

Annual Report

2014/2015



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26 August 2015

Hon. Tom Koutsantonis, MP Minister for Finance Level 8 State Administration Centre 200 Victoria Square ADELAIDE SA 5000

Dear Minister

Police Superannuation Board - Annual Report 2014 - 2015

The Police Superannuation Board submits to you for presentation to Parliament its Annual Report for the year ended 30 June 2015.

Yours faithfully

(Graeme Barton)

Presiding Member

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Police Superannuation Board

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PRESIDING MEMBER'S REPORT

The Police Superannuation Board has the responsibility for the administration of the Police Superannuation Scheme (the Scheme) in accordance with the *Police Superannuation Act 1990*. The management of the Scheme's investments is the responsibility of Superannuation Funds Management Corporation of South Australia (Funds SA).

The Scheme was closed to new entrant police officers in 1990 and as at 30 June 2015 had a total of 2,980 members. The Board approved claims for invalidity benefits from nine members during 2014-2015. The finalised claims were for total and permanent invalidity benefits. There were five new temporary disability pensions approved during the same period.

Overview of the year ended 30 June 2015

- Total funds under management with Funds SA as at 30 June 2015 was \$1.42 billion, compared with \$1.28 billion as at 30 June 2014.
- The net investment return from Funds SA for the Pension Scheme as at 30 June 2015 was 10 percent.
- Member information sessions for metropolitan and country areas were held during 2014-2015 and a total of 353 members attended the sessions.
- The Board reviewed its Policies and Procedures, Financial Management Compliance Program and Risk Management Plan and Policy.

The Board met eleven times during 2014-2015 and I thank the Board members for their valuable contribution to the successful operations of the Board during the year.

The terms of the Presiding Member, Mr M Ramm and Board members Mr D Reynolds and Mr K Oakley were completed as at 29 October 2014, 29 October 2014 and 22 February 2015 respectively. I was appointed as Presiding Member and Mr T Scheffler and Mr F Pit were appointed as Board Members from 30 October 2014, 30 October 2014 and 2 March 2015 respectively. The terms of Deputy Members Mr F Pit, Mr A Cannon and Ms L Fellows were completed as at 29 October 2014, 29 October 2014 and 22 February 2015 respectively. Ms S Strange, Mr N Smith and Ms J Thomas were appointed as Deputy Members from 30 October 2014, 2 March 2015 and 2 March 2015 respectively. The Board wishes to thank Mr Reynolds, Mr Cannon and Ms Fellows for their service to the Board.

On behalf of the past and present members of the Board, I take this opportunity to express sincere thanks and appreciation for the dedicated service to the Board from Mr Ramm as the Presiding Member and Mr Oakley as a Board member over the past nine and sixteen years respectively. Mr Ramm and Mr Oakley made a significant contribution to the successful operations of the Board using their considerable experience, knowledge and understanding in management, administration and policing matters.

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Pensions are paid on a fortnightly basis throughout the year and lump sum benefit payments to members were generally paid within two to seven days of members' exit dates from the Scheme. Excellent service delivery, including personal interviews, home visits, telephone, email and written responses to numerous enquiries and regular website articles and information has been well established as a hallmark of the Scheme.

The Police Super manager and his staff have continued to maintain the effectiveness and efficiency of the Scheme through process review and change, innovation, excellent service delivery and quality staff training. Importantly, working relationships with all of the Board's service providers are of a high order.

Graeme Barton Presiding Member

SA/30/ton

Police Superannuation Board

POLICE SUPERANNUATION BOARD

The Police Superannuation Board (the Board), a body corporate, is responsible to the Minister for the operation, management and administration of the Police Superannuation Scheme (the Scheme), established by the *Police Superannuation Act 1990* (the Act).

The Board's vision is to provide members of the Scheme with quality superannuation services, including effective and efficient service delivery, together with readily accessible, relevant information and assistance.

The Board's values are to:

- act in members' best interests.
- act with fidelity in all matters concerning the administration of the scheme.
- deliver accurate, effective and informative communications on superannuation matters to members in a timely manner.
- provide a fair and reasonable appeal and resolution of complaints process.

The Board's objectives are to:

- provide leadership in the operation, management and administration of the Police Superannuation Scheme.
- provide serving members and superannuants with high quality superannuation services and ensure customer satisfaction.
- provide timely, accurate, relevant and meaningful communications to serving members and superannuants.
- oversee the management and financial reporting framework requirements of the Police Superannuation Scheme.
- develop and maintain practical policies and procedures which ensure compliance with all legislative and administration requirements.

Board Membership as at 30 June 2015

During 2014-2015 the Board met on 11 occasions and the current Board and Deputy members are listed below:

Mr G A Barton appointed as Presiding Member by the Governor on the

Minister's nomination

(Deputy Member Mr G Powell) (Appointment to 29 October 2017)

Chief Inspector appointed as Member by the Governor on the

K L Howie Minister's nomination

(Deputy Member Chief Inspector J Thomas)

(Appointment to 29 October 2017)

Mr F Pit appointed as Member by the Governor on the

Minister's nomination

(Deputy Member Mr N Smith) (Appointment to 1 March 2018)

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Sergeant appointed as Member by the Governor on the

B H Zimmermann nomination of the Police Association of South Australia

(Deputy Member Sergeant S Strange) (Appointment to 29 October 2017)

Senior Sergeant appointed as Member by the Governor on the

Thomas Scheffler nomination of the Police Association of South Australia

(Deputy Member Senior Sergeant T Milne)

(Appointment to 29 October 2017)

Administration Services

Administrative services are provided to the Board by the Police Super Office, an administrative unit within SAPOL, pursuant to Section 9(3) of the Act and the Service Level Contract between the Board and SAPOL. The Police Super Office:

- · has five staff; and
- utilises the services and facilities of SAPOL, Super SA, Funds SA, the Department of Treasury and Finance, the Crown Solicitor and the Auditor-General for administrative, investment management, actuarial, consultancy, legal and auditing services.

Administration Expenses

The Board's administration expenses are financed in the first instance from the Police Superannuation Scheme Employer Contribution Account (Police Employer Account).

The Board's administration expenses for the financial year ended 30 June, 2015 amounted to \$616,000 a decrease of \$14,000 over the previous year. The amount of \$616,000 comprised of staff salaries, computer systems expenses, accommodation costs and actuarial fees. Of the \$616,000, \$532,000 (\$553,000 in 2013-2014) was paid to SA Government entities.

In accordance with the provisions of the *Police Superannuation Act 1990* the Police Superannuation Fund is required to reimburse the Police Employer Account \$187,000 of the administration expenses incurred during 2014-2015. The balance of \$429,000 is met from the Employer Contribution Account.

Funds under Management

At 30 June 2015 the Board had total funds of \$1.42 billion under management with the Superannuation Funds Management Corporation of South Australia. This compares with \$1.28 billion as at 30 June 2014.

Board Remuneration

Board and Deputy Members' fees are set according to State Government guidelines for Statutory Authorities. Board Members, who are State public sector employees, do not receive fees for their Board membership.

Total remuneration received or due and receivable by the members and deputy members of the Board in 2014-2015 was \$9,000 (\$10,000 in 2013-2014).

The number of Board and Deputy members whose remuneration was within the following bands is as follows:

Total Remuneration	Number of Members		
	2015	2014	
Nil	3	2	
\$1 - \$10,000	2	3	

Computing

The Board utilises a stand alone computer system to provide for the administration of the Police Superannuation Scheme.

Changes in Legislation

During 2014-2015 a legislative change (Statutes Amendment (Superannuation) Act 2014) was made to the *Police Superannuation Act 1990* to enable members to commute part of their pension to meet the payment to the Commissioner of Taxation required under Division 293 of the Income Tax Assessment Act. Payments under Division 293 relate to high income earners.

During 2014-2015 legislative changes (Police Superannuation Variation Regulations 2015) were made to the Regulations under the *Police Superannuation Act 1990* to:

- allow invalidity pensioners who attain age 55 and spouse pensioners to commute the whole or part of their pension to a lump sum
- allow invalidity pensioners to commute up to 20% their pension to a lump sum on termination of employment before age 55
- provide for the Flexibility Allowance (payable under South Australia Police Enterprise Agreement 2011) to be included as a component of salary for benefit purposes on a prospective basis.

Compliance Statement

The South Australian and Commonwealth Governments have entered into a Heads of Government Agreement (Agreement) to enable certain public sector schemes to be exempt from the Commonwealth's Superannuation Industry (Supervision) Act 1993 (SIS Act). While the Police Superannuation Scheme (Scheme) is an exempt public sector scheme it is deemed to be a complying fund in terms of the SIS Act.

Under the Agreement the South Australian Government has made a commitment to ensure the Scheme conforms to the principles of the Commonwealth's retirement and income policy objectives. In line with the commitment made the Board continually reviews its member communications and operations to ensure members are well informed and provided with quality superannuation services based on industry standards and legislative requirements.

Risk Management

The Board's risk management policy, plan and procedures are reviewed and amended on a regular basis as legislation, legal and audit advice, or other applicable factors dictate.

The Board is provided with a quarterly risk management monitoring and review report by the Police Super Office. This process is of significant assistance in reviewing and recording all aspects of the Scheme's management, including new legislation, policy issues, probity and security.

No major issues of concern, including complaints, have arisen during this reporting period.

Strategic Objectives

During 2015-2016 the Board will establish its strategic objectives for the Police Super Office and the administration of the Police Superannuation Scheme for 2015-2016 and future years.

The key topics to be examined by the Board include review of computer hardware and software, member services and communications, member information sessions, website modifications, new computer administration systems, Board member and staff training and the ongoing review of the Board's policies and procedures, the Financial Compliance Management Program and Risk Management Plan and Policy.

POLICE SUPERANNUATION SCHEME

POLICE SUPERANNUATION FUND

The Police Superannuation Fund (the Fund) was established on 1 June 1990 in accordance with the provisions of the *Police Superannuation Act 1990*. Under the Act:

- the assets of the Fund are the assets of the Crown. Member contributions are paid to the Treasurer who is then required, in terms of the Act, to pay an amount equal to those contributions to the Fund;
- the Superannuation Funds Management Corporation of South Australia (Funds SA) is responsible for the management and investment of the Police Superannuation Fund.

The Fund consists of the Pension Scheme division which provides pension benefits with a lump sum option. The Pension Scheme division was closed to new members on 31 May 1990.

During 2014-2015 the Fund's prescribed proportion of benefit payments for members of the Pension Scheme was 19 percent in line with the recommendations made in the Actuarial Report as at 30 June 2011.

The most recent actuarial review into the Police Superannuation Fund, based on the state of the Fund as at 30 June 2014, was carried out by Mr G Keen, FIAA and Mr B Watson, FIAA of Brett and Watson Pty Ltd. The Actuarial Report as at 30 June 2014 was provided to the Board on 29 June 2015. In line with the recommendations made in the Actuarial Report as at 30 June 2014, the Board determined the Fund's prescribed proportions of benefit payments for members of the Pension Scheme will change to 22 percent, effective 11 July 2015.

For the year ended 30 June 2015, \$6.4 million (\$6.6 million in 2013-2014) was deposited into the Fund by members. The net investment income derived by Funds SA from investment of the Fund for the year ended 30 June 2015 amounted to \$44.1 million, compared to \$58.1 million in the previous year.

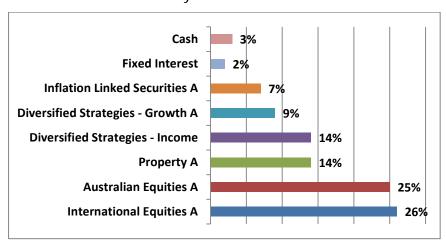
An amount of \$15.5 million (\$14.8 million in 2013-2014) was paid from the Fund during 2014-2015 in respect of benefits for members of the Pension Scheme.

As at 30 June 2015 the balance of the Fund stood at \$479 million. This compares with the total of \$444.1 million as at 30 June 2014.

Investment Activity

The market value of the Fund at 30 June, 2015 was \$479 million, an increase of \$34.9 million on the previous year.

The allocation of the Fund's assets by Funds SA as at 30 June 2015 is shown below:



The financial statements present a consolidated financial statement of the Police Superannuation Scheme for the year ended 30 June 2015, together with the report of the Auditor General.

Investment Returns

For the financial year 2014-2015 Funds SA's net investment return (money weighted return, net of investment fees and the Board's administration expenses) for the Pension Scheme was 10 percent.

The following table shows the net investment returns achieved by Funds SA for the Pension Scheme over the past 5 years.

Investment Returns							
Scheme	2011	2012	2013	2014	2015	5 years annualised	
Pension	11.3%	1.7%	16.5%	14.8%	10.0%	10.7%	

Fund Crediting Rates

Member Contribution Accounts

Under the provisions of the Act, the Board is required to declare a rate of return to be credited to member contribution accounts for members of the Pension Scheme at the end of each financial year.

The Board's end of year crediting rate policy is based on the actual return (money weighted return net of investment fees and the Board's administration expenses), as advised by Funds SA as at 30 June.

The Board declared an end of year crediting rate of 10 percent to be applied to member contribution accounts as at 30 June 2015.

The following table shows crediting rates declared by the Board for Member Contribution Accounts over the past 5 years.

Member Contribution Accounts Crediting Rates								
Scheme	2011	2012	2013	2014	2015	5 years annualised		
Pension	11.3%	1.7%	16.5%	14.8%	10.0%	10.7%		

In addition, the Board is required to determine an 'exit' rate of return to be applied to the member contribution accounts of members who resign from SAPOL during a particular financial year and elect to take a withdrawal benefit which consists of a refund of member contributions plus accrued interest.

The Board's exit crediting rate policy is based on the actual annualised return, as advised by Funds SA, on a weekly basis.

Actuarial Review

Pursuant to Section 15(4) of the Act an actuarial review must be undertaken in relation to the triennium ending on 30 June 1993 and thereafter in relation to each succeeding triennium to provide a report to the Minister on the state and sufficiency of the Fund and the operation of the superannuation scheme.

During 2014-2015 the Employer and Fund's prescribed proportions of benefit payments for members of the Pension Scheme were 81 and 19 percent respectively in line with the recommendations made in the Actuarial Report as at 30 June 2011. The Government contribution for future service liabilities during 2014-2015 was 20.5 percent of member salaries in line with the recommendation in the above mentioned report.

The most recent actuarial review into the Police Superannuation Fund, based on the state of the Fund as at 30 June 2014, was carried out by Mr G Keen, FIAA and Mr B Watson, FIAA of Brett and Watson Pty Ltd. The Actuarial Report as at 30 June 2014 was provided to the Board on 29 June 2015. In line with the recommendations made in the Actuarial Report as at 30 June 2014, the Board determined the Employer and Fund's prescribed proportions of benefit payments for members of the Pension Scheme will change to 78 and 22 percent respectively, effective 11 July 2015.

The Government contribution for future service liabilities during 2015-2016 will continue at 20.5 percent.

MEMBERSHIP

Police Officers, who commenced employment with SAPOL on or before 31 May, 1990 are members of the Pension Scheme.

Members of the Pension Scheme make a defined fortnightly contribution based on their superannuation salary and receive a defined pension/lump sum benefit upon retirement from SAPOL. Defined benefits are also paid in the event of total and permanent invalidity or death.

Members as at 30 JUNE							
Member	Pension	Total	Total				
Category	Scheme	2014/2015	2013/2014				
Contributors	1,260	1,260	1,339				
Preserved	95	95	108				
TOTAL	1,355	1,355	1,447				

The contributors to the scheme as at 30 June 2015 comprised 1,056 male and 204 female police officers.

Age Distribution of Contributing Members as at 30 JUNE						
	Pension	Total	Total			
Age	Scheme	2014/2015	2013/2014			
30 - 39	0	0	0			
40 - 49	329	329	406			
50 - 59	839	839	857			
60 and over	92	92	76			
TOTAL	1,260	1,260	1,339			

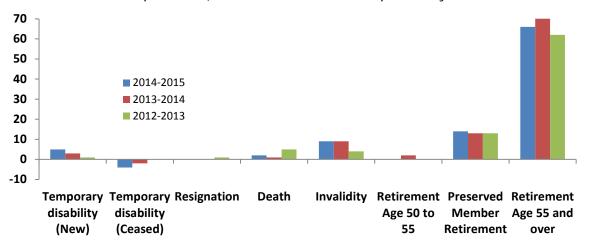
Member Contributions

Police Officers who are members of the Pension Scheme make contributions on a fortnightly basis through deductions from their salary. Member contributions are based on a fixed percentage ranging between five and six percent of superannuation salary.

Superannuation salary is based on a member's highest rank and increment level actually attained in a permanent position with SAPOL and includes a ten percent shift-work build up for members who hold the rank of Senior Sergeant and below and have been classified as a shift-worker during their period of employment.

Member Contributions						
Scheme	2014/2015	2013/2014				
	\$,000	\$,000				
Pension	6,418	6,648				
TOTAL	6,418	6,648				

During 2014-2015 there was a total of 92 exits from the Pension Scheme (79 contributors and 13 preserved), a decrease of 10 on the previous year.



As illustrated in the previous chart the majority of member exits during 2014-2015 were age retirements from Age 55 and over. During 2014-2015 no contributors ceased membership of the scheme and elected to take a cash withdrawal benefit (0 in 2013-2014). One contributor resigned from SAPOL and elected to preserve a benefit in the Pension Scheme during 2014-2015 (2 in 2013-2014).

INCAPACITY FOR EMPLOYMENT

The Pension Scheme provides benefits for members who are temporarily or permanently incapacitated for employment within SAPOL.

Medical and Psychological Advice

To assist in the determination of claims the Board uses independent advice, including medical and psychological advice.

Temporary Incapacity

The payment of a temporary disability pension for up to twelve months provides members with a period for rehabilitation and enables the Board to fully assess each claim with a view to a return to employment, or permanent retirement on the grounds of invalidity.

During 2014-2015, there were 5 new temporary disability pension approved by the Board. A total of 4 temporary disability pensions were ceased during 2014-2015 as the members either returned to work or retired from SAPOL, on the grounds of invalidity. Of the 4 temporary disability pensions ceased 3 were approved during 2013-2014 and 1 was approved during 2014-2015.

Invalidity Retirement

The Act provides for two categories of benefit payable upon retirement on the grounds of invalidity.

1) Total and Permanent Disablement

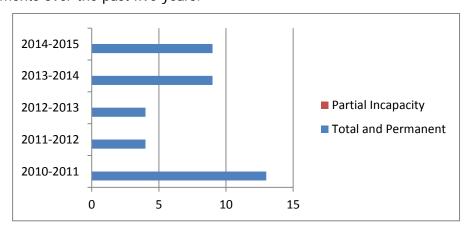
If the Board is satisfied the member's incapacity for all kinds of work (both inside and outside the police force) is <u>60 percent or more</u>, and is likely to be <u>permanent</u>, the member of the Pension Scheme is entitled to an indexed pension for life.

2) Partial Disablement

If the Board is satisfied the member's incapacity for all kinds of work (both inside and outside the police force) is <u>less than 60 percent</u>, or <u>not likely to be permanent</u>, the member is entitled to a lump sum payment based on the member's accrued benefit to the date of resigning from SAPOL, on the grounds of invalidity.

After consideration of appropriate and professional independent advice, the Board approved the payment of 9 claims as total and permanent disablement pension benefits for the year ended 30 June 2015 (9 claims for the year ended 30 June 2014). The claims of the 9 members of the Pension Scheme were approved for payment, following their resignation from SAPOL, on the grounds of invalidity, being accepted by the Commissioner of Police.

The following chart shows the number of total and permanent and partial incapacity retirements over the past five years.



PENSIONS

A total of 1,625 pensions were being paid under the Pension Scheme as at 30 June 2015, an increase of 59 on the previous year.

The average age of the 14 aged pensioners who passed away during 2014-2015 was 82 and their average number of years in retirement was 23.

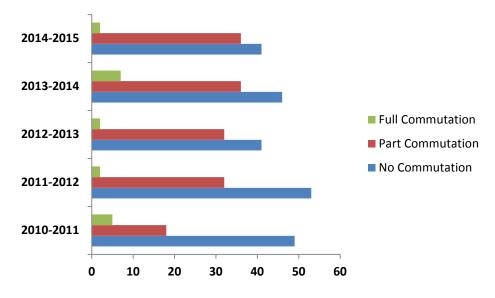
	Pension Rec	ipients			
	Member Age (55 and over)	Invalidity Temporary Disability	Spouse	Child	Total
Payable as at 1/7/2014	957	204	378	27	1,566
New Reinstated	79	15	18	3 7	115 7
Ceased due to: -Pensions ceased (Temporary Pension) -Death	- (14)	(4) (7)	- (21)	-	(4) (42)
-100% Commutation -Child attaining age 16 or	(2)	-	(21)	- (13)	(42) (4) (13)
ceasing to be student Payable as at 30/6/2015	1,020	208	373	24	1,625

Commutation of Pension

Regulation 6 of the *Police Superannuation Regulations 1990* provides that members of the Pension Scheme, who retire on account of age, have the option to commute the whole or part of their pension entitlement into a lump sum.

A total of 79 members (66 contributors and 13 preserved members) of the Pension Scheme were eligible to commute part of their pension into a lump sum during 2014-2015.

The following table provides details of the number of members who elected to take a full, part or no commutation of pension during 2013-2014.



The following table shows the details of average commutations and pensions paid to members during 2014-2015.

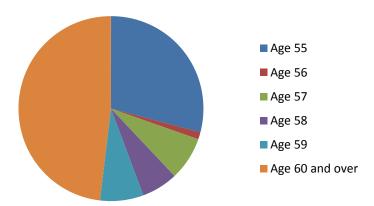
Commutations and pensions									
Retirements Age 55 Preserved Average Lump Average Category and over Retirements Sum Pension pa									
No Commutation	29	12	-	\$56,692					
Part Commutation	36	-	\$187,748	\$46,236					
Full Commutation	1	1	\$526,263	-					

The following table provides a comparison of the numbers of pensioners over the past five years.

Comparison Of Number Of Pensioners								
	2011	2012	2013	2014	2015			
Age 55 and over	784	850	901	957	1,020			
Invalidity Temporary Disability	214	204	200	204	208			
Spouse Pensions	357	361	371	378	373			
Child Allowances	27	28	26	27	24			
TOTAL	1382	1443	1498	1566	1625			

Retirement Benefits 55 years of age and over

During 2014-2015 a total of 79 members (66 contributors and 13 preserved members) of the Pension Scheme retired at 55 years of age or over. The following chart illustrates the majority of retirements during 2014-2015 were members aged 60 and over. The average age of the 79 members who retired at 55 years of age or over was 59.



The following table shows benefit payments approved on behalf of members of the Pension and Lump Sum schemes during 2014-2015.

Bene	Benefits Payments								
	Pension	Total	Total						
	Scheme	2014/2015	2013/2014						
Category	\$000	\$000	\$000						
Pensions	63,932	63,932	58,863						
Commutations	9,726	9,726	11,054						
Lump Sums	7,684	7,684	7,878						
Government Co-contributions	2	2	3						
SG Contributions	1	1	-						
TOTAL	81,345	81,345	77,798						

Retirement Benefits 50 - 55 Years of Age

During 2014-2015 there were no members of the Pension Scheme who retired under 55 years of age (2 in 2013-2014).

Indexations of Pensions

Under the Act, pension payments are adjusted twice yearly (October and April) to reflect the percentage variation in the Consumer Price Index for Adelaide (CPI).

Pursuant to the Transitional Provisions of the Act, all pensions which commenced prior to 1 June 1990 continue to be indexed by the movement in CPI plus one third. Pensions which commenced on or after 1 June 1990 are indexed by the CPI movement only.

In October 2014, the adjustment to pensions was based on the percentage variation between the Consumer Price Index for Adelaide (CPI) for the June quarter of 2014 and the CPI for the December quarter of 2013. The percentage variation in the CPI for the period was 1.05 percent.

In October 2014, pensions which commenced prior to 1 June 1990 were indexed by 1.40 percent (CPI plus one third). Pensions which commenced on or after 1 June 1990 were indexed by 1.05 percent (CPI).

In April 2015, the adjustment to pensions was based on the percentage variation between the Consumer Price Index for Adelaide (CPI) for the December quarter of 2014 and the CPI for the June quarter of 2014. The percentage variation in the CPI for the period was 0.66 percent.

In April 2015, pensions which commenced prior to 1 June 1990 were indexed by 0.88 percent (CPI plus one third). Pensions which commenced on or after 1 June 1990 were indexed by 0.66 percent (CPI).

Employer Contribution

All benefit payments to members are met from a Special Deposit Account which is then reimbursed in accordance with the prescribed Employer and Fund proportions. The Employer contributes a prescribed proportion of all benefits (pensions, pension supplementation and lump sums) paid to members of the Pension Scheme and Lump Sum Scheme divisions of the Fund, except benefits paid upon resignation.

During 2014-2015 the Fund's prescribed proportion of benefit payments for members of the Pension Scheme was 81 percent in line with the recommendations made in the Actuarial Report as at 30 June 2011.

The most recent actuarial review into the Police Superannuation Fund, based on the state of the Fund as at 30 June 2014, was carried out by Mr G Keen, FIAA and Mr B Watson, FIAA of Brett and Watson Pty Ltd. The Actuarial Report as at 30 June 2014 was provided to the Board on 29 June 2015. In line with the recommendations made in the Actuarial Report as at 30 June 2014, the Board determined the Fund's prescribed proportions of benefit payments for members of the Pension Scheme will change to 78 percent, effective 11 July 2015. The Government contribution for future service liabilities during 2015-2016 will continue at 20.5 percent.

The Employer's prescribed proportion of benefits is met from the Police Employer Account. Monies deposited into the Police Employer Account are invested and managed by Funds SA as part of the schemes but these monies do not form part of the Fund.

For the year ended 30 June 2015, \$27.3 million (\$28.6 million in 2013-2014) was deposited into the Police Employer Account by SAPOL in relation to employer contributions on behalf of members. For the year ended 30 June 2015 \$59.9 million (\$64.7 million in 2013-2014) was transferred to the Police Employer Account by the Government in respect of funding its past service superannuation liabilities. The Government contribution for future service liabilities was 20.5 percent of member salaries.

The net investment income derived by Funds SA from investment of the Police Employer Account for the year ended 30 June 2015 amounted to \$85.1 million, compared to \$107.1 million in the previous year.

An amount of \$65.9 million (\$63 million in 2013-2014) was paid from the Police Employer Account during 2014-2015 in respect of benefits for members of the Pension Scheme.

As at 30 June 2015 the balance of the Police Employer Account stood at \$938.7 million. This compares with the total of \$832.6 million as at 30 June 2014.

ACKNOWLEDGMENT

We place on record our appreciation of the services rendered by staff of SAPOL, Funds SA, the Department of Treasury and Finance, the Crown Solicitor and the Auditor-General.

G A Barton, Presiding Member

Date 26/8/2015

M D Hogg, Manager, Police Super Office

Date 26/8/2015

THANKS TO BOARD'S SERVICE PROVIDERS

Administrative Services

Funds SA Level 3

100 Angas Street Adelaide SA 5000

63 Pirie Street Adelaide SA 5000

Funds Manager

Actuarial and Consultancy Services

Legal Services

Department of Treasury and Finance State Administration Centre 200 Victoria Square Adelaide SA 5000 Crown Solicitor Level 9 45 Pirie Street Adelaide SA 5000

Auditor

SAPOL

Auditor General Level 9 State Administration Centre 200 Victoria Square Adelaide SA 5000

POLICE SUPERANNUATION BOARD CONTACT DETAILS

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INDEPENDENT AUDITOR'S REPORT



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To the Presiding Member Police Superannuation Board

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987*, I have audited the accompanying financial report of the Police Superannuation Scheme for the financial year ended 30 June 2015. The financial report comprises:

- a Statement of Net Assets as at 30 June 2015
- a Statement of Changes in Net Assets for the year ended 30 June 2015
- notes, comprising a summary of significant accounting policies and other explanatory information
- a Certificate from the Presiding Member and the Manager, Police Super.

Police Superannuation Board's Responsibility for the Financial Report

The Members of the Police Superannuation Board are responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as the Members of the Police Superannuation Board determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The auditing standards require that the auditor comply with relevant ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Members of the Police Superannuation Board, as well as the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial report gives a true and fair view of the financial position of the Police Superannuation Scheme as at 30 June 2015, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

Andrew Richardson

Auditor-General 16 September 2015

Statement by Responsible Officers for 30 June 2015

We certify that the:

- financial statements of the Police Superannuation Board:
 - are in accordance with the accounts and records of the authority; and
 - comply with relevant Treasurer's instructions; and
 - comply with relevant accounting standards; and
 - present a true and fair view of the financial position of the authority at the end of the financial year and the result of its operations and cash flows for the financial year.
- internal controls employed by the Police Superannuation Board over its financial reporting and its preparation of the financial statements have been effective throughout the financial year.

(G A Barton)

Presiding Member

"ABOXTON

Police Superannuation Board

10/09/2015

(M D Hogg)

Manager'
Police Super

10/09/2015

Financial Statements for the year ended 30 June 2015

Statement of Net Assets as at 30 June 2015

				2015	2014
	Note	\$'000	\$'000	\$'000	\$'000
INVESTMENTS					
Inflation Linked Securities A		101,630			96,480
Property A		204,338			180,657
Australian Equities A		339,993			305,176
International Equities A		363,595			349,683
Long Term Fixed Interest		27,844			20,354
Short Term Fixed Interest		<u>-</u>			6,892
Diversified Strategies – Growth A		138,085			109,273
Diversified Strategies – Income		195,240			178,258
Cash		46,820			29,704
Total Investments	9		1,417,545		1,276,477
Plus:					
OTHER ASSETS					
Cash and Cash Equivalents		619			640
Contributions Receivable		580			504
Sundry Debtors		8			5
Total Other Assets		_	1,207		1,149
Total Assets				1,418,752	1,277,626
Less:					
CURRENT LIABILITIES					
Benefits payable		966			729
Sundry Creditors		146			146
Total Liabilities			_	1,112	875
NET ASSETS AVAILABLE TO PAY BENEFITS				1,417,640	1,276,751

Statement of Changes in Net Assets for the year ended 30 June 2015

	Note	\$′000	\$′000	2015 \$'000	2014 \$'000
NET ASSETS AVAILABLE TO PAY BENEFITS AT 1 JULY				1,276,751	1,090,041
REVENUE Investment Revenue Other Income			138,772 37		173,420 31
CONTRIBUTIONS REVENUE Past Service Liability Employer Contributions Member Contributions Government Co-Contributions Superannuation Guarantee Contributions	10	59,900 27,335 6,418 2 1			64,700 28,553 6,648 3
Total Contribution Revenue Total Revenue		-	93,656 232,465		99,904 273,355
EXPENSES Direct Investment Expense Administrative Expense	6 6		(9,615) (616)		(8,217) (630)
BENEFITS PAID Pensions Commutations Lump Sums Government Co-Contributions Superannuation Guarantee Contributions	11	(63,932) (9,726) (7,684) (2) (1)			(58,863) (11,054) (7,878) (3)
Total Benefits Paid Total Expenses		-	(81,345) (91,576)		(77,798) (86,645)
NET INCREASE IN FUNDS			-	140,889	186,710
NET ASSETS AVAILABLE TO PAY BENEFITS AT 30 JUNE				1,417,640	1,276,751

Notes to and Forming Part of the Financial Statements

1. Objectives and Funding

(a) Police Superannuation Scheme

The Police Superannuation Scheme (the Scheme) was created pursuant to the *Police Superannuation Act 1990* (the Act). The Act provides for superannuation benefits for Police Officers who are contributors to the Scheme.

Contributors to the Scheme are members of the Pension Division who are entitled to a pension based benefit. The Pension Division was closed to new members in May 1990.

Pursuant to the Act, contributors make contributions to the Scheme based on a percentage of their salary, with the standard contribution rate being between five and six percent. A contribution account is maintained for each contributor. There are no provisions under the Act for contributing members to purchase additional benefits.

The Act requires that contributions to the Scheme are paid to the Treasurer, who in turn deposits those contributions into the Scheme. The Scheme is managed and invested by the Superannuation Funds Management Corporation of South Australia (Funds SA).

The Scheme is made up of one division, being the Pension Division. The Pension Division consists of the Fund Old Scheme Account (the Fund) and the Police Employer Account and contributions paid to each account and the accretions arising from the investment of those contributions.

(b) Police Superannuation Board

The Police Superannuation Board (the Board), established under the Act, is responsible for the administration of the Scheme. The Act also provides the Board with the necessary powers to administer the Scheme. The Board, with the approval of the relevant Minister, has contracted the South Australia Police Department (SAPOL) to provide administrative services.

Pursuant to the Act, the Board is required to determine a rate of return which is credited to each contribution account within the Fund at the end of the financial year. In determining the rate to be applied, the Act requires that the Board have regard to the net rate of return achieved by the investment of the Fund.

(c) Superannuation Funds Management Corporation of South Australia

Funds SA is established under the *Superannuation Funds Management Corporation of South Australia Act 1995* (the Funds SA Act). Funds SA is responsible for the investment and management of the Scheme's funds pursuant to strategies formulated by Funds SA.

For further information on the investment of the Fund and the Police Employer Account, reference should be made to the financial report of Funds SA. The investment assets, liabilities, income and expense contained in these financial statements are related to the investment activities of Funds SA, an SA Government entity.

(d) Funding Arrangements

Pursuant to section 14 of the Act, all benefit payments are met from the Consolidated Account or a Special Deposit Account established for that purpose which is then reimbursed from the Fund and the Police Employer Account within the Pension Division. The Fund proportion is that amount charged against the contributor's contribution account. The prescribed proportion is determined by the Board, in accordance with section 14(3) of the Act, taking into account the most recent actuarial review.

The Treasurer may also seek reimbursement of the employer portion of the benefit payment from the employer contributions made by SAPOL which are deposited into the Police Employer Account. Employer contributions are based on a percentage of salary at rates based on actuarial valuations. The rate for 2014-2015 was 20.5 percent.

For 2014-2015 the Police Employer Account's and the Fund's prescribed proportions of benefit payments for members of the Scheme were 81 percent and 19 percent respectively in accordance with the recommendations of Mr G Keen, FIAA and Mr L Brett, FIAA of Brett and Watson Pty Ltd in the Actuarial Report as at 30 June 2011.

The most recent actuarial review of the Police Superannuation Fund, based on the state of the Fund as at 30 June 2014, was carried out by Mr G Keen, FIAA and Mr B Watson, FIAA of Brett and Watson Pty Ltd. In line with the recommendations of Mr Keen and Mr Watson the Board determined the Employer and Fund's prescribed proportions of benefit payments for members of the Pension Scheme will change to 78 and 22 percent respectively, effective 11 July 2015. In the same report Mr Keen and Mr Watson recommended the Government contribution for future service liabilities is to remain at 20.5 percent.

For the year ended 30 June 2015 \$27.3 million (\$28.6 million in 2013-2014) was deposited into the Police Employer Account in relation to employer contributions on behalf of members.

Since 30 June 1994 the Government adopted a policy of fully funding its superannuation liabilities with a target of achieving full funding by 2034. This will require contributions at levels higher than the current employer contributions to meet the accruing liability for current employees. For the year ended 30 June 2015 the Government transferred a further \$59.9 million (\$64.7 million in 2013-2014) to the Police Employer Account to meet liabilities in respect of the Scheme.

2. Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial report is a general purpose financial report prepared in accordance with relevant Australian Accounting Standards, Treasurer's Instructions and Accounting Policy Statements promulgated under the provisions of the Public Finance and Audit Act 1987, except as provided below.

AAS 25 "Financial Reporting by Superannuation Plans" (AAS 25) is the principal standard applied in preparing this financial report. Other Accounting Standards are also applied where necessary except to the extent that they differ from AAS 25. A number of Australian Accounting Standards and interpretations that have recently been issued or amended, but are not yet effective, have not been adopted for the reporting period ending 30 June 2015. AASB 1056 Superannuation Entities was recently issued and becomes mandatory for the Board's financial statements in 2016-2017. The Board does not plan to adopt this standard early and the extent of the impact has not yet been determined.

The financial report has been prepared on an accrual basis and in accordance with the historical cost convention, except for the valuation of investments, which are measured at net market value.

The financial report is presented in Australian currency and all amounts have been rounded to the nearest thousand dollars (\$'000).

(b) Basis of Valuations of Assets and Liabilities

The basis for the valuation of assets and liabilities is provided below. Assets of the Scheme have been measured at net market value, which are provided by Funds SA.

(i) Inflation Linked Securities A

The Inflation Linked Securities A portfolio comprises two sub-sectors:

Externally Managed Inflation Linked Securities

Externally managed inflation linked securities are invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

Internally Managed Inflation Linked Securities

Internally managed inflation linked securities, the returns of which are linked to movements in either the Consumer Price Index or Average Weekly Earnings, have been valued using the discounted cash flow method. The valuation as at the balance date was performed by an independent valuer.

(ii) Property A

The Property A portfolio comprises two sub-sectors:

Listed property trusts

The listed property trust portfolio is invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolios using market prices applicable at the balance date.

Unlisted property vehicles

The unlisted property vehicles portfolio is invested and managed by external managers. Investments in this sub-sector have been valued in accordance with the valuations supplied by the managers.

(iii) Australian Equities A

The Australian Equities A portfolio comprises investments in listed Australian equities, and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled listed Australian equities funds have been valued in accordance with the valuations supplied by the managers.

(iv) International Equities A

The International Equities A portfolio comprises investments in equities listed on international share markets and is invested and managed by external managers. Discretely managed portfolios have been valued by the custodian appointed to hold the assets using market prices applicable at the balance date. Investments in pooled international vehicles have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at the balance date where applicable.

(v) Long Term and Short Term Fixed Interest

The Long Term and Short Term Fixed Interest portfolios are invested and managed by external managers. The custodian appointed to hold the assets has valued the portfolio using market prices applicable at the balance date.

(vi) Diversified Strategies - Growth A

The Diversified Strategies - Growth A portfolio comprises investments in domestic (Australian) and overseas private equity funds and domestic (Australian) and overseas pooled funds, which are invested and managed by external managers. Valuations of private equity funds are based on the most recently available valuations by the relevant managers. Both domestic and international funds valuations are generally in accordance with the International Private Equity Venture Capital Valuation Guidelines (December 2012). Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at the balance date where applicable.

(vii) Diversified Strategies - Income

The Diversified Strategies - Income portfolio comprises investments in both domestic (Australian) and overseas pooled funds, and is invested and managed by external managers. Investments in the pooled funds have been valued in accordance with the valuations supplied by the managers. Currency conversions have been made at the spot market mid-rates applicable at the balance date where applicable.

(viii) Cash

Investments in externally managed pooled cash funds have been valued in accordance with the valuations supplied by the managers. Deposits at call have been valued on the basis of principal plus accrued interest.

(c) Taxation

The Scheme is a constitutionally protected superannuation fund in terms of Section 295-15 of the Income Tax Assessment Act 1997, Regulation 995-1.04 (Schedule 4) and is exempt from income tax. Therefore no income tax has been brought to account in this financial report.

(d) Revenue

Superannuation contributions and other revenue are brought to account on an accrual basis.

Investment revenue represents the change in market value due to the movement in the value of funds invested with Funds SA.

(e) Operation of Investment Portfolio

Funds SA operates a multi-layered notional unitisation structure to facilitate the administration of different investment strategies applying to the various public sector superannuation funds. For the year ending 30 June 2015, funds of the Scheme were invested in the Growth option.

Reference should be made to Funds SA's Annual Report for the strategic asset allocations applying to the investment option.

(f) Receivables and Payables

Contributions receivable are contributions relating to the 2014-2015 financial year received by the Scheme after 30 June 2015.

Other receivables are carried at nominal amounts due which approximate fair value. Payables are recognised when the Scheme is obligated to make future payments for services received and are carried at the amount payable on demand.

Benefits payable relate to members who have ceased employment and provided the Scheme with appropriate notification prior to 30 June 2015 but who had not been paid until after 30 June 2015.

(g) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the Statement of Net Assets are shown inclusive of GST.

(h) Comparative Information

The presentation and classification of items in the financial report are consistent with prior periods except where a specific Accounting Policy Statement or Australian Accounting Standard has required a change.

Where presentation or classification of items in the financial report has been amended, comparative amounts have been reclassified unless reclassification is impracticable.

3. Liability for Accrued Benefits

The present value of the accrued benefit liabilities of the Scheme has been determined by Mr G Keen, FIAA of Brett & Watson Pty Ltd and is shown below.

The accrued benefit liabilities are the present values of expected future benefit payments arising from membership of the Scheme up to 30 June 2015 and were based on membership data as at 30 June 2015.

The expected future benefit payments have been determined using the 2014 triennial review assumptions relating to mortality, disability, withdrawal, preservation, and retirement. The review's salary promotion scale has also been used, while general salary increases of 1.5 percent per annum above the level of increase in the Consumer Price Index (CPI) have been allowed for. In accordance with Australian Accounting Standard AAS25 "Financial Reporting by Superannuation Plans", the expected future benefit payments have then been discounted to present values by a market-based, risk-adjusted discount rate. A discount rate of 4.5 percent per annum above CPI has been applied.

Accrued Benefits		
	2015	2014
	Pension	Pension
	Division	Division
Changes in the liability for accrued benefits:		
Liability for accrued benefits at 1 July	1,980,947	1,903,780
Add: Benefits Expense	105,578	155,595
Less: Benefits Paid	81,345	77,798
Less: Administration Expense	616	630
Liability for accrued benefits at 30 June	2,004,564	1,980,947
Represented by		
Fund Old Scheme Account	442,034	377,610
Police Employer Account	1,562,530	1,603,337
Totals	2,004,564	1,980,947

Pursuant to the Act, actuarial reviews of the Scheme must be conducted every three years to address the cost of the Scheme to Government and the proportion of future benefits that can be met from the Fund. The actuarial reviews take account of assets held, future contributions to be received from members and future benefits to be paid by the Fund. In contrast, the purpose of the accrued liability calculations, which are made annually, is to estimate the value of future payments that can be attributed to service up to the date of the calculation.

During 2014-2015 the funding proportion for the Fund Old Scheme Account was 19 percent and the Government contribution for future service liabilities for 2014-2015 was 20.5 percent in line with the recommendations made in the Actuarial Report as at 30 June 2011.

The most recent actuarial review as at 30 June 2014 was carried out by Mr G Keen, FIAA and Mr B Watson, FIAA of Brett & Watson Pty Ltd. On 29 June 2015 the Board was provided with the Actuarial Report as at 30 June 2014 and the following recommendations were made in that report:

- a) The funding proportion for the Fund to be increased from 19 percent to 22 percent.
- b) The Government contribution for future service liabilities for the Pension Division remains at the current level of 20.5 percent.

In line with the above recommendations the Board determined the funding proportion for the Fund Old Scheme Account will change to 22 percent, effective 11 July 2015.

The following table illustrates the unfunded liability of the Scheme as at 30 June 2015 and the previous year.

Unfunded Liability	2015 Pension Division	2014 Pension Division
Liability for accrued benefits at 30 June Less net assets available to pay benefits at 30 June	2,004,564 1,417,640	1,980,947 1,276,751
Unfunded liability at 30 June Represented by	586,924	704,196
Fund Old Scheme Account Police Employer Account	(36,926) 623,850	(66,501) 770,697
Totals	586,924	704,196

4. Vested Benefits

Vested benefits are benefits which are not conditional upon continued membership of the Scheme and include benefits which members would be entitled to receive on termination of membership of the Scheme.

When members resign from the Scheme, they have two options. Firstly, they can elect to take cash refunds of their own contributions, accumulated with interest, together with preserved employer benefits as required by Commonwealth Superannuation Guarantee legislation. Alternatively, they can elect to take fully vested, preserved benefits which will be based on their full accrued entitlements at the date of resignation and will be increased during preservation in line with increases in the CPI.

The vested benefits shown below have been determined by Mr G Keen, FIAA and Mr L Brett, FIAA of Brett & Watson Pty Ltd based on the assumption that all resignation benefits will be taken in the form of fully preserved benefits. The value of vested benefits has then been calculated using the same actuarial and economic assumptions as for the calculation of accrued benefits.

Vested Liabilities			
	2015	2014	
	Pension	Pension	
	Division	Division	
Fund Old Scheme Account Police Employer Account	472,026 1,668,131	379,188 1,607,908	
Totals	2,140,157	1,987,096	

5. Guaranteed Benefits

The following guaranteed superannuation benefits are payable to contributors of the Scheme and are set out in the Act:

- Age retirement lump sum (age 50 to 55).
- Age retirement pension with commutation lump sum option (age 55 and over).
- Age retirement lump sum (age 55 and over).
- Total and permanent incapacity (under age 60), based on contributors age 60 age retirement pension benefit.
- Death benefit pension payable to a surviving eligible spouse (lawful, de facto or same sex) with commutation lump sum option.
- Death benefit pension payable to an eligible child (under age 16 or aged between 17 and 25).
- Death benefit lump sum payable to deceased contributors' estate if not survived by an eligible spouse or child.

6. Administration and Direct Investment Expenses

Administration expenses incurred by the Board are financed from the Fund Old Scheme Account and the Police Employer Account in the prescribed proportions of 30 and 70 percent respectively, in accordance with section 10(7) of the Act.

Administration expenses incurred by the Scheme for 2014-2015 amounted to \$616,000 (\$630,000 in 2013-2014) of which the Fund's proportion was \$187,000 (\$190,000 in 2013-2014) and the Employer's proportion was \$429,000 (\$440,000 in 2013-2014). Of the \$616,000, \$532,000 (\$553,000 in 2013-2014) was paid to SA Government entities.

Direct investment expenses comprise fees paid to Funds SA. Funds SA advises the amount based on the Scheme's proportionate investment.

7. Remuneration of Board Members

The following are members of the Board who served during 2014-2015, along with the period served.

Board member	Period Served d	uring 2014-2	2015	
Graeme Barton	30/10/2014	to	30/06/2015	
Michael Ramm	01/07/2014	to	29/10/2014	
Keryl Howie*	01/07/2014	to	30/06/2015	
Ferdi Pit	02/03/2015	to	30/06/2015	
Kingsley Oakley	01/07/2014	to	22/02/2015	
Bernadette Zimmermann*	01/07/2014	to	30/06/2015	
Thomas Scheffler*	30/10/2014	to	30/06/2015	
David Reynolds*	01/07/2014	to	29/10/2014	
Deputy member	Period Served during 2014-2015			
Garry Powell*	01/07/2014	to	30/06/2015	
Ferdi Pit	01/07/2014	to	29/10/2014	
Julie Thomas*	02/03/2015	to	30/06/2015	
Linda Fellows*	01/07/2014	to	22/02/2015	
Neil Smith	02/03/2015	to	30/06/2015	
Samantha Strange*	30/10/2014	to	30/06/2015	
Allan Cannon*	01/07/2014	to	29/10/2014	
Trevor Milne*	01/07/2014	to	30/06/2015	

Board and Deputy members remuneration is set according to State Government guidelines for Statutory Authorities.

Total remuneration received or due and receivable by Board and Deputy members of the Board in 2014-2015 was \$9,000 (\$10,000 in 2013-2014). Total remuneration included superannuation of \$600 (\$600 in 2013-2014).

^{*} In accordance with the Department of the Premier and Cabinet Circular No. 16, Board and Deputy members who are government employees do not receive remuneration for their board membership. Board and Deputy members who are contributors of the Scheme contribute on the same terms as other contributors.

The number of Board and Deputy members whose remuneration was within the following bands is as follows:

Total Remuneration	Number of Board and Deputy Members			
	2015	2014		
\$1 - \$10,000	4	3		

8. Remuneration of Auditors

Amounts paid or payable to the Auditor-General's Department for auditing the accounts of the Board in 2014-2015 total \$21,000 (\$20,000 in 2013-2014).

No other services were provided by the Auditor-General's Department.

9. Summary of Investment Holdings

	Fund Old	Police		
	Scheme	Employer		
	Account	Account	Total	Total
	2015	2015	2015	2014
	\$′000	\$'000	\$'000	\$′000
INVESTMENTS				
Inflation Linked Securities A	34,339	67,291	101,630	96,480
Property A	69,043	135,295	204,338	180,657
Australian Equities A	114,879	225,114	339,993	305,176
International Equities A	122,854	240,741	363,595	349,683
Long Term Fixed Interest	9,408	18,436	27,844	20,354
Short Term Fixed Interest	-	-	-	6,892
Diversified Strategies – Growth A	46,657	91,428	138,085	109,273
Diversified Strategies – Income	65,969	129,271	195,240	178,258
Cash	15,820	31,000	46,820	29,704
Total Investments	478,969	938,576	1,417,545	1,276,477

10. Changes in Net Assets

Transactions within each division are summarised below:

	Fund Old Scheme	Police Employer		Fund Old Scheme	Police Employer	
	Account	Account	Total	Account	Account	Total
	2015	2015	2015	2014	2014	2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
NET ASSETS AVAILABLE TO PAY BENEFITS AT 1 JULY	444,111	832,640	1,276,751	394,290	695,751	1,090,041
REVENUE						
Investment Revenue	47,354	91,418	138,772	61,003	112,417	173,420
Other Income	7	30	37	6	25	31
CONTRIBUTION REVENUE						
Past Service Liability	-	59,900	59,900	-	64,700	64,700
Employer Contributions	-	27,335	27,335	-	28,553	28,553
Member Contributions	6,418	-	6,418	6,648	-	6,648
Government Co-Contributions	-	2	2	-	3	3
SG Contributions	-	1	1	-	-	-
Total Contribution Revenue	6,418	87,238	93,656	6,648	93,256	99,904
Total Revenue	53,779	178,686	232,465	67,657	205,698	273,355
EXPENSES						
Direct Investment Expense	(3,288)	(6,327)	(9,615)	(2,865)	(5,352)	(8,217)
Administration Expense	(187)	(429)	(616)	(190)	(440)	(630)
BENEFITS PAID						
Pensions	(12,147)	(51,785)	(63,932)	(11,184)	(47,679)	(58,863)
Commutations	(1,848)	(7,878)	(9,726)	(2,100)	(8,954)	(11,054)
Lump Sums	(1,460)	(6,224)	(7,684)	(1,497)	(6,381)	(7,878)
Government Co-Contributions	-	(2)	(2)	-	(3)	(3)
SG Contributions	-	(1)	(1)	-	-	-
Total Benefits Paid	(15,455)	(65,890)	(81,345)	(14,781)	(63,017)	(77,798)
Total Expenses	(18,930)	(72,646)	(91,576)	(17,836)	(68,809)	(86,645)
NET INCREASE IN FUNDS	34,849	106,040	140,889	49,821	136,889	186,710
NET ASSETS AVAILABLE TO PAY BENEFITS AT 30 JUNE	478,960	938,680	1,417,640	444,111	832,640	1,276,751

11. Benefits Paid

All benefit payments were met in the first instance from the Special Deposit Account. The Treasurer, in turn, recouped the value of the employee share of benefits paid from the Fund and the employer share from the Police Employer Account.

	Pension	Pension
	Division	Division
	2015	2014
	\$'000	\$'000
PENSIONS		
Funded from:		
Fund Old Scheme Account	12,147	11,184
Police Employer Account	51,785	47,679
Gross Scheme Costs	63,932	58,863
COMMUTATION LUMP SUMS		
Funded from:		
Fund Old Scheme Account	1,848	2,100
Police Employer Account	7,878	8,954
Tolloo Employer riododin	7,070	0,701
Gross Scheme Costs	9,726	11,054
LUMP SUMS		
Funded from:		
Fund Old Scheme Account	1,460	1,497
Police Employer Account	6,224	6,381
Gross Scheme Costs	7,684	7,878
COVEDBINATRIT CO CONTENED ITLORIC		
GOVERNMENT CO-CONTRIBUTIONS Funded from:		
	2	3
Police Employer Account	2	3
Gross Scheme Costs	2	3
SG CONTRIBUTIONS		
Funded from:		
Police Employer Account	1	-
Gross Scheme Costs	1	-
TOTAL BENEFITS PAID		
Funded from:		
Fund Old Scheme Account	15,455	14,781
Police Employer Account	65,890	63,017
Gross Scheme Costs	81,345	77,798
	- 1	, . , .

12. Financial Instruments

The Scheme's investments are managed by Funds SA predominantly by the appointment of investment managers as determined by the Funds SA Board. Each investment manager is required to invest the assets in accordance with the terms of a written mandate. The Funds SA Board has determined that the appointment of these managers is appropriate for the Scheme and is in accordance with the Scheme's investment strategy. The Funds SA Board obtains regular reports from each manager on the nature of the investments made on its behalf and the associated risks.

The allocation of assets between the various types of financial instruments is determined by the Funds SA Board. Divergence from target asset allocations and the composition of the portfolio is monitored by the Funds SA Board on a regular basis.

The Scheme's investing activities expose it to the following risks from its use of financial instruments:

- market risk
- credit risk
- liquidity risk.

The nature and extent of the financial instruments employed by the Scheme are discussed below. This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risk.

The Funds SA Board has overall responsibility for the establishment and oversight of the Scheme's investment risk management framework. The investment risk management policies are established to identify and analyse the risks faced by the Scheme, including those risks managed by the Scheme's investment managers, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Scheme's activities.

The Police Superannuation Board receives regular reports from Funds SA concerning compliance with the Scheme's investment objectives.

a) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Scheme's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

I. Currency Risk

Currency risk is a risk that the fair value of future cash flows of a financial instrument will fluctuate because of a change in foreign exchange rates.

The Scheme's currency risk is managed by Funds SA who have invested in assets denominated in foreign currencies.

Funds SA strategic policy for the management of its foreign currency exposure is as follows:

- Foreign currency exposures in the diversified strategies (growth), diversified strategies (income) and fixed interest asset sectors are fully hedged to Australian dollars.
- Foreign currency exposures in the international equities asset sector are hedged to Australian dollars.

For the purpose of managing foreign currency risk, within defined constraints, the exposure to foreign currency can be varied from the strategic policy stated above.

II. Interest Rate Risk

Interest rate risk is the risk that a movement in interest rates will cause the value of fixed interest securities to deviate from expectations.

Funds SA manages interest rate risk through:

- Ensuring asset allocations of different investment products are consistent with the time horizon of each.
- The use of specialist external investment managers to manage Funds SA's cash and fixed income portfolios.

III. Other Market Price Risk

Other market price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the Scheme's financial instruments are valued at net market value (fair value) with changes in net market value recognised in the Statement of Changes in Net Assets, all changes in market conditions will directly affect Investment Revenue.

Funds SA manages the risk of financial market volatility through the adherence to two principles:

- Ensuring a diversity of exposures to different financial markets and sub markets.
- Ensuring asset allocations for different investment products are consistent with the time horizon of each.

IV. Sensitivity Analysis

The Funds SA Board has determined that the forecast risk/return profile provide a reasonably possible change in the value of the investments in each investment option. These standard deviations provide the risk variable to be applied to each option in the year ahead. The following table illustrates the effect on change in investment assets from possible changes in market price risk.

2015

Investment Option	Sensitivity variable	Standard Deviation	Change in Investment assets \$'000
Growth	Nominal standard deviation	10%	141,754
Total			141,754

2014

Investment		Standard	
Option	Sensitivity variable	Deviation	
Growth	Nominal standard deviation	9.9%	126,371
Total			126,371

A positive or negative rate of return equal to the standard deviations above would have an equal but opposite effect on the Scheme's investment revenue, on the basis that all other variables remain constant.

Standard deviation is a useful historical measure of the variability of return earned by an investment portfolio. The standard deviations above provide a reasonable sensitivity variable to estimate each investment options' expected return in future years.

Actual movements in returns may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the underlying trusts invest. As a result, historic variations in rates of return are not a definitive indicator of future variations in rates of return.

b) Credit Risk

Credit risk is the risk that a counter party to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Scheme.

The net market value of financial assets included in the Statement of Net Assets represents the Scheme's maximum exposure to credit risk in relation to those assets. The Scheme does not have any significant exposure to any individual counter party or industry. The credit risk is monitored by Funds SA through ongoing reviews of the investment managers.

The Scheme does not have any assets which are past due or impaired.

c) Liquidity Risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. The Scheme's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its payment of benefits to members and liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Scheme's reputation.

The Scheme's liquidity position is monitored on a daily basis. The Scheme's cash and liquidity policy is to have sufficient cash balances to meet anticipated weekly benefit payments, expenses and investing activities.

Funds SA manages liquidity risk as follows:

- By giving careful consideration to the expected net cash redemption requirements of Funds SA's clients. The allocation to cash in the strategic asset allocation of each investment product is set at a level sufficient to manage expected cash redemptions.
- A large proportion of each investment product is invested in highly liquid investments such as actively traded equities, unit trusts or securities with shortterm maturities.

The following tables summarise the expected maturity profile of the Scheme's financial liabilities based on the earliest date on which the Scheme can be required to pay. The amounts in the table are the contractual undiscounted cash flows.

30 June 2015	Less than 3 months \$'000	Total Contractual Cash Flows \$'000	Carrying Amount Liabilities \$'000
Benefits payable	966	966	966
Sundry Creditors	146	146	146
Vested benefits (i)	2,140,157	2,140,157	2,140,157
Total	2,141,269	2,141,269	2,141,269

30 June 2014	Less than 3 months \$'000	Total Contractual Cash Flows \$'000	Carrying Amount Liabilities \$'000
Benefits payable	729	729	729
Sundry Creditors	146	146	146
Vested benefits (i)	1,987,096	1,987,096	1,987,096
Total	1,987,971	1,987,971	1,987,971

(i) Vested benefits have been included in the less than 3 months column, as this is the amount that members could call upon as at balance date. This is the earliest date on which the Scheme can be required to pay members vested benefits, however, members may not necessarily call upon amounts vested to them during this time.

d) Fair Value Estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets at fair value through profit or loss (Level 1 and level 3 are not relevant to the Scheme)	Level 2 \$'000
30 June 2015	
Unlisted managed investment schemes	
Funds SA	<u>1,417,545</u>
	<u>1,417,545</u>
30 June 2014	
Unlisted managed investment schemes	
Funds SA	<u>1,276,477</u>
	<u>1,276,477</u>

e) Derivative financial instruments

Derivatives can be defined as financial contracts whose value depend on, or are derived from, assets, liabilities reference rates or indices. Funds SA uses derivatives to manage portfolio risk and to facilitate the implementation of investment strategies efficiently and cost effectively. Funds SA uses a variety of derivative instruments, such as over the counter swap agreements, forward rate agreements, futures and options.

Derivatives are an authorised investment within certain mandates managed by Funds SA's external investment managers for the purposes described above.