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STATE SUPERANNUATION ACT 2000
(Section 33(2))

**TREASURER'S GUIDELINES
FOR GOVERNMENT
EMPLOYEES
SUPERANNUATION FUND
(Reserves and Allocation of Costs)**

August 2014

STATE SUPERANNUATION ACT 2000

Section 33(2)

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1. BACKGROUND

1.1 Section 33 of the *State Superannuation Act 2000* provides for the issue of written guidelines as follows—

“33. Treasurer’s approvals and guidelines

- (1) *An approval given by the Treasurer—*
 - (a) *must be in writing; and*
 - (b) *may be given when and how the Treasurer determines; and*
 - (c) *may be given in relation to a particular matter or matters of a particular kind.*
- (2) *The Treasurer may after consulting the Board, issue written guidelines to be followed by the Board in relation to—*
 - (ga) *the maintenance of reserves and the formulation and review of a reserving strategy under section 20A; and*
 - (g) *the allocation of investment earnings and costs of managing and administering the Fund and the schemes under section 22”*

1.2 Section 20A of the *State Superannuation Act 2000* provides as follows—

“20A. Reserves in Fund and reserving strategy, Board’s functions as to

- (1) *The Board may maintain reserves within the Fund*
- (2) *The Board is to formulate a reserving strategy for the Fund*
- (3) *The Board’s reserving strategy for the Fund is to be consistent with—*
 - (a) *the Board’s capacity to discharge the liabilities of the Fund, actual and contingent, as they fall due; and*
 - (b) *any relevant Treasurer’s guidelines*
- (4) *The Board is to review its reserving strategy from time to time in accordance with any relevant Treasurer’s guidelines.*
- (5) *In exercising its power under subsection (1) the Board is to—*
 - (a) *act in accordance with any relevant Treasurer’s guidelines; and*
 - (b) *act so as to give effect to the Fund reserving strategy”*

1.3 Section 22 of the *State Superannuation Act 2000* provides as follows—

“22. Allocation of Fund’s earnings and costs

- (1) *The Board is to allocate—*
 - (a) *earnings derived from the investment of the Fund; and*
 - (b) *the costs of managing and administering the Fund and the schemes, between the schemes and where appropriate between Members.*
- (2) *In allocating earnings and costs under subsection (1) the Board is to—*
 - (a) *ensure compliance with any relevant guidelines; and*
 - (b) *otherwise act in accordance with section 6(2).”*

Definitions

1.4 **'Accumulation Schemes'** means the West State Super Scheme, the GESB Super Scheme, the GESB Super (Retirement Access) Scheme, the Retirement Income Scheme and the Term Allocated Pension Scheme.

1.5 **'Act'** means the *State Superannuation Act 2000*, as amended from time to time.

1.6 **'Board'** means the Government Employees Superannuation Board.

1.7 **'Defined Benefit Schemes'** means the Gold State Super Scheme, the State Pension Scheme and the Provident Scheme.

1.8 **'Fund'** means the Government Employees Superannuation Fund.

1.9 **'Reserving Strategy'** means the reserving strategy formulated by the Board under section 20A(2) of the Act.

1.10 **'Treasurer's approval'** (or **'approval of the Treasurer'**) means approval given under section 33 (1) of the Act.

1.11 **'Treasurer's guidelines'** means the guidelines set out in this document, being guidelines issued by the Treasurer under section 33(2) of the Act.

1.12 **'WSS'** means the West State Super Scheme.

2. GUIDELINES RELATING TO RESERVES**General Principles for the Establishment and Maintenance of Reserves**

2.1 The Board may establish and maintain reserves for the Accumulation Schemes, provided that the purpose and operation of each reserve complies with the principles set out below in Clauses 2.4 to 2.14 inclusive.

2.2 The Board may establish and maintain a reserve for the Defined Benefit Schemes, subject to agreement with the Treasurer, provided the purpose and operation of the reserve complies with the principles outlined below.

2.3 If the Board seeks to establish a Defined Benefit Scheme reserve then the Board will provide a submission to the Treasurer that includes—

- (a) The purpose, operation, investment strategy and source of funding of the proposed reserve
- (b) A draft of the proposed amended Reserving Strategy; and
- (c) Any relevant advice obtained by the Board

Purpose

2.4 The purpose of every reserve must be set out in the Board's Reserving Strategy.

Operation

2.5 Any reserves in the Accumulation Schemes may only be derived from the surplus assets of those schemes, which would need to be generated from fees or any provision for costs charged to those scheme's members, depreciation and/or deductions from those scheme's investment returns. For the avoidance of doubt and subject to Clause 2.9, a reserve established in respect of a particular Accumulation Scheme may be derived from surplus assets of that Accumulation Scheme or any other Accumulation Scheme.

2.6 Each reserve must be debited with any costs incurred in relation to that reserve and credited with specified fees, investment return allocation and/or depreciation relating to that reserve. Each reserve will be invested and be credited/debited with investment earnings each year.

2.7 The sum of the reserves of the Accumulation Schemes, excluding the WSS Minimum Benefit Guarantee Reserve and the WSS Insurance Reserve, shall not be less than zero.

2.8 The sum of the reserves of the Accumulation Schemes excluding WSS shall not be less than zero.

2.9 Unless otherwise agreed between the Board and the Treasurer, no transfer of assets is to occur between—

- (a) The WSS Minimum Benefit Guarantee Reserve and any other Accumulation Scheme reserve or any Accumulation Scheme; and
- (b) The WSS Insurance Reserve and any other Accumulation Scheme reserve or any Accumulation Scheme

2.10 Unless the transfer is to meet member benefits which have transferred between the respective schemes, or it is otherwise agreed between the Board and the Treasurer, no transfer of assets is to occur between any Defined Benefit Scheme and any Accumulation Scheme (including any reserves).

2.11 Unless otherwise agreed between the Board and the Treasurer, any subsidisation of fees for Accumulation Scheme members is permitted only to the extent the subsidisation of fees can be met from—

- (a) The Accumulation Scheme reserves (other than the WSS Minimum Benefit Guarantee Reserve or the WSS Insurance Reserve); and
- (b) The surplus assets of other Accumulation Schemes

Reporting

2.12 The Board will provide to the Treasurer on a regular basis, but at least annually, a report showing a reconciliation of all movements in each reserve over the financial year including—

- (a) Opening amount
- (b) Transactions
- (c) Earnings
- (d) Closing amount
- (e) Substantiation of specific items, as requested

2.13 The report will be provided to the Treasurer at the same time as the Fund Financial Statements.

Investment strategy

2.14 The strategic asset allocation of each reserve must be consistent with the Treasurer's Prudential Guidelines for GES Fund Investments.

Guidelines relating to the Establishment and Maintenance of Specific Reserves

2.15 The following sections relate to four specific reserves only, being the WSS Minimum Benefit Guarantee Reserve, the WSS Insurance reserve, the Accumulation Schemes Operational Risk Reserves and the Accumulation General Reserve. Under Clause 2.1, the Board may establish and maintain other reserves for the Accumulation Schemes, provided that the purpose and operation of each reserve complies with the principles set out in Clauses 2.4 to 2.14 inclusive.

WSS Minimum Benefit Guarantee Reserve

2.16 The Board currently maintains a reserve referred to as the Minimum Benefit Guarantee Reserve for the WSS scheme.

2.17 The purpose of the Minimum Benefit Guarantee Reserve is to meet any minimum benefit guarantee payments to WSS members, and to meet other WSS scheme related payments as may be agreed with the Treasurer.

2.18 Until 30 June 2001, the Act provided for a guaranteed earning rate on WSS member accounts of CPI+2% pa each year.

2.19 From 1 July 2001, member investment choice was introduced and thereafter members' accounts are credited with the actual investment returns for the investment options they elect.

2.20 A WSS member is guaranteed to be paid the greater of—

- (a) The member's account balance at the date of payment; and
- (b) The member's account balance at 30 June 2001 together with earnings at the rate of CPI+2%pa each year from 30 June 2001 to the date of payment ("Minimum Benefit Guarantee")

2.21 If the Minimum Benefit Guarantee is greater than the member's account balance, then a Minimum Benefit Guarantee payment is required to fund the difference.

2.22 The potential for Minimum Benefit Guarantee payments to be made to WSS members will continue as long as there are any remaining WSS members with 30 June 2001 account balances.

2.23 If the Minimum Benefit Guarantee Reserve is exhausted and additional funds are required to meet Minimum Benefit Guarantee payments, then the Board must seek the approval of the Treasurer as to how to meet those costs.

2.24 If there are no further Minimum Benefit Guarantee payments to be made, then any remaining assets in the Minimum Benefit Guarantee Reserve will be dealt with as agreed between the Board and the Treasurer.

2.25 The WSS Minimum Benefit Guarantee Reserve was determined to be \$44m as at 30 June 2009 (refer to the Review of Reserves report by PwC 18 December 2009) and accepted by the Treasurer. The principles set out above in Clauses 2.4 to 2.14 inclusive should be applied to the 30 June 2009 balance to determine the value of the Minimum Benefit Guarantee Reserve going forward.

WSS Insurance Reserve

2.26 The Board currently maintains a reserve known as the Insurance Reserve for WSS.

2.27 The purpose of the Insurance Reserve is to meet the cost of any death and disablement claims not met by the third party insurer.

2.28 Until 30 June 2008, the State acted as the insurer to WSS and was responsible for ensuring all insurance claims incurred each year could be met by WSS. Following transfer of insurance to a third party insurer, as at 1 July 2008, the State remained the insurer for the following Board approved insurance claims—

- (a) All death and disability claims arising from pre-existing conditions to 30 June 2008 that resulted in the member not attending work, or capable of performing work, in their usual position with the participating employer from 1 July 2008 when the new insurance provisions apply
- (b) Any death and disability claims in excess of the external insurance cover for those members whose default cover provided by the third party insurer on takeover at 1 July 2008 was less than their existing self insurance cover at the takeover date

- (c) Any disability claims where the third party insurer declines the payment of a total and permanent disability benefit; and
- (d) As insurance cover in WSS lapses on termination of employment with a participating employer, if a member terminates employment on or after 1 July 2008, any subsequent death or disablement claim is excluded from 3.13(a) to (c) above.

2.29 If the reserve is exhausted and additional funds are required to meet claim costs, then the Board must seek the approval of the Treasurer as to how to meet those costs.

2.30 If there are no further claim costs to be paid, then any remaining assets in the Insurance reserve will be dealt with as agreed between the Board and the Treasurer.

2.31 The WSS Insurance Reserve was determined to be \$6.0m as at 30 June 2010 (refer to the Fund financial statements and Actuarial Review at that date) and accepted by the Treasurer. The principles set out above in Clauses 2.4 to 2.14 inclusive should be applied to the 30 June 2010 balance to determine the value of the Insurance Reserve going forward.

Accumulation Schemes Operational Risk Reserves

2.32 The Board may maintain a reserve known as the Operational Risk Reserve for each of the Accumulation Schemes, including WSS.

2.33 The purpose of the Operational Risk Reserve is to allow the Board scope to meet the costs incurred in responding to any operational risk events (for example, fraud, operational errors and business interruption) of the relevant Accumulation Schemes. The costs may include those which are not met by third parties or are recoverable from third parties or insurance only at a later time, or those where an excess applies under insurance or indemnity arrangements.

2.34 The Operational Risk Reserve was determined to be nil as at 30 June 2009 (refer to the Review of GESB Reserves report by PwC 18 December 2009) and accepted by the Treasurer. The principles set out above in Clauses 2.4 to 2.14 inclusive should be applied to the 30 June 2009 nil balance to determine the value of the Operational Risk Reserve going forward.

Accumulation Schemes Accumulation General Reserves

2.35 The Board may maintain a reserve known as the Accumulation General Reserve for each of the Accumulation Schemes, including WSS.

2.36 The purpose of the Accumulation General Reserve is to support the costs of development and superannuation reforms that are relevant for the Accumulation and Retirement Product schemes.

2.37 The agreed value for the Accumulation General Reserve was determined to be nil as at 30 June 2013. The principles set out above in Clauses 2.4 to 2.14 inclusive should be applied to the 30 June 2013 nil balance to determine the value of the Accumulation General Reserve going forward.

Accumulation Schemes Operational Risk

2.38 If the Operational Risk Reserve, Accumulation General Reserve and any other reserves, which have been established and maintained for the relevant Accumulation Schemes (other than the WSS Minimum Benefit Guarantee Reserve and the WSS Insurance Reserve), are insufficient to meet the costs of an operational risk event, the Board shall obtain the approval of the Treasurer before proceeding to meet the shortfall—

- (a) In obtaining the approval of the Treasurer the Board must provide a submission to the Treasurer outlining a proposed course of action to address the expected shortfall
- (b) The Treasurer may request any additional information as is necessary
- (c) Within 2 business days of receiving the submission and all supplementary information which has been requested (if any), the Treasurer will provide a decision regarding the source of funding the costs, which may include, but is not limited to, an appropriation from the consolidated revenue of the State or a transfer of assets from the Defined Benefit Schemes; and
- (d) In reaching a decision, the Treasurer may take into consideration any matters which the Treasurer thinks fit including but not limited to the quantum of the shortfall, the likely recoveries and the financial position of the Defined Benefit Schemes

Formulation of the Reserving Strategy

2.39 When formulating or amending the Reserving Strategy for the Fund, the Board will take into account the following matters—

- (a) The Board's capacity to discharge the liabilities of the Fund, actual and contingent, as they fall due
- (b) The guidelines set out above in relation to the maintenance of reserves, including specific reserves
- (c) Any advice sought and obtained from the Fund Actuary; and
- (d) All relevant APRA guidance (including Superannuation Prudential Practice Guides and Superannuation Circulars as may be published from time to time) on the use of reserves in superannuation funds

2.40 The Board will provide a copy of the Reserving Strategy (and any subsequent amendments) to the Treasurer within 30 days of approval of the Reserving Strategy by the Board.

Review of the Reserving Strategy

2.41 The Board will carry out a review of the Reserving Strategy annually.

2.42 Following the review, the Board will provide the Treasurer with a copy of a report on the review of Reserving Strategy. The information to be provided to the Treasurer will include details of—

- (a) Any advice obtained from the Fund Actuary or other advisor; and
- (b) The Board's conclusions in relation to the review

2.43 The report will be provided to the Treasurer within 30 days of completion of the review.

2.44 If at any time the Board decides to amend the Reserving Strategy as an outcome of its review of the Strategy, then the guidelines set out above in Formulation of Reserving Strategy, will apply.

3. GUIDELINES RELATING TO THE ALLOCATION OF COSTS**Defined benefit schemes**

3.1 The GESB Board will determine the appropriate allocation of costs to the Defined Benefit Schemes (including any costs in relation to an operational risk event that impacts the Defined Benefit Scheme members) and these costs will be met by the State in a manner approved by the Treasurer.

3.2 The Treasurer has approved the following treatment—

- (a) Costs relating to administering the defined benefit schemes will be agreed with Treasury (through the annual Statement of Corporate Intent approval process) and funded by direct appropriation from the Consolidated Account. Therefore—
 - (i) the allocated costs to the Defined Benefit Schemes are not to be included in the recoupment rate as determined by the Actuary; and
 - (ii) the employer contribution rate determined by the Treasurer (for self funded agencies) will explicitly disclose the dollar amount or percentage which reflects the allocated costs
- (b) The appropriation from the Consolidated Account funds all the allocated costs for the Defined Benefit Schemes. Therefore the portion of the employer contribution rate to meet allocated costs will be applied towards the Defined Benefit Scheme's accrued liabilities; and
- (c) The Treasurer will determine how any costs relating to an operational risk event that impacts Defined Benefit Scheme members will be met. Such costs may be met by appropriation from the Consolidated Account or from the Defined Benefit Scheme assets as determined by the Treasurer.

Accumulation schemes

3.3 The GESB Board will determine the appropriate allocation of costs to the Accumulation Schemes (including any costs in relation to an operational risk event that impacts the Accumulation Scheme members) and these costs will be met from the Accumulation Scheme assets unless otherwise approved by the Treasurer.

4. REVISION OF THESE GUIDELINES

4.1 The Treasurer may review these Guidelines annually but will undertake a review at least once every three years.

4.2 The Board may propose amendments to the Guidelines.

5. EFFECTIVE DATE

5.1 These Guidelines shall be effective from the date of the Treasurer's Approval.

Date: 24 June 2014.

Dr MIKE NAHAN MLA, Treasurer.
