



Allocation of fund earnings

Who should read this?

All PSS members.

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What you should know up front

It is important that you read the disclaimer at the end of this fact sheet. Before making any decisions, please read the **PSS product disclosure statement** and consider seeking advice from a licensed professional such as a financial planner, accountant or solicitor.

Why did we change the way earnings are allocated?

Until 2004, fund earnings were allocated to member accounts by means of an annual crediting rate determined by the Trustees. The rules governing the scheme did not enable a crediting rate to be negative, and once allocated, earnings could not be reduced. When fund earnings were negative, this created an inequity between members who exited the scheme during this time and continuing members. Future income was used to top up the fund where payments had been made in excess of the actual equity held by an exiting member.

To reflect the actual earnings of the fund and give equity between continuing and exiting members, the way earnings were allocated was changed in 2004. Members receive their fair share of all fund earnings when they exit. Continuing members' equity consists of the amount allocated to 30 June 2003 and contributions and interest since that date. That 'interest' has reflected the actual performance of the fund since 30 June 2003. We have been referring to this as the unallocated earnings on your member statements.

We advised you of these changes in your 2003/04 member statement and through updates at www.pss.gov.au

After 1 July 2007, we will allocate these unallocated earnings to your account.

Allocating fund earnings

From 1 July 2007, earnings are allocated in a way that reflects actual investment performance of the fund.

On 1 July 2007, there were the following changes:

- > Ongoing, declared earning rates reflect the performance of the fund, be that positive or negative.
- > Earnings from 1 July 2003 to 30 June 2007 were allocated to members' accounts on 1 July 2007.
- > The introduction of a minimum amount on exit (MAE). This means that if your account balance falls below a certain level because of fund performance, we will top it up so you that you never get less than your MAE. The MAE is your account balance at 30 June 2003 plus any member contributions, productivity contributions, co-contributions and transfer amounts paid between 1 July 2003 and 30 June 2007. When we process your claim for a benefit, we will calculate your MAE and compare it to your account balance. The benefit we pay you will be the greater of the two.
- > A member leaving the scheme after 1 July 2007 will have their account balance calculated on the date of processing.

Has the investment strategy changed?

No. There is no change to the investment strategy. We still expect to achieve an average real return of at least 4.5% p.a. after tax and fees, which derives from a nominal return of 7% p.a. over the long-term.

There is also no change to the risk assumptions used.

You can find more information about the investment strategy at www.pss.gov.au

How will the changes affect your benefit?

The following table outlines how the changes affect you.

If you are a contributing member	Your total benefit is largely unaffected by fund earnings because it is 'defined' by your final average salary and a factor called an accrued benefit multiple (ABM). Your ABM is determined by how many years you contribute and the percentage rate of contributions you elect to pay. Your member and productivity components and any money you have transferred from other funds are affected by investment performance. Positive or negative earnings will be applied to your account in line with investment performance.
If you are a preserved benefit or associate member	Investment earnings have a more direct impact on your benefit. Your total benefit is no longer defined by your final average salary and an accrued benefit multiple (ABM). Instead, your member and productivity components and any money you have transferred from other funds are affected by investment performance. This means that these components can now be subject to negative earnings. The earnings will depend on whether you are in the default fund or have elected to transfer to the cash investment option. The employer financed-component is not affected by investment performance. For preserved benefit members, your employer-financed component will continue to grow in line with the Consumer Price Index (CPI). For associate members, this component grows in line with the long term Treasury bond rate.

Some commonly asked questions

Q. Will I receive my fair share of fund earnings?

A. Yes.

Q. Will I be subsidising departing members?

A. No

Q. What happens to my benefit if earnings are negative?

A. Your benefit will continue to be subject to the investment performance of the fund. If the fund returns a negative performance for a period, then your benefit will be adjusted downwards in line with investment earnings.

Q. When will my contributions start to accrue earnings?

A. From the day your contribution was paid to the PSS.

Q. When will earnings stop accruing?

A. From the date we pay your benefit.

Q. What is the benefit payment date?

A. This will be the date we process your benefit payment. We can only pay your benefit once we receive all the required information (including information from your employer).

Q. What rate will be used to calculate my benefit?

A. This will be the rate on the date that we process your benefit.

Q. I am in the cash investment option. Can the cash investment option have negative earnings rates?

A. Yes, although this is very unusual.

How can I get more information?

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Any advice in this document has been prepared without taking account of your personal objectives, financial situation or needs. Because of this, you should, before acting on any advice in this document, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. You may wish to consult a licensed financial planner to do this.

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