

4 March 2010



Ms Christine McDonald  
Secretary  
The Senate Standing Committee on  
Finance and Public Administration  
PO Box 6100  
Parliament House  
Canberra ACT 2601

Dear Ms McDonald

**Governance of Australian Government Superannuation Schemes Bill 2010, the ComSuper Bill 2010 and the Superannuation Legislation (Consequential Amendments and Transitional Provisions) Bill 2010**

I refer to your letter dated 25 February 2010 inviting ARIA to make a submission to the Committee on issues that may be of relevance to ARIA.

I have noted paragraph two of your letter which sets out the nature of the inquiry being undertaken by the Committee. The specific issue under consideration by the Committee is a matter of Government policy and not a matter in relation to which ARIA would have a view. ARIA is a statutory corporation with accountability and obligations to both the Minister and the Parliament.

To assist the Committee in its deliberations we have prepared the attached submission dealing with the key functions of ARIA, the superannuation schemes for which it is responsible and its approach to investing and managing those schemes' funds.

Please contact me should you require any further information.

Yours sincerely

Tony Hyams  
Chairman

Attachment

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RSE R1004595  
ABN 74 172 177 893  
PSSap  
RSE R1004601  
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## ARIA SUBMISSION TO SENATE FINANCE AND ADMINISTRATION COMMITTEE

ARIA is a statutory corporation established under the *Superannuation Act 1990*. It is licensed under the *Corporations Act 2001* and the *Superannuation Industry (Supervision) Act 1993* to provide superannuation services and general advice to its members.

### Trustees

The Minister for Finance and Deregulation appoints the seven trustees of ARIA. Three are nominated by the Government as employer, three by the Australian Council of Trade Unions (ACTU) and the Chairman is independent.

The Chairman and the ACTU nominees are appointed for periods not exceeding three years (but are eligible for reappointment) and the other members hold office for such period as the Minister determines.

The ARIA trustees are:

ARIA TRUSTEES	DATE APPOINTED	APPOINTMENT END DATE
Tony Hyams – Independent Chairman	21 December 2009	25 November 2012
Brian Daley – employer nominated	19 March 2009	12 March 2012
Peter Feltham – ACTU nominated	1 July 2005 till 30 June 2009 then 20 July 2009	17 July 2012
Margaret Gillespie – ACTU nominated	1 October 2007	30 September 2010
Winsome Hall – ACTU nominated	1 July 1996	30 September 2010
Dennis Trewin – employer nominated	20 December 2007 – 30 September 2009 then 8 October 2009	30 June 2012

(One employer nominated position is vacant)

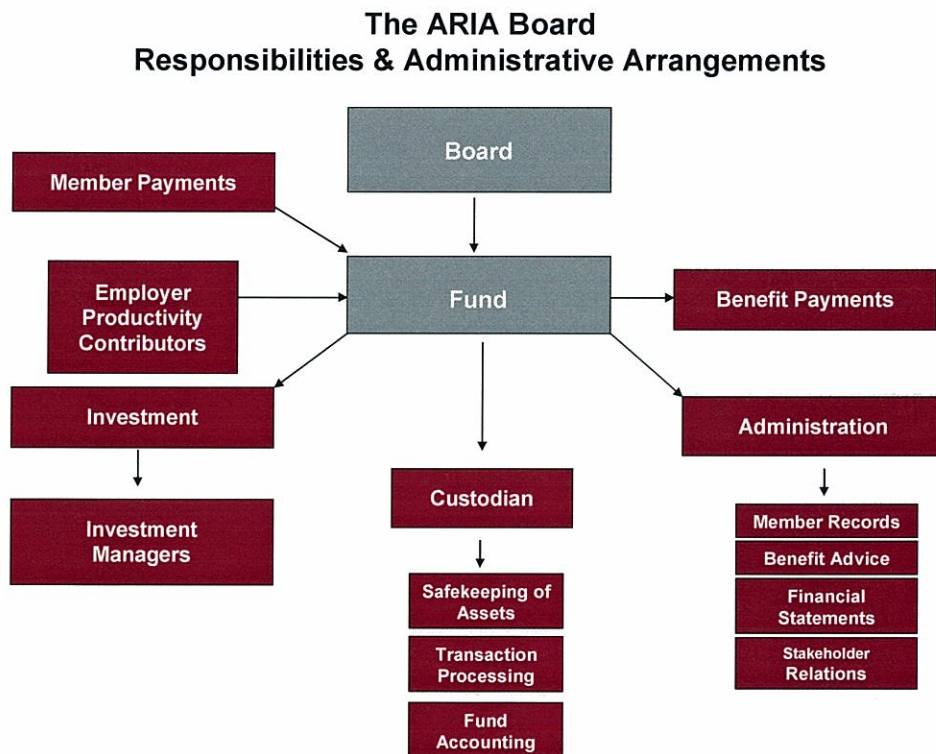
# ARIA SUBMISSION TO SENATE FINANCE AND ADMINISTRATION COMMITTEE

## Functions

The principal responsibility of ARIA is to manage and invest the assets of the Funds to maximise benefits to members. Its main duties are to:

- Manage and invest the monies of the Funds
- Cause the payment of monies in and out of the Funds as required
- To safeguard the assets of the Funds and the interests of the members
- Inform all relevant parties of the Funds' condition and conduct
- Cause proper records and accounts to be maintained about the operation and financial activities of the Funds

The following diagram shows the responsibilities and administrative arrangements of ARIA.



## **ARIA SUBMISSION TO SENATE FINANCE AND ADMINISTRATION COMMITTEE**

### **Schemes**

#### **CSS**

The Commonwealth Superannuation Scheme (CSS) was established on 1 July 1976 and closed to new members on 30 June 1990. At 31 December 2009, it had approximately 29,500 members, 64% contributing and 36% deferred benefits members, 115,600 pensioners and \$4.9 billion in funds under management. The benefits are made up as follows:

- a) a member-financed component, based on contributions paid by the member into the Fund, plus accumulated interest; and
- b) an employer-financed component, made up of two parts:
  - A defined amount that is usually paid as a pension having regard to a number of factors such as final salary, age and length of contributory membership. It is paid from Australian Federal Government funds ("Consolidated Revenue") and does not depend on the earning rate of the Fund; and
  - A further employer benefit, the superannuation productivity benefit, made up of employer contributions and accumulated interest.

The member contributions and the employer productivity contributions are paid into the CSS Fund and grow in line with earnings of the Fund. The first part of the employer-funded benefit, the pension, is not paid into the Fund and comes instead from the Commonwealth's Consolidated Revenue.

#### ***PSS – Defined Benefit ("PSSdb")***

The PSS Fund was established on 1 July 1990 and closed to new members on 30 June 2005. At 31 December 2009, the PSSdb Fund had approximately 233,400 members, 52% contributing members and 48% preserved benefit members, 20,000 pensioners and \$11.2 billion in funds under management. The end benefit is calculated as a multiple of final average salary over the three year period prior to exit from the Fund.

## **ARIA SUBMISSION TO SENATE FINANCE AND ADMINISTRATION COMMITTEE**

The PSSdb benefit comprises the following parts:

- a) A member-financed component, which comprises the contributions paid by the member into the Fund plus accumulated interest. Interest is credited in line with the earning rate of the Fund; and
- b) An employer-financed component, made up of two parts:
  - Superannuation productivity contributions paid by the employer into the Fund plus accumulated interest; and
  - The “benefit balance” which is determined at the time the member exits from the Fund. This amount is the balance after the member and productivity components are deducted from the total defined benefit (calculated as a multiple of final average salary over the last three years of Fund membership).

The member contributions and employer productivity contributions are paid into the PSSdb and grow in line with earnings of the Fund. The “benefit balance” is not paid into the Fund and is unfunded i.e. paid from Consolidated Revenue.

### ***PSS – Accumulation Plan (“PSSap”)***

The PSSap commenced on 1 July 2005. It is an accumulation plan with the following investment options:

Four ‘pre-mixed’ investment options:

1. Conservative
2. Balanced
3. Trustee choice (the default option)
4. Aggressive

Seven individual asset class options:

1. Cash
2. Government bonds
3. International shares (unhedged)
4. International shares
5. Australian shares
6. Property
7. Sustainable

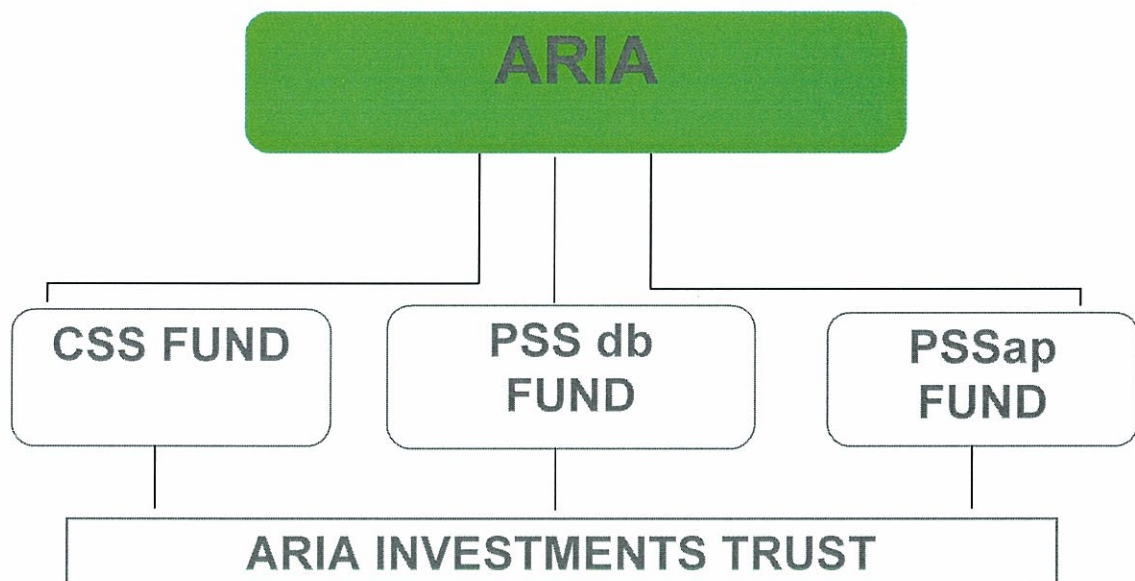
## ARIA SUBMISSION TO SENATE FINANCE AND ADMINISTRATION COMMITTEE

A member can combine these investment options any way they want.

For the period ending 31 December 2009, PSSap had over 90,000 members and \$1.7b in funds under management. From 1 July 2006, new Government employees were able to choose which fund to contribute to.

### Fund Management

All investments of the three Funds are contained within the one pooled investment trust, the ARIA Investments Trust. The ARIA Board is trustee of the ARIA Investments Trust.



The investment structure pools the assets of the three superannuation funds into a single trust (the ARIA Investments Trust) to:

- Achieve cost efficiencies through the elimination of complexities and duplications in administration, investment, liability management, risk management and regulatory compliance, which will have a positive effect on investment returns over time;

## ARIA SUBMISSION TO SENATE FINANCE AND ADMINISTRATION COMMITTEE

- Ensure sustainability for the future with the use of a single investment trust which will provide greater economies of scale and assist to maintain competitive cost structures; and
- Maintain a strong governance structure in line with best-practice corporate governance principles, to maintain high levels of accountability and transparency.

For the default and trustee choice options, the key investment objective is to maximise long-term real returns within some risk constraints. ARIA expects to achieve, over the long-term, an average real return of 4.5% per annum after tax and fees. In the current inflation environment, this equates to a nominal return of 7% per annum over the long-term.

In developing its investment strategy to achieve this objective, ARIA has adopted the following constraints to manage the level of short-term volatility of returns and maintain appropriate levels of liquidity in the Fund:

- On average, expected nominal Fund returns will be positive in about 24 years out of 30; and
- Not more than 25% of the Fund's investments are to be invested in illiquid assets, with a minimum cash allocation of 2%.

Investment performance for the periods ending 31 December 2009 is summarised as follows:

### Performance across All Time Periods (Post Fees & Tax to 31/12/09)

	Market Value (million)	Performance (annualised for periods over 1 year)						
		1 Mth	3 Mths	FYTD	1 Yr	3 Yrs	5 Yrs	7 Yrs
<b>PSS Default Fund</b>	11,142.1	2.2	2.5	10.8	11.1	0.0	5.1	7.5
<b>CSS Default Fund</b>	4,633.99	2.2	2.5	10.8	11.2	-0.1	5.0	7.4
<b>PSSap Pre Mixed Options:</b>								
<b>Trustee Choice</b>	1,500.4	2.2	2.5	10.9	11.4	-0.1		
<b>Aggressive</b>	45.7	2.8	2.8	13.7	16.5	-1.1		
<b>Balanced</b>	15.2	1.2	2.0	8.1	9.7	1.4		
<b>Conservative</b>	11.0	0.6	1.5	6.7	8.4	2.2		