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Welcome to the PSS Reporter Annual Report edition 2009/10

The PSS Reporter is your quick guide to how the PSS performed in 2009/10. In these pages you'll find the important facts and figures, as well as news and updates from the year that's been.



Breaking news

Super reading – your annual report goes interactive

Keeping up with how your super fund is performing just got easier with the new online PSS Annual Report – the PSS Reporter. Instead of sifting through page after page of reports, the new interactive format lets you jump right to the information you're interested in. Along with all the financial facts and figures, the PSS Reporter also features interesting news items and feature stories from the year that's been and much more. So to see how the PSS has been working for you over the past financial year, visit www.pss.gov.au/pss_reporter. We hope you find it a useful tool.

Intergenerational Report 2010 focuses on super

On 1 February the Australian Government released the **Intergenerational Report 2010** which sets out the social, economic and policy challenges Australia will face between now and 2050 as a result of our ageing population. This report canvassed a broad range of issues including population growth, employment and environmental sustainability, and particularly highlighted the importance of super in supporting older people once they leave the workforce.

The report suggested that as older people come to make up a higher proportion of Australia's population in the years ahead, it will become more and more difficult for governments to provide for their needs through benefits such as the aged pension. As a result, private super savings are likely to become more important than ever before, and the choices each of us make about our super today will have a big impact on how we live in the years to 2050. To find out more about the **Intergenerational Report 2010** and the importance of superannuation in an ageing Australia visit www.treasury.gov.au/igr.

Henry review: government proposes increased super contributions

After more than a year of anticipation, the Henry taxation review was handed to the Australian Government in December 2009. Treasury Secretary Ken Henry's review was the first in-depth examination of Australia's tax system for over a decade and the final report contained a wide-ranging series of recommendations for reform.

In response to the Henry review, the government proposed a number of important changes to Australia's superannuation system. Most significantly, the government is proposing to increase the current super guarantee rate from 9% to 12% over seven years from 2013 to 2020, significantly boosting employer contributions.

Other key proposals include:

- > increasing the super guarantee age limit from 70 to 75
- > offering a government super contribution of up to \$500 a year for those on an adjusted taxable income of up to \$37,000
- > maintaining the concessional contributions cap at \$50,000 (indexed) for those aged 50 or over who have less than \$500,000 in super after 30 June 2012.

These proposed super changes haven't yet been introduced to Parliament and may not become law, but we will keep you up-to-date with the latest news and what the changes may mean for you at www.pss.gov.au.

Get your full Annual Member Statement online

To make it easier to see how your super has performed in 2009/10, you can now access your full **Annual Member Statement** via the secure **Member services online** section of the PSS website. As well as being able to download and print your statement, you can also access the interactive **Member Statement Guide** which explains each section in detail to make sure you understand exactly how your super is working for you.

Unless you have requested otherwise, we will still send you a printed copy of your **Annual Member Statement**, but if you would like to cut down on paperwork by accessing this exclusively online, make sure you update your email address in **Member services online** at www.pss.gov.au. You'll need an access number to use this service so if you don't have one or have misplaced it call 1300 000 377 and we can give you one over the phone.

Proposed ARIA and Military Super merger update

The Bills covering the proposed merger and other governance and administration reforms were not debated in the Senate prior to the election being called. This means the proposed merger of ARIA, the Military Superannuation Board and the Defence Force Retirement and Death Benefits Authority did not proceed on 1 July 2010.

We will keep you updated on any relevant developments through the news section of the website.

PSS Product Disclosure Statement update

In November 2009 we published a **Supplementary Product Disclosure Statement** which highlights some changes to the current **PSS Product Disclosure Statement**. Importantly, the supplementary statement outlines changes to the **Fees and other costs** section. In 2009 we also released two online updates to the **Product Disclosure Statement** which addressed topics such as the maximum benefit limits, Australian Government super co-contributions and the tax treatment of lump sums, so visit www.pss.gov.au for the most up-to-date information.

This is important

The information in this Annual Report is general information only and has been prepared without taking into account your personal objectives, financial situation or needs. You should consider any advice in this document in light of your personal objectives, financial situation and needs before acting on it. You may wish to contact a licensed financial planner to do this. If you are looking at acquiring a financial

product, you should obtain a Product Disclosure Statement and consider its contents before making any decisions. This document was prepared on 27 August 2010 by ARIA ABN: 48 882 817 243 AFSL: 238069 RSE Licence No: L0001397, Trustee of the PSS ABN: 74 172 177 893 PSS RSE: R1004595. This Annual Report contains addresses of websites that are not published or maintained by, or on behalf

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your benefit entitlements, including death and invalidity benefits. Details of other investment options and contribution levels that may be available to you are also available on request from ARIA. To access or request this information, please contact us using the details set out in the **Contact us** section of this Annual Report.

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Super in focus

Inside the PSS for contributing members: contributions decide final benefit

The PSS is a defined benefit scheme. This means your final defined benefit is largely unaffected by the fund's investment performance. Instead, your member contribution rate ultimately determines the size of your final benefit.

How is my final benefit calculated?

If you're a contributing member, your final benefit is worked out according to a formula, rather than by how much money has accrued in your account.

Your final average salary (FAS) x Your accrued benefit multiple (ABM) = Your benefit

Why are my contributions so important?

The contribution rate, and the length of time that you contribute for, determines your accrued benefit multiple. When you contribute more, you increase your final accrued benefit multiple, and this means that your final benefit will be higher.

	Contribution rate and years of membership = ABM	FAS (\$58,000) x ABM = lump sum OR CPI-indexed pension at 60
Greg	20 years @ 2% 10 years @ 5% = ABM of 5.10	\$58,000 x 5.10 = \$295,800 lump sum OR \$26,890 p.a.
Kate	10 years @ 5% 12 years @ 10% 8 years @ 2% = ABM of 7.02	\$58,000 x 7.02 = \$407,160 lump sum OR \$37,014 p.a.
Dan	20 years @ 10% 10 years @ 5% = ABM of 8.3	\$58,000 x 8.3 = \$481,400 lump sum OR \$43,763 p.a.

Note: Greg, Kate and Dan started on the same day and earned the same salaries for their working lives.

You can choose to contribute between 2% and 10% of your after-tax salary, or you may choose not to contribute at all. If you haven't changed your contribution rate since you joined the PSS, your contributions will be set at the default rate of 5%.

You can find out more about your PSS contributions through our **Contributing to the PSS** fact sheet which is available at www.pss.gov.au.

If you would like to change your contribution rate you can download the **Change your contribution rate** form from www.pss.gov.au or call 1300 000 377.

What are the different components of my benefit?

Member component	This is made up of the member contributions you make while you are a contributing member, plus ongoing fund earnings (positive or negative).
Productivity component	This is made up of the fortnightly contributions your employer makes while you are a contributing member, plus ongoing fund earnings (positive or negative).
Employer component	This is a defined amount financed by your employer, which is payable when you leave the workforce.
Additional contributions	This is made up of super you have transferred from other funds and government co-contributions you have received, along with any ongoing positive or negative fund earnings (positive or negative).



How do I benefit from the PSS?

Being part of the PSS has many benefits, and as a contributing member you get:

- > a high value employer component that is well above the superannuation guarantee
- > no administration fees – your employer pays these
- > the choice to change your contribution rate at any time to suit your financial needs
- > automatic death and invalidity cover at no extra cost to you
- > a range of flexible retirement options, including a CPI-indexed pension for life.

To find out more about the PSS see the PSS **Product Disclosure Statement** or register for one of our upcoming **At Work for You** workshops at www.pss.gov.au.

Eligible rollover fund

If you don't claim your PSS benefit within 90 days of stopping work, it will be preserved in the PSS and you may lose your right to choose to receive a benefit other than preservation. If you've made an election to receive a lump sum benefit, but have not provided details of where the lump sum is to be paid, it can be paid into an eligible rollover fund. The fund selected by ARIA is AUSfund – Australia's Unclaimed Super Fund. The contact details are:

AUSfund
PO Box 2468
Kent Town SA 5071
Phone: 1300 361 798

If your benefit has been transferred, you must claim it from the rollover fund and you'll be subject to its terms and conditions.

Superannuation surcharge tax

The Australian Government abolished the superannuation surcharge from 1 July 2005 but you may still have to pay it in certain circumstances. For example, if your adjusted taxable income for any years when the surcharge applied, was higher than the annual thresholds, you may have some outstanding tax to pay. Also, if you didn't provide your tax file number to the PSS, you may have a surcharge debt in relation to certain employer contributions reported to the ATO up to and including the 2004/05 financial year.

The ATO determines whether you've incurred a surcharge debt and if you have, the amount will be shown in the surcharge debt table on your **Member Statement**. If you have a surcharge debt, you don't have to pay it now – it will be deducted from your PSS benefit when it's paid to you. If you want to, you can reduce your surcharge debt by making early payments.

Interest calculated at the 10-year Treasury Bond Rate will be applied to any outstanding balance of your surcharge debt account as on 30 June each year. If the surcharge amount shown on your **Member Statement** varies from the amount you were advised by the ATO, please contact them on 13 10 20.

To find out more about your PSS super and being a contributing member, visit www.pss.gov.au and download the **PSS super book**.

When thinking about your life in retirement, remember that according to the Australian Institute of Health and Welfare, the average life expectancy for Australian men is now 79 years, and 84 years for women. That means if you retire at 55 your super might need to last you more than 25 years.

Inside the PSS: preserved members profit from defined benefit scheme

The PSS is a defined benefit scheme, which means that the employer component of your benefit is calculated according to a formula when you leave employment and preserve your benefit.

What are the different components of my benefit?

Member component	This is made up of the member contributions you made while you were a contributing member, plus ongoing fund earnings (positive or negative).
Productivity component	This is made up of the fortnightly contributions your employer made while you were a contributing member, plus ongoing fund earnings (positive or negative).
Employer component	This is a defined amount financed by your employer, which is payable when you leave the workforce.
Additional contributions	This is made up of super you have transferred from other funds and government co-contributions you have received, along with any ongoing fund earnings (positive or negative).

How do I benefit from the PSS?

Being part of the PSS has many benefits. As a preserved member, these include:

- > no administration fees – your previous employer pays these
- > a choice between the PSS Default Fund and the Cash Investment Option
- > a range of flexible retirement options, including a CPI-indexed pension for life.

Unclaimed benefits

PSS preserved benefits must be paid when you reach age 65. If you don't claim your benefit at that time the benefit may be treated as an unclaimed benefit and sent to the ATO. If your benefit has been sent to the ATO as an unclaimed benefit you may also lose the option to take all or part of your benefit as a pension.

Superannuation surcharge tax

The Australian Government abolished the superannuation surcharge from 1 July 2005 but you may still have to pay it in certain circumstances. For example, if your adjusted taxable income for any years when the surcharge applied, was higher than the annual thresholds, you may have some outstanding tax to pay. Also, if you didn't provide your tax file number to the PSS, you may have a surcharge debt in relation to certain employer contributions reported to the ATO up to and including the 2004/05 financial year.

The ATO determines whether you've incurred a surcharge debt and if you have, the amount will be shown in the surcharge debt table on your **Member Statement**. If you have a surcharge debt, you don't have to pay it now – it will be deducted from your PSS benefit when it's paid to you. If you want to, you can reduce your surcharge debt by making early payments.

Interest calculated at the 10-year Treasury Bond Rate will be applied to any outstanding balance of your surcharge debt account as on 30 June each year. If the surcharge amount shown in your **Member Statement** varies from the amount you were advised by the ATO, please contact them on 13 10 20.

To find out more about your PSS super and being a preserved member, visit www.pss.gov.au and download the PSS super book.



Want help understanding your Member Statement?

Download the interactive PSS Member Statement Guides

go to www.pss.gov.au

Find out how we performed over 10 years

aria.gov.au



Contributing members' future needs guide super choices

What kind of lifestyle do you want to enjoy in your life after work, and what will it take to get there? We all want to feel financially secure, but this can mean different things to different people depending on your goals and expectations. The key to reaching your personal goals is to be prepared, and the sooner you start planning for the future, the better off you're likely to be.

How much money do you think you'll need?

Most of us have thought about when we'd like to stop working, but we haven't thought as hard about how much money we're going to need to enjoy life after work. The answer won't be the same for everyone, but research into retirement living standards by ASFA and Westpac might help get you thinking about how much you'll need. Visit www.superannuation.asn.au for more information.

Here are some useful questions that you should also ask yourself:

- > When do I want to retire?
- > If I retire then, how long will my savings need to last?
- > Will I still have debts to cover?
- > What sort of lifestyle do I want and how much will this cost?
- > Where do I want to live once I leave the workforce?

Once you've answered these questions, you can try doing a budget to see how much the lifestyle you want will cost. The template at www.understandingmoney.gov.au is a great place to start.

How much money are you likely to have?

Working out how much money you're likely to have for your retirement is just as important as thinking about how much you'll need.

The PSS i-Estimator in **Member services online** at www.pss.gov.au can help you estimate your final benefit. You should also consider any other income which might supplement your superannuation, such as that from investments and property.

How can you supplement your savings?

If there's a big difference between the lifestyle you want and the one you think you'll be able to afford, don't panic. There are plenty of things you can do to help bridge the gap between now and when you retire.

You might consider:

- > increasing your rate of contribution – visit the **Contributions** section of our website to find out more
- > claiming your super in a different way – www.fido.gov.au has some useful information on this
- > examining the tax and social security implications of different super choices – Centrelink's **planning for retirement service** at www.centrelink.gov.au has useful information on payments, services and programs relating to life after work.

Early start boosts super savings for 18 to 25 year olds

While super is usually the last thing on your mind when you're just starting out in the workforce, the decisions you make now can get your future savings off to a really strong start. Here are a few easy steps you can take to start getting your super into shape.



18 to 25 years

Consolidating accounts brings super benefits

If you've had a number of jobs in the past, the chances are your super is spread across more than one fund. With each fund potentially charging you fees that eat away at your savings, this isn't the best choice. By bringing all your super together in the PSS, you can stop paying fees altogether and it will be much easier to keep track of how your savings are going.

Be aware that we have to pay roll-in amounts to you as a lump sum and you will not be able to withdraw the roll-in amount until you are no longer a PSS member.

Remember that fund earnings (positive or negative) apply to the roll-in amount until you claim the benefit. For more information see the **Rolling money into the PSS** fact sheet at www.pss.gov.au.

Transferring all your super to the PSS is easy. Just download the **Application to pay in a transfer value** form from www.pss.gov.au or call us on 1300 000 377.

Small contributions add up to big savings

Unlike most other super funds, in the PSS investment returns largely don't affect your final super benefit. Instead, it is the rate at which you choose to contribute that makes the biggest difference.

You can choose to contribute between 2% and 10% of your after-tax salary, or you can choose not to contribute at all. But the more you contribute, the bigger your final benefit will be.

For more information on your PSS contributions, check out the **Contributing to the PSS** fact sheet at www.pss.gov.au.

You can change your contribution rate at any time by completing the **Change your contribution rate** form, which is also available on our website.

Government offers super co-contribution to boost retirement savings

If your total income is less than \$61,920*, and you chose to contribute between 2% and 10% of your after-tax salary, you may qualify for the government's super co-contribution. If you do, the government will contribute up to one dollar for every dollar of after-tax income you put towards your super, up to a maximum of \$1,000.



Our **Super co-contributions** fact sheet has more information on how to qualify and how much you can get, so visit www.pss.gov.au for more information.

*Subject to eligibility requirements and caps which are explained in the fact sheet.

Super strategies target 18 to 25 year olds

You can get more information about the PSS and the right super strategies for this stage of your life by visiting the **Lifestages** page online at www.pss.gov.au.

'Because I had a couple of casual jobs before I started in the public service, I had a few hundred dollars of super in different accounts all over the place. By bringing this all together in the PSS it's much easier to keep track of how my savings are going and the paperwork is much simpler too.' – Kate, 24



26 to 44 year olds plan for the future

When you're juggling work, family and paying off the mortgage, superannuation isn't usually a high priority. But taking a little time to plan for your retirement today will ensure you're in a good position to relax and enjoy a worry-free life when you leave the workforce. Here are a few easy steps you can take to get your super into shape.



26 to 44 years

Consolidating accounts brings super benefits

If you've had more than one job, the chances are your super is spread across more than one fund. With each fund potentially charging you fees that eat away at your savings, this isn't the best choice. By bringing all your super together in the PSS, you can stop paying fees altogether and it will be much easier to keep track of how your savings are going.

Be aware we have to pay roll-in amounts to you as a lump sum and you will not be able to withdraw the roll-in amount until you are no longer a PSS member.

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Transferring all your super to the PSS is easy. Just download the **Application to pay in a transfer value** form from www.pss.gov.au or call us on 1300 000 377.

Online estimator helps PSS members plan

To see if you're on track to achieve the lifestyle you want when you finish working, use the online **PSS i-Estimator** in **Member services online** at www.pss.gov.au to check your estimated benefit.

Small contributions add up to big savings

Unlike most other super funds, in the PSS investment returns largely don't affect your final super benefit. Instead, it is your member contribution rate that makes the biggest difference.

You can choose to contribute between 2% and 10% of your after-tax salary, or you can choose not to contribute at all. But the more you contribute, the bigger your final benefit will be.

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*Subject to eligibility requirements and caps which are explained in the fact sheet.

Super strategies target the future

You can get more information about the PSS and the right super strategies for this stage of your life by visiting the **Lifestages** page online at www.pss.gov.au.

'I always assumed I'd have enough money for retirement because I've been a member of the PSS for years now. But when I used the **i-Estimator** I discovered I'd need to get serious about super if I wanted to retire in my 50's. By regularly monitoring my progress I can make sure I'm on the right track and plan to make extra contributions if I need to.' – Patrick, 36

Retirement plans on the agenda for 45 to 54 year olds

With retirement getting closer, you're probably starting to think more carefully about life after the workforce. Now is the time to make the smart choices that will help make your retirement years the best of your life. Here are a few easy steps you can take to get your super in good shape.



45 to 54 years

PSS members look to the finish line

Deciding when you'd like to finish work and what you're going to need for your retirement will help you plan your super choices between now and then. To make sure you're on the right track, have another look at **Contributing members' future needs** on page 3 and ask yourself the important questions.

Online estimator helps PSS members plan

As you get closer to retirement, you'll be able to get a clearer picture of what your final benefit is likely to be. The online PSS i-Estimator in Member services online at www.pss.gov.au will let you see if you're on track to achieve your lifestyle targets, or if there's still more that you need to do.

Small contributions add up to big savings

Unlike most other super funds, in the PSS investment returns largely don't affect your final super benefit. Instead, it is the rate at which you choose to contribute that makes the biggest difference.

You can choose to contribute between 2% and 10% of your after-tax salary, or you can choose not to contribute at all. But the more you contribute, the bigger your final benefit will be.



For more information on your PSS contributions, check out the **Contributing to the PSS** fact sheet at www.pss.gov.au.

You can change your contribution rate at any time by completing the **Change your contribution rate** form, which is also available on our website.

Government offers super co-contribution to boost retirement savings

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If you do, the government will contribute up to one dollar for every dollar of after-tax income you put towards your super, up to a maximum of \$1,000. Our **Super co-contributions** fact sheet has more information on how to qualify and how much you can get, so visit www.pss.gov.au for more information.

* Subject to eligibility requirements and caps which are explained in the fact sheet.

Super strategies target upcoming retirement

You can get more information about the PSS and the right super strategies for this stage in your life by visiting the **Lifestages** page online at www.pss.gov.au.

'With the kids finishing school and moving out of home we found we had a bit more money to spare, so we decided to increase our contribution rate from 2% to 10%. We don't really notice the difference now but we know that putting that extra money aside will give us more peace of mind when we decide to stop working in the next few years.' – Graham and Laura, 50



55+ members step into a new life

As you near the end of your time in the workforce, it's exciting to look forward to the new life that's ahead of you. But now is also the time to adapt your strategy if necessary to ensure smooth sailing for your retirement years.



55+ years

Online estimator helps PSS members plan

To check if you're on track to achieve the lifestyle you want when you finish work, use the online PSS i-Estimator in Member services online at www.pss.gov.au to check your potential benefit. This tool will help you see what all your hard work has achieved.

Small contributions add up to big savings

Unlike most other super funds, in the PSS investment returns largely don't affect your final super benefit. Instead, it is the rate at which you choose to contribute that makes the biggest difference.

You can choose to contribute between 2% and 10% of your after-tax salary, or you can choose not to contribute at all. But the more you contribute, the bigger your final benefit will be.

For more information on your PSS contributions, check out the **Contributing to the PSS** fact sheet at www.pss.gov.au.

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Our **Super co-contributions** fact sheet has more information on how to qualify and how much you can get, so visit www.pss.gov.au for more information.

* Subject to eligibility requirements and caps which are explained in the fact sheet.

PSS gives members choice in claiming super

There are several ways to claim your super – you might want to take this as a lump sum, a CPI indexed pension or a combination of both depending on your financial goals and plans for retirement. Before you make any decisions, have another look at **Contributing members' future needs** on page 3 and download the **PSS super book** from www.pss.gov.au for more information on your options. You should also talk to a financial adviser to make sure you choose the option that will work best for you.

Super strategies target retirement

You can get more information about the PSS and the right super strategies for this stage in your life by visiting the **Lifestages** page online at www.pss.gov.au.

'I knew exactly when I wanted to retire, but I hadn't given much thought to how I should claim my super when the time came. I wanted to sell our old family home and travel overseas, so the financial planner helped me sort out a claiming option that would work with my retirement plans.' – Deb, 58

Investments

PSS investment strategy

The PSS investment strategy is based on four key principles:

1. Taking a global view

Investing only in Australia can limit potential returns, so ARIA also searches for investment opportunities in both established and emerging international markets.

2. Long-term versus short-term

We focus on acquiring assets that can sustainably deliver returns to members over the long term. We seek to exploit shorter-term pricing opportunities to enter or exit our investment strategies, and we are aware of the desirability of reducing short-term volatility, where possible.

3. Diversification

Where fund investment constraints permit, we invest your super across different asset classes to reduce concentration of risk in any one theme.

4. Best-practice due diligence and manager selection

We focus on identifying asset managers with the skills to understand asset market fundamentals, price risk appropriately and generate consistent risk-adjusted returns.

2009/10 investment performance summary

Over the financial year to 30 June 2010, the PSS Default Fund rose by 9.2%. The major contributors to the positive return were a rise in equities of around 13.1% in Australian share markets and 11.5% in global share markets.

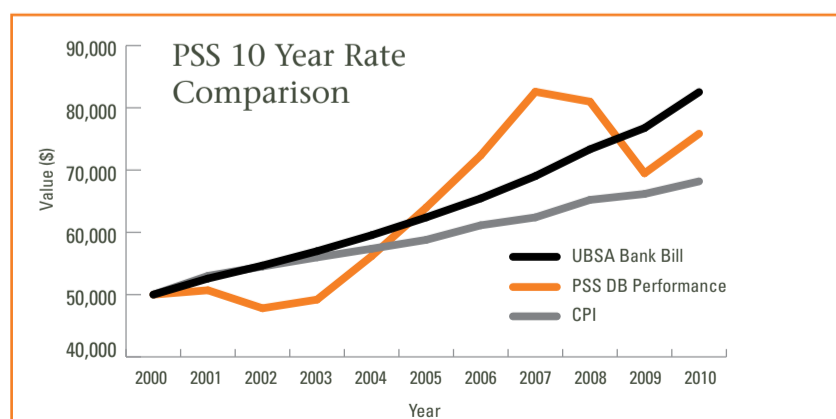
Dampening this overall result was a sharp decline in global share markets during the June quarter. This fall of around 11.2% was triggered in part by fears of sovereign solvency in peripheral Euro member nations, such as Greece, as well as uncertainty regarding policy actions. Diversification into corporate credit, government bonds, property and actively diversified global managers helped offset this negative impact to some extent.

Over the past year, we've taken opportunities to invest in the Australian Residential Mortgage Backed Securities (RMBS) market. In the period since the onset of the financial crisis these high-quality assets have been significantly undervalued when compared to their historical valuations. As such, they provide the fund with attractive return prospects with low risk.

The PSS Cash Investment Option returned 3.2% after tax, which was in line with its investment objective and reflected the path of market interest rates. Over the course of 2009/10, the RBA increased the official cash rate from 3.0% to 4.5%, which resulted in increased investment returns of the PSS Cash Investment Option.

Investment option	1 year to 30 June 2010	5 years to 30 June 2010	10 years to 30 June 2010
Default Fund	9.2%	3.5%	4.3%
Cash Investment Option	3.2%	4.7%	N/A

All returns are after fees and taxes.



The chart above shows how \$50,000 invested in the PSS has grown in the Default Fund over the past ten years (including tax), compared with how it would have grown if invested in a low-risk asset class like bank bills or cash (including tax). Remember, super is a long term investment and past performance is no indication of future performance – investment markets are volatile and it is not possible to predict when they will go up or down, or how quickly this will happen.

Changing investment strategies for preserved members: making the right choice

If you are a preserved benefit member, you have the opportunity to choose how your super is invested. You can choose to invest the taxed portion (member and productivity – see **Your super details** section on your statement) of your super in the Cash Investment Option or leave it in the PSS Default Fund. You are entitled to two switches in each calendar year. Choosing to switch should depend upon your personal goals, financial situation and plans for the future.

Before you change...

In this section of the report, you'll find information on the investment objectives and strategies for both PSS investment options. In addition to reviewing this information, there are some other things you should consider before changing your investment strategy.

1. What is your investment timeframe? How long do you plan to invest your money before withdrawing it for retirement?
2. What level of investment earnings are you hoping for? If you're looking for a higher return, you will need to be willing to accept a greater degree of volatility.

3. What level of risk are you willing to tolerate? Different investment options carry different levels of risk and you will need to decide what you are comfortable with.

If you have not made a choice, your super will be invested in the Default Fund. The Cash Investment Option is an alternative to this, and provides an opportunity to have less volatile earnings for your taxed accumulation (member and productivity) components, in exchange for the possibly higher, but more volatile, return of the Default Fund over the longer term.

Before you make an investment choice you should get advice from a licensed financial adviser and read through the PSS Product Disclosure Statement which is available at www.pss.gov.au.

If you decide that you would like to change your investment strategy, you can download a Transfer form from the PSS website at www.pss.gov.au, or call 1300 000 377 and we will send one to you.

Investment managers

ARIA works with leading investment managers to ensure that your super is well managed.

Our policy on derivatives

Investment managers who enter into an investment management agreement with ARIA may use derivative securities (known as derivatives) to facilitate increases or decreases in the fund's exposure to different investment markets. Derivatives are financial instruments whose value changes in response to the changes in underlying variables. Examples include futures, options and forward exchange contracts.

Derivatives within investment mandates are mainly used to reduce risk for you. Our investment managers are not permitted to use derivative securities for gearing the fund or any part of the fund, or for placing the fund in a position where it is short an asset class.

The investment mandates we grant to our investment managers, allowing them to use derivatives, reflect the policy for the fund as a whole. If ARIA's investment managers are permitted to use derivative securities the limits will be clearly set out in the mandate. ARIA's internal investment team (and Custodian) monitor whether derivatives use is consistent with ARIA's policy, and will advise ARIA of any breach.

If you would like more information about our derivatives policy, please call ARIA on 02 6263 6999.

PSS Default Fund investment managers 2009/10 include:

452 Capital Pty Limited	MIR Investment Management Limited
Alleron Investment Management Limited	Northward Capital Investment Management Limited
AMP Capital Investors Limited	Orbis Investment Management Limited
Arcadia Funds Management Limited	Paradise Investment Management Limited
Aurora Investment Management LLC	Perpetual Investments
AXA Rosenberg Investment Management Limited	PIMCO Australia Pty. Ltd.
Balanced Equity Management Pty Limited	Platinum Asset Management
Barclays Global Investors Australia Limited	Principal Global Investors (Australia) Limited
BlackRock Financial Management	Rexiter Capital Management Limited
Bridgewater Associates, LP	Rogge Global Partners PLC
Colonial First State Property Limited	Schroder Investment Management Australia Limited
Concord Capital Limited	Solaris Investment Management Limited
DEXUS Property Group Limited	State Street Global Advisors Limited
Eureka Funds Management Company	Vanguard Investments Australia Limited
GMO Australia Limited	Wellington International Management Company Pte Limited
Holowesko Partners Limited	
Integrity Investment Management Limited	
Lend Lease Real Estate Investments Limited	
Loomis Sayles & Company LP	
Macquarie Investment Management Limited	
Marathon Asset Management Limited	
Marvin & Palmer Associates Inc	

Cash Investment Option manager

Macquarie Investment Management Limited



PSS investments

Default Fund

Investment objectives

The Default Fund's key investment objective is to maximise the long-term real return within certain risk constraints. While the future investment climate cannot be predicted, ARIA is constantly monitoring its asset allocation and the global economic environment in which your money is invested.

Currently, a little over half of the fund's assets are invested in equities, the majority of which are traded on listed exchanges. The fund also has a substantial program of alternative investments,

including private equity and market-neutral strategies. To a degree, these are expected to behave independently of listed equity and bond markets, reducing the overall risk of the fund through the benefits of diversification.

Other investments include a portfolio of direct and indirect property holdings, actively diversified funds, government and corporate bonds, Australian residential mortgage backed securities (RMBS) and cash.

Default Fund asset allocation

Asset allocation	At 30 June 2009	At 30 June 2010
Australian equity	25.4%	27.1%
International equity	23.7%	27.4%
Long/short equity funds	3.4%	2.3%
Real assets	17.2%	14.3%
Alternatives	9.3%	12.0%
Fixed income	11.2%	12.0%
Cash	9.8%	4.9%

Default Fund

Funds under management

30/6/09	30/6/10
\$m	\$m
10,003.1	11,306.4

Fund performance

1 year	3 year	5 year
% p.a.	% p.a.	% p.a.
9.2%	-2.8%	3.5%

All performance information is after tax and fees.

ARIA determines an earning rate for the Default Fund every business day, and earnings are allocated to members' accounts monthly. The daily rates are used to calculate entitlements for members exiting the PSS.

For more information about our investment performance, see the **Investments** section of the PSS website at www.pss.gov.au.

Default Fund earning rates

Over the five years ending 30 June 2010, the compound average rate of earnings (after tax and fees) for the Default Fund is 3.5% per annum.

Year	Earning rate (after tax and fees)	Inflation rate
2005/06	13.1%	4.0%
2006/07	14.1%	2.1%
2007/08	-1.9%	4.5%
2008/09	-14.2%	1.5%
2009/10	9.2%	3.1%

Cash Investment Option for preserved benefit members

Investment objectives

The Cash Investment Option's key investment objective is to preserve its capital and earn a return close to that of the UBSA Bank Bill Index.

The Cash Investment Option invests in:

- > cash (deposits with a bank)
- > Australian-dollar-denominated money market securities that are issued or guaranteed by a government, bank or corporate entity

with a minimum credit rating of AA (or its floating rate equivalent), as determined by Standard & Poor's (or the equivalent from Moody's or Fitch if no Standard & Poor's rating is available)

- > interest rate futures and options traded on the Sydney Futures Exchange.

Cash Investment Option asset allocation

Asset allocation	At 30 June 2009	At 30 June 2010
Cash	100%	100%

Cash Investment Option

Funds under management

30/6/09	30/6/10
\$m	\$m
50.9	29.0

Fund performance

1 year	3 year	5 year
% p.a.	% p.a.	% p.a.
3.2%	4.6%	4.7%

All performance information is after tax and fees.

ARIA determines an earning rate for the Cash Investment Option every business day, and earnings are allocated to members' accounts monthly. The daily rates are used to calculate entitlements for members exiting the PSS.

For more information about our investment performance, see the **Investments** section of the PSS website at www.pss.gov.au.

Cash Investment Option earning rates

Over the five years ending 30 June 2010, the compound average rate of earnings (after tax and fees) for the Cash Investment Option is 4.7% per annum.

Year	Earning rate (after tax and fees)	Inflation rate
2005/06	4.8%	4.0%
2006/07	5.4%	2.1%
2007/08	6.1%	4.5%
2008/09	4.6%	1.5%
2009/10	3.2%	3.1%



The year that's been

Chairman's report

It is with pleasure that I present my inaugural PSS Annual Report as ARIA Chairman, having been appointed in December 2009. In this report you will find information on the operations of the PSS for the year ending 30 June 2010.

Investment performance

After the previously challenging year, 2009/10 was generally a strong year for investment markets with the Australian share market rising by around 13.1% and international shares rising almost as much. This contributed to all investment options recording positive returns in 2009/10.

The PSS Default Fund recorded a return of 9.2% and the PSS Cash Investment Option achieved a return 3.2%. The

PSS also achieved its target return objective over the seven year period to June 2010. For further information, see **Investments** on page 6.

Because the PSS is a defined benefit scheme, if you are a contributing member, your final benefit is largely unaffected by investment performance. For more information about how investment performance affects your super, see **Super in focus** on page 2.

The year ahead

We remain committed to delivering competitive investment returns in the long-term and giving our members the information they need to make the right super decisions.

In the coming year we will continue to work to achieve product and service enhancements such as permitting salary sacrifice to the PSSap for CSS and PSS members, having a PSSap allocated pension product and providing intra-fund advice to our members. These are important reforms to ensure our members continue to enjoy the benefits of competitive superannuation offerings.

Trustee Board

I thank my fellow trustees for their contribution in 2009/10. During the year Steven Crane resigned from his position on 27 October 2009 and Dennis Trewin was reappointed until 30 June 2012.

ARIA staff

I would also like to acknowledge and thank ARIA staff for their commitment throughout the year and in anticipation of their continuing commitment and enthusiasm for the coming year. Their ongoing dedication is a key component of ARIA's continued success.

I hope you find this Annual report a useful source of information about PSS's operations and accomplishments and I hope it helps you get the most out of your super.

Tony Hyams
Chairman

Who's who: your trustees in 2009/10



Tony Hyams
Chairman (independent)
Appointed 21 December 2009 to 25 November 2012



Peter Feltham
Trustee (ACTU nominated)
Appointed 1 July 2005, reappointed to 17 July 2012



Margaret Gillespie
Trustee (ACTU nominated)
Appointed 1 October 2007 to 30 September 2010



Winsome Hall
Trustee (ACTU nominated)
Appointed 1 July 1996, reappointed to 30 September 2010



Dennis Trewin AO
Trustee (employer nominated)
Appointed 20 December 2007, reappointed to 30 June 2012



Brian Daley
Trustee (employer nominated)
Appointed 19 March 2009 to 12 March 2012

Full biographies for each of the trustees can be found at www.aria.gov.au.

For details of the procedure for trustee appointments and terminations, please visit **The ARIA Team** in the **About us** section of the ARIA website.

The trustees manage the PSS and invest in the funds in accordance with the law and relevant regulatory requirements. All trustees are appointed in writing by the Minister for Finance and Deregulation.

ARIA and individual trustees are covered by indemnity insurance to protect themselves and the PSS from losses arising from certain claims against them. To date, there has never been a claim against ARIA or a trustee that has resulted in the loss of members' monies, nor have any regulatory penalties been imposed.

Steven Crane

Appointed Trustee
1 October 2007
resigned 27 October 2009

Financial statements

Public Sector Superannuation Scheme unaudited financial statements for 2009/10

	\$ million
Value of Fund as at 1 July 2009	9,992.1
Inflows	
Changes in market value of investments	1,027.3
Other income	1.7
Employee contributions	550.1
Employer contributions	223.3
Government co-contributions	24.8
Appropriation from CRF	346.5
Outflows¹	
Benefits paid	(737.1)
Income tax expense	(33.9)
Value of the Fund as at 30 June 2010	11,394.8
Assets and liabilities as at 30 June 2010	
Investments ²	11,359.5
Cash at bank	83.1
Amounts to be appropriated from Consolidated Revenue Fund	0.2
Other receivables	0.2
Benefits payable	(13.9)
Other payables	(1.0)
Provision for tax	(33.3)
Net assets as at 30 June 2010	11,394.8

1. The expenses of the PSS are met in the ARIA Investments Trust and accordingly no administration or investment expenses appear here.

2. The value of investments shown above reconciles with the Total Fund values shown on page 7 as follows:

	\$ million
Default Fund	11,306.4
Cash Investment Option	29.0
Total Fund	11,335.4
Add/(less):	
Valuation difference due to timing	24.1
	11,359.5

The assets of the PSS are invested in the ARIA Investments Trusts (AIT), where they are pooled with the investments of the other Commonwealth public sector superannuation funds – the Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme accumulation plan (PSSap) – in order to deliver a cost efficient investment process. The AIT invests in multiple specialist investment funds and portfolios.

The AIT receives income such as dividends, interest, trust distributions and gains and losses on sale and incurs administration and management expenses including expenses that would be otherwise incurred by the PSS.

The operating surplus or deficit generated by the AIT is reflected in daily unit prices provided by the AIT for its unitholders including the PSS, and daily earning rates based on the unit prices are published on the PSS website. If you would like to see a copy of the PSS audited financial statements for this year and the reports from the auditor please refer to our Annual Report to Parliament, (which is published and tabled in the Parliament in October) at www.aria.gov.au, send an email to members@pss.gov.au, call us on 1300 000 377 or write to PSS, PO Box 22 Belconnen ACT 2616.

Contact us

For all the information you need to make smart choices about your super, visit www.pss.gov.au. On our website you'll find:

- > Our Product Disclosure Statement
- > a handy glossary of terms
- > forms and publications to change your investments or learn more about your options
- > news and information
- > dates and locations for ARIA's free At Work for You superannuation seminars.

- > **Member services online**, where you can:
 - use the **PSS i-Estimator** online calculator to estimate your benefit
 - update your address and contact details
 - sign up to receive your full **Member Statement** online
 - view and download your **Member Statement**
 - pay surcharge and leave-without-pay contributions via BPAY.

To access the online member services you will need a secure access number. If you have lost or forgotten your access number, you can re-set it through the **Member services online** login page. If you need help to do this, please don't hesitate to contact us.

Web: www.pss.gov.au
 Email: members@pss.gov.au
 Phone: 1300 000 377
 TTY: 02 6272 9827
 Fax: 02 6272 9613
 Post: PSS Member Services
 PO Box 22
 Belconnen ACT 2616

If you would like more information about your fund's investments and governance, you can also contact ARIA in one of the following ways:

Web: www.aria.gov.au
 Email: secretary@aria.gov.au
 Phone: 02 6263 6999
 Fax: 02 6263 6900
 Post: ARIA
 GPO Box 1907
 Canberra ACT 2601