensuring compliance with the *Superannuation Industry Supervision Act 1993* (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.



Administrative arrangements

PSS Fund administrator

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.

Human resources

During 2001–02, the number of staff employed directly by the Board increased to nine as the Board established its internal investment team and extended its finance, research and administration activities. Staff employed directly by the Board are engaged on fixed term contracts and are not employed under the *Public Service Act 1999*.

In addition, the Board continued to receive the services of four full time staff seconded from ComSuper. To the extent that these staff provided services in respect of the management and investment of the PSS Fund, the PSS Board has reimbursed ComSuper for the salaries and salary related costs of these staff.

Statistics on Board staff by gender and employment category are provided in Appendix I.

Professional development

All Board staff, including seconded staff, had access to a range of continuing professional development activities including attendance at major industry conferences such as CMSF, ASFA and IFS Equities.

Occupational Health and Safety

Under the *Occupational Health and Safety (Commonwealth Employment) Act 1991* and the *Safety, Rehabilitation and Compensation Act 1988*, the PSS Board has a general duty of care which must be met by taking all reasonably practicable steps to protect the health and safety of its employees and third parties at work. Staff employed by the PSS Board are covered by Workers' Compensation which is managed by Comcare.

During the year:

- there were no dangerous occurrences under section 68 of the *Occupational Health and Safety (Commonwealth Employment) Act 1991*;
- there were no workplace inspections carried out by Comcare; and
- there were no remedial Provisional Improvement Notices issued.

Financial resources

Board administration costs

The PSS Board is responsible for the administration of the PSS Scheme and the management and investment of the PSS Fund. 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 PSS Board are met from revenues generated through user charging arrangements with employer agencies and the Department of Finance and Administration.

Since the current PSS legislation does not allow the PSS Board to hold moneys other than moneys held in the PSS Fund, ComSuper has been commissioned to, on behalf of the Board, recover the Board's administration costs from employer agencies. Under this arrangement, the Commissioner for Superannuation has therefore been accountable for and required to report in his financial statements, the Board's revenue and operating expenses for the 2001–02 and previous financial years.

In respect of the 2001–02 financial year, the financial statements of the Commissioner for Superannuation include \$1.2 million of operating expenses incurred on behalf of the PSS Board.

New funding arrangements from 1 July 2002

The current funding arrangements in respect of non-Fund expenses effectively require the Commissioner for Superannuation to be accountable for the financial activities of the PSS Board despite the fact that the Commissioner has no control over the PSS Board's financial activities.

In the absence of changes to the PSS legislation that would enable the Board to hold moneys other than moneys belonging to the PSS Fund, the Board obtained approval from the Minister for Finance and Administration to have the PSS Board prescribed as an agency under the *Financial Management and Accountability Act 1997* (FMA Act). Regulations to prescribe the PSS Board as an FMA agency were made in June 2002 with the regulations to take effect from 1 July 2002.

The effect of obtaining 'FMA agency' status is that the PSS Board will be able to receive its agreed share of the revenues recovered by ComSuper from employer agencies as Commonwealth public moneys, and it will be directly accountable for the expenditure and management of those public moneys. For the 2002-03 financial year, the Board will therefore be required to prepare financial statements in respect of both the moneys held in the PSS Fund and the Board's administration moneys.

Purchasing

In 2001–02, the PSS Board complied with the purchasing principles and policies outlined in ComSuper's Chief Executive Instructions. These instructions are consistent with the key principles set out in the Commonwealth Procurement Guidelines: value for money; open and effective competition, promoting national competition and developing industry; supporting other Commonwealth policies; ethics and fair dealing; and accountability and reporting.

Assets management

The Board's assets, not including the investments and other assets of the PSS Fund, were recorded and managed by the Commissioner for Superannuation. The Commissioner's strategy for managing assets is set out in the ComSuper Chief Executive Instructions.

Ecologically sustainable developments and environmental performance

The Boards in conducting their operations make every effort to minimise the environmental impact of their activities by adopting the following guidelines:

- All waste paper and cardboard will be recycled.
- Lighting and energy use will be minimized.
- The Boards' offices, where practicable, will use recycled paper and other products in their activities.

All Board publications will be produced in accordance with best environmental practice.



Description of the scheme

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.

A members accrued benefit multiple depends on the rate at which contributions are made to the scheme and the period membership.

Members may contribute between 2% and 10% of salary. The implicit employer contribution rate varies with the member contribution rate, subject to a cap in the first ten years of membership.

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.

SIS compliance

The PSS is a complying fund under the *Superannuation Industry Supervision Act 1993* (SIS) 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 2000–01, a prudential consultation was conducted by APRA and no major issues were identified by APRA in that consultation process.



Corporate governance statement

The PSS Board (hereafter referred to as 'the Board') is constituted under the *Superannuation Act 1990* (PSS Act) and the attendant regulations to the Act. Accountable to the members of the Scheme under the Act, under the *Superannuation Industry (Supervision) Act 1993* (the SIS Act) and under general corporate 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.

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 Scheme to occur as prescribed;
- To safeguard the assets of the Scheme and the interests of the beneficiaries;
- To inform all relevant parties of the Scheme's condition and conduct; 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.

The Board will review this Statement annually, and update or expand it as appropriate to ensure it remains effective and current.

Governance matters outside the Board's control

The Board does not control its own composition or its own remuneration. The power to appoint Board members is vested in the Minister for Finance and Administration under the Act, subject to consultations specified in the 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 own behaviours reflect its overriding general governance principles, and, where appropriate, mirror the behaviour, which the Board expects from companies in which the Board invests.

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 responsibilities for the Fund and 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.

The Board will undertake an annual review of its performance.

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; or
- 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 of or decision on the matter.

Confidentiality

Board members will keep confidential all information or material provided or made available to them, dealing with or related to their functions as Board members, except where such information or material is publicly available or is required by law to be disclosed.

Board members will continue to be bound by this obligation of confidentiality after they cease to be a Board Member.

In this context, 'Board members' include persons appointed to the Board, staff employed by the Board, service providers to the Board, and any person to whom Board papers, documents or information is made available.

Communications, contracts or arrangements between the Board and service providers will generally be entered into on a 'commercial-in-confidence' basis.

Legal professional privilege

The general policy of the Board is that legal advice provided to the Board for the performance of its functions and duties will not be made available or disclosed.

Securities dealing

The Board is mindful of its obligations under the law to not misuse non-public information of which it becomes aware in the course of carrying out its duties. Board members will maintain appropriate records of their dealings in securities and will provide a copy of these records 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.

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 Boards. It is recognised that service providers to the Board provide modest entertainment and small gifts from time to time. Board members will maintain a record of instances of any entertainment or gift provided by any service provider, which may be made available if requested by the Board.

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 committees to increase its own efficiency and to provide a means of more detailed consideration of matters important to the running of the Scheme. The governance structures and processes of the Board's committees include formal risk management and reporting arrangements, which reinforce the commitment of the Board to scrutinize its own processes to ensure transparency in identification of conflicts and separation of functions. Board committees are subject to written terms of reference and care is taken to ensure the activities of the committees remains consistent with the Board's duty of governance over the Scheme's activities.

Each committee will review its performance annually and the Chair of each committee will report to the Board following each review.

Meetings and agenda

The Board will meet at least six 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 is 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.

Professional development

The Board's policy is that Board members and staff should engage in continuing professional activities relevant to the operation of the Board as a whole and their individual Board member or staff duties. The Board provides organisational and financial support for such professional development activities.

Professional development activities may include local and international conferences, seminars and workshops, training courses and study tours on specific matters relevant to the Board's functions.

Once a year the Board will consider the major industry conferences (both in Australia and overseas) to be held over the forthcoming year. The Board will determine attendance based on the relative value to the Board's performance. These conferences are CMSF, ASFA, IFS Equities, CIE (Major Market Players), CIE (International), CEM – International Benchmarking. Attendance at other conferences shall be determined by the Chairperson and Chief Executive Officer.

Board members and staff who undertake professional development activities are expected, where appropriate, to provide reports to the Board and to distribute relevant papers to other Board members and staff.

The Board also encourages Board members to be members of relevant professional bodies such as the Australian Institute of Superannuation Trustees and the Australian Institute of Company Directors and will meet the costs of such memberships.

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 Auditor-General as its auditor. The Auditor-General's Office, in turn, contracts an external, independent party to conduct the audit.

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. The process meets the requirements of all relevant legislation.

Financial management framework

From 1 July 2002, in respect of its administration activities, the Board is accountable to Parliament and must comply with the provisions of the *Financial Management and Accountability Act 1997* (FMA Act). Accordingly, the FMA Act requires the Board to prepare annual audited financial statements in respect of its administration activities.

The Chairperson of the Board has issued policies, known as Chief Executive Instructions, regarding the Board's financial management. These instructions, which are mandatory for the Board and its staff, are also supported by financial delegations and detailed accounting procedures.

Fraud control plans

The Board has in place detailed fraud control plans that set out the Board's policies and strategies for the control, prevention and detection of fraud as well as control over the mismanagement or abuse of resources. The Board is required to ensure, and then certify in its annual reports to the Minister, that fraud risk assessments and fraud control plans have been prepared in accordance with the Commonwealth Fraud Control Guidelines; that appropriate fraud prevention, detection, investigation and reporting procedures and processes are in place; and that annual fraud data has been collected and reported that complies with the Commonwealth Fraud Control guidelines.

Internal audit and internal control

The Board has completed a detailed analysis of compliance and risks. The Board has engaged an Audit Advisor as an additional control mechanism to advise on financial, systems and related matters.

Supervision of service providers

Adequacy of resources

The Board regularly considers the resources required for the effective and proper running of the Scheme and act 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.

Working relationships between the Board, the internal investment team and external advisors

In carrying out its duty to manage and invest the moneys to meet the purposes of the Scheme, the Board has both an internal investment team and a number of external advisors at its disposal. The internal investment team is the Board's primary investment advisor. The investment team is assisted in this task by several external advisors who provide advice for the Board's consideration on strategic asset allocation and investment policy, risk monitoring, investment research and performance reporting, and investment manager selection and monitoring across all asset classes including alternative investments.

Under this arrangement, the internal investment team plays an active role in managing the Scheme's investments by coordinating advice from external advisors according to an annual work plan presented to the Board that includes all the investment related work that is envisaged for the year ahead, and undertaking independent analysis of recommendations brought to the Board by those advisors.

In the case of differences in views between the external advisors and the internal investment team on any investment issues, these will be made transparent to the Board in any papers and/or discussion. There will always be a recommended course of action from the internal investment team. This process ensures that the Board makes informed investment decisions.

Risk analysis and compliance

Business Risk

The Board regularly reviews its business risks and its 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 Committee 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 feedback

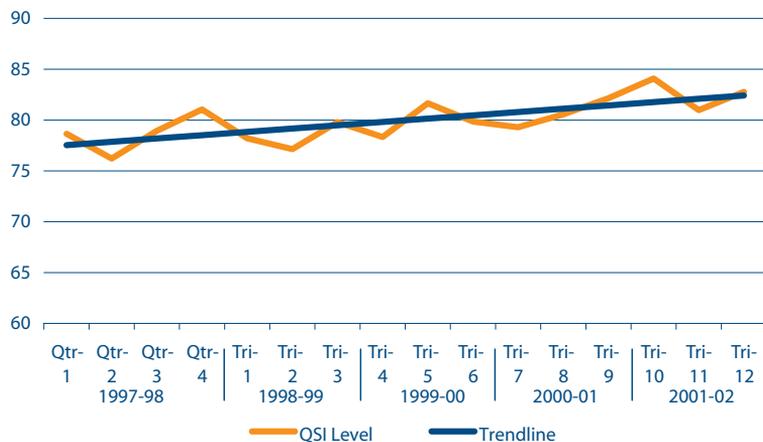
During 2001–02, on the Board’s behalf, ComSuper again undertook a comprehensive series of client satisfaction surveys with the assistance of Canberra-based firm Orima Research. Clients who had recent contact with one of ComSuper’s services were surveyed at three separate times throughout the year. ComSuper’s clients have again rated the quality of ComSuper’s service favourably on a range of customer service dimensions.

The Quality Service Index (QSI) for Commonwealth clients, introduced to measure the survey results and to enable comparison between survey periods, currently ranks in the region of an 83% satisfaction level, Chart 1, which shows ComSuper’s QSI scores for the Commonwealth schemes in each of the sixteen survey periods since data collection began in 1997–98, shows a gradual improvement in client satisfaction.

At year’s end, ComSuper was in the process of extending regular client surveys to cover services offered to employers.

The survey results feed into ComSuper’s continuous improvement process. 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.

Chart 1: Quality Service Index (QSI) scores



Service award for excellence

In June, the Board’s administrator, ComSuper, received a Gold Award at the 2002 Client Service Charter Awards for excellence in integrating its service charter into core service delivery outcomes and organisational culture. Awards were presented for use of service charters across three categories including demonstrated excellence in core service delivery and organisational culture, driving online service delivery, and in services to rural, regional and remote Australians.



Minister Assisting the Prime Minister for the Public Service, the Hon Tony Abbott MP, presenting an award for excellence in Service Charters to Peter Skinner, ComSuper’s acting Chief Executive Officer.

ComSuper’s general approach to service delivery is one of continuous improvement in a competitive environment and while maintaining its standards, identity and culture as a Commonwealth agency, the organisation seeks to blend the best of public and private sector approaches to service delivery. Service commitments embodied in the service charter are a subset of a much wider and comprehensive performance management and reporting system—the management systems required to produce regular reports are extensive and increasingly integrated with core systems underlying superannuation administration. Performance is closely monitored and reported against on a monthly basis.



Board Committees

Board and Board committee meetings

The Board has five standing committees of Board Members:

- the Investment Committee comprising all Board members. The Chair of the Committee is the Chair of the Boards, Mr Peter Reynolds;
- the Audit Committee comprising Ms Winsome Hall, Chairperson; Ms Joy Palmer, Member and Ms Louise McBride, Member;
- the Administration Committee comprising Ms Joy Palmer, Chairperson; Ms Sally O'Loughlin, Member and Ms Cathy Manolios Member;
- the Communications Committee comprising Mr Richard Balderstone, Chairperson; Ms Winsome Hall, Member and Ms Sally O'Loughlin, Member;
- the Governance Committee comprising Ms Joy Palmer, Chairperson; Ms Winsome Hall, Member and Ms Cathy Manolios, Member.

There is also a Reconsideration Advisory Committee comprising senior ComSuper officers Mr Trevor Dockett, Mr Michael Carberry and Mr Hugh Major.

Investment Committee

Purpose

The combined PSS/CSS Investment Committee advises both Board's on investment issues and related matters that are central to the Boards' functions of managing and investing the funds. It is the primary contact between the key external advisors on investment matters and the Boards.

Functions

The Committee:

- considers and reviews the Fund’s investment objectives;
- considers and reviews the Fund’s investment strategies;
- considers specific strategic investment proposals;
- reviews investment manager performance;
- reviews the performance of the Fund’s custodian;
- reviews and evaluates the performance of asset consultants and other investment related service providers;
- evaluates appropriate investment structures for the holding of the Fund’s assets;
- considers investment manager mandates;
- considers reports from internal and external advisors on investment issues;
- reviews and evaluates the Board’s brokerage recapture and securities lending programs;
- reviews and evaluates the investment performance of the Funds; and
- reports and make recommendations to the Boards on all investment matters.

Membership

The Committee comprises all members of both the PSS and CSS Boards.

Chair

The Chair of the Committee is the Chairperson of the Board. In the absence of that person, members present at a meeting of the Committee may appoint one of their number as Chair for that meeting.

Quorum

A quorum for a meeting of the Committee is four members, including at least one employee member and at least one employer member of the Board.

Meetings

The Committee meets as required to perform its functions. The Committee may meet in person, or by utilising telephonic or video-conferencing facilities.

Decisions

The Committee is not a decision-making entity. However, if all members of both the PSS and CSS Boards are present at a Committee meeting, they may agree to decide a matter as an out of session decision of the Boards by signing a resolution made available to them. In this case, the existing practices and procedures of the Board apply in relation to the reporting and recording of out of session decisions.

Review

The Committee's performance is reviewed annually and reported to the Board.

Issues considered in 2001–02

The Investment Committee was established in early 2002. The main area of activity for the Committee during that time was the Triennial Investment Strategy Review. The review encompassed all facets of the investment strategy, including the Investment Policies and Objectives, the Asset Allocations, and Fund Performance. The Committee also reviewed specific strategic investment proposals as well as investment manager performance and the performance of the Fund's custodian.

Audit Committee

Purpose

The combined PSS/CSS Audit Committee advises both Boards on accountability and audit related matters. It operates as a check on the management practices of its own operations, the Scheme administrator (ComSuper), fund investment managers, and master custodians.

The Committee assures the Board that its financial statements are based on appropriate accounting concepts, systems and techniques. It assures the Board that the audit arrangements within service providers (ComSuper, fund managers, master custodians) and its internal functions are operating effectively, and that appropriate fraud control strategies are in place.

The Committee reports annually to the Board on its operations.

Functions

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

The Audit Committee establishes internal and external audit plans and 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
- procedures and policies established under the *Financial Management and Accountability Act 1997*, including advising the Board's Chairperson on relevant matters.

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.

Frequency of meetings

The Committee meets as necessary (but in any event, not less than twice per year).

Membership

The Audit Committee is appointed by the Board and usually comprises three members, at least two of whom are members of both the CSS and PSS Boards. The term of appointment of individual members of the Audit Committee is at the discretion of the Board.

During the year the Audit Committee comprised Ms Winsome Hall, Ms Joy Palmer and Ms Louise McBride.

Issues considered in 2001–02

- Internal Audit Reports;
- PSS and CSS Fund Audits;
- Fund Financial Statements;
- Review of Custodian Services; and
- ANAO Report on the Management of Commonwealth Superannuation Benefits to Members.

Administration Committee

Purpose

The combined PSS/CSS Administration Committee advises both Boards on policy and operational matters relating to the operation of the Executive Unit and the contracting and performance of service providers to the Boards.

The Administration Committee is to become familiar with the policy activities of service providers and the Department of Finance and Administration (DoFA). It supervises such activities of service providers and monitors those of DoFA to enable it to respond or influence as necessary.

The Committee assures the Board of adequate governance and that processes are established and followed to ensure compliance with legislative requirements and the Board's policies.

The Committee reports annually to the Board on its own operations.

The Committee also monitors legislative and industry activity which may impact on the operation of the schemes.

Functions

The Committee undertakes the following responsibilities:

Service providers

Establishes contracts, performance agreements and reporting arrangements with service providers;

- Monitors the performance of providers other than auditors, including provider/Board/executive relationships;
- Ensures that all providers', excluding investment related service providers, activities are carried out in accordance with Board policy; and
- Reviews business continuity arrangements.

Legislative/Parliamentary

- Advises the Board of implications of legislative changes; and
- Advises and assist the Board with parliamentary submissions.

Invalidity

Monitors and reviews invalidity arrangements.

Legal

Reviews and make recommendations to the Board with respect to legal claims.

Administration

- Considers and makes recommendations to the Board as appropriate on matters with respect to pricing (charges to employers) and billing;
- Examines and recommends to the Board the annual budget and monitors expenditure;
- Monitors Business Plan activities;
- Oversees the Executive's:
 - i) organisation and, in particular, is responsible for the decision as to whether to contract out a service or provide it through internal resources; and
 - ii) accommodation arrangements including business continuity arrangements and makes recommendations to the Boards.

Insurance

Reviews and monitors all insurance arrangements including trustee indemnity, group life, travel and the like.

Other

- Continuously monitors industry best practice arrangements and makes recommendations where necessary;
- Supervises APRA reviews;
- Advises and assists the Board with industry submissions and participation;
- Deals with any other matters referred to it by the Board or the Chairperson; and
- Reviews the Committee's operation and terms of reference.

Frequency of meetings

The Committee meets as necessary but at least four times per year.

Membership

The Committee is appointed by the Board and usually comprises three members, at least two of whom are members of both the CSS and PSS Boards. The term of appointment of individual members is at the discretion of the Boards.

During the year the Committee comprised Ms Joy Palmer (Chair), Ms Cathy Manolios, and Ms Sally O'Loughlin.

Issues considered in 2001–02

- Review of TPD policies and procedures;
- Invalidity assessment panel contract;
- Legal claims;
- ComSuper forward planning;
- Investment adviser review;
- Relocation of board accommodation;
- Board policies and guidelines;
- Compliance reports;
- Trustee indemnity insurance;
- Legislative policies and changes affecting the schemes;
- Rationalisation of PSS scheme rules;
- Board business planning; and
- Executive performance reviews.

Communications Committee

Purpose

The combined PSS/CSS Communications Committee advises both Boards on communication related matters.

The Committee ensures that the Board meets the information disclosure requirements imposed by SIS through clear, timely and accurate reporting to members and ensures that members are informed of Trustee decisions and other developments which may affect members' interests.

The Communications Committee is the point of communication between the Board, the scheme administrator and other service providers for communications issues.

The Communications Committee undertakes the following tasks:

Policy and planning

- develops policy, which defines the strategic direction of Board communications to members and other stakeholders as determined by the Board;
- develops the budget for Board approval and oversees allocation of funds to communications projects;
- examines and reports to the Board on additional services to members, which the Board should consider providing.

Implementation

- oversees implementation and approves communications service providers to ensure implementation of the Board's communications strategy;
- ensures all member communications comply with SIS and other compliance requirements;
- approves the content of all communications to members (including annual report to Parliament),

Evaluation and research

- establishes an evaluation and research program in relation to development of the Board's communications strategy and specific communications projects.

Governance

- reviews it's terms of reference every 12 months in conjunction with the Communications strategy;
- annually reviews Committee operations and performance.

Frequency of meetings

The Committee meets as necessary (but in any event, not less than four times per year).

Membership

The Communications Committee is appointed by the Board and usually comprises two members, both of whom are members of both the CSS and PSS Boards. The term of appointment of individual members of the Communications Committee is at the discretion of the Boards.

The Communications Committee currently comprises Mr Richard Balderstone (chair), Ms Winsome Hall and Ms Sally O’Loughlin.

Issues considered in 2001–02

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

- further increasing knowledge of members needs through research studies, and ongoing feedback through telephone and online tracking;
- review and revision of the major PSS brochures resulting in a revitalised New Starter Kit providing clear simple information for members;
- continuous improvement to member statements and annual reports to members;
- further development of the Scheme’s brand including the creation of a Communications Guide to guard the integrity of the brand and its usage;
- improved communications with stakeholders through the creation of a Communications Working Group;
- the creation and fulfilment of an in-house Communications Officer function to better coordinate and oversee communications projects;
- the development and implementation of a nationwide direct mail campaign to promote Member Services Online;
- further redevelopment of the web site, including the introduction of a new vehicle, CEO Online, to further build relationships with members;
- development of Communications Plan Stage 2; and
- the further development of information seminars to members to include one-to-one counselling for members and additional locations.

Annual member statements and reports

The Board's principal means of communicating with members is through its Annual Member Statement and 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 again retained the services of communications consultants, Social Change Media, in order to improve the quality and content of this year's package.

This year, in response to member feedback the Committee developed an integrated pack strategy to allow for cohesive representation of the brand and a more efficient production process.

The Committee also undertook the following initiatives in response to members' feedback:

- making both the Annual Report and Member Statement more manageable for members;
- the integration of the contributor and deferred Annual Reports to create more holistic communications;
- compliance information at the end of the annual report document so that front of document can convey simple, clear messages;
- focusing on audience segments, with a particular focus on women and youth; and
- implementing a web-driven design strategy.

Member statements were available online to members through a secure site in the second week in September.

SIS legislation requires the Board to distribute annual member statements by 31 December each year. During the 2001–02 financial year member statements were distributed in mid-September, which exceeds the SIS requirements.

Schemes publications

During the year the Board's communications consultants (Social Change Media) implemented the first stage of new publications designs for the PSS. The Board's current communications strategy is aimed at increasing member awareness of the value of scheme benefits and includes a significant branding component.

Website development

As part of its new communications strategy the Board introduced a new web site for PSS members for which it won a silver award from the Conference of Major Superannuation Funds (CMSF).

The new site was promoted in conjunction with the introduction of online services and attracted high levels of member interest.

Further developments of this web are presently underway with the main focus being on new starters to the PSS.

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 19) where high quality performance was achieved across a range of customer service dimensions e.g. member statements, written estimates, and the telephone advisory service.

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

Communications Manager
PSS Board
PO Box 1907
Canberra City ACT 2616
Telephone: (02) 6263 6999
Fax: (02) 6263 6900

Governance Committee

Key function

The combined PSS/CSS Governance Committee advises both Boards on governance matters.

Responsibilities and role

The Committee addresses governance matters on two broad fronts:

- Board corporate governance; and
- Investment governance

Terms of reference

The Committee oversees the development, implementation and review of corporate governance policy for the Board.

The Committee:

- develops the Board's policy with respect to the Board's corporate governance;
- reviews the continuing appropriateness of the Boards' Corporate Governance policy and recommends any changes to the Board;
- oversees the implementation of any policies adopted by the Board with respect to the Board's corporate governance; and
- reviews the Committee's operation and terms of reference annually.

Investment governance

The Committee oversees the development, implementation and review of investment governance policy for the Board.

The Committee is the point of communication between the Board and external parties with respect to investment governance and proxy voting matters.

The Committee:

- develops the Board's policy with respect to investment governance and proxy voting;
- reviews the continuing appropriateness of the Board's investment governance and proxy voting policy;

- oversees the implementation of any policies adopted by the Board with respect to investment governance and proxy voting; and
- oversees the development and conduct of appropriate linkages with other Australian superannuation funds, relevant international pension funds and other relevant organisations with respect to investment governance.

Membership

The Governance Committee is appointed by the Boards 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 Governance Committee is at the discretion of the Board. Other Board members are entitled to attend Committee meetings. The Committee meets as necessary, but in any event, not less than four times per year.

The Committee evolved in June 2002 from a working party established by the Board in December 2001. The Governance Committee was established by the Board in June 2002, adopting some Board corporate governance related functions previously undertaken by the Administration and Investment Committees. During the year the Committee (and its antecedents) comprised Ms Joy Palmer (Chair), Ms Winsome Hall and Ms Cathy Manolios.

Issues considered in 2001–02

During 2001–02 the Committee and its antecedents spent some time considering various aspects of the economic, environmental and social behaviour of companies. It ultimately concluded that there was a job to be done in risk management of companies in which the Board invests in respect of environmental, social and corporate governance practices. The Board decided it would be beneficial to engage an adviser to assist in this area. Issues arising during the year have included:

- The establishment of criteria for the selection of an adviser;
- Oversighting of the tender process for an adviser;
- The establishment of a policy framework and subsequent development of a service agreement;
- Recommendations to the Board for the appointment of Westpac Investment Management (WIM) as provider of the Governance Advisory Service;

- Management of the relationship with WIM and implementation of the Governance Advisory Service, including the management of fees, revenue sharing, conflicts of interest, legal aspects of the service and a timetable for implementation;
- Development of a framework for risk assessment and the consideration of risks in relation to governance issues;
- Negotiation of an agreement with WIM and subsequent launch of the Governance Advisory Service;
- Development of research priorities and the adoption of a timetable for the delivery of that research;
- Development of a draft policy for the Boards with respect to proxy voting;
- Development of a draft Corporate Governance Policy; and
- Application of the Risk Assessment Framework.



Investment management

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 a number of specialist managers.

Where relevant, asset classes are constructed to consist 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 asset class index. For instance, core holdings in the Australian shares asset class track the S&P/ASX 300 Accumulation index, excluding Listed Property Trusts.

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.

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 relevant index.

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, opportunistic property and venture capital.

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.

Investment arrangements

During the year, the Board reviewed and revised its arrangements for the management of the investment funds. The Board established an internal Investment Team, comprising of a Chief Investment Officer and four other investment professionals. The Investment Team is responsible for providing investment advice to the Board, implementing Board investment decisions, and monitoring, reviewing and reporting on investment performance to the Board.

The Board appointed external investment advisors to assist the Board and the Investment Team. Those advisors are:

- on investment strategy – Towers Perrin Australia Pty Ltd;
- on manager selection and monitoring, and alternative investments excluding Australian private equity – JANA Investment Advisors Pty Ltd; and
- on Australian private equity investments – Wilshire Australia Pty Ltd.

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 moneys available for investment from ComSuper, and allocates them on the advice of the Investment Team, 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.

Table 1: The Board's fund managers at 30 June 2002

Asset class	Investment managers
Australian Shares	
Core	Colonial First State Investments Ltd
Specialist	Balanced Equity Management Pty Limited Perpetual Asset Management Limited Westpeak Investment Advisors (Australia) Limited
Direct	Jupiters Limited
Alternative	Various (21 managers)
Developed International Shares	
Core	Vanguard Investments Australia Limited
Specialist (Global)	Wellington Management Company LLP
Specialist (USA)	Westpeak Investment Advisors (Small Cap) Westpeak Investment Advisors (Enhanced S&P 500)
Alternative (USA)	Various (3 Managers)
Specialist (UK/Europe)	ABN AMRO Asset Management (Australia) Limited Friends Ivory & Sime Merrill Lynch Investment Management plc
Specialist (Japan)	JP Morgan Investment Management Inc Schroder Investment Management (Australasia) Limited
Currency Overlay	Pareto Partners
Emerging Markets International Shares	
Specialist (emerging markets)	Blairlogie Capital Management Deutsche Asset Management Limited Paribas Asset Management Limited
Australian Bonds	
Core	Colonial First State Investments Ltd Superannuation Members Home Loan Schemes
High Yield Debt	
Specialist	Wellington Management Company LLP Loomis, Sayles & Company, LP
Currency Overlay	Pareto Partners
Property	
Specialist (Australian)	Colonial First State Investments Ltd
Alternative (Australian)	Various (3 managers)
Alternative (International)	Various (3 managers)
Absolute return funds	
Specialist	Financial Risk Management Harris Associates LP
Currency Overlay	Pareto Partners
Cash	
Cash	Colonial First State Investments Ltd

Investment objectives

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).

Events during the year

Apart from the major strategic review and the changed investment arrangements described above, a number of other changes were made during the year. These changes are described below.

Alternative Investments

The Board continued to build the Fund's exposure to alternative investments during the year. Commitments were made to a number of new Australian private equity funds. Some of the funds previously committed to Australian private equity, Australian infrastructure, overseas private equity and overseas property were drawn down. At the end of the year, the size of the alternative investments program was \$251.8 million across 56 managers/investments (just over 5 per cent of the total Fund).

Jupiters Limited

During the year, the Fund's substantial holding in Jupiters Limited Founders' shares was de-founded. This meant that the Fund no longer requires approval from the Queensland Government, Jupiters Limited and other Founder Shareholders in order to sell any or all of those shares. At the same time, the Fund sold half of its Founders' shares back to Jupiters Limited.

Hedge Funds

During the year the Board made further progress in its research into hedge funds and its search for appropriate hedge fund managers. An initial investment in two hedge fund of funds vehicles totalling approximately one per cent of the Fund was made at the end of January 2002. In deciding on which vehicles to invest in, the Board was focussed on investments at the more market neutral, lower risk end, rather than the higher risk end.

Strategic review

During the year, the Board conducted a major review of its investment strategy. Major reviews generally are conducted once every three years (the last being in 1999). The purpose of a major review is to:

- assess the economic environment, political environment, market environment and other factors that may influence investment returns both in Australia and overseas;
- review the appropriateness of the Board's investment objectives for the Fund; and
- formulate an investment strategy to meet those objectives.

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 four years out of five;
- on average, the crediting rate will exceed the bank interest rate by one per cent or more, three years out of five; and
- not more than 25 per cent of the Fund's investments are to be invested in illiquid assets, with a minimum cash allocation of 2 per cent.

These criteria define the 'tolerable' level of volatility specified in the Fund's objective.

Strategic asset allocation

As a result of the review a new strategic asset allocation was adopted at the end of June 2002. The following tables set out the former strategic asset allocation (which applied throughout the year), and the new strategic asset allocation, which will apply going forward.

Table 2: Former strategic asset allocation

Asset class	Asset Allocation
Australian shares	30%
International shares	42% (50% hedged)
Emerging markets international shares	5%
Australian Bonds	8%
High yield debt	3%
Property	10%
Cash	2%

Table 3: New strategic asset allocation

Asset class	Asset Allocation
Australian shares	30%
International shares	25% (40% hedged)
Australian Bonds	10%
International Bonds	13%
Absolute return (hedge) funds	5%
Property	15%
Cash	2%

Work will be carried out to transition the Fund from the former to the new strategic asset allocation during the 2002-03 year.

Fund performance

The past financial year was a difficult one for the Fund. The Fund had more than 40% of its assets invested in international equities in developed countries and this asset class fell in value by about 21%. This was the major factor behind the Fund's disappointing return of -5.6% for the year, after tax and fees.

Despite the negative return recorded this year, the Fund's longer term investment performance remains solid. Over the last five years the Fund has returned an earning rate of 6.1% p.a. (crediting rate of 8.3%), compared with the average inflation rate of 2.8% p.a. over this period. Over ten years the Fund has returned an earning rate of 8.0% p.a. (crediting rate of 8.4%), compared with the average inflation of 2.5% p.a.

Performance by asset class

Performance figures in the following paragraphs on asset classes are quoted before tax and fees, to facilitate comparison with generally available benchmarks.

Australian Shares

The Australian share market held up well through most of the year in the face of weak international equity markets, but softened late in the year to record a return of -4.7% for the year as a whole. The Fund's Australian equity investments did better than this to return -2.1%. This better than market performance reflected some value added by the Fund's active Australian equity managers, very good performance from the Fund's strategic investment in Jupiters and better performance from the Fund's private equity and infrastructure investments.

International Shares–Developed Markets

International equity markets were weighed down by a number of negative influences, including security concerns in the wake of the September terrorist incidents, political tensions in the Middle-East, disappointing corporate profits, corporate governance issues (particularly in the US) and doubts about the sustainability of the economic recovery that was underway. The situation was exacerbated for Australian dollar based investors by the rise in the value of the Australian dollar against most currencies, which translated into a fall in the Australian dollar value of investments denominated in foreign currency.

The Fund's international equity investments in developed markets returned -17.5%, somewhat better than the market return of -21.0%. The major factor behind this better than market result was the decision to hedge all of the Fund's foreign currency exposure in this asset class late in 2001. This protected the Fund against most of the negative valuation impact that flowed from the rise in the value of the Australian dollar during the year. The Fund's active investment managers also did better than the market in this asset class.

International Shares–Emerging markets

Emerging international equity markets were hurt by the fallout from the September terrorist incidents early in the year but then re-bounded strongly in the following six months. Late in the year, however, they were caught up in the general weakness of developed equity markets and finished the year showing a return of -8.3%. The Fund's active managers did better than the market, resulting in the Fund return of -6.4% in this asset class.

Australian bonds

Despite a rise in official short term interest rates over the year and a relatively robust Australian economy, the Australian Bond market delivered solid returns in 2001–02. The Fund's investments returned 6.1%, just below the market return of 6.2%.

High Yield Debt

The high yield debt market produced a small negative return for the year of -1.7%. This result reflected concerns late in the year about corporate profitability and governance issues in the US. The Fund's high yield holdings under-performed the market to deliver a return of -5.8%. This disappointing result led the Board to terminate one of its two active managers in this asset class during the year.

Property

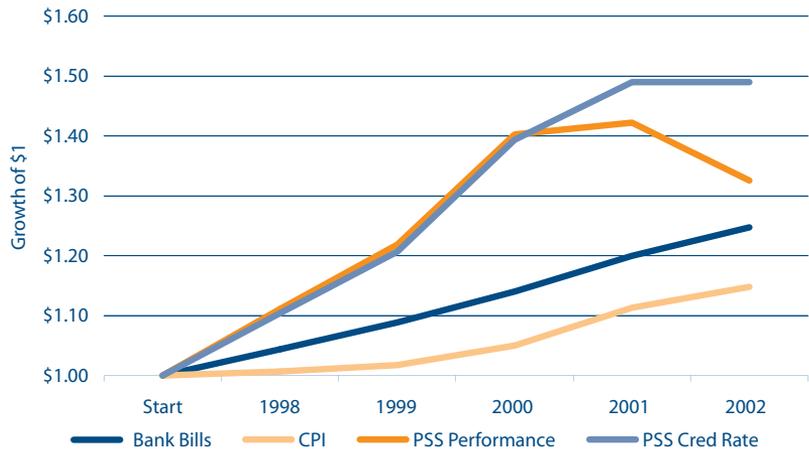
The Australian property market returned a solid 9.9% in 2001–02. The Fund's property investments did a little worse than this in returning 7.0%. This was the result of a fall in the Australian dollar value of the Fund's small international property portfolio and a small underperformance by the Fund's Australian property managers.

Table 4: PSS Fund performance 2001–02 (individual asset classes quoted before tax and fees; total fund quoted after tax and fees)

Sector	Holdings at	Holdings at	Proportion of Fund %	One-year performance	
	30 June 01 \$m	30 June 02 \$m		Portfolio %	B'mark* %
Australian shares	1 405.7	1 287.4	28.9%	-2.1%	-4.7%
Developed int'l shares	1 656.3	1 613.4	36.2%	-17.5%	-21.0%
Emerging markets int'l shares	197.6	213.4	4.8%	-6.4%	-8.3%
Debt	347.7	355.1	5.3%	6.1%	6.2%
High yield debt	130.3	109.7	2.5%	-5.8%	-1.7%
Property	581.1	587.1	13.2%	7.0%	9.9%
Hedge funds		50.1	1.1%	2.4%	
Cash	115.2	235.3	5.3%	4.6%	4.7%
Total fund	4 433.9	4 451.5	100.0%	-5.6%	-8.4%

- * The benchmarks used for the asset classes were:
- Australian shares – S&P/ASX200 Accumulation Index
 - Developed international shares – Morgan Stanley Capital International World index (ex Australia) with net dividends reinvested, in Australian dollars (50% hedged)
 - Emerging markets international shares – Morgan Stanley Capital International Emerging Markets Free Index with gross dividends reinvested in Australian dollars (unhedged)
 - Debt – UBS Warburg Composite Bond Index
 - High yield debt – Merrill Lynch High Yield Master Index in Australian dollars (hedged)
 - Property – Mercer Australian Unlisted Property Index
 - Hedge funds – the PSS total fund benchmark
 - Cash – UBS Warburg Bank Bill Index
 - Total fund – composite of above (excluding hedge funds) weighted according to the Strategic Asset Allocation

Chart 2: Fund performance comparison over 5 years



Investment information

Information on investments can be found throughout this report. Further information can be obtained from:

Internet: www.pss.gov.au
 Executive Unit,
 PSS Board
 PO Box 1907
 Canberra City ACT 2601
 Telephone: (02) 6263 6999
 Fax: (02) 6263 6900
 E-mail: secretary.csspss@csb.gov.au

Crediting rate and reserving policy

Crediting rate 2001–02

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 0% per annum for the financial year 2001–02. This crediting rate was determined using a revised formula for crediting rates adopted by the Board in June 2001. The PSS earned -5.6% for the 2001–02 financial year after fees and taxes. The crediting rate of 0% per annum was declared in light of the legislative requirement that prohibits the declaration of a negative crediting rate.

Table 5: Annual crediting rates 1998–2002

Financial year	Crediting rate (%)
1997–98	10.4
1998–99	9.3
1999–00	15.5
2000–01	6.9
2001–02	0.0
5 Year Average	8.3

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 4.5% per annum after tax and fees, based on a nominal return averaging 7.0% 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:

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

The PSS Board's investment policy includes a reserving mechanism, which can be used to smooth fluctuations in crediting rates. The reserve gives effect to the legislative requirement that no negative crediting or exit rates may be declared, even when the investment performance has been below zero.

The reserve is a notional amount only, which reflects the difference between total member equity and actual fund size. In years with high returns, part of the investment earnings are held back thereby reducing the rate credited to members. In years with lower returns, the amount held back is used to top up the interest rate credited to members, thus smoothing crediting rates over time. If returns are negative and there is no reserve available then the Fund declares a zero crediting rate and goes into a negative reserve situation. Future earnings would then be used to bring the reserve back to zero. The use of this mechanism ensures that members receive their full benefit entitlements, regardless of the time of their exit from the Scheme.

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 $\pm 5\%$ 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:

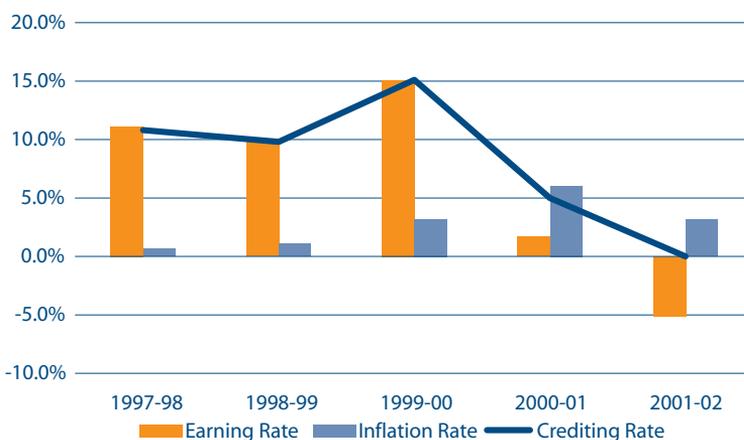
- if the earning rate exceeds the target rate, the crediting rate will be the earning rate less a proportional transfer to bolster the reserve; and
- if the earning rate is less than the target rate, the crediting rate will be the earning rate (subject to the minimum crediting rate being zero);

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 \$248.3m or -5.7% of the PSS Fund at 30 June 2002.

Reserve opening balance at 30 June 2001	\$14.6m
Earnings on opening balance	\$(0.8m)
Allocation to members	(\$262.1m)
Reserve closing balance at 30 June 2002	(\$248.3m)

To ensure fairness for all members, reserves will be replenished as quickly as possible with crediting rates remaining at zero until this is achieved.

Chart 3: Crediting rates compared with inflation rates 1998–2002



Exit rate

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 declared in 2001–02

Effective date	Exit rate (annualised)
10 July 2001	6.9%
17 August 2001	3.4%
11 September 2001	0%
10 October 2001	0%
9 November 2001	0%
11 December 2001	0%
10 January 2002	0.5%
11 February 2002	0.1%
11 March 2002	0%
10 April 2002	0.9%
9 May 2002	0%
12 June 2002	0%

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.



Account maintenance

The maintenance of PSS contributor accounts is a major function provided by the Board's administrator (ComSuper). 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 by the Board and ComSuper during the course of the financial year.

Collection and recording of member information

Member information for most employers is reported electronically through interfaces with employer payroll systems or through direct electronic form submission for a number of smaller employers.

SERVICE

ComSuper (the Board's administrator) maintains records of Scheme contributors to allow, among other things, the accurate and timely publication of member statements, the accurate and timely payment of benefits to members, and to facilitate reconciliation against Fund accounts;

STANDARD

An unqualified audit report in respect of the contributions system.
Accuracy and timeliness as assessed by the data quality index (DQI) of 0.7 or greater.

OUTCOMES

Standard met for contributions system.
The DQI standard was met or exceeded in each month during the reporting period except for April and June 2002, due to difficulties with data from two large employers.

Chart 4: Data quality index (DQI) 2001–02



Note: The data quality index is derived from measures of the number of entries reported that do not produce an error and the number of member transactions received and processed within the standard of ten days of the relevant payday.

Collection banking, recording and monitoring of contributor remittances

Member and employer productivity contributions for PSS members are remitted fortnightly and paid to the Board’s bank account.

In 2001–02 the Fund received \$367m in member contributions and \$151m in productivity contributions. Benefits paid from the Fund during the year totalled \$204m, giving a net contributions inflow of \$314m for 2001–02.

At 30 June 2002, the PSS had 130 283 contributing members—an increase of about 7.1% over the population at 30 June 2001.

SERVICE

ComSuper

- maintains appropriate banking arrangements for the payment of contribution remittances into the Fund;
- lodges moneys with the Board's investment custodian for investment by investment managers to the extent that moneys held in the Board's bank account are not required for the purpose of the payment of benefits and other expenses;
- maintains appropriate accounting systems for the recording of contribution remittances received; and
- monitors the collection of contribution remittances and pursues any late remittance of contributions with employers and collect penalty interest where appropriate.

STANDARD

Contribution remittances to be deposited into the Board's bank account on the same day as received.

Posting of member contributions to ComSAS data base to be completed within 10 working days.

Monitor timeliness of contribution receipts from major employers to ensure contribution remittances are received by the due date

Daily reconciliations will be undertaken to ensure that all moneys received are banked.

Unallocated money accounts
 Entries : all accounts not to exceed 2 000
 Balance: not to exceed \$2 million

OUTCOMES

Met on all occasions

Met on all occasions

All major employers are remitting contributions on or before the due date

Met on all occasions

Met on all occasions

Table 7: Contributor membership 1998–2002

Year ending	Male	Female	Total
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
30 June 2002	55 270	75 013	130 283

Maintenance of proper accounts and records

SERVICE	
<p>ComSuper (the Board’s administrator) ensures that adequate systems, procedures and controls are in place to meet the administration and reporting requirements of the PSS Act, PSS Trust Deed and Rules, and associated legislation.</p> <p>ComSuper will also, at the direction of the Audit Committee of the Boards, arrange for an independent audit of those systems and controls to be undertaken from time to time.</p>	
STANDARD	OUTCOMES
<p>Unqualified external audit reports, and assessed via internal audit program</p>	<p>Standard met</p>

Employer support

SERVICE	
<p>ComSuper (the Board’s administrator) will:</p> <ul style="list-style-type: none"> undertake a range of initiatives, including system improvements, training of personnel staff and information dissemination, to improve employers’ understanding of the Schemes and their various responsibilities, so that they are reliable sources of superannuation information for their staff and so that data submitted to ComSuper on behalf of their employees is accurate. The effectiveness of these measures will be gauged through surveys of employers and through ongoing monitoring of error volumes by ComSuper systems. 	
STANDARD	OUTCOMES
<p>Effectiveness of relationship with employers will be measured against annual employer surveys and internal surveys of accuracy of data submitted to ComSuper</p>	<p>An employer survey was conducted May/June 2002 which reflected an effective relationship with most employers. Internal surveys of accuracy of data shows an improvement in the overall accuracy and timeliness of data.</p>

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 6 701 CMAPS with only 220 being accorded limited benefit status. The number assessed with limited benefits status represents 3.3% of the total CMAPS assessed over the 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 2002 there were 2 754 members paying premiums for additional death and invalidity cover, compared with 2 578 at 30 June 2001. The gross amount of cover has grown from \$202.16m to \$229.97m. The average value of additional cover was \$83 504 per member. The average age for persons accepted for additional cover was 39 years.

Surcharge

The *Surcharge Contributions Tax (Assessment and Collection) Act 1997*, more commonly referred to as ‘the surcharge’, requires superannuation providers to report surchargeable contributions for all PSS members to the Australian Taxation Office (ATO) on an annual basis. The intention of the legislation is to apply a tax on employer financed contributions, specifically targeted at high income earners, and imposes a surcharge of up to 15% on a member’s surchargeable contributions, provided the member’s adjusted taxable income is greater than the surcharge threshold.

On receipt of surchargeable contributions information, the ATO matches the data with taxable income. If the taxpayer’s adjusted taxable income exceeds the threshold, the ATO determines the amount of surcharge debt applicable to the member and reports this to ComSuper and the member.

Table 8: Summary of surcharge activity 2001–02

	Number*
Surcharge Debts Reported by the ATO	8 806
Surcharge Debt Payments Received from Members	875
Debts Recovered from Member Benefits	254

* Further details are given in the financial statements—see page 92.

Contributor communications

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.

The contact centre

PSS members are encouraged to seek information about their superannuation benefits. The most popular form of request remains the telephone, although a marked increase in email enquiries was noted during the year. ComSuper's Contact Centre answered 166 423 telephone calls, responded to 15 750 emails and prepared 6 537 written replies to member's enquiries. As well 127 member seminars were conducted in various locations throughout Australia, which were attended by 4 253 members.

SERVICE

At the direction of the Boards, ComSuper undertakes a communications program aimed at improving members' knowledge and understanding of the Schemes so that they are in a position to make informed decisions at times when these need to be made. This includes the range of communications required by SIS and a recognition of the particular needs of members.

ComSuper provides a range of seminars broadly in accordance with demand, issues member information statements and makes available various scheme publications both in hard copy and electronic format.

ComSuper also provides a range of communications to members on benefit entitlements and queries relating to the general administration of the schemes in writing, over the phone and by electronic means. ComSuper will continuously seek ways to improve these communications.

STANDARD	OUTCOMES
<p>Increased knowledge and understanding of the schemes by members as gauged by surveys.</p> <p>Also, where applicable, ComSuper provides relevant information within the time frames imposed by SIS and generally speaking will significantly better those times. Where no statutory time frame exists, ComSuper provides the required information or service as soon as possible but in any event, no later than 20 working days after the request is received.</p>	
<p>Written enquiries for benefit estimates: 85% in 10 working days 95% in 20 working days < 20 working days reported by administrator</p>	<p>*Standard met 90% in 10 working days 99% in 20 working days</p>
<p>Email enquiries / requests for benefit estimates: 95% in 1 working day 100% in 5 working days</p>	<p>80% in 1 working day - Standard not met* 100% in 5 working days - Standard met</p>
<p>Member Statements available from web site: by 8 September 2001</p>	<p>Standard Met</p>
<p>Member Statements - Deliver outputs as identified in the project plan agreed with the executive unit</p>	<p>Standard Met</p>
<p>Manually Generated statements: by 31 October</p>	<p>Manual Statements were completed on the 20th December 2001</p>

Replacement member statements: within 10 days of request	Standard Met
Telephone abandoned rate: Average of 3% or less over a month	*Standard not met Abandoned rate of 5%
Telephone average speed of answer: Average of 30 seconds or less over a month	*Standard not met Average speed of answer - 84 seconds
Web site changes: Critical updates - 1 working day Routine updates - 95% in 5 working days, > 5 workings days reported by administrator	Standard met on all occasions
In addition, ComSuper undertakes in relation to the services listed below, that:	
i-Estimator: be available by 15 September	Standard Met
Quality of generated correspondence: In meaningful and professional manner - fit for purpose assessed via a six monthly independent audit	Standard Met
Seminars: Provide as required or requested	Standard met on all occasions
Personal counselling in Canberra: Urgent - immediately Others - within 5 working days	Standard met on all occasions

*In the months of July (access number distribution) and September–October (Annual Member Statement mailout) the Contact Centre experienced greatly increased demand for member services, which resulted in standards not being met during the reporting period.

Chart 5: Commonwealth emails processed within 24 hours

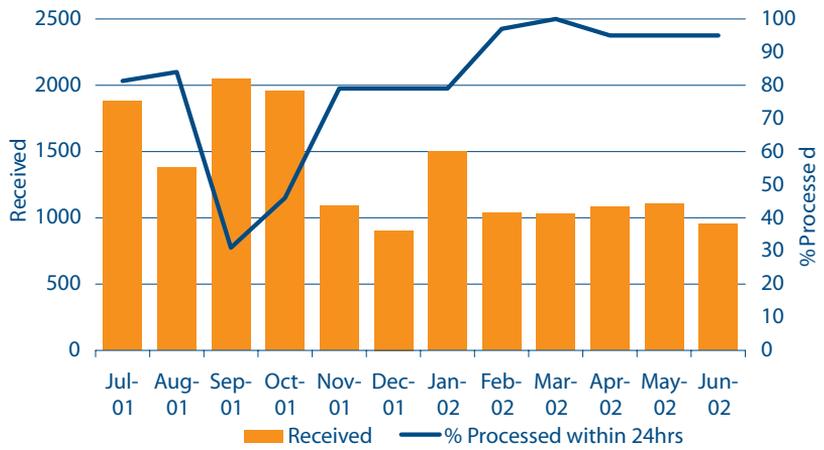


Chart 6: Commonwealth telephone calls average speed of answer

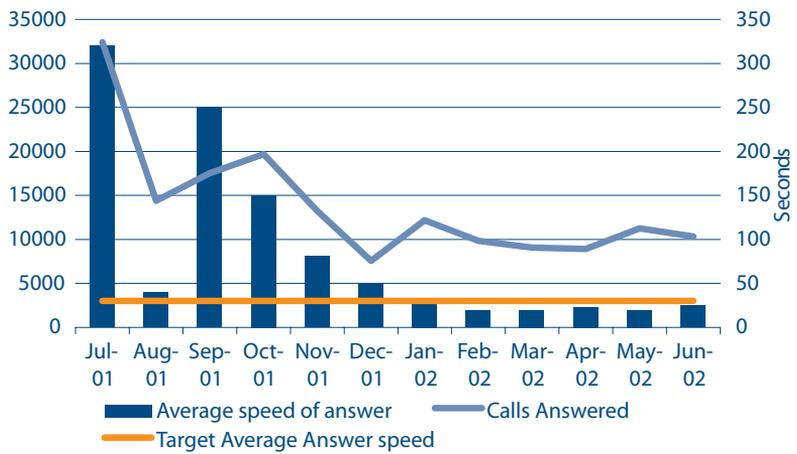
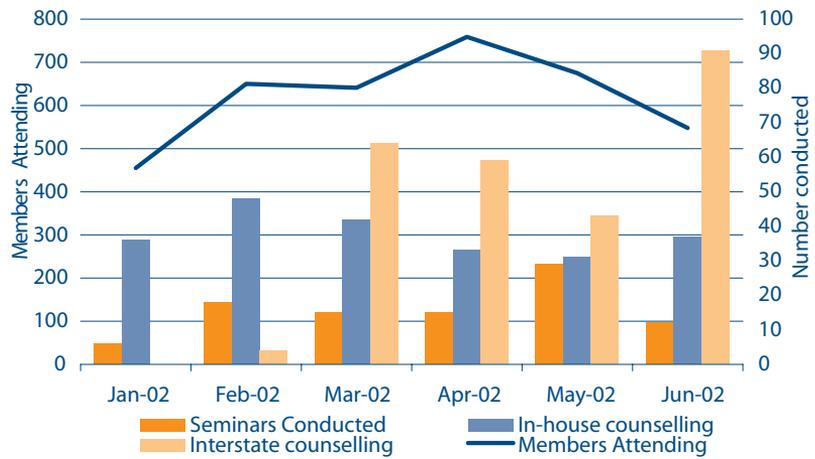


Chart 7: Information seminars and personal counselling 2001–02



PSS on the Internet

As mentioned previously under the activities of the Communications Committee the Board successfully introduced a new PSS web site during the year. Internet services for the PSS were previously provided by the Board’s administrator (ComSuper) under a blanket arrangement that covered all superannuation schemes administered by that organisation.

The chart on the next page shows activity levels for the new site since its inception. In general terms, PSS member preference for superannuation information to be communicated in electronic forms is growing in line with community trends to the point where the web site has become a primary communications channel.

Chart 8: PSS web site hits 2001–02



Benefit payments

The rate of benefit applications processed by ComSuper in 2001–02 eased slightly compared with the numbers processed in the 2000–01 financial year.

ComSuper processed 14 433 benefit applications during the year (compared with 14 582 in the previous financial year), representing more than 1 200 applications per month throughout the year.

During 2001–02 the bulk of the benefits processed came from the resignation category (10 775 or 75 per cent). The retrenchment rate fell slightly from 2 132 (14.6%) in 2000–01 to 1 915 (13.2%) in 2001–02 while the age retirement rate increased from 1 199 to 1 510 (10% of total benefits processed). The types of exit are shown in Table 9.

Table 9: Exits by type 2001–02

Type	Number
Age (including Preserved age claims)	1 510
Retrenchment (Involuntary and sale of assets)	1 915*
Invalidity (includes Preserved invalidity)	160
Death	73
Resignation and other	10 775
Total	14 433

*including 40 Sale cases (none in the previous year)

SERVICE

ComSuper will process all applications for benefits in a timely manner and in accordance with the PSS Act.

STANDARD

Accuracy as assessed by six monthly independent reports. In particular, ComSuper will:

Processing time	Proportion processed
within 10 working days	80%
within 20 working days*	97.5%

Where all data is available, average processing time	less than 6 working days over a month
--	---------------------------------------

Including those cases where more data is required, average processing time	12 working days over a month
--	------------------------------

OUTCOMES

Processing time	Proportion processed
within 10 working days	96%
within 20 working days*	99%

Average processing time, where all data is available	3.1 working days
--	------------------

Average processing time, where more data was required	6.4 working days
---	------------------

Chart 9: Benefit processing against standards, 2001-02

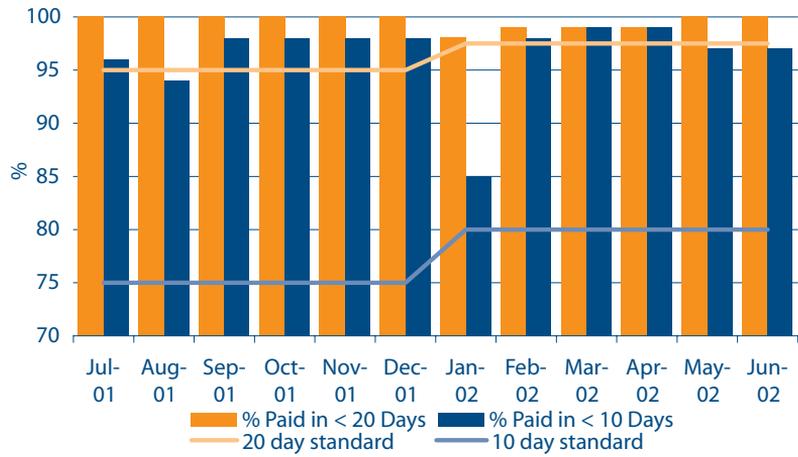
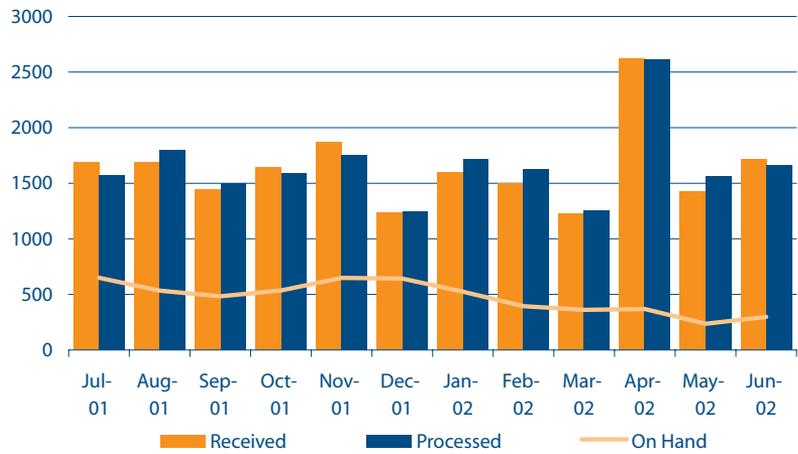


Chart 10: Applications received processed & on hand, 2001-02



Processing of invalidity claims

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 97 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 2001–02, pre-assessment payments were approved in respect of 96 applicants. No 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 2001–02, assessment panel services were provided by Independent Claims Management Pty Ltd (ICM). Of the 151 cases considered by ICM, 136 were recommended for invalidity retirement, 6 were recommended to be refused and 9 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:

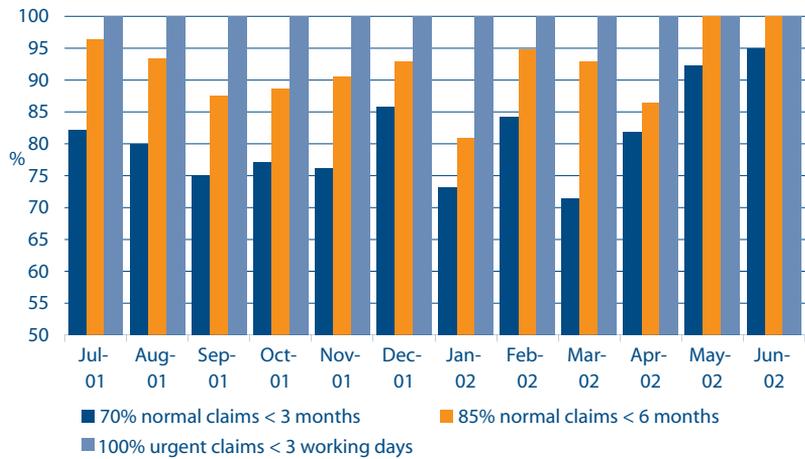
- (a) the advice of the panel; and
- (b) the ‘practicality’ of the person being able to find a job for which he or she is qualified or could become qualified after retraining.

During 2001–02 136 invalidity retirement certificates were approved. Of those, 14 were fast-tracked by the invalidity assessment panel in less than four days.

SERVICE
In assessing claims for invalidity retirement, ComSuper will ensure that due process is followed, that claims are processed expeditiously, that legislative requirements are met and that guidelines issued by the boards, are followed

STANDARD		OUTCOMES	
Very urgent invalidity claims	100% in 3 working days	Very urgent invalidity claims	Standard met on all occasions
All other invalidity claims	70% in 3 months 85% in 6 months > 6 months, reported by Administrator	All other invalidity claims	Standard met on all occasions

Chart 11: Time taken to determine invalidity cases



Accounts, records and funding of benefit payments

SERVICE

ComSuper

- liaises with the Board’s investment custodian to ensure that funds are available to meet benefits and other payments from the Fund as they fall due; and
- maintains proper accounts and records in respect of benefits paid.

STANDARD

Maintain sufficient levels of liquidity in the Boards’ bank account to meet expected monthly benefit payments and ongoing costs related to the management of the funds;

Unqualified audit report

Summary reports of debt recovery activity against agreed guidelines to be provided

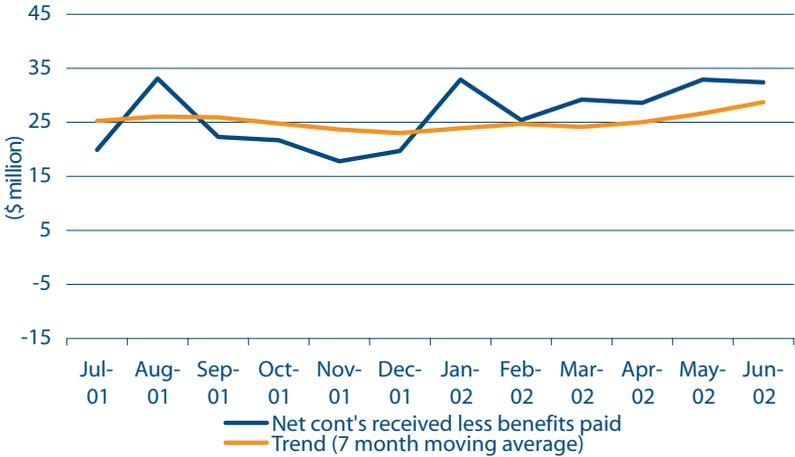
OUTCOMES

Met on all occasions

Unqualified Audit Report provided for 2000–01 and 2001–02

Met on all occasions

Chart 12: PSS Fund—contributions received less benefits paid—2001-02





Staff of ComSuper's Pensions Administration Section make fortnightly payments to pensioners and assist pensioners to understand their superannuation entitlements and maintain their pension accounts in accordance with the service standards agreed between ComSuper and the Board.

During the year Pensions Administration staff answered 106 052 telephone calls, responded to 2 294 emails and prepared 11 864 written responses to pensioner enquiries for the Commonwealth Schemes.

Information officers can be contacted by telephone (through a dedicated call centre), letter, facsimile or email. Pensioners with hearing impairments can use a special teletypewriter (TTY) facility. Advisory officers are available for personal counselling at ComSuper's office.

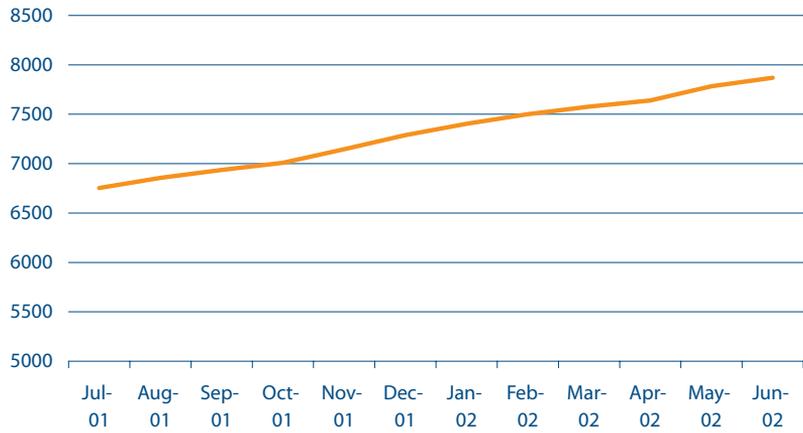
A section of the PSS web site has been designed to allow pensioners who use the Internet to get information about issues relating to the payment of their benefit.

Account maintenance

SERVICE		
ComSuper maintains appropriate records and documentation of all persons eligible to receive a pension under the Rules. This includes the setting up of a new record when a pensioner commences, processing amendments to personal details, processing altered payment arrangements, processing cessations on death, where applicable commencing reversionary benefits following death, processing variations to child/student pensions, processing variations to invalidity pensions following reclassification and initiating recovery of overpaid pension when advice of death is delayed.		
STANDARD	OUTCOMES	
An unqualified audit report in respect of the system used to maintain pensioner records. Variations to pensioner accounts accurate and timely as assessed via a six monthly independent audit. Commence all reversionary pensions on the next available payday following receipt of application subject to eligibility criteria being clearly met and subject to there being no counter claims	Standard met on all occasions	

Pensions in force

Chart 13: Growth in PSS pensioner population 2001–02



There were 7 870 pensions in force at 30 June 2002, an increase of around 1 percent from the 6 688 pensions in force at 30 June 2001.

Pensioner communications

SERVICE

ComSuper will, at the direction of the Board, provide a range of communications to pensioners to assist their understanding of the scheme, to facilitate enquiries and to facilitate changes to personal or payment details. This includes any communications that may be required by SIS.

In response to guidance from the Board, ComSuper will also seek to improve the quality and effectiveness of its communications with pensioners in part through regular reviews and in part through surveys of clients.

STANDARD

End of financial year pension advice and group certificates	Send out before first pension payday in July each year
Written enquiries	100% in 5 working days
Email enquiries	95% in 1 working day
	100% in 5 working days
Telephone abandoned rate	Average of 3% or less over a month
Telephone average speed of answer	Average of 30 seconds or less over a month

OUTCOMES

End of financial year pension advice and group certificates	The standard for the first payday in July 2001 and January 2002 processing was met. The standard for July 2002 was met but delays for some members occurred due to data problems associated with the introduction of the new pension payment system.
Written enquiries	100% Standard met
Email enquiries	95% Standard met
	98.4% Standard not met
Telephone abandoned rate	Average 1.3% Standard met
Telephone average speed of answer	Average 24 Seconds Standard met

Chart 14: Pensioner telephone enquiries

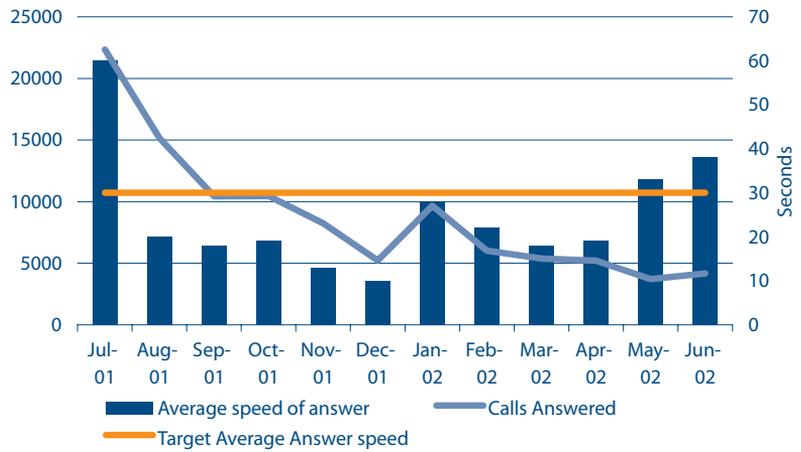
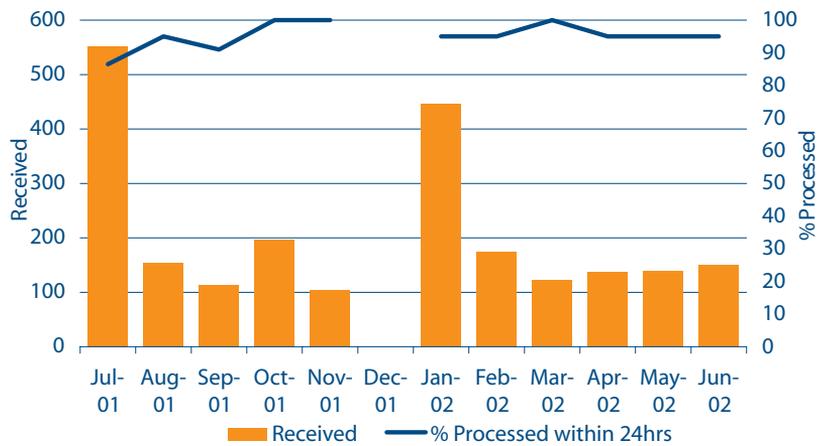


Chart 15: Pensioner emails received and processed 2001–02



Note: Data for December 2001 is not available.



Dispute resolution

Avenues of review

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

Internal reconsideration

A person affected by a decision of the Board or a delegate may apply in writing to have it reconsidered. No fee applies. If is still unhappy with a decision, further reconsideration may be sought but the application must be supported by evidence not previously known to the Board and 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) after examination. The RAC comprises senior ComSuper officers: Mr Trevor Dockett; Mr Michael Carberry; and Mr Hugh Major. The RAC makes a recommendation which 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)* and should a person be unhappy with the Board's decision, the matter can be referred to the Superannuation Complaints Tribunal.

Applications received

Twenty six applications for reconsideration were received, compared with 27 last year. Sixteen applications concerned the limited benefits status of members; one concerned change of election benefit option; three concerned invalidity retirement; three concerned spouse's benefits; two concerned the date of invalidity retirement and one concerned early release of a preserved benefit on the ground of severe financial hardship.

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 23 per cent of cases, this was primarily as a result of additional evidence rather than any obvious deficiency in the original decision.

Cases finalised

Twenty six cases were finalised during the year, 42 for the previous year.

SERVICE
ComSuper investigates requests for reconsideration of decisions of the Board or its delegates in a thorough, objective, and effective manner in accordance with any guidelines issued by the Board. ComSuper also does all things necessary to facilitate the expeditious processing of negligence claims against the Board according to procedures issued by the Board.

STANDARD	OUTCOMES														
<table border="1"> <tr> <td>Processing of reconsideration requests</td> <td>Proportion completed</td> </tr> <tr> <td>within 6 months</td> <td>45%</td> </tr> <tr> <td>within 9 months</td> <td>65%</td> </tr> <tr> <td>within 12 months</td> <td>90%</td> </tr> <tr> <td>>12 months</td> <td>reported by Administrator</td> </tr> <tr> <td>Average processing time</td> <td>9 months</td> </tr> </table> <p>ComSuper will process all negligence claims both objectively and expeditiously—as assessed by six-monthly independent audit report.</p>	Processing of reconsideration requests	Proportion completed	within 6 months	45%	within 9 months	65%	within 12 months	90%	>12 months	reported by Administrator	Average processing time	9 months	<p>Over the twelve-month period all standards have been met.</p> <table border="1"> <tr> <td>Average processing time</td> <td>8.3 months</td> </tr> </table>	Average processing time	8.3 months
Processing of reconsideration requests	Proportion completed														
within 6 months	45%														
within 9 months	65%														
within 12 months	90%														
>12 months	reported by Administrator														
Average processing time	9 months														
Average processing time	8.3 months														

Performance indicator

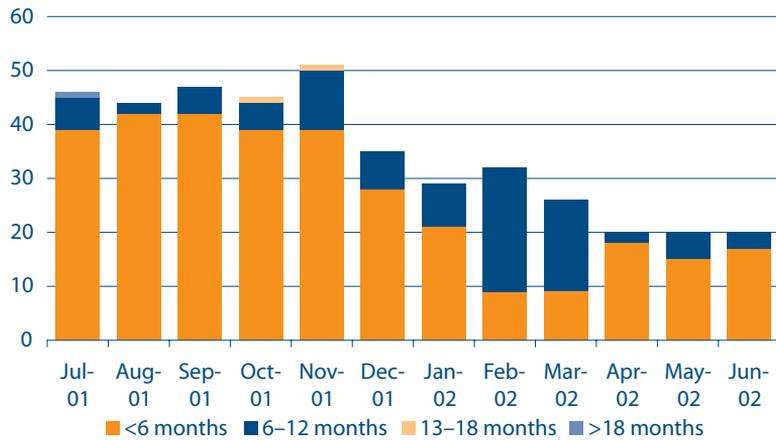
The service level standard agreed between ComSuper and the PSS Board with effect from 1 January 2002 sets standards of 45% of cases to be completed within 6 months, 65% of cases to be completed within 9 months and 90% of cases to be completed within 12 months. Over the 12 month period all three targets have been met.

Table 10: Reconsideration applications received and outcomes 2001–02

	2000–01		2001–02	
	Delegate's decisions	Board's decision	Delegate's decisions	Board's decision
Brought forward	23	1	9	0
Received	27	0	26	0
Withdrawn or lapsed	7	0	6	0
Decisions affirmed	18	0	10	0
Decisions varied	0	0	0	0
Decisions set aside	16	1	10	0
Resolved	41	1	26	0
Carried forward*	9	0	9	0

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

Chart 16: Age analysis of Commonwealth reconsideration cases



External review

SERVICE	
ComSuper undertakes to do all things necessary to facilitate the expeditious processing of matters that go to the Superannuation Complaints Tribunal, the Federal Court and other jurisdictions such as the Human Rights and Equal Opportunity Commission (HREOC).	
STANDARD	OUTCOMES
Process all external cases both objectively and expeditiously as assessed by six monthly independent audit report.	Standard Met

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* (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, ten complaints were lodged with the SCT against the PSS Board and five were carried over from the previous year. Six cases were completed during the year: four decisions of the Board were affirmed, one complaint was withdrawn by the complainant, and another complaint was treated as withdrawn on the basis that it was lacking in substance. Nine SCT complaints remain outstanding as at 30 June 2002.

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.

Claims against the Board

During the year the Board of its delegates considered 7 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 2001 to 30 June 2002

- Seven claims against the Board were finalised.
- Liability was denied in three cases.
- One claim was settled by an agreement to compensate claimant for loss when he exits the scheme.
- Three claims were settled by payment of compensation.

A total of \$35 903 was paid in one-off lump-sum settlement payments to the claimants.

Complaints and enquiries

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

SERVICE
ComSuper will maintain systems for dealing with SIS registered complaints and representations made by Parliamentarians and the Ombudsman.
ComSuper will also maintain systems for dealing with requests under the <i>Freedom of Information Act 1982</i> .

STANDARD	OUTCOMES						
ComSuper will respond to:							
<table border="1"> <tr> <td>SIS complaints</td> <td>90% within 15 working days >15 working days reported by Administrator</td> </tr> </table>	SIS complaints	90% within 15 working days >15 working days reported by Administrator	<table border="1"> <tr> <td>SIS complaints</td> <td>A substantive response was made to 69% of SIS registered complaints (excluding requests for internal review) within 15 working days</td> </tr> </table>	SIS complaints	A substantive response was made to 69% of SIS registered complaints (excluding requests for internal review) within 15 working days		
SIS complaints	90% within 15 working days >15 working days reported by Administrator						
SIS complaints	A substantive response was made to 69% of SIS registered complaints (excluding requests for internal review) within 15 working days						
<table border="1"> <tr> <td rowspan="2">Parliamentarian and Ombudsman representations</td> <td>90% within 15 working days</td> </tr> <tr> <td>100% within 25 working days</td> </tr> </table>	Parliamentarian and Ombudsman representations	90% within 15 working days	100% within 25 working days	<table border="1"> <tr> <td rowspan="2">Parliamentarian and Ombudsman representations</td> <td>55% within 15 working days</td> </tr> <tr> <td>91% within 25 working days Overall one case (9%) fell outside the primary standard.</td> </tr> </table>	Parliamentarian and Ombudsman representations	55% within 15 working days	91% within 25 working days Overall one case (9%) fell outside the primary standard.
Parliamentarian and Ombudsman representations		90% within 15 working days					
	100% within 25 working days						
Parliamentarian and Ombudsman representations	55% within 15 working days						
	91% within 25 working days Overall one case (9%) fell outside the primary standard.						
<table border="1"> <tr> <td>Freedom of Information</td> <td>90% within 5 working days 100% within 7 working days</td> </tr> </table>	Freedom of Information	90% within 5 working days 100% within 7 working days	<table border="1"> <tr> <td>Freedom of Information</td> <td>All FOI requests were processed within 7 working days</td> </tr> </table>	Freedom of Information	All FOI requests were processed within 7 working days		
Freedom of Information	90% within 5 working days 100% within 7 working days						
Freedom of Information	All FOI requests were processed within 7 working days						

Complaints and representations

During 2001–02, the Complaints Officer received 65 complaints and 11 parliamentary representations, with one complaint and nil representations carried over from the previous year. This compared with 57 complaints and 18 representations made last year. Complaints and representations did not have a particular theme and covered issues such as release of the member's preserved component, queries about the annual information statement and queries about the benefit estimate. All complaints were able to be resolved within the legislative time.

ComSuper advised the Board that the shortfall in meeting the service level standards for complaints and parliamentary representations arose from a greater than usual number received in October and November 2001 which resulted in investigations being unable to be finalised for all such cases until the following month. Revised procedures were immediately implemented by ComSuper and for the remainder of the year the standards were met.

Table 11: Complaints, Ministerial, Ombudsman enquiries 2001–02

	<15 days		16–30 days		31–90 days		>90 days	
	No.	%	No.	%	No.	%	No.	%
Complaints	44	69	14	21	7	10	-	-
Ministerials	6	55	4	36	1	9	-	-

PSS **Financial statements**



Public Sector Superannuation Scheme (PSS)
Independent report by approved auditor 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, for the year ended 30 June 2002. The financial statements comprise:

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

The trustee of the PSS Fund (PSS Board) is responsible for the financial statements. I have conducted an independent audit of the financial statements in order to express an opinion on them to you.

My audit has been conducted in accordance with Australian National Audit Office Auditing Standards which incorporate the Australian Auditing Standards, to provide reasonable assurance whether the financial statements are free of material misstatement. My 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 whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements, 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.

These Accounting Standards and other mandatory professional reporting requirements are those applicable in Australia.

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

Audit Opinion

In my opinion:

- (i) the financial statements are in the form agreed by the Minister for Finance and Administration in accordance with sub-section 28(1)(b) of the Superannuation Act 1990;
- (ii) the financial statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the net assets of the PSS as at 30 June 2002 and the changes in net assets for the year ended 30 June 2002.

(B) 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 Board has, in all material respects:

- a) complied with 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, 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

My procedures with respect to regulation 6.17 included testing whether amounts identified by the PSS Board 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.

- b) complied with the relevant requirements of the following provisions (to the extent applicable) of the Corporations Act 2001 and Regulations:

sections 1012F, 1013D, 1013K, 1016A(2), 1016A(3), 1017B(5), 1017D(3), 1017D(3A), 1017E;

and regulation 7.9.32(3).

- c) 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 2002.

My procedures included examination, on a test basis, of evidence supporting compliance with those requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations and the Corporations Act 2001 and Regulations.

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 the APRA Circular IL.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 or Guidelines or the Corporations Act 2001 and Regulations apart from those specified. The PSS Board is responsible for complying with the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations and the Corporations Act 2001 and Regulations and appropriately applying the Guidelines.

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

Audit Opinion

In my opinion, the PSS Board has complied, in all material respects, with the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations and the Corporations Act 2001 and Regulations and applied the Guidelines specified above for the year ended 30 June 2002.

Australian National Audit Office



David C. McKean
Executive Director

Delegate of the Auditor General
Canberra

10 September 2002

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 2001–02) 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 2002 and the changes in net assets of the Scheme for the year ended 30 June 2002;
- (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 2002 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 SCHEMEStatement of Changes in Net Assets
For the Year Ended 30 June 2002

	Note	2002 \$'000	2001 \$'000
Net assets available to pay benefits at the beginning of the financial year		4 410 259	4 161 742
Add:			
Revenue from ordinary activities			
Net investment revenue			
Interest		35 852	39 774
Dividends		113 464	99 298
Other investment income		651	1 058
Changes in net market values	3	(444 839)	(80 072)
Direct investment expenses	4c	(8 766)	(8 474)
		<u>(303 638)</u>	<u>51 584</u>
Contribution revenue			
Employee contributions	4a	367 185	319 009
Employer contributions	4a	150 664	133 721
Appropriation from CRF	4b	148 015	120 443
Transfers from CSS Fund	6	547	(26 024)
		<u>666 411</u>	<u>547 149</u>
Total revenue from ordinary activities		<u>362 773</u>	<u>598 733</u>
Less:			
Expenses from ordinary activities			
General administration expenses	1k 4c	(1 676)	(902)
Benefits paid	4b	<u>(318 123)</u>	<u>(337 097)</u>
Total expenses from ordinary activities		<u>(319 799)</u>	<u>(337 999)</u>
Total revenue less expenses and benefits paid before income tax		42 974	260 734
Income tax (expense)/benefit	5	<u>15 005</u>	<u>(12 217)</u>
Total revenue less expenses and benefits paid after income tax		<u>57 979</u>	<u>248 517</u>
Net assets available to pay benefits at the end of the financial year		<u>4 468 238</u>	<u>4 410 259</u>

The attached notes form part of these financial statements.

PUBLIC SECTOR SUPERANNUATION SCHEME

Statement of Net Assets
As at 30 June 2002

	Note \$'000	2002	2001 \$'000
Investments	1c		
Cash and short term deposits		25 702	95 712
Australian money market		236 319	116 765
Australian fixed interest		343 853	330 439
International fixed interest		100 088	109 237
Australian equity investments		1 240 806	1 389 744
International equity investments		1 634 277	1 715 606
Unlisted property trusts		560 775	515 389
Pooled superannuation trusts		239 098	238 101
Currency contracts		66 566	(26 624)
Other investments		14 180	12 156
Total investments		4 461 664	4 496 525
Other assets			
Cash at bank		32 824	5 266
CRF Special Account		362	6 265
Interest receivable		8 622	9 428
Dividends receivable		9 629	8 070
Trade settlements receivable		14 373	10 587
GST recoverable		118	103
Sundry debtors		90	6
Benefits payable to be funded by Appropriation	4b	3 928	19 305
Amounts due from the CSS Fund	6	530	700
Deferred tax assets		5 433	4 305
Total other assets		75 909	64 035
Total assets		4 537 573	4 560 560
Less: Liabilities			
Benefits payable	4b	19 265	68 782
Trade settlements payable		11 664	11 031
Sundry creditors	7	3 342	4 494
Current tax liabilities		21 024	13 434
Deferred tax liabilities		14 040	52 540
Total liabilities		69 335	150 281
Net assets available to pay benefits	11	4 468 238	4 410 279

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 2002

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.

(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 2002

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)

(c) Valuation of Investments (Cont.)

- (vi) Unlisted investments- investments are valued annually in accordance with valuation guidelines agreed by the Board. Guidelines for valuations are set out in the Board's Valuation of Investment policy and the relevant Trust Deed for the investment. Valuations may be completed by an independent qualified valuer, the Investment Manager or the Board. In determining the valuation reference is made to guidelines set by relevant associations (such as Australian Venture Capital Association Ltd), or Australian Accounting Standards as the basis for valuation.
- (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 Fund's investment managers may use a number of derivative securities such as futures, options and forward exchange contracts to facilitate increases or decreases in the Fund's exposure to different investment markets. Derivative securities are not to be used for gearing the portfolio or for placing the Fund in a position where it is short an asset class.

Investment mandates granted to investment managers, which permit the use of derivatives, are to reflect the foregoing policy for the Fund as a whole. Individual mandates may allow some gearing and the capacity to short markets but this must not involve the total fund being geared or being short an asset class. Where the Board's investment managers use derivative securities, the Board's internal investment team and /or investment advisors will monitor that such use is consistent with the Board's policy, and advise the Board of any breaches.

(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.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

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

(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. Fees for other PSS Board Members are charged 50% to the Fund and 50% against the Commissioner for Superannuation.

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 PSS Board have been brought to account in the financial statements of the Commissioner of Superannuation.

(l) 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.

(m) 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 2002

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

	2002	2001
Number of members		
- Contributors	130 283	121 078
- Deferred beneficiaries/preservers	75 803	68 305
- Pensioners	7 870	6 688
	<u>213 956</u>	<u>196 071</u>
Number of employees	<u>13</u>	<u>5</u>

3. CHANGES IN NET MARKET VALUES

	2002	2001
	\$'000	\$'000

Changes in net market values of investments:

(a) Investments held at 30 June

Australian money market	1 345	255
Australian fixed interest	(2 415)	(889)
International fixed interest	(14 607)	503
Australian equity investments	(87 895)	86 982
International equity investments	(376 557)	(52 498)
Unlisted property trusts	3 341	29 296
Pooled superannuation trusts	(9 845)	(13 944)
Currency contracts	93 378	(27 944)
Other investments	(1 788)	(1 595)
	<u>(395 043)</u>	<u>20 166</u>

(b) Investments realised during the year:

Australian money market	4 778	4 781
Australian fixed interest	207	210
International fixed interest	(11 562)	(4 570)
Australian equity investments	(15 715)	(5 014)
International equity investments	(58 275)	1 646
Unlisted property trusts	0	333
Pooled superannuation trusts	4 205	86
Currency contracts	34 761	(93 096)
Other investments	(8 195)	(4 614)
	<u>(49 796)</u>	<u>(100 238)</u>

(c) Total changes in net market values of investments

	<u>(444 839)</u>	<u>(80 072)</u>
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The net gain on foreign currency contracts for the year was \$128.1m (2001: \$121.0m 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 2002

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 2002 total \$3.9m (2001: \$19.3m). 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:

	2002	2001
	\$'000	\$'000
Gross Appropriation from CRF	286 601	279 680
less: Transfers from Fund to CRF	(138 586)	(159 237)
Net Appropriation	<u>148 015</u>	<u>120 443</u>
PSS Fund		
Lump-sum Benefits	<u>31 522</u>	<u>57 417</u>
Consolidated Revenue Fund		
Lump-sum Benefits	172 301	183 373
Transfer Values	3 750	5 973
Pensions	109 028	89 156
Other	<u>1 522</u>	<u>1 178</u>
	<u>286 601</u>	<u>279 680</u>
Total benefits paid	<u>318 123</u>	<u>337 097</u>

(c) Costs of Administration

The *Superannuation Act 1990* requires the Commissioner for Superannuation (through ComSuper) to provide administrative support to the PSS Board to enable the Board to perform its functions under the Act. Under the provisions of the Act, the PSS Fund meets the expenses of the Board in respect to the Board's responsibilities for the management and investment of the Fund. All other scheme expenses of the Board and the Commissioner for Superannuation/ComSuper are met from administrative fees paid to ComSuper by employing agencies. Transactions in respect of the receipt of these fees and the costs of administration 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 2002

4. FUNDING ARRANGEMENTS (Cont.)

The breakdown of administrative expenses of the PSS Fund met by the Fund and by the Commissioner for Superannuation in respect of 2001–02 are as follows:

	2002	2001
	\$'000	\$'000
PSS Fund	1 676	902
Board Administration	1 233	837
ComSuper Administration	18 148	16 360
Total	<u>21 057</u>	<u>18 099</u>

For administrative simplicity, the PSS and CSS Boards were treated as a single cost centre for scheme administration purposes in 2000–01 and 2001–02. As from 1 July, 2002 the PSS and CSS Boards are separate entities under the *Financial Management and Accountability Act 1997* for scheme administrative purposes. The above figures have been calculated using the methodology now in place for sharing of administrative fees between each Board.

Direct investment expenses include charges levied by the Investment Advisors, Investment Managers and Custodian to invest and manage the assets of the PSS Fund. The Direct investment expenses for 2001–02 are as follows:

	2002	2001
	\$'000	\$'000
Investment Advisors	1 326	1 755
Investment Managers	5 852	4 967
Custodian	1 267	1 270
Other	314	482
	<u>8 759</u>	<u>8 474</u>
GST Expense	7	0
Total	<u>8 766</u>	<u>8 474</u>

5. INCOME TAX

The taxation liability at 30 June 2002 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:

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

5. INCOME TAX (Cont)

	2002	2001
	\$'000	\$'000
Total revenue less expenses and benefits paid before income tax	42 974	260 734
Prima facie income tax expense calculated at 15%	6 446	39 110
Add/(Less) Permanent Differences		
Employee contributions	(55 078)	(47 851)
Benefits paid	25 516	32 498
Income from Pooled Superannuation Trusts	847	1 822
Imputation credits from franked dividends received	2 063	3 111
Other	20 386	7 909
	180	36 599
Less: Imputation and foreign tax credits	(14 949)	(21 865)
Less: Under (over) provision in prior years	(236)	(2 517)
Income Tax Expense	(15 005)	12 217
Income tax expense comprises:		
Income tax payable current year	19 198	10 481
Amount paid during 2001–02	5 878	22 326
Movement in deferred income tax provisions	(39 845)	(18 073)
Under/over provision in prior year	(236)	(2 517)
	(15 005)	12 217

6. TRANSFER OF NET ASSETS FROM THE COMMONWEALTH SUPERANNUATION SCHEME

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 2001 to 30 June 2002 a small number of returning CSS members exercised their election to transfer to the PSS.

As at 30 June 2002 the Ministerial determination to effect these transfers had not been completed and \$530,000 has been brought to account as a current asset of the PSS Fund at 30 June 2002.

An amount of \$717,056 was paid, by way of asset transfer, from the CSS Fund to the PSS Fund for members who elected to move to the PSS Fund during 2000-01.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

7. SUNDRY CREDITORS	2002	2001
	\$'000	\$'000
Investment expenses payable	2 217	2 377
Contributions in advance	0	1 677
Accrued expenses	235	367
Other	890	73
	<u>3 342</u>	<u>4 494</u>

8. AUDITOR'S REMUNERATION

2002	2001
\$'000	\$'000

Amounts received or due and receivable by Australian National Audit Office as auditors of PSS:

<u>43</u>	<u>43</u>
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PricewaterhouseCoopers have been contracted by Australian National Audit Office to provide audit services. Fees for these services have been included above. In addition, PricewaterhouseCoopers have earned the following fees for engagements where they have been separately contracted by PSS:

Taxation Services	<u>167</u>	<u>73</u>
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9. 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 2001–02 follows:

	2002	2001
	\$'000	\$'000
Total Surcharge Liability Outstanding at start of year	9 414	6 090
Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year	4 341	3 807
	13 755	9 897
Less: Amount paid by members and CRF	(1 417)	(1 044)
	12 338	8 853
Plus: Interest on outstanding surcharge liability at end of year	781	561
Total Surcharge liability outstanding at end of year	<u>13 119</u>	<u>9 414</u>

The surcharge liability in respect of surchargeable superannuation contributions for the period 1 July 2001 to 30 June 2002 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.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

9. SUPERANNUATION CONTRIBUTIONS SURCHARGE (Cont.)

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.

10. 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 Board 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 Board has determined that the appointment of these managers is appropriate for the Fund and is in accordance with the Board's investment strategy.

J P Morgan acts as master custodian on behalf of the Board and as such provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting of investment transactions.

The Board employs the following investment advisors:

- Towers Perrin as advisor for strategic asset allocation/investment policy. Towers Perrin also provide risk monitoring, investment research and performance reporting at a total fund level;
- JANA Investment Advisors to provide investment manager selection and monitoring with respect to Australian and International equities, fixed interest and Australian property; and
- Wilshire Australia to advise the Board on new Australian private equity investments and monitor the Board's existing Australian private equity commitments.

(a) Use of Derivative Financial Instruments

The Fund's investment managers may use a number of derivative securities such as futures, options and forward exchange contracts to facilitate increases or decreases in the Fund's exposure to different investment markets. Derivative securities are not to be used for gearing the portfolio or for placing the Fund in a position where it is short an asset class.

Investment mandates granted to investment managers, which permit the use of derivatives, are to reflect the foregoing policy for the Fund as a whole. Individual mandates may allow some gearing and the capacity to short markets but this must not involve the total fund being geared or being short an asset class. Where the Board's investment managers use derivative securities, the Board's internal investment team and /or investment advisors will monitor that such use is consistent with the Board's policy, and advise the Board of any breaches.

At 30 June, the notional principal amounts and the net fair value of derivatives held by the Fund where as follows:

	Notional Principal Amounts		Net Market Value	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Australian Share Price Index Futures	10 723	14 001	(88)	98
Australian Exchange Traded Options	759	11 720	11 594	2 066
International Share Price Index Futures	1 968	53 084	16	(828)
Currency Contracts	1 759 129	963 056	66 566	(26 624)
Total	1 772 579	1 041 861	78 088	(25 288)

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

10. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)**(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 \$2354.0m (2001: \$1074.9m). The Fund does not have significant exposures to any individual counterparty or industry.

(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 2002 was as follows:

	Floating Interest Rate	Fixed Interest Rate			Non Interest Bearing	Total
		1 Year or Less	1-5 Years	Over 5 Years		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2002						
Assets						
Cash and short term deposits	25 702					25 702
Australian money market	236 319					236 319
Australian fixed interest		35 528	166 126	142 199		343 853
International fixed interest		47	17 487	82 554		100 088
Australian equity investments					1 240 806	1 240 806
International equity investments					1 634 277	1 634 277
Unlisted property trusts					560 775	560 775
Pooled superannuation trusts					239 098	239 098
Currency contracts					66 566	66 566
Other investments	2 009				12 171	14 180
Other assets	32 824				37 652	70 476
Deferred tax assets					5 433	5 433
Liabilities						
Benefits payable					(19 265)	(19 265)
Trade settlements payable					(11 664)	(11 664)
Sundry creditors					(3 342)	(3 342)
Current tax liabilities					(21 024)	(21 024)
Deferred tax liabilities					(14 040)	(14 040)
Total	296 854	35 575	183 613	224 753	3 727 443	4 468 238
Weighted average interest rate	4.81%	5.18%	6.26%	7.49%		

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

10. 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 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 trusts					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%		

(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 2002						
Gross investment amounts denominated in foreign currency	1 054 369	134 306	153 900	221 738	127 525	1 691 838
Amount effectively hedged	(988 264)	(160 201)	(144 752)	(255 259)	(144 087)	(1 692 563)
Net Exposure	66 105	(25 895)	9 148	(33 521)	(16 562)	(725)

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

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

	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	513 912	91 088	98 453	119 751	60 360	883 564

(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.

11. 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 scheme earning rates and crediting rates which arise from the capital guarantee applying to members' accumulated contributions and the smoothing of investment returns.

The reserve is calculated as the difference between the net assets of the scheme and the 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 funded entitlements, the exit rates applying at various times during the year and the difference between the earning and crediting rates of the scheme.

Due to the volatility of world financial markets over the past 12 months, the scheme's net earnings rate after tax for the year ended 30 June 2002 was -5.7%. Taking the negative earnings rate into consideration as well as their legislative obligations the Board declared a crediting rate of 0% for the year ended 30 June 2002. The difference of 5.7% between the scheme's net earnings rate and the crediting rate to members accounts, has reduced the balance of the reserve as reported 30 June 2001 as follows:

	2002	2001
	\$'000	\$'000
Balance at Beginning of financial year	14 670	252 034
Add: Earnings on opening balance	(834)	3 446
Less: Allocation to member's accounts	(262 096)	(240 810)
Balance at end of financial year	(248 260)	14 670

The closing balance is a negative reserve (i.e. deficiency) and is estimated to represent 5.6% of the adjusted net assets of the scheme as at the 30 June 2002. This deficiency does not represent an "unsatisfactory financial position" under SIS Regulation 9.04. Regulation 9.02 specifically exempts the PSS Fund from the provisions of 9.04.

The Board determined that the crediting/exit rate policy for the PSS Fund be suspended and that the exit rate be set at zero until the reserve is within the range of -1% to +1% of the value of the Fund.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

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.

Mercers Actuarial Consultants have advised that the amount of vested benefits at 30 June 2002 is \$16.6 billion (2001: \$15.3 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 2002 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.

The vested benefits amount is made up of:

	2002	2001
	\$million	\$million
Funded Component	4 732	4 395
Unfunded Component	11 897	10 905
	16 629	15 300

The net assets of the fund compared to the vested benefits are:

	2002	2001
	\$million	\$million
Funded Component	4 732	4 395
Net Assets plus Funded Benefits Payable	4 484	4 410
Surplus/(Deficiency)	(248)	15

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

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). The next valuation of accrued benefits is as at 30 June 2002 and is expected to be completed by December 2002

Accrued Benefits as at 30 June 1999 were:	1999 \$billion	1996 \$billion
Funded component	3.3	2.1
Unfunded component	5.8	4.3
	<u>9.1</u>	<u>6.4</u>

The net assets compared to the liability for accrued benefits are:

	1999 \$billion	1996 \$billion
Funded Component	3.31	2.05
Net Assets	<u>3.48</u>	<u>2.08</u>
Surplus/(Deficiency) Reserve	<u>0.17</u>	<u>0.03</u>

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

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)
W Hall
S O'Loughlin
C Manolios
L McBride
J Flitcroft (Alternate for S O'Loughlin)
D Irons (Alternate for W Hall)
S Wilson (Alternate for L McBride and C Manolios)

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. Since year end, Ms L McBride's term of appointment expired 27 July 2002. A replacement trustee has not yet been appointed.

(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 2001–02 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 \$ 101,000 (2001: \$102,000).

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

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

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

	2002	2001
\$230,001 to \$240,000	1	0
\$200,001 to \$210,000	1	0
\$170,001 to \$180,001	0	1
\$140,001 to \$150,000	1	0

(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 appoints directors, who are current nominated trustees of the CSS and PSS Boards, to manage the company.

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

At 30 June the Fund had outstanding investment capital commitments of \$ 405.4m (2001: \$317.9m).

	2002	2001
	\$'000	\$'000
Within 12 months	110 958	98 550
Greater than 12 months but less than 5 years	235 450	209 900
Greater than 5 years	58 952	9 460
	<u>405 360</u>	<u>317 910</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



Appendixes

A:	The PSS in brief	110
B:	Changes to the legislation	112
C:	Departments and approved authorities	113
D:	Eligible superannuation schemes	116
E:	Freedom of Information	117
F:	Publications	120
G:	Contact officer	121
H:	Compliance	122
I:	Staffing Statistics	123
J:	Consultancies	124
K:	Commonwealth Disability Strategy	126
L:	Glossary	127

Appendix A: PSS in brief

Investment

ASSET ALLOCATION		30 June 2001		30 June 2002	
Sector	\$m	%	\$m	%	
Australian shares	1 405.7	31.7	1 287.4	28.9	
International shares (Developed)	1 656.3	37.4	1 613.4	36.2	
International shares (Emerging)	197.6	4.5	213.4	4.8	
Australian bonds	347.7	7.8	355.1	8.0	
High yield debt	130.3	2.9	109.7	2.5	
Cash	115.2	2.6	235.3	5.3	
Property	581.1	13.1	587.1	13.2	
Hedge funds	-	-	50.1	1.1	
Total	4 433.9	100.0	4 451.5	100.0	

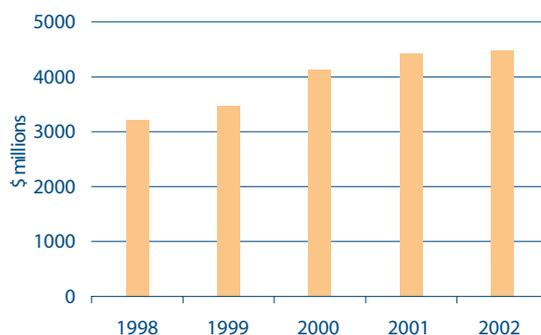
INVESTMENT PERFORMANCE		2000–2001		2001–02	
Sector	Fund %	Benchmark %	Fund %	Benchmark %	
Australian shares	11.9	9.8	(1.1)	(3.2)	
International shares (Developed)	(6.9)	(10.2)	(15.6)	(19.3)	
International shares (Emerging)	(10.9)	(11.2)	(6.0)	(7.5)	
Australian bonds	6.4	6.2	5.3	5.3	
High yield debt	(8.3)	1.2	(5.4)	(1.4)	
Cash	5.2	5.1	3.9	3.9	
Property	9.7	8.8	6.2	8.6	
Hedge funds	-	-	2.4	-	
RETURN ON INVESTMENT	1.4	(0.8)	(5.6)	(8.4)	

	2000–2001	2001–2002
Annual crediting rate	6.9%	0.0%
Annual inflation rate	6.0%	2.8%

Fund size

Fund size at 30 June for past five years

FINANCIAL YEAR	Value \$m	Change %
1997–98	3 219.0	1.8
1998–99	3 472.9	7.9
1999–00	4 126.9	18.8
2000–01	4 433.9	7.4
2001–02	4 451.5	1.0



Scheme membership

Contributors at 30 June	2001	2002	Increase / Decrease
Male	51 088	55 270	4 182
Female	69 990	75 013	5 023
Total	121 078	130 283	9 205
Total Member Contributions	\$319m	\$367m	\$48m
Contributor Exits	2000-01	2001-02	
Age (including Preserved age claims)	1 199	1 510	311
Retrenchment (Involuntary and Sale of Assets)	2 132	1 915	(217)
Invalidity (Including Preserved Invalidity)	166	160	(6)
Death	49	73	24
Resignation / Other	11 038	10 775	(263)
Total	14 582	14 433	(149)
Pensions in Force at 30 June	2001	2002	
Age Retirement	1 162	1 806	644
Involuntary Retirement	4 209	4 786	577
Invalidity Retirement	880	1 020	140
Spouse and Orphans	601	326	(275)
Total	6 852	7 938	(1 087)
Pensions Paid	\$ 89m	\$108m	\$19m
Average Yearly Pension	\$14 253	\$14 772	\$519
Preserved Benefit Members at 30 June	2001	2002	
Total	68 305	75 803	7 498

Appendix B: Changes to legislation

Changes to the PSS Act

There were no changes to the Act.

Changes to the Trust Deed and rules

There were a number of changes to the Trust Deed and Rules :

- amending various offence provisions so that they will operate consistently with criminal code policy;
- providing for twice yearly indexation of pensions;
- providing for post retirement commutations in order to satisfy a surcharge liability;
- terminating membership of the PSS on attaining age 70 years.

Statutory rules

There were several amendments:

Providing continuation of membership, subject to certain conditions, for members of the PSS employed by;

- Australian Strategic Policy Institute Limited ;
- Australian National Training Authority ; and
- Snowy Mountains Hydro-electricity Authority.

Determinations made

Eight interest rate determinations were made during the year; one for setting the crediting rate for the 2000-01 financial year, and others to vary the prevailing exit rate. Eight determinations were made with respect to the rate of interest after the benefit becomes payable; seven setting the interest payable and one varying the period of interest.

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 AFP.

Appendix C: Departments and approved authorities

At 30 June 2002 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, Science and Training
Employment, and Workplace Relations
Environment and Heritage
Family and Community Services
Finance and Administration
Foreign Affairs and Trade
Health and Ageing
House of Representatives
Immigration and Multicultural and Indigenous Affairs
Industry, Tourism and Resources
Joint House
Parliamentary Library
Parliamentary Reporting Staff
Prime Minister and Cabinet
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 (CSIRO)
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 for 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 D: 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.

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 Woof 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 ;
UniSuper Investment Choice Plan;
Townsville Port Authority Staff Superannuation Scheme;
and University of Newcastle Staff Superannuation Scheme.

Appendix E: Freedom of information

Freedom of information

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

PSS members made 38 requests for access to documents during 2001–02. All requests were granted in full. The requests took an average of 4 days to process.

Enquiries relating to the documentary disclosure of information about the personal affairs of clients of the agency under the provisions of the Freedom of Information Act should be directed to:

Corporate Governance and Parliamentary Liaison Unit

ComSuper
PO Box 22
Belconnen ACT 2616
Facsimile: (02) 6272 9809
Telephone: (02) 6272 9262
TTY: (02) 6272 9827
Internet: www.comsuper.gov.au

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 2001-02.

Decision-making powers

The decision making powers of the PSS Board are set out in clause 3 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 5 in the Corporate Governance and Parliamentary Liaison Unit.

Requests for internal review of FOI decisions are also referred to the Unit. They are then forwarded to the Reconsideration 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 7 officers in the Reconsideration 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:

Corporate Governance and Parliamentary Liaison Unit, ComSuper
PO Box 22
Belconnen ACT 2616
Tel: (02) 6272 9262
Fax: (02) 6272 9809.
TTY:(02) 62729827.
Internet: www.comsuper.gov.au

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 the PSS Internet site.

Appendix F: Publications

The Board publishes the following publications as well as a series of leaflets for the benefit of members.

The PSS Super Book

New Starter Kits: including -

Welcome letter

PSS Book

Annual Report to Members

Confidential Medical and Personal Statement (CMAPS)

Election to become a member (SE4)

Also included are a number of the following leaflets
(marked with #)

The leaflets are entitled:

A World of Online Information (Apply for an Access Number) #

About to leave your job?

Changing from Permanent Full-time to Permanent Part-time

Death Benefits

Invalidity Benefits

Involuntary Retirement (Retrenchment)

*Make the most of a great scheme - How to maximise the benefits of
being a PSS member #*

Maximum Benefit Limits

*One Account Makes it Easy - How to transfer your other super accounts
into the PSS #*

Preservation of Benefits

Protect your family - Information about PSS Death and Invalidity cover #

Service Charter for CSS & PSS Members

The Super Surcharge

Taxation Concessions - Deductible Amounts & Super Pension Rebates

Temporary, casual and part-time employees

Taxation of Lump Sum and Pension Benefits

The Future Starts Now - Increase your super for a comfortable lifestyle #

Thinking of Opting out of the CSS or PSS - Some things you should consider

All of these publications can be obtained from Personnel Officers;
from National Mailing and Marketing on telephone (02) 6269 1000 or
facsimile (02) 6260 2770; or may be ordered online via the PSS web site:
(www.pss.gov.au).

Appendix G: Contact officer

Information available to Members of Parliament, Senators and members of the public on request.

In the interests of timeliness and conciseness, this report has been designed to provide fundamental information. Requests for more detailed information should be directed to:

Ministerial Liaison Officer

Postal address: ComSuper
PO Box 22
Belconnen ACT 2616

Street address: Unit 1, Cameron Offices
Chandler Street
Belconnen ACT

Telephone: (02) 6272 9081

Facsimile: (02) 6272 9809

TTY: (02) 6272 9827

Appendix H: Compliance

While this report is not a Departmental annual report, the Board has endeavoured to comply with the Requirements for Departmental Annual Reports, where applicable. Details of ComSuper's operations are provided in the Commissioner for Superannuation Annual Report 2001-02. Annual reporting requirements that are met in the Commissioner for Superannuation's report are indicated below by an asterix.

Requirement	Page
Letter of transmittal	iii
Table of contents -	v
Index	130
Glossary	128
Contact Officers	ii, 91
Internet Addresses	ii, 91
Chairpersons Overview	ix
Departmental Overview	*
Report on Performance	
Review of Performance	17
Performance of purchaser / provider arrangements	17
Performance against service charter	20, 49, 51, 52, 56, 61, 64, 64, 67, 69, 72, 74, 76
Management / Accountability	
Governance	11
External scrutiny	17, 99
Management of human resources	5
Purchasing	7
Assets management	7
Consultants and competitive tendering	94
Commonwealth disability strategy	97
Financial statements	98
Matters required by legislation	
Occupational Health and Safety	6
Freedom of Information	87
Advertising and market research	96
Ecologically sustainable development and environmental performance	8

Appendix I: Staffing statistics

PSS Board staffing statistics for 2001–02.

Employment Category	Male	Female	Total
Staff employed directly by the PSS Board	3	6	9
ComSuper staff on secondment	-	4	4
Total	3	10	13

Appendix J: Consultancies

The PSS Board engages consultants where a specialist skill or expertise is required or where internal resources are unavailable. Consultants are typically engaged to:

- investigate or diagnose a defined issue;
- carry out defined reviews or evaluations; or
- provide independent advice, information or solutions to assist the PSS Board in its decision making.

These consultancies have been distinguished from other service provider contracts by the nature of the work performed, which typically involves the application of expert professional skills and the exercising of expert judgement.

Investment and management of the PSS Fund

The investments of the Fund (other than cash held for meeting daily administrative and benefit expenses) are managed on behalf of the Board 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.

During 2001–02, the Board also employed three investment advisors: Towers Perrin, JANA Investment Advisors and Wilshire Australia, together with Chase Manhattan Bank (trading as J P Morgan) as their master custodian. The total amount paid to investment managers, advisors and the custodian during the year was \$8.8 million.

Board administration consultancies

The Board's administration revenue and expenses are incorporated in the financial statements of the Commissioner for Superannuation. Details of payments made to consultants by the Commissioner for Superannuation, on behalf of the Board, are therefore disclosed in the 2001–02 *Annual Report of the Commissioner for Superannuation*.

Advertising and market research

Payments made on behalf of the PSS Board to media advertising and direct mail organisations during 2001–02 were as follows:

CSS and PSS Boards media advertising 2001–02

Organisation	Service provided	Total 01/02
Mirror Australian - Telegraphic Publications	Public announcements	\$181
HMA George Patterson Pty Ltd	Job advertisements	\$1,120
Total		\$1,302

CSS and PSS Boards direct mailing organisations

Organisation	Service provided	Total 01/02
Hermes Precisa	Special communications mail out	\$30,292
Australian Air Express	Special communications mail out	\$3,448
Total		\$33,741

Appendix K: Commonwealth Disability Strategy

Within the framework of the Commonwealth Disability Strategy, the PSS performs the role of 'provider' with performance measured against the following indicators:

- providers have established mechanisms for quality improvement and assurance;
- providers have an established service charter that specifies the roles of the provider and consumer and service standards which address accessibility for people with disabilities; and
- complaints/grievance mechanism, including access to external mechanisms, in place to address issues and concerns raised about performance.

In conjunction with its administrator, ComSuper, the PSS Board met all the requirements of the Commonwealth Disability Strategy in its role as provider.

Quality improvement and assurance mechanisms were in place during the year in the form of a client satisfaction survey conducted both by the Board, through its communications service provider Social Change Media and independent research firm D&M Research, and by ComSuper which conducts an annual cyclical research program through independent research firm Orima Research.

The PSS provides a website which was developed by contract to comply with Government Online targets and the World Wide Consortium (WC3) Web Content Accessibility Guidelines. For example, it is a HTML-based website which allows access to readers for the visually-impaired.

Through ComSuper, PSS members have access to:

- a TTY phone line;
- a service charter specifying the roles and responsibilities of both ComSuper and its clients; and
- a complaints system to address issues and concerns raised by members.

Both the PSS Board Executive Unit offices and ComSuper's offices provide wheel chair access and facilities.

Appendix L: Glossary

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>
AFP	Australian Federal Police
AGEST	Australian Government Employees Superannuation Trust
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
ASFA	Australian Superannuation Funds Association
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
AUD	Australian Dollar
AUSSAT	Australian national satellite communications system
CASA	Civil Aviation Safety Authority
CEO	Chief Executive Officer
CFM	Commonwealth Funds Management Ltd
CMAPS	Confidential Medical and Personal Statement
CMSF	Conference of Major Superannuation Funds
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
DQI	Data Quality index
FOI	Freedom of Information
HREOC	Human Rights and Equal Opportunity Commission
ICM	Independent Claims Management Pty Ltd
NEPC	National Environment Protection Council
OECD	Organisation for Economic co-operation and development
PSS	Public Sector Superannuation (scheme)
PSS Act	<i>Superannuation Act 1990</i>
QSI	Quality Service Index
RAC	Reconsideration Advisory Committee
S&P	Standard and Poor's
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SCT	Superannuation Complaints Tribunal
SRC Act	<i>Superannuation (Resolution of Complaints) Act 1993</i>
SRI	Socially Responsible Investment
surcharge	the <i>Superannuation Contributions Tax (Assessment and Collection) Act 1997</i> , a tax on employer financed superannuation
TMT	Telecommunications, media and technology
TRM	Total Risk Management Pty Ltd
TTY	Text Telephone
US	United States

Index

A

Abbott, Tony 20
 ABN AMRO 37
 ACTU 1, 127
 Administrative arrangements 5
Administrative Decisions (Judicial Review) Act 1977 (the AD(JR) Act) 75, 127
 Administrator 5, 20, 23, 28, 49, 52, 56, 57, 59, 64, 72, 76, 126, v, xii, xiii
 AGEST Superannuation Fund 127
 Annual Results ix
 Assets 3, 7, 11, 22, 35, 36, 39, 41, 45, 46, 61, 82, 83, 84, 85, 86, 87, 90, 93, 94, 95, 96, 97, 98, 111, 122, 124, ix
 Attorney General's 74, 113
 Audit 12, 16, 17, 18, 19, 21, 23, 24, 25, 49, 52, 57, 65, 67, 72, 74, 92, 127, v, x, xii, xv
 Auditor 16, vi
 Australian Air Express 125
 Australian Federal Police 116, 127
 Australian National Audit Office, ANAO 24, 25, 127
 Australian Prudential Regulation Authority, APRA 9, 27, 127, xiv
 Australian Superannuation Funds Association, ASFA 5, 15, 127
 Australian Taxation Office, ATO 54, 92, 127

B

Balanced Equity Management Pty Limited 37
 Blairlogie Capital Management 37

C

Carberry, Michael 21, 71
 CEO 29, 127, xiii
 Chairperson 1, 15, 16, 21, 22, 24, 27, 82, iii, xv
 Chairperson's overview ix
 Charter 3, 20, 120
 Chase Manhattan Bank 36, 124
 Chief Executive Officer. 20
 Client Service Charter Awards 20
 Colonial First State Investments Ltd 37
 Commissioner 5, 6, 7, 87, 89, 90, 115, 117, 122, 124, ii. *See also* CEO; *See also* ComSuper

Committee

Administration 25
 Audit 23
 Communications 28
 Governance 32
 Investment xi
 Meetings 15, 22
 Commonwealth Disability Strategy 126
 Commonwealth Superannuation
 Administration. *See* ComSuper
 Communications 4, 28, 29, 30, 31, 55, 56, 59, 69, 125, 126, 127, vi, xii, xiii
 Communications Workers Union 1
 Community and Public Section Union, CPSU 1, 2, 127
 Complaints 71, 74, 75, 76, 77, 115, 126, 127, vi, vii
 Compliance 18, 27, 109, 118, 122, vi
 Index 122
 ComSuper 1, 3, 5, 6, 7, 19, 20, 21, 23, 24, 27, 36, 49, 51, 52, 53, 54, 56, 57, 59, 60, 61, 63, 64, 65, 67, 69, 71, 72, 73, 74, 76, 77, 89, 90, 117, 118, 121, 123, 126, 127, ii, xii, xiii, xv. *See also* Commissioner; *See also* CEO
 Consolidated Revenue 38, 89, 93, 98
 Consultancies 109, 124, 125, vi
 Consultants 97, 122, 124
 Contributor 30, 49, 50, 51, 55, 111, vi, vii
Copyright Act 1968 ii
 Counselling 29, 57, 59, 67, vii
 Crediting 38, 39, 41, 44, 45, 46, 47, 96, 110, 112, v, vii, ix, x

D

Data Quality Index, DQI 49, 50, 127, vii
 Deloitte Touche Tohmatsu 2
 Department of Communications, Information Technology and the Arts ii
 Department of Finance and Administration 2
 Department of Prime Minister and Cabinet 1
 Deutsche Asset Management Limited 37
 Dockett, Trevor 21, 71

E

Earning rates ix
 Employer 2, 6, 7, 9, 22, 38, 44, 49, 50, 52, 53, 54,
 63, 83, 86, 87, 89, 90, 127
 environmental 8, 33, x
 Exit 9, 45, 47, 60, 96, 112, ii, v, vii
 Export Finance Insurance Corporation 2

F

*Financial Management and Accountability Act
 1997 (FMA Act)* 7, 16
 Financial Risk Management 37
 Financial statements 79
 Flitcroft, John 2, 99
 Fraud 16, 23
 Freedom of Information 76, 109, 117, 118, 119,
 122, 127, vi
Freedom of Information Act 1982, FOI Act 76,
 117
 Friends Ivory & Sime 37

G

Glossary 109, 122, 127, vi
 Governance 4, 11, 12, 13, 14, 15, 16, 17, 18, 19,
 20, 21, 25, 28, 32, 33, 34, 41, 42, 117, 118, 122,
 v, x, xii, xiv

H

H-G Ventures 1
 Hall, Winsome 1, 21, 24, 29, 33, 82, 99
 Harris Associates LP 37
 Hermes 125
 HMA George Patterson Pty Ltd 125

I

i-Estimator 57, xiii
 incapacitated 63
 Insurance 2, 14, 26, 27, 114, 115
 Internet 44
 Invalidity 3, 5, 26, 27, 54, 61, 63, 64, 65, 67, 71,
 111, 117, 120, vi, vii, xii
 Investment 1, 3, 4, 5, 6, 11, 14, 18, 21, 22, 23, 26,
 27, 30, 32, 33, 35, 36, 37, 38, 39, 40, 41, 42, 43,
 44, 45, 46, 47, 51, 65, 83, 85, 86, 87, 89, 90, 92,
 93, 95, 96, 99, 100, 110, 116, 117, 124, 127, v,
 ix, x, xi, xii, xiii, xiv, xv
 Irons, David 1, 99

J

JANA Investment Advisors Pty Ltd 36, 93, 124,
 xi
 JP Morgan Investment Management Inc 37, 43,
 93, 124
 Jupiters Limited 37, 39, 41

L

Local Government Financial Services Pty Ltd 1
 Loomis, Sayles & Company, LP 37

M

Major, Hugh 21, 71
 Manolios, Cathy 2, 21, 27, 33, 99
 McBride, Louise 2, 21, 24, 99, xv
 Member 1, 2, 4, 9, 13, 14, 15, 21, 22, 28, 29, 30, 31,
 38, 45, 46, 47, 49, 50, 51, 53, 54, 55, 56, 57, 59,
 76, 82, 88, 89, 92, 93, 98, 99, 111, 120, xiii, xv
 Membership 1, 5, 9, 22, 24, 27, 29, 33, 51, 53, 85,
 87, 92, 93, 97, 98, 111, 112, ii, v, vii
 Member statements 4, 29, 30, 31, 49
 Merrill Lynch Investment Management plc 37,
 43
 Minchin, Nick iii, x
 Ministerial 77, 91, 121, vii
 Mirror Australian - Telegraphic Publications 125
 Monash University x

N

National Mailing and Marketing 120
 National Portrait Gallery 2
 NRMC Pty Ltd 2
 NSW State Authorities Superannuation Board 1

O

O'Loughlin, Sally 2, 21, 27, 29, 99
*Occupational Health and Safety (Commonwealth
 Employment) Act 1991* 6
 Ombudsman 76, 77, vii
 online 20, 29, 30, 31, 120, xiii
 outcomes 20, 49, 51, 52, 56, 61, 64, 65, 67, 69, 72,
 73, 74, 76, vii

P

Palmer, Joy 21, 24, 27, 33
 Pareto Partners 37
 Paribas Asset Management Limited 37
 Payments 3, 54, 60, 63, 65, 67, 75, 87, 97, 98, 124, 125, vi
 Pension 9, 33, 67, 69, 97, 111, 120
 Pensioner 67, 68, 69, 70, vi, vii
 Pensions 67, 68, 89, 111, 112, vi
 Performance 3, 4, 8, 12, 13, 14, 15, 18, 20, 22, 23, 25, 26, 27, 28, 30, 31, 36, 38, 41, 43, 45, 49, 72, 93, 122, 126, v, vii, ix, x, xi, xiii
 Perpetual Asset Management Limited 37
 Preservation 120
 Preserved 30, 61, 71, 77, 111
 Publications 109, 118, 120, 125, ii, vi
Public Service Act 1999 5

Q

Quality 17, 19, 30, 31, 49, 50, 57, 69, 126, 127, vii
 Quality Service Index, QSI 19, 127, vii

R

Reconsideration 5, 21, 71, 72, 73, 118, 127, vi, vii
 representations 76, 77, 118, 119
 reserving policy ix
 Review 4, 5, 12, 14, 23, 25, 27, 29, 32, 38, 39, 40, 49, 71, 74, 75, 76, 98, 100, 118, 122, 127, vi, xi, xii, xiii
 Reynolds, Peter 1, 21, 82, 99, iii, xv

S

Safety, Rehabilitation and Compensation Act 1988 6
 Schroder Investment Management (Australasia) Limited 37
 Seminars 15, 29, 55, 56, 57, 59, vii
 Service award for excellence 20
 SIS. *See Superannuation Industry (Supervision) Act 1993 (SIS Act)*
 Skinner, Peter 20
 Standard 49, 50, 51, 52, 56, 57, 61, 64, 65, 67, 69, 72, 74, 76, 82, 127
 State Super Financial Services Proprietary Ltd 1
 Statutory rules 112
 Strategic asset allocation 18, 40, 43, xi

Superannuation Act 1990 (the PSS Act) 1, 2, 11, 54, 82, 85, 87, 88, 89, 116, 127, iii, ix
 Superannuation Complaints Tribunal, SCT 12, 71, 74, 127
Superannuation Industry (Supervision) Act 1993 (SIS Act) 4, 9, 11, 28, 30, 55, 56, 69, 71, 74, 76, 96, 127, xiv
 Superannuation Members Home Loan Schemes 37
 Surcharge 54, 87, 92, 93, 112, 120, 127, vi, vii
Surcharge Contributions Tax (Assessment and Collection) Act 1997 7, 16, 19, 24, 44, 54, 90, 110, 127

T

Towers Perrin Australia Pty Ltd 36, 93, 98, 124, xi
 Transmittal, letter of iii
 Trustee 2, 13, 26, 27, 28, 74, 82, 99, 100
 Trustees 1, 3, 12, 15, 47, 49, 74, 100, vi, xii, xv

V

Vanguard Investments Australia Limited 37

W

Web site 29, 30, 31, 56, 57, 59, 60, 67, 120, 126, vii, xii. *See also* Internet; *See also* online
 Wellington Management Company LLP 37
 Westpeak Investment Advisors (Australia) Limited 37
 Wilshire Australia Pty Ltd. 36, 93, 124, xi
 Wilson, Sandra 2, 99

Z

Zurich Financial Services 2

CONTACT US

IF YOU WOULD LIKE TO CONTACT THE PSS BOARD

TELEPHONE 02 6263 6999

FACSIMILE 02 6263 6900

ADDRESS GPO Box 1907 Canberra City ACT 2601

INTERNET

For instant access to information www.pss.gov.au