



STATE SUPER
SAS Trustee Corporation

POOLED FUND 2003 – 2004
Annual Report

www.statesuper.nsw.gov.au

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Report to the Minister

October 2004

The Hon Michael Egan, MLC
Treasurer
Governor Macquarie Tower
Level 33
1 Farrer Place
SYDNEY NSW 2000

Dear Minister

We have pleasure in submitting to you for presentation to Parliament the annual report of the SAS Trustee Corporation, covering the period 1 July 2003 to 30 June 2004.

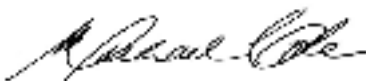
The annual report contains the report for the SAS Trustee Corporation and the Pooled Fund. These have been prepared in accordance with the provisions of the *Annual Reports (Statutory Bodies) Act 1984*, the *Public Finance and Audit Act 1983*, associated regulations and Treasurer's Directions.

Major events during the year included:

- the introduction of investment choice for the accumulation benefits of SASS members;
- a review of the Pooled Fund's strategic asset allocation by three external asset consultants;
- improved investment returns, as a result of stronger global financial markets.

We look forward to working with you during the coming year and wish to note our appreciation for the support and interest you have shown in our activities.

Yours sincerely



Michael Cole
Chairperson
SAS Trustee Corporation



Ian Blair
Board Member and Chairperson of the
Audit and Compliance Committee
SAS Trustee Corporation

Part A – About the SAS Trustee Corporation

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Charter

SAS Trustee Corporation (STC) is a body corporate constituted by the *Superannuation Administration Act 1996*.

It is trustee of the STC Schemes:

- the State Authorities Superannuation Scheme (SASS),
- the State Superannuation Scheme (SSS),
- the Police Superannuation Scheme (PSS), and
- the State Authorities Non-contributory Superannuation Scheme (SANCS).

Its principal functions are to:

- administer the STC Schemes,
- invest and manage the fund of the STC Schemes,
- provide for the custody of the assets and securities of the STC Schemes,
- ensure scheme benefits are properly paid, and
- determine disputes under the Schemes.

Mission

To support the future well being of NSW Government employees and their families by the productive delivery of superannuation benefits with optimal investment returns and member service.

Note: Throughout this report:

Board means the Trustee Board of the SAS Trustee Corporation (STC), appointed under the *Superannuation Administration Act 1996* and comprising an independent chairperson, four employee representatives and four employer representatives.

Executive means the executive staff of the SAS Trustee Corporation.

FTC means the FSS Trustee Corporation.

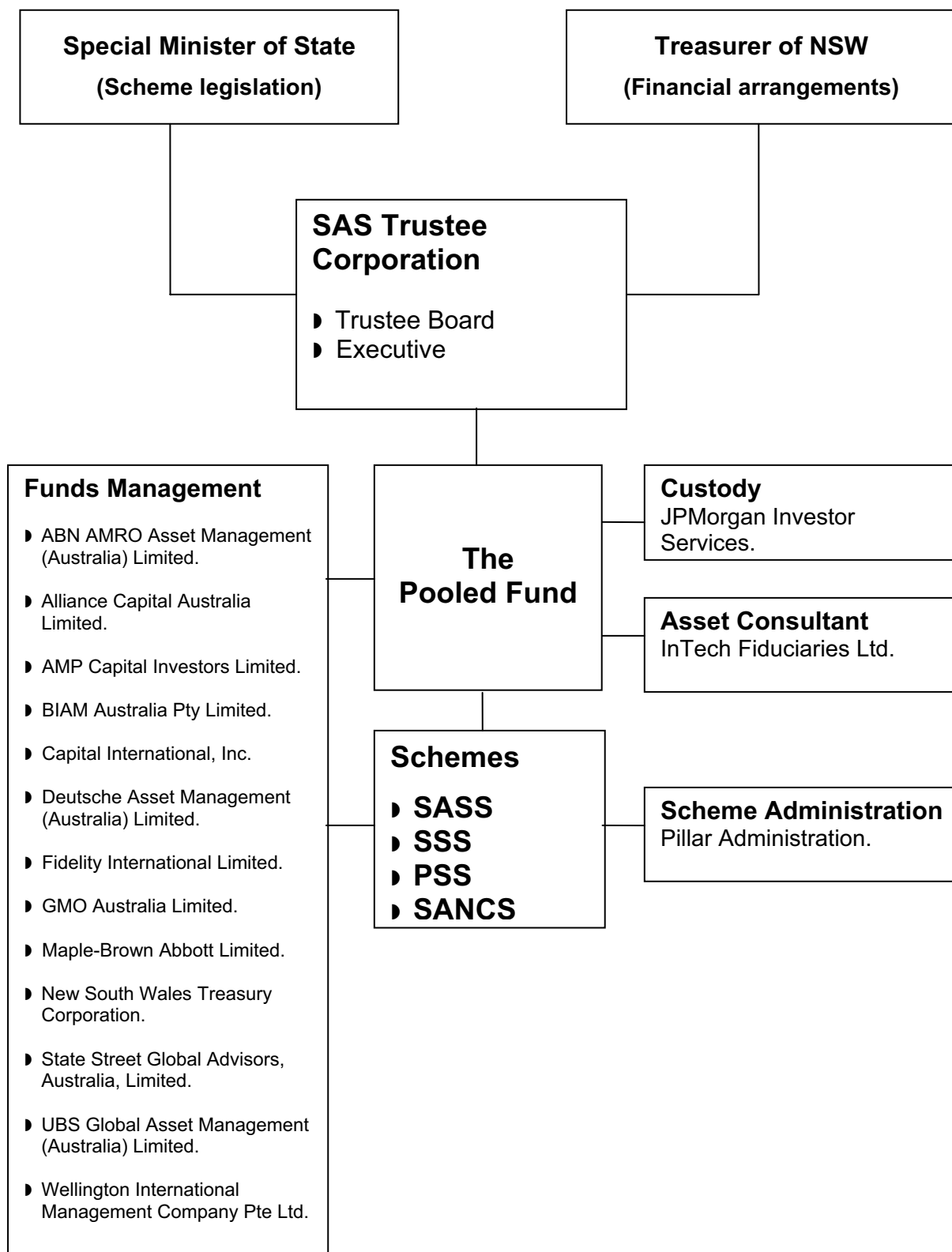
Pooled Fund or **Fund** means the Pooled Fund of the STC schemes.

Trustee Corporation means the SAS Trustee Corporation (STC).

This STC *Annual Report 2003–04* is on our web site, www.statesuper.nsw.gov.au. The accounts of the Pooled Fund's Controlled Entities may be obtained on request from the STC (see outside back cover for contact details). The accounts of the Controlled Entities have been separately tabled in the NSW Parliament.

Organisational structure

at 30 June 2004



Chairperson's Report

During the financial year, the strength of the world's sharemarkets lifted the Pooled Fund's Growth strategy return to 13.5%, which is broadly in line with peer group investment performance. This is one of the strongest returns in the last ten years. However, expert advice suggests that such high returns are unlikely to be consistently achievable in the immediate future. With the expectation that world financial markets will remain volatile, it will be important to maintain a disciplined approach to investing.

The appropriateness of the Fund's growth oriented strategy was again confirmed when the Trustee Board engaged external asset consultants to put forward their view of an appropriate asset allocation for the Fund. The responses were broadly in line with the Fund's current strategy. The Trustee Board will continue to fine tune the Fund's asset allocation and its choice of fund managers. In the last year this has resulted in a reduction in the allocation to direct property and in an increase in the level of active funds management.

While investment returns are very important to the Fund, it must be stressed that the Pooled Fund schemes are largely defined benefit schemes so that the major part of the benefits of most members are not dependent on investment returns.

However, the Personal Account Balance of SASS contributing members and the whole of SASS Deferred Benefits are directly linked to investment returns. For these members, three additional investment strategies were introduced at the end of November 2003. In the seven months to June 2004, approximately 3% of members had taken advantage of this facility to align their investment strategy with their personal investment objectives. To date, the investment returns for these new strategies have been in line with expectations.

Throughout the year, the Trustee Board maintained its seminar program, which is targeted at members approaching retirement. Our objective is to provide members with information on their benefits which will enable them to better plan their retirement. Attendance at these seminars has increased significantly and the feedback from attendees is that this service is highly valued by members.

In the past, the Trustee Board Executive has been shared with First State Super. In the 2004–05 year, the Executive will be restructured and eventually it is anticipated that the State Super Executive will be separated from that of First State Super. This will enable the State Super Executive to focus solely on the issues that relate to the Pooled Fund schemes.

At the end of January this year, three Board Members retired from the Trustee Board, namely, Catherine Prime, Don Nicholls and Bill Gillooly. I would like to place on record their outstanding contributions to the Trustee Board and their commitment to the well-being of the Fund and its members. At the same time, I welcome Ouma Sananikone, Michael Lambert and Paul Scully, who were appointed to the Trustee Board from February this year.



Michael Cole
Chairperson
October 2004

Board members' profiles

Chairperson

Michael Cole, Chairperson, had a 17 year career with Bankers Trust Australia as a Director/ Executive Vice-president in both the Investment Bank and Funds Management divisions. At various times executive responsibilities included Head of Fixed Interest/ Capital Markets/ Structured Finance, Credit, Stockbroking and Retail Funds Management. In September 2001 he was appointed a director of the New South Wales Treasury Corporation. Michael is a member of the General Government Liability Management Fund, Ministerial Corporation, Management Committee. He is also the Chairman of Ironbark Capital Limited and a Board Member of IMB Ltd.

Board members

Ian Blair (Employer Representative) is a chartered accountant and a company director, holding a Master of Management degree from Macquarie University. Before joining the Trustee Board, Ian completed a long career with accounting firm Deloitte Touche Tohmatsu, including a five year term as CEO of the firm. He is also a director of IOOF Holdings Ltd, Melbourne Business School Ltd and Sisters of Charity Health Service Ltd. Ian has been active in local government and community organisations and received an Order of Australia Medal in 1987 for his services to the community.

Ron Davis (Employee Representative) is the full-time employee representative on the Trustee Board, a position he has held since 1 January 2002. Ron was previously a Valuation Manager with the State Valuation Office. He is a registered Real Estate Valuer and Fellow of the Australian Property Institute. He is a Central Councillor with the Public Service Association and immediate past president of the Professional Officers' Association. He also represents members as a delegate to Labor Council of NSW's Public Sector Employees' Superannuation Committee. Ron is a member of the Australian Institute of Superannuation Trustees, a Fellow of the Association of Superannuation Funds of Australia (ASFA) and a Board member of ASFA. He is also a Director of State Super Financial Services Australia Limited.

Rod Harty (Employee Representative) is an Advocate and Legal Advisory Officer for the Police Association of NSW and a consultant to the Police Federation of Australia and New Zealand. Rod also represents Police as a delegate to the Labor Council of NSW's Public Sector Superannuation Committee. Rod has post-graduate qualifications in Workplace Relations and Labour Law and has a broad public sector background in human resource management and business services.

Michael Lambert* (Employer Representative) is an Executive Director in the Corporate Finance Department of the global investment bank, ABN AMRO. Previous to that Michael was the Secretary of the NSW Treasury and held various other senior positions. He has extensive experience and expertise in financial analysis and advising governments and clients on financial and strategic issues. In addition Michael is a non Executive Director of Energy Australia and Queensland Racing. Michael has a Bachelor of Economics (Honours) and Master of Economics from Sydney University.

Nick Lewocki (Employee Representative) is Secretary of the Rail, Tram & Bus Union. Nick spent his early career with the NSW Railways Department before being elected to a full-time union official's position in 1979. From 1990 he worked with the Labor Council of NSW for 6 years as an Industrial Officer responsible for a range of industries. Nick is a Director of the NSW Trades Hall Association. As Secretary of the Union he has overall responsibility for industrial agreements and their certification before the industrial tribunals which affect over 14,000 members.

Board members' profiles continued

Maree O'Halloran (Employee Representative) is the President of the NSW Teachers' Federation and was appointed to the Trustee Board on 1 September 2002. Her union experience includes numerous roles in the Teachers' Federation as well as being a delegate to the Labor Council of NSW. Her teaching career spans city and country schools as well as TAFE and Corrective Services. She is admitted as a legal practitioner and has practised as a solicitor. She is currently a Board member of the legal firm, MacMahon Associates and was previously a Board member of the Blue Mountains Community Legal Centre. Maree is also a contributing author of an *HSC Legal Studies* textbook.

Ouma Sananikone* (Employer Representative) maintains a portfolio of non-executive directorships and consulting assignments and has an extensive background in banking and financial services. Her most recent executive appointment was at BT Financial Group, where, as Director of Corporate Strategy and Development, she was responsible for integrating the operations of the newly merged wealth management subsidiary of Westpac, formulating its strategic direction and implementing key projects. Prior to the Westpac group, she was CEO of EquitiLink, a publicly listed financial services group with operations in Australia, NZ, Asia, North America and Europe. Before EquitiLink, Ouma was the founding Managing Director of BNP Investment Management, where she was responsible for establishing the Banque Nationale de Paris's first asset management operation outside of France. Ouma holds a Bachelor of Arts (Economics) from the Australian National University and a Master of Commerce from NSW University and is active in community services.

Paul Scully* (Employer Representative) is a Director of Decision Horizons, a consulting enterprise through which he offers his services based on thirty years of experience in financial services and investment management. Paul is an actuary by training and was until July 2003 Chief Executive Officer for the Asia Pacific region of ING Investment Management and a member of its global board. Paul has held executive positions in life insurance and retail funds management. He now maintains a portfolio of non-executive directorships and consulting assignments.

* Appointed to the Trustee Board as from 1 February 2004.

Not included: Bill Gillooly (Employer Representative), Don Nicholls (Employer Representative) and Catherine Prime (Employer Representative) all of whom retired from the Trustee Board on 31 January 2004.

STC achievements and objectives

The objectives for 2003–04, which were set out in the Corporate Plan, are shown below, along with brief details of achievements and performance against each objective:

- **To aim for industry leader status with regard to member service.**

During the year, SASS members were offered a range of investment strategies that could be selected for the accumulation part of their SASS benefit. These new strategies were made available late in 2003. By the end of the financial year, approximately 3% of eligible members had taken the opportunity to switch their investment strategy. This percentage is anticipated to increase as the membership approaches retirement age.

A redesign of the State Super web site was planned but this has now been deferred to the 2004–05 financial year. The aim is to improve the web site's navigation as well as enabling the site to be more easily updated.

- **To continuously review the investment strategy to satisfy the overall investment objectives of the Fund and the risk/return profile of stakeholders.**

The Fund's strategic asset allocation is monitored throughout the year and is formally reviewed by the asset consultant in the first half of the calendar year. The major change in the year was a reduction in the property weighting of the portfolio.

In the last year, an additional review was undertaken when three independent asset consultants were engaged to recommend an asset allocation for the Pooled Fund's Growth strategy. Their views confirmed the appropriateness of the current growth oriented asset allocation strategy.

In addition, the performance of the individual investment managers is closely monitored. During the year, the allocation to more active funds management was increased.

- **To ensure compliance with relevant legislative and regulatory requirements.**

Each year, a review of compliance with relevant Commonwealth and State legislation is carried out. In the last year, this compliance process has been reviewed and the reporting process has been expanded.

During the year, the Commonwealth Government introduced significant changes to superannuation legislation, including the introduction of the Commonwealth co-contributions for low income earners and changes to contributions surcharge tax rates for high income earners. The changes that impact on Pooled Fund Scheme members are summarised later in this report.

- **To develop strong working relationships with key stakeholders, including NSW Treasury and Premier's Department, and key service providers, such as Pillar Administration.**

The Executive liaises regularly with both Treasury and Premier's Department officials on matters relating to superannuation. A formal meeting that involves both the stakeholders and Pillar Administration is held quarterly to ensure that all the parties are aware of recent developments.

The Executive has also worked closely with the administrator on the planning and implementation of major projects, such as the introduction of SASS member investment choice.

STC achievements and objectives continued

- **To monitor service providers to ensure timely, efficient and cost effective delivery of services.**

The provision of administration services by Pillar Administration is monitored against contractual service standards. Performance is measured quarterly, and the overall service standard target has been achieved for the last four quarters – this is the first time that the standard has been achieved over a 12 month period and indicates the recent improvements in the level of administration service.

STC and Pillar Administration have also worked together to ensure that major projects are able to be delivered according to an agreed timetable and budget. In addition, the performance of the custodian is monitored by the Executive and is reported to the Trustee Board quarterly.

The Fund's investment costs continue to be low compared to other funds. However, investment costs increased significantly in the 2003–04 year as a result of an increase in the allocation to “active” managers and the payment of performance fees to some fund managers.

While the current administration contract does not expire until 30 June 2005, a reduction in the contractual fees was negotiated with Pillar for both the 2003–04 and 2004–05 financial years.

- **To maintain policies and procedures to ensure efficient operation of schemes under STC control.**

Policies and procedures for the Pooled Fund schemes are regularly reviewed throughout the year and updated, as required. A formal risk management strategy and plan, which will be in line with best practice guidelines, is currently being developed. In a number of cases, legislative amendments, which will either clarify or improve the operations of the schemes, are expected to be introduced later in the year.

- **To develop an organisation where the Trustee Board and the Executive operate within an agreed set of values in an environment of professional development.**

Codes of Conduct for both Board Members and Staff are in place and are regularly reviewed. During the year, the Staff Code of Conduct was updated.

Training on superannuation issues is recorded for both Board Members and Executive Staff. During the year, the majority of the Executive Staff undertook the ASFA PS146 competency course and an ongoing structured education program on superannuation issues is being introduced from early in the 2004–05 year.

- **To ensure the Trustee Board and Executive operate at the highest standards of corporate governance.**

During the year, developments in fund governance are monitored and incorporated, where appropriate. During the year, the role of the various Trustee Board Committees were reviewed and Committee Charters were updated and standardised. In addition, the Trustee Board self assessment process was reviewed and an external consultant was engaged to manage the process.

Late in the year, the Trustee Board reviewed the issue of Conflicts of Interest and the Trustee Board Code of Conduct will be amended to provide clarification on some issues in line with the advice received.

Executive management team

The Executive comprises a team of experienced professionals spanning a broad range of disciplines which supports the SAS Trustee Corporation and the Trustee Board on a wide range of matters including investment management, scheme administration, superannuation policy, disputes, actuarial, legal and communications issues. In line with a commercial arrangement between the two entities, the Executive staff of the SAS Trustee Corporation (STC) serve both STC and the FSS Trustee Corporation (FTC).

Don McLean, Chief Executive Officer

FIAA, Dip FP

Don joined as Chief Executive Officer in January 2003. Before joining STC, Don worked in the financial services industry for over 30 years, both as a senior executive in major retail fund management organisations and in consulting roles.

As Chief Executive of STC, Don reports to the Trustee Board and exercises the day-to-day management of the Trustee Corporation. This includes monitoring the performance of funds management, custody and administration service providers and managing the executive team of superannuation and communication specialists. Don's focus is to ensure that the Trustee Board receives expert professional advice on which to make its decisions.

Don is also the Chief Executive of FSS Trustee Corporation.

The following managers report to the Chief Executive.

Lyn Collingridge, General Counsel and Company Secretary

BA, LLB, Certificate and Diploma of Superannuation Management, FASFA.

Lyn joined the Executive as General Counsel and Company Secretary in October 1998. She is a superannuation lawyer with extensive experience in both the public sector and private practice. She has worked in the superannuation industry since 1989.

As General Counsel, Lyn directs the legal services of the Executive and advises the Trustee Board on a broad range of matters including:

- corporate, compliance, investment, Scheme administration and insurance matters,
- intellectual property, trademarks and communication,
- trust and contractual issues,
- relevant State and Commonwealth legislation, and
- governing rules of the Schemes and all aspects of the business activities of the Trustee Corporation.

Rod Macleod, Manager Investment Advisory

FCA, ACIS, ASIA

Rod has wide practical experience in investment matters spanning more than 30 years.

As Manager, Investment Advisory, Rod manages the Trustee Corporation's small investment advisory team of well qualified and experienced investment professionals who:

- monitor investment service providers,
- conduct tenders, and
- review investment proposals and appropriate portfolio structures.

Executive management team continued

Karen Faulconbridge, Manager Policy Advice

BComm

Karen joined the Executive as Manager Policy Advice in March 2000.

Karen has worked in the superannuation industry in both the private and public sector for over 21 years. Her roles have involved providing technical and compliance advice to trustees of public offer funds and staff of administrators as well as monitoring compliance with all regulatory requirements.

As Manager, Policy Advice, she heads a skilled and experienced team. Among her responsibilities are:

- formulating new superannuation policies and reviewing and amending, where necessary, existing policies,
- identifying the need for product initiative or service enhancements,
- ensuring compliance with Commonwealth and NSW legislation,
- investigating disputes and coordinating the Disputes Committee, and responding to member enquiries and complaints directed to the Trustee Corporation.

Stephen Sefton, Manager Administration and Technical Advice

BComm, CA, ASIA, FASFA

Before joining the Executive in 1998, Stephen worked in corporate accounting, taxation and superannuation roles in a major listed Australian company.

In his role, Stephen is responsible for:

- risk management, compliance and governance policies and procedures,
- monitoring the administration contract, relationships with the administrator and identifying improvements in line with industry best practice,
- management of audit, accounting, tax and actuarial issues,
- advising the Trustee Board of regulatory changes, particularly taxation changes, and their impact on the Scheme's operations and providing financial and management accounting reports, including budgets, to the Trustee Corporation.

Karen Volpato, Manager Communications

LLB

Karen joined the Executive in January 2001 as Communications Manager. Karen has worked in the banking and superannuation industry for over 23 years. Her roles have included managing a public sector superannuation advisory department, managing a seminar team, developing superannuation products and services, and formulating superannuation communication strategies.

Karen's role within the Executive includes:

- developing and implementing member communications plans as well as communications with other key audiences,
- drafting of educational material and project managing the timely delivery of a range of communications tools,
- quality control of all communications mediums for accuracy, plain English, compliance requirements and delivery, and
- measuring the effectiveness of various communications against industry standards.

Trustee Corporation review

Membership

The Pooled Fund schemes are closed to new members. Consequently, the number of active members in the Schemes declined from 106,497 to 100,262 during the year. This trend is anticipated to accelerate in the immediate future as an increasing number of members reach retirement age. Similarly, over the year, there was a small reduction in deferred members (from 17,199 to 16,920).

However, the number of pensioners has increased from 45,870 to 47,280, reflecting the SSS and PSS members who have left active membership and have taken a pension benefit. This number of pensioners is projected to continue to increase in the future. Overall, the membership numbers as at 30 June 2004 were broadly in line with expectations.

Administration

The administration contract between STC and Pillar Administration is due to expire at 30 June 2005. However, reductions in the contracted administration fees were negotiated with Pillar for both the 2003–04 and the 2004–05 years. These reductions have taken into account the reducing membership numbers as well as productivity increases within the administration area.

The Trustee Board continues to monitor the service levels achieved for administration services. The overall level of service has improved significantly in recent years, with improvement both in the timeliness and accuracy of transaction processing.

During the year, a major administration project was undertaken to implement investment choice for the accumulation benefit of SASS active and deferred members. This facility enables SASS members to select one of four strategies for the investment of their accumulation benefit. These strategies include a range of risk profiles, so that SASS members may select the strategy that best suits their risk profile and time horizon. Investment choice for SASS members was introduced at the end of November 2003. By the end of June 2004, approximately 3% of eligible members had used this facility to move out of the default Growth strategy to one of the new strategies.

The scheme actuary completed the Triennial Actuarial Valuation as at 30 June 2003. A summary of valuation results for the Fund is set out on pages 71 to 76.

Investment Performance

The Pooled Fund recorded strong investment returns for the year as world financial markets rebounded after a number of years of depressed returns. For the full year, the Growth strategy recorded 13.5%, which was one of the best results recorded in the last ten years.

The new strategies that were introduced for SASS members also recorded strong returns for the seven months since their commencement of namely 7.3% for Balanced, 5.4% for Conservative Growth and 2.7% for Cash.

Communications

Members

STC continues to use a range of methods to provide information to members. In particular, STC ran seminars throughout the year aimed at members approaching retirement. The objective is to educate members on the complex superannuation and defined benefit rules. Seminars are held not only in the major cities of Sydney, Newcastle and Wollongong but also at a number of regional centres throughout the State. In the last year, seminar attendances have increased substantially and the feedback from attendees has been very positive.

Trustee Corporation review continued

In addition, STC distributes newsletters and publications to members via employers and unions as well as delivering information to members via employer and union email and intranet systems. Members are also provided with information in the *Annual Report Highlights* which accompany the Annual Statements.

Employers

Employers are informed of any administrative or legislative change which impacts on their superannuation responsibilities. Employers are kept up to date through an employer newsletter and a program of quarterly workshops. The workshops focus on improvements to e-commerce and any administrative or legislative changes. Employers are actively encouraged to make use of e-commerce, and onsite training is provided to employers when requested.

Corporate Governance

Compliance Program

STC has a multi-tiered annual compliance program in place. Firstly, the Trustee Board's Executive annually reviews its compliance with both the relevant Federal and State legislation and contracts with service providers. This year, this compliance review has been updated and expanded. In addition, suppliers of services to STC are required to formally verify that they have complied with their contracted and legislative obligations during the year. The results are reported to the Audit and Compliance Committee to enable the approval of the annual accounts and of the compliance report for the financial year.

Investment Governance

During the year, the Trustee Board formally adopted a Proxy Voting Policy in relation to its Australian shareholdings. This policy acknowledges that, in view of the limitation of STC's investment powers contained in the *Superannuation Administration Act 1996*, STC must delegate the voting function to its active Australian equities managers. Under the policy, managers are required to:

- vote on all resolutions at all meetings;
- lodge a copy of their voting policy with STC at least annually;
- report quarterly to STC on how they voted;
- where required, explain the reasons for the way they voted; and
- consult with STC when a potentially sensitive or controversial issue arises.

In addition, STC subscribes to the proxy voting advisory service of Corporate Governance International (CGI) to provide a benchmark against which to measure managers' voting. Managers are required to explain any votes at variance with CGI's recommendation.

Regulatory Compliance

The Pooled Fund is an exempt public sector superannuation scheme under the Commonwealth *Superannuation Industry (Supervision) Act 1993* (SIS). The SIS legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

In May 1996, the NSW Premier and the Federal Treasurer signed a Heads of Government Agreement. Under that Agreement the NSW Government undertakes to ensure that the Pooled Fund schemes will conform with the principles of the Commonwealth retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

Recent amendment was made to the Pooled Fund legislation that enables the NSW Government to monitor and audit the Pooled Fund and Trustee Board activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee Board's adherence to the principles of the Commonwealth's retirement incomes policy.

Legislative and policy review

The Pooled Fund schemes operate under State legislation. They must also comply with the principles of the Commonwealth superannuation regulatory regime and with other Commonwealth and State Legislation such as tax, anti-discrimination and privacy. Legislative or regulatory changes that impacted on members of the Pooled Fund Schemes are summarised below.

Family Law provisions

On 28 December 2002, Commonwealth legislation took effect allowing superannuation interests to be divided following the breakdown of a marriage. Commonwealth legislation provides the basis for valuing a member's superannuation entitlement. On review of the Commonwealth's valuation methods for determining the value of a superannuation interest, the Trustee Board considered that these were inconsistent with the benefit design of the Pooled Fund schemes. As a consequence the Trustee Board has applied to the Federal Attorney-General seeking approval for alternative valuation methods to be adopted for SASS, SSS, PSS and SANCS.

It should be noted that for current Family Law requests for information, information as required under the Commonwealth legislation is provided to the parties so that a valuation of the interest can be determined by the parties. This valuation is currently based on the valuation methods specified by the Commonwealth legislation.

However, once the alternative valuation methods are approved by the Federal Attorney-General, new Family Law provisions will be legislated for the Pooled Fund schemes and subsequent requests for information will include a value of the interest in accordance with these changes.

Death or incapacity benefit cover for firefighters

New insurance arrangements for NSW firefighters took effect from 21 March 2003 to facilitate the requirements under the *Crown Employees (NSW Fire Brigades Firefighting Staff Death and Disability) Award 2003*. The Death and Disability Award provides for the establishment of a separate superannuation fund to pay for claims arising from injuries suffered by firefighters.

Scheme legislation was amended in November 2002 and August 2003 to enable firefighters who had additional benefit cover in SASS to elect to cease that cover. The legislation also allows the Trustee Board to transfer a portion of any death and disability amount payable under SASS and SANCS for a firefighter to the Death and Disability Superannuation Fund and to provide information obtained in administering the schemes to the employer and to the Fund, subject to the firefighter's consent.

Federal legislative update

Reduction of tax rate for excessive ETPs

There has been a reduction in the tax applied to the excessive component of Eligible Termination Payments (ETPs). The tax applies to that part of a person's superannuation benefits which exceed their Reasonable Benefit Limit (RBL). The RBL is the maximum amount of concessional taxed super benefits that a person can receive in a lifetime. The Lump Sum RBL for the year 2003–04 was \$588,056 while the Pension RBL was \$1,176,106.

The reduced tax applies to any excessive component of the ETP paid from a person's superannuation. The tax cut will reduce the tax rate on the post-June 1983 taxed element of an excessive component to 38% plus the Medicare Levy. The remainder of the excessive component will be taxed at 48.5% including the Medicare Levy. Before the change, the whole of the excessive component was taxed at 48.5% including the Medicare Levy.

Federal legislative update continued

Reduction in contributions surcharge tax

Contributions surcharge tax applies to higher income earners. It is payable when a person's taxable income, reportable fringe benefits and surchargeable super contributions (collectively known as a person's adjusted taxable income) exceed a certain amount during a financial year.

The surcharge payable is a percentage of the "employer" contributions made on a person's behalf during the year. The percentage is phased in for each dollar that a person's adjusted taxable income is in excess of the surcharge lower income limit. A maximum rate is payable when a person's income reaches the surcharge upper income limit. For the year 2003–04, the lower surcharge income limit was \$94,691 and the surcharge upper income limit was \$114,981 (these limits are indexed annually). The maximum surcharge rate was 14.5%.

The Federal government has recently passed legislation reducing the maximum surcharge rates as follows:

- 12.5% for 2004–05
- 10% for 2005–06 and later years.

Extension of concessional tax on death benefits

The Federal Government has passed legislative changes to the definition of 'dependant' for the SIS and the Income Tax Act purposes. The availability of concessional tax on superannuation death benefits has now been expanded to include *interdependency relationships*, effective from 30 June 2004.

The new definition of *dependant* includes the spouse of the person, any child of the person and any person with whom the person has an *interdependency relationship*.

The new definition of 'interdependency relationship' applies where two persons (whether or not related by family):

- have a 'close personal relationship'; and
- live together; and
- one or each of them provides the other with financial support; and
- one or each of them provides the other with domestic support or personal care.

Furthermore, the definition is also satisfied if two persons (whether or not related by family) have a close relationship but they don't satisfy all conditions stated above because either or both of them suffer from a physical, intellectual or psychiatric disability.

Whilst not an exclusive list, nor being necessarily a requirement for a close personal relationship to exist, indicators of such a relationship may include:

- the duration of the relationship;
- the degree of mutual commitment to a shared life;
- the reputation and public aspects of the relationship (such as whether the relationship is publicly acknowledged).

Examples of interdependency relationships now include:

- Two elderly sisters who reside together and are interdependent;
- A family who care for their elderly grandmother in their home;
- An individual with a disability who lives in an institution but who is nevertheless interdependent with the deceased; and
- Same-sex couples that reside together.

Federal legislative update continued

Co-contribution payments

Legislation enabling superannuation co-contributions to be made by the Federal Government applies with effect from 1 July 2003. The co-contribution is a payment made by the Federal Government to match certain personal contributions to a superannuation fund made by low to middle income earners in a financial year.

Eligibility to receive a co-contribution payment

Generally, the government co-contribution will be payable for a financial year if a person meets **all** of the following conditions:

- personal *after tax* superannuation contributions are made during a financial year, and
- a person's total income* for the financial year 2003–04 is less than \$40,000 (increasing to \$58,000** for the 2004–05 year and thereafter), and
- at least 10% of a person's total income* is attributable to employment, and
- a person lodges an income tax return for the financial year, and
- a person is less than 71 years of age at the end of the financial year in which the contributions are made, and
- a person is not a temporary resident.

Co-contribution payment amount

The amount of the Federal Government's co-contribution is based on the amount of personal contributions made to a superannuation fund in a financial year and a person's total income* in that financial year.

For year ended 30 June 2004	For years ended 30 June 2005 and later
The co-contribution is \$1 for every \$1 of personal contributions made in the financial year (subject to the maximum co-contribution available).	The co-contribution is \$1.50 for every \$1 of personal contributions made in a financial year (subject to the maximum co-contribution available).
For annual incomes up to \$27,500 , the maximum co-contribution for the 2003–04 year is \$1,000 .	For annual incomes up to \$28,000** , the maximum co-contribution for the 2004–05 and later years is \$1,500 .
For incomes above \$27,500 , the maximum (\$1,000) reduces by 8 cents for every dollar of income above \$27,500, so that it phases out completely at \$40,000 .	For incomes above \$28,000** , the maximum (\$1,500) reduces by 5 cents for each dollar of income above \$28,000, so that it phases out completely at 58,000** .

* Total income means assessable income plus reportable fringe benefits.

** Subject to indexation from 2007–08.

Co-contribution payments and the Pooled Fund schemes

After the Australian Taxation Office has calculated the co-contribution amount to be paid for eligible members, the applicable amount will be credited into a taxpayer's superannuation account. Initial payments by the Federal Government will occur after the member submits their income tax return for 2003–04 financial year.

Some members of the Pooled Fund schemes will be eligible to receive a co-contribution payment. The Pooled Fund is currently unable to accept the co-contribution payment on a person's behalf from the Federal Government because the legislative rules do not permit it. In principle, the Trustee Board supports amending the Pooled Fund schemes to allow the co-contributions to be accepted.

In the event that the scheme legislation is not amended, the ATO may forward the Government's co-contribution payment to another existing eligible superannuation account held in the member's name or to an account in the name of the member in the Superannuation Holding Accounts Reserve held by the ATO.

How have investment markets performed?

By Max McKeough, Financial Markets Analyst at Deutsche Asset Management June 2004

Australian shares

After two consecutive financial years of negative performance, the Australian equity market posted its strongest financial year performance in seven years. It outperformed all other asset classes, returning 21.7% as measured by the S&P/ASX300 Index. Unlike most other major equity markets, the Australian market recorded several all-time index highs in the June quarter, before declining slightly towards the end of the period. The market rally was underpinned by the buoyant domestic economy and improved company earnings.

International shares

Global equity markets generally continued their strong recovery since mid-2003. The benchmark Morgan Stanley Capital International (MSCI) World Index recorded an impressive gain of 19.4%, the first positive financial year performance (in Australian dollars) since the global equity boom of 1999–2000. Exchange rate fluctuations through the year influenced the overall return profile in Australian dollar terms – dampening strong market returns in the first half of the year and enhancing them in the second.

Fixed interest securities

The key factor driving fixed interest markets was the improved global economic performance and outlook. Bond markets generated mediocre returns, dominated by concerns about the sustainability of the growth revival and the possibility that major central banks (particularly the US Federal Reserve) would raise official interest rates in 2004–05 – reflecting these expectations, the 90 day bank bill (cash) yields rose from 4.8% to 5.5%. The Australian bond market returned 2.3%, underperforming the 4.1% return on global fixed income.

Direct property

The main non-residential real estate sectors continued to benefit from the growing Australian economy. According to the latest figures from the Property Council of Australia, the retail sector was the best performer over the year to March 2004, returning 17.3%, while industrial returned 15.4% and office 6.9%. The retail and industrial sectors benefited from strong domestic spending and rises in capital values while the major CBD office markets have been slower to benefit from the improving global economy. Continued expansion of the US and regional economies in 2004–05 is expected to increase demand for leased office space, particularly by multinational companies and the finance sector.

Investment market returns

How investment markets have performed annually over the past 5 years (to 30 June)					
Year	Shares		Fixed interest		Cash
	Australian	International (Unhedged)	Australian	International (Hedged)	
	%	%	%	%	
2000	15.06	23.81	6.17	5.02	5.58
2001	9.11	-6.01	7.42	9.00	6.08
2002	-4.54	-23.63	6.21	8.49	4.66
2003	-1.61	-18.55	9.78	12.50	4.97
2004	21.73	19.38	2.33	4.06	5.30

This economic analysis is for general information only, and Deutsche Asset Management specifically disclaims any responsibility for any use of the information contained herein by any third party. In preparing this publication, we have obtained information from sources we believe to be reliable, but do not offer any representations or guarantees as to its accuracy or completeness. In preparing this report, Deutsche Bank and its related bodies corporate did not take into account the investment objectives, financial situations and particular needs of any particular person.

Investment management of the Pooled Fund

Strategic Asset Allocation

The Strategic Asset Allocation shows the percentage of Growth Assets and Income Assets for each investment strategy. The Fund's strategic asset allocations are formally reviewed at least once a year and are constantly monitored throughout the year. The proportions allocated for each strategy will remain within a margin of plus or minus 5% of the percentages shown. However the allocation to the asset sectors that make up these broader categories may change.

	Growth	Balanced	Conservative Growth	Cash
	%	%	%	%
Growth Assets	72	50	30	0
Income Assets	28	50	70	100

Note: Growth Assets include shares and property and Income Assets include cash deposits and fixed interest securities.

Asset Allocation as at 30 June

	Growth		Balanced		Conservative Growth		Cash	
	2003 %	2004 %	2003 %	2004 %	2003 %	2004 %	2003 %	2004 %
Australian Equities	35.0	37.4		25.2		13.2		0.0
International Equities	29.3	27.5		18.3		10.3		0.0
Property	12.9	10.4		7.0		7.1		0.0
Australian Fixed Interest	11.5	11.0		19.8		19.8		0.0
International Fixed Interest	4.9	7.0		19.9		19.8		0.0
Cash	6.4	6.7		9.8		29.8		100
Total	100	100		100		100		100

Investment Reserves

The Trustee Board has determined that investment earnings will not be placed in an investment reserve. Consequently, all available investment earnings or losses, after providing for tax and investment expenses, are distributed to employers and members, based on a crediting rate. Members exiting receive a daily crediting rate applicable since the last monthly rate was struck.

Derivatives

Derivatives, including futures and options, can be used by the Pooled Fund investment managers. However, the investment mandates clearly state that derivatives may only be used to facilitate efficient cash flow management or to hedge the portfolio against adverse market movements and cannot be used for speculative purposes or gearing the investment portfolio. During the year to 30 June 2004, the managers made limited use of derivatives.

Hedging

The Trustee Board has a policy to hedge back to the Australian dollar 100% of its International Fixed Interest investments and currently 25% of its exposure to International Shares.

Custodian

The Trustee Board has appointed JPMorgan Investor Services as custodian to hold the Pooled Fund's assets. In addition, the custodian values the Fund daily and monitors each investment manager's daily activity to ensure compliance with their investment mandate.

Investment management of the Pooled Fund continued

Large investments

During the year, there was no individual investment that exceeded 5% of the Pooled Fund's total assets.

Passive Rebalancing

The Pooled Fund has a passive rebalancing process in place. This involves the index manager, State Street Global Advisors, Australia, Limited, reviewing the asset sector allocation of a strategy after the portfolio is valued each day. If a sector has moved outside a set range relative to the target allocation, the manager will reallocate funds between sectors to return allocations within the agreed range. This rebalancing process may involve the use of futures or derivatives.

Investment managers

All of the Pooled Fund's assets are managed by external fund managers who are appointed by the Trustee Board, on the advice of the asset consultant. The performance of the various fund managers is monitored throughout the year and managers may be added or replaced. At 30 June 2004, the Fund's investment managers were:

Australian Shares including Private Capital

Alliance Capital Australia Limited;
AMP Capital Investors Limited;
Deutsche Asset Management (Australia) Limited;
GMO Australia Limited;
Maple-Brown Abbott Limited;
New South Wales Treasury Corporation;
State Street Global Advisors, Australia, Limited;
UBS Global Asset Management (Australia) Limited.

International Shares

ABN Amro Asset Management (Australia) Limited;
BIAM Australia Pty Limited;
Capital International, Inc.;
Fidelity International Limited;
State Street Global Advisors, Australia, Limited;
Wellington International Management Company Pte Ltd.

Property

Deutsche Asset Management (Australia) Limited

Australian Fixed Interest

State Street Global Advisors, Australia, Limited

International Fixed Interest

State Street Global Advisors, Australia, Limited

Cash

State Street Global Advisors, Australia, Limited

Investment performance of the Pooled Fund

General information

Most benefits paid from SSS and PSS are not affected by crediting rates. However, part of the benefit payable to SASS members is an accumulation benefit, namely the Personal Account Balance of SASS Contributor Members and the Deferred SASS member benefits.

Until December 2003, there was only one investment strategy for the Pooled Fund, which is now known as the Growth strategy. From December, a range of additional investment strategies – namely Balanced, Conservative Growth and Cash – were introduced so that SASS members now have a range of strategies to select from for their accumulation benefit. However, the selection does not apply to SANCS Basic Benefit or any superannuation guarantee shortfall.

If a SASS member does not make a choice, that part of the benefit to which investment choice applies remains invested in the Growth strategy.

Annual crediting rates by year to 30 June

The following table sets out the crediting rates that were applied to members' accumulation benefits by year to 30 June.

Strategy	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	%	%	%	%	%	%	%	%	%	%
Growth	9.1	12.4	18.5	11.0	8.2	16.5	3.6	-7.0	-1.7	13.5
Balanced	These investment strategies were only available to certain components of SASS Contributor and Deferred SASS member benefits from December 2003.									*7.3
Conservative Growth										*5.4
Cash										*2.7

* For the 7 months from 1 December 2003 to 30 June 2004.

Source: STC. The figures above are after allowance for tax and investment management expenses. Past returns are no guarantee of future returns. The investment of the Personal Account Balance portion of a SASS member's benefit or the benefit of a Deferred SASS member is not guaranteed. The value of the investment can go up and down. Members are encouraged to seek professional advice before selecting an investment strategy to suit their personal circumstances.

Compound crediting rates

The following table sets out the compound crediting rates for periods ending 30 June 2004.

Strategy	6 months	1 year	2 years	3 years	5 years	7 years	10 years	
	%	%	% pa.	% pa.	% pa.	% pa.	% pa.	
Growth	6.8	13.5	5.6	1.2	4.6	6.0	8.1	
Balanced	5.2	These investment strategies were only available to certain components of SASS Contributor and Deferred SASS member benefits from December 2003.						
Conservative Growth	3.9							
Cash	2.3							

Source: STC. The figures above are after allowance for tax and investment management expenses. Past returns are no guarantee of future returns. The investment of the Personal Account Balance portion of a SASS member's benefit or the benefit of a Deferred SASS member is not guaranteed. The value of the investment can go up and down. Members are encouraged to seek professional advice before selecting an investment strategy to suit their personal circumstances.

Visit www.statesuper.nsw.gov.au for the latest

- investment performance, and
- commentary on investments (see under Hot Topics, Investment Update).

Other investment issues

Growth strategy investment objectives

The Pooled Fund Growth strategy has two major investment objectives. In 2003–04, it achieved one of these objectives.

Pooled Fund investment objectives	Outcome for 2003–04
Obtain investment returns over rolling 10 year periods in excess of the Consumer Price Index (CPI) by a margin of 4.5% each year.	The Growth strategy's crediting rate of 8.1% pa. over 10 years bettered the targeted return of 7.2% pa.
Deliver competitive returns against the median manager in the InTech* Growth Funds Performance survey over a 3 year time horizon without taking unnecessary risks.	The Growth strategy did not meet this objective, being some 1.3% below the median manager. This was due largely to underperformance in 2002.

* InTech Asset Consulting Pty Ltd, an asset consulting firm which publishes surveys of the investment performance of superannuation fund managers.

Balanced, Conservative Growth and Cash strategy investment objectives

Strategy	Investment Objective
Balanced	3.0% pa. above inflation over 7 year periods
Conservative Growth	2.0% pa. above inflation over 4 year periods
Cash	1.5% pa. above inflation over 3 year periods

These investment strategies were available only from December 2003 and therefore have not been in place long enough to be measured against the longer term investment objectives.

Investment expenses

The Pooled Fund is a large fund and therefore competitive investment management fees can be negotiated. The Pooled Fund's total investment expenses continue to be low.

Investment management expenses are deducted from the Pooled Fund's earnings, before the crediting rates are determined.

Investment expenses as a % of average total assets for years ended 30 June					
Strategy	2000	2001	2002	2003	2004
	%	%	%	%	%
Growth	0.26	0.25	0.27	0.22	0.31#
Balanced	These investment strategies were only available to certain components of SASS Contributor and Deferred SASS member benefits from December 2003.				0.19*
Conservative Growth					0.18*
Cash					0.11*

Note: The main reason for the increase in the Growth strategy investment expenses in 2004 relates primarily to fees payable as a result of performance in excess of benchmarks.

* For the 7 months from 1 December 2003 to 30 June 2004.

Investment report — global overview

How the sectors performed in 2003–04

Australian Shares

Benchmark return (S&P/ASX 300 Accumulation index)	21.73%
Combined Pooled Fund listed Australian share portfolio return	21.36%

The main reason for the portfolio's under performance of 30 basis points was as a result of the manager with the largest allocation of the portfolio, 30.4% at year end, under performing by some 90 basis points. The Trustee Board has after year end, on recommendation of the Fund's asset consultant, reduced this manager's allocation by 10% and funded other managers whose recent performance history have been superior.

Private Capital

Benchmark return (S&P/ASX 300 Accumulation index) – rolling 5 year pa.	7.49%
Pooled Fund private capital portfolio return – rolling 5 year pa.	13.04%

The portfolio's 25% holding in Australian Pacific Airports Corporation (Melbourne / Tullamarine and Launceston airports) was the primary reason for the portfolio's strong performance in the current year. Since year end the private capital portfolio, approximately 5% of the total Pooled Fund, has been split into three separate portfolios, Private Equity (42%), Mature Infrastructure (44%) and the Fund's 85% holding in State Super Financial Services Australia Limited (14%).

International Shares

Benchmark return (MSCI World ex Australia in A\$, 25% hedged)	20.71%
Combined Pooled Fund international share portfolio (25% hedged) return	20.25%

The combined portfolio's below benchmark performance is primarily attributable to one growth manager's performance being well below the Fund's benchmark. The Trustee Board after year end, on advice from the Fund's asset consultant, is replacing the manager with a group of managers whose combined performance has previously shown superior returns. In January 2004, the Trustee Board reallocated 20% of the portfolio from index management to an index enhanced mandate.

Property

Benchmark return – Direct Property AMP Property P Units	9.79%
Pooled Fund Direct Property portfolio return	10.58%

Benchmark return – S&P/ASX 200 LPT Accumulation Index	16.89%
Pooled Fund Listed Property portfolio return	11.50%

The Fund's direct property holdings (80% of the property portfolio) were all revalued by independent professional valuers as at 30 June 2004. The return for the year was comfortably ahead of the sector's benchmark. Since 30 June 2004, the Fund has entered into Call and Put Option agreements over several of the Fund's direct properties which if exercised, will raise approximately \$683 million by 30 June 2005. The Fund's Property portfolio also held interests in two listed property trusts, Deutsche Office and Industrial Trusts (20% of the property portfolio) and the combined performance of these two trusts was well below their benchmark for the year.

Investment report — global overview continued

Australian Fixed Interest

Benchmark return (UBSWA All Government All Maturities index)	1.93%
Combined Pooled Fund Australian fixed interest portfolio return	1.92%

International Fixed Interest

Benchmark return (JP Morgan Global Government Bond Index ex Australia in A\$, 100% hedged)	3.14%
Combined Pooled Fund International fixed interest portfolio return	3.15%

Cash

Benchmark return (UBSWA bank bill index)	5.30%
Pooled Fund cash portfolio return	5.33%

The Trustee Board continues to have the Fund's exposure to income investments managed on an indexed basis considering that the Fund's risk budget is better allocated to growth type investments.

Pooled Fund — 5 years at a glance years to 30 June

	2000	2001	2002	2003	2004
Member statistics					
Active Members — SASS	81,824	76,974	72,629	68,543	64,968
Active Members — SSS	40,329	37,887	35,661	33,465	31,151
Active Members — Police	6,088	5,652	5,066	4,489	4,143
Total active members	128,241	120,513	113,356	106,497	100,262
Pensioners — SASS	7,116	6,552	6,072	5,615	5,312
Pensioners — SSS	31,843	33,003	34,136	35,378	36,872
Pensioners — Police	3,759	4,100	4,459	4,877	5,096
Total pensioners	42,718	43,655	44,667	45,870	47,280
Deferred Benefits — SASS	12,793	13,270	13,703	12,216*	12,080
Deferred Benefits — SSS	4,420	4,885	4,812	4,753	4,638
Deferred Benefits — Police	240	237	232	230	202
Basic Benefit only	101,340	96,240	1,211**	-	-
Total deferred benefits	118,793	114,632	19,958	17,199	16,920
Gender ratios					
Females — SASS	53%	53%	53%	53%	52%
Males — SASS	47%	47%	47%	47%	48%
Females — SSS	33%	33%	33%	32%	33%
Males — SSS	67%	67%	67%	68%	67%
Females — Police	9%	10%	10%	11%	11%
Males — Police	91%	90%	90%	89%	89%
Contributions — \$m					
Employer contributions	861	483	175	316	326
Employee contributions	453	460	464	464	474
Accelerated Crown Contribution	-	-	-	-	-
Total contributions	1,314	943	639	780	800
Benefits Paid — \$M	2,033	1,890	2,304	2,071	2,038
Net Contributions — \$M	-719	-947	-1,669	-1,291	-1,238
Investment Revenue — \$M	3,735	1,529	-2,175	-523	3,251

(1) *In May 2003, 1,145 Deferred SASS accounts totalling \$108.5 million were required by legislation to be transferred from the State Authorities Superannuation Scheme to the First State Superannuation Scheme.

(2) **In December 2001, Deferred Benefit SANCS only accounts were required by legislation to be transferred to the First State Superannuation Scheme. 92,762 accounts were transferred.

Pooled Fund — 5 years at a glance continued years to 30 June

	2000	2001	2002	2003	2004
Assets/Liabilities — \$m					
Accrued Benefits — SASS	7,890	8,636	8,743	8,903	9,824
Net assets to pay benefits	6,376	6,403	5,712	5,278	5,779
Over/under funding	-1,515	-2,233	-3,031	-3,625	-4,045
Accrued Benefits — SSS	20,007	21,492	22,156	23,661	24,888
Net assets to pay benefits	18,229	18,482	16,428	15,431	16,866
Over/under funding	-1,778	-3,010	-5,728	-8,230	-8,022
Accrued Benefits — PSS	3,238	3,877	3,989	4,318	4,761
Net assets to pay benefits	1,530	1,610	1,328	1,126	1,096
Over/under funding	-1,708	-2,267	-2,661	-3,192	-3,665
Accrued Benefits — SANCS	1,990	2,207	1,848	1,888	2,097
Net assets to pay benefits	1,108	1,242	597	471	474
Over/under funding	-881	-965	-1,251	-1,417	-1,623
Total Accrued Benefits \$M	33,125	36,212	36,736	38,770	41,570
Net assets to pay benefits	27,243	27,737	24,065	22,306	24,215
Over/under funding	-5,882	-8,475	-12,671	-16,464	-17,355
Total Investments — \$M	27,446	27,750	23,829	22,092	24,231
Annual crediting rates — %					
Net Returns – 1 year	16.5%	3.6%	-7.0%	-1.7%	13.5%

Note: More detailed Pooled Fund scheme statistics are available on request by contacting the STC Communications area on (02) 9238 5906.

PART B – FINANCIAL STATEMENTS FOR THE SAS TRUSTEE CORPORATION



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

SAS TRUSTEE CORPORATION

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the SAS Trustee Corporation:

- (a) presents fairly the SAS Trustee Corporation's financial position as at 30 June 2004 and its financial performance and cash flows for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

My opinion should be read in conjunction with the rest of this report.

The Board's Role

The financial report is the responsibility of the members of the Board of the SAS Trustee Corporation. It consists of the statement of financial position, the statement of financial performance, the statement of cash flows and the accompanying notes.

The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the members of the Board in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does not guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the members of the Board had not fulfilled their reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the Corporation,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



R J Sendt
Auditor-General

SYDNEY
29 September 2001

Statement by Members of the Trustee Board

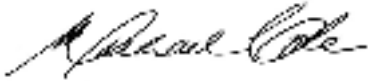
for the year ended 30 June 2004

Pursuant to Section 41C(1B) and (1C) of the *Public Finance and Audit Act 1983* and in accordance with a resolution of the Board of the SAS Trustee Corporation, we declare on behalf of the Board that in our opinion:

1. the financial statements present a true and fair view of the position of the SAS Trustee Corporation at 30 June 2004 and transactions for the year then ended, and
2. the financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2000* and the Treasurer's Directions.

Further, we are not aware of any circumstances, which would render any particulars included in the financial statements to be misleading or inaccurate.

Signed at Sydney this 29th day of September 2004.



Michael Cole
Chairperson
SAS Trustee Corporation



Ian Blair
Board Member and Chairperson of the Audit and Compliance Committee
SAS Trustee Corporation

Statement of financial performance

for the year ended 30 June 2004

	Note	2004 \$'000	2003 \$'000
Revenue from ordinary activities	2	38,691	37,482
Other Revenue from ordinary activities	2	196	100
Administration Expenses from ordinary activities	2	(38,887)	(37,582)
Net Profit or Loss from ordinary activities		—	—

The accompanying notes form an integral part of the above Statement of Financial Performance.

Statement of financial position

at 30 June 2004

	Note	2004 \$'000	2003 \$'000
Current Assets			
Cash at Bank	9(a)	430	–
Receivables	3	5,340	5,749
Prepayments		4	5
Total Current Assets		<u>5,774</u>	<u>5,754</u>
Total Assets		<u>5,774</u>	<u>5,754</u>
Current Liabilities			
Bank Overdraft	9(a)	–	206
Payables	4	4,503	3,696
Provisions	5	435	1,148
Total Current Liabilities		<u>4,938</u>	<u>5,050</u>
Non-Current Liabilities			
Provisions	5	836	704
Total Non-current Liabilities		<u>836</u>	<u>704</u>
Total Liabilities		<u>5,774</u>	<u>5,754</u>
Net Assets		<u>–</u>	<u>–</u>
Total Equity		<u>–</u>	<u>–</u>

The accompanying notes form an integral part of the above Statement of Financial Position.

Statement of cash flows

for the year ended 30 June 2004

	2004 \$'000	2003 \$'000
Note	<u>Inflows/ (Outflows)</u>	<u>Inflows/ (Outflows)</u>
Cash Flows from Operating Activities		
	39,433	36,785
	<u>(38,797)</u>	<u>(36,860)</u>
Net Operating Cash Flows	9 (b) 636	(75)
Net Increase/(Decrease) in Cash Held	636	(75)
Cash at the Beginning of the Financial Year	(206)	(131)
Cash at the End of the Financial Year	9 (a) <u>430</u>	<u>(206)</u>

The accompanying notes form an integral part of the above Statement of Cash Flows.

Notes to the financial statements

for the year ended 30 June 2004

1. STATEMENT OF ACCOUNTING POLICIES

Under the terms of the *Superannuation Administration Act 1996* (the Act), the SAS Trustee Corporation (STC) acts as trustee and holds in trust all assets of the Pooled Fund.

STC is, for the purpose of any Acts, a statutory body.

Scheme administration services for the Pooled Fund are carried out by the Superannuation Administration Corporation trading as Pillar Administration (Pillar). Pillar charges fees for the services it provides.

STC Fund's custodial activities are performed by JPMorgan Investor Services.

The Pooled Fund is a reporting entity for accounting and taxation purposes. At 30 June 2004 the Pooled Fund consists of the following schemes:

State Authorities Superannuation Scheme (SASS)

State Superannuation Scheme (SSS)

Police Superannuation Scheme (PSS)

State Authorities Non-contributory Superannuation Scheme (SANCS)

(a) General System of Accounting Underlying the Financial Statements

The financial statements form a general purpose financial report and are prepared in accordance with the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2000* and the Treasurer's Directions. They also comply with applicable Australian Accounting Standards and other professional reporting requirements including Urgent Issues Group Consensus Views.

The financial statements have been prepared on an historical cost basis using the accrual method of accounting and do not reflect changing money values of assets. Interest and fee income is accounted for on an accrual basis.

The accounting policies adopted in preparing the financial statements have been consistently applied during the year, unless otherwise stated.

(b) Administration Expenses

All costs relating to scheme administration and executive management of the Pooled Fund are incurred by STC and comprise the direct expenses of STC and administration fees from Pillar.

Under the terms of the Act, STC must recover the costs it incurs from the Pooled Fund.

In 2004 investment expenses incurred by STC were recouped from the Pooled Fund's assets held by the Custodian. This change more accurately attributes investment costs to investment returns. The total of these expenses was \$1.246 million.

(c) Employee Benefits

Wages, salaries and annual leave

The provision for employee benefits relating to wages, salaries and annual leave represents the amount which STC has a present obligation to pay resulting from employees' services provided up to the balance date. These provisions are expected to be settled within 12 months and are measured at their nominal values using the remuneration rates expected to apply at the time of settlement.

Notes to the financial statements

for the year ended 30 June 2004

1. STATEMENT OF ACCOUNTING POLICIES

(c) Employee Benefits (continued)

Long service leave

The liability for employee benefits relating to long service leave is measured at their nominal amount. Past experience indicates that the estimate for long service leave liability based on remuneration rates current as at reporting date for all employees with 5 or more years service is not materially different from the estimate determined by using the present value basis of measurement and detailed group-based estimates.

Superannuation

Any unfunded superannuation liability is recognised as a liability in the *Statement of Financial Position* and amounts representing pre-paid superannuation contributions are recognised as an asset. STC is meeting in full the total superannuation liabilities for its employees. The contributions made to superannuation funds are charged against the operating result.

(d) Roundings

All values reported in the financial statements have been rounded to the nearest thousand dollars, except where otherwise stated.

(e) Cash Flows

Under current funding arrangements all cash payments to external parties with the exception of Investment Management and Custody fees incurred on behalf of STC are transacted through the STC bank account and recovered from the Pooled Fund. Investment Management and Custody fees are disbursed directly by the Custodian from the Fund's pool of assets.

(f) Financial Instruments

Financial Instruments give rise to positions that are financial assets or liabilities. These include Cash at Bank, Receivables and Accounts Payable. Classes of instruments are recorded at cost and are carried at net fair value.

(g) Comparative Figures

Where there have been changes in presentation in the current financial year, the comparative figures for the previous year have been adjusted to conform to these changes.

(h) Impact of Adopting Australian Equivalents of International Financial Reporting Standards

STC will adopt the Australian Equivalents of *International Financial Reporting Standards* (IFRS) for the financial year commencing 1 July 2005. STC and its Audit and Compliance Committee are continuing to evaluate and ensure procedures and systems are in place for the transition. STC believes these new standards will have minimal impact on its existing accounting policies, however there will be some amendment to financial statement formats and reporting. First time application for STC of this change, including comparatives, will be for the year ending 30 June 2006.

Notes to the financial statements

for the year ended 30 June 2004

2. PROFIT FROM ORDINARY ACTIVITIES

	Note	2004 \$'000	2003 \$'000
Profit from ordinary activities including the following items of revenue and expense:			
Management Fees		36,162	36,198
Recoupment of administration expenses from FSS Trustee Corporation		1,283	1,284
Recoupment of investment expenses from custodian	1(b)	1,246	–
Other Income		196	100
Total Revenues		38,887	37,582
Trustee Expenses			
Board Member Fees		467	407
Other Administration Expenses		358	386
Total Trustee Expenses		825	793
Executive Expenses			
Employee Related Expenses		2,010	2,429
Superannuation		164	650
Fees for Services		166	219
Accommodation		319	316
Other Administration Expenses		407	266
Audit Fees		13	13
Total Executive Expenses		3,079	3,893
Fund Expenses			
Fees for Services		2,856	2,077
Other Administration Expenses		257	246
Pillar Administration Fees		30,624	30,573
Total Fund Expenses		33,737	32,896
Total Administration Expenses		37,641	37,582
Investment Expenses			
Employee Related Expenses	1(b)	575	–
Superannuation		40	–
Fees for Services		631	–
Total Investment Expenses		1,246	–
Total Expenses		38,887	37,582
3. RECEIVABLES			
Current			
Amounts Receivable — Pooled Fund		3,511	4,058
Amounts Receivable — FSS Trustee Corporation (FTC)		1,283	1,284
Other Receivables		532	401
Superannuation (refer Note 7)		14	6
		5,340	5,749

The amount receivable from FTC for executive costs is for a 33% monthly charge for the period July 2003 – February 2004 and increased to 37.5% from March 2004 – June 2004. This amount is settled once a year.

Notes to the financial statements

for the year ended 30 June 2004

4. PAYABLES

	2004	2003
	\$'000	\$'000
Current		
Amount Payable — Pillar (Administration Fees)	2,587	2,614
Other Payables	1,916	1,082
	4,503	3,696

5. PROVISIONS

Current		
Employee Benefits	350	348
Superannuation (refer Note 7)	85	800
	435	1,148
Non-current		
Employee Benefits	797	666
Tenancy Make Good Costs	39	38
	836	704

6. EXECUTIVES' REMUNERATION

Income received or due and receivable by executive officers of STC whose income is \$100,000 or more

1,509	1,455
--------------	-------

The number of executive officers whose income is \$100,000 or more are shown below in their relevant income bands:

	2004	2003
	Numbers	Numbers
Remuneration (including superannuation contributions) of:		
\$100,000 — \$109,999	-	2
\$110,000 — \$119,999	2	1
\$120,000 — \$129,999	-	1
\$140,000 — \$149,999	1	2
\$150,000 — \$159,999	1	1
\$160,000 — \$169,999	1	2
\$170,000 — \$179,999	2	-
\$210,000 — \$219,999	1	-
\$220,000 — \$229,999	-	1
\$240,000 — \$249,999	1	-
	9	10

Notes to the financial statements

for the year ended 30 June 2004

7. SUPERANNUATION COMMITMENTS

The Scheme Actuary undertook an actuarial valuation of accrued benefits of the membership of each scheme at 30 June 2004. The results are based on valuation assumptions consistent with the requirements of AAS 25 *Financial Reporting by Superannuation Plans*.

AAS 25 requires that a 'market-determined risk-adjusted discount rate' be applied as the valuation interest rate in the calculation of the value of the accrued benefits. The following short and long term economic assumptions have been used for these calculations, and also for the employer liability calculations.

30 June 2004 and future Valuation Assumptions	2003–2004 %pa	2004–2005 %pa	2005–2006 and thereafter %pa
Rate of Investment Return	7.0	7.0	7.0
Rate of Salary Increase	4.0	4.0	4.0
Rate of Increase in CPI	2.5	2.5	2.5

The SAS Trustee Corporation contributes superannuation on behalf of its eligible employees to the State Authorities Superannuation Scheme (SASS), State Authorities Non-contributory Superannuation Scheme (SANCS), and the State Superannuation Scheme (SSS). The superannuation funding position for the 2004 and 2003 financial years was as follows:

	SSS \$	SASS \$	SANCS \$	Total \$
2004				
Employer Reserve Asset	2,442,630	341,450	225,125	3,009,205
Less:				
Accrued employer financed liability	(2,527,364)	(332,302)	(220,457)	(3,080,123)
Surplus/(Deficiency)	(84,734)	9,148	4,668	(70,918)
2003				
Employer Reserve Asset	1,571,196	282,583	149,193	2,002,972
Less:				
Accrued employer financed liability	(2,334,734)	(276,624)	(186,258)	(2,797,616)
Surplus/(Deficiency)	(763,538)	5,959	(37,065)	(794,644)

Notes to the financial statements

for the year ended 30 June 2004

8. RELATED PARTY INFORMATION

(a) Board Members and Remuneration Received or Due and Receivable by the following

	2004	2003
	\$	\$

The names of the Board Members of STC in office during the year ended 30 June 2004 and up to the date of signing these accounts, are as follows:

Mr M Cole	70,468	56,771
Mr I Blair	43,913	30,760
Mr R Davis	122,325	115,461
Mr W Gillooly (term completed 31 January 2004)	23,567	34,117
Mr P Scully (term commenced 1 February 2004)	18,712	-
Mr M Lambert (term commenced 1 February 2004)	16,895	-
Mr R Harty	40,825	34,117
Mr J Hennessy (term completed 31 August 2002)	-	5,459
Mr N Lewocki	40,825	34,117
Mr D Nicholls (term completed 31 January 2004)	22,331	34,117
Ms M O'Halloran (term commenced 1 September 2002)	40,462	28,658
Ms C Prime (term completed 31 January 2004)	26,473	34,117
Ms O Sananikone (term commenced 1 February 2004)	-	-
	466,796	407,694

(b) Numbers of Board Members included in these figures are shown in their relevant income bands:

	2004	2003
	Numbers	Numbers
Remuneration (including superannuation contributions) of:		
\$ 0 — \$ 9,999	2	1
\$ 10,000 — \$ 19,999	2	-
\$ 20,000 — \$ 29,999	3	1
\$ 30,000 — \$ 39,999	-	6
\$ 40,000 — \$ 49,999	4	-
\$ 50,000 — \$ 59,999	-	1
\$ 70,000 — \$ 79,999	1	-
\$110,000 — \$119,999	-	1
\$120,000 — \$129,999	1	-
	13	10

(c) Transactions entered into during the year with Board Members and their Related Entities

	2004	2003
	\$'000	\$'000
Fees paid to STC by SSFSAL, a company in which Mr R Davis is a director, on normal commercial terms and conditions.	50	93
Rental payments and outgoings received by the Pooled Fund from SSFSAL, a company in which Mr R Davis is a director, on normal commercial terms and conditions.	1,307	1,238

Notes to the financial statements

for the year ended 30 June 2004

9. CASH FLOW INFORMATION

(a) Reconciliation of Cash

	2004 \$'000	2003 \$'000
Cash at Bank/(Bank Overdraft)	<u>430</u>	<u>(206)</u>

Cash flows reflect cash movements resulting from transactions with suppliers and employees including Pillar, the Pooled Fund and FTC. Under current funding arrangements all cash payments to external parties on behalf of STC are recovered from the Pooled Fund.

The bank overdraft represents unpresented cheques. STC does not have any credit standby arrangements or loan facilities.

(b) Reconciliation of Net Profit to Net Cash Used in Operating Activities

	2004 \$'000 Inflows/ (Outflows)	2003 \$'000 Inflows/ (Outflows)
Net Profit after income tax	–	–
Changes in Assets and Liabilities:		
<u>(Increase)/Decrease in Assets</u>		
Prepayments	1	27
Receivables —		
Pooled Fund	547	(798)
FTC	1	(180)
Other Receivables	(139)	11
<u>Increase/(Decrease) in Liabilities</u>		
Payables —		
Pillar	(27)	111
Other Payables	834	301
Provisions	(581)	453
Net Cash From/(Used) in Operating Activities	<u>636</u>	<u>(75)</u>

Notes to the financial statements

for the year ended 30 June 2004

10. SEGMENT REPORTING

STC operates in the superannuation and investment management industry in New South Wales.

11. COMMITMENTS FOR EXPENDITURE

	2004	2003
	\$'000	\$'000
Lease Commitments		
Commitments in relation to operating leases contracted for at balance date but not provided for in the accounts, including goods and services tax:		
Payable not later than 1 year	156	193
Payable later than 1 year and not later than 5 years	19	52
	175	245

Administration Expenses

Commitments in relation to fixed administration fees for the Pooled Fund payable to Pillar included in the services contract dated 30 June 2000 but not provided for in the accounts, including goods and services tax:

Payable not later than 1 year	17,372	17,177
Payable later than 1 year and not later than 5 years	–	17,177
	17,372	34,354

The terms of the contract allow for the fixed costs to be adjusted annually in line with an index stated in the contract.

The administration expenses noted above qualify for a reduced input tax credit of 75% of the goods and services tax included therein.

Notes to the financial statements

for the year ended 30 June 2004

12. CONTINGENT LIABILITIES

Broadly, two classes of contingent liabilities potentially exist in relation to either the Trustee in its capacity as Trustee of the Pooled Fund, or the Fund itself:

- (i) Legal Costs and additional benefit amounts in relation to member benefit entitlement disputes, notified, but not resolved.
- (ii) Legal Costs and damages arising from claims relating to the ownership and operation of physical assets.

In both cases it is impractical to estimate the financial effect or the amount of any possible recovery from third parties relating to these contingent liabilities. The Trustee is indemnified out of the assets of the Fund.

- End of Audited Financial Report -

PART C – FINANCIAL STATEMENTS FOR THE POOLED FUND



GPO BOX 12
SYDNEY NSW 2001

INDEPENDENT AUDIT REPORT

SAS TRUSTEE CORPORATION - POOLED FUND

To Members of the New South Wales Parliament

Audit Opinion

In my opinion, the financial report of the SAS Trustee Corporation - Pooled Fund:

- (a) presents fairly the SAS Trustee Corporation - Pooled Fund's financial position as at 30 June 2004 and its financial performance for the year ended on that date, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia, and
- (b) complies with section 41B of the *Public Finance and Audit Act 1983* (the Act).

My opinion should be read in conjunction with the rest of this report.

The Trustee's Role

The financial report is the responsibility of the members of the Board of the SAS Trustee Corporation, as trustee of SAS Trustee Corporation - Pooled Fund. It consists of the statement of changes in net assets, the statement of net assets, and the accompanying notes.

The Auditor's Role and the Audit Scope

As required by the Act, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the New South Wales Parliament that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the members of the Board in preparing the financial report, and
- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does *not* guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the members of the Board had not fulfilled their reporting obligations.

My opinion does *not* provide assurance:

- about the future viability of the SAS Trustee Corporation - Pooled Fund,
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements. The Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General, and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.



R.J. Sendt
Auditor-General

SYDNEY
29 September 2004

Statement by Members of the Trustee Board

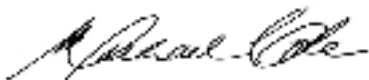
for the year ended 30 June 2004

Pursuant to Section 41C(1B) and (1C) of the *Public Finance and Audit Act 1983* and in accordance with a resolution of the Board of the SAS Trustee Corporation, we declare on behalf of the Board that in our opinion:

1. the financial statements present a true and fair view of the position of the Pooled Fund at 30 June 2004 and transactions for the year then ended, and
2. the financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2000* and the Treasurer's directions.

Further, we are not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Signed at Sydney this 29th day of September 2004.



Michael Cole
Chairperson
SAS Trustee Corporation



Ian Blair
Board Member and Chairperson of the Audit and
Compliance Committee
SAS Trustee Corporation

Statement of changes in net assets

for the year ended 30 June 2004

	Note	2004 \$'m	2003 \$'m
Net Assets Available to Pay Benefits at Beginning of Financial Year		22,305.5	24,064.8
Contribution Revenue			
Employer Contributions		325.9	315.9
Member Contributions		473.5	464.1
	2	799.4	780.0
Transfers			
Scheme Mobility Transfer	4	(0.3)	(34.8)
Other Transfers		0.0	13.6
		(0.3)	(21.2)
Investment Revenue			
Short Term Securities		11.9	16.8
Australian Fixed Interest		185.8	193.3
International Fixed Interest		52.3	56.4
Australian Equities		371.1	389.5
International Equities		111.8	108.9
Property		238.0	157.5
		970.9	922.4
Changes in Net Market Values of Investments		2,280.1	(1,445.7)
	5	3,251.0	(523.3)
Investment Expenses		(65.9)	(47.8)
Net Investment Revenue		3,185.1	(571.1)
Other Revenue		1.7	3.0
Total Revenue from Ordinary Activities		3,985.9	190.7
Benefits Paid	12(b)	(2,038.0)	(2,071.0)
Scheme Administration Expenses	6	(36.5)	(36.2)
Superannuation Contributions Surcharge		(14.1)	(18.0)
Other Expense		(1.5)	(0.2)
Total Expenses from Ordinary Activities		(2,090.1)	(2,125.4)
Change in Net Assets Before Income Tax		1,895.8	(1,934.7)
Income Tax Benefit	7	13.9	175.4
Change in Net Assets Available to Pay Benefits After Income Tax		1,909.7	(1,759.3)
Net Assets Available to Pay Benefits at End of Financial Year	8	24,215.2	22,305.5

The above Statement of Changes in Net Assets should be read in conjunction with the accompanying Notes.

Statement of net assets

at 30 June 2004

	Note	2004 \$'m	2003 \$'m
INVESTMENTS			
Short Term Securities		2,463.8	2,459.6
Australian Fixed Interest		2,948.3	2,902.5
International Fixed Interest		1,343.4	1,351.3
Australian Equities		8,887.6	7,510.7
International Equities		6,133.6	5,025.2
Property		2,454.3	2,843.1
		24,231.0	22,092.4
OTHER ASSETS			
Cash at Bank		2.5	2.5
Receivables	9	219.3	318.7
Plant and Equipment		0.2	0.2
Sundry Assets		15.7	15.7
Current Tax Asset		90.8	61.7
Deferred Tax Asset	7	23.1	104.7
		351.6	503.5
TOTAL ASSETS			
		24,582.6	22,595.9
Less:			
LIABILITIES			
Reserve Units	10	4.8	5.4
Payables	11	233.9	150.5
Deferred Tax Liability	7	128.7	134.5
		367.4	290.4
NET ASSETS AVAILABLE TO PAY BENEFITS			
	8	24,215.2	22,305.5

The above Statement of Net Assets should be read in conjunction with the accompanying Notes.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are for the Pooled Fund (the Fund) reporting entity that consists of the State Authorities Superannuation Scheme (SASS), the State Authorities Non-contributory Superannuation Scheme (SANCS), the State Superannuation Scheme (SSS) and the Police Superannuation Scheme (PSS). These are the superannuation schemes administered by the SAS Trustee Corporation (STC) under the *Superannuation Administration Act 1996* (the Act). STC acts as trustee and holds in trust all assets of the Fund.

The Schemes of the Fund were established under and are governed by various Acts of the New South Wales Parliament. SANCS, SSS and PSS are defined benefit plans, while SASS comprises both a defined benefit component and a defined contribution component. All Schemes in the Fund are closed to new members.

Scheme administration services for the Fund are carried out by the Superannuation Administration Corporation trading as Pillar Administration (Pillar). The Fund's custodial activities are performed by JP Morgan Investor Services.

Investment managers of the Fund at 30 June 2004 are: ABN AMRO Asset Management (Australia) Limited, Alliance Capital Australia Limited, AMP Capital Investors Limited, BIAM Australia Pty Limited, Capital International, Inc., Deutsche Asset Management (Australia) Limited, Fidelity International Limited, GMO Australia Limited, Maple-Brown Abbott Limited, T-Corp (New South Wales Treasury Corporation), State Street Global Advisors, Australia, Limited, UBS Global Asset Management (Australia) Limited and Wellington Management Company Pte Ltd. Each manager is required to invest the assets managed by it in accordance with the terms of a written investment mandate. The investment managers and custodian charge management fees for the services provided.

The following explains the significant accounting policies which have been adopted in the preparation of the financial statements. Unless otherwise stated, such accounting policies were also adopted in the corresponding preceding reporting period.

(a) General System of Accounting Underlying Financial Statements

The financial statements form a general purpose financial report and are prepared in accordance with the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2000*, and the Treasurer's Directions. They also comply with applicable Australian Accounting Standards and other professional reporting requirements (for example, Urgent Issues Group Consensus Views).

The financial statements have been drawn up in accordance with Statements of Accounting Concepts, Australian Accounting Standard AAS 25 "Financial Reporting by Superannuation Plans" and relevant legislative requirements. The accrual method of accounting is used and the financial statements are also prepared in accordance with the historic cost convention, except for assets stated in Note 1(b).

In accordance with the criteria set out in the Australian Accounting Standard AAS 24 *Consolidated Financial Reports*, the Fund is the parent entity of the economic entity. Entities in the economic entity are shown in Note 14. Consolidated financial statements have not been prepared in accordance with this standard on the grounds that they are not material to these financial statements.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Assets

Assets of the Fund are valued at reporting date at net market values and net fair values. Net market values comprise market values less estimated costs of disposal. Changes in net market values, representing gains or losses, are recognised in the Statement of Changes in Net Assets in the period in which they occur.

The valuation of each class of asset at 30 June 2004 is determined as follows:

Short Term Securities:	Market rates.
Fixed Interest:	Relevant fixed interest securities markets.
Equities and Unit Trusts:	Relevant stock exchange official quotation or if unlisted, independent or manager valuation.
Property:	Current market value determined individually by independent registered valuers on the basis of an exchange between knowledgeable and willing parties in an arm's length transaction.
Plant and Equipment:	Valued at net fair values; where assets are not material and for which fair values are not readily available, the assets are shown at their written down values. During the year the fair value of plant and equipment declined by \$35,425 (30 June 2003: \$42,583).
Others:	e.g. Sundry Assets and Receivables, where net market values are not applicable, the assets are shown at net fair values.

Where the Fund invests in a joint venture, trust or partnership, the value of its holding and earnings attributable to that holding are brought to account as investments and investment revenue respectively. AAS 19 Accounting for Interests in Joint Ventures is not applied as the joint venture items are not material to these financial statements.

(c) Foreign Currency Transactions

Foreign currency transactions during the year are converted to Australian dollars at the rate of exchange applicable at the date of the transaction. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date. Resulting exchange differences are included in the change in net assets for the year.

(d) Income Tax

The Fund is a complying superannuation fund within the provisions of the Income Tax Assessment Act. Accordingly, the concessional tax rate of 15% has been applied.

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the change in net assets after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income the net related taxation benefit or liability, calculated at current rates, is disclosed as a deferred tax asset or a deferred tax liability. The future tax benefit relating to tax losses is not carried forward as a deferred tax asset unless the benefit is virtually certain of being realised; while the future tax benefit relating to timing differences is not carried forward as a deferred tax asset unless the benefit is beyond reasonable doubt of being realised.

The capital gains tax applicable on the unrealised investment gains or losses has been included in the income tax expense.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Management Expenses

Management expenses charged to the Fund comprise:

Investment Expenses:	These are charged directly against investment revenue.
Scheme Administration Expenses:	The expenses were allocated in accordance with Trustee policy during the year. The basis for the allocation was number of members and the administrative complexity of each individual Scheme.

(f) Superannuation Contributions Surcharge Tax

The Superannuation Contributions Surcharge tax is levied on surchargeable contributions on the basis of the individual member's adjusted taxable income. Surcharge assessments which are received and paid by the Fund are charged to the relevant members' surcharge debt account.

No provision has been made in these financial statements for the amount of the superannuation contributions surcharge tax which may be payable by the Fund under the *Superannuation Contributions Tax (Assessment and Collections) Act 1997* as the assessments received to date are not considered to be indicative of future assessments.

(g) Rounding

All values reported in the financial statements have been rounded to the nearest million dollars taken to one decimal place, except where otherwise stated.

(h) Comparative Figures

Where there have been changes in presentation in the current financial year, the comparative figures for the previous year have been adjusted to conform to these changes.

(i) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Contributions and Transfers in

Contributions and transfers in are recognised when control of the asset has been attained and are recorded in the period to which they relate.

Interest

Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

Dividends

Dividends are recognised on the ex-date.

(j) Early Implementation of Accounting Standards

The Fund has not early implemented the requirements of AAS 3 *Accounting for Income Tax – Tax Effect Accounting*. The financial impact of not early adopting the standard cannot be reasonably quantified.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Impact of Adopting Australian Equivalents to International Financial Reporting Standards

The Fund will adopt the Australian equivalents to *International Financial Reporting Standards* (IFRS) for the financial year commencing 1 July 2005. Meanwhile the Trustee will ensure procedures and systems are in place for the transition. It will also continue to evaluate the impact on the financial statements that the changes may bring.

Compliance with AAS 25 *Financial Reporting by Superannuation Plans* precludes the Fund from complying with certain IFRS, therefore the adoption of IFRS is not expected to have a significant impact on the financial statements.

The main change is expected to be in relation to tax effect accounting. The concept of timing and permanent differences will be replaced with a statement of net assets approach giving rise to temporary differences. This may permit the recognition of deferred tax assets or liabilities not previously recognised. Also, a "probable" test will replace the current "virtual certainty" test for recognition of tax losses. This may also result in the recognition of additional deferred tax assets. Although the differences in recognition cannot be reliably measured at this point in time, it is expected the differences will be minimal.

2. EMPLOYER AND MEMBER CONTRIBUTIONS

	2004				
	SASS \$'m	SANCS \$'m	SSS \$'m	PSS \$'m	Total \$'m
Employer Contributions	146.1	81.9	97.4	0.5	325.9
Member Contributions	206.7	-	248.9	17.9	473.5
Total Contributions	352.8	81.9	346.3	18.4	799.4

	2003				
	SASS \$'m	SANCS \$'m	SSS \$'m	PSS \$'m	Total \$'m
Employer Contributions	162.3	35.5	117.6	0.5	315.9
Member Contributions	211.9	-	233.1	19.1	464.1
Total Contributions	374.2	35.5	350.7	19.6	780.0

The payment of all benefits under the Schemes associated with the Fund is provided for by New South Wales Government statute and the liability is funded, as a minimum, as the benefits become payable.

Member and Employer contributions for each of the Schemes are determined on the bases described below. The bases for the current year remain unchanged from the previous year.

Contributions made by the Crown vary from year to year depending upon government liability management priorities. Since 1999, the contributions made by the Crown have decreased significantly (\$nil in 2004; \$nil in 2003; \$nil in 2002; \$243 million in 2001 and \$587 million in 2000).

The Government's objective is to fully fund its superannuation liabilities by 2030. This objective requires that employer contributions be periodically reassessed to ensure that they remain sufficient to achieve full funding by 2030.

A non-superannuation investment fund (the General Government Liability Management Fund (GGLMF)) has been established to accumulate Crown employer superannuation contributions. The net assets held in the GGLMF at 30 June 2004 were \$2.9 billion (2003 \$1.7 billion).

Notes to and forming part of the financial statements

for the year ended 30 June 2004

2. EMPLOYER AND MEMBER CONTRIBUTIONS (Continued)

The GGLMF receives the level of contributions determined by the Government to meet full funding of superannuation liabilities by 2030. The GGLMF legislation requires that the financial assets accumulated in the investment fund be strictly applied only for the purposes of:

- ◆ transferring assets to the SAS Trustee Corporation defined benefit superannuation trust fund;
- ◆ directly meeting superannuation liabilities, including surcharge debt liabilities incurred by judges, whose pension arrangements are unfunded; and
- ◆ after providing assets to fully cover superannuation liabilities, repaying government borrowings on or before maturity.

(a) State Authorities Superannuation Scheme (SASS)

Member Contributions

Each member elects to contribute between 1% and 9% of salary.

Employer Contributions

Under the provisions of the *State Authorities Superannuation Act 1987* employers are grouped into the two categories below and the bases of contribution are as follows:

- Part 1 Consolidated Fund or supported Government employers and self-financing Semi-government employers are billed monthly and generally contribute at a multiple of the contributions payable by employees. The respective multiples are set by STC, with the concurrence of the NSW Treasurer, at a rate to part fund future liabilities and to fully fund emerging benefits. Some employers contribute on a less than fully funded basis, meeting liabilities as they emerge, while other employers contribute on a fully funded basis.
- Part 3 Hospitals and associated employers contribute an amount equal to their employees' own contributions. Should any shortfall occur the funding deficit is guaranteed to be met from the Consolidated Fund of the NSW Government.

Contributions made by the Crown vary from year to year depending upon government liability management priorities.

(b) State Authorities Non-contributory Superannuation Scheme (SANCS)

Member Contributions

As the Scheme is 100% employer funded, there are no member contributions.

Employer Contributions

Employers are billed at a percentage of employees' salaries, set for each employer by STC with the concurrence of the NSW Treasurer. The current contribution rates for employers range from 0% and 3%.

Contributions made by the Crown vary from year to year depending upon government liability management priorities.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

2. EMPLOYER AND MEMBER CONTRIBUTIONS (Continued)

(c) State Superannuation Scheme (SSS)

Member Contributions

Each member contributes on a *rate for age* basis for individual pension units which become available with salary increases. Members may elect to abandon units where total contributions payable would exceed 6% of salary.

Employer Contributions

Each employer contributes at a rate equal to a multiple of relevant employee contributions. The rate is set by STC with the concurrence of the NSW Treasurer. The multiple of employee contributions is estimated to at least meet the cost of emerging benefits, though not to fully fund the employer liability for past services.

Contributions made by the Crown vary from year to year depending upon government liability management priorities.

(d) Police Superannuation Scheme (PSS)

Member Contributions

Members contribute 6% of their salary.

Employer Contributions

Employer contributions vary from year to year to ensure the assets of the Fund are sufficient to meet emerging benefits.

3. SASS – MEMBER INVESTMENT CHOICE

Effective from November 2003, SASS members have been given the option to choose the investment strategy for their member contributions. The option is also offered to the SASS members who have deferred their benefits and that applies to both their contributor financed benefits and their employer financed benefits.

4. SCHEME MOBILITY TRANSFER

During the year, some employers and their associated members that were governed under *the Local Government Act* left the State Authorities Superannuation Scheme and State Superannuation Scheme. The total amount transferred out was \$4.4 million at 30 June 2004 (30 June 2003: \$36.6 million).

At the same time, there were Local Government and Energy Industries members who had previously left SASS and SSS but elected to return under the mobility provisions. The total amount transferred in was \$4.1 million at 30 June 2004 (30 June 2003: \$1.8 million).

Notes to and forming part of the financial statements

for the year ended 30 June 2004

5. INVESTMENT REVENUE

	2004			
	Changes in Net Market Values			
	Income	Held at Reporting Date	Realised During the Year	Total
	\$'m	Unrealised Gain/(Loss) \$'m	Gain/(Loss) \$'m	\$'m
Short Term Securities	11.9	12.4	82.4	106.7
Australian Fixed Interest	185.8	(131.1)	(2.8)	51.9
International Fixed Interest	52.3	(101.8)	96.3	46.8
Australian Equities	371.1	1,093.4	189.5	1,654.0
International Equities	111.8	713.3	316.8	1,141.9
Property	238.0	14.8	(3.1)	249.7
Total Investment Revenue	970.9	1,601.0	679.1	3,251.0

	2003			
	Changes in Net Market Values			
	Income	Held at Reporting Date	Realised During the Year	Total
	\$'m	Unrealised Gain/(Loss) \$'m	Gain/(Loss) \$'m	\$'m
Short Term Securities	16.8	8.9	65.8	91.5
Australian Fixed Interest	193.3	81.2	(2.4)	272.1
International Fixed Interest	56.4	(30.0)	188.8	215.2
Australian Equities	389.5	(167.4)	(307.2)	(85.1)
International Equities	108.9	(950.4)	(360.9)	(1,202.4)
Property	157.5	27.9	-	185.4
Total Investment Revenue	922.4	(1,029.8)	(415.9)	(523.3)

Notes to and forming part of the financial statements

for the year ended 30 June 2004

6. SCHEME ADMINISTRATION EXPENSES

	2004 \$'m	2003 \$'m
Included in Scheme Administration Expenses are the following items:		
Audit Fees – The Audit Office of New South Wales (audit of the financial statements)	0.4	0.4
Triennial Actuarial Fees	0.1	0.2

7. INCOME TAX

Income tax expense, assets and liabilities arising from the levying of income tax (including capital gains tax) on the Fund have been determined in accordance with the provisions of Australian Accounting Standard AAS 3 "Accounting for Income Tax (Tax-effect Accounting)."

(a) Income Tax Benefit

The prima facie tax on the Change in Net Assets is reconciled to the Income Tax Benefit as follows:

Prima facie tax expense/(benefit) on the Change in Net Assets at 15%	284.4	(290.2)
Plus/(Less) net tax effect of permanent differences:		
Non-deductible Benefit Payments	306.2	314.8
Non-assessable Contributions	(71.5)	(70.6)
Non-assessable Pension Related Investment Income	(262.2)	(27.3)
Deductible Premiums	(86.1)	(79.2)
(Decrease)/Increase Assessable Income due to Indexation	(21.7)	22.6
Discount Capital Gains	(85.6)	58.7
Non-deductible Contributions Surcharge Tax	2.1	2.7
Imputation and Foreign Tax Credits	(85.1)	(98.5)
Income Tax Benefit on Change in Net Assets	(19.5)	(167.0)
Under/(Over) Provision Prior Year	5.6	(8.4)
Income Tax Benefit	(13.9)	(175.4)

The Income Tax Benefit comprises:

Provision attributable to Current Year	(90.8)	(62.5)
Increase/(Decrease) in Deferred Tax Liability	56.0	(6.0)
(Increase)/Decrease in Deferred Tax Asset	15.3	(98.5)
Under/(Over) Provision in Prior Year:		
Increase/(Decrease) in Current Tax Asset	1.3	(36.6)
Increase/(Decrease) in Deferred Tax Liability	(0.9)	-
(Increase)/Decrease in Deferred Tax Asset	5.2	28.2
	(13.9)	(175.4)

Notes to and forming part of the financial statements

for the year ended 30 June 2004

7. INCOME TAX (Continued)

	2004 \$'m	2003 \$'m
(b) Deferred Tax Asset		
Attributable to tax effect of timing differences:		
Unrealised Capital Losses	-	60.2
Realised Capital Losses	23.1	37.4
Unrealised Losses on Traditional Securities and Others	-	7.1
	23.1	104.7
(c) Deferred Tax Liability		
Attributable to tax effect of timing differences:		
Dividend Receivable	3.9	4.7
Interest Receivable	0.1	2.8
Unrealised (Loss)/Gain on Traditional Securities and Foreign Exchange	(7.4)	4.5
Unrealised Capital Gains	129.7	119.4
Contributions Receivable	2.4	2.3
Others	-	0.8
	128.7	134.5

The Fund is exempt from tax payable on investment income set aside for the payment of pensions. In addition, the Fund is able to offset pre 1 July 1988 Funding Credits (PJFC) against the tax payable on employer contributions made during the year. The balance of pre 1 July 1988 Funding Credits available for use at 30 June 2004 amounted to \$940.7 million (30 June 2003: \$880.2 million). The tax benefit of these amounts has not been recognised as a deferred tax asset because it is not probable in the foreseeable future that the Fund will have sufficient taxable contributions available against which the unused Funding Credits can be utilised.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

8. NET ASSETS

	2004				
	SASS \$'m	SANCS \$'m	SSS \$'m	PSS \$'m	Total \$'m
Balance at Beginning of Financial Year	5,277.8	470.9	15,430.9	1,125.9	22,305.5
Increase in Net Assets	501.0	2.8	1,435.4	(29.5)	1,909.7
Balance at End of Financial Year	5,778.8	473.7	16,866.3	1,096.4	24,215.2
Comprising:					
Member Reserves ⁽¹⁾	3,484.9	-	4,393.5	378.0	8,256.4
Employer Reserves ⁽²⁾	1,437.6	286.8	12,472.8	718.4	14,915.6
Death or Invalidation Reserves ⁽³⁾	13.8	-	-	-	13.8
Deferred Benefit Reserves ⁽⁴⁾	842.5	186.9	-	-	1,029.4
Net Assets Available to Pay Benefits	5,778.8	473.7	16,866.3	1,096.4	24,215.2

	2003				
	SASS \$'m	SANCS \$'m	SSS \$'m	PSS \$'m	Total \$'m
Balance at Beginning of Financial Year	5,712.5	596.8	16,427.7	1,327.8	24,064.8
Increase in Net Assets	(434.7)	(125.9)	(996.8)	(201.9)	(1,759.3)
Balance at End of Financial Year	5,277.8	470.9	15,430.9	1,125.9	22,305.5
Comprising:					
Member Reserves ⁽¹⁾	3,068.7	-	4,112.9	348.4	7,530.0
Employer Reserves ⁽²⁾	1,456.7	311.7	11,318.0	777.5	13,863.9
Death or Invalidation Reserves ⁽³⁾	11.5	-	-	-	11.5
Deferred Benefit Reserves ⁽⁴⁾	740.9	159.2	-	-	900.1
Net Assets Available to Pay Benefits	5,277.8	470.9	15,430.9	1,125.9	22,305.5

(1) The Member Reserve represents members' accounts that comprise the balance of members' contributions and investment income earned less benefits paid that are attributable to contributor-financed benefits. Only the contributors under the *State Authorities Superannuation Scheme* are required to pay scheme administration fees.

(2) The Employer Reserve represents employers' accounts that comprise the balance of employers' contributions and investment income earned less benefits paid and scheme administration fees. In addition, the employers are also responsible for the tax liabilities levied on the employers' contributions.

(3) The Death or Invalidation Reserve represents accumulated funds available to provide death or invalidity cover to members for the months during which they have public sector employment. The reserve balance is the excess of member premiums over benefits paid.

(4) The Deferred Benefit Reserve represents member account balances that, on the election of the member or by default, are to remain with the Fund following the member's exit from employment in the public sector. The deferred benefit of SSS and PSS members has been included in the employer reserve of the respective Schemes.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

8. NET ASSETS (Continued)

This year was the first year in which SASS members were able to elect an investment strategy for their member contributed balance.

Balances of the SASS Member Reserve and the Deferred Benefit Reserve in the various investment strategies at the reporting date are:

	2004				Total \$'m
	Growth \$'m	Conservative Growth \$'m	Balanced \$'m	Cash \$'m	
SASS Member	3,392.2	24.1	49.9	18.7	3,484.9
Deferred Benefit	816.6	7.1	12.9	5.9	842.5
	4,208.8	31.2	62.8	24.6	4,327.4

9. RECEIVABLES

	2004 \$'m	2003 \$'m
Contributions Receivable	37.6	36.9
Accrued Income	80.4	134.7
Margin Call Deposits	45.0	128.5
Investment Sales	54.4	17.8
Other Receivables	1.9	0.8
	219.3	318.7

10. RESERVE UNITS

Reserve Units are units held by certain SSS members. They represent units purchased in advance at a rate which is the *rate for age* at the date purchased with an option to convert to full rate units in SSS at any future date. On conversion they are no longer recognised as a liability but as part of member funds.

11. PAYABLES

Superannuation Benefits	36.9	22.2
Investment Purchases	56.6	17.7
Investment – Other Creditors	32.6	13.1
Provision for Contribution Surcharges	88.0	73.8
Provision for Triennial Actuarial Fees	0.1	0.2
Amount Payable–STC	3.5	4.0
Other Payables	16.2	19.5
	233.9	150.5

Notes to and forming part of the financial statements

for the year ended 30 June 2004

12. ACCRUED BENEFITS

(a) Liability for Accrued Benefits

The amount of accrued benefits has been determined on the basis of the present value of expected future payments which arise from membership of the Fund up to the measurement date. The figure reported has been determined by reference to expected future salary levels and by application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions. The valuation of accrued benefits was undertaken by the actuary as part of a comprehensive actuarial review undertaken during 2003. The financial assumptions that have been applied for the calculations are:

	2004–05 % pa.	2005–06 % pa.	2006–07 and thereafter % pa.
Valuation Assumptions			
Investment Return Rate	7.0	7.0	7.0
Salary Increase Rate	4.0	4.0	4.0
CPI Increase Rate	2.5	2.5	2.5

The valuation done at 30 June 2003 indicated that the unfunded liability of the Fund was \$16,661.0 million, excluding the GGLMF balance of \$1,651.4 million.

In addition to the Triennial Actuarial investigation, the actuary also provides yearly estimates at the reporting date.

	2004			2003		
	Accrued Benefits \$'m	Net Assets Available To Pay Benefits \$'m	Over/(Under) Funded \$'m	Accrued Benefits \$'m	Net Assets Available to Pay Benefits \$'m	Over/(Under) Funded \$'m
State Authorities Superannuation Scheme	9,823.8	5,778.8	(4,045.0)	8,903.3	5,277.8	(3,625.5)
State Authorities Non-contributory Superannuation Scheme	2,096.5	473.7	(1,622.8)	1,887.8	470.9	(1,416.9)
State Superannuation Scheme	24,887.6	16,866.3	(8,021.3)	23,660.9	15,430.9	(8,230.0)
Police Superannuation Scheme	4,761.4	1,096.4	(3,665.0)	4,318.1	1,125.9	(3,192.2)
	41,569.3	24,215.2	(17,354.1)	38,770.1	22,305.5	(16,464.6)

Benefits are guaranteed by the participating employers and ultimately the Crown. The relevant statutes require that all benefits be paid in full as and when they fall due.

A non-superannuation investment fund (the General Government Liability Management Fund (GGLMF)) has been established to accumulate Crown employer superannuation contributions. The net assets held in the GGLMF at 30 June 2004 were \$2.9 billion (2003 \$1.7 billion).

Notes to and forming part of the financial statements

for the year ended 30 June 2004

12. ACCRUED BENEFITS (Continued)

(b) Movement in the Liability for Accrued Benefits

Accrued benefits increase due to the cost of accruing benefits and the imputed cost of interest, and reduce as benefits are paid, and may vary due to changes in valuation bases and changes in experience from previous assumptions. Based on current assumptions, the value of Accrued Benefits should not start to decline until after 2015.

	2004				
	SASS \$'m	SANCS \$'m	SSS \$'m	PSS \$'m	Total \$'m
Balance at Beginning of Financial Year	8,903.3	1,887.8	23,660.9	4,318.1	38,770.1
Benefits Paid	(536.4)	(137.7)	(1,114.3)	(249.6)	(2,038.0)
	8,366.9	1,750.1	22,546.6	4,068.5	36,732.1
Increase in Accrued Benefits	1,456.9	346.4	2,341.0	692.9	4,837.2
Balance at End of Financial Year	9,823.8	2,096.5	24,887.6	4,761.4	41,569.3

	2003				
	SASS \$'m	SANCS \$'m	SSS \$'m	PSS \$'m	Total \$'m
Balance at Beginning of Financial Year	8,743.0	1,848.1	22,156.1	3,988.5	36,735.7
Benefits Paid	(674.1)	(158.8)	(1,002.1)	(236.0)	(2,071.0)
	8,068.9	1,689.3	21,154.0	3,752.5	34,664.7
Increase in Accrued Benefits	834.4	198.5	2,506.9	565.6	4,105.4
Balance at End of Financial Year	8,903.3	1,887.8	23,660.9	4,318.1	38,770.1

13. VESTED BENEFITS

Vested benefits are benefits which are not conditional upon continued membership of the Fund (or any factor other than resignation from the Fund) and include benefits which members were entitled to receive had they terminated their Fund membership as at the reporting date.

	2004			2003		
	Vested Benefits \$'m	Net Assets Available To Pay Benefits \$'m	Over/(Under) Funded \$'m	Vested Benefits \$'m	Net Assets Available To Pay Benefits \$'m	Over/(Under) Funded \$'m
State Authorities Superannuation Scheme	6,742.3	5,778.8	(963.5)	6,033.5	5,277.8	(755.7)
State Authorities Non-contributory Superannuation Scheme	2,540.3	473.7	(2,066.6)	2,311.6	470.9	(1,840.7)
State Superannuation Scheme	21,928.9	16,866.3	(5,062.6)	20,515.6	15,430.9	(5,084.7)
Police Superannuation Scheme	3,424.4	1,096.4	(2,328.0)	3,137.7	1,125.9	(2,011.8)
	34,635.9	24,215.2	(10,420.7)	31,998.4	22,305.5	(9,692.9)

Vested benefits exceeded net assets at 30 June 2004 and 30 June 2003. The Trustee is working with the NSW Treasury and the Actuary to facilitate the Government's stated objective to fully fund the schemes by 2030.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

14. CONTROLLED ENTITIES

The following entities comprise the Pooled Fund economic entity:

Parent Entity

Pooled Fund

	Activity	Ownership Interest	
		2004 %	2003 %
Controlled Entities			
State Super Financial Services Australia Limited (SSFSL)	Financial planning and funds management	85	85

The following entities are managed by Deutsche Asset Management (Australia) Ltd

Valley Commerce Pty Limited	Dormant	100	100
Buroba Pty Limited	Dormant	100	100

During the year the Controlled Entities paid dividends and trust distributions to the Parent Entity of \$7.4 million (2003 \$5.9 million).

15. RELATED PARTY INFORMATION

The Trustee of the Fund is STC. The names of the Board members of STC in office during the year ended 30 June 2004 and up to the date of signing these accounts are as follows:

Mr M Cole
Mr I Blair
Mr R Davis
Mr W Gillooly (completed 31 January 2004)
Mr R Harty
Mr N Lewocki
Mr D Nicholls (completed 31 January 2004)
Ms M O'Halloran
Ms C Prime (completed 31 January 2004)
Mr P Scully (commenced 1 February 2004)
Ms O Sananikone (commenced 1 February 2004)
Mr M Lambert (commenced 1 February 2004)

(a) Board Members' Remuneration

All income received or due and receivable by Board members is disclosed in the financial statements of STC.

(b) Remuneration received or due and receivable by Board Members and Directors of the Economic Entity from Controlled Entities (refer Note 14 Controlled Entities)

All income received is disclosed in the financial statements of each controlled entity.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

15. RELATED PARTY INFORMATION (Continued)

(c) Transactions entered into during the year with Board Members and their Related Entities

All transactions entered into during the year with Board members and their related entities are disclosed in the financial statements of STC.

(d) Transactions with Other Related Parties

	2004 \$'m	2003 \$'m
Property rental received from State Super Financial Services Australia Limited on normal commercial terms and conditions	1.3	1.2
Interest revenue from associated companies and joint ventures under normal commercial terms and conditions	-	1.2

16. SEGMENT REPORTING

The Fund operates in the superannuation and investment management industry in New South Wales.

17. CONTINGENT LIABILITIES

In managing the investment portfolio the investment managers enter into various types of investment contracts that can give rise to contingent liabilities. Investment contracts are detailed in Note 19.

Two other classes of contingent liabilities potentially exist in relation to either the Trustee in its capacity as Trustee of the Pooled Fund, or the Fund itself:

- (i) Legal Costs in relation to member benefit entitlement disputes, notified, but not resolved.
- (ii) Legal Costs and damages arising from claims relating to the ownership and operation of physical assets.

In both cases it is impractical to estimate the financial effect or the amount of any possible recovery from third parties relating to these contingent liabilities. The Trustee is indemnified out of the assets of the Fund.

18. SECURITIES LENDING PROGRAM

The Fund participates in a Securities Lending Program managed by the custodian, JP Morgan Investor Services. The Fund received \$4.5 million (2003 \$3.2 million) additional fee income from this program, which adds to the Fund's overall yearly return.

At 30 June 2004, the total value of the loaned securities was \$2.2 billion (2003 \$1.7 billion) while the total value of the Collateral was \$2.3 billion (2003 \$1.8 billion). The loaned securities represented about 8.9% of the Fund's total investment, which was within the allowable limit of 25%.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

19. FINANCIAL INSTRUMENTS

The information pertaining to financial instruments set out below is made in accordance with the provisions of AAS 33 *Presentation and Disclosure of Financial Instruments*.

For the purpose of these financial statements, a financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments include both primary instruments (such as receivables, payables and equity securities) and derivative instruments (such as financial options, foreign exchange transactions, forward rate agreements and interest rate and currency swaps). The Fund's moneys are invested in a variety of financial instruments included in the asset classes shown below.

(i) Accounting Policies

Recognised Financial Instruments	Accounting Policies	Terms and Conditions
Receivables	Receivables include accrued income and unsettled sales of securities. Receivables are carried at their nominal amounts.	Sales of securities are made on various terms for different securities and in different countries. Income receivable is also settled on varying terms depending on the security and country.
Bills of Exchange and other discount securities	Carried at net market value using market rates as at 30 June 2004.	Average maturity of 121 days with effective interest rates in the range of 5.3% to 5.7%.
Promissory Notes	Carried at net market value as at 30 June 2004.	Average maturity of 55 days with effective interest rates in the range of 5.4% to 5.6%.
Mortgage Backed Securities	Mortgage Backed Securities are stated at net market value. Interest income is recognised in the Statement of Changes in Net Assets when earned.	Mortgage Backed Securities on average mature on 11 October 2028 with effective interest rates in the range of 5.6% and 5.7%.
Bank Deposits	Stated at net market value. Interest income is recognised in the Statement of Changes in Net Assets when earned.	Bank deposits represent 11AM call deposits and uninvested cash and has no fixed maturity dates. Deposits have effective interest rates in the range of 0% to 7.07%.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

19. FINANCIAL INSTRUMENTS (Continued)

(i) Accounting Policies (Continued)

Recognised Financial Instruments	Accounting Policies	Terms and Conditions
Listed Shares	Listed shares are carried at market value, less an amount for selling costs which would be incurred if the investments were sold. The basis for valuation of listed securities is the last sale price quoted at close of business on the last day of the period on the relevant securities exchange. Certain costs incurred in acquiring the investment, such as brokerage and stamp duty, are capitalised in the cost of the investments. Dividend income is recognised on the ex-date.	N/A.
Unlisted Shares	The Net Market Value of unlisted shares is based on independent valuations.	N/A.
Unlisted Trusts	The Net Market Value of Unlisted Trusts is determined on the basis of the withdrawal unit prices as advised by the relevant fund manager.	Unlisted Trusts refer to NSW Treasury Corporation and Maple-Brown Abbott Unit Trusts.
Government Bonds	Carried at net market value based on discounted cash flow.	Government bonds on average mature on 11 December 2008 and have effective interest rates in the range of 5.3% to 5.9%.
Semi-Government Bonds	Carried at net market value based on discounted cash flow.	Semi Government bonds on average mature on 27 May 2010 and have effective interest rates in the range of 5.4% to 6.2%.
International Bonds	Carried at net market value based on discounted cash flow.	International Bonds on average mature on 23 December 2013 and have effective interest rates in the range of 0.1% to 5.4%.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

19. FINANCIAL INSTRUMENTS (Continued)

(i) Accounting Policies (Continued)

Recognised Financial Instruments	Accounting Policies	Terms and Conditions
Local Government Authorities	Carried at net market value based on discounted cash flow.	Local Government Authorities on average mature on 21 August 2012 and have effective interest rates in the range of 5.4% to 6.1%.
Leasehold Property Investments	Carried at net market value based on discounted cash flow.	Leasehold Property Investments on average mature on 5 December 2013 and have effective interest rates in the range of 6.07% to 6.11%.
Direct Property	Reported at net market value based on independent valuations.	N/A
Options	Options are stated at market value using the daily closing price.	The options are all Australian Exchange Traded options.
Futures	Futures are stated at market value using the daily closing price.	The futures are either fixed interest or share price index futures.
Investment Purchases	Liabilities are recognised for amounts to be paid for under investment commitments.	Settlement for securities is made in accordance with investment agreements between counterparties.
Payables	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Fund.	Liabilities are settled on receipt of invoices in accordance with terms thereof.
Forward Foreign Exchange Contracts	Foreign exchange forward contracts are undertaken to hedge against adverse foreign exchange movements. Gains or losses on these contracts are recognised through the translation of underlying transactions and/or instruments at hedge rates.	At balance date, the Fund had various foreign exchange contracts open in its international portfolio.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

19. FINANCIAL INSTRUMENTS (Continued)

(ii) Use of Derivative Financial Instruments

The Fund uses derivatives to hedge its various exposures by reducing risks such as foreign exchange, interest rate and equity market movement. Changes in the derivative's fair value are highly correlated with changes in the fair value of the underlying hedged item. Derivatives used for hedging purposes may include foreign exchange forward contracts, interest rate futures, share price index futures and options. These derivative instruments involve credit risk and market risk.

The credit risk of the foreign exchange forward contracts is discussed in Note 19 (iii), Credit Risk Exposures. Futures contracts settle in cash daily, therefore, the credit risk to the Fund is significantly reduced. All Australian exchange traded options are novated by the Options Clearing House, therefore the credit risk associated with these contracts is significantly reduced.

The following table summarises the aggregate notional amounts of the futures and options contracts and their net market value at 30 June 2004 and 2003.

		Notional Principal Amounts		Net Market Value	
		2004	2003	2004	2003
		\$'000	\$'000	\$'000	\$'000
Futures Contracts					
- Australian Fixed Interest	Buy	-	-	-	-
	Sell	(67,689)	(267,892)	(27)	3,186
- Australian Share Price Index	Buy	160,358	229,066	2,021	(6,067)
	Sell	(129,506)	(830)	(1,686)	2
- International Share Price	Buy	272,062	1,203,628	2,619	(26,530)
- International Fixed Interest	Buy	338,406	-	1,255	-
	Sell	-	(233,274)	-	2,449
Options Contracts					
- Australian Exchange Traded	Put	1,478	467	(83)	(35)
	Call	(1,121)	(1,405)	(44)	(93)
		573,988	929,760	4,055	27,088

Notes to and forming part of the financial statements

for the year ended 30 June 2004

19. FINANCIAL INSTRUMENTS (Continued)

(iii) Credit Risk Exposures

Credit (or counterparty) risk is the risk that a counterparty to a financial instrument fails to discharge an obligation and causes the Fund to incur a financial loss. In the normal course of its operations the Fund accepts credit risk on the majority of its non-equity investments.

The Fund's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets (other than equity investments) is the carrying amount of those assets as indicated in the *Statement of Net Assets*.

In relation to unrecognised financial assets, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement.

The Fund's maximum credit risk exposure in relation to foreign exchange forward contracts is the full amount of the foreign currency it will be required to pay when settling the forward exchange contract, should the counterparty not deliver the Australian dollar amounts to the Fund. At 30 June 2004 this amount was \$2,777.28m (2003: \$1,684.73m). During the year the average maximum credit risk exposure for foreign exchange forward contracts was \$2,358.35m (2003: \$1,813.99 m).

The following table summarises the amounts and concentrations of credit exposure associated with the Fund's investment holdings of government and corporate debt instruments, including mortgage backed securities.

	2004 \$'000	2003 \$'000
International		
—Europe	632,357	597,227
—North America	351,904	351,022
—Asia	392,953	345,107
Australia		
—Government Bonds	1,246,273	1,360,894
—Semi-government Bonds	1,464,378	1,485,589
—Other	237,038	101,866
	4,324,903	4,241,705

(iv) Currency Risk Exposures

The Fund's exposure at 30 June 2004 and 30 June 2003 to foreign exchange rate movement on international investments is shown below. As discussed in Note 19 (ii) **Use of Derivative Financial Instruments**, the Fund has entered into foreign exchange forward contracts to hedge its investment in foreign currency denominated financial assets. All foreign exchange forward contracts are carried at their net market value.

International Equity Portfolios

The Fund enters into foreign exchange forward contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign equities portfolio holdings. These foreign exchange forward contracts form a currency overlay that complements the risk characteristics of the investment in foreign equities so as to achieve a desired risk characteristic for the net position. When executing forward currency exchange contracts, the Fund is obligated to sell a foreign currency at a specified rate on a certain date in the future. The obligations arising under these contracts will be realised between 20 July 2004 to 21 September 2004.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

19. FINANCIAL INSTRUMENTS (Continued)

(iv) Currency Risk Exposures (Continued)

International Equity Portfolios (Continued)

30 June 2004

	USD A\$'000	EUR A\$'000	JPY A\$'000	GBP A\$'000	Other A\$'000	Total A\$'000
Gross International Equities Investment	3,574,214	906,241	609,709	642,194	482,700	6,215,058
Less: Amounts Effectively Hedged	783,889	202,644	138,718	155,663	112,373	1,393,287
Net Exposure	2,790,325	703,597	470,991	486,531	370,327	4,821,771
Percent Hedged	21.93%	22.36%	22.75%	24.24%	23.28%	22.42%

30 June 2003

	USD A\$'000	EUR A\$'000	JPY A\$'000	GBP A\$'000	Other A\$'000	Total A\$'000
Gross International Equities Investment	2,916,291	758,889	384,750	592,979	382,460	5,035,369
Less: Amounts Effectively Hedged	227,795	53,121	28,949	42,303	29,282	381,450
Net Exposure	2,688,496	705,768	355,801	550,676	353,178	4,653,919
Percent Hedged	7.81%	7.00%	7.52%	7.13%	7.66%	7.58%

Notes to and forming part of the financial statements

for the year ended 30 June 2004

19. FINANCIAL INSTRUMENTS (Continued)

(iv) Currency Risk Exposures (Continued)

International Fixed Income Portfolios

The Fund invests in foreign government bonds and corporate bonds. The Fund enters into foreign exchange forward contracts in order to modify the foreign currency composite basis of the international fixed income portfolio to comply with the Fund's benchmark index composite as stipulated by the Fund's investment guidelines. Although the currency weightings relative to the benchmark index weights are changed by these foreign exchange forward contracts, the Fund's overall exposure to foreign currency risk is not increased. When executing forward currency exchange contracts, the Fund is obligated to buy or sell a foreign currency at a specified rate on a certain date in the future. The obligations arising under these contracts will be realised on the 7 July 2004.

30 June 2004

	USD A\$'000	EUR A\$'000	JPY A\$'000	GBP A\$'000	Other A\$'000	Total A\$'000
Gross International Fixed Interest Investment	323,006	533,972	394,291	70,407	58,989	1,380,665
Less: Amounts effectively Hedged	325,212	542,615	399,476	71,867	44,827	1,383,997
Net Exposure	(2,206)	(8,643)	(5,185)	(1,460)	14,162	(3,332)
Percent Hedged	100.68%	101.62%	101.31%	102.07%	75.99%	100.24%

30 June 2003

	USD A\$'000	EUR A\$'000	JPY A\$'000	GBP A\$'000	Other A\$'000	Total A\$'000
Gross International Fixed Interest Investment	318,408	507,407	345,170	67,039	57,276	1,295,300
Less: Amounts effectively Hedged	324,209	535,055	348,287	64,931	30,796	1,303,278
Net Exposure	(5,801)	(27,648)	(3,117)	2,108	26,480	(7,978)
Percent Hedged	101.82%	105.45%	100.90%	96.86%	53.77%	100.62%

The currency risk disclosure has been prepared on the Fund's direct investments and not on a look through basis for investments held indirectly through unit trusts. Therefore the disclosure of the currency risk above does not represent the full currency risk profile of the Fund, as the Fund has significant investments in unit trusts that have exposure to currency markets. Currency risks in these unit trusts are managed by the respective managers of the trusts.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

19. FINANCIAL INSTRUMENTS (Continued)

(v) Interest Rate Risk Exposures

The Fund's investments in debt and short term money market instruments are subject to interest rate risks and the return on these investments will fluctuate in accordance with movements in the interest rates.

The Fund's exposure to interest rate risk, including contractual repricing or maturity dates (whichever dates are earlier) and the weighted average effective interest rates associated with these financial instruments as at 30 June 2004 and as at 30 June 2003, are shown in the table below. All other financial assets and liabilities are non-interest bearing.

The interest risk disclosure has been prepared on the Fund's direct investments and not on a look through basis for investments held indirectly through unit trusts. Therefore the disclosure of the interest risk below does not represent the full interest rate risk profile of the Fund, where the Fund has significant investments in unit trusts that have exposure to interest rate movements. Interest rate risks in these unit trusts are managed by the respective managers of the trusts.

	2004						Total \$'m
	Weighted Average Effective Interest Rate %	Fixed Interest – Time to Maturity				Non- Interest Bearing \$'m	
Floating Interest Rate \$'m		Less than 12 Months \$'m	1 To 5 Years \$'m	Over 5 Years \$'m			
Assets							
Cash & short term securities	5.33	2,505.0	-	-	-	-	2,505.0
Government bonds—domestic	5.58	-	103.0	596.0	547.0	-	1,246.0
Semi-government bonds and loans to Local Authorities	5.80	-	164.0	574.0	731.0	-	1,469.0
Mortgage backed securities	5.67	-	5.0	26.0	200.0	-	231.0
Forward foreign exchange	N/A	-	-	-	-	(74.0)	(74.0)
International fixed interest	3.01	-	3.0	682.0	693.0	-	1,378.0
Listed equities—domestic	N/A	-	-	-	-	7,378.0	7,378.0
Listed equities—international	N/A	-	-	-	-	6,284.0	6,284.0
Direct Property	N/A	-	-	-	-	1,944.0	1,944.0
Unlisted unit trusts	N/A	-	-	-	-	1,914.0	1,914.0
Cash at Bank	4.40	2.5	-	-	-	-	2.5
Receivables	N/A	-	-	-	-	175.3	175.3
Sundry Assets	N/A	-	-	-	-	15.7	15.7
Plant and Equipment	N/A	-	-	-	-	0.2	0.2
Current Tax Asset	N/A	-	-	-	-	90.8	90.8
Deferred Tax Asset	N/A	-	-	-	-	23.1	23.1
Total Financial Assets		2,507.5	275.0	1,878.0	2,171.0	17,751.1	24,582.6
Liabilities							
Superannuation Contributions							
Surcharge Payable	5.87	88.0	-	-	-	-	88.0
Payables	N/A	-	-	-	-	145.9	145.9
Reserve Units	N/A	-	-	-	-	4.8	4.8
Deferred Tax Liability	N/A	-	-	-	-	128.7	128.7
Total Financial Liabilities		88.0	-	-	-	279.4	367.4
Total Net Assets		2,419.5	275.0	1,878.0	2,171.0	17,471.7	24,215.2

Note 1: The weighted average interest rate includes the interest rates of fixed income instruments denominated in foreign currencies.

Notes to and forming part of the financial statements

for the year ended 30 June 2004

19. FINANCIAL INSTRUMENTS (Continued)

(v) Interest Rate Risk Exposures (Continued)

	2003							Total \$'m
	Fixed Interest – Time to Maturity							
	Weighted Average Effective Interest Rate %	Floating Interest Rate \$'m	Less than 12 Months \$'m	1 To 5 Years \$'m	Over 5 Years \$'m	Non- Interest Bearing \$'m		
Assets								
Cash & short term securities	4.09	2,618.5	-	-	-	-	-	2,618.5
Government bonds—domestic	4.69	-	98.0	570.0	693.0	-	-	1,361.0
Semi-government bonds and loans to Local Authorities	4.85	-	132.0	653.0	701.0	-	-	1,486.0
Other fixed interest	4.95	-	1.0	4.0	3.0	3.0	-	11.0
Mortgage backed securities	5.08	-	-	13.0	81.0	-	-	94.0
Foreign exchange	N/A	-	-	-	-	76.0	-	76.0
International fixed interest	2.41	-	29.0	595.0	670.0	2.0	-	1,296.0
Listed equities—domestic	N/A	-	-	-	-	6,696.0	-	6,696.0
Listed equities—international	N/A	-	-	-	-	4,980.0	-	4,980.0
Direct Property	N/A	-	-	-	-	2,349.0	-	2,349.0
Unlisted unit trusts	N/A	-	-	-	-	404.0	-	404.0
Unlisted equities	N/A	-	-	-	-	898.0	-	898.0
Receivables	N/A	-	-	-	-	144.1	-	144.1
Sundry Assets	N/A	-	-	-	-	15.7	-	15.7
Plant and Equipment	N/A	-	-	-	-	0.2	-	0.2
Current Tax Asset	N/A	-	-	-	-	61.7	-	61.7
Deferred Tax Asset	N/A	-	-	-	-	104.7	-	104.7
Total Financial Assets		2,618.5	260.0	1,835.0	2,148.0	15,734.4		22,595.9
Liabilities								
Superannuation Contributions								
Surcharge Payable	5.01	73.8	-	-	-	-	-	73.8
Payables	N/A	-	-	-	-	76.7	-	76.7
Reserve Units	N/A	-	-	-	-	5.4	-	5.4
Deferred Tax Liability	N/A	-	-	-	-	134.5	-	134.5
Total Financial Liabilities		73.8	-	-	-	216.6		290.4
Total Net Assets		2,544.7	260.0	1,835.0	2,148.0	15,517.8		22,305.5

20. EVENT AFTER REPORTING DATE

The Fund's custodian has advised that as at 31 August 2004 the net investment assets of the Fund were \$23.6 billion. Since 30 June 2004 the Fund's investments have made a return of approximately –

- Growth 0.2%
- Conservative Growth 0.8%
- Balanced 1.0%
- Cash 0.8%

End of Audited Financial Report

PART D – TRIENNIAL ACTUARIAL VALUATION

Note: The following is a summary of the most recent triennial valuation report for the Pooled Fund.

The triennial actuarial valuation of the Pooled Fund and each of the individual Schemes at 30 June 2003 was carried out by Martin Stevenson, FIA, FIAA of Mercer Human Resource Consulting Pty. Ltd. A summary of this valuation as provided by Martin Stevenson follows.

1 Triennial Actuarial Valuation

1.1 Introduction

As requested by the SAS Trustee Corporation (the Corporation) I have carried out an actuarial valuation of the following Schemes as at 30 June 2003 in accordance with the relevant legislation governing each of the Schemes:

- the State Authorities Superannuation Scheme (SASS)
- the State Authorities Non-Contributory Superannuation Scheme (SANCS)
- the State Superannuation Scheme (SSS)
- the Police Superannuation Scheme (PSS)

The previous actuarial investigation of SASS, SANCS, SSS and PSS was carried out by myself as at 30 June 2000 and the results were set out in a report dated December 2000.

This report conforms to the requirements of Professional Standard 400 of the Institute of Actuaries of Australia.

For funding purposes and in accordance with legislation distinctions are made between groups of employers as set out in the following table.

Scheme	Employers
SASS	Employers are separated into Parts 1 and 3 in accordance with legislation. Part 1 includes the Crown and other employers, Part 3 includes Hospitals and other bodies.
SANCS	Employers are subdivided in the same manner as above.
SSS	Employers under SSS are essentially equivalent to Part 1 employers under SASS.
PSS	No subdivision necessary.

The General Government Liability Management Fund (GGLMF) was established with effect from 10 July 2002. The GGLMF accepts monies transferred by the Crown Entity and it is expected that these will be used to pay employer contributions to the Pooled Fund. We have presented results both with and without the value of the GGLMF as at 30 June 2003 being included as an asset of the Pooled Fund.

1 Triennial Actuarial Valuation

The **number of contributors** in each of the Schemes at the current and previous investigation dates is set out below:

Contributors	SASS	SANCS	SSS	PSS	Total
30 June 2003	68,272	106,263	33,536	4,489	212,560
30 June 2000	81,817	128,435	40,501	6,087	256,840
Pensioners	SASS	SANCS	SSS	PSS	Total
30 June 2003	5,617	n/a	35,354	4,877	45,848
30 June 2000	7,121	n/a	31,904	3,886	42,911

The **Pooled Fund assets** at 30 June 2003 totalled \$22,305.5 million compared to \$27,243.2 million at the last valuation. The assets were allocated to each Scheme as follows.

Assets (\$millions)	SASS	SANCS	SSS	PSS	Total
30 June 2003	5,278	471	15,431	1,126	22,306
30 June 2000	6,375	1,108	18,229	1,530	27,243

The **Employer Reserves** in respect of each Scheme are as follows:

\$millions	SASS	SANCS	SSS	PSS	Total
Assets	5,278	471	15,431	1,126	22,306
– Member reserves	3,810	159	4,113	349	8,431
– Death/ Disability Reserves	11	-	-	-	11
– Adjustments	10	0	-	-	10
– Employer Reserve	1,447	312	11,318	777	13,854

The adjustments noted above represent differences between the employer records (which are required for subdivision by Scheme, Part and employer) and the accounts.

As at 30 June 2003, the assets of the GGLMF amounted to \$1,654.4 million.

For all Schemes the key **long term economic assumptions** are as follows:

Long-term assumptions	This valuation % per annum	Last valuation % per annum
Rate of investment return	7.0%	7.0%
Rate of general salary escalation	4.0%	4.0%
Rate of increase in CPI	2.5%	2.5%

These assumptions are the same as at the previous valuation.

No special short term assumptions have been adopted with the long term assumptions applying over all time periods.

1 Triennial Actuarial Valuation

A comprehensive analysis was carried out in respect of all demographic assumptions used in the investigations of the Pooled Fund Schemes. The analysis mainly related to the three years 1 July 1999 to 30 June 2002. By using an end date twelve months prior to the effective date of the investigation, there was sufficient time to analyse the experience and to determine the basis going forward in considerably greater depth than previous triennials where the experience was assessed to the effective date of the investigation.

This analysis led to changes in relation to the rates of resignation, preservation, mortality (predominantly pensioner), disability, redundancy, retirement and early retirement and proportions choosing lump sums or pensions on retirement.

Changes in pensioner mortality, the assumed rate of people taking pensions and the disability rates in respect of the PSS have resulted in a strengthening of the actuarial basis and hence a source of deficiency to the Schemes overall.

Results

When the GGLMF is taken into account, the unfunded liability for the Pooled Fund has increased from \$6,794.7m to \$15,006.6m over the three years to 30 June 2003. Excluding the GGLMF, the unfunded liability is \$16,661.0m as at 30 June 2003.

The unfunded liabilities of each of the Schemes or sub-divisions within schemes are as follows.

\$millions	SASS	SANCS	SSS	PSS	Total before GGLMF	GGLMF	Total
Employer Accrued Benefits							
– Contributors	4,889.2	1,762.2	6,808.9	1,590.1	15,050.5	-	15,050.5
– Deferreds	-	-	786.2	24.1	810.3	-	810.3
– Pensioners	179.7	-	11,822.3	2,652.3	14,654.3	-	14,654.3
Total Employer Accrued Liability	5,068.9	1,762.2	19,417.4	4,266.5	30,515.1	-	30,515.1
Less							
Employer Reserve Account	1,447.0	311.5	11,318.0	777.5	13,854.0	1,654.4	15,508.4
Employer Unfunded Liability	3,621.9	1,450.7	8,099.4	3,489.0	16,661.0	(1,654.4)	15,006.6
Unfunded Liability at 30 June 2000	1,956.6	847.2	1,884.3	2,106.6	6,794.7	-	6,794.7
Vested Benefits at 30 June 2003	2,141.2	2,142.8	16,319.5	2,777.0	23,380.5	-	23,380.5

Employer contributions towards meeting unfunded liabilities must be grossed up to allow for tax on contributions. Wherever employer contribution rates have been calculated in this report, the contribution rates have been grossed up accordingly.

1 Triennial Actuarial Valuation

The current and required employer contribution rates for each of the Schemes in order to extinguish the liabilities are as follows:

Scheme	Current Employer Contribution Rate	Required Employer Contribution Rate to extinguish Liabilities Over Working Lifetime of Current Contributions
SASS		
Part 1	Varies by employer. Most common rate is 1.9 times contributors' contributions. Maximum is 2.8 times.	Varies by employer. On average 4.33 times contributors' contributions or 19.5% of Part 1 contributory members' salaries.
Part 3	1.0 times contributors' contributions.	3.86 times contributors' contributions or 19.6% of contributors' salaries.
SANCS		
Part 1	Varies by employer. Most common rate is 2.5% of contributors' salaries.	Varies by employer. On average 5.4% of members' salaries.
Part 3	2.5% of contributors' salaries.	3.3% of members' salaries.
SSS	Varies by employer. Most common rate for non-Crown employers is 1.6 times contributors' contributions. Maximum is 5.4 times.	Varies by employer. On average 5.6 times members' contributions or 67.0% of contributory members' salaries.
PSS	Pay-as-you-go basis.	147.4% of members' salaries.

Sensitivity runs were carried out, and the results are set out in the following table:

Unfunded liability under varying assumptions (\$million)

Basis	SASS	SANCS	SSS	PSS	GGLMF	Total
Standard	3,621.9	1,450.7	8,099.4	3,489.0	(1,654.4)	15,006.6
Investment return plus 1%	3,247.2	1,316.7	5,385.8	3,085.6	(1,654.4)	11,380.9
Investment return minus 1%	4,056.2	1,603.5	11,490.1	3,977.6	(1,654.4)	19,473.0
Salary increases plus 1%	4,044.6	1,604.5	8,597.9	3,636.7	(1,654.4)	16,229.6
Salary increases minus 1%	3,251.3	1,313.4	7,642.0	3,356.8	(1,654.4)	13,909.1
CPI increases plus 1%	3,639.7	1,450.8	10,958.4	3,850.0	(1,654.4)	18,244.5
CPI increases minus 1%	3,608.8	1,450.8	5,724.5	3,185.4	(1,654.4)	12,315.1
Risk free discount rate of 5.1%	4,508.0	1,758.6	14,884.0	4,519.0	(1,654.4)	24,015.2
Discount at the corporate bond rate of 5.5%	4,300.8	1,687.6	13,186.2	4,267.2	(1,654.4)	21,787.4

The above table demonstrates that the rate of investment return has the major impact on the financial condition of the Pooled Fund.

1 Triennial Actuarial Valuation

Major items contributing to current results

The major items of surplus and deficiency which have affected the Schemes over the period since the last actuarial investigations are as follows:

Item	Comment	Amount \$ billion
Unfunded liability as at 1 July 2000		-6.8
Investment earnings	Investment Earnings of the Pooled Fund were significantly lower than assumed and this resulted in an item of deficiency.	-5.7
Contributions	Contributions to the Crown funded employer reserves (except for PSS) were less than the accruals over the period resulting in a deficiency.	-1.6
Change of actuarial basis	The overall impact of the changes in the valuation basis was an item of deficiency.	-1.1
Impact of disability experience in PSS	The impact of the higher actual than expected disabilities in the PSS was an item of deficiency.	-0.2
Salary increases	Lower than expected salary increases led to a surplus.	0.3
CPI increases	Higher than anticipated CPI increases led to a deficiency.	-0.2
Interest on the previous Unfunded Liability	Interest on the previous unfunded liability at 1 July 2000 resulted in a deficiency.	-1.5
Other		0.1
Unfunded liability as at 30 June 2003 before GGLMF		-16.7
Effect of GGLMF	The GGLMF balance is rounded up.	1.7
Unfunded liability as at 30 June 2003 after GGLMF		-15.0

The major items of deficiency were investment earnings being lower than anticipated, the change in the actuarial basis and interest on the opening unfunded liability. The effect of lower contributions than benefit accruals was off-set by contributions to the GGLMF.



MA Stevenson
Fellow of the Institute of Actuaries of Australia

PART E – SAS Trustee Corporation Statutory Information

SAS Trustee Corporation Statutory Information

The following information is provided in accordance with the *Annual Reports (Statutory Bodies) Regulation 2000*.

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Note: The SAS Trustee Corporation has been granted an exemption by the New South Wales Treasury from including an outline budget for the following year.

Board membership and frequency of meetings

The Board of the Trustee Corporation consists of a chairperson, four employer representatives and four employee representatives (nominated by the Labor Council of NSW). All Trustee Board members are appointed by the Minister on a part-time basis except for one employee representative who is a full-time employee Board member.

Board membership and the current term of appointment for each member are listed in the table below. The Trustee Board generally meets on a monthly basis and ten ordinary meetings were held during the period from 1 July 2003 to 30 June 2004.

In line with the requirements of the *Annual Reports (Statutory Bodies) Act 1984*, Trustee Board meeting attendance is notified below. Although membership of the Investment Committee constitutes the full Trustee Board, attendance at Investment Committee meetings is reported separately on pages 81 to 82.

	Appointed	Termination date	Meetings attended	Possible attendance
Chairperson				
Mr M Cole	1 April 2000	31 Mar 2006	11	11
Employer Representatives				
Mr I Blair	1 Sept 1998	31 Jan 2006	10	11
Mr B Gillooly	1 Sept 2000	31 Jan 2004	6	6
Mr D Nicholls	1 July 1996	31 Jan 2004	5	6
Ms C Prime	1 Sept 1996	31 Jan 2004	4	6
Mr P Scully	1 Feb 2004	31 Jan 2006	5	5
Ms O Sananikone	1 Feb 2004	31 Jan 2006	5	5
Mr M Lambert	1 Feb 2004	31 Jan 2006	5	5
Employee Representatives				
Mr R Davis	1 July 1996	31 Dec 2005	11	11
Mr R Harty	1 Jan 2002	31 Aug 2004	10	11
Ms M O'Halloran	1 Sept 2002	31 Aug 2004	10	11
Mr N Lewocki	1 Sept 1998	31 Aug 2004	9	11

The Trustee Board Committees

The Committees and details of their functions and membership at 30 June 2004 are:

Actuarial Committee

Members Messrs Scully (chairperson), Davis and Lambert; Mr Cole is ex officio member; also attended by officers of the Trustee Corporation and the scheme Actuary.

Purpose To issue annual tasks and projects to the Scheme Actuary and monitor their progress; monitor the progress of the triennial review of the Pooled Fund; recommend the appointment of a Scheme Actuary (when necessary); appoint and review the performance of the Scheme Actuary against contractual requirements; monitor the performance of the administrator in relation to actuarial requirements; advise on any asset/liability matching issues that might affect the Fund's investment strategies; and identify any special projects that may require actuarial investigation and direct those projects as required.

Administration Committee

Members Messrs Harty (chairperson), Davis, and Lambert and Ms Sananikone; Mr Cole is ex officio member; also attended by officers of the Trustee Corporation and the administrator.

Purpose To review, monitor and make recommendations on the performance of the Administrator, administration issues affecting the Fund, and policy issues; review the communications strategy for the Fund to ensure member retention, growth and market competitiveness; review Fund communications publications including disclosure documentation, annual reports and other statutory reports; and review and monitor member statistics, including complaints.

Audit and Compliance Committee

Members Messrs Blair (chairperson), and Davis and Mses Sananikone and O'Halloran; Mr Cole is ex officio member; also attended by officers of the Trustee Corporation, Audit Office of New South Wales and the administrator.

Purpose To review and report on the annual statutory accounts and management accounts against budget; meet in camera with external auditor for part of every meeting and review fees, effectiveness and independence of external auditor; review and report on the scope of the internal audit functions performed for the Administrator and Custodian and relevant internal audit reports; review industry accounting changes; monitor and report annually on internal management processes of STC and service providers, statutory compliance issues and third party contractual compliance issues.

Disputes Committee

Members Messrs Lewocki (chairperson) and Davis, Scully and Blair; Mr Cole is ex officio member; also attended by officers of the Trustee Corporation.

Purpose To consider and make recommendations on disputes received from persons under section 67 of the *Superannuation Administration Act 1996* (the Act); monitor and authorize settlement of appeals under section 85 of the Act; monitor death and disability benefit decisions made by the administrator; and appoint and review medical consultants.

The Trustee Board Committees continued

Investment Committee

Members Messrs Cole (chairperson), Blair, Davis, Harty, Lewocki, Lambert and Scully and Mses O'Halloran and Sananikone (all members of the Board are members of the Investment Committee); also attended by officers of the Trustee Corporation and investment advisers.

Purpose To review investment portfolio objectives and strategies of the Fund, the asset allocation for each investment strategy and appoint, review the performance of and terminate the Fund's asset consultant, investment managers and custodian; review the Fund's investment portfolio results, monitor the reporting arrangements of investment managers and monitor and deal with breaches of investment mandates; and monitor investment governance issues.

Remuneration Committee (Joint STC/FTC)

Members Messrs Cole (chairperson) and Blair and Dr Parry (FTC chairperson); also attended, by invitation, by the Chief Executive Officer of the Trustee Corporation.

Purpose To review the salary structure of the Executive of the Trustee Corporation; to determine the salary structure of the contract staff having regard to appropriate benchmarks; and review the performance of the Chief Executive Officer.

Statutory Committee – Police Superannuation Advisory Committee

The Committee is a statutory committee established under Part 2A of the *Police Regulation (Superannuation) Act 1906* to exercise certain powers delegated by the Trustee Corporation.

Members Mr Davis.
The members are a chairperson appointed by the Minister, a nominee of the Trustee Corporation, three nominees of the Police Association, a nominee of the Commissioned Police Officers' Association, a nominee of Work Cover and a nominee of the Minister for Police.

Purpose To determine death or invalidity benefit entitlements in the Police Superannuation Scheme and to advise the Trustee Corporation on such matters relating to the *Police Regulation (Superannuation) Act 1906*.

Communications Taskforce

The Communications Taskforce was discontinued during the year, with the functions being included in those of the Administration Committee.

Board Member attendance at STC Committee meetings

	Meetings Attended	Possible Attendance
Actuarial Committee		
D Nicholls	3	3
R Davis	5	5
M Cole (<i>ex officio</i>)	5	n/a
C Prime	2	3
P Scully	2	2
M Lambert	2	2

Board Member attendance at STC Committee meetings continued

	Meetings Attended	Possible Attendance
Administration Committee		
W Gillooly	2	2
R Harty	4	4
M O'Halloran	1	2
R Davis	4	4
M Cole (<i>ex officio</i>)	2	n/a
D Nicholls	2	2
O Sananikone	2	2
M Lambert	2	2
Audit and Compliance Committee		
I Blair	4	4
R Davis	4	4
D Nicholls	2	2
M Cole (<i>ex officio</i>)	1	n/a
O Sananikone	1	2
M O'Halloran	0	2
Disputes Committee		
N Lewocki	6	7
W Gillooly	4	4
R Davis	7	7
C Prime	3	4
P Scully	3	3
I Blair	1	3
Investment Committee		
M Cole	5	5
I Blair	4	5
R Davis	5	5
W Gillooly	2	2
R Harty	5	5
D Nicholls	2	2
M O'Halloran	4	5
C Prime	2	2
N Lewocki	3	5
O Sananikone	2	3
M Lambert	3	3
P Scully	3	3
Investment Governance		
M Cole	2	2
R Davis	2	2
W Gillooly	1	1
R Harty	2	2
N Lewocki	0	2
C Prime	1	1
I Blair	0	1
P Scully	1	1
M O'Halloran	0	1
M Lambert	0	1
O Sananikone	1	1
Remuneration Committee		
M Cole	2	2
I Blair	2	2
T Parry (FTC Chairperson)	1	2

Consumer response — disputes and appeals

The superannuation schemes administered by the Trustee Corporation provide a two stage system of review of a decision made by the delegate of the Trustee Corporation that is not in favour of the member. Firstly, determination of a dispute by a committee of the Trustee Corporation (the STC Disputes Committee) and, secondly, appeal to the Industrial Relations Commission in Court Session (IRC).

At 30 June 2003, 34 disputes were current. During the year ending 30 June 2004, the Trustee Corporation received 85 new disputes and 82 disputes were concluded (including disputes carried over from the previous year).

Of those disputes:

- 45 were determined in favour of the disputant;
- 3 were determined against the disputant; and
- 34 were withdrawn.

At the end of the reporting year, 37 disputes were current.

Appeals to the IRC from the STC Disputes Committee determinations resulted as follows:

- 3 were decided in favour of the appellant;
- 0 were decided against the appellant; and
- 2 were settled.

At the end of the reporting year, 3 appeals remained to be concluded.

The Police Superannuation Scheme provides for appeals to the District Court of NSW from decisions of the Police Superannuation Advisory Committee, as delegate of the Trustee Corporation. These relate to lump sum payments for duty-related permanent impairments and pension increases. During the financial year 2003–2004, these appeals resulted as follows:

- 2 were decided against the appellant,
- 5 were decided in favour of the appellant,
- 36 were withdrawn or discontinued, and
- 80 were settled.

At the end of the reporting year, 75 appeals remained to be concluded.

The Trustee Board has noted the steady increase in medical discharge in the Police Superannuation Scheme over the last few years.

2003–04 legislation changes

Schemes:

SASS — State Authorities Superannuation Scheme

SSS — State Superannuation Scheme

PSS — Police Superannuation Scheme

SANCS — State Authorities Non-contributory Superannuation Scheme (Basic Benefit)

Note: Where there are multiple new or amended provisions the section(s) listed is the major or *primary* provision affected.

Effective Date	Scheme	Principal Act or Regulation	Amending Act or Regulation	Section	Description
8.8.03	SANCS	<i>State Authorities Non-contributory Superannuation Act 1987</i>	<i>State Authorities Non-contributory Superannuation Amendment (Firefighters) Regulation 2003</i>	Cl. 9D	Death or incapacity benefit cover for firefighters The regulations are complementary to the right that firefighting staff of the NSW Fire Brigades have, under their industrial award, to relinquish death or incapacity benefit cover in SASS and SANCS in exchange for benefit cover in the firefighters' Death and Disability Superannuation Fund. Provision is also made for both information and employer-financed benefits to be transferred to that Fund, subject to the firefighter's consent.
	SASS	<i>State Authorities Superannuation Act 1987</i>	<i>State Authorities Superannuation Amendment (Firefighters) Regulation 2003</i>	Part 3A	
6.11.03	PSS	<i>Police Association Employees (Superannuation) Act 1969</i>	<i>Police Association Employees (Superannuation) Amendment Act 2003</i>	Sect. 3	Medical retirement procedures The amendment brings the incapacity retirement provisions of the Act into line with those of the main PSS Act - the <i>Police Regulation (Superannuation) Act 1906</i> . Its purpose is to transfer the authority for certifying that a PSS member employed by the Police Association is 'incapable', from the Police Medical Board to STC. STC's certification may be based on medical advice provided by 2 members of the Police Medical Board <i>or any one or more medical practitioners nominated by STC.</i>

2003–04 legislation changes

Effective Date	Scheme	Principal Act or Regulation	Amending Act or Regulation	Section	Description
7.11.03	All STC schemes	<i>Superannuation Administration (Local Government Superannuation Scheme Transitional Provisions) Regulation 1997</i>	<i>Superannuation Administration (Local Government Superannuation Scheme Transitional Provisions) Amendment (Mobility) Regulation 2003</i>	Cl. 19A	Transfers between schemes Facilitates optional transfers of persons (who became current or deferred members of a scheme after 1 October 1999), between the state public sector schemes and the Local Government/Energy Industry schemes.
		<i>Superannuation Administration (Electricity Superannuation Scheme Transitional Provisions) Regulation 1997</i>	<i>Superannuation Administration (Electricity Superannuation Scheme Transitional Provisions) Amendment (Mobility) Regulation 2003</i>	Cl. 18A	
To be proclaimed	SASS	<i>State Authorities Superannuation Act 1987</i>	<i>Superannuation Legislation Amendment (Family Law) Act 2003</i>	Pt. 5AA	Family Law provisions New provisions will facilitate the splitting and payment (subject to conditions) of a member's superannuation entitlement, in response to Commonwealth Family Law legislation that provides for the division of property on marriage breakdown.
	SANCS	<i>State Authorities Non-contributory Superannuation Act 1987</i>		Pt. 4D	
	SSS	<i>Superannuation Act 1916</i>		Pt. 4A	
	PSS	<i>Police Regulation Superannuation Act 1906/ Police Association Employees (Superannuation) Act 1969</i>		Pt. 4A/ Sect. 3A	

2003–04 legislation changes

Effective Date	Scheme	Principal Act or Regulation	Amending Act or Regulation	Section	Description
25.11.03*	Various closed schemes	<p><i>Local Government and Other Authorities (Superannuation) Act 1927</i></p> <p><i>New South Wales Retirement Benefits Act 1972</i></p> <p><i>Public Authorities Superannuation Act 1985</i></p> <p><i>Public Authorities Superannuation (Transport Retirement Fund Closure) (Savings and Transitional) Regulation 1986</i></p> <p><i>Transport Employees Retirement Benefits Act 1967</i></p>	<p><i>Superannuation Legislation Amendment (Family Law) Act 2003</i></p>		<p>De facto partners and pension adjustments</p> <p>Various provisions have been updated so as to bring the pension adjustment and de facto partner pension entitlement provisions into line with equivalent provisions that apply to the other state public sector superannuation schemes.</p> <p>*Certain provisions commence from 29.11.2002</p>
1.1.04	PSS	<i>Police Regulation (Superannuation) Act 1906</i>	<i>Compensation Court Repeal Act 2002</i>	Sect. 21	<p>Hurt on Duty Court Decisions</p> <p>Persons aggrieved by a decision of STC or the Commissioner of Police on a hurt on duty matter must now apply to the District Court (previously the Compensation Court) for a determination in relation to the decision.</p>
2.4.04		<i>Superannuation Administration Act 1996</i>	<i>Superannuation Administration Amendment Act 2004</i>	Pt. 4	<p>Trustee reporting requirements and board procedures</p> <p>The amending legislation extends provisions requiring STC to provide specified information about the operations of the schemes to the responsible (NSW) Ministers. In effect, the new provisions bring the information requirements into line with those contained in sections 254-256 of the <i>Commonwealth Superannuation Industry Standards Act 1993</i> (SIS), under which trustees of superannuation funds subject to that Act must provide information to the industry regulator for monitoring purposes.</p> <p>The quorum for a meeting of the Trustee Board has been extended from 5, to 6 members. To be effective, a decision of the 9-member board must now be supported by two-thirds (i.e. at least 6) of the members.</p> <p>Miscellaneous amendments delete redundant terms and provisions.</p>

2003–04 legislation changes

Effective Date	Scheme	Principal Act or Regulation	Amending Act or Regulation	Section	Description
2.4.04		<i>Superannuation Administration (Local Government Superannuation Scheme Transitional Provisions) Regulation 1997</i>	<i>Superannuation Administration Amendment Act 2004</i>	Cl. 13	<p>Dispute and appeal rights of transferred former members</p> <p>The 1997 transfer regulations have been amended to provide for the determination by the relevant Local Government/Energy Industry scheme trustee, of a dispute/appeal by a former member of an STC scheme where the dispute arose in the period between the original transfer date (generally 1 July 1997) and the actual date on which the assets and liabilities were subsequently transferred.</p>
		<i>Superannuation Administration (Electricity Superannuation Scheme Transitional Provisions) Regulation 1997</i>		Cl. 12	
25.6.04**	SASS,	<i>State Authorities Superannuation Regulation 2000</i>	<i>State Authorities Superannuation Amendment (Superannuation Contributions Surcharge) Regulation 2004</i>	Cl. 3, 6A, 15AA, 15AC	<p>Superannuation Contributions Surcharge</p> <p>The new regulatory provisions complement existing provisions under which a current member's surcharge tax liability is capped to an amount equal to the proportion of the member's employer financed benefit equivalent to the maximum surcharge tax rate over the period of the member's service since the surcharge tax was introduced with effect from 21 August 1996. A former member who receives a surcharge tax assessment notice after receiving payment of a benefit from the scheme may now apply to STC for reimbursement of any 'excess' surcharge tax already paid, or for that excess liability to be paid direct to the Australian Taxation Office by the scheme.</p> <p>Provision is also made for a scheme benefit that has already been paid or commenced to be paid, to be reduced at the member's request to offset a surcharge tax liability assessed after the member's employment exit. In this case, the tax liability is borne by the scheme in exchange for the benefit reduction, which is calculated in accordance with actuarial advice.</p> <p>** With effect from 1 October 2004, the regulations provide for reductions to the surcharge cap amount, in line with the phased reductions in the maximum surcharge tax rate provided for in Commonwealth legislation.</p>
	SSS	<i>Superannuation Regulation 2001</i>	<i>Superannuation Amendment (Superannuation Contributions Surcharge) Regulation 2004</i>	Cl. 3, 7A, 10, 12	
	PSS	<i>Police Superannuation Regulation 2000</i>	<i>Police Superannuation Amendment (Superannuation Contributions Surcharge) Regulation 2004</i>	Cl. 3, 13AA, 22A, 22C	

Account payment performance

Aged analysis at end of each quarter

Quarter	Current	Less than 30 days overdue	Between 30 and 60 days overdue	Between 60 and 90 days overdue	More than 90 days overdue
September 2003	0	0	0	0	0
December 2003	0	0	0	0	0
March 2004	0	0	0	0	0
June 2004	0	0	0	0	0

Accounts paid on time within each quarter

Quarter	Total accounts paid on time		Total amount paid	
	Target %	Actual %	\$	\$
September 2003	100%	100%	10,029,456.00	10,029,456.00
December 2003	100%	100%	10,259,466.08	10,259,466.08
March 2004	100%	100%	9,600,730.03	9,600,730.03
June 2004	100%	100%	10,251,520.92	10,251,520.92
Total				40,141,173.03

Payments to consultants during 2003–04

Fees exceeding \$30,000

Project	Consultant	Total Cost \$
Finance & Accounting		\$
Tax Return Preparation & Lodgement	KPMG	48,400
Other Accounting & Tax Advice	KPMG	87,971
Investment		
Investment Consulting	InTech Pty Ltd	365,156
Investment Consulting	Watson Wyatt Investment Consulting	30,750
Information Services	Moneyline Telerate (Singapore) Pty Ltd	36,946
Total Fees Exceeding \$30,000		569,223

Fees Less Than \$30,000

Six consultants were engaged at a total cost of \$70,583 in the areas of investment and tax services.

Human resource management

Staff of the Executive are employed by the Trustee Corporation. The administration of payroll and human resource services are provided by Pillar Administration.

The table below shows the STC Executive, male, female and total staff numbers by salary band at 30 June 2004.

Salary Range	Men	Women	Total staff (number)
< \$30,146	0	2	2
\$30,146 - \$39,592	0	2	2
\$39,593 - \$44,264	0	1	1
\$44,265 - \$56,012	0	4	4
\$56,013 - \$72,434	2	2	4
\$72,435 - \$90,543	1	3	4
> \$90,543 (non SES)	5	4	9
> \$90,543 (SES)	1	0	1
Totals	9	18	27
	33.3%	66.7%	

Senior Executive Service (SES)

STC employs one SES officer, the CEO, Mr Don McLean, at Grade 5 level. The total remuneration package for this position is \$219,850. The criteria used for assessing the CEO's remuneration package was as set out in *Premier's Memorandum no. 99-25*.

During the year, the staff of the Executive, under Mr McLean's leadership, achieved a number of significant goals agreed at the commencement of the year with the Trustee Board.

Salary movement

The CEO's salary is partially paid by both Trustee Corporations in the following proportions: 37.5% by FTC and 62.5% by STC. FTC pays 33% of the salary and oncosts of the STC staff and the full cost of the FSS field team staff.

Salaries for contract staff are reviewed annually as part of a formal performance appraisal system. Award staff are covered under the *Crown Employees (Public Sector — Salaries June 2002) Award*. Staff under this award received an incremental salary increase of 5% on 4 July 2003.

Industrial relations

The Public Service Association of New South Wales provided industrial coverage for staff on the Executive. No time was lost during 2003-04 through industrial action.

Training and development

The Trustee Corporation recognises the need for ongoing training. Staff attend training designed by external providers and in-house specialists. Staff of the Executive continued to keep up to date with changes in the superannuation industry by regularly attending seminars, short courses and conferences. Staff were also invited to speak at major conferences on superannuation and to present to member groups on request of employers and unions.

Occupational health and safety

During the reporting period the Trustee Corporation did not experience any work related injuries, work related illnesses, or prosecutions under the *Occupational Health and Safety Act 1993*.

Representation of Equal Employment Opportunity (EEO) target groups

STC is an equal opportunity employer that has integrated EEO practices into all areas of the workplace, thereby creating an environment where staff are valued and have the opportunity to contribute and develop. The merit principle is applied to all recruitment, selection, promotion, training and other employment related opportunities.

EEO data is requested from all STC staff on commencement of employment.

Table A: Trends in the Representation of EEO Groups

EEO GROUP	Benchmark or target	% of total staff			
		2001	2002	2003	2004
Women	50%	58%	57%	60%	67%
Aboriginal people and Torres Strait Islanders	2%	0%	0%	0%	0%
People whose first language was not English	19%	13%	13%	11%	18%
People with a disability	12%	4%	0%	0%	0%
People with a disability requiring work related adjustment	7%	0%	0%	0%	0%

Table B: Trends in the Distribution of EEO Groups

EEO GROUP	Benchmark or target	Distribution Index			
		2001	2002	2003	2004
Women	100	N/A	N/A	N/A	N/A
Aboriginal people and Torres Strait Islanders	100	N/A	N/A	N/A	N/A
People whose first language was not English	100	N/A	N/A	N/A	N/A
People with a disability	100	N/A	N/A	N/A	N/A
People with a disability requiring work related adjustment	100	N/A	N/A	N/A	N/A

1. A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels. The Distribution Index is automatically calculated by the software provided by ODEOPE (Office of the Director of Equal Opportunity in Public Employment, now part of the Public Employment Office).

2. The Distribution Index is not calculated where EEO group or non-EEO group numbers are less than 20.

Risk management and insurance

Audit and Compliance Committee

The Trustee Corporation's Audit and Compliance Committee comprises members of the Trustee Board and its meetings are also attended by representatives of the NSW Audit Office and the scheme administrator, Pillar Administration.

The primary objective of the Audit and Compliance Committee is to advise and assist the Trustee Corporation on matters relating to auditing and processes and compliance issues, taking into account best practice principles. In particular the Committee assists with:

- the annual statutory accounts;
- the external auditor functions, including the review of fees, effectiveness and independence of the external auditor;
- the functions performed by the internal auditor for the administrator and custodian and the relevant internal audit reports;
- industry accounting changes;
- the internal processes of the Executive and the services providers; and
- statutory, third party and licence compliance.

The Audit and Compliance Committee oversees and appraises the audits conducted by the administrator's internal auditor and the external auditor and serves as an independent and objective party to review the financial information presented by management to members, regulators and the NSW Government. The Audit and Compliance Committee also meets in camera with the external auditor for part of every meeting.

Insurance

During the financial year 2003–2004, insurance for the Trustee Corporation was continued with the Treasury Managed Fund, which covers all the NSW Government's insurable risks. The Treasury Managed Fund provides unlimited cover for the following classes of risk:

- workers' compensation;
- motor vehicle;
- property (full replacement, new for old, including consequential loss);
- liability (including, but not limited to, professional indemnity, directors' and officers' liability); and
- miscellaneous.

Freedom of Information

All enquiries and requests under the *Freedom of Information Act 1989* (the Act) for the period 1 July 2003 to 30 June 2004 were handled on behalf of the Trustee Corporation by the scheme administrator, Pillar Administration (Pillar). Statistical information for FOI requests is contained in Pillar's annual report.

In accordance with section 14(1)(a) of the Act, an up to date *Statement of Affairs* was published on 30 June 2004 and appears on page 92.

In accordance with section 14(1)(b) of the Act, a *Summary of Affairs* was published in the Gazette in December 2003 and June 2004.

The Summary and Statement are also available on the STC web site at www.statesuper.nsw.gov.au

Statement of Affairs

Statement of Affairs of the SAS Trustee Corporation pursuant to section 14(1)(a) and (3) of the *Freedom of Information Act 1989* at 30 June 04

Under the *Freedom of Information Act 1989* (NSW), each New South Wales Government department or agency is required to publish an annual *Statement of Affairs*. The Statement describes the structure and function of the agency and lists the categories of documents held by the agency. It also sets out how to obtain access to available documents held by the agency. The following information satisfies the legislative requirements of the Act.

Structure and functions

SAS Trustee Corporation (STC) is the trustee of the NSW public sector superannuation schemes listed below. The structure of the Trustee Board and its Executive and the principal functions of STC are set out in STC's *Annual Report*.

Effect of functions on members of the public

The functions of STC affect only those members of the public who are NSW public sector employees and who are members of at least one of the following STC superannuation schemes:

- State Superannuation Scheme,
- State Authorities Superannuation Scheme,
- State Authorities Non-contributory Superannuation Scheme, and
- Police Superannuation Scheme.

Public participation in policy and exercise of functions

Public sector employees who are members of a superannuation scheme mentioned above can participate in the policy and exercise of functions of STC through their member representatives on the Trustee Board.

In keeping with the principles of good corporate governance, and because of the complexity of the statutory and regulatory environment in which STC operates, a number of Trustee Board committees assist STC in the performance of its functions. These committees are identified in STC's *Annual Report*, together with details of their membership and purpose. STC and its Executive also consult with the Premier's Department and Treasury in the formulation and development of scheme policy.

Policy documents held

The following documents are available for inspection for a fee of \$30:

- *Policy Register* for each of the STC schemes — these contain guidelines for implementing the rules contained in the scheme legislation,
- *STC Delegated Functions* under scheme legislation — these contain the functions of STC that have been delegated and the person or entity to whom delegated,
- *Codes of Conduct* for the Trustee Board and its Executive — these contain a description of the principles of conduct under which Trustee Board members and Executive staff must conduct themselves in the performance of their functions,
- *STC Disputes Register* — the Register lists the disputes that have been considered by the STC Disputes Committee,
- *Complaints and Queries Register* — the Register records the complaints and queries received and dealt with by STC,
- *STC Privacy Management Plan* — the Plan outlines procedures STC has in place to ensure compliance with the *Privacy and Personal Information Protection Act 1998* (NSW), and
- *STC Ethnic Affairs Priority Statement* — this outlines how STC addresses the needs of a culturally and linguistically diverse society.

Statement of Affairs continued

Arrangements and procedures for access to documents or amendment of member records

STC has outsourced the function of providing access to documents and amending member records to the scheme administrator, Pillar Administration.

Member records contain information about individual scheme members required for the administration of the superannuation schemes. The information relates to personal details, employment history, contributions and benefits paid to a member or other person in respect of a member and general correspondence about the superannuation entitlements. Member records are held on computer and microfiche. Member information is held on behalf of STC by the scheme administrator.

A scheme member may contact the Freedom of Information Co-ordinator if they wish to view or correct any personal information about them held by the scheme administrator. Requests to amend personal information may directly affect contributions or benefits payable under the scheme, therefore the scheme administrator may require proof of the amended information.

By law, applications must be processed within 21 days. This time limit may be extended in special circumstances, for example, if there is a need to consult a third party. If this is the case, the applicant will be advised in writing.

An application fee of \$30 will apply for inspection of documents and access to personal records. A 50% reduction may apply if the applicant can demonstrate financial hardship. The Freedom of Information Co-ordinator can advise the correct fee in any particular case. Amendment of records is done free of charge.

In addition to the application fee, an applicant seeking access to personal documents is given the first 20 hours processing time free. However, if the application is not for personal documents or if it exceeds the first 20 hours, an hourly charge of \$30 may apply. Again, a 50% reduction may apply in certain cases of hardship.

When processing an application, every effort will be made to minimise the cost to the applicant. Where appropriate, the applicant will be contacted to discuss options for limiting the cost of processing.

Freedom of Information contact

Requests under the *Freedom of Information Act 1989* for inspection of policy documents held by STC and access to member records can be made to:

The Freedom of Information Co-ordinator
SAS Trustee Corporation
PO Box 1229
Wollongong DC NSW 2500

Telephone: (02) 4253 1662
Facsimile: (02) 4253 1469

Applications and enquiries can be made between 10.00 am and 4.00 pm Monday to Friday.

Summary of Affairs

of the SAS Trustee Corporation pursuant to Section 14(1)(b) & (3) of the *Freedom of Information Act 1989* at 30 June 2004

Section 1: Policy Documents

SAS Trustee Corporation (STC) is the trustee of the New South Wales public sector closed defined benefit superannuation schemes.

Policy documents for STC that are available for inspection are:

- *State Superannuation Scheme policy register,*
- *State Authorities Superannuation Scheme policy register,*
- *State Authorities Non-contributory Superannuation Scheme policy register,*
- *Police Superannuation Scheme policy register,*
- *STC Delegated Functions under Scheme legislation,*
- *STC Board Code of Conduct,*
- *STC Executive Code of Conduct,*
- *Disputes Register,*
- *Complaints and Queries Register,*
- *STC Privacy Management Plan, and*
- *STC Ethnic Affairs Priority Statement.*

Section 2: Statement of Affairs

The most recent *Statement of Affairs* for STC was published in June 2004. The Statement is available on the web site at www.statesuper.nsw.gov.au and is also included in this *Annual Report*. A copy of the *Statement of Affairs* can be obtained (free of charge) by contacting the Freedom of Information Co-ordinator.

Section 3: Freedom of Information Contact Point

Requests under the *Freedom of Information Act 1989* for inspection of policy documents held by STC and access to member records should be made to:

The Freedom of Information Co-ordinator
SAS Trustee Corporation
PO Box 1229
WOLLONGONG DC NSW 2500

Telephone: (02) 4253 1662
Facsimile: (02) 4253 1467

Applications and enquiries can be made between 10:00am and 4:00pm Monday to Friday.

Overseas visits

No overseas visits were undertaken by officers or employees of the Trustee Corporation during the financial year 2003–04.

Ethnic Affairs Priorities Statement

The Trustee Corporation ensures that delivery of services by the Trustee Board to members of the Pooled Fund responds to the culturally and linguistically diverse groups of members and their special needs.

The Trustee Corporation has developed an *Ethnic Affairs Priorities Statement* for the purpose of addressing the needs of the Fund's culturally diverse membership and aims to improve the Trustee Corporation's management and delivery of services.

A key strategy is to arrange, at a member's request, for any Pooled Fund communication material to be translated by accredited interpreters into languages other than English at no cost to members.

Another key strategy is for the Trustee Corporation to obtain annual information from the Australian Bureau of Statistics details of NSW's demographics in relation to languages other than English spoken at home.

Disability Plan

The Trustee Corporation has developed a *Disability Plan* as part of a whole-of-government disability framework. The administrator of the Pooled Fund also has a *Disability Plan* which covers the Fund's members.

The Trustee Corporation ensures that clients with disabilities can access facilities and assets, including requiring the Fund's property manager to pursue building access for people with disabilities. The Trustee Corporation also ensures that people with disabilities are considered for employment and are given training and development opportunities to suit their needs.

The Trustee Corporation last revised its *Disability Plan* in 2000 in conjunction with the NSW Ageing and Disability Department to update the Plan in line with current standards.

Privacy and use of member information

As a NSW Government body, the Trustee Board must comply with relevant legislation, including the *Privacy and Personal Information Protection Act 1998* (the Privacy Act).

The Trustee Corporation has developed a *Privacy Management Plan* (Plan) and, with the assistance of the scheme administrator, has implemented the policies and procedures set out in the Plan.

The Plan details the action to be taken to ensure compliance with the requirements of the Privacy Act. The Plan is available both on request and on the State Super web site at www.statesuper.nsw.gov.au

There were no reviews conducted by or on behalf of the Trustee Corporation under Part 5 of the Privacy Act during the year.

Codes of Conduct

The *Codes of Conduct and Ethics* for the Trustee Corporation and Executive staff (the Codes) are periodically reviewed against policies and guidelines released by the NSW Government and various industry bodies.

The Codes were amended during the year to include an embargo on members of the Board and Executive Staff trading in the following listed securities:

- Deutsche Industrial Trust;
- Deutsche Office Trust;
- Deutsche Diversified Fund.

The Code for the Executive Staff was also amended so that it will apply exclusively to staff employed by STC. This amendment results from the separation of the Executive into separate staff for STC and FTC.

The Codes are available on the State Super web site at www.statesuper.nsw.gov.au

Action Plan for Women

The NSW Government has initiated an action plan for women focussing on:

- reducing violence against women;
- promoting equitable and safe workplaces for women;
- maximising interests of women in economic reforms;
- promoting the position of women in society;
- promoting access to and successful outcomes for women in education and training; and
- improving health and quality of life for women in NSW.

The Trustee Corporation recognises these considerations in its corporate planning and policy development.

Policies for the Fund recognise the importance of women in the workforce and the increasingly crucial role superannuation plays for women both during their working lives and in retirement.

Other parts of this *Annual Report* show the number of women and levels of representation on the Board and on the Executive staff. The figures reflect the high recognition by the Trustee Corporation to the valuable contributions that are made by women in the field of superannuation.

The Executive recruitment program during the year ensured women were selected for senior positions for which they were qualified.

Waste Reduction and Purchasing Policy

STC has developed and implemented a *Waste Reduction and Purchasing Policy Plan* in accordance with the *Waste Avoidance and Resource Recovery Act 2001*.

The plan focuses on reducing the generation of waste, resource recovery and the use of recycled material. Significant savings have been made in the minimisation of waste paper products by such measures as double sided monthly board and committee papers, and press clippings being circulated electronically.

A survey of past annual report recipients was carried out and determined that one-third of all those surveyed would prefer to view the annual report over the web rather than receive a paper copy in the mail. As a consequence, STC has significantly reduced the print run of this document over the past 4 years.

The Trustee Corporation has had in place for some time a waste paper recycling scheme whereby all waste paper is sent for recycling. All staff are made aware of this scheme and fully participate in it. All printer and photocopier toner cartridges are also recycled, i.e. recycled cartridges are purchased and used cartridges are sent back for recycling.

Annual Report Production Details

600 copies of this publication have been printed at an estimated maximum cost of \$4,000. This cost includes artwork and print production costs. This publication is available on the State Super web site at www.statesuper.nsw.gov.au (see under *Publications*).

Publications produced at 30 June 2004

SASS Scheme Fact Sheets

1. Overview
2. Contributions
3. Benefit Points System
4. Optional Additional Benefit Cover
5. Retirement Benefit
6. Salary for Superannuation Purposes
7. Invalidity Retirement Benefit
8. Death Benefit
9. Retrenchment Benefit
10. Resignation (withdrawal) Benefit
11. (Replaced by STC Fact Sheet 10)
12. Taxation
13. Optional Deferred Benefit
14. (Replaced by STC Fact Sheet 7)
15. Choosing an investment strategy

SSS Scheme Fact Sheets

1. Salary for Superannuation Purposes
2. Unit Entitlement
3. Contributions
4. Part Time Employment and Part Time Leave Without Pay
5. (Replaced by STC Fact Sheet 10)
6. Break in Employment
7. Normal Retirement Benefit
8. Early Voluntary Retirement Benefit
9. Invalidity Retirement Benefit
10. Death of a Scheme Member before Retirement
11. Death of a Scheme Member after Retirement
12. Child Pensions
13. CPI Adjustment of your Pension
14. Exchanging your pension for a Lump Sum
15. Resignation (Withdrawal) Benefit
16. Retrenchment Benefit
17. Optional Deferred Benefit
18. Taxation
19. (Replaced by STC Fact Sheet 7)
20. Contributions and Benefits up to age 70
22. Contributions Arrears

PSS Scheme Fact Sheets

1. Overview
2. Contributions and Superable Salary
3. Benefits on Normal Retirement
4. Benefits on Early Voluntary Retirement
5. Invalidity Retirement (Medical Discharge)
6. Death Benefits
7. Resignation/Dismissal Benefit and Voluntary Benefit Deferral
8. (Replaced by STC Fact Sheet 10)
9. Taxation
10. Complaints, Disputes and Freedom of Information

All Scheme Fact Sheets

1. Information about the Commonwealth Contributions Surcharge Tax (in the STC Defined Benefit Schemes)
2. Early Release of superannuation benefit on grounds of severe financial hardship
3. What is salary sacrifice?
4. When can I be paid my superannuation benefits?
5. Retiring or resigning? What you need to know for payment of your benefit
6. Early release of a superannuation benefit on compassionate grounds
7. Complaints, Disputes, Appeals and Freedom of Information (FOI)
8. Calculation of superable salary and employer contributions *oncost* for members of the Chief and Senior Executive Service (SES)
9. Freedom of information and privacy statement
10. Basic Benefit

Flyers

SASS Member Investment Choice flyer
Information About Exit Statements
STC 218 Superannuation Contacts

Other Communications

Pooled Fund *Annual Report Highlights Annual Report*
Super Views newsletters
Super Update newsletter
At-a-glance scheme summaries booklet
Scheme Trustee
Code of Conduct and Ethics for Staff of the Executive of the SAS Trustee Corporation
Code of Conduct and Ethics for the members of the Board of the SAS Trustee Corporation
Your Privacy Statement
Privacy Plan
Summary of Affairs
Statement of Affairs
SASS Employer Easy Reference Guide
SSS Employer Easy Reference Guide
PSS Employer Easy Reference Guide

Web site

www.statesuper.nsw.gov.au

Compliance index for disclosure requirements 2003–2004

In accordance with the *Annual Reports (Statutory Bodies) Regulation*, this index has been prepared to facilitate identification of compliance with statutory disclosure requirements.

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How to contact State Super



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SAS Trustee Corporation

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Police Superannuation Scheme (PSS)	1300 130 097
Pensioners	1300 652 113
Deferred Benefits	1300 130 094

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Parramatta	(1800 626 000)
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