



THE

P S S

BOARD

1999
ANNUAL REPORT
2000

PUBLIC SECTOR SUPERANNUATION SCHEME

The **PSS** Board

Public Sector Superannuation Scheme

Annual Report
1999–2000

This work is copyright. You may download, display, print and reproduce this material in unaltered form only (retaining this notice) for your personal, non-commercial use or use within your organisation. All other rights are reserved. Requests and inquiries concerning reproduction and rights should be addressed to the Manager, Legislative Services, AusInfo, GPO Box 1920, Canberra ACT 2601 or by e-mail Cwealthcopyright@dofa.gov.au.

The PSS Board

Street address :	Unit 1, Cameron Offices Chandler Street Belconnen ACT 2617
Postal address :	PO Box 22 Belconnen ACT 2616
Telephone :	(02) 6252 7097
Facsimile:	(02) 6252 7965

ComSuper

Street address :	ComSuper Unit 1, Cameron Offices Chandler Street Belconnen ACT 2617
Postal address :	PO Box 22 Belconnen ACT 2616
Telephone :	(02) 6252 7911
Facsimile :	(02) 6253 1116
TTY :	(02) 6253 2911
Annual Report inquiries :	Schemes Publicity Section ComSuper
Telephone :	(02) 6252 6865
Internet :	www.comsuper.gov.au/pss

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

Letter of **Transmittal**

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

Dear Minister

In accordance with section 28 of the *Superannuation Act 1990*, the PSS Board is pleased to present to you the annual report on its operations during 1999–2000. 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 2000.

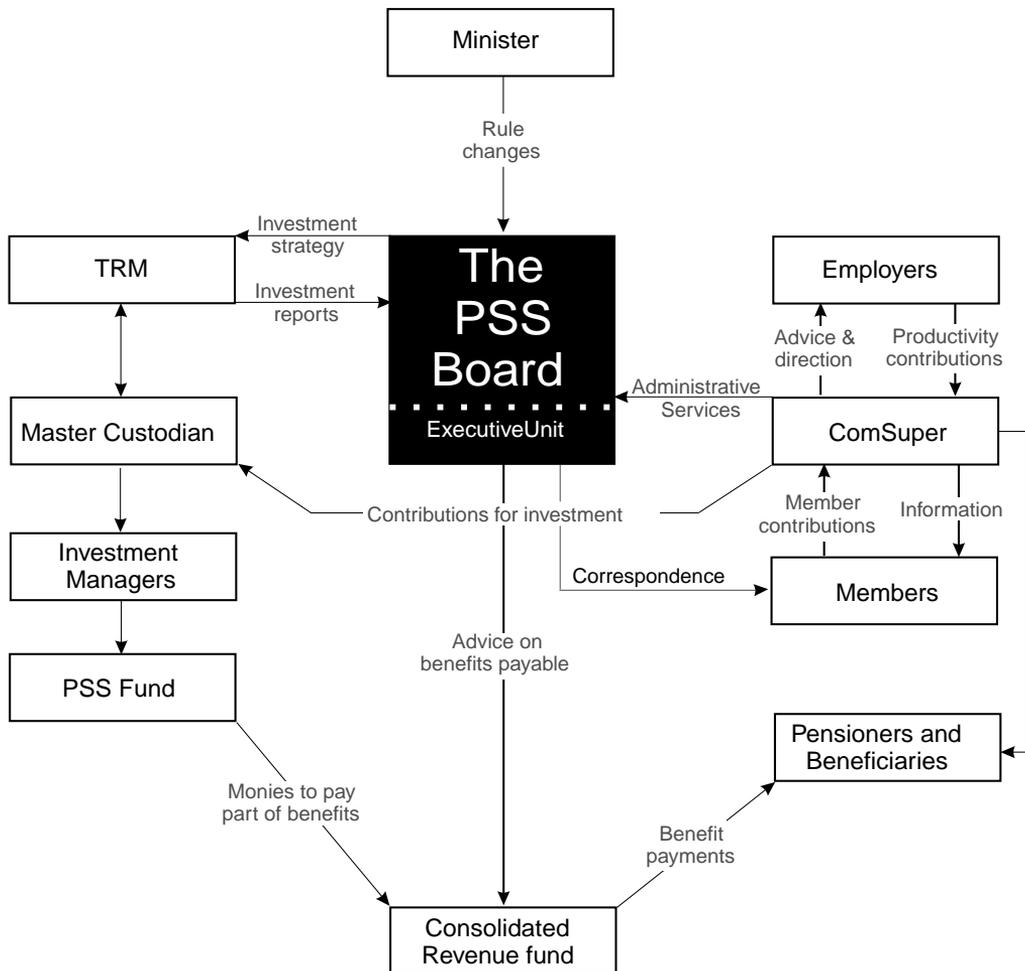


Peter Reynolds
Chairperson
PSS Board

15 September 2000

Operational Chart

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



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

Year in brief

Highlights from the 1999–2000 year were:

- Successful management of Year 2000 issues with no problems or adverse effects being experienced;
- Another very successful year in investment performance with the Fund earning 15.1% after tax;
- Continued review of the Board's communications to scheme members;
- Ongoing examination of the performance of the Board's service providers, including improved service standards required from those providers; and
- The appointment of the Board's first full time Chief Executive Officer to assist the Board to meet the challenges of the future.

Table of Contents

Letter of Transmittal	iii
Operational Chart	iv
Year in Brief	v
<hr/>	
From the Chairperson	
Chairperson's Report	2
<hr/>	
Scheme Overview	
Board of Trustees	7
Audit Committee	10
Communications Committee	12
Administration Committee	16
Mission and Operating Principles	18
Scheme Statistics	21
Future Directions	22
<hr/>	
Management and Investment of the Fund	
Fund Investment	25
Risk Management	28
Asset Allocation	30
Fund Performance	33
Crediting Rates	39
Fund Statistics	43
<hr/>	
Scheme Administration	
Member Entitlements	45
Invalidity Processing	51
Reconsideration and Review	53
<hr/>	
Focus on Governance	
Board Governance	58
<hr/>	
Appendixes	
A: Changes to the legislation	69
B: Departments and approved authorities	71
C: Eligible superannuation schemes	75
D: Members' complaints	77
E: Client service charter	79
F: List of abbreviations	81
G: Financial statements	83
Index	111

Tables

1	Board and Board Committee meeting attendance	9
2	Investment managers at 30 June 2000	26
3	Strategic asset allocation	31
4	PSS Fund performance 1999–2000	37
5	Annual crediting rates 1996 to 2000	40
6	Exit rates declared in 1999–2000	42
7	Scheme membership 1996 to 2000	46
8	Pensions in force at 30 June 2000	48
9	Exits by type 1999–2000	49
10	Retrenchment exits 1996 to 2000	50
11	Reconsideration applications received and outcomes 1999–2000	54
12	Notional Employer Contribution Rates	64
13	Projection of Estimated costs	64

Charts

1	Number of website hits per month	15
2	PSS Fund composition and portfolio construction at 30 June 2000	32
3	Fund performance compared with inflation rate 1996 to 2000	37
4	Crediting rates compared with inflation rates 1996 to 2000	40

From the Chairperson

Annual results—Earning Rates and Crediting Rates

The Fund once again ended the financial year with a very pleasing investment performance, earning 15.1% after tax for the 1999–2000 year. Over the last five years the fund has earned an average of 11.97% per annum, which represents a substantial increase in the real value of the fund. The continuing good investment performance of the fund is in the interests of both scheme members and government.

The Board declared an interest rate of 15.5%, slightly above the earning rate of the fund. Crediting rates over the last five years have averaged 11.24% per annum. The difference between earning rates and crediting rates is due to the maintenance by the Boards of Reserves. The Board is prevented under the legislation from declaring a negative interest rate. The maintenance of the Reserve allows the Board to invest in a higher proportion of growth assets, which has led to higher investment returns over time which are expected to continue into the future. The Board decided to credit a little more than the earning rate this year as adjustments had increased the Reserve. These adjustments were made primarily due to the transfer of funds from CSS to PSS as a result of the last “choice campaign” when CSS members were given the option of transferring to PSS, and to a change in the methodology used to calculate the Reserve.

Volatility in markets increased substantially over the past year and this trend is likely to continue.

Major events and developments

One of the major focuses of Board attention in the first half of the 1999–2000 financial year was on preparation for the year 2000 and the potential impact on computer systems, particularly affecting the Board's service providers. Considerable work was undertaken with the Board's administrator, investment advisor and custodian to ensure that systems were Y2K compliant. Detailed risk analysis was carried out and comprehensive contingency arrangements put in place designed to eliminate or minimise any potential adverse impacts on members or associated entities. In the end the work undertaken by the Board and the service providers saw a smooth transition into the new year with no problems or adverse effects being experienced.

The Board's attention to its own governance and compliance issues continued during the year. A detailed compliance schedule has been prepared and implemented, which recognises the unusual situation of the PSS, which is not only subject to SIS (*Superannuation Industry Supervision Act* and Regulations) but also the requirements of specific legislation which established the scheme.

The Board's committees continue to perform key functions within the overall responsibilities of the Board. The terms of reference of these committees was reviewed during the year to ensure that these reflect the evolving role of the committees.

The Audit Committee continues to work with the fund's auditor and service providers to improve the audit process and the preparation and presentation of financial statements. Significant improvements have been made in this respect in recent years.

The Administration Committee makes recommendations to the Board with respect to a number of matters and handles claims made against the Board and reviews invalidity applications in conjunction with an invalidity assessment panel. The Administration Committee was also responsible for the process leading to the appointment of the Board's first Chief Executive Officer (see below) and will be responsible, together with myself, for the review of the asset consultant/ investment advisory/services provided to the Board.

The Communications Committee has been very active in working with our specialist communications consultant to review all communications to members and develop a comprehensive communications strategy. Focus groups were conducted during the second half of the year with both members and former members to gain an appreciation of the views of members about the scheme. In summary the major findings of this research was that:

- most members have a low awareness of benefits;
- members are primarily concerned about performance and customer service;
- members express a clear preference for more regular and user-friendly benefit information; and
- communications must be consistent with the priorities of members and how they see their fund.

Following the focus group research and specific consultation with a small group of members the member statements and annual report to members have been totally redesigned to make them more readable, easier to understand and more relevant. A formal evaluation of the new statements and annual report formats will be undertaken during the forthcoming year.

During the year the Board appointed its first full time Chief Executive Officer. Steve Gibbs commenced as CEO on 1 February 2000. The CEO, in conjunction with the Board, is developing a new business/strategic plan for the Board, which is likely to see further changes in the staffing of the Board's Executive Unit over coming years.

The major service providers to the Board are all subject to an annual effectiveness review. The Board establishes service standards and measures performance of service providers against these service standards. Each year, particularly with respect to the Administrator, ComSuper, standards are reviewed and improved where appropriate. The Board has noted substantial improvements in the performance of ComSuper such that further enhancements to service standards have been able to be implemented. Improved customer service is a primary focus of both the Board and ComSuper. The Board noted with pleasure that ComSuper ranked very well in a number of key service areas when compared to their peers in a North American Benchmarking exercise. Such benchmarking is very important in being able to compare performance on an international basis and the Board has encouraged ComSuper to continue to participate in such studies.

Future directions

The Board has commenced the process of reviewing the asset consulting and investment advisory services which it currently receives. This review will be a major focus in the forthcoming year and will culminate with "market testing" of the services the Board decides it requires going forward. A thorough investigation of alternate models and methods of service delivery will be undertaken before the Board tests the market for these services.

The continuation of our review of all aspects of member communications will also contribute significantly to the Board's workload in the year ahead. This review will encompass both written communications and also the use of internet based communications.

With increased volatility and uncertainty regarding investment markets the ability to continue to generate significant real investment returns will become more difficult. Constant monitoring and review of the Board's investment objectives and strategy will remain one of the key areas of the Board's responsibilities.

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 diligence and competence throughout the year both at Board level and also for their work at Committee level. In particular Graham Kelly who resigned just after the end of the financial year must be congratulated for his overall contribution to the Board's activities and for his outstanding leadership in chairing the Board's Administration Committee.

The Executive Unit and service providers must also be thanked for their hard work and contribution towards another successful year. I would like to express the Board's appreciation to Paul Cheever, the Board's Executive Officer until January this year, for his efforts in assisting the Board through a period of significant change and repositioning.



Peter Reynolds
Chairperson
PSS Board

Scheme Overview

PSS Board

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

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

Board members

The Board consists of five Trustees—two with experience in the formulation of government policy and public administration; two nominated by the ACTU and an independent chairperson. All are appointed to the Board by the Minister for Finance and Administration under section 23 of the PSS Act.

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

Members holding office during the year were:



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

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



Mr 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 was a member of the CSS Board. His alternate was 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 2001.*

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



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

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



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

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



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

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

Board and Board committee meetings

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

- the Audit Committee comprising Ms Winsome Hall, Chairperson; Ms Joy Palmer, Member and Ms Louise McBride, Member;
- the Communications Committee comprising Mr John Flitcroft, Chairperson; Ms Winsome Hall, Member and Mr Richard Balderstone, Member. Mr Peter Reynolds was a member until 15 October 1999 when he was replaced by Mr Balderstone; and
- the Administration Committee comprising Mr Graham Kelly, Chairperson; Mr John Flitcroft, Member and Ms Joy Palmer, Member.

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

Table 1: Board and Board committee meeting attendance 1999–2000

	Board	Audit	Communications	Administration
P Reynolds	6/6	3/3	2/2	
G Kelly	6/6			4/4
J Flitcroft	3/6		3/4	2/4
W Hall	6/6	5/5	4/4	
J Palmer		2/2		3/4
R Balderstone			0/2	
L McBride	5/6	2/2		

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

The Audit Committee reviews:

- financial statements with both internal and external auditors prior to their approval by the Board;
- accounting policies adopted or any changes which are made or contemplated by ComSuper, and which affect the Board's areas of responsibility;
- the annual audit plans of ComSuper where they relate to areas of Board responsibility;
- the audit reports of major audits undertaken;
- the extent to which internal audit recommendations are implemented;

- interim financial information; and
- from 1996–97, the annual crediting rate.

The Committee is to provide 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 1999–2000

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 the *Superannuation Industry Supervision Act* (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 annual 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;
- informs members of significant events in accordance with the provisions of SIS; and

- examines and reports to the Board on additional services to members which the Board considers providing.

Membership of committee

The Communications Committee is appointed by the Board and usually comprises three 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 1999–2000

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

- the improvement of quality and content of annual reports and member statements;
- the timing of the issue of the 1999–2000 annual reports;
- member research, ie. how members perceive superannuation, what they expect from the scheme, etc;
- continued research into enhancing scheme publications;
- improvement of the Board's website;
- selection of a communications agency, Social Change Media, who have commenced a review of publications and developing an overall communications strategy;
- the preparation of advertising for the proposed closure of the PSS and promotion of proposed fund choice;
- the proposed establishment of a new Board to manage both the PSS and CSS Schemes; and
- information seminars to members.

SIS requirements

As a regulated fund under the *Superannuation Industry (Supervision) Act 1993* (SIS) the PSS must comply with all the information disclosure standards set out in the SIS Act and Regulations. One of the major requirements is to maintain ongoing communication with

scheme members, giving assurance that the superannuation industry operates in a fair, honest and open manner.

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

Member Statements

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

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

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

For 1999–2000 the Board has made considerable efforts 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.

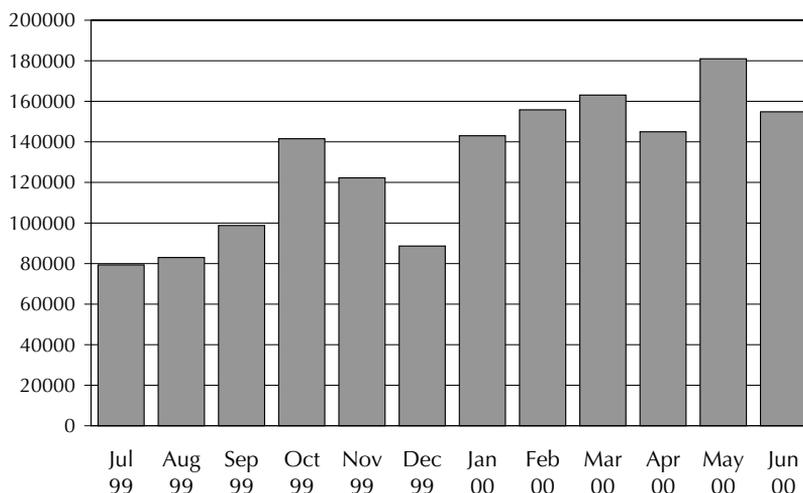
These publications are updated regularly as the need arises and resources permit. Uncertainty about the timing of foreshadowed changes to the scheme, however, delayed this activity during the year.

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. The website address is **www.csb.gov.au**

Chart 1: Number of website hits per month



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 63) 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 and other service providers other than the Fund's auditors.

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 (DoFA). It supervises such activities by the Administrator, and monitors those of DoFA to enable it to respond or influence as necessary.

The Committee is to assure the Boards that adequate processes are followed by the 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, other than the Fund's auditors;
- ensures all activities of the administrator and service providers are carried out in accordance with Board policy;
- oversees relationships between the Board and service providers;
- advises the Board of the implications arising from legislative changes;

- 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 2.2.2, 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;
- reviews and makes recommendations to the Board with respect to legal claims;
- deals with any investment-related matters referred to it by the Board and/or Chairperson of the Board; and
- considers and makes recommendations to the Board as appropriate on matters with respect to pricing (ie. charges to employers), billing arrangements and the Board's budget.

Membership of committee

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

Issues considered 1999–2000

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

- the appointment of a full time Chief Executive Officer;
- the Board's alternative investments program;
- the process for considering, and the assessment of individual, legal claims against the Board;
- the process for considering, and the assessment of individual, applications for invalidity retirement;
- proposed amendments to the PSS and CSS legislation; and
- compliance and risk management.

Mission and Operating Principles

Charter 1999–2000

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 33);
- the time taken to process benefit payments (see *Benefit Processing*, page 49);
- the time taken to finalise applications for Invalidity Retirement Certificates (see *Invalidity Processing*, page 51);
- the number of appeals against decisions taken under delegation and the outcome of those appeals (see *Reconsideration and Review*, page 53);
- 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 63).

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

Board executive

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

- the development and implementation of corporate strategies and plans;
- the management of the relationships between the Board and service providers;
- ensuring compliance with SIS and scheme rules and legislation;

- member communications generally and in particular the preparation and production of annual reports to members and Parliament, and member statements; and
- comprehensive administrative and support services to the Board.

The establishment of the Executive Unit and the subsequent appointment of a full time CEO, Mr Steve Gibbs, is part of an ongoing process which is designed to ensure that the Board has sufficient independent resources to carry out its responsibilities and that the relationships with service providers are on an appropriate arm's length basis. The Executive Unit is also the key resource for the Board to be able to meet the proposed new circumstances of:

- (a) direct responsibility for their administrative activities;
- (b) the closure of the PSS Scheme to new members;
- (c) the merger of the Boards; and
- (d) an environment of fund choice.

Scheme membership

CONTRIBUTORS AT 30 JUNE	1999	2000
Male	48 430	48 110
Female	63 469	64 326
Total	111 899	112 436

PENSIONS IN FORCE AT 30 JUNE	1999	2000
Age retirement	724	918
Retrenchment (involuntary)	3315	3841
Invalidity	662	763
Spouses & orphans	192	192
Total	4893	5714

OTHER SUMMARY AT 30 JUNE	1999	2000
Average yearly adult pension	\$14 003	\$14 398
Preserved benefits in force	48 922	58 959

Fund size

FINANCIAL YEAR	VALUE (\$M)	CHANGE (%)
1995-96	2118.3	+21.5
1996-97	2448.0	+15.6
1997-98	3219.0	+31.4
1998-99	3472.9	+7.9
1999-00	4126.9	+18.8

Addressing priorities

In 1997 the Minister for Finance and Administration announced the Government's intention to introduce new superannuation arrangements for Commonwealth civilian employees. In anticipation of these new arrangements, a number of changes were made to the structure of services and administration arrangements to more clearly define the responsibilities of the Boards of Trustees and to implement a clearer separation between the Board as the purchaser of service and its administrator (ComSuper) and other external service providers. The Government remains committed to the proposed new arrangements and legislation for their introduction is presently before the Parliament. Included in the legislation is provision to abolish the existing (separate) CSS and PSS Boards of Trustees and to replace them with a single Trustee Board, the Commonwealth Superannuation Board (CS Board).

Commonwealth Superannuation Board

Although the Bill creating the new CS Board is still before 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 schemes which have applied since 1 July 1998.

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

Interim arrangements

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

Under these arrangements ComSuper is commissioned to undertake billing and cost recovery arrangements on behalf of the Boards. The Commissioner for Superannuation is required to bring to account in her financial statements for 1999–2000 the Board's revenue and expenditure in respect of the administration of the scheme.

Management and Investment of the Fund

Investment structure

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

The table on page 26 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 on the advice of TRM, to 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 1999–2000 financial year are presented below.

Table 2: Investment managers at 30 June 2000

ASSET CLASS	INVESTMENT MANAGERS
AUSTRALIAN EQUITIES	
Core	Commonwealth Funds Management Limited (CFM)
Specialist	Balanced Equity Management Pty Ltd First State Fund Managers Ltd Perpetual Asset Management Ltd Westpeak Investment Advisors (Australia) Ltd
Direct	Jupiters
Alternative	Various (18 managers)
INTERNATIONAL EQUITIES	
Core	Vanguard
Specialist (US)	Westpeak Investment Advisors LP (Small Cap) Westpeak Investment Advisors (Enhanced S&P 500)
Alternative (US)	Wilshire Associates Inc
Specialist (Japan)	JP Morgan Investment Management Inc Schroder Investment Management (Australasia) Ltd
Specialist (UK/ Continental Europe)	Dresdner Bank AG Mercury Asset Management plc ABN AMRO Asset Management (Australia) Ltd
Specialist (Emerging markets)	Blairlogie Capital Management Deutsche Asset Management Limited Paribas Asset Management Ltd
Currency Overlay	Pareto Partners
DEBT	
Core	Commonwealth Funds Management (CFM) Superannuation Member's Home Loan
HIGH YIELD DEBT	
Specialist	Loomis, Sayles & Company, LP J&W Seligman & Co Incorporated
PROPERTY	
Specialist (Australian)	Commonwealth Funds Management (CFM)
Alternative (Australian)	Various (2 managers)
Alternative (International)	Various (2 managers)
FUNDS UNDER MANAGEMENT	
Cash	Commonwealth Funds Management (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;
- on average, the crediting rate will exceed the bank interest rate* by one per cent or more at least three years out of five; and
- not more than 25 per cent of the Fund's investment assets are to be invested in illiquid assets, with a minimum cash allocation of two per cent.

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

The Fund's investment strategy was refined last year as part of the Fund's three-year review. Following on from the three-year review the portfolio design and manager configuration of the Fund was altered to accommodate changes in the investment strategy.

The amount of the Fund that is passively managed has been increased by 5 per cent to 52 per cent, particularly to domestic fixed interest. To achieve the new portfolio design and manager configuration in the most cost efficient and beneficial way, seven managers were terminated and five new mandates awarded during the year.

We have increased passive exposure in the US where the equity market is considered less risky, thus reducing the ability of active management to add value. Where active managers have continued to demonstrate an ability to add value above the benchmark return, such as domestic equities, allocations have been increased.

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 by approving an increase in the Fund's allocation to Alternative Investments from five per cent to 10 per cent.

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 Japan's economic recovery and Europe's corporate reform, in order to continually monitor any risk to the portfolio.

High yield debt: As approved by the Boards in the 1998–1999 year, the high yield debt sector was funded in December. High yield debt includes US corporate debt and some emerging market debt. 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.

Socially Responsible Investment (SRI): SRI is an area of growing interest and activity amongst institutional investors. The Board is aware of this growing interest and is keen to explore opportunities where SRI can bring benefits to the Fund. The Board has asked TRM to monitor SRI developments in the marketplace. Specifically, TRM is to report to the Boards on SRI developments and products which might be considered as suitable investments for the Funds. TRM has been canvassing the Australian marketplace and overseas, to assess the SRI products that are on offer, however as yet no firm conclusion has been drawn, and work is continuing into next year.

Table 3: Strategic asset allocation

Asset Class	Type	New Asset allocation	Allocation range	Benchmark
Shares	Domestic	30%	27–33%	S&P/ASX 200 Accumulation Index
	International Developed Markets	42%	39–45%	MSCI Developed World Index (ex-Australia) Half unhedged and half hedged back to Australian Dollars.
	International Emerging Markets	5%	4–6%	MSCI Emerging Markets Free Index
Debt	Domestic Fixed Interest	8%	6–10%	UBS Warburg Composite Bond Index
	Cash	2%	0–3%	UBS Warburg Bank Bill Index
	International High Yield Debt	3%	2–4%	Merrill Lynch High Yield Master Index Hedged back to Australian Dollars
Property	Domestic	10%	7–13%	Mercer Direct Property Index
Total Fund		100%	N/A	Composite of above, weighted according to Strategic Asset Allocation

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

Core assets are passively managed (with no active stock selection). Their purpose is to capture market returns by replicating—or tracking—the relevant sectoral index. For instance, core holdings in the Australian Shares sector track the S&P/ASX 200 Accumulation Index.

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

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

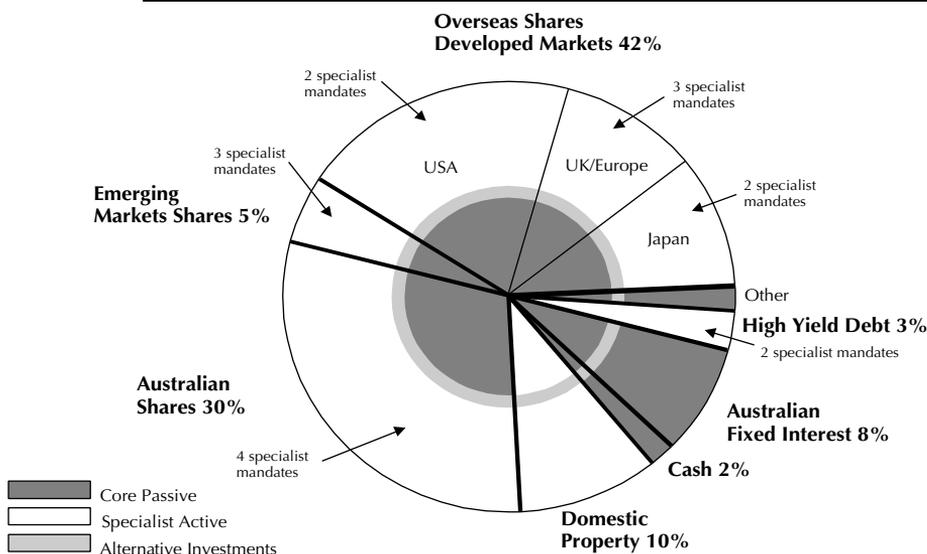
Active assets, as the name suggests, are actively managed. That is, the specialist fund managers that hold these assets must actively operate in the market, buying and selling them with a view to outperforming the sectoral index.

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

The Board has also made provision for investment of up to ten per cent of total assets in non-traditional or alternative investments. Alternative investments include infrastructure, buy-out funds and venture capital. At the end of the year, the Fund had committed \$230 million across 23 managers (a little less than 5.6 per cent of the 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 2000



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

Market overview

Many of the world's financial markets witnessed unprecedented volatility this year. This volatility has produced a range of returns for the Fund. However, despite this volatility, global growth continued to improve and the majority of global stock markets positively benefited. The volatility seen in the global markets during the year emanated from the "TMT" sectors ie. Telecommunications, Media and Technology, predominantly those in the United States. Investor's periodic fear of revived inflation was driving most of the volatility.

During the September quarter 1999, continuing US growth forced the Federal Reserve Board to embark on a monetary tightening phase, citing potential inflationary pressures as the main concern. Elsewhere, global growth began to show signs of taking hold in Europe and Asia. Japan's economy gave the impression of bottoming as signs of positive growth emanated. Emerging markets performed poorly this quarter due to increased uncertainty surrounding possible rising US interest rates, regional political issues and natural disasters. The Fund returned minus 0.9 per cent for the quarter.

The December quarter made a significant turnaround from the previous quarter ending on a very positive note for the global economy and most equity markets. Investors' appetite for "TMT" stocks remained strong over the quarter leading to many global equity indexes reaching new highs. The Fund returned a stellar 9.9 per cent for the quarter, primarily due to a strong performance from emerging markets and international equities.

The March quarter was more subdued, the Fund returned 3.8 per cent for the quarter. Global growth continued to improve but at a much slower pace than seen earlier in the year. Most global markets, particularly the US, experienced volatility this quarter as investors' appetites towards "TMT" stocks began to waver between being enthusiastic or cautious.

The June quarter, like the previous quarter, was volatile. The fluctuation in investors' sentiment towards "TMT" stocks continued. At the start of the quarter global equity markets performed poorly as investors sold "TMT" stocks and bought into more traditional stocks. This behaviour changed in June as investors bought back into "TMT" stocks, causing markets to rally. The Fund returned 1.8 per cent for the quarter, most of this performance coming from the market rebound in June.

This volatility, particularly over the March and June 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 fall, holdings in property and fixed-interest provide 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

Australian Share Market: The Australian share market was very volatile during the past year. The market started the year off strongly reaching new highs during the first half, receding in April / May, only to recover strongly in June and ultimately finish the year in a sound position. Earlier in the year the new highs in the market were buoyed by the continuing vigour in the economy driven by the recovery in manufacturing after the economic and financial turbulence of 1998. The latter half of the year witnessed unprecedented volatility as investors sold “old” economy stocks and sought exposure to “new” economy stocks, such as “TMT” stocks. With increases in official interest rates as central banks globally raised interest rates throughout the second half of the year, many investors began to question the price being paid for “new” economy stocks, causing their enthusiasm for “new” economy stocks to wane. The souring in enthusiasm for “new” economy stocks was short-lived as investors’ fear of rising inflationary expectations subsided, and they again sought exposure once again to “new” economy stocks. The Fund’s Australian shares portfolio out performed the market over the year, particularly due to the success of active managers in over-weighting telecom, media and banks.

International Developed Share Market: Global growth continued to improve during the year, slowing in the latter part of the year due to the extreme volatility that radiated throughout the world markets, particularly in April. This volatility emanated from investors’ appetites waning towards “TMT” sectors in the United States. The initial fear of revived inflation expectations in the US was driving most of the change in investor sentiment. This fear subsided in May and many global markets recovered some of their lost ground towards the end of the quarter. In contrast to the second half of the year, the majority of global stock markets positively benefited against the attractive backdrop of high economic growth and low inflation, with many hitting new highs as indicated by the performance of their broad Indexes. Despite many central banks raising interest rates, particularly in the second half of the year, global business, corporate activity and consumer confidence remain

firm. Interest in the much sought after exposure to “new” economy stocks, which has been a key driver of the developed markets returns, has begun to wane, most noticeably in the US. Monetary and financial conditions generally remained supportive of further rates of expansion in the developed economies. The Fund’s international share holdings under performed the benchmark over the year, primarily due to the disappointing results of our active US Managers in the early part of the year. As part of the Fund’s three-year review, three of these managers were terminated.

Emerging markets: After a period of consolidation during the previous year, emerging markets regained their momentum this year. Despite the volatility evident in the markets during the year, overall these markets registered a strong return. The solid returns were supported by regional economic growth, accelerating domestic consumption, improving political sentiment and exchange rate stability. The key-performing region for the year was Latin America, where sound fundamentals over-compensated for the negative influence of falling valuations for technology stocks. The Fund’s emerging markets share holdings outperformed their benchmark due to the success of our managers’ stock selection skill.

Debt: Bond markets exhibited extreme volatility and poor performance during the year as robust economic data continued to be released both in Australia and the US, indicating that economies were maintaining momentum. Volatility, particularly in November and December, was exaggerated due to decreasing liquidity and associated Y2K concerns. The passing of the Y2K risk and the absence of debilitating computer related failures, allowed bond markets to refocus on inflation and economic growth in the second half of the year. Given the continued economic growth, the RBA noted that it was unwise to continue with its expansionary monetary policy, and moved to a phase of tightening, citing inflationary concerns and the falling dollar as the main reasons for the increases. The market was generally unconcerned about the Federal budget released on May 9th, instead investors paid more attention to economic data releases and surveys indicating a slower economy, thus weakening the case for further short term rises in official interest rates. The Fund’s Australian debt holdings achieved benchmark performance for the year in review.

High Yield Debt: After a moderate first half-year, the sector weakened in the second half of the year. Factors contributing to the sector’s moderate performance earlier in the year included stronger global growth, lower yield volatility and an abundance of corporate funding sources. However, a weak market environment developed towards the latter half of the year, primarily due to the bleeding of capital from high yield mutual funds. The high yield market is particularly sensitive to mutual fund flows as they make up a large

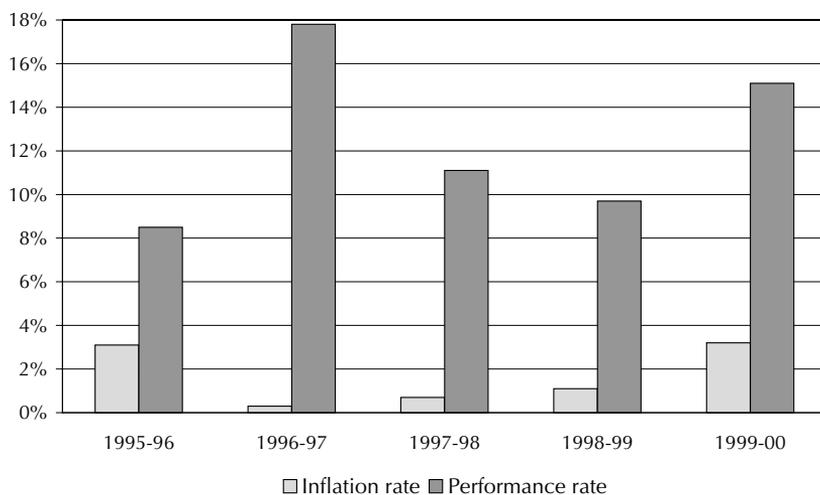
portion of the high yield demand. During the year (ie. December – June), the Fund maintained a bias towards the growth industries, evident by the way new issues are dominated by technology related services and manufacturing companies. Since inception (December 1999) the Fund's high yield debt holdings have out performed relative to benchmark due to the success of our active managers in overweighting the energy and communications sector.

Property: The strength of the Australian economy has enhanced property market fundamentals and investor sentiment. Tenant demand remained buoyant due to continued growth in industrial output, high levels of retail turnover and white-collar employment growth driving the office take-up. This demand ensured that returns remained firm during the first half of the year across all property sectors. Industrial property was the best performing sector over the year, closely followed by retail. The industrial sector was dominated by construction activity as the number of small to medium sized projects increased. Supported by solid consumer spending the retail property sector performed well, particularly in the first half of the year. The fundamentals for commercial property were healthy over the year, in particular vacancy rates were low for most capital cities with rental growth recorded for most CBD's. The latter half of the year saw a significant reduction in direct property transactions due to the reduction in the volume of the purchases being made by private investors, primarily as a result of a shortage of suitable investment products. This fall in investment activity was consistent across all property sectors. The Fund's property holdings outperformed the benchmark over the year due to the strong performance of the quality properties held by the Fund.

Currency: The central theme for currency markets over the year was the continuing strength of the US dollar, boosted by investors demanding US dollar denominated assets so as to gain exposure to "new" economy stocks and the ongoing solid performance of the US economy. Fundamental forces driving the Australian dollar disappointed over the year. The technology sector that has been driving the increase in global industrial production this cycle, is not an intensive user of commodities, causing the Australian dollar, which is driven by commodity prices, to weaken. Euro weakness continued for much of the year. The Euro will remain under pressure until there is firm evidence that consumer spending is recovering. The Yen performed strongly as non-Japanese investors snapped up the currency to re enter the Japanese markets swayed by the nation's improved growth outlook resulting from the central bank's near-zero interest rate policy and absent inflation. The Fund benefited from the weak Australian dollar during the year, with the performance results buoyed for Developed International Equities and Emerging Market Equities.

Table 4: PSS Fund Performance 1999–2000 (after tax and fees)

Asset Class	Holdings at 30 June 1999	Holdings at 30 June 2000	Proportion of Fund	One-year performance Portfolio	Benchmark
	\$m	\$m	%	%	%
SHARES					
Australian	1011.8	1264.3	30.6	16.9	15.5
Developed Int'l Equities	1475.7	1694.6	41.1	16.8	17.4
Emerging Markets Int'l Equities	170.4	218.7	5.3	23.0	18.4
DEBT	324.0	349.6	8.5	5.1	5.1
HIGHYIELD DEBT	–	119.5	2.9	–	–
CASH	67.2	52.6	1.3	4.8	4.6
PROPERTY	423.8	427.6	10.3	11.4	8.9
TOTAL FUND	3472.9	4126.9	100.0	15.1	14.2

Chart 3: Fund performance compared with inflation rate 1996 to 2000

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 workings of the Board's reserving policy.

Crediting rate policy

The key features of the crediting rate policy are:

- the target rate is the June-to-June bank interest rate plus 1 per cent;
- the Board's policy is that the Reserve will generally be within plus/minus 5 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.

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.

For information about the Reserve see page 41.

Crediting rates

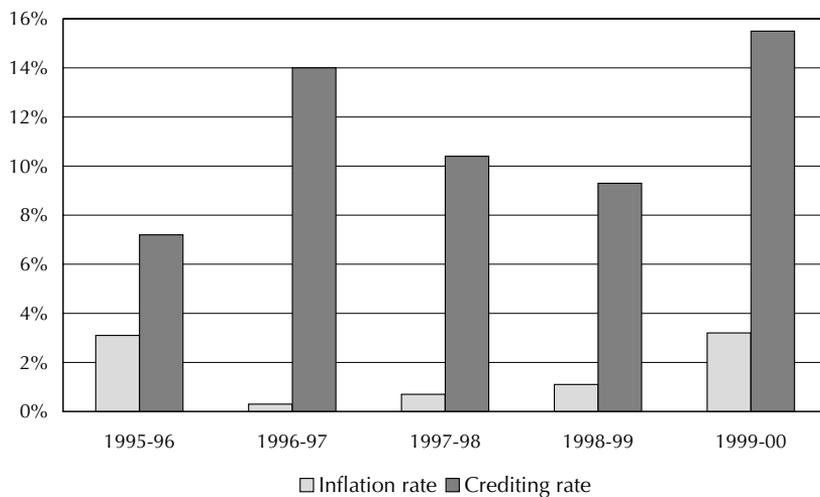
Every year, interest is credited to members’ accumulated contributions at rates determined by the Board. Table 5 lists the annual crediting rates for the past five years.

Table 5: Annual crediting rates 1996 to 2000

Financial year	Crediting rate (%)
1995–96	7.2
1996–97	14.0
1997–98	10.4
1998–99	9.3
1999–00	15.5

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 1996 to 2000



Reserving Policy

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 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, 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 returns to all members over the long term.

The balance of the Reserve increased from \$174m at 30 June 1999 to \$252m at 30 June 2000. The Reserve is estimated to represent 5.99% of the net assets of the PSS Fund at 30 June 2000. The change in the Reserve over 1999–2000 is in the main due to two factors:

- at 30 June the outstanding amount to be paid by the CSS Fund to the PSS Fund for transfers of CSS members to the PSS was increased by \$33.3m to \$62.6m (following the finalisation of the 1996 Choice campaign). The increase in the provision had the effect of increasing the net assets of the PSS Fund and the balance of the Reserve; and
- a refinement of the methodology underlying the estimation of the Reserve. The value of the Reserve at 30 June 2000 represents the difference between the net assets of the Fund at that date and the estimated value of PSS funded entitlements at 30 June 2000 to be advised to members in their 1999–2000 Information Statements. Previously the value of the Reserve was estimated based on its opening balance and the application of the Board's crediting rate policy to the earnings of the Fund after adjusting for net contributions cashflow during a financial year.

Having regard to both of the above factors, the Board considered it would be inappropriate for the 1999–2000 crediting rate to reflect the full impact of the change in the Reserve. The Board will consider the issue again when final data on funded entitlements at 30 June 2000 becomes available following the distribution of Member Information Statements for 1999–2000.

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.

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 1999–2000

Effective Date	Exit rate (annualised)
5 August 1999	5.9%
11 October 1999	6.0%
9 December 1999	8.6%
11 January 2000	12.5%
11 February 2000	10.0%
9 March 2000	11.5%
11 April 2000	14.3%
9 May 2000	12.7%
10 June 2000	13.3%

Note: Each new exit rate replaced the previous one. For example, members who exited on or after 10 June 2000 had an interest rate of 13.3 per cent per annum applied to their accumulated contributions for the period from 1 July 1999 until their date of exit.

Fund investment

ASSET ALLOCATION		30 June 1999		30 June 2000	
Sector	\$m	%	\$m	%	
Australian equities	1011.8	29.1	1264.3	30.6	
Int'l equities (Developed)	1475.7	42.5	1694.6	41.1	
Int'l equities (Emerging markets)	170.4	5.0	218.7	5.3	
Debt	324.0	9.3	349.6	8.5	
High Yield Debt	–	–	119.5	2.9	
Cash	67.2	1.9	52.6	1.3	
Property	423.8	12.2	427.6	10.3	
Total	3472.9	100.0	4126.9¹	100.0	

INVESTMENT PERFORMANCE ²		30 June 1999		30 June 2000	
Sector	Portfolio %	Benchmark %	Portfolio %	Benchmark %	
Australian equities	16.6	15.0	16.9	15.5	
Int'l equities (Developed)	6.6	10.9	16.8	17.4	
Int'l equities (Emerging markets)	12.4	19.8	23.0	18.4	
Debt	3.3	2.6	5.1	5.1	
High Yield Debt	–	–	–	–	
Cash	4.5	4.2	4.8	4.6	
Property	9.8	7.8	11.4	8.9	
RETURN ON INVESTMENT	10.0	11.2	15.1	14.2	

ANNUAL CREDITING RATE ³	9.3 %	15.5 %
------------------------------------	-------	--------

Notes

- 1 This represents the funds under management at 30 June 2000, and will differ from the investments shown in the financial statements because of necessary accounting adjustments.
- 2 Performance figures are after tax and fees.
- 3 Annual crediting rates may differ from earning rates because of various adjustments, including transfers to and from the Reserve (see also *Note on calculations* on page 39).

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 1999–2000*.

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 1999–2000 the Fund received \$274m in member contributions and \$127m in productivity contributions. Benefits paid from the Fund during the year totalled \$259m, giving a net contributions inflow of \$25m for 1999–2000.

Number of members

At 30 June 2000, the PSS had 112 436 members—an increase of about 0.5 per cent over the population at 30 June 1999.

Table 7: Scheme membership 1996 to 2000

Year ending	Male	Female	Total
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
30 June 2000	48 110	64 326	112 436

Entry medical requirements

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

In February 2000 the CMAPS procedures were amended so that the forms are returned to the employer on completion rather than to ComSuper. On receipt, the employer examines the CMAPS forms and retains forms for members who they consider to be healthy enough to perform his/her duties for three years without taking excessive sick leave. The member is accorded full benefits member status.

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

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

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

During the year, ComSuper staff assessed 11,384 CMAPS with only 62 (0.54 per cent) being accorded limited benefit status, a similar result to last year.

Additional death and invalidity cover

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

At 30 June 2000 there were 2254 members paying premiums for additional death and invalidity cover, compared with 1936 at 30 June 1999. The gross amount of cover has grown from \$142.61 m to \$170.09m. The average value of additional cover was \$75,461 per member. The average age for persons accepted for additional cover was 43 years.

Pensions in force

There were 5714 pensions in force at 30 June 2000, an increase of almost 17 per cent from the 4893 pensions in force at 30 June 1999. Table 8 below gives a breakdown of those pensions by type.

Table 8: Pensions in force at 30 June 2000

Type of pension	Number
Age retirement	918
Involuntary retirement	3841
Invalidity	763
Spouses & orphans	192
Total	5714

Benefit applications

The rate of benefit applications received in ComSuper in 1999–2000 eased slightly compared with the numbers received in the 1998–1999 financial year.

ComSuper received 16 253 benefit applications during the year (compared with 18 407 in the previous financial year), representing an average of around 1350 applications per month throughout the year.

Benefit processing

Under the service level agreement with the Board of Trustees, from 1 July 1999, ComSuper agreed to process 60% of benefits within 10 days, and 90% within 20 days, of the later of the date of exit or the date all documentation is received, regardless of the volume of applications. Under a further agreement applying from April 2000, ComSuper agreed to process 70% of applications within 10 working days and 90% within 20 working days and also that it would achieve an overall average processing time of 10 days, with an average of 8 days in 9 months of the year

Performance indicator

ComSuper achieved the agreed standard throughout the year with an overall average of 84% of benefit applications processed within 10 working days and 97% within 20 working days. The average processing time throughout the year was 5.7 working days. In ten months of the year the processing time was less than 8 days.

Exits by type

During 1999–2000, 16 253 members left the scheme. The bulk of the exits came from the resignation and other category (10 417 or 64 per cent). The retrenchment rate was significantly lower than the rate for 1998–1999, falling from 8858 (or 50 per cent) to 4536, less than 28 per cent of the total exits.

Table 9: Exits by type 1999–2000

Type	Number
Age (including Preserved age claims)	1084
Retrenchment	4536*
Invalidity (includes Preserved invalidity)	168
Death	48
Resignation and other	10 417#
Total	16 253

*Sale of Assets totalled 174.

#Includes early release on grounds of Financial Hardship.

Retrenchment exits

Table 10: Retrenchment exits 1996 to 2000

Financial year	No. in receipt of Pension	Retrenchment exits
1995–96	445	2620
1996–97	1373	7799
1997–98	1054	7738
1998–99	1328	8858
1999–00	1336	4844

Invalidity Retirement Process

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

During the year the Board, or a delegate, approved invalidity retirement for 93.3 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 1999–2000, pre-assessment payments were approved in respect of 96 applicants. No applicants were refused pre-assessment payments on the ground that there was little likelihood that they would be unable to work again.

Assessment panel

The decision-making process requires the Board to engage an assessment panel, experienced in assessing invalidity claims for superannuation purposes, to help the Board determine whether a person is totally and permanently incapacitated. During 1999–2000, assessment panel services were provided by Independent Claims Management Pty Ltd (ICM). Of the 154 cases considered by ICM, 123 were recommended for invalidity retirement, 13 were recommended to be refused and 18 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 Administration Committee (or in certain circumstances to approve the invalidity retirement under delegation from the Board). At this time, a member of the committee, as delegate of 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 1999–2000, 126 invalidity retirement certificates were approved. Of those, 12 were fast-tracked by the invalidity assessment panel in less than one week.

Performance indicator

During the year, 67.9 per cent of cases were progressed to completion within three months—the standard agreed with the PSS Board being 70 per cent.

During the year the Board raised the standard from 65 per cent to 70 per cent. It is anticipated that this standard will be achieved during the coming year.

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 together with a fee of \$150. 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.

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

Applications received

Thirty applications for reconsideration were received, compared with 36 last year. Nine applications concerned the limited benefits status of members; four concerned change of election benefit option; two concerned invalidity retirement; and two concerned partial invalidity. The others included applications concerning the early release of preserved benefits, spouse entitlement, transfer multiple, and overpayments.

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

reconsideration of adverse decisions was eight per cent, similar to that of the previous year (nine per cent) with, as expected, a higher proportion of applicants seeking reconsideration where the decision involved substantial benefits, eg. invalidity retirement, 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 41 per cent, this was as a result of additional evidence rather than any obvious deficiency in the original decision.

Cases finalised

Forty four cases were finalised during the year, compared to 27 for the previous year.

Performance indicator

Agreed service level standards between ComSuper and the Boards, replacing previous measures, provide a 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. Despite a significant increase in the number of cases finalised (up some 38 per cent from last year), the above target times were unable to be met. The Board regularly monitored outstanding cases, and expects improved processing times next year following additional resourcing committed to this activity by ComSuper.

Table 11: Reconsideration applications received & outcomes 1999–2000

	1998–99		1999–00	
	Delegate's decisions	Board's decisions	Delegate's decisions	Board's decisions
Brought forward	22	7	34	3
Received	35	1	27	3
Withdrawn or lapsed	7	2	13	1
Decisions affirmed	4	1	11	1
Decisions varied	1	0	0	0
Decisions set aside	11	1	17	1
Resolved	23	4	41	3
Carried forward*	34	4	22	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. Following the High Court decision, the SCT has resumed its review of trustee decisions which are the subject of complaints before the SCT.

Complaints lodged with the SCT

During the year, three complaints were lodged with the SCT against the PSS Board and fifteen were carried over from the previous year. Four complaints were resolved during the year by way of the withdrawal of the complaints from the SCT. Fourteen SCT complaints remain outstanding as at 30 June 2000.

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 resulted in all cases being resolved in favour of the Board, thus affirming the quality of decisions being made.

Claims against the Board

During the year the Board or its delegates considered 15 claims for compensation arising from disputes about benefit entitlements. From its consideration of the number of claims accepted and their generally low monetary value, the Board was satisfied that there was not any systemic weakness in the administration of benefit entitlements.

Summary of claims: 1 July 1999 to 30 June 2000

- Fifteen claims against the PSS Board were finalised.
- Liability was denied in six cases.
- Nine claims were settled by payment of compensation.
- A total of \$89 887.41 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 other legislation, the Board stands independent of the government of the day and independent of any other constituency. The principal responsibility of the Board is to act in good faith, with prudence and in the members' best interests in respect of the investment and administration of the Scheme.

Board's principal duties

The Board's principal duties are:

- To manage and invest 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 1993*; or
- if any agenda item requires a disclosure of interest; and
- if any change in their business relationships has occurred that might have a connection with the Board's duties or activities.

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

Securities Dealing

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

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

Gifts and Entertainment

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

Insurance

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

Board Committees

The Board has constituted several Board Committees to increase its own efficiency and to provide a means of more detailed consideration of matters important to the running of the Scheme. Board Committees are subject to written terms of reference and care is taken to ensure the activities of the Committees 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 Chief Executive Officer on behalf of the Board, the Board or any Board member may require a matter to be brought before the Board at its next or any subsequent meeting.

Training and Education

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

Financial Controls

Financial Budgeting

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

Appointment of Auditor

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

Internal Audit and Internal Controls

The Board has completed a detailed analysis of compliance and risks and will appoint an internal auditor within the forthcoming financial year.

Supervision of Service Providers

Adequacy of Resources

The Board regularly considers the resources required for the effective and proper running of the Scheme and 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 Chief Executive Officer to the Board, the Chair of the Audit Committee or the Chair of the Board.

Client satisfaction surveys

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

During 1999–2000, 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 83.9. 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 82.7, 85.3, and 83.7 for the fourth, fifth and sixth trimesters of measurement 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.

Actuarial Review

During the year an actuarial review of the PSS and CSS schemes was undertaken by Towers Perrin on behalf of the Department of Finance and Administration, based on membership data as at 30 June 1999.

The results of that review indicate that the combined notional employer contribution rate—which represents the cost to the Commonwealth of the superannuation benefits which are accruing to PSS and CSS members at the present time—had risen marginally from 16.9% at the time of the Actuary's 30 June 1996 report to 17.2% at 30 June 1999.

Likewise, the contribution rate for the PSS at 30 June 1999 has increased slightly to 14.2% from 13.1% calculated at the last review of 30 June 1996.

Table 12: Notional Employer Contribution Rates

Review date	CSS	PSS	Combined
30 June 1993	23.1%	14.0%	19.1%
30 June 1996	21.9%	13.1%	16.9%
30 June 1999	21.9%	14.2%	17.2%

The review also produced a projection of employers costs to show the long term impact of the schemes on Commonwealth outlays.

Table 13: Projection of estimated costs

Financial year	CSS (\$'billion)	PSS (\$'billion)	Total (\$'billion)	As % of GDP
1999	2.378	0.209	2.586	0.44
2000	2.214	0.232	2.446	0.39
2001	2.270	0.260	2.530	0.38
2002	2.335	0.289	2.624	0.37
2003	2.406	0.321	2.728	0.37
2004	2.492	0.362	2.854	0.36
2009	3.065	0.655	3.720	0.35
2014	3.785	1.162	4.947	0.35
2019	4.471	1.974	6.445	0.34
2024	4.667	3.178	7.845	0.31
2029	4.901	4.829	9.730	0.29
2034	4.767	6.943	11.709	0.26
2039	4.268	9.555	13.823	0.23
2044	3.467	12.968	16.435	0.20

The projected employer costs as a percentage of GDP are projected to decrease over the next 45 years. The main reasons for this are:

- The 1996 projections were based on the assumption that the total membership of the PSS and CSS would increase at 1% per annum whereas the 1999 projections are based on the assumption that total membership of the two schemes will remain constant in future years; and
- The significant numbers of retrenchment experienced in the three years to 30 June 1999 were not anticipated in the 1996 review.

Appendixes

A: Changes to the legislation	69
B: Departments and approved authorities	71
C: Eligible superannuation schemes	75
D: Members' complaints	77
E: Client service charter	79
F: List of abbreviations	81
G: Financial statements	83

Appendix A

Changes to the legislation

Changes to the PSS Act

The *Public Employment (Consequential and Transitional) Amendments Act 1999* made changes to definitions contained in the *PSS Act* consequential upon the repeal of the *Public Service Act 1922* and the enactment of the *Public Service Act 1999*.

The *Superannuation (Unclaimed Money and Lost Members) Consequential and Transitional Act 1999* made changes to the *PSS Act* to accommodate the transfer from SIS of the Unclaimed and Lost Member provisions.

The *Australian Federal Police Legislation Amendment Act 2000* made minor consequential changes to accommodate changes to the description and structure of the AFP.

Amending Deed

The thirteenth amending deed was signed by the Minister on 5 December 1999. The amendments are intended to ensure that the *PSS* provisions continue to operate in the same way following the establishment of the new legal framework for APS employees set out in the *Public Service Act 1999*.

Statutory rules

Superannuation (PSS) Approved Authority Inclusion Declaration (Amendment) Declaration 1999 (No. 2) declared Tasmania Symphony Orchestra Holdings Limited to be an approved authority for the *PSS*.

Superannuation (PSS) Membership Exclusion Amendment Declaration 1999 (No.1) 1999 and Superannuation (PSS) Membership Inclusion Amendment Declaration (No.1) 1999 collectively provided in respect of employees of the (Australian Government Solicitor) AGS for continuation of membership of the *PSS* while employed by the AGS, unless a member of another scheme in relation to that employment or the AGS ceases to be controlled by the Commonwealth.

Superannuation (PSS) Membership Exclusion Amendment Declaration 1999 (No.2)) provides that persons who are employees for the purposes of the *Public Service Act 1922* and are in continuing employment and have an option to join the *PSS Act* do not automatically become *PSS* members on the commencement of the *Public Service Act 1999*, but continue to have the option to do so in certain circumstances.

Superannuation (PSS) Membership Exclusion Amendment Declaration 1999 (No. 3) provides that persons who were employees for the purposes of the *Public Service Act 1922* with an option to join the PSS and in continuing employment on the commencement of the *Parliamentary Services Act 1999* do not automatically become PSS members, but continue to have an option to do so in certain circumstances.

Superannuation (PSS) Membership Exclusion Amendment Declaration 1999 (No. 4) excludes from membership of the PSS a person who becomes a Federal Magistrate on the commencement of the Federal Magistrates Court.

Superannuation (PSS) Membership Exclusion Amendment 2000 (No.1) Declaration ensures that certain new ACTEW Corporation employees who have prior links with the PSS are able to maintain their membership with the PSS unless they elect to cease membership of the PSS on commencing employment with ACTEW Corporation.

Superannuation (PSS) (Liability to Taxation) Regulations 2000 ensure that the PSS Board and Fund are subject to the Goods and Services Tax (GST) laws.

Determinations made

Ten interest rate determinations were made during the year. One for setting the crediting rate for the 1998–1999 financial year. Others were made to vary the prevailing exit rate (see page 42).

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

Two further determinations were made on the following topics:

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

Appendix B

Departments and approved authorities

At 30 June 2000, 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
Tasmania Symphony Orchestra Holdings Pty Ltd
Totalcare Industries Limited
West Australian Symphony Orchestra Holdings Pty Ltd

Appendix C

Eligible superannuation schemes

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

The following schemes have been declared eligible.

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

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

Appendix D**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 1999–2000, the Complaints Officer received 75 complaints with two complaints carried over from the previous year. The complaints covered a wide range of issues and the majority of cases were able to be resolved or satisfactorily answered within the legislative time frame of 90 days. Seventy seven complaints were processed.

Freedom of Information

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

PSS members made 48 requests for access to documents during 1999–2000. Forty five of these requests were granted in full, three were partial grants. The requests took an average of 7 days to process.

Freedom of Information Act statement

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

Functions of ComSuper

The general functions of ComSuper are described in the main body of this report.

Decision-making powers

The decision-making powers of the PSS Board are set out in clause 3 of the PSS Trust Deed. The authority for the PSS Board to delegate its powers and functions is contained in clause 12 of the PSS Trust Deed.

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

FOI internal procedures

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

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

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

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

Facilities for access

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

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

Consultative arrangements

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

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

Categories of documents

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

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

Appendix E**Client service charter**

What is a service charter?

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

The PSS Board asked ComSuper to prepare charters following government initiatives to develop and promote a more open and customer-focused Commonwealth Public Service. The charters were distributed to members along with the 1997–98 Member Statements. Revised charters were made available in May 2000. 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 against which service standards contained in the service charters are measured.

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 15 September	The despatch of information statements was completed by 29 September.
Manually generated information statements	To be issued before 31 October	It is expected that all manually generated statements will be completed by late October.
Telephone enquiries: Abandoned rate Average Speed of Answer	At the time of call: <ul style="list-style-type: none"> •Less than 5% •80% answered in 30 seconds 	The average percentage answered within 30 seconds was 77.8 per cent with an average abandoned rate of 1.6 per cent.
Benefit Payments		
Benefit application	<ul style="list-style-type: none"> •Process 70% in 10 working days •Process 90% in 20 working days 	An overall average of 84 per cent of applications were processed within 10 days and 97 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

Auditor-General's report	84
PSS Fund financial statements	87
Actuarial report	104



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 2000. 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 in Australia so as to present a view of the PSS and the PSS Fund which is consistent with my understanding of its net assets and changes in net assets.

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

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

Audit Opinion

In my opinion:

- (i) the statements are in the form agreed by the Minister for Finance and Administration in accordance with sub-section 28(1) of the *Superannuation Act 1990*;
- (ii) the statements present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements the changes in net assets of the PSS for the year ended 30 June 2000 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 2000.

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 2000.

Australian National Audit Office



David C. McKean
Executive Director

Delegate of the Auditor-General
Canberra

25 September 2000

Public Sector Superannuation Scheme

Statement by the Trustee of the PSS Fund

The Trustee hereby states that in its opinion:

- (a) the attached financial statements of the Public Sector Superannuation Scheme show a true and fair view of the matters required by Australian Accounting Standard, AAS 25, Financial Reporting by Superannuation Plans and Schedule 2 of the *Commonwealth Authorities and Companies Orders 1998* to the extent that the latter is not inconsistent with the former;
- (b) the attached financial statements of the Public Sector Superannuation Scheme show a true and fair view of the net assets of the Scheme as at 30 June 2000 and the changes in net assets of the Scheme for the year ended 30 June 2000;
- (c) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;
- (d) the financial statements are in a form agreed by the Minister for Finance and Administration and the PSS Board in accordance with sub-section 28(1)(b) of the *Superannuation Act 1990* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements; and,
- (e) the operations of the Fund were conducted in accordance with the *Superannuation Act 1990*, the Trust Deed establishing the Scheme and the requirements of the *Superannuation Industry (Supervision) Act 1993* and Regulations.

Signed at Sydney this 11th day of September 2000 in accordance with a resolution of members of the PSS Board as Trustee of the PSS Fund.



P. Reynolds
Chairperson



W. Hall
Member

PSS Board

PUBLIC SECTOR SUPERANNUATION SCHEME

**Statement of Changes in Net Assets
For the Year Ended 30 June 2000**

	Note	2000 \$'000	1999 \$'000
Net Assets Available to Pay Benefits at 1 July		3,480,540	3,188,642
PSS FUND			
Investment Revenue			
Interest		35,034	28,407
Dividends		101,839	58,932
Other Investment Income		251	(622)
Changes in Net Market Values	2	431,735	251,148
Direct Investment Expenses		<u>(7,393)</u>	<u>(6,686)</u>
Net Investment Revenue Before Tax		<u>561,466</u>	<u>331,179</u>
General Administration Expenses	1k, 3c	(668)	(502)
Contributions Revenue			
Employee Contributions	3a	274,450	241,067
Employer Contributions	3a	126,670	114,578
Transfers from CSS		<u>33,319</u>	<u>2,708</u>
		434,439	358,353
Benefits Paid	3b	<u>(259,036)</u>	<u>(360,789)</u>
Net Contributions Revenue Before Tax		<u>175,403</u>	<u>(2,436)</u>
Net Investment Revenue and Net Contributions Revenue Before Tax		736,201	328,241
Income Tax Expense	4	<u>(54,999)</u>	<u>(36,343)</u>
Net Investment Revenue and Net Contributions Revenue After Tax		681,202	291,898
CONSOLIDATED REVENUE FUND			
Moneys Appropriated by Parliament	3	456,717	732,784
Less: Benefits Paid	3b	<u>(456,717)</u>	<u>(732,784)</u>
Net Assets Available to Pay Benefits at 30 June		<u><u>4,161,742</u></u>	<u><u>3,480,540</u></u>

The attached notes form part of these financial statements.

PUBLIC SECTOR SUPERANNUATION SCHEME

Statement of Net Assets
As at 30 JUNE 2000

	Note	2000 \$'000	1999 \$'000
PSS FUND			
Investments	1c		
Cash and Short Term Deposits		77,456	78,086
Australian Money Market		74,435	83,555
Australian Fixed Interest		323,946	312,756
International Fixed Interest		102,322	550
Australian Equity Investments		1,304,983	970,278
International Equity Investments		1,677,271	1,398,301
Unlisted Property Trusts		406,770	418,613
Pooled Superannuation Trusts		248,512	203,928
Other Investments		(8,919)	56,021
Total Investments		4,206,776	3,522,088
Other Assets	6	97,366	78,649
Total PSS Fund Assets		4,304,142	3,600,737
Less: Liabilities			
Benefits Payable		37,080	46,115
Trade Settlements Payable		17,501	4,776
Sundry Creditors	7	3,027	3,822
Provision for Income Tax		16,662	8,536
Provision for Deferred Income Tax		68,130	56,948
Total PSS Fund Liabilities		142,400	120,197
CONSOLIDATED REVENUE FUND		4,161,742	3,480,540
Other Assets			
Sundry Debtors	3b	58,546	90,894
Total Consolidated Revenue Fund Assets		58,546	90,894
Less: Liabilities			
Benefits Payable	3b	58,546	90,894
Total Consolidated Revenue Fund Liabilities		58,546	90,894
Net Assets Available to Pay Benefits at 30 June	9	4,161,742	3,480,540

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 2000

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Preparation

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

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

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

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

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

(b) Revenue

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

(c) Valuation of Investments

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

The bases of market valuations are summarised below.

- (i) Short-term Money Market - these securities are valued at the market closing price on 30 June and include accrued interest.
- (ii) Fixed Interest - these securities are valued at their market value on 30 June. Interest is accrued over the period and is recorded as part of other assets.
- (iii) Futures Contracts - open futures contracts are revalued to closing price quoted at close of business on 30 June.
- (iv) Equities - the security prices used for equities are the last sale price of a security on the relevant exchange at close of business on 30 June.
- (v) Exchange Traded Options - options are valued as the premium payable or receivable to close out the contracts at the last buy price quoted at close of business on 30 June.

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

For the year ended 30 June 2000

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

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

(d) Foreign Currency Translation

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

(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.

(h) Benefits Payable

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

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2000

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Cont.)

(i) Liability for Accrued Benefits

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

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

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

(j) Superannuation Contributions Surcharge

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

(k) Expenses of the PSS Board

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

All other costs incurred by the Board are met from revenues generated through user charging arrangements implemented during 1998-99 with employer agencies and the Department of Finance and Administration. These revenues and the associated expenditure of the PSS Board have been brought to account in the financial statements of the Commissioner 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 2000

2. CHANGES IN NET MARKET VALUES

	2000	1999
	\$'000	\$'000
Changes in Net Market Values of Investments:		
(a) Investments Held at 30 June		
Australian Money Market	430	456
Australian Fixed Interest	(2,212)	(13,077)
International Fixed Interest	(303)	129
Australian Equity Investments	132,012	86,369
International Equity Investments	256,881	145,590
Unlisted Property Trusts	8,041	35,905
Pooled Superannuation Trust	37,977	36,290
Currency contracts	(64,824)	(39,087)
Other Investments	(548)	828
	<u>367,454</u>	<u>253,403</u>
(b) Investments Realised During the Period:		
Australian Money Market	4,929	1,196
Australian Fixed Interest	(1,259)	(107)
International Fixed Interest	(48)	55
Australian Equity Investments	17,865	13,415
International Equity Investments	61,160	(947)
Unlisted Property Trusts	(2,564)	1,739
Pooled Superannuation Trust	(278)	719
Currency contracts	(21,035)	(20,395)
Other Investments	5,511	2,070
	<u>64,281</u>	<u>(2,255)</u>
(c) Total Changes in Net Market Values of Investments	<u><u>431,735</u></u>	<u><u>251,148</u></u>

The net loss on foreign currency contracts for the year was \$85.9m (1999: \$59.5m 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 2000

3. FUNDING ARRANGEMENTS

(a) Contributions

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

(b) Benefits

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

Benefits payable by the Consolidated Revenue Fund as at 30 June 2000 total \$58.5m (1999: \$90.9m). The Commonwealth is the corresponding debtor for this amount in accordance with the funding arrangements described above.

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

	2000	1999
	\$'000	\$'000
PSS Fund		
Payments to Commonwealth	207,687	313,812
Lump-sum Benefits	51,349	46,977
	259,036	360,789
Consolidated Revenue Fund		
Lump-sum Benefits	374,411	666,293
Transfer Values	6,504	3,530
Pensions	75,081	61,951
Other	721	1,010
	456,717	732,784

(c) Costs of Administration

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

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

For the year ended 30 June 2000

4. INCOME TAX

The taxation liability at 30 June 2000 has been calculated on the basis that the PSS Fund is a complying superannuation fund within the meaning of the *Superannuation Industry (Supervision) Act 1993* and that tax will be payable at a concessional rate of 15% on net investment earnings, employer contributions and capital gains with deductions allowable for administration expenses.

The aggregate amount of income tax attributable to the period is 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:

	2000	1999
	\$'000	\$'000
Prima facie income tax expense on		
Net Investment Revenue and Net Contributions		
Revenue Before Tax	110,430	49,236
Add/(Less) Permanent Differences		
Employee contributions	(44,934)	(36,181)
Benefits Paid	38,855	54,118
Income from Pooled Superannuation Trusts	(5,655)	(4,617)
Tax Losses brought to account	-	(13,271)
Imputation Credits from Franked		
Dividends Received	1,864	2,002
Other	(30,193)	(1,578)
	70,367	49,709
Less: Imputation and foreign tax credits	(13,620)	(14,312)
Less: Under (over) provision in prior years	(1,748)	946
Income Tax Expense	54,999	36,343

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 \$423.1m under section 249 of the *Superannuation Act 1976* to the PSS Board in respect of the assets that are to be transferred to the PSS.

The amount outstanding at 30 June 2000, including interest, is \$62.6m and is included in other assets below. This amount will be paid to the PSS Fund after a Ministerial determination to effect the transfer has been finalised.

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

For the year ended 30 June 2000

6. OTHER ASSETS

	2000	1999
	\$'000	\$'000
Bank	5,183	6,788
Trade Settlements Receivable	10,818	5,715
Accrued Income	18,518	12,878
Amounts due from the CSS Scheme	62,591	29,271
Future Income Tax Benefit	226	23,966
Sundry Debtors	30	31
	97,366	78,649

7. SUNDRY CREDITORS

	2000	1999
	\$'000	\$'000
Investment Expenses Payable	1,848	1,958
Accrued Expenses	123	195
Unidentified Contributions	696	687
Other	360	982
	3,027	3,822

8. AUDITOR'S REMUNERATION

The amount paid and payable in respect of external audit services is \$40,000 (1999: \$38,500).

9. RESERVE

The annual crediting rate is determined after transfers of income into and out of the Reserve. While the operation of the Reserve tends to have a smoothing effect on income distributions from year to year, its principal purpose is to enable the Fund to pursue a more active investment strategy which can be expected to provide higher returns over the longer term.

The balance of the Reserve increased from \$174.0m at 30 June 1999 to \$252.0m at 30 June 2000. The Reserve is estimated to represent 5.99% of the net assets of the PSS Fund at 30 June 2000. The change in the Reserve over 1999-00 is in the main due to two factors:

- At 30 June the outstanding amount to be paid by the CSS Fund to the PSS Fund for transfers of CSS members to the PSS was increased by \$33.3m to \$62.6m (following the finalisation of the 1996 choice campaign). The increase in the provision had the effect of increasing the net assets of the PSS Fund and the balance of the Reserve; and
- A refinement of the methodology underlying the estimation of the Reserve. The value of the Reserve at 30 June 2000 represents the difference between the net assets of the Fund at that date and the estimated value of the PSS funded entitlements at 30 June 2000 advised to members in their 1999-00 information statements. Previously the value of the Reserve was estimated based on its opening balance and the application of the Board's crediting rate policy to the earnings of the Fund after adjusting for net contributions cashflow during a financial year.

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2000

9. RESERVE (Cont.)

Having regard to both of the above factors, the Board considered it would be inappropriate for the 1999-00 crediting rate to reflect the full impact of the change in the Reserve. The Board will consider the issue again when final data on funded entitlements at 30 June 2000 becomes available following the distribution of member information statements for 1999-00.

	2000	1999
	\$'000	\$'000
Balance at beginning of year	174,027	159,432
Plus: Transfer to (from) Reserve during year	78,007	14,595
Balance at end of year	252,034	174,027

10. SUPERANNUATION CONTRIBUTIONS SURCHARGE

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

A summary of transactions recorded during 1999-00 follows:

	2000	1999
	\$'000	\$'000
Total Surcharge Liability Outstanding at start of year	4,476	1,149
Surcharge liability recorded against member accounts in respect of surcharge assessments received during the year	2,304	3,920
	6,780	5,069
Less: Amount paid by members	(771)	(754)
Less: Amounts deducted from members' benefit payments	(300)	(111)
	5,709	4,204
Plus: Interest on outstanding surcharge liability at end of year	381	272
Total Surcharge liability outstanding at end of year	6,090	4,476

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

The surcharge liability in respect of surchargeable superannuation contributions for the period 1 July 1999 to 30 June 2000 has not been disclosed because the assessments have not, as yet, been issued by the ATO and there is no reliable basis on which an assessment of the likely surcharge liability can be made.

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

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

For the year ended 30 June 2000

11. FINANCIAL INSTRUMENT DISCLOSURES

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

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

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

(a) Use of Derivative Financial Instruments

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

	Notional Principal Amounts		Net Market Value	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Australian Fixed Interest Futures	-	(1,795)	-	54
Australian Share Price Index Futures	-	26,644	193	140
Australian Exchange Traded Options	7,432	8,714	(698)	2,577
International Share Price Index Futures	42,317	43,595	2,356	835
International Exchange Traded Options	-	-	-	-
Currency Contracts	985,645	858,229	16,527	49,413
Total	1,035,394	935,387	18,378	53,019

(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 \$4.8m (1999: \$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 2000

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 2000 was as follows:

	Floating Interest Rate \$'000	Fixed Interest Rate			Non Interest Bearing \$'000	Total \$'000
		1 Year or Less \$'000	1 - 5 Years \$'000	Over 5 Years \$'000		
30 June 2000						
Assets						
Cash and Short Term Deposits	77,456					77,456
Australian Money Market	74,435					74,435
Australian Fixed Interest		17,919	165,323	140,704		323,946
International Fixed Interest			8,830	93,492		102,322
Australian Equity Investments					1,304,983	1,304,983
International Equity Investments		3,730			1,673,541	1,677,271
Unlisted Property Trusts					406,770	406,770
Pooled Superannuation Trusts					248,513	248,513
Other Investments	5,064				(13,983)	(8,919)
Other Assets	67,773				29,593	97,366
Liabilities						
Benefits Payable					(37,080)	(37,080)
Trade Settlements Payable					(17,501)	(17,501)
Sundry Creditors					(3,028)	(3,028)
Provision for Income Tax					(16,662)	(16,662)
Provision for Deferred Income Tax					(68,130)	(68,130)
Total	224,728	21,649	174,153	234,196	3,507,016	4,161,742
Weighted Average Interest Rate	8.77%	6.22%	6.18%	7.83%		

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2000

11. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

(c) Interest Rate Risk

	Floating Interest Rate \$'000	Fixed Interest Rate			Non Interest Bearing \$'000	Total \$'000
		1 Year or Less \$'000	1 - 5 Years \$'000	Over 5 Years \$'000		
30 June 1999						
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%		

(d) Currency Risk Exposures

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

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

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2000

11. FINANCIAL INSTRUMENT DISCLOSURES (Cont.)

(d) *Currency Risk Exposures*

	USA A\$'000	JPY A\$'000	GBP A\$'000	EURO A\$'000	Other A\$'000	Total A\$'000
30 June 1999						
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

(e) *Net Fair Values of Financial Assets and Liabilities*

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

12. VESTED BENEFITS

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

The Australian Government Actuary has advised that the amount of vested benefits at 30 June 2000 is \$13.9 billion (1999: \$11.6 billion). Vested benefits at 30 June 1999 were measured as part of the triennial valuation of the Scheme as at that date. The vested benefits determined in this valuation has been used rather than the estimated vested benefits at June 1999 included in last year's accounts.

The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased on 30 June 2000 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 2000

13. LIABILITY FOR ACCRUED BENEFITS

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

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

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

14. SEGMENT REPORTING

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

15. RELATED PARTIES

(a) *Members of the PSS Board*

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

- P. Reynolds (Chairman, appointed 28 July 1999)
- G. Kelly
- J.A. Flitcroft
- W. Hall
- L. McBride
- N. Speers (Alternate for J.A. Flitcroft)
- D. Irons (Alternate for W. Hall)
- S. Wilson (alternate for G. Kelly and P. Reynolds)

Ms C. Manolios was appointed as a trustee with effect from 25 July 2000 replacing G. Kelly whose term of appointment expired on the 24 July 2000.

(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 1999-00 financial year on the same terms and conditions applicable to all scheme members,

Total fees and associated superannuation contributions paid in respect of members entitled to receive fees during the year amounted to \$95,000 (1999: \$80,000).

PUBLIC SECTOR SUPERANNUATION SCHEME

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2000

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.

16. CONTINGENT LIABILITIES

(a) Investments

At 30 June the Fund had outstanding investment capital commitments of \$116.9m (1999: \$71.1m).

(b) Benefit Entitlements

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

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

ACTUARIAL STATEMENT FOR AAS 25 PURPOSES

REPORTING PERIOD ENDED 30 JUNE 1999

PUBLIC SECTOR SUPERANNUATION SCHEME

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

ACCRUED AND VESTED BENEFITS

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

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

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

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

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

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

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

SUMMARY OF ACTUARIAL REPORT

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



Andrew J Goddard, FIAA, FIA
4 August 2000

ATTACHMENT 1 TO AAS 25 STATEMENT
PUBLIC SECTOR SUPERANNUATION SCHEME

METHOD OF DETERMINING ACCRUED AND VESTED BENEFITS

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

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

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

ASSUMPTIONS USED TO DETERMINE ACCRUED BENEFITS

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

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

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

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

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

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

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



Andrew J Goddard, FIAA, FIA
4 August 2000

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

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

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

MEMBERSHIP DATA

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

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

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

ASSUMPTIONS

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

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

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

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

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

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

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

VALUE OF ASSETS

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

ACCRUED BENEFITS

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

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

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

VESTED BENEFITS

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

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

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

FINANCIAL CONDITION

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

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



Andrew J Goddard, FIAA, FIA
4 August 2000

Index**A**

Additional death and invalidity cover, 48
 Administration Committee, 16–17
 Administration of PSS Board, ComSuper, 7
Administrative Decisions (Judicial Review) Act 1977, Reconsideration and Review, 55
 Annual crediting rate, 2
 Annual crediting rates since 1996, 40
 Appeals taken under delegation, PSS Board, 19
 applications received and outcomes, reconsideration and review, 54
 Assessment panel, invalidity processing, 52
 Independent Claims Management Pty Ltd, 52
 Asset allocation, 30–32
 active assets, 32
 core assets, 31
 fund composition, 32
 Audit Committee, Australian National Audit Office, 10
 function, 10
 responsibilities and role, 10
 terms of reference, 10–11
 Australian equities, investment managers, 26
 Australian National Audit Office, Audit Committee, 10

B

Benefit applications, processing, 48–49
 Benchmark portfolio, strategic asset allocation, 31
 Benchmarking, 4
 Benefit design, member entitlements, 45
 Board Executive, CEO, 19–20
 Board Governance, 58–64
 Board of Trustees, 7

C

Chairperson's report,
 annual results, 2
 future directions, 4
 major events and developments, 2
 Charter, PSS Board, 18
 Commissioner for Superannuation Annual Report 1999–2000, 45
 Commonwealth Scheme (PSS),
 Invalidity processing, 51
 Member entitlements, 45
 members' contributions, 46
 membership, 46
 pensions, 48
 Scheme Administrator, 45
 Complaints lodged, Superannuation Complaints Tribunal, 55
 ComSuper, 4, 7, 9, 10, 19, 23, 45, 53,
 Confidential Medical and Personal Statement, 47
 Crediting rate policy, 39
 crediting rates, 40
 exit rates, 42
 Crediting rates, 40
 annual crediting rates since 1996, 40
 crediting rate policy, 39
 Reserving Policy, 39
 Custodial services, fund investment, 25
 Chase Manhattan Bank, 25

D

Debt, Investment Managers, 26
 Department of Finance and Administration, 7, 8, 10, 22
 Diversification of investments, strategic asset allocation, 31

E

- Entry medical requirements, CMAPS, 47
 - Limited benefits member, 47
- Exits by type, 49
- Exit rates, 42
- External review,
 - Superannuation (Resolution of Complaints) Act 1993*, 55
 - Superannuation Complaints Tribunal, 55

F

- Fund composition at 30 June 2000, asset allocation, 32
- Fund investment, 25
- Fund performance, 33–37
- Fund statistics, 43
- Funds under management, 26
- Future directions, 4, 22

I

- Independent Claims Management, 52
- Interest credited to members' accounts, 2
- International equities, investment managers, 26
- Invalidity retirement process, 51
- Invalidity processing, 51–52
- Investment objective, PSS Board, 27
 - investment managers, 26
- Investment performance,
 - market overview, 33
 - PSS Board, 19
 - PSS fund performance 1999–2000, 37
 - fund composition at 30 June 2000, 32
 - fund investment, 25

M

- Member communications, 14–15
- Member entitlements, 45–50
- Member satisfaction surveys, 63
- Mission and Operating Principles, 18

O

- Operating principles, PSS Board, 18
- Operational chart, PSS Board, iv

P

- Pensions in force, 46
- Performance indicators, PSS Board, 19
- Portfolio and investment manager appointments,
 - australian equities, 26
 - debt, 26
 - international equities, 26
 - investment objective, 27
 - investment strategy, 28
 - property, 26
 - strategic asset allocation, 31
- Pre-assessment payments, invalidity processing, 51
- PSS Board of Trustees, 7–9
 - Board members, 7–8
 - operational chart, iv
 - performance indicators, 19
 - PSS Fund performance 1999–2000, 37

R

- Reconsideration and Review,
 - applications received and outcomes, 54
 - complaints lodged with Superannuation Complaints Tribunal, 55
 - Federal Court, *Administrative Decisions (Judicial Review) Act 1977*, 55
 - internal reconsideration, 53
 - Reconsideration Advisory Committee, 53
- Reserving Policy, 41
- Retrenchment exits, 49
- Risk management, 28–29

S

- Scheme Administrator, Public Sector Superannuation Scheme, 45
- Scheme membership, PSS, 46
- Scheme statistics, 21

T

- Terms of reference,
 - Administration Committee, 16
 - Audit Committee, 10
 - Communications Committee, 12

Y

- Year 2000, 11
- Year in brief, v