



# THE **PSS** BOARD

PUBLIC SECTOR SUPERANNUATION SCHEME



Annual Report

# The **PSS** Board

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Public Sector Superannuation Scheme

Annual Report  
1997–98

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### The PSS Board

Street address :	Unit 1 Cameron Offices Chandler Street Belconnen ACT
Postal address :	PO Box 22 Belconnen ACT 2616
Telephone :	(02) 6252 7911
Facsimile :	(02) 6253 1116
Annual Report inquiries :	Chan Foo Schemes Publicity Section ComSuper PO Box 22 Belconnen ACT 2616
Telephone :	(02) 6252 6865
Facsimile :	(02) 6252 7838

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

# Letter of **Transmittal**

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

Dear Minister

In accordance with section 28 of the *Superannuation Act 1990*, the PSS Board is pleased to present to you the annual report on its operations during 1997–98. 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 1998.

Subsection 28(6) of the *Superannuation Act 1990* requires you to cause a copy of the report to be laid before each House of the Parliament within 15 days after you receive it.

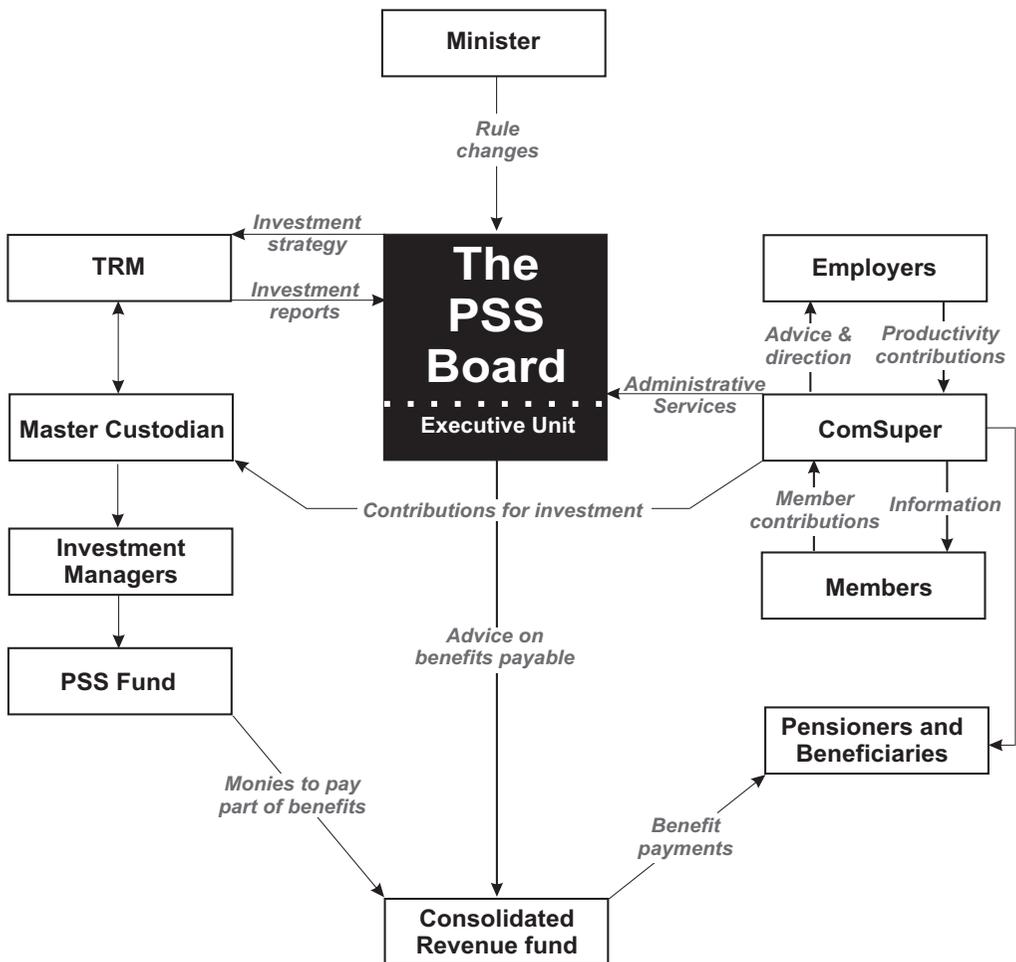
Yours sincerely



Ron Brown  
Chairperson  
PSS Board

2 October 1998

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



The PSS Board  
Its responsibilities and administrative arrangements

## Year in brief

During the year, in addition to the management and investment of the Fund and administration of the Scheme, the Board's attention also focused on:

- the set of changes announced by the Government in November 1997, particularly the formation of the Commonwealth Superannuation Board;
- the relationship between the Board and the Administrator, ComSuper (the Board will purchase services from ComSuper and charge employers for superannuation administration);
- the enhancement of corporate governance including, among other actions:
  - establishing additional Board committees;
  - furthering Trustees' education; and
  - enhancing reporting arrangements for the Board to effectively monitor the performance of the scheme administrator.

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# **From the Chairperson**

## **Annual** results

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The Fund's investment strategy produced a return of 11 per cent for the 1997–98 year. This return not only compared most favourably with the returns reported by most other superannuation funds but given the low inflation rate of 0.7 per cent during the year, it produced a significant increase in the real value of the Fund. Both the Scheme's members and the government benefit from this return.

This enabled the Board to declare a crediting rate for the year of 10.4 per cent after making provision to maintain the reserves of the Fund at their maximum policy level of 5 per cent.

It is of some comfort that the reserves are at this level given the uncertainties that have emerged in the world's markets. The Board follows a long-term strategy and does not attempt to forecast short-term market movements but it nonetheless views the immediate future with lower expectations for investment returns.

## **Major** events and developments

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It was a year of substantial change for the Board. External events presented significant challenges, but more importantly, the Board's own determination to continue to enhance its own capacities and self-governance framework also encompassed the prerogative to manage strategically into the new millennium.

Some events required a fundamental change in the Board's operations. Policy changes redirecting the cost of Scheme administration from Consolidated Revenue to a user-charge imposed on employer agencies places a significant new duty on the Board. Policy initiatives proposed by the Government, but still pending legislative approval, make the Board more directly accountable for the monitoring of ComSuper, the Scheme's administrator.

The Board's investment program entered its final phase of the transition from the tied investment arrangements that had been in place with Commonwealth Funds Management up until 1995. This involved a review of the core Australian and international equities management of the Fund and a renegotiation of the management arrangements applicable to the property investment. Investment administration had to take into account the fact that almost 8000 PSS members left their employment as a result of APS-wide redundancy programs. As well, the Board's own policy guidelines require annual review of the key assumptions on which the Fund's investment strategy is based. And of course it was a year of market tremors arising out of the Asian downturn.

Communication challenges arose on several fronts in addition to the Board's own goals to enhance the regular communications activities associated with the annual reports, website and newsletter. The surcharge required much effort to communicate its status and its intricacies and the determination of Notional Surcharge Contribution Factors has taken Board time. During that process, debts totalling \$1,509,778 were applied to 2997 PSS records. The Government policy initiative of fund choice (and the proposed closure of the PSS) required advance planning of a communications strategy.

General administration matters required attention. Oversight of the Scheme's Year 2000 risks has been a necessary agenda item at Board meetings. The ANAO changed its outsourcing arrangements this year requiring a new auditing relationship to be initiated.

It is pleasing to report success in dealing with all of these changes. In particular, a number of enhancements to the Board's governance framework were made.

1) The Board acted to improve its own capacity through the establishment of an Administration Committee and a Communications Committee (in addition to Board's existing Audit and Reconsideration Committees). Terms of reference have been established for all committees. An Executive Officer was appointed. The Board developed a revised operating plan to manage the preparations for transition to the new structure and duties of the Board. The Board's first total business budget was developed to underpin the Board's accountability for the new user charging arrangements.

- 2) The Board rewrote and upgraded its agreement with ComSuper on the performance standards to apply to the administration services provided by ComSuper to the Board and the Scheme members. We are presently negotiating a formal contract of service with ComSuper. An annual effectiveness review was initiated with ComSuper, matching the review done each year with the Board's investment adviser.
- 3) A continuing education and training program has been put into place for Trustees and members of the Executive Unit (formerly referred to as the Secretariat).
- 4) A Member Satisfaction Survey program was introduced that provides the Trustees with quarterly feedback from its members based on their experiences dealing with the Scheme.

## **Future** directions

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Our investment strategy will require constant supervision in the coming year as the market boom of the past several years becomes more uncertain. We are already witnessing global setbacks in the markets. Apart from this priority, the Board expects that two areas will require special attention over this next year.

The Board will need to act to ensure the continued smooth transition to its new administration accountabilities. Already a workplan is being formulated to enhance the compliance function of the Board.

The Board intends to act to attempt to mitigate an emerging risk to its operations from the rapidly changing payroll systems of employer agencies. In the past, most agencies have used the Department of Finance and Administration's central payroll service. This service incorporates specific components to convey the necessary superannuation monies and data to our administrator. As agencies become more autonomous, there has been some movement away from this central service due to costs and concerns associated with non-compliance of this system with Year 2000 standards.

The problem for the Board is that many of the replacement payroll systems do not meet the administration protocols we require for timely and accurate processing. Further we are concerned about the Year 2000 impact on these systems and their data management.

## **SIS** compliance

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The PSS remains a complying Fund under the 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.

## **Thank** you

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

Also I want to thank our Executive Unit and service providers for all their energies and efforts this past year. Everyone has contributed to our success.

The Board Secretary, Ms Michele Dawson, took early retirement in July 1998. I here record the appreciation of the Board as a whole and to wish her every success in the future.



Ron Brown  
Chairperson  
PSS Board

# **Scheme Overview**

## **PSS** Board

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The PSS Board administers the Public Sector Superannuation (PSS) scheme in accordance with the provisions of the *Superannuation Act 1990* (the PSS Act), the Trust Deed and the Scheme Rules. It is also responsible for the management and investment of the PSS Fund.

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

## **Board** members

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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 under section 23 of the PSS Act.

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

Members holding office during the year were:

**Mr Ronald L. Brown** (independent chairperson)—*appointed 25 July 1990, reappointed to 30 June 1999.*

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

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

Mr Kelly is a Director of a number of bodies including the TAB Ltd and the Colonial State Bank. He has had vast experience in government service, the diplomatic service, business management and private legal practice. Mr Kelly is also a part time consultant with a legal firm and a member of the CSS Board.

**Mr John A. Flitcroft**—*appointed 1 July 1990, reappointed to 30 June 1999.*

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

**Ms Winsome Hall**—*appointed 1 July 1996, reappointed to 30 June 1999.*

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

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

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



**The Board of Trustees:** *[Seated L to R] W Hall, R Brown, M Dawson (Board Secretary); [Standing L to R] P Reynolds, J Flitcroft and G Kelly. Ms Dawson retired in July 1998 and Ms H Kain has been appointed as Board Secretary.*

## **Board** and Board committee meetings

The Board has four committees—the Audit Committee (W Hall, P Reynolds, A McKenzie\*); the Communications Committee (J Flitcroft, P Reynolds); the Administration Committee (G Kelly, J Flitcroft, J Palmer) and the Reconsideration Advisory Committee (C Goode, P Skinner, R Whithear). Trustees may attend any committee meeting. The members of the Reconsideration Advisory Committee are senior ComSuper officers.

Table 1: Board and Board committee meetings

	Board	Audit	Communications	Administration
R Brown	7/7			
J Flitcroft	7/7		4/4	2/2
W Hall	7/7	4/4		1/1
A McKenzie*		3/3		
J Palmer			1/1	2/2
P Reynolds	7/7	1/1	4/4	
G Kelly	7/7			2/2

*\* Mr McKenzie's appointment expired on 1 June 1998. Mr Reynolds was appointed as a member of the Audit Committee on 4 June 1998.*

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# Mission and Operating **Principles**

## **Charter** | 1997–98

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The Board's charter is:

- to administer the Public Sector Superannuation Scheme in accordance with the 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

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The Board's operating principles in 1997–98 were:

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

## **Performance** indicators

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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 23);
- the time taken to process benefit payments (see *Member Entitlements*, page 32);
- the time taken to finalise applications for Invalidity Retirement Certificates (see *Invalidity Processing*, page 37);
- the number of appeals against decisions taken under delegation and the outcome of those appeals (see *Reconsideration and Review*, page 39);
- the success of the communications strategies used to inform members of relevant superannuation matters and of the Board's activities (see *Member Communications*, page 45); and
- the monitoring of member service satisfaction (see *Board Governance*, page 51).

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

## **Board** executive

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Under the supervision of the Board's Executive Officer, the Board Secretary has specific responsibilities in relation to the maintenance of the formal transcript of Board proceedings, the safe custody and control of the Common Seal, and the dissemination of Board decisions. The Board's Executive Officer and General Counsel, Mr Paul Cheever, also oversees the relationships between the Board, the government's policy advisers (Department of Finance and Administration), the scheme administrator (ComSuper), the Board's investment adviser TRM, PSS members, members of parliament and the media.

# Scheme **Statistics**

## **Scheme** membership

CONTRIBUTORS AT 30 JUNE	1997	1998
Male	50 097	47 420
Female	63 352	61 730
Total	113 449	109 150

PENSIONS IN FORCE AT 30 JUNE	1997	1998
Age retirement	445	571
Retrenchment (involuntary)	1737	2418
Invalidity	460	534
Spouses & orphans	141	167
Total	2783	3690

OTHER SUMMARY AT 30 JUNE	1997	1998
Average yearly adult pension	\$15 473	\$14 489
Preserved benefits in force	34 207	39 273

## **Fund** size

FINANCIAL YEAR	VALUE (\$M)	CHANGE (%)
1993-94	1514.0	-
1994-95	1743.8	+15.2
1995-96	2118.3	+21.5
1996-97	2448.0	+15.6
1997-98	3219.0	+31.4

## **Addressing** priorities

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On 20 November 1997 the Minister for Finance and Administration announced a proposal by the government for new arrangements which are to apply to the delivery of superannuation administration services for the Commonwealth's superannuation schemes. Under these arrangements the existing, separate, Boards of Trustees for the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation (PSS) scheme are to be abolished and replaced by a single Trustee Board—the Commonwealth Superannuation Board.

A primary intention of the new arrangements is to place more direct responsibility for scheme administration on the new Board of Trustees and to implement a clearer separation between the Board (as purchaser of services) and ComSuper (as a service provider).

Although still subject to legislation currently before the Parliament, the range of changes proposed in the Minister's announcement included:

- Closure of the PSS to new members (in May 1998 the Minister announced that the closure of the PSS would be deferred until 1 July 1999);
- Existing members of the PSS to have the choice of moving to another Fund from 1 July 2000;
- Establishment of a new Trustee Board—the Commonwealth Superannuation Board and the abolition of the existing CSS and PSS Boards;
- Introduction of elections for member representatives on the new Board; and
- Abolition of the statutory office of Commissioner for Superannuation.

Some proposals not requiring legislative change have already been implemented, namely:

- Establishment of ComSuper as a Business Unit operating along commercial lines; and
- Implementation of user charging with the Board recovering costs of administration from employer agencies and contracting directly with ComSuper and other service providers on the delivery of administration services.

## **Developing** processes

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During the course of the year, the Board worked closely with the Department of Finance and Administration and ComSuper on the development of processes and procedures to facilitate a smooth transition of powers and responsibilities to the new Board. Although the delay in the passage of the enabling legislation means that the existing Board and operating arrangements will continue unchanged, the proposed changes to funding arrangements announced in the context of the 1998–99 Federal Budget were implemented from July 1998.

Under the new arrangements, the Board recovers its costs of administration directly from employer agencies. A major task for the Board during 1997–98 was therefore to negotiate with its various service providers on the cost of service delivery and, with assistance of an outside consultant, to develop pricing strategies in relation to its charges to employer agencies.

At the same time, given the change in the nature of the relationship between the Board and ComSuper, the Board is establishing independent arrangements to manage that relationship and to implement appropriate billing and cost recovery programs.

## **Payroll** services

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The Board is also aware of the Department of Finance and Administration's decision to withdraw from providing payroll services at the end of June 1999.

In recognition of the potential impact of this change on service delivery, the Board, together with ComSuper, is developing strategies to ensure continuity of service both for the reporting of member contributions and for the payment of pensions.

# **Management and Investment of the Fund**

## **Review** of investment sectors

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In December 1996 the government announced that CFM had been sold to Commonwealth Financial Services (CFS), and that TRM had been sold separately to the actuarial firm Towers Perrin. At the time of the sale, the Board had partly completed a review of its investment arrangements, with the core international equities, Australian equities and fixed-interest sectors remaining for consideration. The review of these sectors was completed during the 1997–98 financial year.

The result of the review was that:

- Vanguard Investments Australia Ltd was appointed to manage the core international portfolio in place of CFS; and
- CFS continues to manage the core Australian equities portfolio, and CFS the core fixed-interest portfolio and cash allocation.

## **Total** Risk Management (TRM)

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

## **Custodial** services

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The Fund's master custodian is the Chase Manhattan Bank. Their custodial function in relation to investment management includes settlement of trades, physical custody and safekeeping of securities, collection of dividends, and account preparation. Chase Manhattan Bank receives all monies available for investment from ComSuper, and allocates them to the investment managers in accordance with the mandates set down by the Board.

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

## Investment managers

All investment managers are paid a fee which is generally based on the value of assets under their control. The fee reflects the investment costs applicable to each particular sector, and the investment style (i.e. active or passive) employed by each manager. The investment managers appointed by the Board for the 1997–98 financial year are presented below.

Table 2: Investment managers at 30 June 1998

ASSET CLASS	INVESTMENT MANAGERS
AUSTRALIAN EQUITIES	
Core	CFM
Specialist	AMP Investments Australia Ltd Balanced Equity Management Pty Ltd First State Fund Managers Ltd HSBC Asset Management Australia Ltd
Direct	Various (2 managers)
Alternative	Various (6 managers)
INTERNATIONAL EQUITIES	
Core	Vanguard Investments Australia Ltd
USA (Specialist)	American Express Asset Management Ltd Brinson Partners Inc Sasco Capital Inc Westpeak Investment Advisors
Alternative	Wilshire Associates Inc
Japan (Specialist)	Acadian Asset Management Inc JP Morgan Investment Management Inc Schroder Investment Management (Australasia) Ltd
UK/Europe (Specialist)	Dresdner Bank AG Mercury Asset Management Plc Schroder Investment Management (Australasia) Ltd
Hong Kong/M'isia/S'pore (Specialist)	American Express Asset Management Ltd
Emerging Markets (Specialist)	Blairlogie Capital Management Emerging Markets Management Morgan Grenfell Funds Management Paribas Asset Management Ltd
AUSTRALIAN FIXED-INTEREST	
Core	CFS
Specialist	BT Funds Management Ltd Citicorp Investments Ltd
Core (Indexed Bonds)	CFS
CASH	CFS
CURRENCY OVERLAY	Pareto Partners
PROPERTY	CFM

## **Investment** objective

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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 clearly of vital importance. This is explicitly recognised in the objective that the Board has set for the Fund, which is:-

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

Achievement of this objective calls for attention to multiple time horizons. Fundamentally, the Fund has a long term perspective (maximising real returns on 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). These are also captured in the Fund objective which is to maximise the long-term real rate of return subject to:

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

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

## **Investment** strategy

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

Those principles include:

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

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

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

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

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

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

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

- what risks exist within the investment structure;
- where those risks reside within the structure;

- how great the risks are; and
- what effect the combination of the parts has on diversifying those risks.

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

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

## **Strategic** target

The Board's policy is to review the continuing effectiveness of its strategic asset allocation each year. A review was carried out in early April 1998 in conjunction with TRM. The Board has decided that a major review of strategic policy will be carried out every three years (the last being in 1996) with annual reviews in the intervening years of the key assumptions underlying the strategic asset allocation.

As a result of the April 1998 review, the allocation to Australian equities was reduced from 33 per cent to 28 per cent, and the allocation to international equities was raised from 40 per cent to 45 per cent. The Board considered that the current mix of growth and defensive assets remain appropriate.

Table 3: Strategic asset allocation and benchmark portfolio

Asset Class	Type	Strategic allocation	Range	Benchmark
Shares	Domestic	28%	25–31%	ASX All Ordinaries Accumulation Index
	International	45%	42–48%	MSCI All Countries Free World Index (ex Australia)
Debt	Domestic	12%	9–14%	SBC Warburg Dillon Read Australia Composite Bond Index & Bank Bill Index
Property	Domestic	15%	12–18%	Mercer Australian Unlisted Property Index
Total Fund		100%		

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

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

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

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

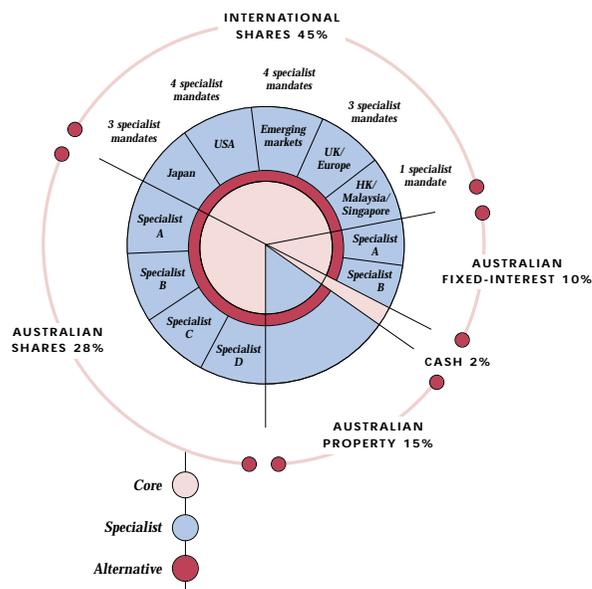
**Active assets**, as the name suggests, are actively managed. That is, the specialist fund managers that hold these assets must actively operate in the market, buying and selling them with a view to outperforming the sectoral index.

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

The Board has also made provision for investment of up to five per cent of the total assets in non-traditional or alternative investments. Alternative investments include infrastructure, buy-out funds and venture capital. At the end of the year, the Fund had committed \$101 million across 12 investments (a little less than two per cent of total funds).

The move to increase the Fund’s exposure to international equities had regard to the inherent limits on return opportunities through investment solely in the Australian equities market and the increased opportunities provided by investing in the much larger world markets. These assumptions led to the current strategic asset allocation where around 88 per cent of the Fund’s assets are invested in growth assets such as shares and property, including 45 per cent in overseas shares. The remaining 12 per cent is invested in defensive assets such as bonds and cash.

Chart 1: PSS Fund composition & portfolio construction at 30 June 1998



## **Market** overview

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At the end of the 1997–98 financial year, the value of the Fund was \$3.2 billion, about 31 percent more than the previous year. The PSS Fund recorded a return of 11.1 per cent, after tax and fees.

Financial markets were dominated throughout the year by the unfolding financial and economic crisis in Asia. The crisis, which began with foreign investors becoming pessimistic about the economic growth outlook for several Asian countries, led to a massive withdrawal of foreign capital and the consequent devaluation of many Asian currencies.

Its effect on Australian shares saw the investment returns on industrial and resource stocks go in different directions. While the former benefited from economic growth and the continuing low inflation and low interest rate environment, resource stocks were hit hard by falling commodity prices posting a negative return of nearly 29 per cent. The lower Australian dollar, which would normally have a positive effect on this sector, was not sufficient to outweigh the negative effects of lower demand brought about by decreased economic activity in Asia. As a result, the return from Australian shares over the year was about three per cent.

For the international sector, the Fund invested mainly in major markets such as the US, Japan and Europe with a smaller allocation to emerging markets such as Asia, Africa, Eastern Europe and Latin America. Europe provided the best return of 65 percent, slightly ahead of the US which returned 58 per cent. The Japanese market, due to its troubled banking sector, the apparent ineffectiveness of its government to institute effective reforms and an economy moving into recession. Its sharemarket lost 17 per cent.

Overall, international shares posted an above average return of about 38 per cent for the year.

The Fund also invested in Australian fixed-interest securities (which benefited from a reduction in official interest rates and a fall in yields of longer term bonds) and the property market during the year. The bond market returned 9.2 per cent while cash returned 4.3 per cent. The market return on property was 8.6 per cent.

Table 4: PSS Fund Performance 1997–98 (after tax and fees)

Asset sector	Value of investment (\$m) <sup>1</sup>		Benchmark portfolio <sup>2</sup>	Fund return <sup>3</sup>
	30/06/97	30/06/98		
Property	371.2	457.2	8.6	8.3
Australian equities	763.9	925.1	2.8	3.5
International equities	1022.6	1444.8	29.9	27.6
Australian Fixed-interest <sup>4</sup>	290.3	391.9	8.3	8.2
Total	2448.0	3219.0	12.1%	11.1%

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

## Performance review

For 1997–98, the Board has declared an annual crediting rate of 10.4 per cent which is well in excess of its target rate of inflation plus 3 per cent.

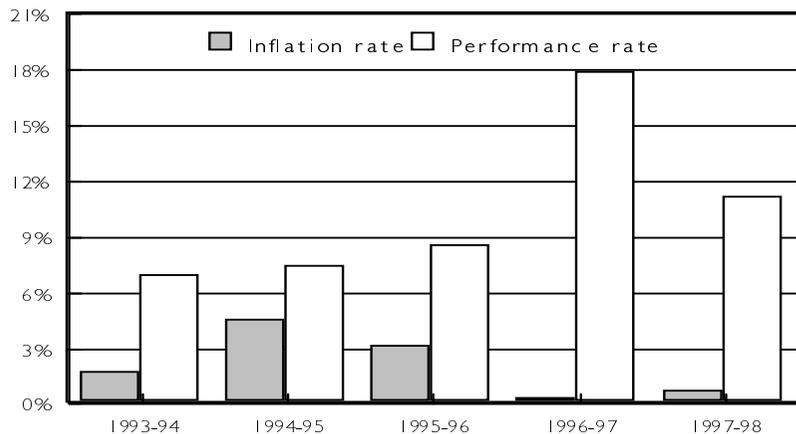
This investment performance has placed the PSS Fund amongst the best performing superannuation funds in Australia for the second year running. As a result, there has been significant real growth in the value of the superannuation investments.

The improved performance of the PSS Fund is a reflection of the decision of the Board in 1994–95 to move from being tied to a single investment manager to a multi-manager approach designed to maximise returns to members. Concurrently, the Board has adopted a more aggressive allocation to growth assets (primarily shares) and increased its holdings of international shares. International shares have been the best performing asset class over the past three years.

The Board supervised a number of activities during the year including:

- A review of the management of its core assets which are passively managed.
- A review of property strategy which resulted in the Board adopting a new strategy that is more focused on maximising returns through opportunistic purchasing and selling of properties.
- The asset allocation of the Fund was returned to its long-term neutral position by reducing the allocation to Australian equities from 33 per cent of the Fund to 28 per cent, with a corresponding increase in the allocation to international equities from 40 to 45 per cent.

**Chart 2: Fund performance compared with inflation rate 1994 to 1998**



## **Investment** information

During the 1997–98 financial year, the Board issued a more detailed description of the investment policy for the PSS Fund. This document is currently available on request and free of charge in both printed form and from the internet.

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

Executive Unit

PSS Board

PO Box 22

Belconnen ACT 2616

Telephone: (02) 6252 7097 Fax: (02) 6252 7965

E-mail: [secretary.csspss@comsuper.gov.au](mailto:secretary.csspss@comsuper.gov.au)

## **Note** on calculations

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

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

Annual crediting rates also differ from earning rates because of the working of the Reserve Account and the Deferred Losses Account (page 28).

## **Crediting** rate policy

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The key features of the crediting rate policy are:

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

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

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

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

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

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

## Crediting rates

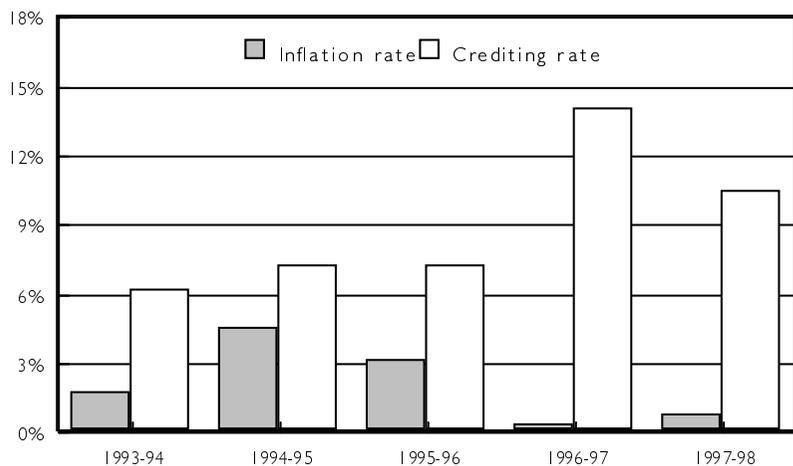
Every year, interest is credited to members' accumulated contributions at rates determined by the Board. Table 5 lists the annual crediting rates for the past five years.

Table 5: Annual crediting rates 1994 to 1998

Financial year	Crediting rate (%)
1993–94	6.2
1994–95	7.2
1995–96	7.2
1996–97	14.0
1997–98	10.4

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

Chart 3: Crediting rates compared with inflation rates 1994 to 1998



## **Reserve** Account

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

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

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

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

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

This year, a net \$16.6m was transferred to the Reserve. The balance of the Reserve Account at 30 June 1998 was \$159.4m.

## **Deferred** Losses Account

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

This year, a net \$2.92m was transferred to the DLA. The balance of the DLA at 30 June 1998 was \$2.92m.

## **Exit** rates

When a member leaves the Scheme, an exit rate of interest is applied to cover the period between the date of the last annual crediting rate and the member's date of exit. Exit rates are determined by the Board quarterly, in a manner consistent with the method for determining annual crediting rates. The exit rates for 1997–98 are shown below.

Table 6: Exit rates declared in 1997–98

Effective Date	Exit rate (annualised)
1 July 1997	13.0%
25 August 1997	10.7%
24 November 1997	5.0%
9 February 1998	5.6%
1 June 1998	11.4%

Each new exit rate replaces the previous one. For example, members who exited on or after 1 June 1998 had an interest rate of 11.4 per cent per annum applied to their accumulated contributions for the period from 1 July 1997 until their date of exit.

## Fund investment

ASSET ALLOCATION		30 June 1997		30 June 1998	
Sector	\$m	%	\$m	%	
Property	371.2	15.2	457.2	14.2	
Australian equities	763.9	31.2	925.1	28.7	
International equities	1022.6	41.8	1444.8	44.9	
Australian Fixed-interest <sup>1</sup>	290.3	11.8	391.9	12.2	
<b>Total</b>	<b>2448.0</b>	<b>100.0</b>	<b>3219.0<sup>2</sup></b>	<b>100.0</b>	

INVESTMENT PERFORMANCE <sup>3</sup>		30 June 1997		30 June 1998	
Sector	Benchmark %	Fund %	Benchmark %	Fund %	
Property	4.8	0.4	8.6	8.3	
Australian equities	24.6	26.6	2.8	3.5	
International equities	24.8	23.1	29.9	27.6	
Australian Fixed-interest	12.6	11.1	8.3	8.2	
<b>Return on investment</b>	<b>19.0</b>	<b>18.0</b>	<b>12.1</b>	<b>11.1</b>	

ANNUAL CREDITING RATE <sup>4</sup>	14.0 %	10.4 %
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### Notes

- 1 Includes cash and indexed bonds.
- 2 This represents the funds under management at 30 June 1998, and will differ from the investments shown in the financial statements because of necessary accounting adjustments.
- 3 Performance figures are after tax and fees.
- 4 Annual crediting rates differ from earning rates because of various adjustments, including transfers to and from the Reserve Account (see also *Note on calculations* on page 26).

# **Scheme Administration**

## **General** introduction

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

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

The Trustees set the standards of performance for ComSuper in its delivery of services to members for these areas of activity, and the Trustees also monitor the administrator's performance through regular reports on all main activities. This process is also facilitated by an effectiveness review undertaken jointly between the Board and ComSuper during the course of the financial year.

A detailed description of all ComSuper's activities is contained in the *Commissioner for Superannuation Annual Report 1997–98*.

## **Benefit** design

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

a) **a member-financed component**

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

b) **an employer-financed component**

The employer component includes two parts—

- The first part comprises the superannuation productivity contributions paid by the employer into the Fund plus accumulated interest.

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

## **Members'** contributions

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

In 1997–98, ComSuper received contributions totalling \$342.9m, which comprised \$229.4m in member contributions and \$113.5m in productivity contributions. Benefits paid from the Fund during the year totalled \$326.0m, giving a net contributions flow into the Fund for 1997–98 of \$16.9m.

## **Number** of members

At 30 June 1998, the PSS had 109 150 members—a decrease of 3.8 per cent over the population at 30 June 1997.

Table 7: Scheme membership 1994 to 1998

Year ending	Male	Female	Total
30 June 1994	45 441	58 700	104 141
30 June 1995	47 008	60 426	107 434
30 June 1996	53 574	67 200	120 774
30 June 1997	50 097	63 352	113 449
30 June 1998	47 420	61 730	109 150

## **Entry** medical requirements

New PSS members must complete a comprehensive medical questionnaire—a *Confidential Medical and Personal Statement*, or CMAPS—and send it direct to ComSuper within 14 days of commencing membership. In the case of temporary or casual employees electing to join the Scheme, the form must be sent to ComSuper within 14 days of electing to join the PSS.

The completed form is examined by a delegate of the Board who, on the basis of information provided by the member, generally determines the member's benefit status. If the delegate considers the member to be healthy enough to perform his/her duties for three years without taking excessive sick leave, the member will be classified as a full benefits member.

However, if 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), the delegate may classify the new entrant as a *Limited Benefits Member*. In a small number of cases, the delegate requires additional medical information to determine the member's PSS medical status. New entrants 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. Limited benefits status ceases to have effect after three years' membership.

During the year, 9057 CMAPS were processed with only 37 (0.4 per cent) being accorded limited benefit status. The number of new entrants with a limited benefits classification compared with the previous year has decreased by about 69 per cent.

## **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. Since 1 July 1993, this cover has been provided by National Mutual.

At 30 June 1998, there were 1711 members paying premiums for additional death and invalidity cover, compared with 1375 at 30 June 1997. Of those, 1672 were covered at standard rates and 39 were covered with a loading. (A loading is where the life office requires the member to pay a premium above the standard life cover.)

The gross amount of cover has seen a similar increase, growing from \$95.6 m to \$122.33 m. The average value of additional cover was \$71 496 per member. The average age of persons accepted for additional death and invalidity cover was 43 years.

## **Pensions** in force

There were 3690 pensions in force at 30 June 1998, an increase of almost 33 per cent from the 2783 pensions in force at 30 June 1997. At 30 June 1998, the annual pension liability was \$53.46 million. Table 8 below gives a breakdown of those pensions by type and their annual liability.

Table 8: Pensions in force at 30 June 1998

Type of pension	Number	Annual Liability
Age retirement	571	\$7.381m
Involuntary retirement	2418	\$35.281m
Invalidity	534	\$8.790m
Spouses & orphans	167	\$2.011m
<b>Total</b>	<b>3690</b>	<b>\$53.463m</b>

## **Benefit** applications

The high rate of benefit applications received in ComSuper in 1996–97 continued into 1997–98 as a result of ongoing retrenchment programs initiated by public sector agencies.

ComSuper received 13 704 benefit applications during the year (compared with 14 774 in the previous financial year), representing an average of more than 1100 applications per month throughout the year.

## **Benefit** processing

The high rate of benefit applications had some impact on benefit turnaround times. ComSuper, in its service level agreement with the Trustees, agrees to process 60 per cent of PSS member benefits within 10 days, and 95 per cent within 20 days, of the later of the date of exit or the date all documentation is received. Generally, ComSuper was able to maintain the 60 per cent standard throughout the year.

Unlike the 1996–97 financial year, there was no decline in the number of benefit applications received in the first half of 1998. However, additional resources devoted to benefit processing in the early part of 1998 saw an improvement in turnaround performance.

## Exits by type

During 1997–98, 13 704 members left the scheme. As was the case in 1996–97, the bulk of the exits came from the retrenchment category (56 per cent). The percentage of exits in the Retrenchment and Resignation and other categories remained relatively constant across both financial years at around 56 per cent and 38 per cent respectively. Table 9 gives a summary of contributor exits.

Table 9: Exits by type 1997–98

Type	Number
Age retirement	533
Retrenchment (involuntary)	7738
Invalidity	132
Death	38
Resignation and other	5263
Total	13 704

## Pension and retrenchment uptake

The retrenchment uptake trend was steady until 1996–97 when it rose to 7799—the year where public sector redundancies were at their highest level. Similarly, pension uptake reached a peak at 1373 in the 1996–97 financial year.

Table 10: Pension and Retrenchment uptake 1994 to 1998

Financial year	Pension	Retrenchment
1993–94	289	2510
1994–95	369	3475
1995–96	445	2620
1996–97	1373	7799
1997–98	1054	7738

## **Payment** of invalidity benefits

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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 84 per cent of applications considered.

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

## **Pre-assessment** payments

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

During 1997–98, pre-assessment payments were approved in respect of 107 applicants and one applicant was refused pre-assessment payments on the ground that there was little likelihood that he/she would be unable to work again.

## **Assessment** panel

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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 1997–98, assessment panel services were provided by Independent Claims Management Pty Ltd (ICM). Of the 182 cases considered by ICM, 152 were approved, 14 were refused and 16 cases were deferred for further consideration.

## **Board** decisions

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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 1997–98, 152 invalidity retirement certificates were approved. Of those, 15 were fast-tracked by the invalidity assessment panel in less than one week.

The Board is satisfied that ComSuper, in conjunction with the Administration Committee (see page 51), is meeting the standards set for turnaround times in the processing of invalidity benefits.

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# Reconsideration and **Review**

## **Role** of the Board

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

## **Internal** reconsideration

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

### **Reconsideration Advisory Committee**

Decisions are reconsidered on the basis of new evidence provided by the applicant or obtained by ComSuper. A request for reconsideration of a decision is usually referred to the relevant Reconsideration Advisory Committee (RAC<sup>1</sup>) for examination. The RAC's recommendation is taken into account by the Board in deciding whether to affirm or vary the original decision. The Board can also refer a decision to the RAC on its own motion. Each applicant receives a comprehensive written statement of reasons for the Board's decision on reconsideration. Legislative changes designed to streamline the reconsideration process, including removal of provisions prohibiting the Board from delegating their power to reconsider decisions, are currently under consideration by Parliament.

Requests for reconsideration are treated as complaints for purposes of section 101 of the *Superannuation Industry (Supervision) Act 1993*.

<sup>1</sup> From April 1998 the two previously established RACs were collapsed into one Committee to examine both delegates' and Board decisions. It normally consists of any two of the Commissioner for Superannuation, her deputy and another SES officer.

### Applications received

Thirty four applications for reconsideration were received, compared with 30 last year. Twelve applications concerned the limited benefits status of members, with two relating to the failure by the member to disclose relevant information; five concerned the early release of preserved benefits; four concerned invalidity retirement. The others included applications concerning benefits payable to spouses, salary regulations and extension of time to pay a transfer value.

The overall ratio of persons seeking reconsideration of adverse decisions was 18 per cent, slightly less than the previous year with, as expected, a higher proportion of applicants seeking reconsideration where the decision involved substantial benefits, eg. invalidity, preservation and spouse cases.

From the relatively small number of requests for reconsideration received the Board was satisfied with the high standard of decisions taken by delegates. While the number of cases where it set aside or varied earlier decisions was some 51 per cent, this was primarily as a result of further evidence coming to hand.

### Cases finalised

Thirty three cases were finalised during the year, compared to 34 for the previous year. Agreed timeliness standards between ComSuper and the Board, replacing previous measures which simply set processing times for each step of investigation and handling, were introduced to aid visibility of actual and comparative performance achieved in completed cases. Though the service level was not attained in all cases, improvement was evidenced toward the end of the financial year.

Table 11: Reconsideration applications received & outcomes 1997–98

	1996–97		1997–98	
	Delegate's decisions	Board's decisions	Delegate's decisions	Board's decisions
Brought forward	29	3	22	6
Received	23	7	27	7
Withdrawn or lapsed	11	2	8	3
Decisions affirmed	11	1	5	1
Decisions varied	3	0	7	1
Decisions set aside	5	1	7	1
Resolved	30	4	27	6
Carried forward <sup>2</sup>	22	6	22	7

<sup>2</sup> The cases carried forward were under investigation by ComSuper or with the RAC.

## **External** review

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### **Superannuation Complaints Tribunal**

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

However, a decision of the Full Bench of the Federal Court handed down on 12 February 1998 has affected the powers of the SCT to review decisions of superannuation trustees. In *Neil Wilkinson, Tony Tuohey & Marita Hall v Clerical Administrative & Related Employees Superannuation Pty Ltd & Bishop* (1998) 152 ALR 332, the majority of the Court held that the power purportedly conferred by the SRC Act on the SCT (to review trustee decisions) was an exercise of the judicial power of the Commonwealth. Under the separation of powers doctrine enshrined in the Commonwealth Constitution, the functions of the legislature, the executive and the judiciary must be kept separate and only a Court may act judicially. In effect, the majority of the Court held that in every case where the SCT reviews a trustee decision, the SCT purports to act judicially which it cannot do.

Special leave has been granted in June 1998 to appeal the *Bishop* case to the High Court, together with another Federal Court case—*Daniel Nathan Breckler & Ors v Shirley Leshem* (1998) No WAG 60 of 1997. The decision in the latter case raised the same issues as in the *Bishop* case and the judges who constituted the Full Bench in *Bishop* were the same judges which heard the Breckler case.

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

During the year, seven complaints were lodged with the SCT against the PSS Board and six were carried over from the previous year. Of the two complaints resolved during the year, the SCT affirmed the Board's decision on one complaint and treated the other complaint as withdrawn on the basis that it lacked substance. Ten complaints remain outstanding as at 30 June 1998.

### **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. One appeal was lodged with the Federal Court by the applicant, but was subsequently withdrawn.

## **Claims** against the Board

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This year the Board analysed all claims for compensation arising from disputes about the value of the benefits decided. It was satisfied from the number of claims accepted and their generally low monetary value that there was not any systemic weakness in the administration of benefit entitlements.

### **Summary of claims: 1 July 1997 to 30 June 1998**

- 17 claims against the PSS Board were finalised.
- 14 claims specified the amount claimed (claiming a total of \$163 143).
- 3 claims sought an unspecified amount.
- Liability was denied in 9 cases, 3 cases were deemed to have lapsed and 1 case was resolved administratively.
- 4 claims were settled by payment of compensation.
- **A total of \$16 085 was paid in settlement payments.**

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# Administration **Committee**

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## **Key** function

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The combined PSS/CSS Administration Committee is to advise both Boards on those internal policy matters that drive the operational standards of the administrator, ComSuper.

## **Responsibilities** and role

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The Administration Committee is to become familiar with the policy activities carried out by the administrator and the Department of Finance and Administration to enable the Boards to supervise these policies.

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

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

## **Terms** of reference

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The Administration Committee is the point of communication between the Boards, the administrator and other service providers.

Its terms of reference are as follows:

- to establish performance agreements and arrangements for service providers to report regularly to the Trustees;
- to monitor the performance of service providers;
- to ensure all activities of the administrator and service providers are carried out in accordance with Board policy;
- to oversight relationships between the Board and service providers;

- to advise the Boards of the implications arising from legislative changes;
- to take decisions on behalf of the Boards, in accordance with those powers delegated to Trustees in respect of primary decisions on invalidity; and
- to submit copies of all decisions taken in respect of invalidity applications to the PSS and CSS Boards.

### **Membership** of committee

---

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

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

## **Communications** committee

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

- communications requirements arising from the foreshadowed closure of the PSS Fund and the possibility of scheme choice;
- the establishment of a new Board to manage both the CSS and PSS schemes;
- the preparation and issuing of client service charters;
- internet developments in electronic publishing;
- surcharge communication needs; and
- preparation and timing of the 1997–98 annual reports—such as this report.

## **SIS** requirements

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As a regulated fund under the *Superannuation Industry (Supervision) Act 1993* (SIS) the PSS must comply with all the information disclosure standards set out in the SIS Act and Regulations. One of the major requirements is to maintain ongoing communication with scheme members, giving assurance that the superannuation industry operates in a fair, honest and open manner.

The Board also believes that it is important to keep members informed of developments in superannuation that might affect their future entitlements. A number of different and interrelated communications mechanisms are used to meet these requirements.

## **Member** statements

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

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

The Board's Annual Report to Members is packaged with the member statements providing detailed personalised information about each individual's entitlements.

For 1997–98 the Board has made considerable efforts to bring forward the timetable within which this information is normally distributed and also to package the combined information set in a consistent format to ease understanding. These changes were made in line with recent examples of industry best practice.

## **Scheme** publications

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

These publications are updated regularly as the need arises and resources permit. Uncertainty about the timing of foreshadowed changes to the scheme, however, delayed this activity during the year. Nevertheless the collection was added to, with work being done on meeting a specific information need for some categories of contributors having a choice to leave the scheme.

In addition to the above the Board maintains contact with employing agencies through a monthly newsletter. These newsletters contain a combination of information for on-forwarding to contributors, such as poster announcements, and information directed specifically at personnel officers.

## **Other** programs

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During the year several communication efforts were made in connection with the surcharge. Initially this effort was directed at the collection of Tax File Numbers (TFNs) to facilitate processing of surcharge debt information. The success rate of this effort was in keeping with general industry trends.

Towards the end of the financial year members who had incurred a surcharge liability were individually advised of their options in regard to discharging that debt.

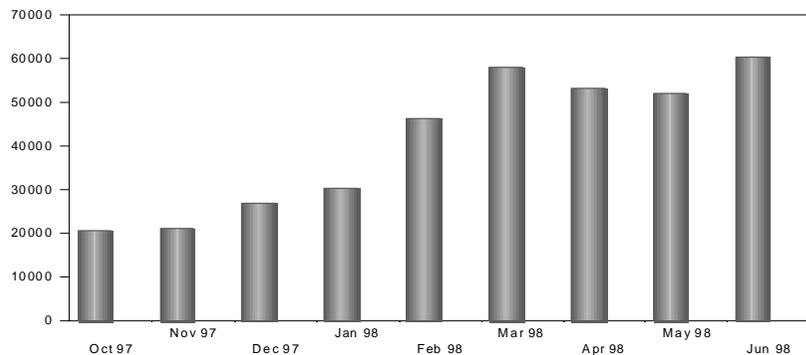
A regular Member Information seminar program is also conducted in capital cities around Australia. During the year this program was expanded to cover surcharge communication issues and those connected with the impending closure of the PSS Scheme.

## **Growing** the Web

Through the internet the Board has made available a range of the more significant publications relevant to the PSS scheme, including comprehensive information on the scheme rules. This is done with assistance from the Board's administrator. Usage of this internet material grew by about 300% during the year.

This growth is reflected in the chart below.

Chart 4: Number of website hits per month



The website address is <http://www.comsuper.gov.au>

## **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 53) where high quality performance was achieved across a range of customer service dimensions eg. member information statements etc.

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

Schemes Publicity Section

ComSuper

PO Box 22

Belconnen ACT 2616

Telephone: (02) 6252 6274 Fax: (02) 6252 7838

## **Key** function \_\_\_\_\_

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

## **Responsibilities** and role \_\_\_\_\_

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

## **Terms** of reference \_\_\_\_\_

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

- The Audit Committee is the point of communication between the Boards and the Internal Audit Committees of ComSuper and with the Australian National Audit Office (ANAO).
- The Audit Committee reviews:
  - financial statements with both internal and external auditors prior to their approval by the Board;
  - accounting policies adopted or any changes which are made or contemplated by ComSuper, and which affect the Board's areas of responsibility;

- the annual audit plans of ComSuper where they relate to areas of Board responsibility;
  - the audit reports of major audits undertaken;
  - the extent to which internal audit recommendations are implemented; and
  - interim financial information.
- The Committee provides a regular report to the Board as to whether the internal controls employed by ComSuper and other service providers give reasonable assurance that the Boards' objectives and goals are being met efficiently and economically.
  - With the agreement of the Board, the Committee may initiate specific audit investigations.

The Audit Committee participated in the development of ComSuper's forward internal audit program for 1998–99 and monitored the progress of audits undertaken in the course of the 1997–98 program. It is also actively monitoring the Y2K activities of external providers.

# **Focus on Governance**

## **Continuous** improvement

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The 1997–98 financial year saw the Board adopt a revised operating plan which focuses on the transition to new legislative arrangements. This plan places greater emphasis on the increasing accountability of the Board and the need to ensure continuous improvement in effectiveness of both the Board and its administrator.

The operating plan also focuses on the need to carry forward a training program for Trustees to ensure their knowledge and competencies are maintained to a high standard relevant to their duties.

## **Board** activities

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### **Committees**

During the year two new standing committees, the Administration Committee and the Communications Committee were established. Together with the Audit Committee and the Reconsideration Advisory Committee, there are now four board committees involved in specific areas of scheme-related matters. Their respective roles are outlined below.

*Administration Committee:* The purpose of the Administration Committee is to advise the PSS Board on internal policy matters which drive the operational standards of the administrator, ComSuper.

Apart from monitoring legislative changes which will impact on the operations of the scheme, the committee also gives assurance to the Board that adequate processes are followed by the administrator and other service providers to ensure compliance with legislative requirements.

During 1997–98, the Administration Committee focused on the transitional arrangements necessary for the new board to carry out its financial and operational duties. It developed new arrangements for the Board to levy and collect charges from employers to fund its purchase of administration services. The committee worked closely with the Board, ComSuper and the Department of Finance and Administration in developing the charging and revenue collection arrangements.

To reduce invalidity assessment turnaround times, the Board delegated the power to decide invalidity claims to the Administration Committee. Claims may be decided by any two members of the Committee.

*Communications Committee:* The purpose of this committee is to advise the Board on communication-related matters. It concentrates on communication with the scheme members.

Its operational focus is to ensure that the Board meets the information disclosure requirements imposed by SIS through clear, timely and accurate reporting to members and that Trustee decisions and developments which may affect member interests, benefits and rights are promptly disseminated.

During the 1997–98 financial year, the committee met on a regular basis to oversee and direct all general communication to members including the production of annual reports and member information statements.

*Audit Committee:* The purpose of this committee is to advise the Board on accountability and audit-related matters. It also operates as a check on the management practices of the scheme administrator, fund investment managers and the master custodian.

It also assures the Board that annual financial statements are based on appropriate accounting concepts, systems and techniques. In particular, the committee provides assurance that audit arrangements within service providing agencies are operating effectively and that appropriate fraud control strategies are in place.

*Reconsideration Advisory Committee:* This committee advises the Board on requests for reconsideration of decisions made by, or on behalf of, the Board. It examines decisions taken by the Board and its delegates which are the subject of requests for reconsideration and after gathering sufficient evidence, makes recommendations to the Board on those reconsideration requests.

## **Trustee** development

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During 1997–98, the Trustees attended appropriate industry conferences and seminars held at various capital cities. This method of exposure has been adopted as an effective strategy to further trustee education in the superannuation industry and as a means of maintaining high level awareness of changing trends and new developments.

## **Delegations** and authorisations

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To streamline procedures and responsibilities, a comprehensive review was made of all delegations and authorisations issued by the Board. One of the net effects of this review is that it allows faster updating of authorisations to accommodate changes in the organisational structure of ComSuper—especially now that it operates as a commercial business unit.

For more information, please refer to *Appendix A* at page 59.

## **Member** satisfaction surveys

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During 1997–98, a comprehensive series of member satisfaction surveys was undertaken. The prime reasons for conducting the surveys were to provide feedback for the Board on ComSuper’s performance and to assist continuous improvement in ComSuper’s processes and procedures.

The key services surveyed at four separate times throughout the year were the telephone advisory service, written estimates, seminars, benefit payments and annual member statements.

A Quality Service Index (QSI) was introduced to measure the survey results and to enable comparisons between survey periods. The QSI is an assessment on a 100 point scale of the services provided by ComSuper and is a measure of client satisfaction.

Quality Service Indexes of 82.9, 80.9, 83.2 and 84.8 for the first, second, third and final quarters respectively suggest that ComSuper has maintained a consistent and very high client satisfaction rating from its clients.

ComSuper will, on behalf of the Board, continue with the client satisfaction survey process in 1998–99.



# Appendixes



# Appendixes

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A: Changes to the legislation	59
B: Departments and approved authorities	63
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## **Changes** to the legislation

### Changes to the PSS Act

During 1997–1998, the following Acts were passed to amend the PSS governing rules.

- *Audit (Transitional and Miscellaneous) Amendment Act 1997* imposes certain accounting and auditing requirements.
- *Superannuation Legislation Amendment (Superannuation Contributions Tax) Act 1997* makes minor amendments to facilitate the operation of the Superannuation Contributions Surcharge legislation.
- *Financial Sector Reform (Consequential Amendments) Act 1998* makes minor amendments of a financial nature to the Act.

### Amending Deed

The following amendments have been made to the PSS Rules under the Twelfth Amending Deed which came into effect on 25 March 1998.

*Power of delegation:* The Minister for Finance and Administration is provided with a power of delegation under the PSS Rules.

*Rollovers to RSAs:* Provision is made to permit rollovers to Retirement Savings Accounts.

*Unclaimed benefits:* Subject to State and Territory legislation, unclaimed benefits of persons who have reached pension age (65) must be transferred to the Commissioner for Taxation.

*Surcharge:* Superannuation Contributions Surcharge is payable on a person's employer superannuation contributions when the person's taxable income plus employer superannuation contributions exceed \$70 000 (1996–97). This amount is indexed annually by Average Weekly Ordinary Time Earnings (AWOTE).

Because the PSS is an unfunded defined benefits scheme, payment of Superannuation Contributions Surcharge can be delayed until the member's benefits become payable. Alternatively, the member can elect to make payments of surcharge at any time during their membership.

This Deed makes provision for the deduction of superannuation contributions surcharge tax amounts from PSS employer benefits when surcharge is owing at the time benefits become payable.

*Preserved benefits:* Members exiting the scheme on resignation are now only permitted to take the whole of their final benefit accrual as a cash payment if it is less than \$200. The previous limit was \$500.

A person can no longer access a preserved benefit on permanent departure from Australia unless the person requested the Board to release the benefit before 1 July 1998 and intended to leave Australia before 1 July 1998.

The tests for the release of benefits for severe financial hardship or compassionate grounds under the *Superannuation Industry (Supervision) Act 1993* were changed from 1 July 1997. Amendments are made to the rules to apply the old tests to applications for release made before 1 July 1997 and the new tests to applications for release after that date.

#### Statutory rules

The following is a complete list of statutory rules under the PSS which were gazetted during 1997–98:

*Superannuation (PSS) Membership Inclusion Declaration (Amendment)* provides for certain employees of the Nuclear Safety Bureau to remain as PSS members until 31 December 1996 or a prescribed earlier date.

*Superannuation (PSS) Approved Authority Inclusion Declaration (Amendment)* declares the Nuclear Safety Bureau to be an Approved Authority for the PSS.

*Superannuation (PSS) Approved Authority Inclusion Declaration (Amendment)* declares Adelaide Symphony Orchestra Pty Ltd, Health Services Australia Ltd, Melbourne Symphony Orchestra and Symphony Australia Holdings Pty Ltd to be Approved Authorities for the PSS.

*Superannuation (PSS) Membership Exclusion Declaration (Amendment)* declares that statutory office holders under the *University of Canberra Act 1989* (ACT) are not members of the PSS.

*Superannuation (PSS) Approved Authority Inclusion Declaration (Amendment)* declares West Australian Symphony Orchestra Holding Pty Ltd to be an Approved Authority for the PSS.

*Superannuation (PSS) Membership Inclusion Declaration (Amendment)* provides for certain employees of the Australia Law Reform Commission, Medibank and Employment National (Administration) Pty Ltd to continue PSS membership until certain events occur.

### Determinations made

Five determinations were made during the year setting the crediting interest rate for the 1997–98 financial year and the prevailing exit interest rate applicable during the period of scheme membership.

Five determinations were made setting the interest rate applicable in the period after the benefit becomes payable.

Three further determinations were made on the following topics:

- setting new productivity contribution rates to reflect changes in the general salary levels of members;
- setting new maximum benefit levels to ordinary Scheme members and Scheme members employed by the Australian Federal Police; and
- setting, in accordance with advice from the Australian Government Actuary, conversion factors to be used when calculating pension reductions in order to discharge surcharge deduction amounts.

### Delegations and authorisations

During the year a thorough review was made of all delegations issued by the Board.

The Board adopted the practice whereby it delegates relevant powers to the Commissioner who then authorises ComSuper staff, and in some instances staff in departments and agencies, to exercise powers, for and on her behalf. This practice streamlines the delegation process and allows faster updating of authorisations to accommodate changes in the organisational structure of ComSuper. A register of instruments authorised by the Commissioner is made available to the Trustees.

In revising its delegations, the Trustees reaffirmed that certain powers are to be exercised by the Trustees themselves and not delegated. Examples are:

- variation of rules where they produce a result not in the spirit of the rules;
- reconsideration of decisions; and
- appointment of reconsideration advisory committees.

Decisions relating to invalidity assessments where the assessment panel is not of the opinion that the person is totally and permanently incapacitated are taken by the Administration Committee.



## Appendix B

### **Departments** and authorities

At 30 June 1998, the following departments and authorities were employers of people who were eligible to contribute to the PSS.

#### Departments

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

### Approved authorities

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  
Australian Broadcasting Corporation  
Australian Capital Territory  
Australian Dairy Corporation  
Australian Dried Fruits Corporation  
Australian Film Commission  
Australian Film, Television and Radio School  
Australian Fisheries Management Authority  
Australian Foundation for Culture and the Humanities Ltd  
Australian Institute of Criminology  
Australian Institute of Marine Science  
Australian International Hotel School  
Australian Marine Science and Technology Limited  
Australian Maritime Safety Authority  
Australian National Gallery  
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 Wheat Board  
Australian Wine and Brandy Corporation  
Calvary Hospital ACT Incorporated  
Canberra Institute of the Arts  
Civil Aviation Safety Authority  
Commonwealth Scientific and Industrial Research Organisation  
Cotton Research and Development Corporation  
Dairy Research and Development Corporation

Export Finance and Insurance Corporation  
Fisheries Research and Development Corporation  
Forest and Wood Products Research and Development Corporation  
Grains Research and Development Corporation  
Health Insurance Commission  
Health Services Australia Ltd  
High Court of Australia  
Horticultural Research and Development Corporation  
Indigenous Land Corporation  
Katherine Rural College  
Land and Water Resources Research and Development Corporation  
Law Courts Limited  
Legal Aid Commission (ACT)  
Meat Research Corporation  
Melbourne Symphony Orchestra  
Menzies School of Health Research  
National Registration Authority of Agriculture and Veterinary Chemicals  
Northern Territory of Australia  
Northern Territory Tourist Commission  
Northern Territory University  
Nuclear Safety Bureau  
Pig Research and Development Corporation  
Power and Water Authority  
Private Health Insurance Administration Council  
Private Health Insurance Complaints Commissioner  
Rural Industries Research and Development Corporation  
Special Broadcasting Service  
Sugar Research and Development Corporation  
Sydney Symphony Orchestra Holdings Pty Limited  
Symphony Australia Holdings Pty Ltd  
Totalcare Industries Limited  
Trade Development Zone Authority  
University College, the college established by the University of New South  
Wales within the Australian Defence Force Academy  
University of Canberra  
West Australian Symphony Orchestra Holdings Pty Ltd



## Appendix C

**Eligible** superannuation schemes

A Transfer Value may be paid to a superannuation scheme which has been declared by the Minister for Finance and the Board to be an eligible superannuation scheme for the purposes of the Public Sector Superannuation (PSS) Scheme (Rule 8.2.5).

The following schemes have been declared eligible.

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

- The superannuation schemes known as:

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



## Appendix D

**Members'** complaints

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

During 1997–98, the Complaints Officer received 75 complaints with 16 complaints carried over from the previous year. The complaints covered a wide range of issues and the majority of cases were able to be resolved or satisfactorily answered within the legislative time frame of 90 days.

The following chart shows the volume of complaints received and processed by the Board's administrator, ComSuper, during the 1997–98 financial year.

Month	Received	Processed
July 1997	8	9
August	9	3
September	3	11
October	6	8
November	3	3
December	5	2
January 1998	12	8
February	15	17
March	6	15
April	2	4
May	4	4
June	2	2
<b>Total</b>	<b>75</b>	<b>86</b>



## Appendix E

**List** of abbreviations

<b>AAS</b>	Australian Accounting Standard
<b>ACTU</b>	Australian Council of Trade Unions
<b>AD(JR) Act</b>	<i>Administrative Decisions (Judicial Review) Act 1977</i>
<b>ANAO</b>	Australian National Audit Office
<b>APRA</b>	Australian Prudential Regulation Authority
<b>ASX</b>	Australian Stock Exchange
<b>ATO</b>	Australian Taxation Office
<b>CFM</b>	Commonwealth Funds Management Ltd
<b>ComSAS</b>	Commonwealth Superannuation Administration System
<b>ComSuper</b>	Commonwealth Superannuation Administration
<b>CPI</b>	Consumer Price Index
<b>CPSU</b>	Community and Public Section Union
<b>CSS</b>	Commonwealth Superannuation Scheme
<b>CSS Act</b>	<i>Superannuation Act 1976</i>
<b>DILGEA</b>	Department of Immigration, Local Government and Ethnic Affairs
<b>DLA</b>	Deferred Losses Account
<b>DOFA</b>	Department of Finance and Administration
<b>GBE</b>	Government Business Enterprise
<b>ICM</b>	Independent Claims Management Pty Ltd
<b>ISC</b>	Insurance and Superannuation Commission (APRA from 1 July 1998)
<b>MSCI</b>	Morgan Stanley Capital International
<b>PSMPC</b>	Public Service and Merit Protection Commission
<b>PSS</b>	Public Sector Superannuation (scheme)
<b>PSS Act</b>	<i>Superannuation Act 1990</i>
<b>RAC</b>	Reconsideration Advisory Committee
<b>RBL</b>	Reasonable Benefit Limit
<b>SBS</b>	Special Broadcasting Service
<b>SIS Act</b>	<i>Superannuation Industry (Supervision) Act 1993</i>
<b>SCT</b>	Superannuation Complaints Tribunal
<b>SRC Act</b>	<i>Superannuation (Resolution of Complaints) Act 1993</i>
<b>TRM</b>	Total Risk Management Pty Ltd

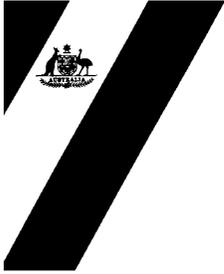


Appendix F

**Financial** statements

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## INDEPENDENT AUDIT REPORT

To the Minister for Finance and Administration

### (A) Financial Statements

#### Scope

I have audited the financial statements of the Public Sector Superannuation Scheme (PSS) which includes the PSS Fund, for the year ended 30 June 1998. The financial statements comprise:

- Statement of Changes in Net Assets
- Statement of Net Assets
- Notes to and forming part of the Financial Statements, and
- Statement by the Trustee.

The PSS Board as Trustee is responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you, the Minister for Finance and Administration.

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

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

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

**Audit Opinion**

In accordance with sub-section 28(2) of the *Superannuation Act 1990*, I now report that the statements are in agreement with the accounts and records of the Board, and in my opinion:

- (i) the statements are based on proper accounts and records;
- (ii) the statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the changes in net assets of the PSS for the year ended 30 June 1998 and the net assets of the PSS at that date;
- (iii) the receipt of moneys into the PSS Fund, and the payment of moneys out of the PSS Fund and investment of moneys standing to the credit of the PSS Fund, during the year have been in accordance with the *Superannuation Act 1990*; and
- (iv) the statements are in the form agreed by the Minister for Finance and Administration in accordance with sub-section 28(1) of the *Superannuation Act 1990*.

**(B) SIS Compliance****Scope**

I have conducted tests in accordance with Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards, as necessary to provide reasonable assurance as to whether the PSS Fund has complied, in all material respects, with:

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

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

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

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

for the year ended 30 June 1998.

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

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

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

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

**Opinion**

The PSS Fund, in all material respects, has complied with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations specified above for the year ended 30 June 1998.

Australian National Audit Office



Trevor Burgess  
Executive Director

Delegate of the Auditor-General

Canberra

29 September 1998

**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 net assets of the Scheme as at 30 June 1998 and the changes in net assets of the Scheme for the year ended 30 June 1998;
- (b) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;
- (c) the financial statements are in a form agreed by the Minister for Finance and 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 (Urgent Issues Group Consensus Views); and
- (d) the operations of the Fund were conducted in accordance with the Trust Deed, the Superannuation Act 1990 and the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations.

Signed at Canberra this 21st day of September 1998 in accordance with a resolution of members of the PSS Board as Trustee of the PSS Fund.



W. Hall  
Member



P. Reynolds  
Member

*PSS Board*

PUBLIC SECTOR SUPERANNUATION SCHEME

**STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30 JUNE 1998**

	Note	1998 \$'000	1997 \$'000
<b>Net Assets Available to Pay Benefits at 1 July</b>		<b>2,856,770</b>	<b>2,076,414</b>
<b>PSS FUND</b>			
<b>Investment Revenue</b>			
Interest		34,552	9,589
Dividends		62,435	24,570
Other Investment Income		(674)	71
Changes in Net Market Values	2	254,875	350,955
Direct Investment Expenses		(3,868)	(4,279)
		347,320	380,906
General Administration Expenses		(432)	(662)
<b>Net Investment Revenue Before Tax</b>		<b>346,888</b>	<b>380,244</b>
<b>Contributions Revenue</b>			
Employee Contributions	3a	229,453	228,998
Employer Contributions	3a	113,495	112,385
		342,948	341,383
Benefits Paid	3b	(325,979)	(344,868)
<b>Net Contributions Revenue Before Tax</b>		<b>16,969</b>	<b>(3,485)</b>
<b>Net Investment Revenue and Net Contributions Revenue Before Tax</b>		<b>363,857</b>	<b>376,759</b>
<b>Income Tax Expense</b>	4	(31,985)	(31,254)
<b>Net Investment Revenue and Net Contributions Revenue After Tax</b>		<b>331,872</b>	<b>345,505</b>
<b>Add:</b>			
Transfer of Net Assets from the Commonwealth Superannuation Scheme	5	-	434,851
<b>Net Investment Revenue and Net Contributions Revenue After Tax and Withdrawals from Scheme</b>		<b>331,872</b>	<b>780,356</b>
<b>CONSOLIDATED REVENUE FUND</b>			
Moneys Appropriated by Parliament	3	693,806	760,843
Less: Benefits Paid	3b	(681,221)	(749,952)
Costs of Administering the PSS Act, Deed and Rule	3c	(12,585)	(10,891)
<b>Net Assets Available to Pay Benefits at 30 June</b>		<b>3,188,642</b>	<b>2,856,770</b>

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

## PUBLIC SECTOR SUPERANNUATION SCHEME

STATEMENT OF NET ASSETS  
AS AT 30 JUNE 1998

	Note	1998 \$'000	1997 \$'000
<b>PSS FUND</b>			
<b>Investments</b>			
	1e		
Australian Money Market , Cash and Short Term Money Market		104,396	115,577
Australian Fixed Interest		321,015	76,830
International Fixed Interest		966	-
Australian Equity Investments		879,283	724,514
International Equity Investments		1,336,131	-
Unlisted Property Trusts	6	435,873	-
Pooled Superannuation Trusts	6	180,728	1,569,289
Other Investments		(8,747)	(20,600)
<b>Total Investments</b>		<b>3,249,645</b>	<b>2,465,610</b>
<b>Other Assets</b>	7	<b>98,469</b>	<b>457,908</b>
<b>Total PSS Fund Assets</b>		<b>3,348,114</b>	<b>2,923,518</b>
<b>Less: Liabilities</b>			
Benefits Payable		39,001	21,983
Trade Settlements Payable		8,364	8,332
Sundry Creditors	8	4,679	2,519
Tax Liability Assumed on Behalf of Other Fund	6	41,581	-
Provision for Income Tax		33,184	14,639
Provision for Deferred Income Tax		32,663	19,275
<b>Total PSS Fund Liabilities</b>		<b>159,472</b>	<b>66,748</b>
<b>CONSOLIDATED REVENUE FUND</b>			
<b>Other Assets</b>			
Sundry Debtors		93,767	40,866
<b>Total Consolidated Revenue Fund Assets</b>		<b>93,767</b>	<b>40,866</b>
<b>Less: Liabilities</b>			
Benefits Payable		93,767	40,866
<b>Total Consolidated Revenue Fund Liabilities</b>		<b>93,767</b>	<b>40,866</b>
<b>Net Assets Available to Pay Benefits at 30 June</b>	10	<b>3,188,642</b>	<b>2,856,770</b>

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 1998

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**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) Foreign Currency Translation**

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

**(c) Income Tax**

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

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

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

## PUBLIC SECTOR SUPERANNUATION SCHEME

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

For the year ended 30 June 1998

**1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)****(e) 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 and Fixed Interest - these securities are valued by marking to market using yields supplied by independent valuers.
- (ii) Futures Contracts - open futures contracts are revalued to closing price quoted at close of business on 30 June by the relevant Futures Exchange.
- (iii) Equities - listed securities, including listed property trusts, are valued based on the last sale price quoted at close of business on 30 June by the relevant Stock Exchange, or last bid where a sale price is unavailable.
- (iv) Exchange Traded Options - options are valued as the premium payable or receivable to close out the contracts at the last buy price quoted at close of business on 30 June by the relevant Stock Exchange.
- (v) Overseas Investments - overseas securities are valued on the basis of last sale price quoted at close of business on 30 June by the relevant securities exchange. In the case of UK securities, the basis of valuation is the average of the bid and offer prices.
- (vi) Units in Unlisted Property Trusts and Pooled Superannuation Trusts - units are valued at their net realisable value, consistent with the methods listed above that are relevant to the underlying assets held by the unit trusts.

**(f) Use of Derivatives**

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

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

**(g) Contributions Receivable**

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

**(h) Comparative Information**

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

## PUBLIC SECTOR SUPERANNUATION SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

## 2. CHANGES IN NET MARKET VALUES

	1998 \$'000	1997 \$'000
Changes in Net Market Values of Investments:		
<b>(a) Investments Held at 30 June</b>		
Australian Money Market	200	405
Australian Fixed Interest	1,982	1,316
International Fixed Interest	96	-
Australian Equity Investments	17,992	119,233
International Equity Investments	8,817	-
Unlisted Property Trusts	(8,787)	-
CFM Pooled Superannuation Trust: (Refer note 6(b))		
- CFM International Equities Fund class	-	170,344
- CFM Fixed Interest Trust class	-	15,559
- CFM Rural Investment Fund class	-	(546)
- CFM Property Fund class	-	4,684
CFM Australian Equities Fund	(3,284)	8,338
Commonwealth Funds Management Ltd Pooled Superannuation Trust - Emerging Markets	(21,479)	22,059
Currency contracts	62,346	(22,818)
Other Investments	1,594	472
	<b>59,477</b>	<b>319,046</b>
<b>(b) Investments Realised During the Period:</b>		
Australian Money Market	1,061	1,271
Australian Fixed Interest	1,767	2,542
International Fixed Interest	-	-
Australian Equity Investments	(5,800)	14,558
International Equity Investments	(1,458)	-
CFM Unit Trusts	17,729	-
CFM Pooled Superannuation Trust: (Refer note 6(b))		
- CFM International Equities Fund class	231,553	1,400
- CFM Fixed Interest Trust class	9,899	1,000
- CFM Rural Investment Fund class	1,382	(2,528)
- CFM Property Fund class	22,175	215
CFM Australian Equities Fund	(231)	805
Commonwealth Funds Management Ltd Pooled Superannuation Trust - Emerging Markets	5	-
Currency contracts	(85,943)	11,594
Other Investments	3,259	1,052
	<b>195,398</b>	<b>31,909</b>
	<b>254,875</b>	<b>350,955</b>

The net loss on foreign currency transactions for the year was \$23.597m (1996-97: \$11.224m). 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 1998

**3. 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 and the Commonwealth is responsible for the payment of the benefit to the beneficiary from the Consolidated Revenue Fund.

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

	<b>1998</b>	<b>1997</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>PSS Fund</b>		
Payments to Commonwealth	284,301	303,592
Lump-sum Benefits	41,678	41,276
	<b>325,979</b>	<b>344,868</b>
<b>Consolidated Revenue Fund</b>		
Lump-sum Benefits	626,885	712,461
Transfer Values	4,146	3,174
Pensions	48,951	32,968
Other	1,239	1,349
	<b>681,221</b>	<b>749,952</b>

**(c) Costs of Administration**

The Superannuation Act 1990 requires the Commissioner for Superannuation to provide administrative support to the PSS Board to enable the Board to perform its functions under the Act. The cost of the Commissioner for Superannuation and the staff of ComSuper who assist the Commissioner for Superannuation are met from money appropriated by Parliament. The amount shown as the Cost of Administering the PSS Act, Trust Deed and Rules in the Statement of Changes in Net Assets\* has been calculated on a full accrual basis.

**4. INCOME TAX****(a) Reconciliation**

The taxation liability at 30 June 1998 has been calculated on the basis that the Scheme complies with the standards contained in the Superannuation Industry (Supervision) Act 1993 and Regulations and that tax will be payable at a rate of 15% on net investment earnings, employer contributions and capital gains with deductions allowable for administration expenses.

## PUBLIC SECTOR SUPERANNUATION SCHEME

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

For the year ended 30 June 1998

**4. INCOME TAX (Cont.)**

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

	<b>1998</b>	<b>1997</b>
	<b>\$'000</b>	<b>\$'000</b>
Prima facie income tax expense on Net Investment Revenue and Net Contributions Revenue Before Tax	54,578	56,514
Add/(Less) Permanent Differences		
Employee contributions	(34,419)	(34,103)
Benefits Paid	48,897	51,730
Income from Pooled Superannuation Trusts	(36,003)	(33,200)
Tax Losses Not Brought to Account (Refer note 4(b))	13,271	
Imputation Credits from Franked Dividends Received	2,035	1,516
Other	(385)	(1,102)
	47,974	41,355
Less: Imputation and foreign tax credits	(14,419)	(10,173)
Less: Under (over) provision in prior years	(1,570)	72
Income Tax Expense	<b>31,985</b>	<b>31,254</b>

**(b) Tax Losses Not Brought to Account on International Investments**

At 30 June 1998, the PSS Fund had estimated unrecouped tax losses in respect of International Investments of \$88.5m (1997: Nil) available to offset against future years' taxable income. The benefit of these losses of \$13.271m has not been brought to account in the 1997-98 financial statements as an asset as the Trustee does not believe that their realisation is virtually certain.

**5. TRANSFER OF NET ASSETS FROM THE COMMONWEALTH SUPERANNUATION SCHEME**

During the period 1 March to 31 August 1996 members of the CSS were provided with a second opportunity to elect to transfer to the PSS.

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

As at 30 June 1997 the Ministerial determination to effect the transfer had not been completed. Therefore, an amount of \$430,845,000 was brought to account, as part of the amount of \$434,851,000 owing by the CSS, as a current asset of the Fund.

During 1997-98 the CSS Board, in agreement with the PSS Board made an advance of \$422,300,000 under section 249 of the Superannuation Act 1976 to the PSS Board in respect of the assets that are to be transferred to the PSS.

The amount outstanding at 30 June 1998, including interest, was \$27,353,000 and will be paid to the PSS after the Ministerial determination to effect the transfer is finalised.

## PUBLIC SECTOR SUPERANNUATION SCHEME

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

For the year ended 30 June 1998

**6. UNLISTED UNIT TRUSTS****(a) Summary of Holdings**

	1998 \$'000	1997 \$'000
<b>Class of Unit</b>		
Property Fund	426,001	-
Rural Investment Fund	9,872	-
<b>Total Unlisted Property</b>	<b>435,873</b>	<b>-</b>
Emerging Markets	151,020	129,869
Australian Equities Fund	29,708	28,449
Total Pooled Superannuation Trusts	<b>180,728</b>	<b>158,318</b>
CFM Pooled Superannuation Trust		
International Equities Fund	-	907,715
Fixed-interest Trust	-	136,246
Property Fund	-	358,817
Rural Investment Fund	-	8,193
Total CFM Pooled Superannuation Trust	<b>0</b>	<b>1,410,971</b>
<b>Total Pooled Superannuation Trusts</b>	<b>180,728</b>	<b>1,569,289</b>

**(b) Redemption of Investment Holdings**

At the end of March 1998 the Board took the opportunity to restructure its investment portfolio by redeeming its investment holdings in the CFM Pooled Superannuation Trust investment structure. With the exception of the CFM Emerging Markets and CFM Australian Equities Pooled Superannuation Trusts, the Board now holds the underlying assets, formerly held within that trust structure, thus directly allowing the Board to adopt a more flexible and responsive investment approach to that offered by retaining the investments within a trust structure.

As one of only two share holders in the CFM Pooled Superannuation Trust the PSS Board assumed its share of the liabilities (including taxation) of the Trust upon redemption of its investment holdings in the Trust.

**7. OTHER ASSETS**

	1998 \$'000	1997 \$'000
Bank	8,663	9,237
Trade Settlements Receivable	13,488	7,602
Accrued Income	34,888	5,959
Amounts due from the CSS Scheme	27,353	434,851
Future Income Tax Benefit	14,075	259
Sundry Debtors	2	-
	<b>98,469</b>	<b>457,908</b>

**8. SUNDRY CREDITORS**

	1998 \$'000	1997 \$'000
Investment Expenses Payable	2,298	724
Accrued Expenses	189	295
Unidentified Contributions	1,650	1,175
Other	542	325
	<b>4,679</b>	<b>2,519</b>

**9. AUDITOR'S REMUNERATION**

The amount paid and payable in respect of external audit services is \$37,520 (1996-97 :\$62,500)

## PUBLIC SECTOR SUPERANNUATION SCHEME

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

For the year ended 30 June 1998

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

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

	<b>1998</b>	<b>1997</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of year	142,838	28,264
Plus: Transfer from Amount Available for Allocation to Contributors	16,594	108,143
	159,432	136,407
Add: Transfers from the CSS	-	6,431
Balance at end of year	<b>159,432</b>	<b>142,838</b>

**(b) Deferred Losses Account**

This account exists to provide a mechanism for allocating the loss on revaluation of the assets of the CSS Fund on 1 July 1984 to contributors' entitlements. A proportion of the CSS account was transferred to the PSS to recognise that part of the account which related to former members of the CSS who elected to transfer to the PSS:

	<b>1998</b>	<b>1997</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of year	(5,841)	(6,932)
Add: Transfer from Amount Available for Allocation to Contributors	2,920	2,920
	(2,921)	(4,012)
Less: Transfers from the CSS	-	(1,829)
Balance at end of year	<b>(2,921)</b>	<b>(5,841)</b>

**11. SUPERANNUATION CONTRIBUTIONS SURCHARGE**

The Superannuation Contributions Surcharge was introduced in the 1996 Federal Budget to apply, from 20 August 1996, to the surchargeable superannuation contributions of higher earners whose adjusted taxable income exceed the surcharge threshold. PSS members with adjusted taxable income above the surcharge threshold incur a surcharge liability which is calculated by the Australian Taxation Office (ATO). The surcharge liability is recorded against the 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 a financial year incurs interest. The scheme rules provide for any outstanding surcharge liability to be recovered from the benefit payable to the member.

The Trustee is responsible for collecting and remitting to the ATO:

- any amounts paid progressively by members, during the term of their PSS membership, in respect of their surcharge liability; and
- the surcharge liability recovered from member benefits.

## PUBLIC SECTOR SUPERANNUATION SCHEME

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

For the year ended 30 June 1998

**11. SUPERANNUATION CONTRIBUTIONS SURCHARGE (Cont.)**

During 1997-98 the Trustee received, from the ATO, surcharge liability assessments in respect of surchargeable superannuation contributions for the period 20 August 1996 to 30 June 1997. A summary of transactions follows:

	<b>\$'000</b>
Surcharge liability recorded against member accounts in respect of surchargeable superannuation contributions for period 20 August 1996 to 30 June 1997	<b>1,510</b>
Less: Amount paid by members	(406)
Less: Amounts deducted from member benefits	(16)
	1,088
Plus: Interest applied to outstanding surcharge liability at 30 June 1998	61
Total Surcharge liability outstanding at 30 June 1998	<b>1,149</b>

The PSS Board has lodged an objection under the Superannuation Contributions Tax (Assessment and Collection) Act 1997 against the superannuation contribution assessment for 1996-97. However, until the outcome of the objection has been determined, the Board has instructed the Scheme continue to be administered in accordance with the superannuation contribution surcharge legislation as it currently stands.

The surcharge liability in respect of surchargeable superannuation contributions for the period 1 July 1997 to 30 June 1998 has not been disclosed because the assessments have not, as yet, been calculated by the ATO and there is no reliable basis on which an assessment of the likely surcharge liability can be made.

No liability is recognised in the "Statement of Net Assets" 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.

**12. FINANCIAL INSTRUMENT DISCLOSURES**

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

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

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

**(a) Use of Derivative Financial Instruments**

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

	<b>Notional Principal Amounts</b>	<b>Net Market Value</b>
	<b>\$'000</b>	<b>\$'000</b>
Australian Fixed Interest Futures	6,049	11
Australian Share Price Index Futures	12,101	408
Australian Exchange Traded Options	8,183	(2,887)
International Share Price Index Futures	20,030	436
International Exchange Traded Options	8	0
Total	46,371	(2,032)

## PUBLIC SECTOR SUPERANNUATION SCHEME

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

## 12. 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 \$0.855m. 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 1998 was as follows:

	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		
<b>30 June 1998</b>						
<b>Assets</b>						
Cash and Short Term Deposits	42,743					42,743
Australian Money Market	104,396					104,396
Australian Fixed Interest		10,236	131,083	179,696		321,015
International Fixed Interest				966		966
Australian Equity Investments					879,283	879,283
International Equity Investments					1,336,131	1,336,131
Unlisted Property Trusts					435,873	435,873
Pooled Superannuation Trusts					180,728	180,728
Other Investments					(8,747)	(8,747)
Other Assets	8,663				89,806	98,469
<b>Liabilities</b>						
Benefits Payable					(39,001)	(39,001)
Trade Settlements Payable					(8,364)	(8,364)
Sundry Creditors					(4,679)	(4,679)
Tax Liability Assumed on Behalf of Other Fund					(41,581)	(41,581)
Provision for Income Tax					(33,184)	(33,184)
Provision for Deferred Income Tax					(32,663)	(32,663)
<b>Total</b>	<b>155,802</b>	<b>10,236</b>	<b>131,083</b>	<b>180,662</b>	<b>2,753,602</b>	<b>3,231,385</b>
Weighted Average Interest Rate	4.25%	5.03%	5.12%	5.26%		

## (d) Currency Risk Exposures

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

	US\$ A\$'000	Japanese Yen A\$'000	Pounds Sterling A\$'000	Deutsche Marks A\$'000	Other A\$'000	Total A\$'000
<b>30 June 1998</b>						
Gross investment amounts denominated in foreign currency	691,554	139,632	148,898	69,740	287,273	1,337,097
Amount effectively hedged	(494,881)	(99,101)	(108,565)	(206,764)	0	(909,311)
Net Exposure	196,673	40,531	40,333	(137,024)	287,273	427,786

## PUBLIC SECTOR SUPERANNUATION SCHEME

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

For the year ended 30 June 1998

**12. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)****(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.

**13. VESTED BENEFITS**

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

The Australian Government Actuary has advised that the estimated amount of vested benefits at 30 June 1998 is \$11,000m (1997: \$10,000m).

The value of vested benefits has been estimated from the value of vested benefits at 30 June 1997, which was calculated from membership data as at that date, and the trend shown in a projection of accrued benefits made by the Australian Government Actuary as part of an investigation of the scheme during 1996-97. The value of vested benefits could not be calculated from current membership data as at 30 June 1998 as such data was not available.

The value of vested benefits represents the liability that would have fallen on the Scheme in the unlikely event that all members ceased service on 30 June 1998 and elected the option which is most costly to the Scheme.

**14. 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 tri-ennial basis by the Australian Government Actuary. The most recent valuation of the accrued benefits was undertaken by the Australian Government Actuary as part of a comprehensive review during 1996-97 (a copy of the Australian Government Actuary's report is attached).

Accrued Benefits as at 30 June 1996 were:	<b>\$m</b>
Funded component	2,076
Unfunded component	4,352
	<b>6,428</b>

**15. 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.

PUBLIC SECTOR SUPERANNUATION SCHEME

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

For the year ended 30 June 1998

**16. RELATED PARTIES**

**(a) Members of the PSS Board**

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

- R.L. Brown (Chairman)
- G. Kelly
- J.A. Flitcroft
- W. Hall
- P. Reynolds
- J.P. Murphy (alternate for J.A. Flitcroft) (resigned 3 September 1998)
- D. Irons (Alternate for W. Hall)
- S. Wilson (alternate for G. Kelly and P. Reynolds)

**(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 1997-98 financial year on the same terms and conditions applicable to all scheme members,

Total fees and associated superannuation contributions paid to, or in respect of, those members entitled to receive fees during the year (the Chairman and ACTU nominated members) totalled \$81,000 (1996-97: fees \$56,800).

**(c) Associated Entities**

In 1996-97 the CSS and PSS Boards formed a common controlled company, CSS/PSS Pty Ltd for the purpose of taking over trusteeship of the CFM Pooled Superannuation Trust (PST) from Commonwealth Funds Management as of 1 February 1998. The Boards appointed directors, who are current nominated trustees of the CSS and PSS Boards, to manage the company and act as trustee on the transfer of the assets of the CFM PST. Total Risk Management provide day-to-day administration services for CSS/PSS Pty Ltd. Costs associated with the operations of CSS/PSS Pty Ltd are borne by the CSS and PSS Funds on an equal basis. As at 30 June 1998 the associated entity status between the CSS and CSS/PSS Pty Ltd was

CSS/PSS Pty Ltd		
Total Shares on Issue	2	
PSS Board Shares Held	1	
Holding (%)	50%	
	<b>1998</b>	<b>1997</b>
Total cost incurred by the PSS in relation to CSS/PSS Pty Ltd and related issues for the period to 30 June	<b>\$76,973</b>	<b>\$37,900</b>

PUBLIC SECTOR SUPERANNUATION SCHEME

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

For the year ended 30 June 1998

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**17. CONTINGENT LIABILITIES**

**(a) *Investments***

At 30 June the Fund had outstanding investment capital commitments of \$70.68m

**(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.



**AUSTRALIAN GOVERNMENT ACTUARY**

PO Box 9836 CANBERRA ACT 2601

243-251 Northbourne Ave

LYNEHAM ACT 2602

Telephone: (02) 6213 5499

Facsimile: (02) 6213 5250

DX: 5766 Canberra

**PUBLIC SECTOR SUPERANNUATION SCHEME**

**Accrued Benefits as at 30 June 1996**

1. The Australian Government Actuary has been requested by ComSuper to calculate the value of Accrued Benefits for accounting purposes under Australian Accounting Standard 25 (AAS25) as at 30 June 1996 for the Public Sector Superannuation Scheme.
2. The assumptions used to calculate the value of Accrued Benefits were the same as those used by the Australian Government Actuary, Mr C Thorburn, FIAA in his report on the long term cost of the Public Sector Superannuation Scheme and the Commonwealth Superannuation Scheme as at 30 June 1996. A summary of the assumptions and methods adopted in calculating the value of Accrued Benefits is set out in the attached Notes.
3. The value of Accrued Benefits as at 30 June 1996 was \$6,428 million. This compares with the value as at 30 June 1993 of \$3,715 million.
4. This figure has been calculated in a manner consistent with the Institute of Actuaries of Australia Guidance Note 454.

A handwritten signature in cursive script that reads "K.E. Deeves".

K.E. Deeves

Fellow of the Institute of Actuaries of Australia

Deputy Australian Government Actuary

16 August 1997  
*September*

**INSURANCE AND SUPERANNUATION COMMISSION**

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

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

The past membership component for each type of benefit (ie, on retirement, death, disablement or resignation) is then taken to be the proportion of the discounted projected benefit payable on exit that -

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

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

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

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

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

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

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

The effect of this change has been to reduce the notional employer contribution rate by about 1.8% and the present value of unfunded liabilities by about \$600 million from what would have been the case if the 1.5% gap had been retained.

*Other Assumptions*

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

*Reasonableness of Assumptions*

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



K E Deeves

16 September 1997



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PO Box 9836 CANBERRA ACT 2601

243-251 Northbourne Ave  
LYNEHAM ACT 2602

*Telephone:* (02) 6213 5499

*Facsimile:* (02) 6213 5250

*DX:* 5766 Canberra

**PUBLIC SECTOR SUPERANNUATION SCHEME  
SUMMARY OF THE 1996 LONG TERM COST REPORT**

- 1 A report on the long term cost of the Public Sector Superannuation (PSS) scheme and the Commonwealth Superannuation Scheme (CSS) was carried out using data as at 30 June 1996 by the Australian Government Actuary, Mr Craig Thorburn, FIAA. This report was presented to Parliament in June 1997.
2. These schemes are partially funded and both schemes have an underlying Government guarantee. Projections of the actual annual employer costs of the two schemes combined (the CSS has been closed to new entrants since July 1990) as a percentage of Gross Domestic Product (GDP) were made over a period of 45 years. These projections showed a progressive fall in costs as the more expensive CSS scheme phased out. The actuary was thus of the opinion that the financial position of the schemes as at 30 June 1996 was satisfactory.
3. The realisable value of assets of the PSS as at 30 June 1996 was \$2,076 million.
4. Vested benefits of the PSS were not calculated as part of the Long Term Cost Report as at 30 June 1996 but were calculated separately. They amounted to \$9 billion.

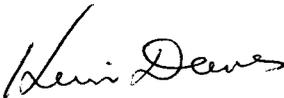
It should be noted that this value of vested benefits represents the liability that would have fallen on the scheme if all members had ceased service on 30 June 1996 and elected the option which is most costly to the scheme. The likelihood of such an occurrence is remote in the extreme. The value quoted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

**INSURANCE AND SUPERANNUATION COMMISSION**

5. The value of Accrued Benefits for the PSS as at 30 June 1996 was \$6,428 million. The value of Accrued Benefits is the present value of the proportion of projected future benefit payments that has accrued in respect of membership of the PSS to 30 June 1996.
6. As would be expected in a substantially unfunded arrangement, the value of Accrued Benefits is more than the realisable value of scheme assets at the same date.
7. The report was based on data supplied by ComSuper. In that data, those CSS members who elected to transfer to the PSS during the 1996 period of transfer from the CSS to PSS were recorded as PSS members at 30 June 1996.
8. The major assumptions used in the calculations were as follows:
  - Investment earnings rate: 7.5% pa (net of tax and investment expenses)
  - Inflationary salary increases: 5.5% pa
  - Promotional salary increases: an age and service related scale was used
  - Pension increases (CPI): 4% pa

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

The effect of this change has been to reduce the notional employer contribution rate by about 1.8% and the present value of unfunded liabilities by about \$600 million from what would have been the case if the 1.5% gap had been retained.



K.E. Deeves  
Fellow of the Institute of Actuaries of Australia  
Deputy Australian Government Actuary

16 September 1997

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