

CSS

93-94

annual report to members

from the Commonwealth Superannuation Board of Trustees No.2

Issued August 1994

in this issue . . .

New Super legislation — The Superannuation Industry (Supervision) Act 1993: a summary	page 2
Scheme statistics — The CSS: contributors, pensioners & exits during the year	page 3
CSS 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 **6.6%**. The method used to calculate this rate is outlined briefly on page 5.
- **Fund investment:** Over 1993-94, the return on Fund investments (after investment management fees and tax on investment returns) was **7.1%**, which exceeded inflation by 5.4 percentage points. The investment year was one of two distinct halves—a very good first half followed by a disappointing second.

Despite the reversals in the third and fourth quarters, the Fund exceeded its performance benchmark by 3.2 percentage points for the year. Australian fixed-interest returns, which were 1.6 percentage points below the sectoral performance benchmark, and international fixed-interest (4.7 points below), suffered most in the second-half downturn. The best returns for the year came in the property and Australian shares sectors, which exceeded their benchmarks by 12.5 and 4.0 percentage points respectively.

At the end of the year the value of Fund investment assets had increased from \$4330.5m to \$4362.4m.
- **Contributions and benefits:** Superannuation contributions totalling \$324.5m were received into the Fund during the year, comprising \$235.0m in member contributions and \$89.5m in productivity contributions. \$313.1m was paid from the Fund in benefits to members who left the CSS during the course of the financial year. The CSS pension liability at 30 June 1994 was \$1628.8m per annum.
- **Scheme administration:** On 1 March 1994, the Scheme administrator changed its corporate identity—the Retirement Benefits Office (RBO) became Commonwealth Superannuation Administration, or **ComSuper**. The change in corporate identity was accompanied by ComSuper's decision to upgrade its computer facilities. ComSuper expects that its policy of continuous improvement will result in a greater level of service to the Board, to CSS members and to employing agencies.
- **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).
- **Future directions:** On 1 July 1994 the Board took full responsibility for the administration of the CSS, which previously had been the function of the Commissioner for Superannuation.

The Board has decided in principle to elect to become a regulated Fund under the terms of SIS (the *Superannuation Industry (Supervision) Act 1993*—see page 2 for a summary). The election will be made later in 1994-95, after any further necessary legislative and administrative adjustments have been made.

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 with an effective start date for most superannuation funds of 1 July 1994. Trustees of public sector funds (which includes the CSS) have until 30 June 1995 to elect to become regulated superannuation funds under SIS.

An election to become a regulated fund under the SIS legislation 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 CSS must continue to comply with the Occupational Superannuation Standards (OSSA), as modified by SIS.

There are some aspects of scheme design and administration that must be modified in order for the scheme 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 be able to 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 supply you with information on the performance of the Fund each year; and
- we must continue to supply you with information on your superannuation entitlements each year.

As CSS 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 the 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
- 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 to 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 this financial year, 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 applied 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 CSS Fund to receive favourable tax treatment, it had to comply with the *Occupational Superannuation Standards Act 1987* (OSSA).

The Board 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 which are inconsistent with OSSA operating standards. We are discussing these with the ISC, and 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

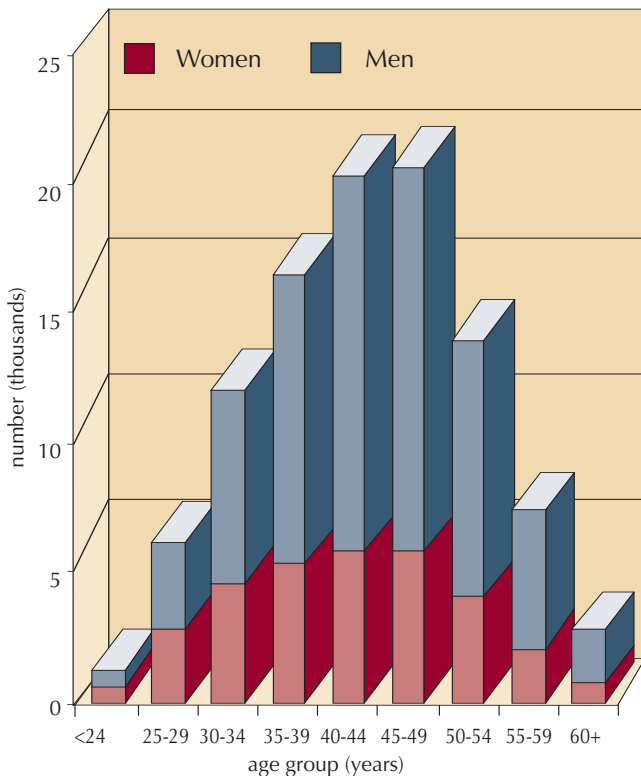
occurred during the year. We are also required to tell you about any legislative changes that occurred during the year, and to provide you with individualised details about your superannuation entitlements (including prospective benefits).

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 effect. 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 STATISTICS

■ Membership

At 30 June 1994 there were 100 990 members of the CSS—69 037 males and 31 953 females. The age and gender profile is shown below.



The CSS is a closed scheme—it was closed to new members when the PSS was introduced on 1 July 1990. Therefore, the CSS population will decrease, and the age profile of contributors will increase, over the coming years. This changing profile is a factor that is taken into account by the Board in its regular investment policy reviews.

■ Net contributions flow

Contributions received during the year	\$324.5m
less	
Benefits paid from CSS Fund during the year	(\$313.1m)
Net contributions flow, 1993–94	\$11.4m

■ Scheme exits

Of the 10 189 members who left the Scheme in 1993–94, 1604 transferred to other schemes operated by Government Business Enterprises, and 8585 were entitled to receive a CSS benefit, as follows:

Reason for exit	number	%
Age retirement	1 376	16.0
Involuntary retirement (retrenchment)	5 047	58.8
Resignation (including preservation)	1 805	21.0
Invalidity retirement	206	2.4
Death	151	1.8
Total	8 585	100.0

■ Pensions in force

At 30 June 1994 there were 103 352 pensions in force, incurring an annual pension liability of \$1628.8m. These pensions are paid from the Consolidated Revenue Fund.

Type of pension	number	liability (\$m p.a.)
Age	40 551	627.3
Invalidity	29 934	575.3
Involuntary (retrenchment)	7 036	110.5
Spouses & orphans	25 831	315.7
Total	103 352	1 628.8

CSS INVESTMENT POLICY

The primary objective of the CSS 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 shares 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 investment policy was in place throughout 1993–94. The Board has recently taken some decisions on the future investment policy for the CSS as part of its review of the management and strategy for 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.

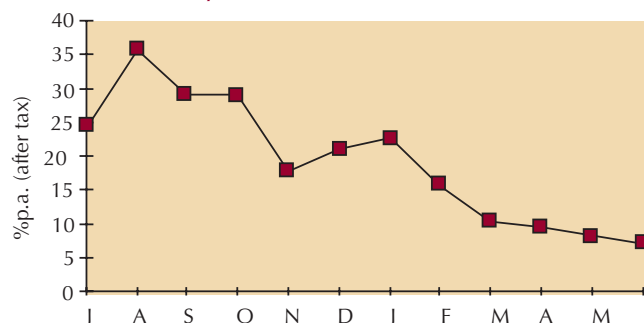
Despite this reversal, the Fund's performance exceeded that of its benchmark by 3.2 percentage points over the year. The strongest returns were in the property and Australian shares sectors, which exceeded their benchmarks by 12.5 and 4.0 percentage points respectively. These holdings comprised 51.2% of the Fund's investment portfolio. The return on Australian shares (19.7% 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 (4.7 percentage points below benchmark) was the worst-performing sector in 1993–94. However, these assets constituted less than two 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	CSS Fund
	at 30/6/93		at 30/6/94		Holding range %	Target average %	1993–94 performance (after tax)%	1993–94 performance (after tax)%
	\$m	% of Fund	\$m	% of Fund				
Property	956.5	22.1	944.8	21.7	15 – 25	20	1.2	13.7
Australian shares	1 192.9	27.5	1 287.6	29.5	15 – 30	25	15.7	19.7
International shares	913.0	21.1	894.4	20.5	10 – 25	20	0.0	1.1
Australian fixed-interest	571.6	13.2	836.8	19.2	0 – 40	20	-0.9	-2.5
International fixed-interest	401.9	9.3	82.1	1.9	0 – 10	5	-3.7	-8.4
Indexed bonds	223.8	5.2	250.5	5.7	0 – 10	5	-2.2	-1.7
Cash	70.8	1.6	66.2	1.5	1 – 40	5	4.2	3.7
Total	4 330.5	100.0	4 362.4	100.0		100	3.9	7.1

■ 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 **6.6%**;
- the long-term average annual Fund earning rates are as follows:
 - 3 years **7.3%** (inflation: 1.6%)
 - 10 years **11.9%** (inflation: 5.5%)
 - 15 years **12.1%** (inflation: 6.6%)
- at the end of the year the balance in the Reserve Account was approximately **\$69m**.

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 CSS 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

Allocation rate

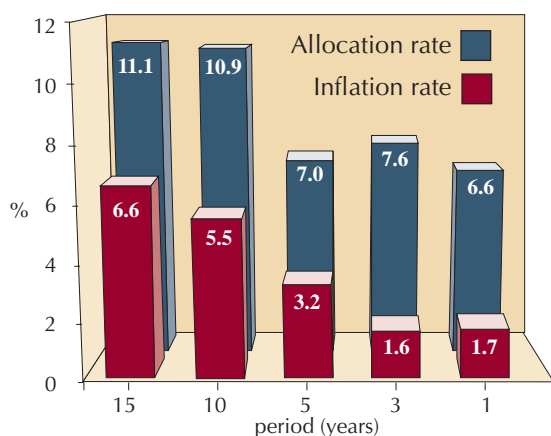
With every superannuation contribution you make, your stake in the CSS Fund grows, and that stake grows more every year as it earns interest. Each year, the Board declares an **allocation rate** of interest that is credited to your accumulated contributions.

The allocation rate for 1993–94 was 6.6%.

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 in full in the Board's *Investment Policy Statement* booklet, which was sent to CSS members in 1992. Copies are available on request to the Secretary of the Board.

The chart below shows that Fund allocation rates have been consistently above 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 final superannuation benefit, and your **productivity** benefit. The main CSS benefit (probably more than 70%) is usually the **CPI-indexed, employer-financed pension** at retirement, which is based on your salary and age at exit and your length of service.

Exit rates

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

The current exit rate is **8.1%**, which is the interest rate that would apply if you were to leave the CSS (without preserving your benefit) 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 SUMMARY

Value of Fund at 1 July 1993
\$4 242.7m

INFLOW		OUTFLOW	
Contributions received	\$324.5m	Benefits paid	\$313.1m
Investment income	\$301.4m	Transfers to other schemes	\$211.5m
		Investment and other expenses	\$21.6m
		Taxation	\$28.4m

Value of Fund at 30 June 1994
\$4 294.0m

ASSETS	
Investments	\$4 362.4m
Other assets	\$15.8m
LIABILITIES	
Total liabilities	\$84.2m

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

1991–92 (combined CSS/PSS Fund)	\$ 251.9m
1992–93	\$ 378.5m
1993–94	\$ 251.4m

Important note

These figures are taken from the draft 1993–94 Financial Statements currently being finalised by ComSuper in respect of the operations of the Commonwealth Superannuation Fund No. 2 (the CSS Fund). 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 some transactions of the CSS to be maintained separately from those of the PSS at all times. 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 and other technical difficulties, and enable the two schemes to maintain completely separate records.

THE BOARD OF TRUSTEES

The Commonwealth Superannuation Board of Trustees No. 2 (the CSS Board) consists of seven members appointed by the Minister for Finance. There are three ACTU nominees and an independent chairperson, who are appointed for three-year terms (but are eligible for reappointment), and three employer nominees, who hold office 'at the Minister's pleasure'. The Board Secretary is Ms Michele Dawson, of ComSuper's Secretariat Section.

The current members of the CSS 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 PSS Board.

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

Mr Barrett is Deputy Secretary of the Department of Finance, and a member of the PSS 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 in Sydney. He is also a member of the PSS Board.

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

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



Back: Angus McKenzie, Pat Barrett, David Leaver, Michele Dawson (Secretary), Ken Searson. Seated: John Flitcroft, Ron Brown, Cheryl Savage.

Mr Angus McKenzie (employer nominee)—appointed 1 July 1990

Mr McKenzie is Group Manager, Risk and Treasury Management, at Australia Post. He is responsible for the operation of the Australia Post Superannuation Scheme, and is a Director of the trustee of that Scheme. He is also a Commissioner of the Safety, Rehabilitation and Compensation Commission.

Mrs Cheryl Savage (ACTU nominee)—appointed from 1 July 1993 to 30 June 1996

Mrs Savage is a member of the CPSU, and works in the strategy area of Telecom's Commercial and Consumer Division as the Manager of Finance for Residential Video.

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 Trustee of the PSS and the MSBS schemes, 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 CSS 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 Trustees are 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 CSS entitlements

If you want to know more about your CSS entitlements, read *Your Super Scheme*, which was issued to CSS members by ComSuper in 1992. Your Personnel Section should have copies.

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, etc. to Personnel Sections. Personnel Sections also have a computerised Ready Reckoner 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 fax them on (06) 253 1116.

■ Board issues

For more 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;
- a summary of the principal features of the CSS; and/or
- the CSS Investment Policy booklet,

write to:

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

fax: (06) 253 1116

