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## Executive summary

### Investment results

ARIA finished the 2007/08 year with more than \$18 billion funds under management and over 343 627 members in the CSS, PSS and PSSap.

The PSSap continued to grow strongly in 2007/08, with 73 983 members at the end of the year. Membership of the closed CSS and PSS schemes continued to decline in line with forecasts.

ARIA's Funds achieved strong comparative returns in the volatile investment environment of 2007/08. Following is the performance of these Funds.

#### CSS and PSS Default Fund

The CSS Default Fund posted a net return of -1.8% and the PSS Default Fund posted a net return of -1.9% , the first negative year after four consecutive years of double-digit returns. Despite the decline in 2007/08, the CSS and PSS Default Funds' longer-term performance continues to exceed their objectives.

The CSS has achieved an average performance over the past three years of 9.0% per annum, a five-year average return of 11.0% and a 10-year average of 7.8% per annum.

For the PSS, its three-year average performance was 9.3% per annum, five-year average return was 11.2% and for 10 years was 7.7% per annum.

ARIA's focus remains on achieving at least 4.5% real return per annum in the long term. The three and five-year returns have outperformed this objective.

#### CSS and PSS Cash Investment Option

The CSS Cash Investment Option and PSS Cash Investment Option achieved a net return of 6.1% and this is consistent with the strategic investment objectives of these Funds.

The inflows to the cash option continue to indicate that members use this as an option to achieve a higher degree of certainty as they approach retirement.

#### PSSap

Given the large decline in equity markets, both in Australia and overseas, those PSSap investment options with significant exposure to equity markets recorded negative returns.

PSSap options with either a modest or no allocation to equity markets achieved positive returns. These included the Property, Cash, Fixed interest, Conservative and Balanced options.

PSSap's Trustee Choice Default Fund recorded a return of -2.1% and an average three-year return of 9.4%, which is comfortably above its long-term target return.

The Conservative Option returned 0.7%, followed by the Balanced Option 0.5% and the Aggressive Option -5.5%.



## Major events and developments

The major tax changes that affected the entire superannuation industry from 1 July 2007 continue to have an impact. In particular, they make superannuation a preferred investment choice for ARIA's members.

From 1 July 2008, basic contributions to superannuation became voluntary for CSS and PSS members. Before this change, it was compulsory for PSS members to contribute between 2% and 10% of their salary and CSS members, 5% or more of their salary.

From 1 July 2008, PSS members can also elect to cease PSS membership and start contributing to another fund. In most cases, the default fund is the PSSap.

In the 2005/06 annual report, ARIA advised that review and compliance processes identified issues with accounting information used to calculate the Default Fund exit rates in 2005/06 financial year. This led to an understatement of investment earnings and a miscalculation of exit rates used for members taking a benefit that year. ARIA corrected this error and posted new exit rates.

ARIA is pleased to report that all affected members have now received any additional benefit payments that were due, including interest through to the date of payment.

In 2004, ARIA changed the way it allocated earnings to members' accounts. This change meant that ARIA could allocate Fund earnings more equitably between members who claim a benefit during a period of negative earnings and those who stay in the scheme. The change meant that each member's share of Fund earnings was allocated when they claimed a benefit.

ARIA has now completed the next step in this process and allocated the previously unallocated Fund earnings to members' accounts. ARIA has now moved to monthly allocation of earnings.

In 2008, the Australian Government announced that legislation to remove same-sex discrimination from a wide range of Commonwealth laws, including those relating to superannuation, would be introduced in 2008. At the time of writing, the Bill was under review by a Senate Committee.

## Investment governance

ARIA started a wide-ranging review of its investment governance arrangements in late 2007. ARIA is implementing world best practice in the critical areas of Trustee Board and executive responsibility through the further development of its investment beliefs, vision and mission. This will provide the capacity to create value by enhancing the skills, resources and processes in our core activity – investment.

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### Service to members

ARIA aims to empower members and make it easier for them to manage and understand their super. ARIA does this by providing members with clear, concise and tailored communications throughout the year and works with its administrator, ComSuper to provide first-class websites, contact centres and comprehensive employer support.

Most notable in 2007/08 was the growth of ARIA's member education program, At Work for You. During the year, ARIA held workshops at more than 30 locations around Australia. The number of At Work for You workshops presented increased from 141 in 2006 to 349 in 2007. This meant 12 097 members attended a workshop in 2007, compared to 3 895 members in 2006.

ARIA's websites and targeted information and education campaigns provide the basis for members to improve their super knowledge and confidence. ARIA conducts research with its members to identify areas of improvement for its services. In 2007/08, member visits to ARIA's websites continued to grow, a trend expected to continue into the future.

ARIA's administrator, ComSuper, provides member information through its CSS, PSS and PSSap contact centres. In 2007/08, one of the contact centres was a finalist in the Best Call Centre (50-120 employees) category of the Australian Teleservices Association's awards.

### Administration

ARIA works closely with its administrator, ComSuper to provide effective and efficient superannuation services to its members.

In 2007/08 ARIA's administrator focussed on:

- ▶ improving customer service for both members and employers
- ▶ preparing members, employers and systems for the contribution and membership changes that started on 1 July 2008
- ▶ improving IT systems and procedures to improve efficiency for members and minimise risk.

Scheme administration remains an area of focus for ARIA. The key systems used by ComSuper for the CSS and PSS schemes continue to create service delivery and compliance issues for the trustees.

In 2007/08, ComSuper started a long-term project to modernise its IT systems and platforms to meet ongoing regulatory requirements and improve scheme administration generally. This project is a result of additional funding announced by the then Minister for Finance and Administration in the 2007/08 Budget.

## Regulatory and policy environment

A number of regulatory and policy initiatives occurred throughout the year. Legislative amendments include:

- ▶ The *Superannuation Legislation Amendment Act 2007* amended the CSS Act to permit eligible members to cease making basic contributions from 1 July 2008. Certain provisions of the CSS Act were also added and amended by the *Superannuation Legislation Amendment Act 2007* to provide for the early release of benefits under the Superannuation Industry (Supervision) Regulations 1994, from 1 January 2008.
- ▶ The *Superannuation Legislation Amendment Act 2007* amended the PSS Act to allow eligible contributing members to leave the PSS and join the PSSap from 1 July 2008. The 29th Amending Deed of 28 August 2007 amended the PSS Rules in a number of different ways. It makes member contributions voluntary; previously they had to be between 2% and 10%. The PSS maximum benefit limit was increased, and its structure was simplified. The Rules were also amended to provide for the early release of benefits under the Superannuation Industry (Supervision) Regulations 1994, from 1 January 2008. The 30th Amending Deed of 24 December 2007 made some minor amendments of a technical nature to the Rules to deal with early release benefits and family law splitting issues. These took effect from 1 January 2008.

- ▶ The PSSap Act has also been amended by the *Superannuation Legislation Amendment Act 2007* allowing members from the PSS to enter the PSSap. These changes are consequential to the amendments to the PSS Act.

## Future directions

ARIA is committed to providing our members with services, performance and information that will help them make the most of their super.

In the year ahead, we will continue to review our investment governance arrangements. This will help us to focus on our core business of investment and uphold best practice standards in Trustee responsibility and investment beliefs.

We will continue to work with our administrator, ComSuper, to provide effective and efficient superannuation services to our members.



Lochiel Crafter  
Chief Executive Officer