A large, stylized graphic of the number '9998' is the central focus. The numbers are rendered in a light beige color with a dark purple shadow effect. The '99' is on the left, and the '98' is on the right. A vertical line separates the two pairs of numbers. The background of the graphic is a light beige color with a faint grid pattern.

9998

the pss board
annual report
1998-1999

The PSS Board

Public Sector Superannuation Scheme

Annual Report
1998–99

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

Letter of Transmittal

The Hon. John Fahey, MP
Minister for Finance 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 1998–99. 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 1999.

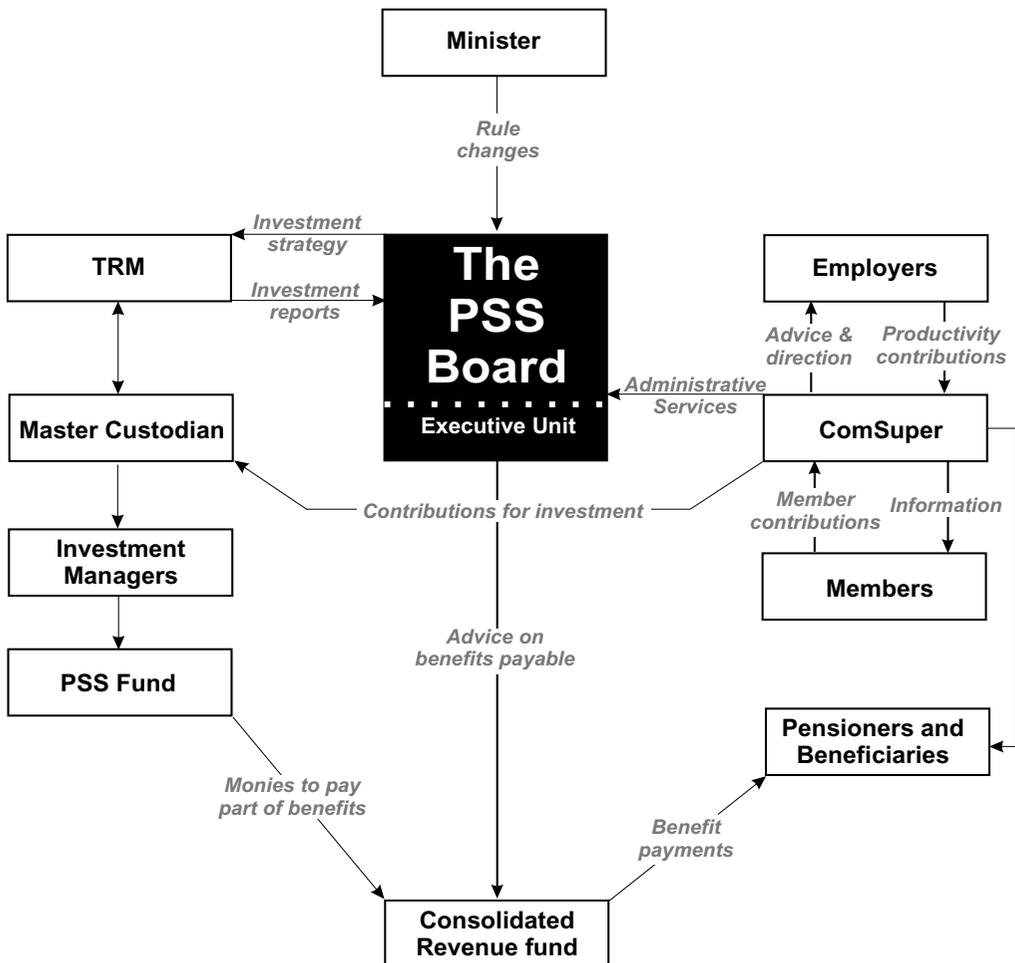


Peter Reynolds
Chairperson
PSS Board

27 September 1999

Operational Chart

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 investment of the Fund and administration of the Scheme, the Board's attention also focused on:

- the further development and implementation of the Board's Corporate Governance;
- continued research into enhancing scheme publications including the selection of a communications agency to review publications and develop an overall communications strategy;
- continued preparations for the Year 2000;
- continuous review and refinement of the Board's investment strategy and maintaining a close relationship with its investment advisors; and
- ensuring that the Board is well prepared for the proposed legislation amendments.

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From the Chairperson

Annual results

The Fund's investment strategy has brought about an excellent return of 9.68 per cent after tax for the 1998-99 year. This return has placed the Fund among the top performing Australian superannuation funds and, in concert with the low inflation rate of 1.1 per cent during the year, produced a further significant increase in the real value of the Fund. This trend of ongoing good returns for the Fund brings benefits both for Scheme members and government.

The Board was able to declare a crediting rate for the year of 9.3 per cent, again making provision to maintain the reserves of the Fund at the maximum policy level of 5 percent. The Board has maintained its focus on a long-term strategy without undue regard to the predictions of negative short-term market movements, which prevailed at this time last year. While global setbacks in some markets were apparent at this time last year, market and sector volatility has proved the greater challenge to fund growth, resulting in some variance in the exit rates declared during the period.

Major events and developments

External events have continued to bring significant challenges to the Board, but the Board's own focus on education and the consolidation and development of its corporate governance framework has provided an effective pathway in meeting those challenges. As a milestone in its adoption of a specific code of conduct, the Board has recently advertised for the full time positions of Executive Officer and Company Secretary, reflecting in part the Board's adaptation to its evolving corporate structure and changes in its wider relationships.

The Board engaged the services of a consultant compliance officer during the year in order to provide more effective advice and supervision of compliance responsibilities, including SIS, audit and in the implementation of the Year 2000 project.

Preparation for the Year 2000 and its potential for disruption to the activities of the Board, primarily through its service providers, has been the subject of a major project undertaken by the Board. In addition to ordinary control measures, the Board has commissioned and received an independent audit of its Year 2000 planning processes. That audit has provided assurance that appropriate strategies are in place. As the project nears the critical period the Board is engaged in ensuring that certifications of systems readiness are received from service providers and comprehensive contingency measures are in place with the aim of minimising or eliminating the risk of any adverse effects upon members and associated entities. Independent review of those measures is also under way.

The Board has delegated a number of primary functions to committees and committee members have had a busy year meeting a variety of challenges. The Communications Committee has concentrated on providing members with enhanced access to information about the Scheme and the services available to members. The Committee has extensively considered options for providing members with appropriate and timely information in anticipation of the emergence of a choice environment for superannuation. Annual Member Information Statements and Reports have been further enhanced in quality and timeliness of delivery following the Committee's close attention. Several innovations, including the facility for providing members with automated and personalised information through the Internet are well advanced.

In addition to its proactive role in the development of the Board's approach to Corporate Governance, the Administration Committee has managed the detail of the Executive Resource review, developed and monitored the Board's operating budget and provided submissions to the full Board on a number of general administrative matters. Committee members have been active in the negotiation of contracts with ComSuper and in safeguarding the Board's interests in associated contract discussions. In this regard the Board has paid particular attention to administrative risks associated with transfer of the payroll function from the Department of Finance and Administration and is pleased to report that after some initial concerns, the new relationships are operating smoothly.

Audit Committee conduct has brought about significant enhancements to financial statement and audit processes during the year. The Board has also benefited from the Committee's advice in developing steps to ensure the timely and accurate reporting of data by employers to enable member records to be properly administered. During the year a substantial concern developed with regard to the timeliness and accuracy of data reported by employer agencies. Shortfalls threatened the accuracy of information statements for a substantial number of members. However, intense and coordinated efforts between the Board, ComSuper and relevant employer agencies allowed the situation to be brought under control so problems with statements did not occur.

Future directions

The Board will continue to closely monitor and refine its investment strategy in the coming year to ensure Fund returns continue to exceed the rate of inflation and so add to the real value of members' superannuation investment. The ongoing improvement of service standards to members remains a priority and the Board is currently undertaking a review of its communications strategy for the new millennium. The Board is well prepared to meet any challenges which may arise as a result of the transition into the Year 2000 and is also poised to adjust to the introduction of new legislation which is expected to result from changes to government policy.

SIS compliance

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

I would like to thank the Trustees for their dedication and enthusiasm throughout the year, and in particular those trustees who formed or contributed to the operations of the Administration, Audit and Communications Committees.

Thanks are also due to our Executive Unit and service providers for their contributions to a very busy and successful year.

The end of the year marked the retirement of Mr Ron Brown who served as Chair from the Board's inception in 1990. The Trustees wish to record their thanks to Mr Brown for the invaluable qualities he brought to the Board and the high standard of his work.



Peter Reynolds
Chairperson
PSS Board

Scheme Overview

PSS Board

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

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

Board members

The Board consists of five Trustees—two with experience in the formulation of government policy and public administration; two nominated by the ACTU and an independent chairperson. All are appointed to the Board by the Minister for Finance 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; retired on 30 June 1999.*

Mr Brown was a consultant to both State and Federal governments and was 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 was also chairperson of the CSS Board.

Mr Peter Reynolds—*appointed 7 May 1997 to 6 May 2000; appointed Chairperson 28 July 1999.*

Mr Reynolds is a Director of State Super Financial Services Ltd and Chairman of the Local Government Investment Service Pty Ltd. He was the Chairman of the NSW State Authorities Superannuation Board and has wide experience in business and financial management positions in the public and private sectors. He 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 a career in the Commonwealth Public 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. His alternate is Ms Sandra Wilson, Branch Manager, Commonwealth Superannuation Group, Department of Finance and Administration.

Mr John A. Flitcroft—*appointed 1 July 1990, reappointed to 30 June 2000.*

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 Noel Spears of the CPSU.

Ms Winsome Hall—*appointed 1 July 1996, reappointed to 30 June 2000.*

Ms Hall is a Senior Adviser with the Office of the Status of Women in the Department of the 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.

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

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



The Board of Trustees: [Front L to R] P Reynolds, R Brown, J Flitcroft; [Back L to R] W Hall, G Kelly and H Kain (Board Secretary). Not in picture: L McBride.

Board and Board committee meetings

The Board has three committees of Board members—the Audit Committee (W Hall, P Reynolds); the Communications Committee (J Flitcroft, P Reynolds, W Hall); and the Administration Committee (G Kelly, J Flitcroft, J Palmer). There is also a Reconsideration Advisory Committee consisting of senior ComSuper officers (C Goode, P Skinner, P Hayes). Trustees may attend any committee meeting.

Table 1: Board and Board committee meeting attendance

	Board	Audit	Communications	Administration
R Brown	6/6			
J Flitcroft	5/6		6/6	5/7
W Hall	6/6	4/4	5/5	
R Balderstone				
J Palmer				7/7
P Reynolds	6/6	4/4	6/6	
G Kelly	6/6			7/7

Key Function

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

Responsibilities and role

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

Terms of Reference

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

- The Audit Committee is the point of communication between the Board and the Internal Audit Committees of ComSuper, and with the Australian National Audit Office (ANAO).
- The Audit Committee reviews:
 - financial statements with both internal and external auditors prior to their approval by the Board;
 - accounting policies adopted or any changes which are made or contemplated by its service providers, and which affect the Board's areas of responsibility;
 - the annual audit plans of ComSuper where they relate to areas of Board responsibility;
 - the audit reports of major audits undertaken;
 - the extent to which internal audit recommendations are implemented;

- interim financial information; and
- the annual crediting rate.
- The Committee provides regular reports to the Board as to whether the internal controls employed by ComSuper and other service providers give reasonable assurance that the Board's objectives and goals are being met efficiently and economically.
- With the agreement of the Board, the Committee may initiate specific audit investigations.

Membership of committee

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

Issues considered 1998–99

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

- actively monitoring audit processes;
- actively managing financial statements and accounts processes;
- actively monitoring the Year 2000 activities of ComSuper and external service providers; and
- actively managing the Board's compliance responsibilities, including SIS.

Communications Committee

Key Function

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

Responsibilities and role

The Committee ensures that the Board meets the information disclosure requirements imposed by SIS through clear, timely and accurate reporting to members; ensures that communications keep members in close contact with Trustee decisions and developments which may affect members' interests.

Terms of Reference

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

The Communications Committee:

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

- informs members of significant events in accordance with the provisions of SIS.

Membership of committee

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

Issues considered 1998–99

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

- the preparation and timing of the 1998–99 annual reports;
- continued research into enhancing scheme publications;
- selection of a communications agency, Social Change Media, to review publications and develop an overall communications strategy;
- completing a member surcharge information exercise;
- the finalisation of service charters;
- the proposed establishment of a new Board to manage both the PSS and CSS Schemes;
- the preparation of advertising for the closure of the PSS and the promotion of fund choice (further work is now deferred pending the passage of the Government's Choice legislation); and
- information seminars to members.

SIS requirements

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

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

Member Statements

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

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

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

For 1998–99 the Board has made considerable efforts to bring forward the timetable within which this information is normally distributed and also to package the combined information in a consistent and understandable format. These changes were made in line with examples of industry best practice.

Scheme publications

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

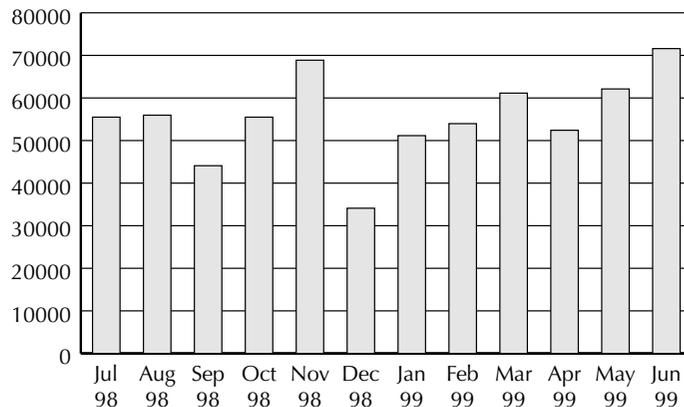
These publications are updated regularly as the need arises and resources permit. Uncertainty about the timing of foreshadowed changes to the scheme, however, delayed this activity during the year. Nevertheless the Board has appointed a communications consultant to enhance scheme publications.

The Board also maintains contact with employing agencies through a monthly newsletter. The newsletter contains a combination of information for on-forwarding to contributors, such as poster announcements, and additional information directed specifically at personnel officers.

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. Its usage level is reflected in the chart below.

Chart 1: Number of website hits per month



The website address is <http://www.csb.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 61) where high quality performance was achieved across a range of customer service dimensions e.g. member information statements.

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

Schemes Publicity Section

ComSuper

PO Box 22

Belconnen ACT 2616

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

Administration Committee

Key Function

The combined PSS/CSS Administration Committee advises the Board on those internal policy matters that drive the operational standards of the administrator, ComSuper.

Responsibilities and role

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

The Committee is to assure the Board 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 Scheme.

Terms of Reference

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

The Administration Committee:

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

- takes decisions on behalf of the Board, in accordance with those powers delegated to Trustees, in respect of primary decisions on invalidity including:
 - applications under rules 10.7.5, 10.8.3, and 10.9.3 of the *Superannuation Act 1990*.
- submits copies of all decisions taken in respect of invalidity applications to the PSS Board.

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 Administration Committee is at the discretion of the Board. The Committee meets as necessary, but in any event, not less than quarterly.

Issues considered 1998-99

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

- negotiating a contract between the Board and ComSuper outlining service standards, costs, reporting processes, Intellectual Property and data management;
- replacing the current DoFA payroll system and negotiating a contract with CITEC for new payroll services;
- revising the Corporate Governance statements to ensure compliance in all directions; and
- ensuring that both the Board and ComSuper continually strive to achieve Y2K compliance.

Mission and Operating Principles

Charter 1998–99

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

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

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

Performance indicators

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

- the investment performance of the Fund relative to appropriate benchmarks (see *Fund Performance*, page 32);
- the time taken to process benefit payments (see *Member Entitlements*, page 43);
- the time taken to finalise applications for Invalidity Retirement Certificates (see *Invalidity Processing*, page 49);
- the number of appeals against decisions taken under delegation and the outcome of those appeals (see *Reconsideration and Review*, page 51);
- the success of the communications strategies used to inform members of relevant superannuation matters and of the Board's activities (see *Communications Committee*, page 12); and
- the monitoring of member service satisfaction (see *Board Governance*, page 56).

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

Board executive

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	1998	1999
Male	47 420	48 430
Female	61 730	63 469
Total	109 150	111 899

PENSIONS IN FORCE AT 30 JUNE	1998	1999
Age retirement	571	724
Retrenchment (involuntary)	2418	3315
Invalidity	534	662
Spouses & orphans	167	192
Total	3690	4893

OTHER SUMMARY AT 30 JUNE	1998	1999
Average yearly adult pension	\$14 489	\$14 003
Preserved benefits in force	39 273	48 922

Fund size

FINANCIAL YEAR	VALUE (\$M)	CHANGE (%)
1994-95	1743.8	+15.2
1995-96	2118.3	+21.5
1996-97	2448.0	+15.6
1997-98	3219.0	+31.4
1998-99	3472.9	+7.9

Addressing priorities

In late November 1997 the Minister for Finance and Administration announced new superannuation arrangements for Commonwealth civilian employees. Implementation of these new arrangements resulted in a number of changes to the structure of service and administration arrangements to place more direct responsibility on the Boards of Trustees and to implement a clearer separation between the Board as the purchaser of service and its administrator (ComSuper) and other external service providers. Legislation to give effect to these new arrangements includes a provision to abolish the existing (separate) CSS and PSS Boards of Trustees and to replace them with a single Trustee, the Commonwealth Superannuation Board (the CS Board).

Commonwealth Superannuation Board

Although the Bill creating the new CS Board has yet to be passed by the Parliament, in the context of the 1998–99 Budget new funding arrangements were announced covering the administration of the Commonwealth's civilian employee superannuation scheme and have applied since 1 July 1998.

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

Interim arrangements

The PSS and CSS Boards of Trustees clearly have statutory responsibility for the activity for which the charging arrangement applies, but the existing PSS and CSS legislation does not allow the separate Boards to hold moneys (other than that related to the management and investment of the Fund) in their own right. Consequently, the delay in the passage of the legislation to create the new CS Board meant that other arrangements had to be put in place to implement the Budget decision.

Under these arrangements ComSuper was commissioned to undertake billing and cost recovery arrangements on behalf of the Boards and the Commissioner for Superannuation has been required to bring to account in her financial statements for 1998–99 the PSS Board's revenue and expenditure in respect of the administration of the scheme.

Management and Investment of the Fund

Investment structure

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

The table on page 25 shows how the PSS investment portfolio is structured. Notice that we hold a mixture of core, specialist and alternative investment assets.

Total Risk Management (TRM)

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

Custodial services

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

Chase Manhattan also holds (but does not own) the assets which comprise the Fund; collects and disburses dividends; maintains consolidated accounts and tax records for the Fund; and reports to the Board on individual fund manager and aggregated investment returns.

Investment managers

All investment managers are paid a fee which is generally based on the value of assets under their control. The fee reflects the investment costs applicable to each particular sector, and the investment style (i.e. active or passive) employed by each manager. The investment managers appointed by the Board for the 1998–99 financial year are presented below.

Table 2: Investment managers at 30 June 1999

ASSET CLASS	INVESTMENT MANAGERS
AUSTRALIAN EQUITIES	
Core	Commonwealth Funds Management Limited (CFM)
Specialist	Balanced Equity Management Pty Ltd Colonial First State Investment Managers Australia Ltd
Direct	Various (2 managers)
Alternative	Various (17 managers)
INTERNATIONAL EQUITIES	
Core	Vanguard Investments Australia Ltd
Specialist (US)	American Express Asset Management Ltd Brinson Partners Inc Sasco Capital Inc Westpeak Investment Advisors LP
Alternative (US)	Wilshire Associates Inc
Specialist (Japan)	Acadian Asset Management Inc JP Morgan Investment Management Inc Schroder Investment Management (Australasia) Ltd
Specialist (UK/Europe)	Dresdner Bank AG Mercury Asset Management Plc Schroder Investment Management (Australasia) Ltd
Specialist (Emerging markets)	Blairlogie Capital Management Emerging Markets Management LLC Morgan Grenfell Funds Management Paribas Asset Management Ltd
AUSTRALIAN FIXED-INTEREST	
Core	Commonwealth Funds Management Limited (CFM)
Specialist	BT Funds Management Ltd
PROPERTY	
Specialist (Australian)	Commonwealth Funds Management Limited (CFM)
Alternative (Australian)	AMP Investments Australia Ltd Rural Property
International (Alternative)	Various (2 managers)
FUNDS UNDER MANAGEMENT	
Current overlay	Pareto Partners
Cash	Commonwealth Funds Management Limited (CFM)

Investment objective

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

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

If the call on Consolidated Revenue is to be minimised, achieving a good return over the long term is 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:

- on average, nominal Fund returns will be positive at least four years out of five; and
- on average, the crediting rate will exceed the bank interest rate* by one per cent or more at least three years out of five.

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

*Note: Bank interest rate is the 90 day bank bill swap rate.

Investment strategy

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

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

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

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

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

- specific risks (those attached to individual assets);
- factor risks (those broader influences that attach to groups of related individual assets); and
- systematic 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.

Three year review

A major three-year review of the Fund's objectives and strategy was undertaken during the year to ensure the best outcome for members.

The Fund's objectives and crediting rate policy have been refined to make them clear, concise and, most importantly, able to be understood by members.

The strategic review looked at the investment structure of the Fund in relation to the new objectives and crediting rate policy. The main changes to the investment structure were to decrease the allocation to property and to introduce high yield debt (primarily US corporate debt) into the portfolio. The Fund's currency policy (hedging about half of the offshore asset exposures) has also been formally integrated into the Fund's strategic allocation.

Strategic targets

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

Alternative investments: The Board continued to build the Fund's exposure to alternative investments during the year. A total of \$37 million was committed across five new investments whilst additional capital was provided to existing investments. The program now comprises 17 investments.

Property strategy: The Board has moved to a new strategy in this asset class that is more focused on maximising returns through opportunistic purchasing and selling of properties. Throughout the year the Fund's property holdings have been reduced through strategic sales, locking in a solid result for the year.

Risk monitoring: The Board has maintained a commitment to its long-term strategy despite extreme market volatility during the year. The Board received regular topical reports during the year including reports on the Asian crisis and the collapse in Latin America, in order to continually monitor any risks to the portfolio.

High yield debt: During the year the Board gave permission for the portfolio to invest up to 3 per cent in high yield debt. High yield debt includes US corporate debt and some emerging market debt. This decision was driven by the Fund's objective to maximise returns to members, while maintaining appropriate risk levels. High yield debt provides greater returns than the existing exposure to domestic sovereign debt, resulting from the higher credit risk of the securities.

High yield debt has greater associated risks than domestic debt but, in perspective, has less volatility than the US equity market to which the Fund has substantial exposure. The benefits to high yield debt arise as investment in high yield debt markets allows the Fund to participate in higher expected returns, from a broader range of investment opportunities. Historically, high yield debt has provided significant return enhancements over Australian sovereign debt.

While the high yield debt market is less liquid than sovereign debt markets, it is much more liquid than direct property or alternative investments. The Fund is to begin investment in this asset class during the September 1999 quarter.

Table 3: Strategic asset allocation				
Asset Class	Type	New Asset allocation	Allocation range	Benchmark
Shares	Domestic	30%	27–33%	ASX All Ordinaries Accumulation Index
	International Developed Markets	42%	39–45%	MSCI Developed World Index (ex-Australia) 50% Unhedged
				MSCI Developed World Index (ex-Australia) 50% Hedged back to Australian Dollars
International Emerging Markets	5% Unhedged	4-6%	MSCI Emerging Markets Free Index	
Debt	Domestic Fixed Interest	8%	6–10%	Warburg Dillon Read Australia Composite Bond Index
	Cash	2%	0-3%	Warburg Dillon Read Australia Bank Bill Index
	International High Yield Debt	3%	2-4%	Merrill Lynch High Yield Master Index Hedged back to Australian Dollars
Property	Domestic	10%	7-13%	Mercer Direct 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 the Fund’s investment holdings.

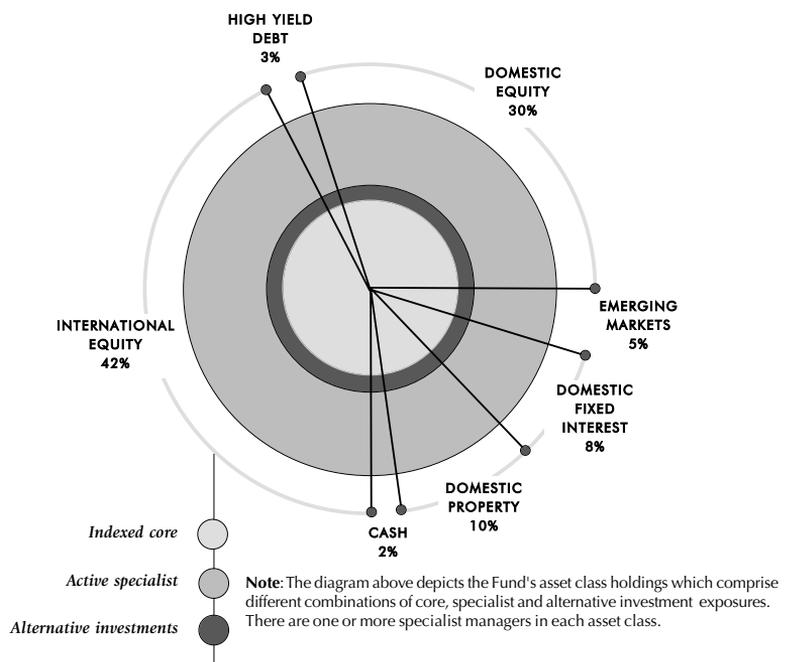
Active assets, as the name suggests, are actively managed. That is, the specialist fund managers that hold these assets must actively operate in the market, buying and selling them with a view to outperforming the sectoral index.

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

The Board has also made provision for investment of up to 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 \$136 million across 17 investments (a little less than 2.5 per cent of total funds).

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

Chart 2: PSS Fund composition & portfolio construction at 30 June 1999



Market overview

The past year has seen major swings in many of the world's financial markets. This volatility has produced a range of returns for the Fund. The long-term volatility of markets has been declining, but whilst critical emerging and commodity markets experience short-term volatility, the rest of the world experiences the same fate.

During the September quarter 1998, the collapse of the Russian market and major commodities markets generated falls in all global equity markets. Post Asian crisis investors were reacting to collapses in the emerging markets with substantial movement toward quality in the form of blue chip equity and fixed interest. The Fund returned minus 5.5 per cent for the quarter.

The December quarter made a significant turnaround, with the Fund returning 9.1 per cent for the quarter. The largest rebound was in the International equities sector, as a result of the US Federal Reserve reducing interest rates. All major interest rates followed, leading to a rise in liquidity and strong gains in most equity markets.

The March quarter was more subdued. The Brazilian currency fell, prompting fears of an 'Asian Crisis' like collapse in Latin America. These fears were unfounded and world equity markets continued to rise. Commodity prices also rose, after a prolonged period of decline. This rise enabled the Australian market to perform particularly well. The Fund returned 3.7% for the quarter.

The June quarter was relatively stable and positive. Fundamentals in the USA remained robust and the expected rise in interest rates by the US Federal Reserve did not dampen world markets. The Asian markets rose rapidly, whilst other emerging markets remained stable. Japan also surged during the quarter as the government increased spending, whilst the Australian market remained relatively flat. This enabled the Fund to return 2.8% for the quarter.

This volatility, particularly over the September and December quarters, highlights the way markets can react to specific events, rather than fundamentals. The Fund controls for volatility through diversification, so as the equity markets fell, holdings in property and fixed-interest provided greater returns and vice versa. The asset allocation of the Fund has proven successful in reducing the impact of the volatility experienced throughout the year.

Performance by asset class

Investments are divided into different asset classes such as shares, debt and property. This section of the report looks at market returns generally provided by each asset class and compares the Fund's investment performance against market returns and benchmarks.

Australian shares: The Australian sharemarket posted gains over the year buoyed by the continuing vigour in the economy and better than expected corporate earnings. Solid economic growth continues to be driven by consumer spending and the Reserve Bank's positive outlook that the economy is maintaining momentum. The All Ordinaries Price Index hit 3000 for the first time during the year, with the All Ordinaries Accumulation Index returning 15% for the year. Telecommunication stocks were the best performing sector, up 38 per cent, with Telstra forging the way. Resource stocks (21 per cent) slightly outperformed industrial stocks (15 per cent). The solid performance of the resource sector was due to improved commodity prices and offshore buying. Gold was the weakest performing sector, down 18 per cent, as sales of reserves by central banks continued. The Fund's Australian shares portfolio outperformed the market over the year due to the success of active managers in overweighting the financial, telecom and resources sectors.

International shares: Despite significant global financial turmoil and severe recessions in our trading partners, regional sharemarkets exhibited strong growth during the year. Strong returns, particularly in the US, were underpinned by the surge in large, blue chip stocks, whilst the developed markets outperformed the emerging markets. The bullish expansion of the US sharemarket continued through the year to a 30-year high, buoyed by consumer spending, financed not by personal savings but by private sector borrowings. The European economies and sharemarkets continued to weaken despite the initial upbeat optimism of the newly introduced Euro currency. Japan is slowly moving out of recession and deflation, with the sharemarket rallying strongly on the back of demand from foreign investors. The Emerging markets strengthened over the year, after some downturn in late 1998, led by renewed investor confidence in Asia. The Fund's international share holdings underperformed the benchmark over the year due to disappointing results from overweights to the emerging markets and companies with a small cap bias.

Debt: Australian bonds had a disappointing year due to a string of robust economic data released both in Australia and the US, indicating the economies were maintaining momentum. Strong economic data surprised fixed interest investors who believed the Asian financial crisis would finally bite. The Reserve Bank's positive inflation outlook, neutral bias towards monetary policy and rising consumer and investor confidence all contributed to the negative sentiment for the bond market. The end of the Japanese financial year on 31 March negatively impacted the Australian bond markets with Japanese investors repatriating funds from markets such as Australia. Long-term Government bonds fell by 0.45 per cent, while the benchmark returned 3 per cent for the year. The Fund's Australian debt holdings slightly outperformed the benchmark during the year due to active management of the portfolio.

Property: Despite the economy's continued strength, overall Australian property activity was subdued. The industrial sector was the best performing property sector, arising predominantly from demand from the transport and storage sectors. Uncertainty within the business community regarding the economic outlook transpired into signs of hesitancy by tenants, with weakening commitment in the commercial market until early 1999, when there was an increase in demand. Over the year the retail market remained competitive, with retail investment activity remaining solid although activity was restricted by the availability of investment grade stock. Proposed construction activity is expected to increase particularly in Sydney and Melbourne in the coming year. The Fund's property holdings outperformed the benchmark (which was up by 8 per cent) over the year due to the managers' overweight to commercial property in 1999.

Currency: An historical event occurred during the year with the arrival of the Euro on 1 January. The Euro was initially warmly received, but over its first quarter it started to move like any other currency, prone to episodes of nervousness. Euro weakness is largely the result of growing gloom about the economic outlook in the Euro region, particularly Germany.

Over the year the AUD appreciated against all major currencies due to the strengthening economy and firmer commodity prices. The Fund's currency overlay (which hedges approximately 20% of the Fund) therefore made a significant contribution to the year's return.

Table 4: PSS Fund Performance 1998–99 (after tax and fees)

Asset sector	Value of investment (\$m)		Benchmark portfolio ²	Fund return ³
	30/06/98	30/06/99		
Property	457.2	423.8	8.3	9.3
Australian equities	925.1	1011.8	15.0	16.6
International equities	1441.5	1599.1	9.1	5.5
Currency	3.3	47.1*	4.5	3.3
Debt ⁴	391.9	391.2	2.8	3.3
Total	3219.0	3472.9¹	11.2%	9.7%

1 The difference between this figure and that shown in the Financial Statements on page 86 is reconciled as follows:

Total Fund		3472.9
Less:		
Benefits Payable	46.1	
Outstanding Creditors	1.9	
Tax on Employer Contributions	17.2	
Plus:		
Income Tax Adjustment	12.7	
Balance–Contribs/Benefits Bank A/C	2.2	
Other (net)	57.9	
Value of Fund at 30 June 1999		3480.5

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.

* This amount represents the accrued profits on the Fund's currency overlay program. The overlay program reduces the fluctuations in value of offshore assets resulting from currency movements. Approximately 20 per cent of the Fund's offshore assets were hedged during the year.

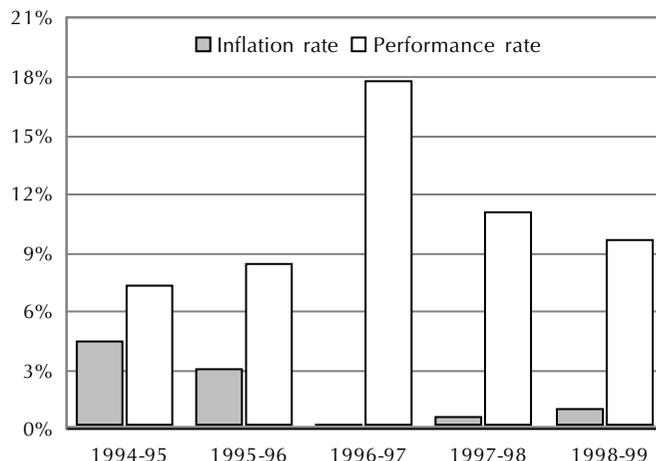
Performance review

For 1998–99, the Board has declared an annual crediting rate of 9.3 per cent which is well in excess of its target rate of bank interest plus one per cent.

This investment performance has placed the PSS Fund amongst the best performing superannuation funds in Australia for the third 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 adopted a more aggressive allocation to growth assets (primarily shares) and increased its holdings of international shares.

Chart 3: Fund performance compared with inflation rate 1995 to 1999



Investment information

In 1997–98 the Board issued a 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 (www.csb.gov.au).

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@csb.gov.au

Note on calculations

The Fund earning rates quoted in this report differ from the rates for annual crediting rate purposes. Time-weighted rates of return 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.

Crediting rate policy

The key features of the crediting rate policy are:

- the target rate is the June-to-June bank interest rate plus one 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

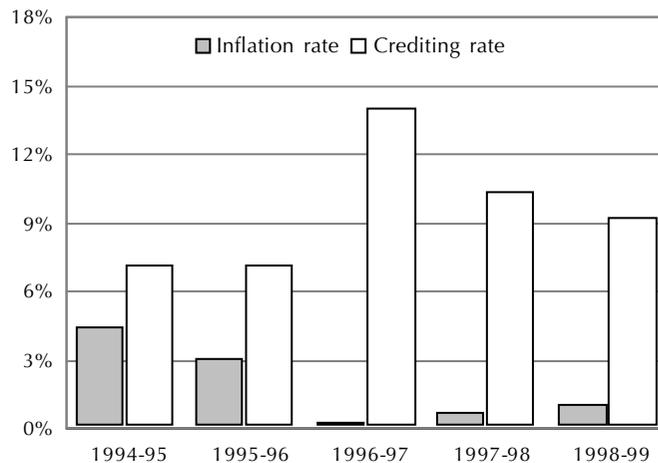
Every year, interest is credited to members’ accumulated contributions at rates determined by the Board. Table 5 lists the annual crediting rates for the past five years.

Table 5: Annual crediting rates 1995 to 1999

Financial year	Crediting rate (%)
1994–95	7.2
1995–96	7.2
1996–97	14.0
1997–98	10.4
1998–99	9.3

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

Chart 4: Crediting rates compared with inflation rates 1995 to 1999



Reserve Account

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

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

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

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

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

This year, a net \$14.595m was transferred to the Reserve. The balance of the Reserve Account at 30 June 1999 was \$174.027m.

Deferred Losses Account

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.

With a final transfer of \$2.921 million the balance of the deferred losses account as at 30 June 1999 was reduced to zero.

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. In past years, exit rates have been declared by the Board on a quarterly basis, in a manner consistent with the method for determining annual crediting rates.

In October 1998 the Board altered the method it uses to determine the exit rates to improve the timeliness and frequency of declarations and to ensure that exit rates more closely reflected the member's share of investment performance for the period from 1 July to the date of exit within a financial year.

During the 1999–2000 financial year, the Board intends to revise its exit rate with effect from the seventh business day of each month, which is as follows: *9 September 1999, 11 October 1999, 9 November 1999, 9 December 1999, 11 January 2000, 9 February 2000, 9 March 2000, 11 April 2000, 9 May 2000 and 10 June 2000.*

The Trustees have the right to change the timing of exit rate determinations and adjust the methodology used to calculate the rate as appropriate to the circumstances of the Fund at any particular time.

Table 6: Exit rates declared in 1998–99

Effective Date	Exit rate (annualised)
5 August 1998	7.8%
5 October 1998	0.0%
8 February 1999	5.6%
30 March 1999	5.6%
7 June 1999	6.9%

Note: Each new exit rate replaced the previous one. For example, members who exited on or after 7 June 1999 had an interest rate of 6.9 per cent per annum applied to their accumulated contributions for the period from 1 July 1998 until their date of exit.

Fund investment

ASSET ALLOCATION		30 June 1998		30 June 1999	
Sector	\$m	%	\$m	%	
Property	457.2	14.2	423.8	12.2	
Australian equities	925.1	28.7	1011.8	29.1	
International equities	1441.5	44.8	1599.1	46.0	
Currency	3.3	0.1	47.1	1.4	
Debt ¹	391.9	12.2	391.2	11.3	
Total	3219.0	100.0	3472.9²	100.0	

INVESTMENT PERFORMANCE ³		30 June 1998		30 June 1999	
Sector	Benchmark %	Fund %	Benchmark %	Fund %	
Property	8.6	8.3	8.3	9.3	
Australian equities	2.8	3.5	15.0	16.6	
International equities	29.9	27.6	9.1	5.5	
Currency	-11.7	-10.7	4.5	3.3	
Debt	8.3	8.2	2.8	3.3	
Return on investment	12.1	11.1	11.2	9.7	

ANNUAL CREDITING RATE⁴	10.4 %	9.3 %
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Notes

- 1 Includes cash and indexed bonds.
- 2 This represents the funds under management at 30 June 1999, 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 37).

Scheme Administration

General introduction

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

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

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

A detailed description of all ComSuper's activities is contained in the *Commissioner for Superannuation Annual Report 1998–99*.

Benefit design

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

a) **a member-financed component**

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

b) an employer-financed component

The employer component includes two parts–

- The first part comprises the superannuation productivity contributions paid by the employer into the Fund plus accumulated interest.
- The second part of the employer component is the ‘benefit balance’, which is determined at the time the member exits from the Scheme. The amount is the balance after the member and productivity components are deducted from the (defined) total lump-sum benefit.

Members' contributions

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

In 1998–99, ComSuper received contributions totalling \$355.645m, which comprised \$241.067m in member contributions and \$114.578m in productivity contributions. Benefits paid from the Fund during the year totalled \$360.789m, giving a net contributions flow out of the Fund for 1998–99 of \$5.144m.

Number of members

At 30 June 1999, the PSS had 111 899 members—an increase of 2.5 per cent over the population at 30 June 1998.

Table 7: Scheme membership 1995 to 1999

Year ending	Male	Female	Total
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
30 June 1999	48 430	63 469	111 899

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, 10 690 CMAPS were processed with only 97 (0.9 per cent) being accorded limited benefit status. The number of new entrants with a limited benefits classification compared with the previous year has increased by 18 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 1999, there were 1936 members paying premiums for additional death and invalidity cover, compared with 1711 at 30 June 1998. Of those, 1895 were covered at standard rates and 41 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 \$122.33m to \$142.61m. The average value of additional cover was \$73 651 per member. The average age of persons accepted for additional death and invalidity cover was 43 years.

Pensions in force

There were 4893 pensions in force at 30 June 1999, an increase of almost 33 per cent from the 3690 pensions in force at 30 June 1998. Table 8 below gives a breakdown of those pensions by type.

Table 8: Pensions in force at 30 June 1999

Type of pension	Number
Age retirement	724
Involuntary retirement	3315
Invalidity	662
Spouses & orphans	192
Total	4893

Benefit applications

The high rate of benefit applications received in ComSuper in the past two years continued into 1998–99 financial year reflecting continuing change in the APS arising from asset sales, outsourcing, restructuring and retrenchments.

ComSuper received 18 407 benefit applications during the year (compared with 13 704 in the previous financial year), representing an average of more than 1500 applications per month throughout the year.

Benefit processing

In recognition of the fact that the high rate of benefit applications had some impact on benefit turnaround times, ComSuper negotiated a revised service level agreement with the Trustees. Under the agreement, which applied from July 1998, ComSuper agrees to process 60% of PSS member benefits within 10 working days, and 90% within 20 working days, of the later of the date of exit or the date all documentation is received. However, the agreement provided that if more than 1700 benefit applications (from both PSS members and CSS members) are received in a month, the standard that applies is 50% within 10 working days and 80% within 20 working days. The 1700 threshold was exceeded in each month of the year except April 1999.

Performance indicator

Through the maintenance of a significant overtime program, ComSuper was able to achieve the agreed standard throughout the year with an overall average of 71 per cent of applications being processed within 10 days and 91 per cent within 20 days.

Exits by type

During 1998–99, 18 407 members left the scheme. As was the case in 1997–98, the bulk of the exits came from the retrenchment category (about 50 per cent of total exits). However, the number of exits from Resignation and other increased from 5263 in 1997–98 to 8385 (an increase of almost 60 per cent in that category). Table 9 gives a summary of contributor exits.

Table 9: Exits by type 1998–99

Type	Number
Age retirement	922
Retrenchment (involuntary)	8858
Invalidity	167
Death	75
Resignation and other	8385
Total	18 407

Retrenchment exits

Table 10: Retrenchment exits 1995 to 1999

Financial year	No. in receipt of Pension	Retrenchment exits
1994–95	369	3475
1995–96	445	2620
1996–97	1373	7799
1997–98	1054	7738
1998–99	1328	8858

Payment of invalidity benefits

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

During the year the Board, or a delegate, approved invalidity retirement for 87 per cent of applications considered.

Pre-assessment payments

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

Applications for 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 adviser (or other Board-approved medical practitioner) who has examined the person and considers that the person is, or is likely to become, totally and permanently incapacitated.

During 1998–99, pre-assessment payments were approved in respect of 90 applicants. No applicants were refused pre-assessment payments on the ground that there was little likelihood that they would be unable to work again.

Assessment panel

The decision-making process requires the Board to engage an assessment panel, experienced in assessing invalidity claims for superannuation purposes, to help the Board determine whether a person is totally and permanently incapacitated. During 1998–99, assessment panel services were provided by Independent Claims Management Pty Ltd (ICM). Of the 174 cases considered by ICM, 144 were recommended for invalidity retirement, 19 were recommended to be refused and 11 cases were deferred for further consideration.

Board decisions

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

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

During 1998–99, 144 invalidity retirement certificates were approved. Of those, 14 were fast-tracked by the invalidity assessment panel in less than one week.

Performance indicator

During the year, 68.4 per cent of cases were progressed to completion within three months—the standard agreed with the PSS Board being 65 per cent.

The Board is satisfied that ComSuper, in conjunction with the Administration Committee (see page 16), is meeting the standards set for turnaround times in the processing of invalidity benefits.

Reconsideration and Review

Role of the Board

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

Internal reconsideration

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

Decisions are reconsidered on the basis of new evidence provided by the applicant or obtained by ComSuper. A request for reconsideration of a decision is usually referred to the Reconsideration Advisory Committee (RAC) for examination. The RAC normally consists of any two of the Commissioner for Superannuation, her deputy and another SES officer. The RAC's recommendation is taken into account by the Board in deciding whether to affirm, vary or set aside the decision. The Board can also refer a decision to the RAC on its own motion. Each applicant receives a comprehensive written statement of reasons for the Board's decision on reconsideration. Legislative changes designed to streamline the reconsideration process, including removal of provisions prohibiting the Board from delegating its power to reconsider decisions, are currently under consideration by Parliament.

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

Applications received

Thirty six applications for reconsideration were received, compared with 34 last year. Thirteen applications concerned the limited benefits status of members; six concerned change of election benefit option; three concerned invalidity retirement and four concerned retrospective invalidity; and two concerned benefits to spouses or children. The others included applications concerning the early release of preserved benefits, transfer multiple, and transfer values into or out of the Scheme.

The annual effectiveness review, undertaken by ComSuper on the Board's behalf, revealed that the overall ratio of persons seeking

reconsideration of adverse decisions was nine per cent, a significant decrease to the previous year (18 per cent) with, as expected, a higher proportion of applicants seeking reconsideration where the decision involved substantial benefits, e.g. invalidity and spouse cases.

From the relatively small number of requests for reconsideration, the Board was satisfied of the high standard of decisions taken by delegates and authorised persons. While the number of cases where it set aside or varied earlier decisions in favour of the applicant was 44 per cent, this was primarily as a result of additional evidence rather than any obvious deficiency in the original decision.

Cases finalised

Twenty seven cases were finalised during the year, compared to 33 for the previous year.

Performance indicator

Agreed service level standards between ComSuper and the Board, replacing previous measures, were adopted to provide better visibility of actual and comparative performance achieved in completed cases. The service level agreement with the PSS Board sets standards of 35 per cent of cases to be completed within 6 months, 55 per cent within 9 months and 75 per cent within 12 months. Other than in nine cases, service levels were attained and by the end of the year, ComSuper arranged for additional staffing to improve timeliness in this area of activity. The Board regularly monitored outstanding cases, in particular those cases remaining unresolved more than 12 months after having been lodged.

Table 11: Reconsideration applications received & outcomes 1998–99

	1997–98		1998–99	
	Delegate's decisions	Board's decisions	Delegate's decisions	Board's decisions
Brought forward	22	6	22	7
Received	27	7	35	1
Withdrawn or lapsed	8	3	7	2
Decisions affirmed	5	1	4	1
Decisions varied	7	1	1	0
Decisions set aside	7	1	11	1
Resolved	27	6	23	4
Carried forward*	22	7	34	4

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

External review

Superannuation Complaints Tribunal

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

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

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

On 17 June 1999, the High Court unanimously upheld the power of the SCT to review decisions of trustees of regulated superannuation funds. Given the High Court decision, the SCT may now determine complaints against superannuation trustees as it did prior to the Federal Court decisions.

Complaints lodged with the SCT

During the year, eleven complaints were lodged with the SCT against the PSS Board and ten were carried over from the previous year. Of the six complaints resolved during the year, one was withdrawn by the complainant, four were treated by the SCT as having been withdrawn on the basis that the complaint was either misconceived or lacking in substance, and one was dismissed as the SCT was unable to deal with the complaint. Fifteen complaints remain outstanding as at 30 June 1999.

Federal Court

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

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

The ambit of decisions which may be reviewed under the AD(JR) Act includes decisions made by the Board and its delegates. During the year there were no PSS cases reviewed by the Federal Court under the AD(JR) Act.

Performance indicator

Under the Administrative Agreement with the Board, ComSuper shall maintain a quality standard whereby 70 per cent of cases dealt with on external review by Courts and Tribunals are decided in favour of the PSS Board. As reported above, the SCT cases completed during the year indicate a 100 per cent success rate for the Board, thus affirming the quality of decisions being made.

Claims against the Board

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 1998 to 30 June 1999

- 11 claims against the PSS Board were finalised.
- Liability was denied in 4 cases, 1 case was deemed to have lapsed.
- 6 claims were settled by payment of compensation.
- A total of \$22 968.96 was paid in settlement payments.

Focus on Governance

Corporate Governance Statement

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

Board's principal duties

The Board's principal duties are:

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

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

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

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

Governance matters outside the Board's control

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

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

General governance principles

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

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

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

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

Board's own conduct

Continuing Qualifications and Disclosure of Interests

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

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

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

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

Securities Dealing

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

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

Gifts and Entertainment

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

Insurance

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

Board Committees

The Board has constituted several Board Committees to increase its own efficiency and to provide a means of more detailed consideration of matters important to the running of the Scheme. Board Committees are subject to written terms of reference and care is taken to ensure the activities of the Committees remains consistent with the Board's duty of governance over the Scheme's activities.

Meetings and Agenda

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

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

Training and Education

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

Financial Controls

Financial Budgeting

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

Appointment of Auditor

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

Internal Audit and Internal Controls

(Under current consideration.)

Supervision of Service Providers

Adequacy of Resources

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

Written Appointments

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

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

Periodic Reporting and Reviews

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

Risk Analysis and Compliance

Business Risk

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

Compliance Program

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

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

Client satisfaction surveys

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

During 1998–99, a comprehensive series of client satisfaction surveys was undertaken with the assistance of Canberra-based firm, Orima Research.

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

The relevant Quality Service Index (QSI) introduced to measure the survey results and to enable comparisons between survey periods, continues to rank in the region of 80 with an average score for the three periods of 81.13. The QSI is an assessment on a 100 point scale of the services provided and is a measure of client satisfaction.

Quality Service Indexes of 81.05, 79.87, and 82.48 for the first, second and third trimesters suggest that the Board has maintained a consistent and very high client satisfaction rating from its members.

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

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Appendix A

Changes to the legislation

Changes to the PSS Act

During 1998–99 the *Superannuation Act 1990* was amended by one Act, the *Financial Sector Reform (Amendments and Transitional Provisions) Act (No 1) 1999*. This Act made minor amendments to the Act relating to the definitions of "bank" and "financial institutions".

Amending Deed

The PSS governing rules were not amended during 1998–99.

Statutory rules

The following statutory rules under the PSS were gazetted during 1998–99.

Superannuation (PSS) Membership Exclusion Declaration (Amendment) Regulation provides:

- for the removal of the automatic continuation of PSS membership of staff transferring under the mobility provisions of the *Public Service Act 1922* on or after 1 August 1998; and
- that PSS members who transfer under the mobility provisions of the *Public Service Act 1922* to the Australian Government Solicitor after that body is established by statute retain their membership of the CSS as approved by the Minister.

Superannuation (PSS) Membership Inclusion Declaration (Amendment) Regulation provides that PSS members who transfer from the Australian Wheat Board to AWB Limited on or after 1 June 1998 retain their membership of the PSS until that body is privatised.

Superannuation (PSS) Approved Authority Inclusion Declaration (Amendment) Declaration declares NEPC Service Corporation to be an Approved Authority for the PSS.

Changes to the SIS Act

Statutory Rule No 175/1998 of 30 June 1998 made various changes to the SIS regulations. The most significant of these changes for PSS members is the restriction from 1 July 1999 on the lump sum that can be accessed in cash on ceasing membership before preservation age and, the gradual increase in the preservation age from 55 to 60 for those born on or after 1 July 1960.

Determinations made

Five interest rate determinations were made during the year. One for setting the crediting rate for the 1997–98 financial years. Others were made to vary the prevailing exit rate.

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

Two further determinations were made on the following topics:

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

Appendix B

Departments and approved authorities

At 30 June 1999, the following departments and authorities were employers of people who were eligible to contribute to the PSS.

Departments

Agriculture, Fisheries and Forestry
 Attorney-General's
 Communications, Information Technology and the Arts
 Defence
 Education, Training and Youth Affairs
 Employment, Workplace Relations and Small Business
 Environment and Heritage
 Family and Community Services
 Finance and Administration
 Foreign Affairs and Trade
 Health and Aged Care
 Immigration and Multicultural Affairs
 Industry, Science and Resources
 Parliamentary:

- House of Representatives
- Joint House
- Parliamentary Library
- Parliamentary Reporting Staff
- Senate

Prime Minister and Cabinet
 Transport and Regional Services
 Treasury
 Veterans' Affairs

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 Family Studies
Australian Institute of Marine Science
Australian International Hotel School
Australian Marine Science and Technology Limited
Australian Maritime Safety Authority
Australian National Training Authority
Australian Nuclear Science and Technology Organisation
Australian Pork Corporation
Australian Sports Commission
Australian Sports Drug Agency
Australian Tourist Commission
Australian Trade Commission
Australian 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
Land and Water Resources Research and Development Corporation
Law Courts Limited
Legal Aid Commission (ACT)
Melbourne Symphony Orchestra
Murray Darling Basin Commission
National Gallery of Australia
National Registration Authority of Agriculture and Veterinary Chemicals
National Standards Commission
NEPC Service Corporation
Nuclear Safety Bureau
Pig Research and Development Corporation
Private Health Insurance Administration Council
Private Health Insurance Complaints Commissioner
Rural Industries Research and Development Corporation
Snowy Mountains Hydro-Electric Authority
Special Broadcasting Service
Sugar Research and Development Corporation
Sydney Symphony Orchestra Holdings Pty Limited
Symphony Australia Holdings Pty Ltd
Totalcare Industries Limited
West Australian Symphony Orchestra Holdings Pty Ltd

Appendix C

Eligible superannuation schemes

A Transfer Value may be paid to a superannuation scheme which has been declared by the Minister for Finance and the Board to be an eligible superannuation scheme for the purposes of the Public Sector Superannuation (PSS) Scheme (Rule 6.8.1).

The following schemes have been declared eligible.

- Superannuation schemes established under the following acts:
Defence Force Retirement and Death Benefits Act 1973;
Parliamentary Contributory Superannuation Act 1948; and
Superannuation (State Public Sector) Act 1990 (QLD)
- The superannuation schemes known as:
Army and Air Force Canteen Service Superannuation Scheme;
Australian Wool Corporation Provident Fund;
AUSSAT Superannuation Fund;
AV Super (previously known as the CAA Staff Superannuation Fund);
Gladstone Area Water Board Staff Superannuation Scheme;
Gladstone Port Authority Staff Superannuation Scheme;
Gold Coast Waterways Staff Superannuation Scheme;
Government Officers' Superannuation Scheme (GoSuper) (Queensland);
Livestock and Meat Authority of Queensland Superannuation Scheme;
Northern Territory Government and Public Authorities Superannuation Scheme;
Queensland Ambulance Transport Brigade Staff Superannuation Scheme;
Queensland Electricity Supply Industry Superannuation Scheme;
Queensland Industry Development Corporation Superannuation Scheme;
Queensland Local Government Employees Superannuation Scheme;
Queensland Parliamentary Contributory Superannuation Scheme;
Queensland Police Superannuation Scheme;
Queensland State Service Superannuation Scheme;
Superannuation Scheme for Australian Universities (SSAU);
Townsville Port Authority Staff Superannuation Scheme; and
University of Newcastle Staff Superannuation Scheme.

Appendix D

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 1998–99, the Complaints Officer received 72 complaints with 5 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 table shows the volume of complaints received and processed by the Board's administrator, ComSuper, during the 1998–99 financial year.

Month	Received	Processed
July 1998	8	6
August	6	7
September	6	7
October	5	7
November	6	5
December	10	8
January 1999	7	3
February	10	12
March	6	11
April	2	1
May	2	4
June	4	6
Total	72	77

Appendix E**Client service charter**

What is a service charter?

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

The PSS Board has asked ComSuper to prepare charters following government initiatives to develop and promote a more open and customer-focused Commonwealth Public Service. The charters were distributed to members along with the 1997–98 Member Statements. Copies can be viewed at the Board's website (www.csb.gov.au).

Who is a charter for?

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

What does a charter do?

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

The year in review

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

Your comments on our service charters are welcome at any time and can be made to the Manager, Client Information Services on (02) 6252 7528.

Alternatively, you can write to the Manager, Client Information Services, ComSuper, PO Box 22, Belconnen ACT 2616. If you have Internet access, you can send an e-mail to **manager.cis@comsuper.gov.au**

Service	Standard	Outcome
Member Communications		
Written enquiries for benefit estimates	<ul style="list-style-type: none"> •Process 80% in 10 working days •Process 100% in 20 working days 	All were processed within the agreed service standards.
Member information statements	To be issued before 31 October	The despatch of information statements was completed by 20 September.
Manually generated information statements	To be issued before 31 December	It is expected that all manually generated statements will be despatched in November.
Telephone enquiries Dropout rate Average Speed of Answer	At the time of call: <ul style="list-style-type: none"> •Less than 5% •80% answered in 30 seconds (Average in 45 seconds) 	The average percentage answered within 30 seconds was 82 per cent with an average dropout rate of 4 per cent.
Benefit Payments		
Benefit application	<ul style="list-style-type: none"> •Process 60% in 10 working days •Process 90% in 20 working days 	An overall average of 71 per cent of applications were processed within 10 days and 91 per cent within 20 days.

Appendix F

List of abbreviations

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

Appendix G

Financial statements

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Independent Audit Report



To the Minister for Finance and Administration

(A) Financial Statements

Scope

I have audited the financial statements of the Public Sector Superannuation Scheme (PSS) which includes the PSS Fund (the Fund), for the year ended 30 June 1999. 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 Trustees.

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

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

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

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

Audit Opinion

In my opinion:

- (i) the statements are in the form agreed by the Minister for Finance and Administration in accordance with sub-section 28(1) of the *Superannuation Act 1990*;
- (ii) the statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the changes in net assets of the PSS for the year ended 30 June 1999 and the net assets of the PSS at that date;

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

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

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

sections 19(2), 19(3), 36, 65, 66, 67, 69-85, 86-93A, 95, 97, 98, 101, 102, 103, 104, 105, 106, 107, 109, 111, 112, 113, 117, 118, 121, 122, 124, 125, 152, 153, 154, 163, 169;

regulations 2.10(1), 2.13(1), 2.21(3), 2.33(2), 2.43(1), 3.10, 4.08(3), 5.08, 6.17, 7.04, 7.05, 9.09, 9.14, 9.29, 9.30., 13.14, 13.17, 13.17A; and
- (b) adhered to the Guidelines for preparing risk management statements (“Guidelines”) issued by APRA in Circular II.D.7 on Derivatives (to the extent applicable)

for the year ended 30 June 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 regulation 6.17 included testing whether amounts identified by the trustee as preserved and restricted non-preserved have been cashed or transferred only in accordance with the requirements of Part 6 of the regulations. These procedures did not include testing of the calculation of the preserved and restricted non-preserved amounts.

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

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

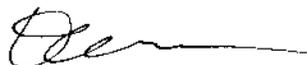
These tests have not been performed continuously throughout the period, were not designed to detect all instances of non-compliance, and have not covered any other provisions of the *Superannuation Industry (Supervision) Act 1993* and Regulations and Guidelines apart from those specified. The Fund's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

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

Opinion

The PSS Fund, in all material respects, has complied with the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations specified above for the year ended 30 June 1999.

Australian National Audit Office



David C McKean
Executive Director

Delegate of the Auditor-General
Canberra

23 September 1999

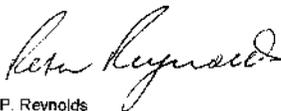
Public Sector Superannuation Scheme

Statement by the Trustee of the PSS Fund

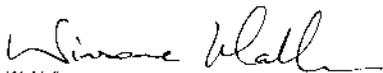
The Trustee hereby states that in its opinion:

- (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 1999 and the changes in net assets of the Scheme for the year ended 30 June 1999;
- (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 the Australian Accounting Standards and other mandatory professional reporting requirements; and
- (d) the operations of the Fund were conducted in accordance with the *Superannuation Act 1990*, the Trust Deed establishing the Scheme and the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations.

Signed at Sydney this 20th day of September 1999 in accordance with a resolution of members of the PSS Board as Trustee of the PSS Fund.



P. Reynolds
Chairman



W. Hall
Member

PSS Board

PUBLIC SECTOR SUPERANNUATION SCHEME

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 1999

	Note	1999 \$'000	1998 \$'000
Net Assets Available to Pay Benefits at 1 July		3,188,642	2,856,770
PSS FUND			
Investment Revenue			
Interest		31,115	34,552
Dividends		58,932	62,435
Other Investment Income		(622)	(674)
Changes in Net Market Values	2	251,148	254,875
Direct Investment Expenses		(6,686)	(3,868)
Net Investment Revenue Before Tax		333,887	347,320
General Administration Expenses	1k	(502)	(432)
		333,385	346,888
Contributions Revenue			
Employee Contributions	3a	241,067	229,453
Employer Contributions	3a	114,578	113,495
		355,645	342,948
Benefits Paid	3b	(360,789)	(325,979)
Net Contributions Revenue Before Tax		(5,144)	16,969
Net Investment Revenue and Net Contributions Revenue Before Tax		328,241	363,857
Income Tax Expense	4	(36,343)	(31,985)
Net Investment Revenue and Net Contributions Revenue After Tax		291,898	331,872
CONSOLIDATED REVENUE FUND			
Moneys Appropriated by Parliament	3	732,784	681,221
Scheme Administration Costs Recovered from Employers		13,823	12,585
Less: Benefits Paid	3b	(732,784)	(681,221)
Costs of Administering the PSS Act, Deed and Rules	3c	(13,823)	(12,585)
Net Assets Available to Pay Benefits at 30 June		3,480,540	3,188,642

The attached notes form part of these financial statements.

PUBLIC SECTOR SUPERANNUATION SCHEME

STATEMENT OF NET ASSETS AS AT 30 JUNE 1999

	Note	1999 \$'000	1998 \$'000
PSS FUND			
Investments	1c		
Cash and Short Term Deposits		78,086	42,743
Australian Money Market		83,555	61,653
Australian Fixed Interest		312,756	321,015
International Fixed Interest		550	966
Australian Equity Investments		970,278	879,283
International Equity Investments		1,398,301	1,336,131
Unlisted Property Trusts		418,613	435,873
Pooled Superannuation Trusts		203,928	180,728
Other Investments		<u>56,021</u>	<u>(8,747)</u>
Total Investments		3,522,088	3,249,645
Other Assets	6	<u>78,649</u>	<u>98,469</u>
Total PSS Fund Assets		<u>3,600,737</u>	<u>3,348,114</u>
Less: Liabilities			
Benefits Payable		46,115	39,001
Trade Settlements Payable		4,776	8,364
Sundry Creditors	7	3,822	4,679
Tax Liability Assumed on Behalf of Other Fund		0	41,581
Provision for Income Tax		8,536	33,184
Provision for Deferred Income Tax		<u>56,948</u>	<u>32,663</u>
Total PSS Fund Liabilities		<u>120,197</u>	<u>159,472</u>
CONSOLIDATED REVENUE FUND		3,480,540	3,188,642
Other Assets			
Sundry Debtors		<u>90,894</u>	<u>93,767</u>
Total Consolidated Revenue Fund Assets		<u>90,894</u>	<u>93,767</u>
Less: Liabilities			
Benefits Payable		<u>90,894</u>	<u>93,767</u>
Total Consolidated Revenue Fund Liabilities		<u>90,894</u>	<u>93,767</u>
Net Assets Available to Pay Benefits at 30 June	9	<u><u>3,480,540</u></u>	<u><u>3,188,642</u></u>

The attached notes form part of these financial statements.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) *Basis of Preparation*

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

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

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

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

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

(b) *Revenue*

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

(c) *Valuation of Investments*

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

The bases of market valuations are summarised below.

- (i) Short-term Money Market and Fixed Interest—these securities are valued at the market closing price on 30 June and include accrued interest.
- (ii) Futures Contracts—open futures contracts are revalued to closing price quoted at close of business on 30 June.
- (iii) Equities—the security prices used for equities are the last sale price of a security on the relevant exchange at close of business on 30 June.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

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

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

(d) Foreign Currency Translation

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

(e) Use of Derivatives

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

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

(f) Income Tax

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.

(g) Contributions Receivable

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

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)

(h) *Benefits Payable*

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

(i) *Liability for Accrued Benefits*

The liability for accrued benefits is not included in the statement of net assets, but the liability at the latest measurement date is reported at note 14. Where accrued benefits are measured during the reporting period, the benefits which have accrued since the latest measurement date are also reported by way of note.

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

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

(j) *Superannuation Contributions Surcharge*

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

(k) *Expenses of the PSS Board*

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

All other costs incurred by the Board are met from revenues generated through user charging arrangements implemented during 1998–99 with employer agencies and the Department of Finance and Administration. Transactions related to the receipt of revenue and the expenditure of the PSS Board have been brought to account in the financial statements of the Commissioner for Superannuation.

(l) *Comparative Information*

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

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

2. CHANGES IN NET MARKET VALUES

	1999	1998
	\$'000	\$'000
Changes in Net Market Values of Investments:		
(a) Investments Held at 30 June		
Australian Money Market	456	200
Australian Fixed Interest	(13,077)	1,982
International Fixed Interest	129	96
Australian Equity Investments	86,369	17,992
International Equity Investments	145,590	8,817
Unlisted Property Trusts	35,905	(8,787)
Pooled Superannuation Trust	36,290	(24,763)
Currency contracts	(39,087)	62,346
Other Investments	828	1,594
	<u>253,403</u>	<u>59,477</u>
(b) Investments Realised During the Period		
Australian Money Market	1,196	1,061
Australian Fixed Interest	(107)	1,767
International Fixed Interest	55	—
Australian Equity Investments	13,415	(5,800)
International Equity Investments	(947)	(1,458)
CFM Unit Trusts	—	259,181
Unlisted Property Trusts	1,739	23,557
Pooled Superannuation Trust	719	(226)
Currency contracts	(20,395)	(85,943)
Other Investments	2,070	3,259
	<u>(2,255)</u>	<u>195,398</u>
	<u>251,148</u>	<u>254,875</u>

The net loss on foreign currency transactions for the year was \$59.482m (1997–98: \$23.597m loss). This amount is the net of the realised and unrealised gains and losses on foreign currency contracts identified above. This does not include gains and losses on foreign currency transactions that may have occurred in the Pooled Trust investments.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

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 per cent 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:

	1999	1998
	\$'000	\$'000
PSS Fund		
Payments to Commonwealth	313,812	284,301
Lump-sum Benefits	46,977	41,678
	<u>360,789</u>	<u>325,979</u>
Consolidated Revenue Fund		
Lump-sum Benefits	666,293	626,885
Transfer Values	3,530	4,146
Pensions	61,951	48,951
Other	1,010	1,239
	<u>732,784</u>	<u>681,221</u>

(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 in the administration of the Superannuation Act 1990 are met from moneys collected by ComSuper, on behalf of the PSS Board. These moneys are collected from employer agencies and are paid into the ComSuper Commercial Activity Account which forms part of the Commonwealth's Commercial Activities Fund.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

4. INCOMETAX**(a) Reconciliation**

The taxation liability at 30 June 1999 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 per cent on net investment earnings, employer contributions and capital gains with deductions allowable for administration expenses.

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

	1999	1998
	\$'000	\$'000
Prima facie income tax expense on Net Investment Revenue and Net Contributions Revenue Before Tax	49,236	54,578
Add/(Less) Permanent Differences		
Employee contributions	(36,181)	(34,419)
Benefits Paid	54,118	48,897
Income from Pooled Superannuation Trusts	(4,617)	(36,003)
Tax Losses brought to account (Refer note 4b)	(13,271)	13,271
Imputation Credits from Franked Dividends Received	2,002	2,035
Other	(1,578)	(385)
	49,709	47,974
Less: Imputation and foreign tax credits	(14,312)	(14,419)
Less: Under (over) provision in prior years	946	(1,570)
Income Tax Expense	<u>36,343</u>	<u>31,985</u>

(b) Tax Losses Brought to Account

At 30 June 1998 the Fund had unrecouped capital losses of \$88.5m. A future income tax benefit has now been brought to account in respect of these losses to the extent that a provision for deferred income tax has been recognised in the accounts for unrealised capital gains. The future income tax benefit will reverse as the unrealised capital gains are realised.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

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.

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 1999, including interest, was \$29,271,000 and will be paid to the PSS after the Ministerial determination to effect the transfer is finalised.

6. OTHER ASSETS

	1999	1998
	\$'000	\$'000
Bank	6,788	8,663
Trade Settlements Receivable	5,715	13,488
Accrued Income	12,878	34,888
Amounts due from the CSS Scheme	29,271	27,353
Future Income Tax Benefit	23,966	14,075
Sundry Debtors	31	2
	<u>78,649</u>	<u>98,469</u>

7. SUNDRY CREDITORS

	1999	1998
	\$'000	\$'000
Investment Expenses Payable	1,958	2,298
Accrued Expenses	195	189
Unidentified Contributions	687	1,650
Other	982	542
	<u>3,822</u>	<u>4,679</u>

8. AUDITOR'S REMUNERATION

The amount paid and payable in respect of external audit services is \$38,500 (1997–98: \$37,520).

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

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

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

	1999	1998
	\$'000	\$'000
Balance at beginning of year	159,432	142,838
Plus: Transfer from Amount Available for Allocation to Contributors	<u>14,595</u>	<u>16,594</u>
Balance at end of year	<u><u>174,027</u></u>	<u><u>159,432</u></u>

(b) Deferred Losses Account

This account exists to provide a mechanism for allocating the loss on revaluation of the assets of the CSS Fund on 1 July 1984 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:

	1999	1998
	\$'000	\$'000
Balance at beginning of year	(2,921)	(5,841)
Add: Transfer from Amount Available for Allocation to Contributors	<u>2,921</u>	<u>2,920</u>
Balance at end of year	<u><u>—</u></u>	<u><u>(2,921)</u></u>

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

10. 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.

During 1998–99 the Trustee received, from the ATO, surcharge assessments in respect of surchargeable superannuation contributions for:

- members subject to assessment for the 1997–98 financial year;
- outstanding assessments for the 1996–97 financial year; and
- default assessments.

A summary of transactions recorded during 1998–99 follows:

	1999	1998
	\$'000	\$'000
Total Surcharge Liability Outstanding at 1 July 1998	1,149	—
Surcharge liability recorded against member accounts in respect of surchargeable superannuation contributions to 30 June 1999	3,920	1,510
	5,069	1,510
Less: Amount paid by members	(754)	(406)
Less: Amounts deducted from members' benefit payments	(111)	(16)
	4,204	1,088
Plus: Interest on outstanding surcharge liability at 30 June 1999	272	61
Total Surcharge liability outstanding at 30 June 1999	4,476	1,149

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

The surcharge liability in respect of surchargeable superannuation contributions for the period 1 July 1998 to 30 June 1999 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 financial statements for the estimated value of the surcharge liability because the liability will be either met by the members during their period of membership or will be recovered from member benefits which are funded to a significant extent from the Consolidated Revenue Fund.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

11. FINANCIAL INSTRUMENT DISCLOSURES

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

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

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

	Notional Principal Amounts		Net Market Value	
	1999 \$'000	1998 \$'000	1999 \$'000	1998 \$'000
Australian Fixed Interest Futures	(1,795)	6,049	54	11
Australian Share Price Index Futures	26,644	12,101	140	408
Australian Exchange Traded Options	8,714	8,183	2,577	(2,887)
International Share Price Index Futures	43,595	20,030	835	436
International Exchange Traded Options	0	8	0	0
Total	<u>77,158</u>	<u>46,371</u>	<u>3,606</u>	<u>(2,032)</u>

(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 \$4.5m. The Fund does not have significant exposures to any individual counterparty or industry.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

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

The Fund invests in financial investments for the primary purpose of obtaining a return on investments on behalf of its members. As such, the Fund's investments are subject to interest rate risks and the return on the investments will fluctuate in accordance with movements in market interest rates. The Fund's exposure to interest rate movements on investments at 30 June 1999 was as follows:

30 June 1999	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		
Assets						
Cash and Short Term Deposits	78,086					78,086
Australian Money Market	83,555					83,555
Australian Fixed Interest		31,263	120,684	160,809		312,756
International Fixed Interest			125	425		550
Australian Equity Investments					970,278	970,278
International Equity Investments					1,398,301	1,398,301
Unlisted Property Trusts					418,613	418,613
Pooled Superannuation Trusts					203,928	203,928
Other Investments	3,650				52,371	56,021
Other Assets	36,059				42,590	78,649
Liabilities						
Benefits Payable					(46,115)	(46,115)
Trade Settlements Payable					(4,776)	(4,776)
Sundry Creditors					(3,822)	(3,822)
Provision for Income Tax					(8,536)	(8,536)
Provision for Deferred Income Tax					(56,948)	(56,948)
Total	201,350	31,263	120,809	161,234	2,965,884	3,480,540
Weighted Average Interest Rate	4.74%	4.80%	5.68%	5.93%		

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

11. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

(c) *Interest Rate Risk*

30 June 1999	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		
Assets						
Cash and Short Term Deposits	42,743					42,743
Australian Money Market	61,653					61,653
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
Liabilities						
Benefits Payable					(39,001)	(39,001)
Trade Settlements Payable					(8,364)	(8,364)
Sundry Creditors					(4,679)	(4,679)
Tax Liability Assumed					(41,581)	(41,581)
Provision for Income Tax					(33,184)	(33,184)
Provision for Deferred Income Tax					(32,663)	(32,663)
Total	113,059	10,236	131,083	180,662	2,753,602	3,188,642
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:

30 June 1999	US\$ A\$'000	JPY A\$'000	GPB A\$'000	EURO A\$'000	Other A\$'000	Total A\$'000
Gross investment amounts denominated in foreign currency	766,504	156,167	149,838	246,485	119,875	1,438,869
Amount effectively hedged	(434,842)	(90,063)	(78,412)	(205,499)	0	(808,816)
Net Exposure	331,662	66,104	71,426	40,986	119,875	630,053

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

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

30 June 1999	US\$ A\$'000	JPY A\$'000	GPB A\$'000	DEM A\$'000	Other A\$'000	Total A\$'000
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

(e) Net Fair Values of Financial Assets and Liabilities

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

12. VESTED BENEFITS

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

The Australian Government Actuary has advised that the estimated amount of vested benefits at 30 June 1999 is \$12,000m (1998: \$11,000m).

The value of vested benefits has been estimated from the value of vested benefits at 30 June 1998, which was calculated from membership data as at that date, and the trend shown in a projection of accrued benefits made 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 1999 as such data was not available.

The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased on 30 June 1999 and elected the option which is most costly to the Scheme. The value quoted does not in any way represent the Scheme's liability under circumstances which have any reasonable possibility of arising.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

13. LIABILITY FOR ACCRUED BENEFITS

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

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

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

14. SEGMENT REPORTING

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

15. RELATED PARTIES**(a) *Members of the PSS Board***

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

R.L. Brown (Chairman, retired 30 June 1999)
P. Reynolds
G. Kelly
J.A. Flitcroft
W. Hall
N. Speers (Alternate for J.A. Flitcroft)
D. Irons (Alternate for W. Hall)
S. Wilson (alternate for G. Kelly and P. Reynolds)

Mr Reynolds was appointed Chairman with effect from 28 July 1999. Ms L. McBride was appointed as a trustee with effect from 28 July 1999.

(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 1998–99 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 \$80,000 (1997–98: \$81,000).

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 1999

15. RELATED PARTIES (Cont.)

(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 1999 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%	
	1999	1998
Total cost incurred by the PSS in relation to CSS/PSS Pty Ltd and related issues for the period to 30 June	<u>\$17,794</u>	<u>\$76,973</u>

16. CONTINGENT LIABILITIES

(a) Investments

At 30 June the Fund had outstanding investment capital commitments of \$71.14m (1998: \$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.



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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.

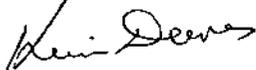
The effect of this change has been to reduce the notional employer contribution rate by about 1.8% and the present value of unfunded liabilities by about \$600 million from what would have been the case if the 1.5% gap had been retained.

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

INSURANCE AND SUPERANNUATION COMMISSION



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**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.

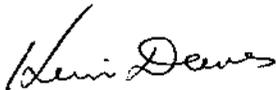
It should be noted that this value of vested benefits represents the liability that would have fallen on the scheme if all members had ceased service on 30 June 1996 and elected the option which is most costly to the scheme. The likelihood of such an occurrence is remote in the extreme. The value quoted 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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