

PSS

ANNUAL REPORT TO MEMBERS

FROM THE COMMONWEALTH SUPERANNUATION BOARD OF TRUSTEES NO. 1

Issued August 1994

IN THIS ISSUE . . .

New Super legislation — <i>The Superannuation Industry (Supervision) Act 1993</i> : a summary	page 2
Scheme statistics — The PSS: contributors, pensioners & exits during the year	page 3
PSS investment policy — How your money is invested for long-term results	page 3
Investment summary — The ups and downs of the investment year	page 4
Crediting rates — Annual allocation rate, and current exit rate	page 5
Financial summary — Fund transactions in 1993-94, and explanatory notes	page 5
The Board of Trustees — Who are they? What do they do? Who can you write to?	page 6

THE YEAR IN BRIEF

- **Annual allocation rate:** The Board declared an annual allocation rate (the rate of interest credited to members' accounts) for 1993-94 of **6.2%**. See page 5 for an explanation of how the allocation rate is calculated.
- **Fund investment:** Over 1993-94, the return on Fund investments (after investment management fees and tax on investment returns) was **6.8%**, which exceeded inflation by 5.1 percentage points. The investment year was one of two distinct halves—a very good first half followed by a disappointing second.
Despite the downturn in the third and fourth quarters, the Fund exceeded its overall performance benchmark by 2.8 percentage points. The international fixed-interest sector, which was 4.6 points below benchmark, and Australian fixed-interest (1.6 points below) suffered most in the second-half downturn. The best returns came in the property and Australian shares sectors, which exceeded their benchmarks by 12.5 and 3.5 percentage points respectively.
At the end of the year, the value of Fund investment assets had risen from \$1275.1m to \$1514.0m.
- **Scheme administration:** On March 1 1994, the scheme administrator changed its corporate identity—the Retirement Benefits Office (RBO) became Commonwealth Superannuation Administration, or **ComSuper**, a change which coincided with its decision to upgrade its computer systems. ComSuper expects that its policy of continuous improvement will result in a greater level of service to the Board, to PSS members and to employing agencies.
- **Contributions and benefits:** The population of the PSS continued to increase over the year, from 98 710 at the start of the year to 104 141 at the end. There were also 17 462 preserved benefit members. Contributions totalling \$255.0m were received during the year, comprising \$158.4m in member contributions and \$96.6m in productivity contributions. \$104.3m was paid from the Fund in benefits to members who left the PSS during the course of the financial year. The PSS annual pension liability was \$8.4m at 30 June 1994.
- **OSSA compliance:** The Scheme complied with OSSA (the *Occupational Superannuation Standards Act 1987*) in 1993-94, despite some technical breaches of the operating standards. These were due to deficiencies in Scheme design (which are being discussed with the Insurance and Superannuation Commission), and problems caused by ComSuper's outmoded computer systems (which will be overcome by the installation of new facilities by late 1995).
- **New legislation:** During 1993-94, the Board continued to prepare for the introduction of SIS (the *Superannuation Industry (Supervision) Act 1993*), which came into effect for most superannuation schemes on 1 July this year. A summary of SIS and its implications for the Trustees and contributing members is on page 2. The Board will concentrate in 1994-95 on ensuring that the PSS complies with SIS, and will elect under SIS to become a complying Fund later in 1994-95, after any further necessary legislative and administrative changes have been made.

NEW SUPER LEGISLATION

In June 1992, the Treasurer made a policy statement entitled *Security in Retirement* which outlined a system of tighter prudential controls designed to safeguard superannuation investments and to further encourage the superannuation industry to operate in a fair, honest and open manner.

On 30 November 1993 a package of seven bills, known collectively as the *Superannuation Industry (Supervision) legislation (SIS)*, was passed into law. For most superannuation funds, SIS came into effect on 1 July 1994. Trustees of public sector funds, which includes the PSS, have until 30 June 1995 to elect to become regulated superannuation funds under SIS.

An election to become a SIS-regulated Fund is irrevocable—once it is made, a scheme must comply with all of the standards set out in the *Superannuation Industry (Supervision) Act 1993* (the SIS Act) and Regulations. From 1 July 1994 until the Board elects to come under SIS, the PSS must continue to comply with the *Occupational Superannuation Standards Act 1987* (OSSA), as modified by SIS.

There are some aspects of scheme design and administration that must be modified in order for the PSS to fully satisfy the requirements of SIS. That process will continue in 1994–95, and the Board will elect to become SIS-regulated when all the necessary changes have been made.

■ What does it mean?

SIS places primary responsibility for matters concerning a superannuation scheme upon scheme trustees. Non-compliance with SIS standards can subject trustees to civil and/or criminal penalties. Trustees may be prosecuted by the Insurance and Superannuation Commission (ISC), and members may seek compensation for loss or damage.

For us as trustees, SIS means that:

- we must ensure that the Fund complies with SIS in order for it to receive favourable taxation treatment;
- we must continue to give you information on the performance of the Fund each year;
- we must continue to give you information on your superannuation entitlements each year;

As PSS members, SIS protects your interests in a number of ways, which include:

- rules to ensure equal representation for employers and employees on the Board of Trustees;
- standards for the appointment and conduct of trustees, actuaries, auditors, custodians and investment managers;
- standards for the preservation and payment of benefits;
- obligations on the trustees to do all things necessary to ensure compliance; and
- establishment of an independent Superannuation Complaints Tribunal to which you can apply if you have a grievance about your superannuation.

■ Unclaimed money

SIS sets out rules for the treatment of unpaid superannuation benefits. Where more than 90 days pass after a superannuation lump-sum benefit becomes payable, SIS permits—and in certain circumstances requires—the benefit to be paid into an eligible

rollover fund. However, if a member has reached the eligibility age for a Social Security age pension, SIS requires that an unclaimed superannuation lump-sum benefit must be transferred to the Consolidated Revenue Fund.

■ Reasonable Benefit Limits (RBLs)

From 1 July 1994 new limits will apply for the concessional taxation treatment of superannuation benefits. For 1994–95 the limits are \$400 000 for lump sums and \$800 000 for pensions. Transitional RBL provisions apply if you have a higher entitlement under the rules that were in effect at 30 June 1994. If you do, you have two years to register a transitional RBL with the Australian Tax Office. ComSuper is currently negotiating with the ATO to determine the best way to administer the transitional provisions, and members will be given the benefit of transitional RBLs.

OSSA COMPLIANCE

For 1993–94, in order for the PSS Fund to receive favourable tax treatment, it had to comply with the *Occupational Superannuation Standards Act 1987* (OSSA).

The PSS Trustees received notices of OSSA compliance from the ISC for 1990–91 and 1991–92, and neither notice has been revoked. Copies are available on request to the Board Secretary. (The return for 1992–93 is currently being assessed by the ISC). There are still some aspects of the Scheme design that are inconsistent with OSSA operating standards, and we are discussing these with the ISC. We have asked the ISC Commissioner to again exercise his discretion to treat the Fund as a complying Fund in 1993–94.

■ OSSA requirements

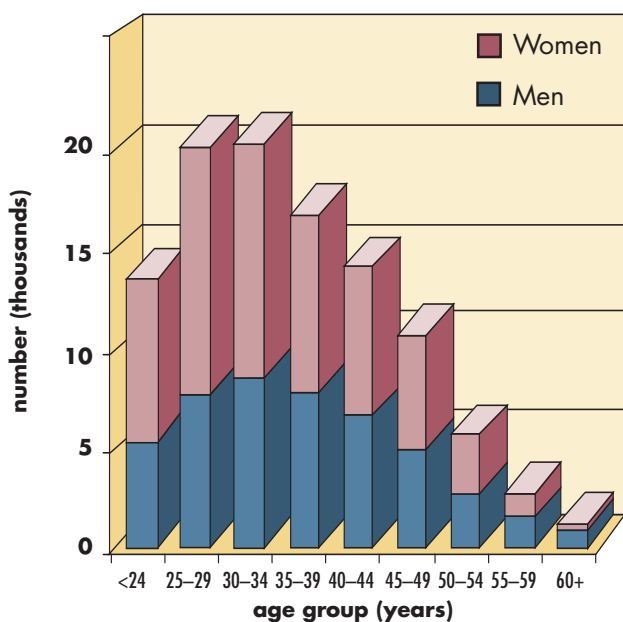
OSSA requires us to tell you about the Fund's financial position and to summarise the financial transactions that occurred during the year. We are also required to tell you about any legislative changes that occurred during the year, and to provide you with details about your superannuation entitlements (including prospective benefits).

For the most part, these requirements are met by this Annual Report and your Information Statement. We keep you informed of legislative changes by way of administrative circulars and *Super News* newsletters, which are sent by ComSuper to Personnel Sections as new legislation comes into force. The information on your prospective benefits is available to you through the use of the ComSuper Ready Reckoner program and various Scheme leaflets which you can get from your Personnel Section.

SCHEME ADMINISTRATION

Membership

At 30 June 1994 there were 104 141 members of the PSS—58 700 females and 45 441 males. The age and gender profile is shown below.



During the year there were 13 112 new entrants to the PSS, and 7681 members left the scheme, resulting in a net population increase of 5431 (5.5%)

Contributions

Contributions received during the year	\$ 255.0m
less:	
Benefits paid from PSS Fund during the year	(\$ 104.3m)

Net contributions flow, 1993-94 **\$ 150.7m**

Scheme exits

Most (61%) of the 7681 members who left the Scheme in 1993-94 did so through resignation. The invalidity retirement rate remained low, at 0.73 per thousand members, compared to 0.74 per thousand in 1992-93 and 0.72 per thousand in 1991-92. Genuine invalidity cases are being approved under the test of total and permanent incapacity.

Reason for exit	number	%
Age retirement	229	3.0
Involuntary retirement (retrenchment)	2 636	34.3
Resignation (including preservation)	4 689	61.0
Invalidity retirement	72	0.9
Death	55	0.8
Total	7 681	100.0

Pensions in force

At 30 June 1994 there were 700 pensions in force, incurring an annual pension liability of \$8.4m. These pensions are paid from Consolidated Revenue.

Type of pension	number	annual liability (\$'000)
Age	179	2 355.9
Invalidity	140	2 202.7
Involuntary (retrenchment)	255	3 071.8
Spouses & orphans	126	796.0
Total	700	8 426.4

PSS INVESTMENT POLICY

The primary objective of the PSS investment policy is to obtain the maximum return on investments commensurate with:

- a requirement that allocation rates must not be negative;
- an acceptable probability of achieving after-tax returns of at least three percentage points per annum in excess of the inflation rate over the long term; and
- an acceptable probability of maintaining a positive balance in the Reserve Account.

Commonwealth Funds Management Limited (CFM—PO Box 1921, Canberra, ACT, 2601) is the sole investment manager of the Fund until June 1995. It has the day-to-day responsibility for investing Fund assets within the strategic direction determined by the Board.

The principal investment strategy guidelines are:

- asset allocation and income allocation method will be directed towards meeting the Board's objective;
- risk will be minimised by appropriate diversification of portfolio exposures both within and between asset classes;
- investment policy will be oriented towards share and property assets which, over the longer term, generally secure higher returns;
- investments will be managed within agreed benchmark ranges; and
- futures and options may be used for appropriate investment functions, but not for gearing of portfolios or speculation.

This policy was in place throughout 1993-94. The Board has recently taken some decisions on the future investment policy for the PSS as part of its review of the management and strategy of the Fund after July 1995. We will issue a booklet to all members outlining the new investment policy once it is finalised.

INVESTMENT SUMMARY

The first half of 1993–94 saw strong gains in most asset sectors, particularly shares, but over the last six months of the year much of this good performance was eroded (see the graph at right). This was mainly due to rises in long-term interest rates in the second half. We were not alone in this downturn—nearly all superannuation funds suffered similar reverses in the second half of the year.

Despite this reversal, the Fund's performance exceeded that of its benchmark by 2.8 percentage points over the year. The strongest returns were in the property and Australian shares sectors, which exceeded their benchmarks by 12.5 and 3.5 percentage points respectively. These holdings comprised 50.4% of the Fund's investment portfolio. The return on Australian shares (19.2% p.a. after taxes and fees) was the highlight of the investment year.

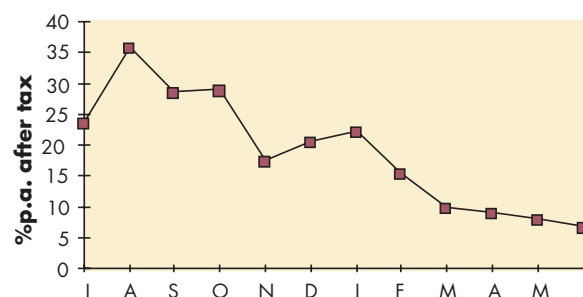
CFM's performance in this sector was high among the leaders in the Australian investment arena in 1993–94.

The main negative factor for the Fund over the year was the underperformance in the Australian and international fixed-

interest sectors. The return on Australian fixed-interest investments for the year was negative for the first time since 1973–74.

International fixed-interest (4.6 percentage points below benchmark) was the worst-performing sector in 1993–94. However, these assets constituted just over one per cent of total assets at 30 June 1994, so the overall impact of the poor return was minimal.

■ Cumulative year-to-date returns (annualised)



SECTORAL PERFORMANCE

Asset class	Value of assets				Target portfolio		Benchmark 1993–94 performance (after tax)%	PSS Fund 1993–94 performance (after tax)%
	at 30/6/93		at 30/6/94		Holding range %	Target average %		
	\$m	% of Fund	\$m	% of Fund				
Property	248.1	19.4	319.6	21.1	15 – 25	20	1.2	13.7
Australian shares	343.7	27.0	443.2	29.3	15 – 30	25	15.7	19.2
International shares	257.8	20.2	313.2	20.7	10 – 25	20	0.0	1.1
Australian fixed-interest	184.5	14.5	302.6	20.0	0 – 40	20	-0.9	-2.5
International fixed-interest	115.6	9.1	17.2	1.1	0 – 10	5	-3.7	-8.3
Indexed bonds	57.4	4.5	88.2	5.8	0 – 10	5	-2.2	-1.5
Cash	68.0	5.3	30.0	2.0	1 – 40	5	4.2	3.7
Total	1 275.1	100.0	1 514.0	100.0		100	4.0	6.8

■ The bottom line . . .

The Board's primary investment objective (outlined on page 3) requires CFM to seek the maximum return on investments within a context of maintaining positive allocation rates, exceeding inflation, and maintaining a positive balance in the Reserve Account. In that context, for 1993–94:

- the annual allocation rate was **6.2%**;
- the long-term average annual Fund earning rates are as follows:

3 years	7.3%	(inflation: 1.6%)
10 years	11.8%	(inflation: 5.5%)
15 years	12.1%	(inflation: 6.6%)
- at the end of the year the balance in the Reserve Account was approximately **\$10m**.

These results demonstrate the solid achievements of the Fund manager in exceeding the parameters set down in the Board's investment policy. That policy is a long-term one, and is continually being monitored and fine-tuned in response to market conditions and the long-term needs of PSS members.

■ Notes

- The 'Value of the Fund' shown in the Financial Summary on the next page includes all investment and non-investment assets, and is net of total Fund liabilities. Therefore it differs from the 'Value of Assets' in the table above.
- The indexes against which the Fund's sectoral performance is measured are:

Property	Unweighted average of AMP and National Mutual Property Trusts
Australian shares	Australian Stock Exchange All-ordinaries Accumulation Index
International shares	Morgan Stanley Capital International World Index (with net dividends reinvested)
Australian fixed-interest	SBC Dominguez Barry Composite Bond Index
International fixed-interest	Salomon Brothers World Government Bond Index
Indexed bonds	SBC Dominguez Barry Inflation-linked Bond Index
Cash	SBC Dominguez Barry Bank Bill Index

CREDITING RATES

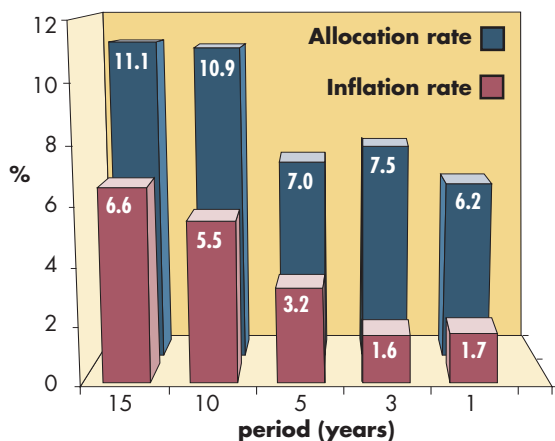
With every superannuation contribution you make, your stake in the PSS Fund grows—and that stake grows further every year as it earns interest. Each year, the Board declares an **allocation rate** of interest that is credited to your accumulated contributions for the financial year just completed.

The allocation rate for 1993–94 was 6.2%.

In brief, the allocation rate is calculated by determining the investment earnings of the Fund for the year after making the necessary adjustments for taxes and fees, and after transfers to or from the Reserve Account in accordance with a predetermined formula. The balance of Fund earnings is then converted into a percentage, which becomes the annual **allocation rate**.

This is a necessarily brief outline of a fairly complicated procedure. The methodology is explained fully in the Board's *Investment Policy Statement* booklet, which was sent to all PSS members in 1992, and is included in the *Superannuation Kit* given to new PSS members.

The chart below shows that Fund allocation rates have consistently exceeded the inflation rate over the years. (The inflation rate is the percentage change in the June-to-June CPI indexes.)



But remember . . .

The allocation rate only affects the **member component** of your superannuation benefit. The main benefit of your superannuation is the **employer-financed benefit** that is preserved in the Fund if you leave before age 55. That benefit grows in accordance with your length of service and your contribution rate, and is not dependent on the investment earnings of the Fund.

■ Exit rates

The exit rate is the rate of interest that is applied to your accumulated contributions if you leave the Scheme and take your accumulated contributions out of the Fund.

The current exit rate is **8.1%**, which is the interest rate that would apply if you were to leave the PSS in the immediate future. It would apply to your accumulated contributions between 1 July 1994 and your date of exit.

The exit rate is adjusted throughout the year to attempt to reflect changing investment conditions, and each new exit rate applies from the previous 1 July to your date of exit.

FEES AND CHARGES

The amount available for distribution to members represents the net income from investment activities less Fund management fees, income tax and other expenses directly related to the operation of the Fund. The administrative costs in respect of the operations of ComSuper are met from Budget appropriations and are not a charge against the Fund.

FINANCIAL NOTES

Value of Fund at 1 July 1993
\$1 261.8m

INFLOW		OUTFLOW	
Contributions received	\$255.0m	Benefits paid	\$104.3m
Investment income	\$86.2m	Investment and other expenses	\$6.4m
		Taxation	\$19.3m

Value of Fund at 30 June 1994
\$1 473.0m

ASSETS	
Investments	\$1 514.0m
Other assets	\$44.5m
LIABILITIES	
Total liabilities	\$85.5m

■ Investment earnings for the last three years (after tax, investment fees and other expenses)

1991–92 (combined PSS/CSS Fund)	\$251.9m
1992–93	\$89.5m
1993–94	\$60.5m

Important note

The above figures are taken from the annual financial statements currently being prepared by ComSuper in respect of the operations of the Superannuation Fund No. 1 (the PSS Fund). Those financial statements have not yet been audited. Fully audited financial statements will be included in the Board's 1993–94 Annual Report to Parliament. Copies of the Annual Report will be available in your organisation's library, or at AGPS bookshops, after tabling in Parliament.

Audit qualifications

ComSuper's current computer facilities do not enable the transactions of the PSS to be maintained separately from those of the CSS, and as a result, audit qualifications are expected in respect of the 1993–94 financial statements. However, there is no suggestion of any impropriety on the part of the trustees, and the integrity of members' entitlements is not affected by the audit qualifications. ComSuper's upgraded computer facilities (which should be operational by late 1995) will overcome these difficulties and enable the two schemes to maintain completely separate records.

THE BOARD OF TRUSTEES

The Commonwealth Superannuation Board of Trustees No. 1 (the PSS Board) consists of five members—two ACTU nominees, two employer nominees, and an independent chairperson. All are appointed to the Board by the Minister for Finance. The ACTU nominees and the chairperson are appointed for three-year terms, but are eligible for reappointment. The employer nominees hold office 'at the Minister's pleasure'. The Board Secretary is Ms Michele Dawson, of ComSuper's Secretariat Section.

The current members of the Board are:

Mr Ron Brown (independent Chairperson)—*appointed 25 July 1990; reappointed from 1 July 1993 to 30 June 1996*

Mr Brown is a consultant to both State and Federal governments, and is currently a member of several government and semi-government boards and commissions. He is also Chairperson of the CSS Board.

Mr Pat Barrett, AM (employer nominee)—*appointed 1 July 1990*

Mr Barrett is Deputy Secretary of the Department of Finance, and is a member of the CSS Board. He is a member in the General Division of the Order of Australia.

Mr John Flitcroft (ACTU nominee)—*appointed 1 July 1990; reappointed from 1 July 1993 to 30 June 1996*

Mr Flitcroft is a member of the CPSU, and works at the Department of Veterans' Affairs. He is also a member of the CSS Board.



(standing) Pat Barrett, David Leaver, Ken Searson
(seated) John Flitcroft, Ron Brown, Michele Dawson (Secretary)

Mr David Leaver (ACTU nominee)—*appointed 1 July 1990; reappointed from 1 July 1993 to 30 June 1996*

Mr Leaver is manager of the Australian Bureau of Statistics Microsimulation project. He is a member of the CPSU, and is also a member of the CSS Board.

Mr Ken Searson (employer nominee)—*appointed 8 April 1992*

Mr Searson is the Commissioner for Superannuation and Chief Executive Officer of ComSuper. He is Chairman of the DFRDB Authority, a member of the CSS and the MSBS Boards, and a member of the NSW Divisional Council and Federal Council of the Association of Superannuation Funds of Australia (ASFA).

KNOW YOUR SUPER SCHEME

Superannuation is a major element of your employment package. The benefits you receive when you leave the scheme will largely determine your lifestyle in retirement. So, the more you know about your super, the better equipped you will be to make the important decisions about your future.

With that in mind, the Board is keen to ensure that you have full access to information about your contributions, your prospective benefits, the management of Fund investments, and anything else that affects your super entitlements.

■ Your PSS entitlements

If you want to know more about your PSS entitlements, read *The Super Book*, which was issued to PSS members in 1992, and is given to all new members when they join the PSS.

ComSuper also issues regular superannuation newsletters to Staff Clerks, and has distributed leaflets on topics such as taxation of benefits, preservation of benefits, productivity benefits, Maximum Benefit Limits, etc. to Personnel Sections. Personnel also have a Ready Reckoner computer disk that you can use to calculate prospective benefits using your Information Statement details.

If Personnel can't answer your questions, call ComSuper on (06) 252 7911, or send them a fax on (06) 253 1116.

■ Board issues

For information on the management and performance of the Fund, or for copies of:

- the 1993–94 audited financial statements (including the Auditor-General's report);
- OSSA compliance notices for the last three years;
- the PSS Trust Deed and Rules; and/or
- the PSS Investment Policy booklet,

write to:

**The Secretary
PSS Board of Trustees
PO Box 22
Belconnen ACT 2616**

fax: (06) 253 1116



**PUBLIC SECTOR SUPERANNUATION
Board of Trustees**