



# Statement of Corporate Intent 2018/19

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## Executive summary

This is the Government Employees Superannuation Board's (GESB's) Statement of Corporate Intent (SCI) for the 2018/19 financial year. It includes an overview of GESB and its operating environment, key priorities and performance targets and financial forecasts for 2018/19.

In 2018/19, GESB remains committed to continuing to provide efficient, low cost superannuation and retirement products and services that meet the State's and its members' needs in a responsible manner.

GESB's purpose is to *'look after our members' superannuation with excellence'* and its corporate goal is *'improved long term superannuation benefits for our members'*.

GESB's purpose, goal, key result areas and priorities are determined within the context of GESB's enabling legislation and the Heads of Government Agreement (HoGA) between the State of Western Australia (WA) and the Commonwealth. They are also aligned to the WA Government's Outcomes Based Management (OBM) framework and where relevant will align with recommendations from the Service Priority Review (SPR).

In 2018/19 GESB will be focusing resources on addressing the following key strategic priorities:

- Monitoring and managing implementation of required State and Commonwealth policy reforms
- Continuing to pursue efficiencies in the formulation and implementation of investment strategy
- Securing sound investment returns
- Engaging and informing members through a variety of channels, with a particular focus on increasing the use of digital channels
- Supporting employers in discharging their superannuation obligations
- Strong management of key service provider contracts to ensure value for money services to the State and members, and
- Ensuring cost effective and efficient operations

GESB's financial forecasts for 2018/19, which are presented in this SCI, show projected funds flows, Funds Under Management (FUM), budgeted expenses and capital investment required to support GESB in delivery of its strategic priorities. The financial outcomes for future years, including the potential impacts that will flow from the implementation of Commonwealth and State reforms, are presented in the Strategic Development Plan (SDP).

## 1. GESB overview

The Government Employees Superannuation Board (GESB) is a statutory authority, established by the *State Superannuation Act 2000* (SSA). GESB manages the GES Fund as a whole and administers a number of public sector superannuation schemes (the Government Employees Superannuation (GES) schemes) established or continued by the SSA. It is accountable to the Treasurer of Western Australia. GESB's principal regulatory and compliance framework is derived from the State. GESB is not directly subject to Australian Prudential Regulation Authority (APRA) regulation.

### 1.1. Heads of Government Agreement (HoGA)

The State of WA is a signatory to a HoGA with the Commonwealth. Under the HoGA, in recognition of the circumstances surrounding the GES schemes (such as the complex nature of the defined benefit schemes, the public accountability of the schemes, the State laws governing the schemes' Constitutional Protection and State prudential controls), the Commonwealth agreed to exempt the GES schemes from the relevant Commonwealth legislation governing superannuation funds, i.e. the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

As a consequence, the SIS Act provides that the GES schemes, as Exempt Public Sector Superannuation Schemes (EPSSSs), are deemed to be complying superannuation funds for Superannuation Guarantee (SG) purposes under the *Superannuation Guarantee (Administration) Act 1992* and for income tax purposes under the *Income Tax Assessment Act 1936*.

In return for these exemptions, the State Government agreed to ensure that members' accrued benefits will be fully protected<sup>1</sup>. A fundamental component of the HoGA is compliance with Commonwealth retirement income policy where practicable. The incorporation of the relevant principles is evident in the SSA and *State Superannuation Regulations 2001* (SSR).

### 1.2. GESB's corporate responsibilities, purpose and corporate goal

GESB provides superannuation products (including insurance) and services to its members. GESB also provides administration services to the State for its defined benefit schemes and investment services for members and the State with effective diversification to deliver sound, risk-controlled, long-term net returns. Under the SSA, GESB can only accept SG and salary sacrifice contributions from WA public sector employers.

In carrying out its responsibilities, the GESB Board acts honestly, fairly and diligently to create and build value for members, having regard to the interests of all stakeholders including the State, members, employers, employees, suppliers and the broader community.

At all times, GESB operates to achieve its purpose under prudent commercial principles, the specific requirements of its governing legislation and broader responsibilities of good corporate citizenship.

GESB's purpose, corporate goal and key result areas reflect State and Commonwealth policy objectives and also GESB's governing legislation to act, as far as practicable, in the best interests of members in performing its functions. They are also aligned to the WA government's Outcomes Based Management (OBM) framework.

GESB's purpose is to '*look after our members' superannuation with excellence*'. GESB's corporate goal is '*improved long term superannuation benefits for our members*.' Its focus is on 'operational excellence' and delivery of well-regarded member services and products.

GESB's key result areas are:

- **Financial performance for members**  
Net benefit to members through long term cost-effective, risk controlled, sound returns
- **Service and engagement**  
Members informed about their superannuation  
Employers meeting their superannuation obligations

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<sup>1</sup> Note: Protection does not extend to investment losses except for member accounts subject to the West State Super Minimum Benefit Guarantee.

- **Efficient and effective operations**  
Value for money products and services
- **Engaged people**  
A professional environment enabling staff to deliver on agreed outcomes and meet member and employer needs.

GESB has adopted a set of 'default fund' principles that apply to the Fund as a whole as the employer default fund for the majority of WA public sector employees, as well as to the default investment options, encompassing the principles of MySuper. The key principles are that participation in the default fund is a position of 'trust' rather than 'disengagement' and that the role of the default fund is to 'provide net benefit to members' (regardless of whether they choose to engage). Other principles include appropriate investment strategy and fees, insurance members can rely on, strong governance and accessible, transparent and relevant information.

GESB's values are:

- **Put members first** - we are committed to providing excellent default superannuation and retirement products and related services that meet members' needs.
- **Sustainable performance** - we are committed to consistently delivering cost-effective, risk-controlled products and services with well-regarded performance.
- **Achieve together** - we partner with our members, the State, employers and other stakeholders to successfully deliver on our purpose.
- **Act with integrity** - we approach every aspect of our work ethically, and operate transparently and with full accountability. We demonstrate our sense of responsibility, by 'taking ownership' of issues to ensure a satisfactory outcome.

### 1.3. Our business - nature and scope

GESB manages superannuation accounts and investments for almost 260,000 (as at 31 December 2017) current and former WA public sector employees. GESB manages an investment portfolio of \$26.5bn (as at 31 December 2017) of which 89% (\$23.6bn) is managed for members in market-linked schemes (where members bear the investment risk) and \$2.9bn is managed for the State to support its defined benefit liabilities. GESB's investment framework operates in accordance with Prudential Guidelines for Investments issued by the Treasurer.

Operating under the SSA regulatory framework, GESB delivers cost effective and trusted products and services to members and the State. The fee structure and focus on cost effective operations has ensured that GESB's target cost per member to administer the accumulation schemes for 2018/19 is \$129, which is below the median for all superannuation funds<sup>2</sup>. In relation to the market-linked schemes, the net excess of income over expenses is transferred to reserves to cover members' interests and mitigate the impact of an adverse event.

GESB is primarily a self-funded agency, though it recovers the operational costs of administering the State's defined benefit schemes and other Government related activity including the cost of Government services, from the Consolidated Account.

The State guarantees to pay every benefit payable under a scheme, including the accumulation, retirement and defined benefit schemes<sup>3,4</sup>. This is particularly relevant for members of the State's defined benefit schemes, which are not fully funded.

<sup>2</sup> SuperRatings Annual Benchmarking Survey June 2017.

<sup>3</sup> State Superannuation Act 2000, Division 5, Sections 31 and 32.

<sup>4</sup> Note: Benefit Payment Guarantee excludes investment market losses except for WSS Minimum Benefit Guarantee, which is funded from a specific reserve.

## Schemes profile

Under the SSA, GESB is responsible for the administration of seven schemes:

**Pension Scheme and Provident Schemes** - these were the Government's original superannuation schemes and have been closed to new members since 1986. They provide a salary linked unit based lifetime pension for retiring members. These schemes are untaxed schemes.

**Gold State Super (GSS)** - a defined benefit, lump sum superannuation scheme that has been closed to new members since 1995. This scheme is an untaxed scheme.

**West State Super (WSS)** - a market linked accumulation scheme established to comply with the provisions of the *Commonwealth's Superannuation Guarantee (Administration) Act 1992*. Within the scheme there are certain members entitled to a Minimum Benefit Guarantee amount. These members are classified as having a defined benefit interest. It has been closed to new members since April 2007. This scheme is an untaxed scheme.

**GESB Super** - a market linked taxed accumulation scheme which also includes GESB Super-Retirement Access<sup>5</sup>. GESB Super is open to new employees of the State Government and is currently the default scheme for employers using GESB as their default superannuation fund.

**Retirement Income Pension** - an allocated pension that enables retired or retiring members to keep their funds with GESB in a concessional taxed environment, while receiving flexible periodic payments. From 1 July 2017 this scheme includes a Transition to Retirement (TTR) subclass, which relates the Commonwealth's recently enacted legislation to apply taxation on earnings within existing and new TTR accounts.

**Retirement Income Term Allocated Pension** - a market linked income stream similar to an allocated pension but with restricted redemption options and qualifies as a complying pension for tax and social security purposes. It has been closed to new members since September 2007.

The taxation treatment of the GESB Super, Retirement Income Pension and Retirement Income Term Allocated Pension schemes is similar to APRA regulated funds.

The following table provides information on the FUM and member numbers for each scheme, including the change from the 2015/16 financial year to the 2016/17 financial year.

GES Fund	Units	Jun-17	Jun-16	% Change
<b>Funds under Management</b> (including reserves)	\$bn	25	22.5	11%
Gold State Super & Pension Scheme	\$bn	2.9	2.8	4%
West State Super	\$bn	14.2	12.8	11%
GESB Super	\$bn	3.4	2.8	21%
Retirement Income	\$bn	4.3	3.9	10%
Reserves	\$m	200	197	2%
<b>Total members</b>	#	<b>277,967</b>	<b>281,356</b>	<b>-1%</b>
<b>Member accounts</b>	#	<b>309,395</b>	<b>313,717</b>	<b>-1%</b>

<sup>5</sup> Retirement Access was a taxed accumulation scheme for retired members set up to enable them to make lump sum withdrawals. It closed to new members in 2008 and all members were transferred into GESB Super.

GES Fund	Units	Jun-17	Jun-16	% Change
<b>Gold State Super accounts</b> (closed to new members)	#	34,745	36,604	-5%
Current accounts	#	9,354	10,499	-11%
Deferred accounts	#	25,391	26,105	-3%
<b>West State Super accounts</b>	#	142,096	151,508	-6%
Active accounts	#	84,219	87,903	-4%
Inactive accounts <sup>1</sup>	#	57,877	63,605	-9%
<b>GESB Super accounts</b>	#	113,345	107,153	6%
Active accounts	#	87,576	83,094	5%
Inactive accounts <sup>1</sup>	#	25,769	24,059	7%
<b>Retirement Income accounts</b>	#	13,194	12,032	10%
Pension accounts	#	13,054	11,892	10%
Term Allocated Pension accounts	#	140	140	0%
<b>Pension Scheme</b>	#	6,015	6,420	-6%
Recipients	#	5,951	6,343	-6%
Contributors	#	64	77	-17%

<sup>1</sup> Note: Implementation of the closure of zero accounts occurred for the first time since the regulation change allowed it. As such almost 15,000 inactive WSS and GESB Super accounts were closed on 29 September 2017.

GESB also administers the Parliamentary Pension Scheme (PPS) (which has 5 contributing members and 119 pensioners as at 30 June 2017) and Judges Pension Scheme (JPS) (50 active members and 65 pensioners as at 30 June 2017) on behalf of the Parliamentary Superannuation Board and the Treasurer, respectively. These schemes are wholly unfunded and are not included in the GES Fund.

#### 1.4. GESB's performance

GESB continues to perform well and be valued by members and employers:

- GESB was recognised as a Top 20 'Best Practice' agency by the Office of the Auditor General (2016/17 Annual Report)
- GESB has consistently achieved a Platinum Rating for the WSS, GESB Super and Retirement Income Pension schemes recognising GESB as a 'best value for money' fund<sup>6</sup>
- Member satisfaction with the service provided by the Member Services Centre (MSC) remained extremely high over the 2016/2017 financial year at 89%, with 78% of members scoring GESB 8-10 (out of 10)<sup>7</sup>
- Employer satisfaction with the service provided by GESB is 87%<sup>8</sup>
- Staff satisfaction remains strong at 95%<sup>9</sup>
- GESB's long-term (10-year) investment performance is in line with the peer group median return<sup>10</sup>

<sup>6</sup> SuperRatings Annual Benchmarking Survey (December 2017)

<sup>7</sup> GESB Member Services Satisfaction Research (Financial Year 16/17), Research Solutions.

<sup>8</sup> GESB Employer Satisfaction and Engagement Research (September 2017) Research Solutions.

<sup>9</sup> GESB Employee Satisfaction Research (September 2017) GESB Human Resources.

<sup>10</sup> SuperRatings Fund Credit Rating Survey (February 2018).

## 2. Major programmes of work - 2017/18

Aligned to 2017/18, in 2018/19 GESB will remain committed to continuing to provide efficient, low cost superannuation and retirement products and services that meet the State's and its members' needs in a responsible manner.

The strategic focus will be on implementing initiatives that ensure sound risk adjusted investment returns, improve the member experience and/or increase efficiency. In 2018/19 GESB will continue to build on its digital focus and capability, following the implementation of eDefault communication and online retirement income calculation tools in 2017/18. GESB will also focus on ensuring all initiatives are aligned to State policy, in particular any recommendations arising out of the SPR.

The priority areas of focus for 2018/19 are as follows:

Area	Initiatives
<b>State and Commonwealth Reform</b>	<p><b>State reform:</b></p> <ul style="list-style-type: none"> <li>Implementation of any State policy reforms as required, including any relevant recommendations or initiatives arising out of the SPR</li> </ul> <p><b>Commonwealth reform:</b></p> <ul style="list-style-type: none"> <li>Implementation of any Commonwealth legislative and policy changes that are within the State's policy framework and consistent with the HoGA (for example outcomes of the Productivity Commission review, CIPR consultation process or the draft superannuation outcomes bill and continued SuperStream implementation)</li> </ul>
<b>Financial performance for members</b>	<p><b>Investment strategy:</b></p> <ul style="list-style-type: none"> <li>Continue to ensure GESB receives high quality, robust and appropriate investment advice from GESB's asset consultant</li> <li>Enhance and improve valuation and risk analysis tools and capabilities</li> <li>Work toward implementing industry initiatives for investment manager operational due diligence</li> <li>Continue to pursue efficiencies in the formulation and implementation of investment strategy</li> </ul> <p><b>Fees:</b></p> <ul style="list-style-type: none"> <li>Conduct an annual review of pricing and reserving policies and implement any required changes</li> <li>Insurance premium review (aligned with the end of the contracted period of guaranteed rates)</li> </ul>
<b>Service and engagement</b>	<p><b>Members:</b></p> <ul style="list-style-type: none"> <li>Continue to focus on digital strategies as a cost effective way to engage and service members, including further roll out of default electronic communications and online tools</li> <li>Maintenance of service levels to members, whilst ensuring value for money</li> <li>Small inactive account consolidation and closure of zero balance accounts</li> <li>Continue to focus member communication around information and engagement in superannuation</li> </ul> <p><b>Employers:</b></p> <ul style="list-style-type: none"> <li>Continued provision of all services currently provided to employers by GESB directly and through GESB's outsourced provider of administration services, The Link Group (Link). This includes appropriate educational activities for members and employers</li> <li>Support employers to meet their obligation under the State Policy on SuperStream through the provision of Employer Online, GESB's secure online contributions portal</li> </ul>
<b>Efficient and effective operations</b>	<ul style="list-style-type: none"> <li>Effective management of key service provider contracts to ensure value for money in fees charged to members: Administration – The Link Group</li> </ul>

Master Custodian – Northern Trust  
 Investment Adviser – JANA Investment Advisers  
 Insurance Services – AIA Australia

- Renegotiation of the Link Administration Services Agreement

#### Engaged people

- Professional development programme around skills relevant to delivery of GESB's objectives and aligned to career development for employees
- Effective succession plan management and corporate knowledge capture
- Continued focus on competency around contract management

## 2.1. State Government Reform

GESB will continue working with the relevant State departments and agencies, within the State's policy framework and will ensure its compliance with Commonwealth legislation changes where practicable.

### Service Priority Review (SPR)

In 2017, the Government of Western Australia commissioned a SPR into the State's public sector design, service and delivery models. The final report was published in November 2017.

The aim of the independent SPR was to initiate substantial cultural change necessary to build a sustainable, responsive and high performing public sector and to drive lasting reform of service delivery, accountability and efficiency. The review panel made recommendations to the State Government on ways to achieve:

- A more efficient, collaborative, adaptable, accountable and outcomes-based public sector that is aligned to the State Government's strategic priorities
- The delivery of different, better and more affordable services (to regional and metropolitan populations)

GESB has undergone extensive reforms since 2010, which have resulted in significant cost savings and efficiency gains and in the organisation being substantially aligned to the outcomes described in the SPR terms of reference.

A main objective of the reforms was to deliver a long-term value for money outcome for members and the State through the outsourcing of administration services, which was successfully implemented in July 2014. GESB's outsourced operating model enables it to dial services up or down, leveraging off the external provider's scale.

GESB has been restructured with a reduced complement of Full Time Equivalent (FTE) to oversee investment strategy, stakeholder management and the provision of superannuation services via outsourced service providers. The organisation comprises a smaller number of highly skilled and experienced staff who focus on ensuring that members and the State continue to receive value for money services. The current FTE is less than 45 (reduced from 220 in 2014). The executive structure consists of four Senior Executive level (or equivalent) employees, including the CEO. The structure and FTE numbers are not forecast to change over the next five years.

GESB operates under a highly collaborative model. It works closely with the Department of Treasury to ensure all activities are aligned to State policy on superannuation and also utilises services from other State agencies. For example, ICT, records management and premises services are provided by the Department of Finance and legal services are provided by the State Solicitor's Office (SSO). GESB's IT strategy is aligned to the Office of Government Chief Information Officer (OGCIO) directives.

GESB will ensure it continues to align with any Government priorities arising from the final SPR report.

## 2.2. Commonwealth Superannuation Reform

As mentioned previously, through the endorsement of the HoGA, the WA Government has agreed to *'conform broadly to the Commonwealth's retirement income policy'* where practicable.

The Commonwealth proposed purpose of superannuation is to 'provide income in retirement to substitute or supplement the Age Pension'<sup>11</sup>.

Developments with the Commonwealth's retirement income policy will continue to shape the superannuation and retirement income system. They have and will continue to have a significant impact on cost, time, regulatory burden and member sentiment around superannuation. They will be monitored to determine their impact on GESB's operations and strategic direction.

### **Stronger Super MySuper**

Commonwealth legislation to enable APRA regulated funds to offer a MySuper product was enacted in late 2012. The emphasis of MySuper is on improved retirement outcomes for members through the provision of a default product with a simple set of features that enables members to compare funds more easily based on cost, investment returns and insurance. It also includes duties for trustees, including a specific duty to deliver value for money as measured by long term net returns, and to actively consider whether the fund has sufficient scale on an annual basis<sup>12</sup>.

The WA Treasurer's Guidelines for Stronger Super outline how GESB complies with the Commonwealth's MySuper principles with reference to specific Commonwealth legislation prescribed within the SIS Act. They detail a number of departures from the Commonwealth legislation where GESB is unable to meet these provisions. In essence the guidelines form GESB's MySuper 'rules'. GESB relabelled its default investment plans as 'My West State Super' and 'My GESB Super' for WSS and GESB Super default plans respectively, and introduced 'user pays' fees on a cost recovery basis to minimise cross subsidisation across schemes.

GESB's member information and engagement activities, and investment offerings are continuing to be reviewed to ensure they are delivered in a manner consistent with MySuper principles.

The WA Treasurer's MySuper provisions mirror those of the SIS Act and require the GESB Board to affirm annually their assessment of scale to ensure that MySuper members are not disadvantaged. Therefore, the Board conducts such a review on an annual basis and will provide the Treasurer with written confirmation in the Quarterly Performance Report (QPR) that:

- a. The MySuper products offered by the Board complied with these guidelines over the period of the report and are expected to continue to comply;
- b. The target return and risk investment profiles of GESB's MySuper products have been reviewed at least annually, and detailing any changes during the period of the report (if applicable); and
- c. That members are not disadvantaged by being in the GESB MySuper default plans.

The QPR will include a copy of the current product dashboard for each of the MySuper products.

The Board includes a statement of commitment to the principles of HoGA and its compliance with the Treasurer's guidelines in the GESB annual report.

### **SuperStream**

WA employer agencies were required to comply with the WA Government's State Policy regarding adoption of the Commonwealth's SuperStream Superannuation Data and Payment Standards (the Standards) for accumulation funds by 1 July 2017. This has been impacted by the Machinery of Government changes, resulting in some agencies not meeting this deadline as they work to amalgamate business units and workforces. GESB will continue to accept contributions in the previous format in order to support these agencies to meet their superannuation obligations. Defined benefit contributions are not yet captured in these specifications.

GESB will also continue to commit resources to ongoing SuperStream changes, in particular Australian Tax Office (ATO) requirements around reporting.

From 1 July 2018, Single Touch Payroll will be in effect, which will require business reporting of tax and superannuation in a simplified format to the ATO. Reporting of superannuation contributions will be automatically sent to the ATO when payments are made to superannuation

<sup>11</sup> <http://www.treasury.gov.au/Policy-Topics/SuperannuationAndRetirement/Superannuation-Reforms#objective>

<sup>12</sup> [http://strongersuper.treasury.gov.au/content/Content.aspx?doc=publications/government\\_response/default.htm](http://strongersuper.treasury.gov.au/content/Content.aspx?doc=publications/government_response/default.htm)

funds. GESB has a project underway to ensure that it can meet the Commonwealth's deadline. Single Touch payroll affects all Australian employers with 20 or more employees.

### **Governance**

The Governance component of Stronger Super aims to strengthen the governance, integrity and regulatory settings of the superannuation system. The governance stream has been developed into prudential standards prescribed by APRA.

In line with its commitments under the HoGA, the WA Treasurer has approved GESB's adoption of the Commonwealth's prudential standards as far as practicable, providing it does not compromise the State's regulatory framework or the Treasurer's ability to discharge his responsibilities as prudential regulator of GESB and the GES Fund.

### **Financial System Inquiry (FSI) (2014)**

Recommendations in the FSI focused on the purpose of superannuation as being the provision of adequate retirement outcomes and on default products that meet members' needs throughout their lives, both while working and in retirement.

The Commonwealth Government accepted the majority of the FSI recommendations including: (1) to enshrine the objective of superannuation in legislation, (2) introduction of a default Comprehensive Income Product in Retirement (CIPR), (3) the potential tendering of default fund status and (4) facilitation of an individual's membership through all of their employment changes into retirement.

Commonwealth Treasury released a discussion paper *Development of the framework for comprehensive income products for retirement* in December 2016. Implementation of any solution is not expected to commence any earlier than mid-2018.

GESB will monitor the outcomes of the CIPR consultation and will work with the State to determine how the State balances its objectives with any decision by the Commonwealth in relation to the provision of CIPRs by superannuation funds.

### **Productivity Commission review and default models**

The Productivity Commission (Commission) report setting out recommendations regarding the competitiveness and efficiency of the superannuation system, including the development of alternative model(s) for allocating default fund members to products, is due to be completed in June 2018.

As part of the review of the superannuation system, the Commission will assess four alternate default fund models against existing default arrangements and make recommendations on what (if any) changes should be made, including whether an alternative default fund model should be introduced. The Commission will also consider the appropriateness of insurance inside superannuation and seek evidence from the Insurance in Superannuation Working Group (ISWG);

The guiding principle for the assessment of the superannuation industry and any policy recommendations from the Commission that arise out of the Inquiry is an overriding focus on outcomes for members.

GESB will monitor any agreed outcomes from the Commission's report, to determine any impacts on its strategic direction. This is particularly important with respect to any agreed alternative default fund model. Although not APRA regulated, GESB could also benefit from the outcomes of the assessment by gaining useful knowledge of the superannuation industry and members overall; and by using the objectives and measures as a tool to assess its own performance.

### **Improving Accountability and Member Outcomes in Superannuation Bill (September 2017)**

On the 14 September 2017 the Commonwealth Government introduced legislation that focused on improving accountability and member outcomes *Treasury Legislation Amendment (Improving Accountability and Member Outcomes in Superannuation) Bill 2017*. The bill is currently before the Senate and contains amendments to the *SIS Act 1993*, the *Corporations Act 2001* and the *Financial Sector (Collection of Data) Act 2001*.

A major focus of the bill is around strengthening the obligation on superannuation trustees to ensure their MySuper product offering is appropriate for their fund's beneficiaries and on replacing the 'scale' test with a 'member outcomes' test. It also includes changes that increase

accountability for trustee directors and enhance APRA's regulatory powers. This change in legislation, combined with the increasing level of negative net funds flow and membership growth will put continuing pressure on funds to merge, increasing consolidation of the industry.

Although GESB is not APRA regulated, it is subject to the majority of the MySuper requirements as outlined in the Treasurer's Guidelines for Stronger Super. GESB already has a requirement to provide the Treasurer with an annual assessment of scale for its MySuper products. The annual assessment process will be reviewed to ensure it continues to be aligned with the MySuper requirements under SIS.

### **Insurance Code of Practice (Code)**

The Financial Services Council (FSC) Code (implemented from 1 July 2017) is the life insurance industry's commitment to mandatory customer service standards. It sets out timeframes for insurers to respond to claims, complaints and requests for information. The Code is monitored by an independent committee, to ensure effective compliance by life insurers. Insurers can be sanctioned if they do not correct breaches of the Code.

GESB provides Death, Total and Permanent Disablement (TPD) and Salary Continuance Insurance (SCI) for accumulation members (GESB Super and West State Super (WSS)) under the State Superannuation Regulations 2001 through group insurance policies with AIA Australia (AIA). AIA is a member of the FCS and is bound by the code as from 30 June 2017.

GESB, LINK and AIA have assessed both claims processing and underwriting elements of the insurance standards and ensured compliance with these elements of the Code. Service standards within the code are also currently being assessed.

### **Insurance in Superannuation Working Group (ISWG)**

The ISWG was formed in November 2016 to enhance policy development and identify changes that need to be made to improve the experiences of superannuation fund members in relation to insurance.

The ISWG has proffered that 'the objective of insurance in superannuation is to provide financial support to members and their families if the member is prevented from working to retirement age by death or ill-health'.

The ISWG released a consultation paper: *Insurance in Superannuation Code of Practice* in September 2017 seeking feedback from the superannuation and insurance industries on various proposed changes. After receiving feedback, the ISWG released the Insurance in Superannuation Voluntary Code of Practice (Voluntary Code). The Voluntary Code includes elements that affect the design of insurance in superannuation.

GESB is reviewing the Voluntary Code to determine the impact on its current insurance offering if the Voluntary Code was adopted.

## **2.3. Financial performance for members**

### **Investment performance**

Managing investment risk for members and the State is a key responsibility of GESB's Board. GESB's prudent approach to investment risk has resulted in sound investment returns and efficient investment costs.

A comprehensive investment performance monitoring regime is maintained. The principal goals of performance monitoring are to:

- Assess the extent to which the Board's investment objectives are being achieved;
- Identify and quantify the sources of investment performance divergence from applicable benchmarks; and
- Compare the performance of the Fund's investment options against the performance of other relevant peer funds and comparators.

The main determinant of investment performance is the Strategic Asset Allocation – the long-term allocation of assets between broad asset classes (equities, cash, property, etc.) - for each investment option. This allocation has a major impact on the risk and return profile of each investment option within the Fund.

GESB's Ready Made investment options continue to exceed their primary, inflation-plus investment objectives, with the exception of Growth options which are measured over a rolling ten-year period which currently includes the substantial market declines of the 2007-2009 Global Financial Crisis.

The performance trend of GESB's investment managers generally improved over 2017. With global bond yields rising late in the year and equity market returns remaining strong, GESB's investment performance relative to industry peers also improved over the year. In 2018/19, GESB will continue to focus on ensuring that it produces cost-effective, risk controlled and sound investment returns for members.

The Board is undertaking a number of investment initiatives including:

- The orderly wind down of GESB's Private Equity investment in light of liquidity, return, risk and cost considerations
- Continuing to enhance and develop tools for monitoring portfolio exposures and managing investment risks, and
- Working towards implementing industry initiatives for investment manager operational due diligence

### **Fees/pricing**

Pricing for GESB's market linked superannuation and retirement schemes is determined by the Board based on annual reviews of each scheme's financial position. The Board sets pricing to recover the cost of providing each scheme, support the viability of GESB, maintain reserves to ensure capital adequacy relative to risk and assets, and meet the Sole Purpose Test. In doing this the Board recognises the need to provide value to members and the State.

GESB's fees are currently below industry medians. They are as follows:

- WSS default investment plan annual fees on an account balance of \$50,000: \$396 (versus industry median for MySuper of \$628)<sup>13</sup>
- GESB Super default investment plan annual fees on an account balance of \$50,000: \$556 (versus industry median for MySuper of \$628)<sup>13</sup>
- Retirement Income Pension Balanced investment plan annual fees on an account balance of \$200,000: \$1,600 (versus industry median of \$2460)<sup>13</sup>
- Annual fees for the RI-TAP Balanced investment plan annual fees on an account balance of \$200,000: \$2,600 (comparative of industry median not available)

### **Enhanced Fee disclosure (RG97)**

ASIC has introduced new requirements, Regulatory Guide 97 - known as 'RG 97' - which affect how super funds disclose, or communicate, their investment costs to members. Under RG97, all super funds regulated by APRA need to include specific details about the indirect costs of their super investments in their product disclosure documents.

It is important to note that there has been no change to the fees or costs GESB charge, or its investment returns. The increase in the reported Indirect Cost Ratio (ICR) is due to the enhanced fee and cost disclosure requirements under RG97. While there have been no changes to the amount GESB charges, the ICR shown in Product Information Booklets and documents, and on future member statements, is generally higher.

The ICR figures have changed because they now include costs that were previously not included, such as brokerage, clearing and settlement costs, stamp duty and other taxes, and bid-ask spreads. These costs have always been deducted from the fund's underlying assets before the unit price is calculated and will now be included in the ICR calculation for disclosure purposes. These costs are known as 'indirect costs' because they are not charged as a fee, but are deducted before investment earnings are applied.

Other fee changes from 1 July 2016 were the introduction of 'user pays' fees for the Retirement Options Service (ROS) and Simple Advice (SA) service, benefit payment and family law splits. This is in line with Stronger Super MySuper legislation which requires funds to ensure there is fair and equitable allocation of costs to members and cross subsidisation is minimised.

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<sup>13</sup> SuperRatings SMART database December 2017

The applicable fees for 2018/19 are as follows:

Type of fee or cost	Amount
ROS	\$475
SA	\$366
Benefit payments and family law splits	\$52

Annual pricing reviews ensure that members continue to benefit from any further cost reductions and fees remain aligned with appropriate cost recovery and reserving principles.

### Reserves

GESB's superannuation and retirement schemes should generate sufficient revenue to cover all allocated fixed and variable scheme costs. In the 2016/17 financial year the accumulation and retirement income schemes generated a surplus.

Net excess of income over costs for the market-linked schemes has historically been transferred to an Operational Risk Reserve (ORR). GESB's ORR has a Board endorsed target range of 40-60 basis points of the accumulation and retirement scheme FUM. This target is consistent with industry standards.

An Accumulation General Reserve (AGR) was established in September 2013 as the ORR reached the Board's endorsed target. The AGR is designed to support the costs of strategic development, ongoing Commonwealth superannuation reforms and other structural adjustments (for example the conducting of tenders and the review of key service provider contracts) that are relevant for the accumulation and retirement income schemes. Whilst the ORR is on target, surplus funds are transferred to the AGR account which has a target level of 5 basis points. If the ORR was to move below its target range, the Board has the option to use funds from the AGR to bring it back into the target range.

The Board has committed to undertake an annual review aimed at ensuring that, going forward, the pricing and reserving policies are aligned to the target levels of both the ORR and AGR. It should be noted that the AGR currently exceeds the Board determined target of 5 basis points of the accumulation and retirement scheme FUM, which was established in December 2014. At June 2017 the AGR was 34 basis points. A substantial pricing review will have taken place by the end of July 2018, with considerations including future strategic direction of GESB and the declining WSS member base.

## 2.4. Service and engagement - members

Areas of focus for member service and engagement for 2018/19 will include:

### Services to members

GESB provides a range of member information and support services (for example Insurance Claims Consultants (ICC), Member Services Consultants (MSC), ROS, SA, seminars). GESB has an ongoing commitment to maintain the level and quality of these services to members, which can be accessed through seminars, face to face, webinars, over the phone, in printed materials and on-line. Delivery and cost of these services including ROS and seminars are being reviewed on an ongoing basis to ensure they meet the MySuper requirements with respect to cost allocation and accessibility.

As the MSC, ROS, SA and ICC services are provided by Link, service standards and measures are in place to ensure the level of service provided remains high.

## **Account consolidation**

GESB has approximately 27,822 GESB Super and WSS inactive accounts (as at December 2017) that have an account balance less than \$10,000 (down from 65,750 in December 2016 and 130,000 in 2010).

The reduction in inactive accounts is as a result of six monthly remittances of small inactive accounts (less than \$6,000) to the ATO as part of Lost Unclaimed Superannuation Monies legislation and closure of zero balance accounts through a quarterly process.

## **Member communication and information**

During 2018/19 GESB will continue to encourage members to actively engage with their super and make informed choices through timely, targeted and relevant messages and informational tools. GESB will use existing compliance driven communication channels such as statement mailings and digital channels to provide members with relevant information.

To further improve efficiency in member communications and to align with its digital efficiency strategy, GESB commenced issuing member statements annually from June 2017 (member statements were issued six monthly). The significant production and distribution resources required for statements has been and will continue to be redirected to providing members with more timely and effective electronic channelled communications.

GESB is also looking to deliver information via video on its website to provide members with accessible and timely superannuation related information.

## **E-Commerce**

GESB's digital strategy will continue to evolve to improve the efficiency and effectiveness of the digital channel as a self-service, information distribution and communication tool, in order to increase member awareness and engagement with their superannuation.

GESB implemented electronic communication by default for statements and other compliance related documents, which is now permitted under the SSR. In 2018/19 it will look to further this initiative by implementing default electronic communication for other member correspondence such as confirmation of investment switches and of contributions received.

Strategies will be implemented that encourage increased use of digital channels including GESB's public website and Member Online system as the default information and education resources for members.

The implementation of a new website in early 2017 and enhancement of online self-service tools such as the retirement income projections calculator facilitates its use as the default information and education resource for members. Further enhancements such as online forms and other self-service tools are planned for 2018/19.

## **Product**

Under its corporate strategy to be an excellent default superannuation provider and to not introduce any products and services that impede any future policy decisions by the State around the provision of superannuation, GESB does not implement any new products. It does however, continually monitor product performance and strategy to ensure it continues to meet member needs and is aligned to Commonwealth retirement income policy.

The premium rate guarantee for provision of insurance services by GESB's group insurer, AIA, expires in June 2018. During the 2017/18 financial year renegotiation of premiums occurred, resulting in no premium changes for a 15-month period (until September 2019). Another review of premium rates will commence in the first half 2019. This requires independent assessment of claims experience to ensure insurance premiums remain reasonable. GESB's objectives are to provide default insurance benefits for members which are appropriate, reliable and based on the demographics of the Fund, and that associated insurance premiums are affordable, competitively priced and do not unduly erode members' retirement benefits.

## 2.5. Service and engagement - employers

Employers from across the WA public sector are key stakeholders in GESB. State Government employers are highly satisfied with GESB's services<sup>14</sup>, for example providing workplace education sessions to employees (GESB members) and assisting agencies to meet their superannuation obligations.

GESB's webinar-based education program was expanded in 2016, allowing GESB to reach a greater number of members, particularly in regional areas.

As Link is now delivering administration services directly to employers, service standards and measures have been developed to ensure the current levels of services are maintained.

Processes continue to function between GESB's Key Account Management (KAM) team and Link to ensure the KAM team continue to be supported in their roles and in dealing with employer-related issues.

## 2.6. Efficient and effective operations

Provision of cost-effective products and services requires constant improvement in operating efficiency combined with maintenance of relative economies of scale. In an industry that has experienced significant increases in costs over the past five years, GESB has managed to contain costs.

### Management of key service provider contracts

Effective management of the major administration contract with Link is important to ensure GESB's objectives of 'value to members' and 'maintenance of service levels to members and employers' continue to be realised. Governance and oversight structures have been established and resources allocated to ensure adherence to the Administration Services Agreement in place with Link.

During the 2018/19 financial year a review of the agreement (and potential renegotiation) will be carried out as the first 5-year period of the contract is due expire on 30 June 2019. This will have a significant impact on GESB resources. During this period GESB will also be conducting analysis on whether a move to Link's aspire administration platform would provide additional scale benefits.

In addition to the administration contract with Link, GESB also has material contracts for master custody, asset consulting and insurance services, as well as other smaller outsourced contracts. Sound monitoring and management of all of these contracts is required to ensure GESB continues to operate efficiently and effectively for members and the State.

### Administration efficiency

As in prior years, GESB will endeavour to continue to efficiently manage its costs and meet any efficiency savings required by the State Government.

### Capital expenditure

Consideration was given to continuing legislative change and tax reform and with the potential for large cost intangibles, including computer software development and licences when looking at capital spend. GESB also still has its own systems, including an Intranet, IT assets, external website and records management system.

GESB expects to invest \$525k in capital programs during 2018/19 as set out in the Strategic Asset Plan.

Capital expenditure is depreciated in accordance with accounting standards, reflected in administration expenses by scheme, and recovered through fees and charges. Capital expenditure is not funded from the Consolidated Account.

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<sup>14</sup> Research Solutions, GESB Employer Satisfaction and Engagement Research, 2017

### 3. Risk management

GESB has a strong risk management and compliance culture that ensures protection of fund assets. The Risk Management Framework is incorporated into the strategic planning process which takes into account GESB's material risks when considering its purpose, corporate goal, strategic issues and strategic direction.

GESB's Risk Environment captures the internal and external issues and events that have the potential to influence GESB's material risks. The areas having the most influence on GESB's environment are:

- State and Commonwealth Government reforms, policy and political environments
- Material external service providers
- Key persons, leadership or capacity
- Investment
- Governance
- Fraud and cyber fraud
- Acting as far as practicable in members' best interests through delivery of appropriate Products, and
- Any potential disruptors to GESB's operations

Based on its Risk Environment, GESB has identified the following material risks for 2018/19:

1. Loss of leadership and key staff adversely impacting capacity and capability
2. Failure to deliver sound long term returns.
3. Failure to achieve satisfactory outcomes in relation to material outsource providers (group insurer, fund administrator, custodian, asset consultant).
4. Failure to maintain constructive stakeholder relations
5. Material operational risk event
6. Failure to maintain alignment between government policy and GESB's strategic direction
7. Financial crimes against the State or GESB.

GESB's current risk environment is stable. Although the material risk – 'Financial crimes against the State or GESB' has a high residual risk rating due to the impact of cyber risk, it is considered to be within the Board's risk appetite, as are all other material risks.

Material risks will continue to be reviewed at least quarterly with reporting to the EMG, Audit and Risk Committee and Board and appropriate treatments being implemented. The EMG is continuously monitoring the key areas that can influence GESB's risk environment.

## 4. Performance targets

GESB's key result areas reflect its focus on providing net benefits to members through sound, risk-adjusted, long-term investment returns, low fees and increased member engagement with their superannuation. GESB is also focussed on providing ongoing assistance to employers to discharge their superannuation obligations.

GESB uses a balanced scorecard approach for performance measurement. The key indicators in this report measure value delivered to members and the quality of the services delivered. These include key effectiveness and efficiency performance indicators, as required by the *Financial Management Act 2006*.

The following measures and targets have been set for GESB's key result areas for 2018/19:

Key Indicators	Frequency	Unit	Objective (all periods)			
<b>NET MEMBER BENEFITS - INVESTMENTS</b>						
Gold State Super (Net of Fees and Tax) Return vs Primary Objective	Quarterly	#	achieve Average Weekly Earnings +2.5% pa over rolling five year periods			
GESB Super Default Plan (Net of Fees and Tax) Return vs Primary Objective	Quarterly	#	achieve CPI+3.5% pa over rolling seven year periods			
West State Default Plan (Net of Fees and Tax) Return vs Primary Objective	Quarterly	#	achieve CPI+3.0% pa over rolling seven year periods			
Retirement Inc. Conservative Plan (Net of Fees and Tax) Return vs Primary Objective	Quarterly	#	achieve CPI+2.0% pa over rolling five year periods			
<b>INVESTMENT PERFORMANCE</b>						
Gold State Super (Net of Fees) Return vs Benchmark	Quarterly	#	exceed asset weighted benchmark return over rolling three year periods			
GESB Super Default Plan (Net of Fees) Return vs Benchmark	Quarterly	#	exceed asset weighted benchmark return over rolling three year periods			
West State Default Plan (Net of Fees) Return vs Benchmark	Quarterly	#	exceed asset weighted benchmark return over rolling three year periods			
Retirement Income Conservative Plan (Net of Fees) Return vs Benchmark	Quarterly	#	exceed asset weighted benchmark return over rolling three year periods			
			2018/19 Budget	2017/18 Budget	2017/18 Forecast	2016/17 Actuals
<b>NET MEMBER BENEFITS - FEES</b>						
WSS Default Plan Fee Quartile	Quarterly	#	Below Median <sup>1</sup>	Below Median <sup>1</sup>	Below Median <sup>1</sup>	Below Median
GESB Super Default Plan Fee Quartile	Quarterly	#	Below Median <sup>1</sup>	Below Median <sup>1</sup>	Below Median <sup>1</sup>	Below Median
<b>FINANCIAL PERFORMANCE</b>						
Funds Under Management	Monthly	\$bn	28.8	26.7	26.9	25.0
Net Funds Flow	Monthly	\$m	534	855	589	874
Administration Expenses	Monthly	\$m	45.6	46.0	46.1	45.3
MER (excluding contribution to reserves)	Monthly	%	0.43	0.39	0.39	0.37
Cost to Asset Ratio	Monthly	%	0.41	0.44	0.42	0.44
<b>MEMBER SERVICE AND ENGAGEMENT</b>						
Member Satisfaction <sup>2</sup>	Quarterly	%	80	80	80	91
<b>EMPLOYER SERVICE AND ENGAGEMENT</b>						
Employer Satisfaction <sup>3</sup>	Annually	%	75	75	75	85
<b>EFFICIENT OPERATIONS</b>						
Administration Cost per Accumulation Account <sup>4</sup>	Monthly	\$	129	123	130	115
Administration Cost per Defined Benefit Account <sup>4</sup>	Monthly	\$	185	178	214	162
- Gold State cost per member	Monthly	\$	164	156	161	142
- Pension Scheme cost per member	Monthly	\$	305	308	312	280
<b>ENGAGED PEOPLE</b>						
Staff Satisfaction	Half Yearly	%	70	55	75	93
Unplanned Turnover	Monthly	%	<10	<10	<10	0

The 2017/18 Forecast was prepared in line with the Treasury mid-year review process in October 2017.

- 'Below median' fees targets GESB fees being lower than the median fee of all superannuation funds as reported by the SuperRatings Benchmark Report.
- Member Satisfaction is a survey performed by Research Solutions and is the percentage of members who are satisfied with the service provided by GESB (6 to 10 out of 10).
- Employer Satisfaction is a survey conducted annually by Research Solutions and is the percentage of employers satisfied with the service provided by GESB over the previous 12 months (6 to 10 out of 10). This target has been 75% since outsourcing with Link in July 2014, and is written into the Link Service Agreement as an abatable service standard. In error this was changed this to 85% in the 2017/18 SCI submission.
- The Budget Administration Cost per Accumulation Account in 2018/19 of \$129 is based on total administration costs of \$33.0m and average account numbers of 257,490. The budgeted Administration Cost per Defined Benefit Account of \$185 is based on total administration costs of \$6.6m and average account numbers of 35,536. Part of the increase in Defined Benefit cost is due to the allocation methods used, i.e. as membership in other schemes declines, the balance of costs allocated to DB schemes increases slightly.
- Key assumptions for 2018/19 budget:
  - Projections include assumptions relating to investment performance, salary increases and member behaviour. Any variations between these and actual performance could impact GESB's key result areas.
  - An investment return of 6.5% is applied for 2017/18 based on medium term (five year) projections taking into consideration advice from GESB's asset consultant, JANA Investment Advisers. These medium term projections are applied in the 2016/17 SCI and SDP as the five-year forecasting basis aligns with the SDP's five year forecast period. For comparative purposes, the projected rate of return over the long term (20 years plus) is 7.7% p.a.

- For the cost to asset ratio, costs include operating and investment management expenses.
- Investment management costs include estimated external investment manager performance fees.
- GESB schemes continue to be the default fund for most WA public sector employers.
- GESB's FTE count remains stable over the forecasting period.

## 5. Financial forecasts

### Financial Statements and Projections

Total FUM is expected to increase to \$28.7bn by 30 June 2019. FUM is reported in the financial statements as investments plus cash and cash equivalents.

### Accounting Policies

GESB prepares its financial statements in accordance with Australian Accounting Standards, including AASB 1056 Superannuation Entities and other authoritative pronouncements of the AASB as applied by the Treasurer's Instructions (TI) and the SSA.

### Borrowing Arrangements

On 30 May 2001, the Western Australian Treasury Corporation (WATC) and GESB entered into a \$635 million lending facility for a fixed-rate loan. The loan was established to enable the balances on WSS members' accounts at 1 July 2001 to be fully funded from an investment perspective.

This funding was a prerequisite for GESB to introduce Member Investment Choice from 1 July 2001. The loan is unsecured and is repayable in quarterly instalments over 20 years with the loan repayments recouped from Consolidated Account Appropriation, shown in the table in section g of the Projected Financial Statements. It bears interest at a fixed rate of 6.5699% plus a government fee of 0.7% p.a. The interest payment for 2018/19 will be \$9.1m.

The projected outstanding balance at the end of each financial year is outlined below.

#### WATC Loan Schedule

	Repayments	Closing Bal.
2018/2019	58,899,721	107,961,338
2019/2020	58,649,565	55,793,516
2020/2021	58,382,023	0

#### WATC Loan Schedule by Quarter

	Repayments	Closing Bal.
2018/2019 - July 2018	14,747,475	144,850,175
2018/2019 - October 2018	14,732,614	132,759,858
2018/2019 - January 2019	14,717,501	120,464,736
2018/2019 - April 2019	14,702,132	107,961,338

**Projected Financial Statements - GESB****a. Statement of Change in Net Assets**

<b>For the Financial Year Ending 30th June</b>	<b>Reforecast 2018 \$'000</b>	<b>Projected 2019 \$'000</b>
<b>Net Assets available to pay Benefits at the beginning of the Financial year</b>	<b>24,984,435</b>	<b>26,788,932</b>
<b>REVENUE</b>		
<b>Investment Revenue</b>		
Realised Income	499,525	542,477
Realised changes in NMV of Investment assets	499,525	542,477
Unrealised changes in NMV of Investment assets	666,033	723,303
<b>Income from Investments<sup>1</sup></b>	<b>1,665,082</b>	<b>1,808,256</b>
<b>Superannuation Revenue</b>		
<b>Contributions</b>		
Member	901,000	955,874
Employer	1,223,884	1,213,737
Rollover into Retirement products	1,678,089	1,606,345
Inward Transfers	604,084	612,419
Member Insurance Benefits Received	50,310	50,310
Other Income	11,622	10,352
	<b>4,468,989</b>	<b>4,449,036</b>
<b>TOTAL REVENUE</b>	<b>6,134,072</b>	<b>6,257,292</b>
<b>EXPENSES</b>		
Superannuation Benefit Payments	3,868,732	3,905,120
Administration Expenses	43,691	43,207
Group Life Insurance Premiums	98,321	100,226
Investment Expenses	70,818	77,087
Changes in NMV of Financial Liabilities	-	-
Changes in NMV of Other Assets	288	288
Loan Interest	12,869	11,293
<b>TOTAL EXPENSES</b>	<b>4,094,718</b>	<b>4,137,220</b>
Changes in Net Assets Before Income Tax	2,039,353	2,120,072
Income Tax	-	-
	234,856	219,497
Changes in Net Assets After Income Tax	1,804,497	1,900,574
<b>Net Assets available to pay Benefits at the end of the Financial year</b>	<b>26,788,932</b>	<b>28,689,506</b>

Notes to the Key Variances:

1. The budgeted investment income figure for 2018/19 reflects a gross medium-term earnings rate of 6.5%.

**b. Statement of Net Assets**

<b>For the Financial Year Ending 30th June</b>	<b>Reforecast 2018 \$'000</b>	<b>Projected 2019 \$'000</b>
<b>Assets</b>		
Cash and Cash Equivalents	212,344	21,696
Investments	26,788,932	28,832,222
Plant & Equipment	147	147
Intangible Assets	560	560
Receivables	17,027	17,282
Prepayments	795	807
Deferred Tax Assets	5,418	5,499
<b>TOTAL ASSETS</b>	<b>27,025,223</b>	<b>28,878,213</b>
<b>Liabilities</b>		
Contributions Paid in Advance	1,881	1,909
Unpaid and Accrued Liabilities	222	226
Payables	25,857	26,245
Provision for Employee Entitlements	1,187	1,204
Provision for Post Employment Liabilities	528	536
Interest Bearing Loans & Borrowings	156,739	107,961
Current Tax Liabilities	49,877	50,625
Deferred Tax Liabilities	-	-
<b>TOTAL LIABILITIES</b>	<b>236,291</b>	<b>188,706</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>	<b>26,788,932</b>	<b>28,689,506</b>

**c. Statement of Net Assets by Scheme**

<b>For the Financial Year Ending 30th June</b>	<b>Reforecast 2018 \$'000</b>	<b>Projected 2019 \$'000</b>
Defined Benefit Schemes (Gold State and Pension Scheme)	2,942,957	2,826,731
West State Scheme	15,100,410	15,265,351
GESB Super	4,213,185	4,789,500
Retirement Income - Allocated Pension	4,446,486	5,669,006
Retirement Income - Term Allocated Pension	18,836	17,811
Reserves	223,797	229,069
WATC Loan	- 156,739	- 107,961
<b>TOTAL ASSETS</b>	<b>26,788,932</b>	<b>28,689,506</b>

**d. Statement of Administration Expenses**

<b>For the Financial Year Ending 30th June</b>	<b>Reforecast 2018 \$'000</b>	<b>Projected 2019 \$'000</b>
Outsourced Administration	26,051	26,369
Employment Expenses	7,309	7,393
IT Services	1,412	1,431
Consultants	130	134
Accommodation	787	819
Professional Fees	1,407	1,438
Print Post & Records Management	94	97
Product Information & Engagement	76	78
Other	4,137	3,948
Reserves Appropriations	4,360	3,589
Less : Allocation to Investment Expenses	-	2,073
<b>TOTAL NET ADMINISTRATION EXPENSES</b>	<b>43,691</b>	<b>43,207</b>

Notes to Administration Expenses

The Administration Expense budget for 2018/19 is expected to decrease slightly from the 2017/18 reforecast due in part to the reduction of costs being allocated to reserves appropriation.

Part of the Print Post & Records Management costs include records management from the Department of Finance, which were previously costed and recorded under Outsourced Administration.

**e. Capital Expenditure**

<b>For the Financial Year Ending 30th June</b>	<b>Reforecast 2018 \$'000</b>	<b>Projected 2019 \$'000</b>
Intangibles Inc Computer Software Development	500	500
Office Furniture, Equipment & Renovations	25	25
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>525</b>	<b>525</b>

**f. Cost Allocations**

Total budgeted Cost Allocations for 2018/19 are \$42,491k. These include Administration Expenses of \$45,583k and User Pays Income of \$3,092k.

<b>For the Financial Year Ending 30th June</b>	<b>Reforecast 2018 \$'000</b>	<b>Projected 2019 \$'000</b>
Gold State	5,416	4,933
Pension Scheme	1,788	1,647
West State Super	16,470	15,120
GESB Super	12,920	13,031
Retirement Income - Allocated Pension	3,820	4,943
Retirement Income - Term Allocated Pension	49	48
Parliamentary & Judges	482	495
Government Services	187	187
Investment Expenses	2,073	2,088
<b>TOTAL COST ALLOCATIONS</b>	<b>43,206</b>	<b>42,491</b>

The Statement of Administration Expenses (table d above) differs from the Cost Allocations as it excludes Investment Expenses of \$2088k and Depreciation of \$288k, while also excluding revenue of \$3,092k.

**g. Consolidated Account Appropriation**

The following table details GESB's costs to fund the State share of payments from the defined benefit schemes, Government Services and defined benefit administration which are recouped by Consolidated Account Appropriation.

<b>For the Financial Year Ending 30th June</b>	<b>Reforecast 2018 \$'000</b>	<b>Projected 2019 \$'000</b>
<b>Benefit Payments</b>		
Gold State	399,195	374,234
Pension Scheme	184,037	175,608
Parliamentary Pension Scheme	9,931	9,931
Judges Pension Scheme	16,262	17,123
<b>Total Recoup of Benefit Payments</b>	<b>609,425</b>	<b>576,896</b>
<b>Administration Expenses</b>		
Gold State	5,416	4,933
Pension Scheme	1,788	1,647
Parliamentary Pension Scheme	260	268
Judges Pension Scheme	222	228
Government Services	187	187
<b>Total Recoup of Administration Expenses</b>	<b>7,874</b>	<b>7,262</b>
<b>West State WATC Loan Repayments</b>	<b>59,322</b>	<b>58,900</b>
<b>Total Consolidated Account Recoup</b>	<b>676,621</b>	<b>643,058</b>

Notes to the Key Variances:

The budgeted cost allocations for GSS, Parliamentary and Judges and Pension Schemes are primarily based on the charges levied by the third party administrator.

**h. Accumulation Scheme Surplus / (Deficit)**

<b>For the Financial Year Ending 30th June</b>	<b>Reforecast 2018 \$'000</b>	<b>Projected 2019 \$'000</b>
<b>West State Super</b>		
Revenues	56,612	57,894
Expenses <sup>1</sup>	57,347	57,025
<b>Scheme Surplus/(Deficit) Excl. Proposed Cont. to Reserves</b>	<b>- 735</b>	<b>869</b>
Proposed Contribution to Reserves	2,850	2,993
<b>Total Contribution to Reserves</b>	<b>2,115</b>	<b>3,862</b>
<b>GESB Super</b>		
Revenues	26,023	32,027
Expenses	22,071	25,374
<b>Scheme Surplus/(Deficit) Excl. Proposed Cont. to Reserves</b>	<b>3,952</b>	<b>6,652</b>
Proposed Contribution to Reserves	661	882
<b>Total Contribution to Reserves</b>	<b>4,613</b>	<b>7,534</b>
<b>Retirement Allocated Pension</b>		
Revenues	22,947	25,931
Expenses	18,475	19,820
<b>Scheme Surplus / (Deficit) - Contribution to Reserves</b>	<b>4,472</b>	<b>6,111</b>
<b>Retirement Term Allocated Pension</b>		
Revenues	214	179
Expenses	161	99
<b>Scheme Surplus / (Deficit) - Contribution to Reserves</b>	<b>54</b>	<b>81</b>
<b>TOTAL ADMINISTRATION SCHEME SURPLUS / (DEFICIT)</b>	<b>11,254</b>	<b>17,588</b>

**Notes to the Scheme Surplus / (Deficit)**

The Administration Expense allocation for West State Super is slightly lower in 2018/19 compared to the 2017/18 reforecast due to a reduction in member numbers after rollouts to the ATO.