# SUPERANNUATION

ANNUAL REPORT
2008

# FIRE AND EMERGENCY SERVICES SUPERANNUATION FUND

# REPORT ON OPERATIONS FOR YEAR ENDING 30 JUNE 2008

**To the Honourable Robert F Johnson MLA**

**Minister for Police; Emergency Services; and Road Safety**

**In accordance with Section 61 of the Financial Management Act 2006, we hereby submit for your information and presentation to Parliament, the Annual Report of the Fire and Emergency Services Superannuation Board for the financial year ended 30 June 2008.**

**The Annual Report has been prepared in accordance with the provisions of the Financial Management Act 2006.**

**H KUHAUPT**
**CHAIRMAN**
**24 September 2008**

**A B RUTTER**
**CHIEF FINANCE OFFICER**
**24 September 2008**

# TABLE OF CONTENTS

# CHAIRMAN'S REPORT

On behalf of the Board of Trustees of the Fire and Emergency Services Superannuation Fund I report on the progress of the Fund as a result of its activities for the year ended 30 June 2008.

Overall membership of the fund increased by 119 over the year to 1,775 members as at 30 June 2008.

The net market value of the assets as at 30 June 2008 was $358.4 million, a decrease of $18.5 million from the beginning of the year.

Primarily due to poor investment returns the Funds financial position experienced some deterioration over the year. However the annual Actuarial Report reveals that at balance date the net market value of assets of the Fund comfortably cover the benefits of all members.

The vested benefits of members of the defined benefit section are covered by assets supporting these benefits at a ratio of 120%.

A ratio of 120% represents a satisfactory level of cover for the Fund's vested benefits and is in line with the target ratio.

Investment conditions during this period have been the most difficult, uncertain and volatile in the history of this Fund and continue to be so.

This is a situation which has been common to all comparable Superannuation Funds in Australia and indeed globally. A year ago in my report pertaining to the year ending 30 June 2007 I was able to report returns to our pension members from our default option, the smoothed balanced option of 16.5%. That report however did also include the following cautionary comments from which I quote –

"However, there have emerged since 30 June 2007 serious potential risks which require careful and prudent management. Equity markets have been particularly volatile due mainly to considerable uncertainty as to the effects of several factors which include possible flow on effects of the sub-prime mortgage issues; expected low growth in the US economy; inflation and interest rate movements; the direction of the Australian dollar and also including volatile geo-political issues.

In accordance with strong recommendations from our advisors, the Board is currently employing appropriate measures in order to keep members future entitlements and benefit levels as safe as possible."

Now twelve months on all of the above are still valid except that the extent of the potential risks referred to have escalated to crisis proportions globally.

How governments and regulators of all major economies are dealing with the financial and economic meltdown dominates the various news media daily. The immediate and indeed longer term effects of which remain largely uncertain.

It is however of some comfort to be able to report that relatively speaking this Fund, in the population of comparable funds in Australia, was able to achieve an investment return superior to most for the financial year under review.

The rate of return to our pension members was declared at negative 4% for the year 30 June 2008. Rating agencies report the median return of comparable funds in Australia was negative 6.9% for the same period.

Any analysis of the major factors which contributed to the net investment returns for the year quite obviously reveal that the credit crisis which manifested itself on economies globally were inescapable on all fronts.

The shining light of the Funds investment performance for the year was our property investment sector driven in a major way by our directly held properties in WA which include a substantial office building in West Perth and an industrial showroom/warehouse property in Osborne Park. These properties were revalued on 30 June by an independent specialist property manager and contributed positively to our net position.

This Fund's investment policy must always be based on the long term. Superannuation funds by their very nature are dealing with long term outcomes. Long term is generally accepted to be a duration of at least 10 years. Over 80% of the Fund's investments are managed directly by external funds managers. Our job as a Board of Trustees is to appoint a suite of external managers who we believe will invest according to our policy expectations. The Board regularly monitors the performance of our external managers and currently we are reasonably satisfied that our external managers employ the processes and skills to provide acceptable performance over the long term.

In respect of the remaining investments of the Fund namely directly held property and fixed interest investments, the Board retains specialist managers and advisors with whom we consult on a regular basis regarding management of these assets.

Over the period of the modern history of this Fund which now extends to a period in excess of 20 years, average investment returns have been 10% per annum.

Additionally since the commencement in the Fund, 14 years ago, of allocated pension accounts, now known as account based pensions, average returns to members have been 9.6% per annum.

Difficult and uncertain as the current investment environment is, we will not be driven by fear and panic. We must stick basically to the longer term fundamentals.

Apart from investment matters there are very many extremely important matters which require ongoing close attention and I am very pleased to be able to report that all other functions pertaining to the day to day running and administration of the Fund have been maintained at high standards.

Members are reporting high levels of satisfaction of service from our administration team.

The audit reports from both the Auditor General and the independent internal audit report which examines the operational risk areas of the Fund have been completed and report no material exceptions of a high risk nature.

The administration expenses of the Fund have been maintained at the commendably low rate of .23% of funds under management. In this context it is noted that benefits totalling $20.8 million were paid to members during the year, an increase of 28% over the previous year. Including pension payments this entailed processing of 5,389 individual payments, 97% of which were processed within 1 day of request.

This very high quality service was achieved by the Fund's office in addition to dealing with other duties including servicing Board requirements, growing complexities of record keeping, compliance matters and corporate governance issues. Accordingly I must acknowledge the very diligent and dedicated work of the Fund's Manager/Secretary Adrian Rutter and the Fund's Administration Officer Sheryl Handley.

Also I wish to acknowledge the highly ethical and professional services provided to the Board by the Fund's Actuaries and advisors PricewaterhouseCoopers and the Fund's accounting and taxation specialists Sharyn Long Chartered Accountants.

Finally in confirmation of the absolutely unequivocal mantra of the Board to present a completely transparent account of the workings and position of the Fund we commend to all parties who are interested in the finer detail the comprehensive information contained in the accompanying 2008 Annual Report.

HARRY KUHAUPT OAM
CHAIRMAN

## CONSTITUTION

The Fire and Emergency Services Superannuation Board was constituted on 3 November 1986 to administer the Fire and Emergency Services Superannuation Fund.

## MINISTER

The responsible Minister is the Minister for Police and Emergency Services; Community Safety; Water Resources; Sport and Recreation; who, at 30 June 2008 was:

The Hon. J.C. Kobelke
20th Floor
197 St George's Terrace
PERTH WA 6000 Phone: (08) 9222 9211

## ENABLING LEGISLATION

The administration of the Superannuation Fund is established under the Fire and Emergency Services Superannuation Act 1985 and Fire and Emergency Services (Superannuation Fund) Regulations 1986.

## LEGISLATION ADMINISTERED

The Board is responsible for the administration of the enabling legislation.

## LEGISLATION IMPACTING ON THE BOARD'S ACTIVITIES

### State

The Board is responsible for complying with a wide range of State legislation, which primarily sets minimum prudential standards of conduct. These were:

Anti-Corruption Commission Act 1988
Auditor General Act 2006
Corporations (Western Australia) Act 1990
Electoral Act 1907
Equal Opportunity Act 1984
Financial Management Act 2006
Fire and Emergency Services (Superannuation Fund) Regulations 1986
Fire and Emergency Services Superannuation Act 1985
Freedom of Information Act 1992
Industrial Relations Act 1979
Interpretation Act 1984
Minimum Conditions of Employment Act 1993
Occupational Safety and Health Act 1984
Public Sector Management Act 1994
Stamp Act 1921
State Records Act 2000
State Supply Commission Act 1991
Trustees Act 1962
Workers' Compensation and Injury Management Act 1981

### Federal

The Commonwealth legislative compliance requirements are comprised of the following:

Anti-Money Laundering and Counter-Terrorism Financing Act 2006
Australian Prudential Regulation Authority Act 1998
Corporations Act 2001
Family Law Act 1975
Family Law (Superannuation) Regulations 2001
Finance Sector (Collection of Data) Act 2001
Financial Services Reform Act 2001
Income Tax Assessment Act 1936
Privacy Act 1988
Sex Discrimination Act 1984
Superannuation (Resolution of Complaints) Act 1993 and Regulations
Superannuation Contributions Tax (Assessment and Collection) Act 1997
Superannuation Guarantee (Administration) Act 1992
Superannuation Guarantee Charge Act 1992
Superannuation Industry (Supervision) Act 1993 and Regulations

## OBJECTIVES AND FUNCTIONS OF THE BOARD

The objectives and functions of the Board are to administer, invest and manage the Fire and Emergency Services Superannuation Fund.

## ACCOUNTABLE AUTHORITY

The Accountable Authority is the Fire and Emergency Services Superannuation Board.

## OPERATIONAL STRUCTURE

The Board is responsible for the management of the Fund and in accordance with the provisions of the Act, a Secretary to the Board is appointed. The Secretary is nominated as the Chief Finance Officer under the constraints of the Financial Management Act 2006. The administration of the Fund is carried out by the staff of the Superannuation Board, who are:

Secretary: Mr A B Rutter - appointed 8 May 2001
Administration Officer: Mrs S L Handley

## MEMBER ENQUIRIES

Members should address correspondence and enquiries to:

The Secretary
Fire and Emergency Services Superannuation Board
242 Rokeby Road
SUBIACO WA 6008

Telephone: – (08) 9382 8444
Facsimile: – (08) 9382 8464
Email: – admin@fessuper.com.au

## PERSONS OR SECTIONS OF COMMUNITY SERVED BY THE BOARD

Membership of the Fire and Emergency Services Superannuation Fund, which primarily is a lump sum defined benefit fund, is compulsory for all permanent employees of the:

- Fire and Emergency Services Authority of Western Australia; **(unless the employee is eligible to become or remain a member of the Government Employees Superannuation Scheme:)**
- Fire and Emergency Services Superannuation Board;
- United Firefighters Union of Western Australia; and
- Western Australian Volunteer Fire Brigades Association (Inc).

## BOARD MEMBERS

The three members appointed by the Fire and Emergency Services Authority of Western Australia as at 30 June 2008 are:

### MR H KUHAUPT
(Chairman) – Public Accountant – has been a member since 3 November 1986 and his current appointment expires on 18 August 2010.

### MR D BARTON
Actuary and Investment Consultant – has been a member since 3 November 1986 and his current appointment expires on 18 August 2008.

### MR W HEWITT
Director – Business Services of the Fire and Emergency Services Authority of Western Australia, has been a member since 19 August 2000 and his current appointment expires on 18 August 2009.

The three members elected by the members of the Fund as at 30 June 2008 are:

### MR G CLIFFORD
Station Officer – has been a member since 19 August 1993 and his current appointment expires on 18 August 2008.

### MR M OSBORN
Retired District Officer – has been a member since 19 August 1994 and his current appointment expires on 18 August 2009.

### MR B WEIR
Station Officer – has been a member since 19 August 2004 and his current appointment expires on 18 August 2010.

## ALTERNATE MEMBERS

The three alternate members appointed by the Fire and Emergency Services Authority of Western Australia as at 30 June 2008 are:

### MRS S FOY
Ex-employee of the Fire and Emergency Services Authority of Western Australia – appointed from 1 November 1999 and her current appointment expires on 18 August 2008.

### MR D FULCHER
Employee of the Fire and Emergency Services Authority of Western Australia – appointed from 19 August 1998 and his current appointment expires on 18 August 2010.

### MR F PASQUALE
Employee of the Fire and Emergency Services Authority of Western Australia – appointed from 27 August 2007 and his current appointment expires on 18 August 2009.

The three alternate members elected by the members of the Fund as at 30 June 2008 are:

### MR A BROWN
Senior Firefighter – was re-elected for the year to 18 August 2008.

### MR B LONGMAN
Station Officer – was re-elected for the year to 18 August 2008.

### MR J PATIENCE
Station Officer – was re-elected for the year to 18 August 2008.

## CONSULTANTS TO THE BOARD

The Board retains the following consultants to provide advice as and when required:

**Sharyn Long Chartered Accountants** –
Accounting and Taxation Advice.

**PricewaterhouseCoopers** –
Actuarial and Investment Advice.

## TAXATION & COMPLIANCE

The Superannuation Industry (Supervision) Act 1993 and Regulations (SIS) came into effect on 1 July 1994. The Board has made an irrevocable election for the Fund to be regulated under the SIS legislation. The Fund's auditors have not identified any breaches to the requirements and thus the concessional taxation treatment of the Fund remains in place.

## AUDIT

During the year under review, PKF Chartered Accountants, the Board's appointed Internal Auditor, carried out a review of the Fund's management and financial information systems and reported that the internal controls were adequate.

The Office of the Auditor General audits the Fund's Accounts and Performance Indicators under the provisions of the Financial Management Act 2006.

## TRUSTEE INDEMNITY INSURANCE

The Directors and Employees are covered by an indemnity insurance policy to cover possible claims made against them as Directors and Employees.

## ELECTORAL ACT

In accordance with Section 175ZE of the Electoral Act 1907 and Treasurer's Instruction 903, the Superannuation Board is required to disclose details of expenditure incurred during the year in relation to the following items:

| | |
|---|---|
| **Advertising Agencies** | Nil |
| **Market Research Organisations** | Nil |
| **Polling Organisations** | Nil |
| **Direct Mail Organisations** | Nil |
| **Media Advertising Organisations** | Nil |

## PUBLICATIONS

The Board produces and makes available to members the following publications. They are provided to assist members in understanding their options and entitlements, and to encourage consolidation of superannuation accounts into the Fire and Emergency Services Superannuation Fund.

- Product Disclosure Statement (Member Booklet)
- Members Newsletter
- Report to Members
- Annual Report
- Member Statements
- Fire and Emergency Services Superannuation Act and Regulations
- Actuarial Statements and APRA Notices

## FREEDOM OF INFORMATION (FOI)

Under section 96 of the Freedom of Information Act 1992, the Superannuation Board is required to publish an information statement that provides background on the operations of the Board, describes the documents held and the way in which the public can access information. It is the aim of the Board to make information available promptly and at the least possible cost.

## MEMBER COMPLAINTS

The Board has procedures in place to deal with any query or complaint a member may raise in relation to their superannuation. All complaints need to be put in writing to the Secretary.

There were no complaints received during the year.

## EXTERNAL COMPLAINTS TRIBUNAL

If a member is not satisfied with the handling of a complaint or the Board's decision, they may contact the Superannuation Complaints Tribunal.

The Tribunal is an independent body set up by the Federal Government to assist members or beneficiaries to resolve certain types of complaints with Fund Trustees.

The Tribunal may be able to assist the member to resolve their complaint, but only if the member has made use of the Board's own inquiries and complaints procedures. If the Tribunal accepts the member's complaint, it will attempt to resolve the matter through conciliation, which involves assisting the parties to come to a mutual agreement. If conciliation is unsuccessful, the complaint may be referred to the Tribunal for a determination which is binding.

For more information on the Tribunal and the type of information that needs to be provided, the Tribunal can be contacted on 1300 780 808 for the cost of a local call anywhere in Australia.

If assistance is required to make a complaint, contact the Secretary.

## LEGISLATIVE CHANGES

During the year the following changes were made to the Fire and Emergency Services (Superannuation Fund) Regulations 1986.

**1.** Increase the maximum membership period for death and total and permanent disablement (TPD) benefits from 30 years to 35 years.

**2.** All reference to the word 'interest' in relation to members' benefits has been substituted with the term 'net fund earning rate'. All reference to the words 'credited' or 'added' has been substituted with the word 'allocated.'

**3.** Regulation 23 was repealed.

4. Allow a member who has reached their preservation age and is still employed to access their superannuation benefits in the form of a non-commutable pension.

5. Allow a member who has made contributions after 1 January 2006 to split the contributions between spouses.

6. If a member has a drop in rank or reduction in salary, and if the employer and/or member do not wish to pay contributions at the higher rate, the membership period to calculate the benefit would be reduced for the period of membership during which the member is receiving a reduced salary.

7. Replace the reference to the "Insurance and Superannuation Commissioner' with the 'Australian Prudential Regulation Authority'.

8. Amend Regulation 23BA and Regulation 23C dealing with Supplementary Disablement Benefits, so that the reference to Regulation 23B(3) is amended to Regulation 23B(3a).

## INVESTMENTS

Full details of the investments of the Fund are provided in the attached accounts.

## INVESTMENT POLICY

In accordance with the requirements of the Superannuation Industry (Supervision) Act 1993 (section 52(2)), the Board has formulated the following investment policy:

### Objective

To achieve a minimum rate of return of 4% above the increase in the members' 3 year average salaries over rolling ten-year periods.

### Strategy

To invest predominantly with external fund managers, but with a proportion of the Fund being invested by the Board.

### Constraints

1. The total investment allocation ranges and long term benchmark of the Fund is as follows:

| | RANGES | BENCHMARK |
|---|---|---|
| Australian Shares | 20% - 50% | 30% |
| Overseas Shares | 5% - 35% | 20% |
| Property | 5% - 25% | 15% |
| Aust. Fixed Interest | 10% - 40% | 27% |
| Overseas Fixed Interest | 0% - 10% | 5% |
| Alternative Assets | 0% - 10% | 3% |
| Cash | 0% - 60% | 0% |

2. The Fund will target the above exposures, within a tolerance level of +/- 2%. The appropriateness of this strategy will be re-assessed every 3 years.

3. The number of external "core" Investment Managers is not to exceed ten (10).

4. The level of funds allocated to any individual external Fund Manager is to be limited to a maximum of 35% of the Fund's Total Assets.

5. The level of investments in directly held property and managed by the Board is not to exceed 10% of the Fund's Total Assets.

6. No **new single** investment of any nature is to exceed 5% of the Fund's Total Assets.

7. The maximum amount invested in both Australian and Overseas shares is not to exceed 70% of the Fund's assets.

8. Investments by the Board in short term Bank Bills are to be confined to banks with a short term S & P Australian Ratings of not less than A1.

9. Investments by the Board in short term Variable Rate Notes are to be confined to banks, building societies or credit unions; or securities with a short term S & P Australian Ratings of not less than BBB-; or as approved by the Board on the advice of Lehman Brothers.

10. Investments in alternative assets must, unless otherwise determined by the Board:

    **(a)** Have an expected return of at least CPI + 7% (after tax and fees) over rolling five-year periods;
    **(b)** Only be in a diversified investment (i.e. no single asset investments to be permitted);
    **(c)** Expect to provide meaningful diversification benefits to the Fund's existing investments;
    **(d)** Be able to be redeemed without significant penalty within three months notice; and
    **(e)** Be able to be effectively communicated to those who might take an interest in understanding the Fund's investment strategy.

**11.** The balance of the Fund's "Bank" account held by the Board with a financial institution is not to exceed 2.5% of the assets of the institution.

**12.** No directly held investment, other than Bank Bills, Repurchase Agreements and Bonds, will be bought or sold by the Board without first considering expert advice.

**13.** The Fund's investment managers may invest directly in derivative securities provided that these investments are consistent with the investment manager's powers as agreed to between the investment manager and the Fund. Derivative securities are not used for speculative purposes.

The Fund ensures that its investment managers comply with the standards set under the Superannuation Industry (Supervision) Regulations 1994 and by the Australian Prudential Regulation Authority (APRA) in relation to the use of derivative securities.

### Asset Allocation Strategy

The Board will undertake an internal passive re-balancing approach, whereby the Fund's cash flow is directed to the appropriate investments and re-balanced on a regular basis.

Each investment will have a target weighting and those investments with exposure below the target weighting would receive the Fund's cash flow (if positive) and those with exposure above the target allocation would have assets redeemed (when required). This will be undertaken as part of the normal distribution of the Fund's cash flow or when circumstances warrant.

The Fund has set tolerance levels around the target weightings so that if market movements cause exposure to move outside of these tolerance levels, then action will be taken to bring the exposures in line. Tolerance levels of around +/-2% have been set which allows the asset allocation to remain relatively close to the intended target without having to make a frequent number of transactions.

The Board is aware that actual asset allocation may fall outside these tolerance levels from time to time as tactical asset allocation is undertaken by the Fund's core managers.

### Performance Review

**1.** Monitor on a monthly basis the asset allocation of the external Investment Managers, directly held investments and the total Fund.

**2.** Monitor on a monthly basis the performance of the external Investment Managers, directly held investments and the total Fund, and compare this to the performance of the Benchmark against the various indices.

**3.** Twice yearly, comprehensively review all directly held investments in consultation with external advisers (eg. Stockbroker, Real Estate Adviser, Fixed Interest Adviser where appropriate).

**4.** Continuously review the performance of all external investment managers.

**5.** This Investment Policy may be changed at any time by Resolution of the Board but in any case is to be comprehensively reviewed every 3 years.

### Implementation

The Board's Investment Policy was first implemented in 1992 and some minor changes have been made since that date. The external Investment Managers were comprehensively reviewed in 2001 and last reviewed with effect from April 2004. The Board is currently reviewing its Investment Policy.

## 2009 ESTIMATES (not subject to audit)

| | ACTUAL 2008 $ | ESTIMATE 2009 $ |
|---|---|---|
| **Net Assets** | | |
| **Beginning of period** | 376,917,811 | 358,791,877 |
| **INVESTMENT REVENUE** | | |
| Trust Distributions | 20,685,583 | 20,700,000 |
| Interest | 1,463,808 | 1,500,000 |
| Dividends | 0 | 0 |
| Changes in Net Market Value | (47,427,571) | 16,000,000 |
| Investment Revenue - Managed Portfolios | 1,025,709 | 1,000,000 |
| Net Rental Income | 1,288,367 | 1,300,000 |
| Investment Fee Rebate | 194,874 | 200,000 |
| Direct Investment Expenses | (307,041) | (300,000) |
| **CONTRIBUTION REVENUE** | | |
| Employer Contributions | 9,381,482 | 9,500,000 |
| Employee Contributions | 233,972 | 300,000 |
| Salary Sacrifice Contributions | 11,654,590 | 13,700,000 |
| Voluntary Contributions | 2,102,441 | 2,700,000 |
| Spouse Contributions | 1,188,974 | 1,000,000 |
| Transfers In | 2,386,074 | 2,600,000 |
| ATO Co-contribution | 61,428 | 200,000 |
| **OTHER REVENUE** | | |
| Insurance Proceeds | 9,186 | 500,000 |
| Other | 0 | 20,000 |
| **TOTAL REVENUE** | **3,941,876** | **70,920,000** |
| **EXPENSES** | | |
| Group Life Premiums | (698,881) | (700,000) |
| Administration | (782,634) | (827,000) |
| Contribution Surcharge | (14,991) | (20,000) |
| Benefits paid | (20,860,028) | (24,500,000) |
| Capital | (25,157) | (75,000) |
| Net Surplus Before Tax | (18,439,815) | 44,798,000 |
| Income Tax Expense | (313,881) | (5,000,000) |
| **Net Assets End of period** | **358,791,877** | **398,589,877** |

## OUTPUT SUMMARY (not subject to audit)

**Outcome:** To provide superannuation and related benefits to members of the Fund in accordance with legislative requirements.

**Output:** Provision of Superannuation service to members.

**Description:** This output involves the induction of new members, receipt of contributions, investment of funds, reporting to members and payment of benefits.

**Output Measures:**

| | 2007-08 Actual | 2008-09 Target |
|---|---|---|
| **Quantity** | | |
| Number of members serviced | 1,788 | 2,000 |
| Total assets under management | $359M | $399M |
| **Quality** | | |
| Number of Audit Exceptions | nil | nil |
| Rate of return above the increase in 3 year average salaries over rolling 10 year periods | 1.0% | 4.0% |
| **Timeliness** | | |
| Average time within which to satisfy member queries | 24 hours | 24 hours |
| **Cost** | | |
| Management Expense Ratio (MER) | 0.25% | 0.25% |

*(MER is a ratio expressing the administration and investment expenses as a proportion of the average net asset value of the Fund.)*

**FIRE AND EMERGENCY SERVICES**
**SUPERANNUATION BOARD**

**STATEMENT OF CERTIFICATION OF**
**PERFORMANCE INDICATORS**

**We hereby certify that the performance indicators:**

**(i) are based on proper records;**

**(ii) are relevant and appropriate for assisting users to assess the performance of the Fire and Emergency Services Superannuation Board; and**

**(iii) fairly represent the performance of the Fire and Emergency Services Superannuation Board for the financial year ended 30 June 2008.**

**H KUHAUPT**
**CHAIRMAN**
**24 September 2008**

**D E BARTON**
**BOARD MEMBER**
**24 September 2008**

# PERFORMANCE INDICATORS

## PERFORMANCE INDICATORS

**The Fire and Emergency Services Superannuation Board's primary outcome is:**

To provide superannuation and related benefits to members of the Fund in accordance with legislative requirements. This includes:

- maintaining the long term viability of the Fund: and
- ensuring that the Fund does not breach any of the requirements prescribed for a Regulated Fund under the Superannuation Industry (Supervision) Act 1993 and Regulations (SIS), and the Corporations Act 2001 and Regulations.

## EFFECTIVENESS INDICATORS

### Viability of the Fund

The extent to which (as identified in an annual Actuarial Review):-

**1.1.** The Board's investment objective is to achieve investment returns of at least 4.0% per annum above the increase in three-year final average salaries over a rolling ten-year period.

*Over the ten-year period to 30 June 2008, the Fund's performance against the benchmark has been as follows:*

| | |
|---|---|
| *(a) Investment Returns (unadjusted):* | *6.6% per annum* |
| *(b) Final Average Salary Increases:* | *5.6% per annum* |
| *(c) Real Return:* | *1.0% per annum* |
| *(d) Target Return:* | *4.0% per annum* |

*For the ten years to 30 June 2008, the Fund fell short of its investment objective, as investment returns on an unadjusted basis were 1.0% (rather than 4.0%) over and above three-year final average salaries increases.*

**1.2.** The actual Asset Backing Index equals or exceeds the Actuary's recommended Asset Backing Index target of "85".

*The Actuarial report for the year ending 30 June 2008 reported the actual Asset Backing Index to be 91.0.*

### Compliance under SIS Legislation

**1.3.** The Fund meets the prescribed compliance requirements under the Superannuation Industry (Supervision) Legislation (SIS).

*The auditor of the fund tested compliance with the Superannuation Industry (Supervision) Act and Regulations. The audit conclusions did not indicate that there were any breaches of the provisions of the legislation tested by the auditor.*

## EFFICIENCY INDICATORS

**2.1.** The extent to which the average benefit payment delay to members is minimised.

*A total of 104 members exited from the Fund during 2007/08, and payments were made as follows:*

| | |
|---|---|
| **Retained in the Fund** | |
| *Allocated Pensions* | 7 |
| *Retained Benefits* | 57 |
| **Paid/Transferred out of the Fund** | |
| *Cash* | 4 |
| *Rollover to another Fund* | 15 |
| *Transfer to Eligible Rollover Fund* * | 21 |
| **Total Payments Processed** | 5,287 |

(Includes pension payments and commutations from Pension accounts and withdrawals from Retained Benefits)

**Payments Outstanding** 0

* All members who have small inactive accounts are transferred to the Australian Eligible Rollover Fund if no advice is received within 30 days of request.

*The following table reflects the time taken to process payments to the members.*

| Days | 2007/08 | 2006/07 | 2005/06 | 2004/05 | 2003/04 |
|---|---|---|---|---|---|
| 0 – 1 | 5,152(97%) | 2,237(97%) | 1,871(98%) | 1,630(99%) | 1,478(98%) |
| 2 – 5 | 130 (3%) | 61 (3%) | 31 (2%) | 23 (1%) | 36 (2%) |
| over 5 days | 5 (0%) | 0 (0%) | 1 (0%) | 0 (0%) | 1 (0%) |

**2.2** The extent to which the cost of administering the Fund is minimised.

| | 2007/08 | 2006/07 | 2005/06 | 2004/05 | 2003/04 |
|---|---|---|---|---|---|
| *Administration Expenses* | $807,791 | $676,609 | $635,268 | $718,121 | $615,326 |
| *As a percentage of Contributions received* | 2.99% | 2.53% | 2.83% | 3.83% | 3.47% |
| *As a percentage of Total Net Assets* | 0.23% | 0.18% | 0.20% | 0.27% | 0.26% |

Auditor General

**INDEPENDENT AUDIT OPINION**

**To the Parliament of Western Australia**

**FIRE AND EMERGENCY SERVICES SUPERANNUATION BOARD
FINANCIAL STATEMENTS AND KEY PERFORMANCE INDICATORS
FOR THE YEAR ENDED 30 JUNE 2008**

I have audited the accounts, financial statements, controls and key performance indicators of the Fire and Emergency Services Superannuation Board.

The financial statements comprise the Statement of Net Assets as at 30 June 2008, and the Statement of Changes in Net Assets for the year then ended, a summary of significant accounting policies and other explanatory Notes.

The key performance indicators consist of key indicators of effectiveness and efficiency.

**Board's Responsibility for the Financial Statements and Key Performance Indicators**
The Board is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions, and the key performance indicators. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements and key performance indicators that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances; and complying with the Financial Management Act 2006 and other relevant written law.

**Summary of my Role**
As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements, controls and key performance indicators based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. Refer "http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf".

An audit does not guarantee that every amount and disclosure in the financial statements and key performance indicators is error free. The term "reasonable assurance" recognises that an audit does not examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements and key performance indicators.

**Fire and Emergency Services Superannuation Board**
**Financial Statements and Key Performance Indicators for the year ended 30 June 2008**

**Audit Opinion**

In my opinion,

(i) the financial statements are based on proper accounts and present fairly the financial position of the Fire and Emergency Services Superannuation Board at 30 June 2008 and its financial performance and cash flows for the year ended on that date. They are in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions;

(ii) the controls exercised by the Board provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and

(iii) the key performance indicators of the Board are relevant and appropriate to help users assess the Board's performance and fairly represent the indicated performance for the year ended 30 June 2008.

COLIN MURPHY
AUDITOR GENERAL
24 September 2008

## FIRE AND EMERGENCY SERVICES

## SUPERANNUATION BOARD

## STATEMENT OF CERTIFICATION

## FINANCIAL STATEMENTS

**The accompanying financial statements of the Fire and Emergency Services Superannuation Board have been prepared in compliance with the provisions of the Financial Management Act 2006 from proper accounts and records to present fairly the financial transactions for the period 1 July 2007 to 30 June 2008 and the financial position as at 30 June 2008.**

**At the date of signing we are not aware of any circumstances that would render the particulars included in the financial statements misleading or inaccurate.**

H KUHAUPT
CHAIRMAN
24 October 2008

M F OSBORN
BOARD MEMBER
24 October 2008

A B RUTTER
CHIEF FINANCE OFFICER
24 October 2008

## FIRE AND EMERGENCY SERVICES SUPERANNUATION FUND

### STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2008

| | Notes | 2008 $ | 2007 $ |
|---|---|---|---|
| **INVESTMENT REVENUE** | | | |
| Interest | | 1,463,808 | 921,098 |
| Dividends | | - | 11,111 |
| Trust distributions | | 20,685,583 | 22,037,504 |
| Investment revenue managed portfolios | | 1,025,709 | 2,804,891 |
| Net rental income | | 1,288,367 | 1,321,984 |
| Changes in net market values | 7(a) | (47,396,931) | 27,752,303 |
| Direct investment expenses | | (112,167) | (155,508) |
| | | (23,045,631) | 54,693,383 |
| **CONTRIBUTION REVENUE** | | | |
| Employer contributions | | 21,036,072 | 16,204,208 |
| Member contributions | | 295,400 | 344,858 |
| Member voluntary contributions | | 2,102,441 | 6,150,531 |
| Spouse contributions | | 1,188,974 | 1,244,666 |
| Transfers in | | 2,386,074 | 2,839,924 |
| | | 27,008,961 | 26,784,187 |
| **OTHER REVENUE** | | | |
| Changes in net market values of other assets | 7(b) | (30,640) | (27,160) |
| Insurance proceeds | | 9,186 | 247,310 |
| AMP compensation | | - | 40,678 |
| | | (21,454) | 260,828 |
| **TOTAL REVENUE** | | **3,941,876** | **81,738,398** |
| **EXPENSES** | | | |
| General administration expenses | 8 | 807,791 | 676,609 |
| Group life premiums | | 698,881 | 517,886 |
| Contribution surcharge | | 14,991 | 22,701 |
| Benefits paid | | 20,860,028 | 16,196,301 |
| **TOTAL EXPENSES** | | **22,381,691** | **17,413,497** |
| **CHANGES IN NET ASSETS BEFORE TAX** | | **(18,439,815)** | **64,324,901** |
| INCOME TAX EXPENSE/(BENEFIT) | 9(a)(b) | (313,881) | 5,837,921 |
| **CHANGES IN NET ASSETS AFTER TAX** | | **(18,125,934)** | **58,486,980** |
| NET ASSETS AVAILABLE TO PAY BENEFITS at the beginning of the period | | **376,917,811** | **318,430,831** |
| **NET ASSETS AVAILABLE TO PAY BENEFITS at the end of the period** | | **358,791,877** | **376,917,811** |

**This Statement should be read in conjunction with the accompanying notes.**

## FIRE AND EMERGENCY SERVICES SUPERANNUATION FUND

### STATEMENT OF NET ASSETS
### FOR THE YEAR ENDED 30 JUNE 2008

| | Notes | 2008<br>$ | 2007<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| **Cash Assets** | | | |
| Cash and cash equivalents | | 14,033,825 | 3,660,149 |
| **Receivables** | | | |
| Distributions receivable | | 7,949,959 | 8,957,683 |
| Other receivables | | 225,523 | 225,299 |
| Accrued interest | | 78,756 | 15,056 |
| **Investments** | | | |
| Interest bearing investments | 10 | 1,752,923 | 454,466 |
| Fixed interest securities | 11 | 5,769,472 | 7,024,515 |
| Securities in listed entities | 12 | 19,117,850 | 18,149,763 |
| Units in unlisted unit trusts | 13(a) | 186,930,661 | 180,749,337 |
| Insurance policies | 14 | 14,875,988 | 13,117,940 |
| Pooled superannuation trusts | 15 | 73,740,993 | 68,504,299 |
| Managed investment portfolios | 16 | - | 55,016,866 |
| Securities in unlisted companies | 17 | - | 562 |
| Land and buildings | 18 | 35,995,400 | 28,175,000 |
| **Other Assets** | | | |
| Furniture, office equipment and motor vehicle | | 93,000 | 97,500 |
| Deferred tax assets | 9(e) | 850,797 | 33,818 |
| **TOTAL ASSETS** | | **361,415,147** | **384,182,253** |
| **LIABILITIES** | | | |
| Creditors and accruals | 19 | 257,971 | 349,514 |
| Uncalled capital liability | 13(b) | 170,905 | 351,737 |
| Employee entitlements | | 62,203 | 46,980 |
| Current tax liabilities | 9(c) | 2,120,378 | 2,559,908 |
| Deferred tax liabilities | 9(d) | 11,813 | 3,956,303 |
| **TOTAL LIABILITIES** | | **2,623,270** | **7,264,442** |
| **NET ASSETS AVAILABLE TO PAY BENEFITS** | **4,5** | **358,791,877** | **376,917,811** |

**This Statement should be read in conjunction with the accompanying notes.**

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of Compliance

The financial report of Fire and Emergency Services Superannuation Fund ("Fund") are general purpose statements which have been drawn up in accordance with Australian accounting standards including AAS 25 "Financial Reporting Superannuation Plans" ("AAS 25") as amended by AASB 2005-13 (December 2005), other applicable Accounting Standards and the requirements of the Superannuation Industry (Supervision) Act 1993 and Regulations ("SIS") and the provisions of the Trust Deed.

The Fund is a superannuation fund domiciled in Australia. The financial statements are presented in Australian dollars, which is the functional currency of the Fund.

The financial statements were approved by the Board of the Trustee, Fire and Emergency Services Superannuation Board, on 24 September 2008.

### (b) Basis of Preparation

International Financial Reporting Standards ("IFRS") form the basis of Australian Accounting Standards adopted by the Australian Accounting Standards Board ("AASB"), being the Australian equivalent to IFRS ("AIFRS") to distinguish from previous Australian generally accepted accounting principles ("GAAP"). Since AAS 25 is the principal standard that applies to the financial statements, other standards, including AIFRS, are also applied where necessary except to the extent that they differ from AAS 25.

In accordance with Treasurer's Instruction 1101 where the requirements of AAS 25 are inconsistent with the requirements of the Treasurer's Instructions AAS 25 shall, to the extent of the inconsistency prevail.

At the date of authorisation of the financial report, the following Standards which are expected to be relevant to the Fund were in issue but not yet effective.

The directors anticipate the adoption of these Standards will have no material financial impact on the financial report of the Fund.

- AASB 8 *Operating Segments* replaces the requirements of segment disclosures in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009.

- Revised AASB 101 *Presentation of Financial Statements* and consequential amendments to other accounting standards resulting from its issue for annual reporting periods on or after 1 January 2009.

- AASB 123 *Borrowing Costs* and consequential amendments to other accounting standards resulting from its issue for annual reporting periods on or after 1 January 2009.

- AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising from Liquidation* for annual reporting periods on or after 1 January 2009.

### (c) Use of Estimates and Judgements

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires the Trustee to exercise its judgement in the process of applying the entity's accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no critical accounting estimates and judgements contained in these financial statements other than those used to determine the liability for accrued benefits, which are not brought to account but disclosed by way of note.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

### (d) Investments

Investments of the Fund are initially recognised at cost, being the fair value of the consideration given. After the initial recognition assets of the Fund are recorded at net market value, after allowing for costs of realisation, as at the reporting date and changes in the net market value of assets are recognised in the Statement of Changes in Net Assets in the periods in which they occur.

<u>Pooled Superannuation Trusts, Insurance Policies and Unit Trusts</u>
Based on the redemption price of the units as notified by the investment managers.

<u>Securities and Other Equities</u>
The value is determined using external market price data published by the appropriate information vendors. Unlisted investments are valued on the basis of independent valuations.

<u>Interest Bearing Investments</u>
The value is determined by reference to the principle invested or as determined by the appropriate information vendors.

<u>Unlisted Companies</u>
The value is determined by reference to the market price provided by the appropriate information vendors.

Land and Buildings
Real Property is valued at independent appraisal conducted at balance date.

The net fair value of investments are considered to be equal to the net market value.

**(e) Revenue**

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

Changes in net market value of investments
Changes in net market value of investments are recognised as income in the Statement of Changes in Net Assets in the periods in which they occur. Changes in net market values are determined as the difference between the net market value at balance date or consideration received (if sold during the year) and the net market value at the previous balance date or the cost (if the investment was acquired during the year).

Interest
Interest revenue is recognised when the Fund has established its right to receive the interest.

Trust Distributions
Trust distribution revenue is recognised when the Fund has established that it has a right to receive the distribution.

Dividends
Dividends are recognised when the fund has established that it has a right to receive a dividend.

Contribution Revenues
Member and employer contributions and transfers in are recognised when the control of the asset has been attained and are recorded in the period to which they relate.

Superannuation co-contributions from the Australian government are recognised on a cash basis.

**(f) Income Tax**

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

Current tax
Current tax is calculated by reference to the amount of income tax payable or recoverable in respect of the taxable benefits accrued for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities which affect neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Fund expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

**(g) Benefits Payable**

Benefits payable comprises the entitlements of members who ceased employment and had provided the Fund with appropriate notification, but where the benefit has not been paid prior to year end. Benefits payable also includes any death or disablement benefit for which the insurer had reimbursed the Fund prior to balance date but where the benefit had not been paid at that time.

**(h) Receivables and Other Payables**

Receivables are carried at nominal amounts due which approximate fair value.

Other payables are recognised when the Fund is obligated to make future payments for services received and are carried at the net market value of the amount payable.

**(i) Contribution Surcharge**

The Superannuation Laws Amendment (Abolition of Surcharge) Act 2005 abolishes both the superannuation contributions surcharge and the termination payments surcharge in respect of superannuation contributions and certain termination payments made or received on or after 1 July 2005. Assessments for surcharge in respect of contributions and payments for the year ended 30 June 2005 and prior years will continue to be issued and remain payable.

The contribution surcharge is recorded as an expense in the Statement of Changes in Net Assets if an amount has been paid or an assessment has been received during the period irrespective of the period to which the surcharge related. A liability for future payments is only recognised if an assessment has been issued by the Australian Taxation Office (ATO) and was unpaid at balance date.

**(j) Goods and Services Tax**

GST incurred that is not recoverable from the ATO has been recognised as part of the cost of acquisition of the asset or as part of the expense to which it relates.

Receivables and payables are stated with the amount of GST included in the value.

The amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Net Assets.

**(k) Derecognition of Financial Assets and Liabilities**

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the Fund transfers substantially all the risks and rewards of ownership of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

**(l) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash at bank, demand deposits and short term, highly liquid investments that are readily converted to known amounts of cash.

**(m) Employee benefits**

*Long-term service benefits*
The Fund's net obligation in respect of long-term service benefits, other than pension funds, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

*Short-term benefits*
Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs, such as, workers compensation insurance and payroll tax. The Fund does not provide for non vesting sick leave.

**(n) Excess Contributions Tax**

The Australian Taxation Office ("ATO") may issue release authorities to members of the Fund relating to the relevant member's excess contributions tax that is payable in respect of the member's concessional and/or non-concessional contributions for a particular year. Where a member receives an excess contributions tax release authority, the member:

- May give the release authority relating to the member's concessional contributions to a fund for payment; and
- Must give the release authority relating to the member's non-concessional contributions to a fund for payment

Release authorities may be issued by the ATO from 1 July 2007 in relation to transitional non-concessional contributions received by the Fund between 9 May 2006 and 30 June 2007. Release authorities in relation to concessional and/or non-concessional contributions received from 1 July 2007 may be issued from the ATO from 1 July 2008.

The liability for excess contributions tax will be recognised when the relevant release authorities are received from members, as the Trustee considers this is when it can be reliably measured.

The excess contributions tax liability recognised by the Fund will be charged to the relevant members' accounts.

**(o) No-TFN Contributions Tax**

Where a member does not provide their tax file number to a fund, the fund may be required to pay no-TFN contributions tax at a rate of 31.5% which is in addition to the concessional tax rate of 15% which applies to the Fund's assessable income.

The no-TFN contributions tax liability recognised by the Fund will be charged to the relevant members' accounts. Where a tax offset is obtained by the Fund in relation to members' no-TFN contributions tax, the tax will be included in the relevant members' accounts.

## 2. OPERATION OF THE FUND

The Fund was established under the Fire and Emergency Service Superannuation Act 1985 as amended.

The Fund is predominately a defined benefit fund and the objective of the Trustees is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable.

## 3. FUNDING ARRANGEMENTS

The funding policy adopted in respect of the Fund is directed at ensuring that benefits accruing to members and beneficiaries are fully funded as the benefits fall due. As such, in framing employer and member contribution rates, the actuary has considered long-term trends in such factors as Fund membership, salary growth and average market value of Fund's assets.

The employer has contributed to the Fund in 2008 at a standard rate of 11.75% (2007 11.75%) of the salaries of those permanent employees who elected to be defined benefit members of the Fund. The employer has also made additional contributions at the rate of 1% (2007 1%) to fund the supplementary disablement benefits. Employees contributed to the Fund at the rate of 6.25% of salary for 2008 (2007 6.25%).

For those members of the Fund who have not elected, or are unable, to become defined benefit members, the employer contributed at the rate of 9% salaries for 2008 (2007 9%).

The Fund also received salary sacrifice contributions during the year ended 30 June 2008.

Members make additional voluntary contributions at variable rates.

The actuarial report attached to these financial statements includes the actuary's opinion as to the financial condition of the Fund as at the last valuation date.

## 4. LIABILITY FOR ACCRUED BENEFITS

The liability for accrued benefits represents the fund's present obligation to pay benefits to members and beneficiaries. The liability for accrued benefits is measured annually by a qualified actuary and has been determined on the basis of the present value of expected future payments which arise from membership of the fund up to the reporting date.

The figure reported has been determined by reference to expected salary levels and by application of a market-based, risk-adjusted discount rate and relevant actuarial assumptions. The liability for accrued benefits includes the allocated benefits. The valuation of accrued benefits at the reporting date was undertaken by the actuary as part of a comprehensive review undertaken during 2007.

| | 2008 $ | 2007 $ |
|---|---|---|
| Liability for accrued benefits at end of period | 323,230,412 | 324,062,641 |

The main assumptions used to determine the actuarial value of accrued benefits at the last review date were:

- The future rate of investment return earned on the Fund's investments would be 6.5%
- The future rate of salary increases would be 5.0%

## 5. VESTED BENEFITS

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

| | 2008 $ | 2007 $ |
|---|---|---|
| **Accumulation Account Benefits** | | |
| Bonus Account Balances | 13,650,991 | 19,157,984 |
| Other Account Balances | | |
| Defined Benefit Members | 22,466,387 | 24,009,126 |
| Accumulation Benefit Members | 19,810,719 | 27,836,376 |
| Non-Member Spouse Benefits | 715,064 | 535,845 |
| Allocated Pensioners | 59,543,950 | 45,497,300 |
| Term Allocated Pensioners | 893,734 | 471,403 |
| Retained Benefits | 54,406,209 | 55,679,697 |
| | 171,487,054 | 173,187,731 |
| **Defined Benefits** | 145,496,883 | 144,844,076 |
| **Supplementary Pension Liabilities** | 710,396 | 605,005 |
| | 317,694,333 | 318,636,812 |

## 6. GUARANTEED BENEFITS

No guarantees have been made in respect of any part of the liability for accrued benefits.

## 7. CHANGES IN NET MARKET VALUES

| | 2008 $ | 2007 $ |
|---|---|---|
| **(a) Changes in net market value of investments** | | |
| **Investments realised during the period** | | |
| Fixed Interest Securities | 925 | 271,188 |
| Insurance Policies | 10,687 | 5,130 |
| Managed Investment Portfolios | (1,669,942) | 639,152 |
| Pooled Superannuation Trusts | - | 566,278 |
| Securities in Listed Entities | 15,151 | (71,633) |
| Units in Unlisted Unit Trusts | (506,712) | (161,379) |
| | (2,149,891) | 1,248,736 |
| **Investments held at reporting date** | | |
| Fixed Interest Securities | (2,251,118) | 9,707 |
| Insurance Policies | 1,850,704 | 1,385,237 |
| Securities in Listed Entities | 19,121 | 3,635,600 |
| Units in Unlisted Unit Trusts | (45,880,886) | 2,506,645 |
| Pooled Superannuation Trusts | (6,763,306) | 8,281,974 |
| Managed Investment Portfolios | - | 3,343,172 |
| Securities in Unlisted Companies | - | (14,660) |

## 7. CHANGES IN NET MARKET VALUES (CONTINUED)

| | 2008 $ | 2007 $ |
|---|---|---|
| Land and Buildings | 7,778,445 | 7,355,892 |
| | (45,247,040) | 26,503,567 |
| | (47,396,931) | 27,752,303 |

**(b) Changes in net market value of other assets**

| | 2008 $ | 2007 $ |
|---|---|---|
| **Assets realised during the period** | | |
| Office equipment | - | (5,455) |
| **Assets held at reporting date** | | |
| Furniture, Office Equipment and Motor Vehicles | (30,640) | (21,705) |
| | (30,640) | (27,160) |

## 8. GENERAL ADMINISTRATION EXPENSES

| | 2008 $ | 2007 $ |
|---|---|---|
| Accounting and tax agent fees | 42,663 | 46,180 |
| Actuarial Fees | 52,090 | 37,340 |
| APRA fees | 57,979 | 50,011 |
| Audit fees – external | 54,669 | 51,810 |
| Audit fees – internal | 13,065 | 14,438 |
| Board fees & allowances | 15,473 | 13,448 |
| Conference & seminars | 20,265 | 21,035 |
| Consulting fees | 100,572 | 65,873 |
| Data processing expenses | 70,879 | 44,471 |
| Fringe benefits tax | 8,666 | 7,823 |
| Insurance other | 3,563 | - |
| Journals & publications | 8,074 | 5,924 |
| Legal fees | 18,932 | 15,996 |
| Medical expenses | 820 | - |
| Miscellaneous costs | 15,544 | 11,499 |
| Motor vehicle expenses | 6,084 | 4,557 |
| Office expenses | 5,036 | 3,670 |
| Postage & couriers | 8,852 | 8,245 |
| Printing & stationery | 15,481 | 13,923 |
| Rent & outgoings | 15,375 | 15,375 |
| Salaries | 158,470 | 141,304 |
| Subscriptions & licenses | 8,803 | 7,811 |
| Superannuation | 49,237 | 55,496 |
| Telephone | 2,791 | 3,155 |
| Travel & accommodation | 38,040 | 21,132 |
| Trustee Indemnity Insurance | 16,368 | 16,093 |
| | 807,791 | 676,609 |

## 9. TAXATION

| | 2008 $ | 2007 $ |
|---|---|---|
| **(a) Major components of tax expense** | | |
| Current income tax | | |
| - Current tax charge | 4,679,618 | 4,326,336 |
| - Adjustment to current tax for prior period | (235,627) | (110,939) |
| Deferred income tax | | |
| - Relating to the origination and reversal of temporary differences | (4,757,872) | 1,622,524 |
| Income tax expense/(benefit) | (313,881) | 5,837,921 |
| **(b) Income tax expense** | | |
| Changes in net assets before tax | (18,439,815) | 64,324,901 |
| Tax applicable at the rate of 15% (2007 15%) | (2,765,972) | 9,648,735 |
| Tax effect of income/(losses) that is not assessable/(deductible) in determining taxable income | | |
| - Investment income | 724,775 | (1,547,313) |
| - Managed portfolios | 44,153 | (174,518) |
| - Discount capital gains | 1,604,676 | (1,518,748) |
| - Member contributions & transfers In | (895,933) | (1,433,235) |
| - Insurance proceeds | (1,378) | (37,097) |
| - Non assessable pension income | (503,956) | (279,506) |
| Tax effect of expenses that are not deductible in determining taxable income | | |
| - Benefits paid | 3,129,004 | 2,429,445 |
| - Contribution surcharge | 2,249 | 3,405 |
| Tax effect of other adjustments | | |
| - Imputation & foreign tax credits | (1,341,129) | (1,086,440) |
| - Self insurance | (44,515) | (41,571) |
| - Building depreciation allowance | (30,228) | (29,946) |
| - Over provision prior periods | (235,627) | (95,290) |
| Income tax expense/(benefit) | (313,881) | 5,837,921 |
| **(c) Current tax liabilities** | | |
| Provision for current income tax | | |
| Balance at beginning of year | 2,559,908 | 1,405,904 |
| Income tax paid – current period | (2,559,240) | (1,766,428) |
| Income tax paid – prior periods | (2,324,281) | (1,294,965) |
| Current years income tax expense | 4,679,618 | 4,326,336 |
| Over provision prior year | (235,627) | (110,939) |
| | 2,120,378 | 2,559,908 |

## 9. TAXATION (CONTINUED)

**(d) Deferred tax liabilities**

The amount of deferred tax liability recognised in the Statement of Net Assets:

| | 2008 $ | 2007 $ |
|---|---|---|
| Accrued income | 11,813 | 2,258 |
| Unrealised gains on investments | - | 3,954,045 |
| | 11,813 | 3,956,303 |

**(e) Deferred tax assets**

The amount of deferred tax asset recognised in the Statement of Net Assets:

| | 2008 $ | 2007 $ |
|---|---|---|
| Accrued expenses | 34,681 | 33,818 |
| Unrealised losses on investments | 816,116 | - |
| | 850,797 | 33,818 |

## 10. INTEREST BEARING INVESTMENTS

| | 2008 $ | 2007 $ |
|---|---|---|
| BankWest 11am Call | 650,000 | 25,000 |
| Macquarie Cash Management Trust | 1,102,923 | 429,466 |
| | 1,752,923 | 454,466 |

## 11. FIXED INTEREST SECURITIES

| | 2008 $ | 2007 $ |
|---|---|---|
| ANZ Princpial Protected Yield Curve Note | 449,650 | - |
| Belo (Kalgoorlie AA+) | 629,678 | 755,685 |
| Beryl (AAA Global Bank Note 2) | 83,776 | 100,188 |
| Beryl (AAA Global Bank Note) | 83,776 | 100,188 |
| Corsair (Torquay AA) | 130,568 | 250,735 |
| Cypress (Blaxland AA-) | - | 503,030 |
| Deutsche Bank CG Yield Curve Note | 299,400 | 406,600 |
| Ethical CDO (Green AA) | 255,010 | 499,040 |
| Envic Holdings FRN | - | 500,895 |
| Elders Rural Bank Limited Variable Rate Notes | 1,000,000 | 1,000,000 |
| Greater Building Society Limited Variable Rate Notes | 1,500,000 | - |
| Helium (Scarborough AA) | 279,675 | 501,870 |
| MAS6-7 (Parkes IIA AA-) | 136,145 | 503,885 |

## 11. FIXED INTEREST SECURITIES (CONTINUED)

| | 2008 $ | 2007 $ |
|---|---|---|
| Omega (Henley AAA) | 338,030 | 500,780 |
| Omega (Henley BBB) | 225,034 | 501,065 |
| Zircon (Coolangatta AA) | 195,310 | 501,030 |
| Zircon (Miami AA) | 163,420 | 399,524 |
| | 5,769,472 | 7,024,515 |

## 12. SECURITIES IN LISTED ENTITIES

| | 2008 $ | 2007 $ |
|---|---|---|
| Australand ASSETS | 267,000 | 303,592 |
| Babcock and Brown | 165,250 | 257,559 |
| Dyno Nobel SPS | 380,650 | - |
| Futuris Hybrids | 461,230 | 756,734 |
| IAG Finance | 204,725 | 249,725 |
| Insurance Australia RPS | 637,500 | 747,003 |
| Linq Resources Fund | 13,898,678 | 12,503,063 |
| Macquarie Airports Tickets | 462,675 | 500,725 |
| Multiplex SITES Trust | 218,680 | 299,304 |
| Orica Step Up - preference | 476,750 | 509,978 |
| Santos FUELS | 504,502 | 535,216 |
| Perls II Trust | 1,068,210 | 1,087,664 |
| Westpac Trust Preferred Securities | 372,000 | 399,200 |
| | 19,117,850 | 18,149,763 |

## 13. UNITS IN UNLISTED UNIT TRUSTS

**(a) Investment**

| | 2008 $ | 2007 $ |
|---|---|---|
| APN National Storage Property Trust | 650,250 | 737,450 |
| Barclays Balanced Fund | 67,749,221 | - |
| Centro MCS 32 - International Property 2 | 990,000 | 892,500 |
| Centro MCS 36 Property Syndicate | 450,000 | 490,000 |
| Challenger Australian Share Fund | 16,954,142 | 22,025,840 |
| Challenger Socially Responsive Investment Fund | 13,169,296 | 13,157,031 |
| Credit Suisse Flexible Int Shares 0-50% Active | 13,478,241 | 14,484,055 |
| Foundation Millennium 2000 Trust | 509,450 | 772,103 |
| Foundation Millennium 2000 IIF Trust | 344,413 | 473,518 |
| Lehman Brothers Enhanced Cash Fund | - | 11,258,247 |
| Schroder Balanced Fund | 72,032,952 | 59,063,868 |

## 13. UNITS IN UNLISTED UNIT TRUSTS (CONTINUED)

| | 2008 $ | 2007 $ |
|---|---|---|
| Super Loans Trust | 586,946 | 567,733 |
| UBS Balanced Fund | - | 56,657,581 |
| Rubican Japan Trust | 15,750 | 169,411 |
| | 186,930,661 | 180,749,337 |

**(b) Uncalled Capital**

| | | |
|---|---|---|
| Foundation Millennium 2000 Trust | 97,789 | 216,437 |
| Foundation Millennium 2000 IIF Trust | 73,116 | 135,300 |
| | 170,905 | 351,737 |

## 14. INSURANCE POLICIES

| | 2008 $ | 2007 $ |
|---|---|---|
| AMP Diversified Property | 14,875,988 | 13,117,940 |

## 15. POOLED SUPERANNUATION TRUSTS

| | 2008 $ | 2007 $ |
|---|---|---|
| Maple Brown Abbott Pooled Superannuation Trust | 73,740,993 | 68,504,299 |

## 16. MANAGED INVESTMENT PORTFOLIOS

| | 2008 $ | 2007 $ |
|---|---|---|
| Invesco Asset Management Australia | - | 55,016,866 |

Represented by:

| | | |
|---|---|---|
| Cash | - | 5,377,338 |
| Australian fixed interest | - | 18,117,530 |
| Australian shares | - | 21,492,289 |
| Global property | - | 1,859,495 |
| Overseas shares | - | 6,310,719 |
| Property | - | 1,859,495 |
| | - | 55,016,866 |

## 17. SECURITIES IN UNLISTED COMPANIES

| | 2008 $ | 2007 $ |
|---|---|---|
| Foundation Capital Ltd | - | 562 |

## 18. LAND AND BUILDINGS

| | 2008 $ | 2007 $ |
|---|---|---|
| Howe Street | 9,045,400 | 8,330,000 |
| Kings Park Road | 26,950,000 | 19,845,00 |
| | 35,995,400 | 28,175,000 |

## 19. CREDITORS AND ACCRUALS

| | 2008 $ | 2007 $ |
|---|---|---|
| Accounting fees | 28,327 | 24,751 |
| Actuarial fees | 29,856 | 29,874 |
| APRA fees | 57,999 | 57,692 |
| Audit fees | 61,398 | 69,550 |
| GST payable | 34,645 | 26,291 |
| Investment fees | - | 70,527 |
| PAYG withholding tax | 20,158 | 41,057 |
| Sundry creditors | 25,588 | 29,772 |
| | 257,971 | 349,514 |

## 20. GENERAL DISCLOSURE

| | 2008 $ | 2007 $ |
|---|---|---|

In accordance with Treasurer's Instruction 952 the following general disclosure is made:

(a) Remuneration and allowances paid to Senior Officers:

| | | |
|---|---|---|
| Total remuneration to Senior Officers | $148,890 | $111,230 |

(b) The number of Senior Officers, other than members of the Accountable Authority, whose total of fees, salaries and other benefits received, or due and receivable, for the financial year, fall within the following bands are:

| | | |
|---|---|---|
| $110,000 - $120,000 | 1 | 1 |

(c) Remuneration and allowances paid to Members of the Accountable Authority:

| | | |
|---|---|---|
| Total remuneration to Members of the Accountable Authority | $27,836 | $25,648 |

## 20. GENERAL DISCLOSURE (CONTINUED)

(d) The number of Members of the Accountable Authority whose total of fees, salaries and other benefits received, or due and receivable, for the financial year, fall within the following bands are:

| | 2008 $ | 2007 $ |
|---|---|---|
| $0 - $10,000 | 7 | 8 |
| $10,000 - $20,000 | 1 | - |

The Trustee of the Board throughout the year was Fire & Emergency Services Superannuation Board. The Board is considered to be the Key Management Personnel of the Fund.

## 21. EXPLANATORY STATEMENT

**(a) Comparison 2008 results to 2007 results**

| | Actual 2008 $ | Actual 2007 $ | Variance $ |
|---|---|---|---|
| **INVESTMENT REVENUE** | | | |
| Interest | 1,463,808 | 921,098 | 542,710 |
| Dividends | - | 11,111 | (11,111) |
| Trust Distributions | 20,685,583 | 22,037,504 | (1,351,921) |
| Investment Revenue Managed Portfolios | 1,025,709 | 2,804,891 | (1,779,182) |
| Changes Net Market Value | (47,396,931) | 27,752,303 | (75,149,234) |
| Net Rental Income | 1,288,367 | 1,321,984 | (33,617) |
| Direct Investment Expenses | (112,167) | (155,508) | 43,341 |
| Contributions | 27,008,961 | 26,784,187 | 224,774 |
| Other Revenue | (21,454) | 260,828 | (282,282) |
| **TOTAL REVENUE** | **3,941,876** | **81,738,398** | **(77,796,522)** |
| **EXPENSES** | | | |
| Administration | 807,791 | 676,609 | 131,182 |
| Group Life Premiums | 698,881 | 517,886 | 180,995 |
| Contributions Surcharge | 14,991 | 22,701 | (7,710) |
| Benefits paid | 20,860,028 | 16,196,301 | 4,663,727 |
| **TOTAL EXPENSES** | **22,381,691** | **17,413,497** | **4,968,194** |
| **CHANGES IN NET ASSETS BEFORE TAX** | **(18,439,815)** | **64,324,901** | **(82,764,716)** |
| INCOME TAX EXPENSE/BENEFIT | (313,881) | 5,837,921 | (6,151,802) |
| **CHANGES IN NET ASSETS AFTER TAX** | **(18,125,934)** | **58,486,980** | **(76,612,914)** |
| NET ASSETS BEGINNING OF PERIOD | 376,917,811 | 318,430,831 | 58,486,980 |
| **NET ASSETS END OF PERIOD** | **358,791,877** | **376,917,811** | **(18,125,934)** |

## 21. EXPLANATORY STATEMENT (CONTINUED)

**Explanation of Significant Variances**

Trust Distributions

Trust distributions are dependent on the investment performance of the underlying unit trust. Distributions are declared at the discretion of the Trustee and are a function of the revenue earned by the trust in a particular reporting period. This amount will vary from year to year depending on the circumstances of the trust.

Investment Revenue Managed Portfolio Income

Investment revenue from managed portfolios was lower during the year due to redemption of Invesco in July 2007.

Changes in Net Market Value

Investments declined more than anticipated for the current year due to poor investment performance by the Fund's investment managers.

Benefits Paid

The estimate for benefits paid was based on the previous year, however, as benefit payments are a function of members terminating employment, the Fund is unable to accurately estimate the number of members who will receive benefit payments in any period.

Income Tax Expense

Income tax expense was lower than estimated due to the poor investment performance during the financial year.

## 21. EXPLANATORY STATEMENT (CONTINUED)

### (b) Comparison Actual to Estimates

| | Actual 2008 $ | Budget 2008 $ | Variance Unaudited $ |
|---|---|---|---|
| Interest | 1,463,808 | 1,000,000 | 463,808 |
| Dividends | - | 300,000 | (300,000) |
| Trust Distributions | 20,685,583 | 15,000,000 | 5,685,583 |
| Investment Revenue Managed Portfolios | 1,025,709 | 2,000,000 | (974,291) |
| Changes Net Market Value | (47,396,931) | 16,000,000 | (63,396,931) |
| Net Rental Income | 1,288,367 | 1,200,000 | 88,367 |
| Direct Investment Expenses | (112,167) | (100,000) | (12,167) |
| Contributions | 27,008,961 | 28,000,000 | (991,039) |
| Other Revenue | (21,454) | 840,000 | (861,454) |
| **TOTAL REVENUE** | **3,941,876** | **64,240,000** | **(60,298,124)** |
| **EXPENSES** | | | |
| Administration | 807,791 | 724,000 | 83,791 |
| Group Life Premiums | 698,881 | 550,000 | 148,881 |
| Contributions Surcharge | 14,991 | 20,000 | (5,009) |
| Benefits paid | 20,860,028 | 17,000,000 | 3,860,028 |
| **TOTAL EXPENSES** | **22,381,691** | **18,294,000** | **4,087,691** |
| **CHANGES IN NET ASSETS BEFORE TAX** | **(18,439,815)** | **45,946,000** | **64,385,815** |
| INCOME TAX EXPENSE/(BENEFIT) | (313,881) | 5,000,000 | (5,313,881) |
| **CHANGES IN NET ASSETS AFTER TAX** | **(18,125,934)** | **40,946,000** | **59,071,934** |
| NET ASSETS BEGINNING OF PERIOD | 376,917,811 | 376,917,811 | - |
| **NET ASSETS END OF PERIOD** | **358,791,877** | **417,863,811** | **59,071,934** |

## 21. EXPLANATORY STATEMENT (CONTINUED)

### Explanation of significant variances

Trust Distributions
Trust distributions are dependent on the investment performance of the underlying unit trust. Distributions are declared at the discretion of the Trustee and are a function of the revenue earned by the trust in a particular reporting period. This amount will vary from year to year depending on the circumstances of the trust.

Investment Revenue Managed Portfolios
Investment revenue from managed portfolios was lower than expected due to the redemption of Invesco in July 2007.

Changes in Net Market Values
Investment performance was poorer than anticipated.

Contributions
An unexpected decrease in the level of member voluntary contributions occurred.

Other Revenue
The Fund received less insurance proceeds than anticipated.

Benefits Paid
The Fund paid more benefits than was anticipated.

Income Tax Expense
Income tax expense was lower than anticipated due to an decrease in investment returns.

## 22. AUDITOR'S REMUNERATION

| | 2008 $ | 2007 $ |
|---|---|---|
| Amounts paid or due and payable to Auditor General for the following services: | | |
| • Audit services – external | 54,669 | 51,810 |
| • Other services | - | - |
| Amounts paid or due and payable to PKF Chartered Accountants for the following services: | | |
| • Audit services - internal | 13,065 | 14,438 |
| • Other services | - | - |
| | 67,734 | 66,248 |

## 23. SEGMENT INFORMATION

The Fund operates solely in the business of provision of superannuation benefits to members and operates in Australia only.

## 24. FINANCIAL INSTRUMENTS

The Fund's assets principally consist of financial instruments which comprise units in pooled superannuation trusts, insurance policies and unlisted trusts, interest bearing investments, fixed interest securities, securities in listed and unlisted entities, managed investment portfolios and land and buildings. It holds these investment assets in accordance with the Trustee's published investment policy statement.

The allocation of assets between the various types of financial instruments is determined by the Trustee who manages the Fund's portfolio of assets to achieve the Fund's investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored by the Fund on at least a monthly basis.

The Fund'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 Fund are discussed below. This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk.

The Trustee of the Fund has overall responsibility for the establishment and oversight of the Fund's risk management framework.

The Trustee is responsible for developing and monitoring the Fund's risk management policies, including those related to its investment activities. The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, including those risks managed by the Fund'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 Fund's activities.

In managing and monitoring the risks the Trustee receives quarterly reports from the Fund's Investment Consultant and management to monitor compliance with the Fund's investment policy statement. The Fund's investment consultant provides recommendations in their quarterly report in relation to the review or retention of investments. The Trustee appoints the Investment Consultant to complete independent reviews of the Fund's investments when they consider it necessary.

The Fund's Audit, Risk & Compliance Committee oversees how management monitors compliance with the Fund's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund.

**Categories of financial instruments**

The assets and liabilities of the Fund are recognised at net market value as at reporting date. Net market value approximates fair value less costs of realisation for investments. The cost of realisation is minimal and therefore net market value that is carrying value approximates fair value. Changes in net market value are recognised through the Statement of Changes in Net Assets.

**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 Fund'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.

Currency Risk

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

The Fund invests in Australian domiciled investments where the underlying investments may include overseas equities. These investments are all denominated in Australian dollars.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The majority of the Fund's financial assets comprise non-interest-bearing and interest rate financial instruments. Interest-bearing financial assets and interest-bearing financial liabilities mature or re-price due to market changes. As a result, the Fund is subject to exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents of the Fund are invested in cash management trusts. Investments in debt securities are fixed rate instruments with various terms to maturity. The Fund also invests in Australian domiciled unit trusts where the underlying investments are in fixed interest securities.

At the reporting date, the interest rate profile of the Fund's interest-bearing financial instruments was:

| | Fair Value 2008 $ | Fair Value 2007 $ |
|---|---|---|
| **Fixed rate instruments** | | |
| Financial assets - Australian | 3,269,472 | 6,024,515 |

## 24. FINANCIAL INSTRUMENTS (CONTINUED)

*Sensitivity analysis*

The Fund accounts for fixed rate financial assets at fair value as determined by the investment manager through the Statement of Changes in Net Assets.

The investment manager advised that the fair value of the fixed rate instruments owned by the Fund are not significantly affected by movements in interest rates as they are "floating rate notes" whose coupon is re-set every three months in line with prevailing market interest rates. Their value is determined primarily by the credit margins of the underlying securities together with other market factors such as liquidity. Should there be a movement in interest rates by 10 basis points the Statement of Changes in Net Assets would have moved by $14,034 (2007: $3,660).

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 Fund's financial instruments are valued at net market 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.

*Sensitivity analysis*

The Trustee has determined that the standard deviation of the rate of return for each asset class will provide a reasonably possible change in the prices of the investments that comprise each asset class. The five year average standard deviation of rates of return for each asset class, were provided by the Fund's asset manager. The following table illustrates the effect on change in net assets after tax and net assets available to pay benefits from possible changes in market price risk.

**2008**

| Investment Option | Sensitivity variable | Standard Deviation | Charged in accrued benefits as a result of operations $ | Net Assets available to pay benefits $ |
|---|---|---|---|---|
| Cash | Average 5 year standard deviation | 0.2% | 56,475 | 56,475 |
| Australian Bonds | Average 5 year standard deviation | 2.3% | 1,255,761 | 1,255,761 |
| Australian Shares | Average 5 year standard deviation | 11.0% | 12,578,166 | 12,578,166 |
| Property – Direct | Average 5 year standard deviation | 3.7% | 1,938,713 | 1,938,713 |
| Property – Listed | Average 5 year standard deviation | 14.9% | 1,162,836 | 1,162,836 |
| International Shares | Average 5 year standard deviation | 10.9% | 6,493,734 | 6,493,734 |
| International Bonds | Average 5 year standard deviation | 2.8% | 248,441 | 248,441 |
| Alternative | Average 5 year standard deviation | 0.2% | 29,646 | 29,646 |
| **Total** | | | **23,763,774** | **23,763,774** |

## 24. FINANCIAL INSTRUMENTS (CONTINUED)

**2007**

| Investment Option | Sensitivity variable | Standard Deviation | Charged in accrued benefits as a result of operations $ | Net Assets available to pay benefits $ |
|---|---|---|---|---|
| Cash | Average 5 year standard deviation | 0.2% | 40,307 | 40,307 |
| Australian Bonds | Average 5 year standard deviation | 2.5% | 1,743,102 | 1,743,102 |
| Australian Shares | Average 5 year standard deviation | 9.0% | 11,131,048 | 11,131,048 |
| Property – Direct | Average 5 year standard deviation | 3.7% | 1,665,270 | 1,665,270 |
| Property – Listed | Average 5 year standard deviation | 9.2% | 897,509 | 897,509 |
| International Shares | Average 5 year standard deviation | 11.4% | 7,773,475 | 7,773,475 |
| International Bonds | Average 5 year standard deviation | 2.8% | 235,288 | 235,288 |
| Alternative | Average 5 year standard deviation | 0.2% | 19,633 | 19,633 |
| **Total** | | | **23,505,632** | **23,505,632** |

A positive or negative rate of return equal to the standard deviations above would have an equal but opposite effect on the Fund'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 option's 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.

**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 Fund.

The net market value of financial assets, included in the Statement of Net Assets represents the Fund's maximum exposure to credit risk in relation to those assets. The Fund does not have any significant exposure to any individual counter party or industry. The credit risk is monitored by the Trustee by monthly reporting from its investment manager.

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

**Liquidity Risk**

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund'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 Fund's reputation.

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

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

## 24. FINANCIAL INSTRUMENTS (CONTINUED)

| 30 June 2008 | Less than 3 months $ | 3 months to 1 year $ | Total Contractual Cash Flows $ | Carrying Amount (Asset)/Liabilities $ |
|---|---|---|---|---|
| Creditors & accruals | 257,971 | - | 257,971 | 257,971 |
| Uncalled capital liability | - | 170,905 | 170,905 | 170,905 |
| Employee entitlements | 62,203 | - | 62,203 | 62,203 |
| Current tax liabilities | 2,098,323 | 22,055 | 2,120,378 | 2,120,378 |
| Vested benefits | 317,694,335 | - | 317,694,335 | 317,694,335 |
| **Total** | **320,112,832** | **192,960** | **320,305,792** | **320,305,792** |

| 30 June 2007 | Less than 3 months $ | 3 months to 1 year $ | Total Contractual Cash Flows $ | Carrying Amount (Asset)/Liabilities $ |
|---|---|---|---|---|
| Creditors & accruals | 349,514 | - | 349,514 | 349,514 |
| Uncalled capital liability | - | 351,737 | 351,737 | 351,737 |
| Employee entitlements | 46,980 | - | 46,980 | 46,980 |
| Current tax liabilities | 1,901,991 | 657,917 | 2,559,908 | 2,559,908 |
| Vested benefits | 318,636,812 | - | 318,636,812 | 318,636,812 |
| **Total** | **320,935,297** | **1,009,654** | **321,944,951** | **321,944,951** |

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

**Fair Value Estimation**

The carrying amounts of all the Fund's financial instruments at the balance date approximated their fair values.

## 25. EVENTS SUBSEQUENT TO BALANCE DATE

In September 2008 Lehman Brothers Fund manager subsequently collapsed, this is not expected to have an impact on the financial position of the Fund as investments are not held directly in Lehman Brothers.

Auditor General

**INDEPENDENT AUDIT REPORT**

**To the Members of Fire and Emergency Services Superannuation Board**

I have audited the financial report of the Fire and Emergency Services Superannuation Board, which comprises the Balance Sheet as at 30 June 2008, and the Income Statement and Cash Flow Statement for the year ended on that date, a summary of significant accounting policies, other explanatory Notes and the Directors' Declaration.

**Directors' Responsibility for the Financial Report**
The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Summary of my Role**
My responsibility is to express an opinion on the financial report based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. Refer "http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf".

An audit does not guarantee that every amount and disclosure in the financial report is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial report.

**Independence**
In conducting my audit, I have complied with the independence requirements of the Corporations Act 2001. I confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of the company on 21 October 2008, would be in the same terms if provided to the directors as at the date of this audit report.

**Audit Opinion**
In my opinion, the financial report of Fire and Emergency Services Superannuation Board is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

COLIN MURPHY
AUDITOR GENERAL
29 October 2008

4th Floor Dumas House 2 Havelock Street West Perth 6005 Western Australia Tel: 08 9222 7500 Fax: 08 9322 5664

# FIRE AND EMERGENCY SERVICES SUPERANNUATION FUND

# ACTUARIAL REPORT
# MAIN FUND SECTION
# 1 JULY 2007 TO 30 JUNE 2008

**Prepared by:**

**Catherine Nance**
**Fellow of the Institute of Actuaries of Australia**
**Retirement Incomes and Asset Consulting**

***Authorised Representative (#265248) of***
***PricewaterhouseCoopers Securities Ltd***

**October 2008**

# TABLE OF CONTENTS

## 1. EXECUTIVE SUMMARY

1.1 This report is addressed to the Board of the Fire and Emergency Services Superannuation Fund and deals with the main defined benefit section of the Fund. It does not include the supplementary disablement section of the Fund.

1.2 This report is for the purpose of determining the financial condition and the contributions required for the Fund. It also includes a statement in accordance with AAS25, Financial Reporting by Superannuation Plans.

1.3 The overall membership of the Fund increased by 119 over the year to 1,775 members as at 30 June 2008. In particular:

a) Category A defined benfit membership increased by 9 to 1,008 members;

b) Category A accumulation benefit membership increased by 16 to 62 members;

c) Category B accumulation benefit membership decreased by 1 to 111 members;

d) Category C spousal membership increased by 5 to 110 members;

e) the number of members who have retained all or part of their benefit in the Fund after leaving employment increased by 34 to 276; and

f) the number of account based pensions, including allocated and term allocated pensions, increased by 56 to 208.

1.4 The net market value of the assets, as at 30 June 2008, was $358.4 million, comprised of:

a) Accumulation account balances of $171.5 million (excluding Supplementary Disability Pension assets).

b) Supplementary Disability Pension assets of $11.7 million; and

c) Remaining assets available for the defined benefits (including the asset protection reserve of $17.5 million) of $175.1 million.

1.5 The investment fluctuation reserve was set to zero at 30 June 2008 as the overall write-ups and write-downs were nil.

1.6 The defined benefit section of the Fund earned an investment return of -5.3% net of tax and investment expenses for the year. The smoothed rate of return was -3.2% net of tax and investment expenses. The smoothed return of -3.2% was less than both:

a) The 2.8% increase in average salaries; and

b) The 6.8% increase in three-year final average salaries over the year.

1.7 The Board investment objective is to achieve investment returns of at least 4.0% per annum above increases in final average salaries over a rolling ten-year period. Over the ten years to 30 June 2008, the Fund achieved average investment returns of 1.0% per annum above the increase in final average salaries, which was below the objective.

1.8 To provide some protection against fluctuations in the market values of assets, we have allowed for an asset protection reserve when considering the ongoing financial condition. The asset protection reserve at 30 June 2008 was set at 10% of the net market value of defined benefit assets, or $17.5 million, leaving $157.6 million for the defined benefits.

1.9 The Fund's financial position has deteriorated over the year (primarily due to poor investment returns) however the benefits of all members remain covered by the current level of assets as at 30 June 2008, as indicated by:

a) The accrued retirement benefits ratio, which was 104% (4% above the target of 100%); and

b) The vested benefits ratio, which was 120% (in line with the target of 120%).

1.10 Although the financial position is currently satisfactory at an initial asset backing index of 91, investment returns must exceed salary inflation by 1.5% per annum (that is, the Fund must achieve a real return of 1.5% per annum) in order to maintain an asset backing index above 85 over the long-term.

1.11 At present, the Fund is subject to the dual risk of poor investment returns and high salary increases which may result in real returns less than 1.5% per annum over the short-term.

1.12 If real returns of -3% or better are achieved over the next year (eg 2% investment return assuming a 5% salary increase), the Fund is expected to retain an asset backing index of at least 85 and a 10% asset protection reserve as at 30 June 2009.

1.13 In addition, by reducing the asset protection reserve the Fund is expected to be able to withstand real returns of up to -13% (that is, -8% investment return assuming a 5% salary increase) in 2008/09 and still retain an asset backing index of 85 at 30 June 2009.

1.14 The Fund is expected to maintain a satisfactory financial position (as measured by assets, excluding supplementary disablement pension assets, exceeding vested benefits) at 30 June 2009 if a real return of -17% or better (eg -12% investment return assuming a 5% salary increase) is achieved in 2008/09. However, lower real returns may require additional action in order to avoid the Fund being in an unsatisfactory financial position.

1.15 As there is a significant risk that investment returns could fail to exceed salary increases by 1.5% per annum over the short-term, we believe that the current level of defined benefit assets should be maintained to protect the financial position of the Fund.

1.16 Finally, we recommend that the employer contribution rate remain unchanged at 11.75% of salaries until the next actuarial review of the Fund as at 30 June 2009.

Catherine Nance FIAA
*Authorised Representative (#265248) of PricewaterhouseCoopers Securities Ltd*

*DATE: 17 October 2008*

## 2. INTRODUCTION AND BACKGROUND

2.1 Annual actuarial investigations have been performed for the Fire and Emergency Services Superannuation Fund ("the Fund") since its inception in 1977. This actuarial review reports on the period from 1 July 2007 to 30 June 2008 and has been undertaken by Catherine Nance. The last actuarial review of the Fund dated October 2007 pertained to the year ending 30 June 2007 and was also prepared by Catherine Nance.

### Governing rules

2.2 The Fund came into operation as a defined benefit fund on 29 April 1977 and is governed by the following legislation:

(a) Fire and Emergency Services Superannuation Act 1985 (as amended); and

(b) Fire and Emergency Services (Superannuation Fund) Regulations 1986 (as amended).

2.3 The Regulations that govern the Fund set down the methods and formulae used to calculate the benefits payable from the Fund. A summary of the benefits is provided in Appendix A.

### Amendments to governing rules

2.4 Since the last actuarial review, a number of amendments have been made to the Regulations. These amendments were gazetted on 1 April 2008 and became effective the following day. They are summarised below:

(a) The death benefit was improved for long serving members by increasing the maximum benefit period applicable from 10,958 days (30 years) to 12,783 days (35 years);

(b) Where a member has made splittable contributions to the Fund and their partner is also a member, a transfer of all or some of those contributions to the partner's accumulation account may be permitted upon application;

(c) Phased retirement benefits were introduced by permitting a member who has reached preservation age to access their accumulation account balance to purchase a non-commutable pension benefit;

(d) Where a benefit to which a member is entitled is not paid or transferred as soon as permitted by the Regulations, the Board must credit any defined benefit component to the member's accumulation account where it will attract earnings and fees until it is paid to the member; and

(e) Various definitional changes were made including those relating to the earnings rate, partner, splittable contributions and preservation age.

### Compliance

2.5 The Fund is a complying fund under the Superannuation Industry (Supervision) Act 1993 and qualifies for concessional taxation treatment. The Fund is a taxable entity.

2.6 Section 17 of the Fire and Emergency Services Superannuation Act 1985 requires the Actuary to report in writing to the Superannuation Board on the financial condition of the Fund and to advise the contributions required to ensure the stability of the Fund in future years and to secure the rights of members. This report meets this requirement as well as Professional Standard No. 400 issued by the Institute of Actuaries of Australia.

2.7 This report constitutes Actuarial Advice as defined in the Code of Conduct ("the Code") issued by the Institute of Actuaries of Australia and our advice complies with the Code.

### Data

2.8 All membership data used in the actuarial investigation was provided by the Board. Checks were made on the membership data to confirm the reasonableness of the benefit information provided.

2.9 At the time of undertaking the actuarial review, the accounting information was unaudited.

### Future Economic Conditions

2.10 In assessing the ongoing funding and solvency position of the Fund, our valuation methodology requires us to make an assessment of expected future investment returns, which can be impacted by general economic conditions and other factors such as interest rates, inflationary expectations, real GDP growth and exchange rates, as well as specific factors relating to particular industries/sectors in which the Fund is invested.

2.11 Equity markets have been particularly volatile in the financial year to date, and have been driven by investor uncertainty about the future economic outlook, the health of the global financial sector and the magnitude of any downturn. The major economic issues over the next 12 months are:

(a) Global recession fears and sub-prime mortgage developments: The financial difficulties which are being experienced by investment banks, regional banks and mortgage providers in the US and Europe has gained much publicity. The level and success of government intervention in avoiding a systemic meltdown will be crucial to any economic recovery;

(b) Inflation and interest rates: The ability of monetary policy in the US and Australia to manage possible economic downturn;

(c) The strength of commodity prices and demand from China: Over the past few years, the resource sector has been a strong contributor in the Australian economy and demand for resources from China and India was expected to be a source of economic growth for Australia in the years to come. With commodity prices declining from the highs of 2007/2008 some uncertainty has been introduced into this sector; and

(d) Oil prices: Oil prices reached record highs during 2007/2008 and while the price per barrel has since fallen the price of oil will continue to be a concern on both a domestic and global level. The ability of both companies and economies to adapt (finding alternatives to oil or using oil more efficiently) will be central to their financial success going forward.

2.12 You should be aware that equity and asset values used in this report are as at 30 June 2008, and that the solvency and funding position may change suddenly and that change may be significant if the values of the Fund's investments change substantially.

2.13 If you intend to rely on the information set out in this report after the date of this report to make any changes in relation to the Fund, you should only do so after consultation with us to ensure that our recommendations are still valid as at the date of making any decision.

## 3. PROGRESS OF THE FUND

### Membership

3.1 At 30 June 2008, there were 1,775 members in the Fund consisting of:

| **Membership category** | **No. of members at 30 June 2008** | **Change from 30 June 2007** |
|---|---|---|
| *Active membership:* | | |
| Category A Defined Benefit | 1,008 | +9 |
| Category A Accumulation | 62 | +16 |
| Category B Accumulation | 111 | -1 |
| Category C Accumulation (spousal) | 110 | +5 |
| | 1,291 | +29 |
| *Pensioners and inactive members:* | | |
| Retained benefits | 276 | +34 |
| Account based pensioners | 208 | +56 |
| | 484 | +90 |
| **Total Membership** | **1,775** | **+119** |

3.2 The overall membership of the Fund has increased by 119 members over the year, up from 1,656 members at 30 June 2007.

3.3 In addition, there are nine Family Law default accounts.

### Contributing membership

3.4 A breakdown of the changes in active membership (Categories A, B and C) over the 2007/08 year is as follows:

| | **2007/08** Category A Defined Benefit | Category A Accum | Category B | Category C | Total |
|---|---|---|---|---|---|
| **Membership at start of year[1]:** | **999** | **46** | **112** | **105** | **1,262** |
| **New entrants[2]:** | **87** | **28** | **57** | **7** | **179** |
| **Exits[1]:** | | | | | |
| Retirements | 7 | 8 | 4 | 1 | 20 |
| Deaths | - | - | - | - | - |
| Disablements | 1 | 4 | - | - | 5 |
| Partial disablements | 3 | - | - | - | 3 |
| Resignations | 33 | - | 44 | 1 | 78 |
| Transfers to Category A Defined Benefit | - | - | 4 | - | 4 |
| Transfers to Category A Accumulation | 28 | - | - | - | 28 |
| Transfers to Category B | 6 | - | 6 | - | 12 |
| Exits from Category C | | | | - | - |
| | *78* | *12* | *58* | *2* | *150* |
| **Membership at end of year:** | **1,008** | **62** | **111** | **110** | **1,291** |

[1] *This information may differ to the membership as at the valuation date due to members who enter and exit between reporting dates.*

[2] *Members transferring between categories have been included as an exit from the relevant category and a new entrant in the new category, including 6 tranfers within Category B from temporary emplyees to permanent employees.*

3.5 Of the 106 members who ceased employment during the year through retirement, disablement, partial disablement or resignation, 100 elected to retain all or part of their benefit in the Fund as a retained accumulation account.

3.6 The inactive membership (retained members and pensioners) changed over the year as follows:

**2007/2008**

| | Retained members | Pension Members[1] | Total |
|---|---|---|---|
| Membership at start of year: | 242 | 152 | 394 |
| *New entrants:* | 100 | 69 | 169 |
| *Exits:* | 66 | 13 | 79 |
| **Membership at end of year:** | **276** | **208** | **484** |

[1] *Includes members with account based pensions, such as allocated and term allocated pensions.*

3.7 Sixty nine members commenced and thirteen members ceased an account based pension during the year, increasing the number of pensioners to 208 at 30 June 2008.

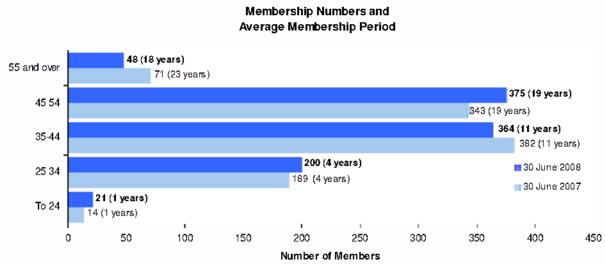
## Membership statistics

3.8 Membership statistics for the Category A, B and C members as at 30 June 2008 are as follows:

| | Category A Defined Benefit | Category A Accumulation | Category B | Category C |
|---|---|---|---|---|
| Number | 1,008 | 62 | 111 | 110 |
| Average age (years) | 42 | 59 | 39 | 53 |
| Average length of membership (years) | 12 | 33 | 3 | 3 |
| Average salary | $65,860 | $73,266 | $48,965 | n/a |
| Average final average salary | $61,547 | n/a | n/a | n/a |

## Age distribution

3.9 The age distribution of the 1,008 Category A defined benefit members is shown below compared to last year. The average length of membership for each group is shown in brackets.




3.10 Of the 1,008 Category A defined benefit members, 48 (or 5%) are eligible for early retirement.

## New entrants

3.11 There were 87 new entrants to the defined benefit section since 1 July 2008, all continued to be defined benefit members as at 30 June 2008. Their age and salaries may be summarised as follows (with comparatives for the year to 30 June 2007):

| **New entrants** | **Year to 30 June 2008** | **Year to 30 June 2007** |
|---|---|---|
| Number | 87 | 62 |
| Average age | 33 | 33 |
| Average salary | $52,013 | $50,163 |

## Economic factors

### *Actual earning rates*

3.12 The retirement benefits provided by the Fund are based upon a multiple of the final average salary of the members. The final average salary of a member is calculated as the average of the salary received during the three years immediately prior to retirement. The benefits, and therefore the liabilities of the Fund, increase in line with increases in the members' salaries. It is therefore essential over the longer-term that investment returns exceed increases in the members' salaries to ensure that the Fund keeps pace with its liabilities.

3.13 The investment returns of the Fund and the average increase in Category A defined benefit salaries (for continuing members) are summarised below.

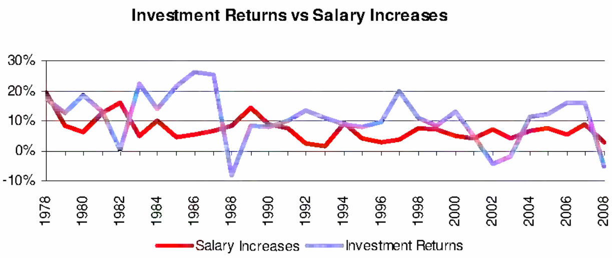
| Year ending 30 June | Investment returns | Increase in average salary | Real return[1] |
|---|---|---|---|
| | % | % | % |
| 2004 | 11.1 | 6.7 | 4.4 |
| 2005 | 12.0 | 7.3 | 4.7 |
| 2006 | 15.9 | 5.5 | 10.5 |
| 2007 | 15.9 | 8.9 | 7.1 |
| 2008 | -5.3 | 2.8 | -8.1 |
| 3 Year average (pa) | 8.4% | 5.7% | 2.7% |
| 5 Year average (pa) | 9.6% | 6.2% | 3.4% |
| 10 Year average (pa) | 6.6% | 5.8% | 0.8% |
| Since Inception (pa) | 10.6% | 7.1% | 3.6% |

(1) *Small differences may occur due to rounding.*

3.14 These investment returns are based on the market values of the investments as at 30 June each year and are net of tax and investment manager expenses but not net of the Fund's administration expenses. Net of administration expenses, the return for the year to 30 June 2008 was -5.5%.

3.15 The average increase in salaries over the year was 2.8%, which is 2.2% lower than the assumed annual increase in final average salary.

3.16 The graph below shows the historical picture of the Fund's annual investment returns since inception in 1977 versus salary increases. A full history of the annual investment returns and salary increases since inception of the Fund is contained in Appendix C.




## Smoothed asset values & investment fluctuation reserve

3.17 Superannuation is a long-term investment and employers expect stability in their year-to-year contribution rates whilst members expect stability in year-to-year earning rates. By comparison, certain asset classes, particularly shares and property, can be substantially affected by short-term fluctuations in their market values.

3.18 In assessing the financial state of the Fund, the earning rate to be declared to members and the employer contribution rate required for future years, it is preferable to eliminate the effect of any short-term fluctuations from the market valuations of the investments. This helps to ensure that the recommended employer contribution rates are not over or under estimated as a result of a temporary deviation in the market value of the investments.

3.19 Accordingly, we calculate a smoothed, or adjusted, asset value. Smoothed asset values were calculated for both the local and overseas equity investments, as well as the Fund's listed property investments. The calculation is generally based on long-term 10-year trend lines for each of these asset sectors. However in some years, such as the last few financial years, adjustments are made to these trend lines to counter the impact of unusually large changes in asset values. The indices used in calculating the trend lines for each sector were:

(a) Australian shares - S&P/ASX 300 (Merged) Price Index
(b) Overseas shares - MSCI World (Ex. Aust) Price Index in $A; and
(c) Listed property - S&P/ASX Property Trust Price Index.

3.20 Over the year to 30 June 2008, the Australian share sector fell in value, returning -13.7% (compared to a gain of 29.2% in 2007). We have reduced the write-down to the Australian share component of the Fund.

3.21 Performance in the overseas share markets was also negative over the last 12 months, returning -21.3% (compared to a gain of 7.8% in 2007). We have increased the write-up to the overseas share component of the Fund.

3.22 The listed property sector also fell in value over the year with a return of -37.7% for the year (following 26.3% in 2007). We have reduced the write down on the Fund's listed property assets to nil.

3.23 The adjustments for each of these sectors as at 30 June 2008 are shown below:

| Asset sector | Adjustment to 30 June 2008 market value | |
|---|---|---|
| Australian shares | -4.0% (-7.0% in 2007) | write down |
| Overseas shares | +6% (+2% in 2007) | write up |
| Listed property | Nil (-7.0% in 2007) | - |

3.24 Overall, the net adjustment made to the market value of the assets as at 30 June 2008 was nil. Given that there was a write-down of 2.1% of assets last year, this results in a decrease in reserves and a corresponding increase in the declared rate over the year.

3.25 A summary of the accounts showing the net market values, the investment adjustment, and the smoothed market values is provided in Appendix B.

## Adjusted earning rates

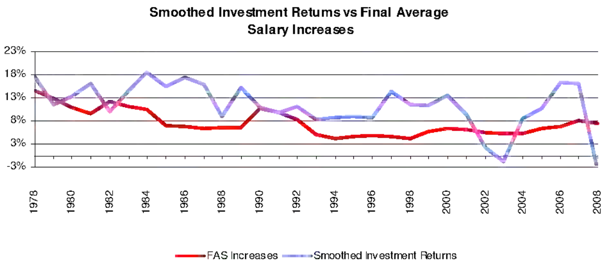
3.26 Having eliminated any short-term fluctuations in the asset values by using a smoothed value of assets, we can now calculate the smoothed real rate of return for the Fund during the year.

3.27 Since the Fund's liabilities are essentially members' benefits (which are calculated using the "three-year final average" of members' salaries), it is appropriate to compare the "smoothed" investment returns with the increases in the "three-year final average salaries". The smoothed investment returns and increase in final average salaries (for continuing Category A defined benefit members) are summarised below.

| Year ending 30 June | Smoothed investment returns | Increase in three-year final average salaries | Real return |
|---|---|---|---|
| | % | % | % |
| 2004 | 7.9 | 4.7 | 3.2 |
| 2005 | 10.1 | 5.7 | 4.4 |
| 2006 | 15.7 | 6.2 | 9.5 |
| 2007 | 15.5 | 7.4 | 8.1 |
| 2008 | -3.2 | 6.8 | -10.1 |
| 3 Year average (pa) | 9.0% | 6.8% | 2.2% |
| 5 Year average (pa) | 9.0% | 6.1% | 2.9% |
| 10 Year average (pa) | 7.7% | 5.6% | 2.0% |
| Since Inception (pa) | 10.7% | 6.9% | 3.7% |

3.28 These investment returns are based on the smoothed market values of the investments as at 30 June each year and are net of tax and investment manager expenses but not net of the Fund's administration expenses. Net of administration expenses, the smoothed return for the year to 30 June 2008 was -3.5% per annum.

3.29 The graph below shows the smoothed investment returns versus increases in final average salaries for each year since the inception of the Fund. A full history of the annual smoothed investment returns and increases in final average salaries is contained in Appendix C.




## Investment objective

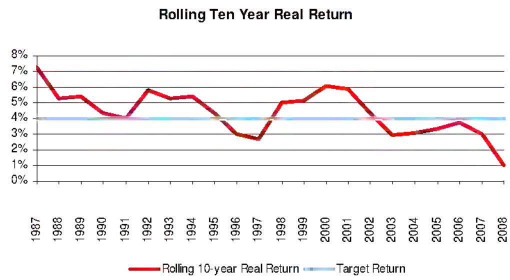
3.30 The Fund's overall investment objective is to earn at least 4% per annum in real yields (on an unadjusted basis) over and above final average salary increases over rolling ten-year periods.

3.31 Over the ten-year period to 30 June 2008, the Fund's performance against the benchmark has been as follows:

| | | |
|---|---|---|
| (a) | Investment Returns (unadjusted): | 6.6% per annum |
| (b) | Final Average Salary Increases: | 5.6% per annum |
| (c) | Real Return: | 1.0% per annum |
| (d) | Target Return: | 4.0% per annum |

3.32 For the ten years to 30 June 2008 the Fund fell short of its investment objective, as investment returns on an unadjusted basis were 1.0% (rather than 4.0%) over and above three-year final average salaries increases.

3.33 The following chart shows the history of the rolling ten-year real yields compared to the Fund's investment target of 4% per annum:




3.34 A full history of the rolling ten-year real yields compared to the Fund's investment target of 4% per annum is detailed in Appendix C.

# 4. FINANCIAL POSITION OF THE FUND

## Asset backing index

### Method of calculation

4.1 The funding method used for this review is based on an index of asset backing which describes the relationship between the assets and the liabilities.

4.2 The asset backing index reflects the real rate of return which the Fund would need to earn on its investments in order to meet the retirement benefits accrued to date, as and when they fall due in the future.

4.3 The index is based on the present day value of the portion of the retirement benefit relating to service completed as at the date of calculation.

4.4 By projecting the index forward we can monitor the appropriate contribution rates and the likely progress of the Fund over the next 10 years.

4.5 The table below shows the asset backing index corresponding to various real rates of returns:

| Asset backing index | Corresponding real rate of return per annum |
|---|---|
| 50 | 5.0% |
| 60 | 4.0% |
| 70 | 3.0% |
| 85 | 1.5% |
| 90 | 1.0% |
| 100 | 0.0% |

4.6 For example, an asset backing index of 85 means that investment returns need to exceed the increase in final average salaries by 1.5% per annum in the future, to ensure that the existing assets are sufficient to meet the existing liabilities or benefits when they eventually became payable.

4.7 An asset backing index of 100, means that as long as investment returns keep pace with the increases in the final average salaries, the existing assets should be sufficient to meet the future payment of benefits accrued to date.

### Target

4.8 In order to assess the financial state of the Fund and provide a basis for determining the future employer contribution rates, it is necessary to establish benchmarks for the asset backing index appropriate to your particular Fund.

4.9 The objectives for a "target" level of the asset backing index should:

(a) reflect the expected long-term investment returns in excess of salary inflation;

(b) ensure the security of members' benefits over the long-term; and

(c) be realistic and achievable.

4.10 We believe the target for this Fund should be to maintain an asset backing index of 85 over the next 10 years.

4.11 An index of 85 means that the accrued liability will be met if investment returns exceed increases in the final average salary by 1.5% per annum on average over the long-term.

4.12 This target index is generally consistent with historical long-term performance figures and is a reasonable estimate for a Fund such as yours.

### Minimum level

4.13 In addition to the target index, we also need to establish a suitable minimum level for the asset backing index. If it appeared that the asset backing index was likely to reduce below the minimum level, then some form of action would be required.

4.14 The minimum index should ensure that members' minimum benefit entitlements remain covered by the assets at all times. If all members were to leave on the same day, the minimum entitlements are equivalent to all members taking a resignation benefit or retirement benefit if eligible. The minimum index would represent the assets required to cover the payment of these minimum entitlements.

4.15 Under the SG legislation, the current minimum benefit to be provided to all employees is equivalent to a 9% employer-funded benefit. A benefit accrual rate of 18% combined with the 2% resignation discount rate and maximum discount period of 18 years results in a benefit greater than the minimum SG benefit for all Category A defined benefit members when they leave employment.

4.16 The minimum index appropriate for your Fund is therefore 80 as this corresponds to the maximum discount rate allowed for by the SG legislation with respect to your existing benefits.

## Asset protection reserve

4.17 This year there was no adjustment to the net market value of the assets, consequently the investment fluctuation reserve was set to zero.

4.18 However, the Fund is also subject to other risks such as:

(a) Poor investment returns for a prolonged period;

(b) Higher than expected salary increases;

(c) Unfavourable demographic experience (for instance, increased rate of disability); and

(d) Increased expenses as a percentage of salaries.

4.19 To provide a measure of protection against the risks outlined above, we have also included an "asset protection" reserve.

4.20 The asset protection reserve at 30 June 2008 is 10% of the net market value of defined benefit assets, or $17.5 million. This has decreased from $19.2 million, as at 30 June 2007.

4.21 A level of 10% of assets provides protection for a 14% drop in the value of growth assets (that is, shares and property) and is an appropriate target level for this reserve.

4.22 Over time we will review the appropriateness of this target level.

## Current financial position

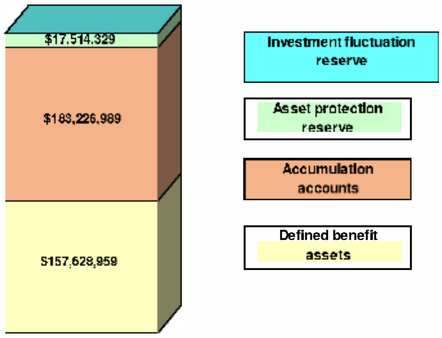
4.23 To determine the current financial position of the Fund, the net assets available for the defined benefits accrued to date are calculated as follows:

| | | |
|---|---|---|
| **Net market value of assets:** | (1) | **$358,370,277** |
| ***Less:*** | | |
| Investment Fluctuation Reserve | (2) | $- |
| **Smoothed value of assets:** | (3) = (1) - (2) | **$358,370,277** |
| ***Less:*** | | |
| Category A defined benefit additional accounts | | $34,904,639 |
| Category A accumulation accounts | | $10,731,843 |
| Category B accounts | | $2,626,117 |
| Category C accounts | | $7,665,499 |
| Family Law default accounts | | $715,064 |
| Retained benefits | | $54,406,209 |
| Account based pensions | | $60,437,685 |
| Supplementary disability pension liabilities | | $710,396 |
| Supplementary disability pensions reserves | | $11,029,537 |
| **Total accumulation account assets** | (4) | **$183,226,989** |
| **Smoothed value of defined benefit assets** | (5) = (3) - (4) | **$175,143,288** |
| **Less:** | | |
| Asset protection reserve[1] | (6) | $17,514,329 |
| ***Leaving:*** | | |
| **Net assets available for accrued defined benefits** | (7) = (5) - (6) | **$157,628,959** |

[(1)] *10% of net market value of defined benefit assets = 10% x [(1)-(4)]*

4.24 The following chart shows how the net market value of assets of $358.4 million is split between the investment fluctuation reserve, asset protection reserve and the remaining defined benefit assets

4.25 This year there is no investment fluctuation, an asset protection reserve of $17.5 million, accumulation accounts of $183.2 million and $157.6 million available for accrued defined benefits.




*(1) The Accumulation Accounts firgure shown above includes the Supplementary Disability section of the fund.*

### Asset backing index

4.26 Taking into account the above and making an allowance for the asset protection reserve of $17.5 million, the asset backing index as at 30 June 2008 is 90.9. The asset backing index as at 30 June 2007 was 97.0.

4.27 Under our standard long-term assumptions, the liabilities accruing each year exceed the contributions received to fund these benefits. So, it is especially important to consider the long-term level of the asset backing index when monitoring the financial position and sustainability of the Fund.

4.28 Appendix D provides a history of the asset backing index levels since inception of the Fund in 1977, along with a history of the improvements made to the benefit accrual rate and any surplus distributions since commencement of the Fund.

### Gains and losses

4.29 Generally, the Fund makes a gain when the asset backing index increases, and a loss when the index decreases. The main sources of gains and losses over the past year can be summarised as follows:

| Source | Financial effect | Comment |
|---|---|---|
| Investment returns | negative | Smoothed investment returns were less than the increase in final average salaries by 10.1% resulting in a decline in the Fund's financial position. |
| Final average salary | negative | The average increase in the 3-year final average salaries exceeded the expected increase by 1.8%, resulting in a decline in the financial position |

| Source | Financial effect | Comment |
|---|---|---|
| Investment fluctuation reserve | positive | The investment fluctuation reserve was reduced from 2.1% of the defined benefit assets at 30 June 2007 ($7.9 million) to zero, resulting in an improvement in the financial position. |
| Membership | negative | The liability for benefits which accrued in the past year exceeded the contributions recieved to fund these benefits. |

## Solvency

4.30 The Fund's immediate solvency position can be assessed by the following ratios:

### Vested benefits ratio

4.31 This ratio measures the extent to which the minimum entitlements of members are covered by the net market value of the assets of the Fund. The "vested benefits" are the minimum entitlements payable if all members voluntarily resigned or retired (where aged over 55) as at the valuation date.

4.32 Before calculating this ratio, the net market value of assets must be reduced for the liabilities relating to inactive members, accumulation balances and the amount set aside to cover the supplementary disablement liabilities of the Fund.

| | |
|---|---|
| **Net market value assets as at 30 June 2008** | **$358,370,277** |
| ***Less:*** | |
| Total accumulation account assets[1] | $183,226,989 |
| ***Leaving:*** | |
| Net market value of defined benefit assets | $175,143,288 |
| Vested benefits for category A defined benefit members | $145,496,883 |
| Vested benefits ratio | 120% |

*(1) This amount includes the reserve of $11.0 million available for future supplementary disablement pensions and assets of $0.7 million set aside to meet current supplementary disablement pensions*

4.33 A ratio greater than or equal to 100% means that the vested benefits are covered by the net market value of the Fund's assets. A ratio of 120% represents a satisfactory level of cover for the Fund's vested benefits and is in line with the target ratio of 120%. The vested benefits ratio at the previous actuarial review was 132%.

4.34 Total vested benefits (for the purpose of the actuarial statement required under Regulation 9.31 of the Superannuation Industry (Supervision) Regulations and provided in Appendix G), includes all accumulation account benefits and the supplementary disability pension liabilities but excludes the supplementary disability pension reserve. Total vested benefits are $317,694,335.

### Undiscounted accrued benefits

4.35 This benefits ratio assesses the level of coverage for the partial disablement benefits for all contributing members. The partial disablement benefit is the only benefit provided on an undiscounted basis and therefore, the only benefit likely to strain the Fund.

| | |
|---|---|
| **Net market value assets as at 30 June 2008** | **$358,370,277** |
| ***Less:*** | |
| Total accumulation account assets[1] | $183,226,989 |
| ***Leaving:*** | |
| Net market value of defined benefit assets | $175,143,288 |
| Partial disablement benefits for category A defined benefit members | $170,194,990 |
| Partial Disablements Ratio | 103% |

*(1) This amount includes the reserve of $11.0 million available for future supplementary disablement pensions and assets of $0.7 million set aside to meet current supplementary disablement pensions*

4.36 A ratio of greater than or equal to 100% means that the undiscounted benefits payable on partial disablement are covered by the net market value of the Fund's assets. As at the valuation date the partial disablements ratio was 103%. At the previous actuarial review the partial disablements ratio was 114%.

### Termination provisions

4.37 Regulation 36 addresses the dissolution of an associated employer. In this event, the interest of the employer and the members in the Fund would be determined and then applied towards meeting members' benefits as if they had voluntarily retired, with any balance remaining to be distributed in such manner as is considered equitable. In the event that the associated employers had terminated on the valuation date, members' benefits on voluntary retirement would have been sufficiently covered by the assets.

### Accrued retirement benefits ratio

4.38 In funding for the accruing retirement liabilities of members, the Fund has a target level of the asset backing index of 85. This corresponds to a discount rate of 1.5% per annum and reflects the assumption that, over the longer-term, the real rate of return on the Fund's assets is expected to be 1.5% per annum.

4.39 In calculating the value of the accrued retirement liabilities for Category A defined benefit members, the accrued retirement benefit was calculated using past membership at the valuation date, current final average salary and a benefit accrual rate of 18% or 21.5%, as applicable, for each year of membership prior to 30 June 2008. The liabilities were then discounted at 1.5% per annum (corresponding to the target asset backing index of 85) for each year of age under age 55.

4.40 The level of coverage of assets over the accrued retirement liabilities is shown by the ratio below. For the purpose of measuring the funding level (as opposed to solvency levels), we have adjusted the smoothed assets to take into account the asset protection reserve.

| | |
|---|---|
| **Smoothed value of assets as at 30 June 2008** | **$358,370,277** |
| **Less:** | |
| Total Accumulation account assets | $183,226,989 |
| Asset protection reserve | $17,514,329 |
| **Leaving:** | |
| Net assets available for accrued defined benefits | $157,628,959 |
| Value of accrued defined benefits (based on 1.5% pa discount) | $151,032,960 |
| Accrued retirement benefits ratio | 104% |

4.41 The accrued retirement benefits ratio of 104% represents a satisfactory level of coverage of the accrued retirement benefits and is above the target ratio of at least 100%.

4.42 The accrued retirement benefits ratio at the previous review was 110%.

## 5. PROJECTIONS ASSUMPTIONS

5.1 To determine the required contribution rate and illustrate the expected progress of the Fund over the longer-term, we have projected the Fund's asset backing index for the next 10 years.

5.2 The projections make a number of assumptions. The most significant of these assumptions are:

(a) Member and employer contribution rates
(b) Level of the asset protection reserve
(c) Real rate of return from the Fund's investments
(d) Rate of partial disablement
(e) Age of new entrants
(f) Rate of expenses
(g) Rate of election of a higher benefit accrual rate.

5.3 These are detailed below. The projection assumptions are explained in detail in Appendix E.

### Member contribution rates

5.4 For the purposes of the projections, the member contribution rate is assumed to remain at the current level of 6.25% of current salary.

### Employer contribution rates

5.5 For the purposes of the projections, the employer contribution rate is assumed to remain at the current level of 11.75% of current salary.

### Asset protection reserve

5.6 For the purposes of the projections, we have assumed the asset protection reserve of $17.5 million remains constant (other than investment earnings on the reserve itself) over the projection period.

### Economic assumptions

5.7 The two key economic assumptions are:

(a) investment returns; and
(b) salary increases.

***Investment returns***

5.8 Historically, we have used an investment return of 6.5% per annum as our "standard" projection scenario for the Fund, with alternative projection scenarios of 5% per annum, 7% per annum and 8% per annum.

5.9 We believe an investment return assumption of 6.5% per annum remains appropriate for the purpose of the actuarial review.

***Salary increases***

5.10 We have assumed future salary increases to average 5% per annum. This is consistent with the Fund's experience over the last 10 years and the Board's expectation of salary increases going forward.

***Real rate of return***

5.11 The excess of investment returns over salary increases results in a real rate of return of 1.5% per annum. While future investment returns and salary increases may be higher (or lower) than the above rates, we believe a long term assumption of a real rate of return of 1.5% per annum is reasonable.

### Demographic and other assumptions

***Partial disablement rate***

5.12 The rate of leaving service due to partial disablement was assumed to be 5% of members over age 40.

***Retirement rate***

5.13 The rate of retirement was assumed to be 50% of members from ages 55 to 64. All members reaching 65 are assumed to retire.

***New entrant age***

5.14 Typical new entrants are assumed to join at age 35.

***Expenses***

5.15 The cost of group life insurance and expenses (net of tax deductions) was assumed to be 2% of salaries.

*Election of higher benefit accrual and contribution*

5.16 We have assumed that the members of the Fund who have elected the higher rate of benefit accrual for the retirement, resignation and partial disablement benefits will maintain the higher benefit accrual.

5.17 We have assumed that the proportion of new entrants who will elect the higher rate of benefit accrual is the same as the proportion of members who have elected the higher rate of benefit accrual as at 1 July 2007.

5.18 For those members who have elected the higher benefit accrual rate of 21.5% per year of membership, we have assumed additional contributions, net of tax, of 3.5% of salary.

5.19 All projection assumptions are detailed in Appendix E.

## Sensitivity tests

5.20 As discussed above, the primary risks to the Fund are:

(a) Poor investment returns
(b) High salary increases
(c) Unfavourable demographic assumptions
(d) Increased expenses as a percentage of salaries.

5.21 To illustrate the impact of these risks upon the financial position of the Fund, we have undertaken a series of alternative projections in addition to the standard projection.

5.22 We have divided the projection scenarios into two series:

(a) Basic scenarios, including the standard scenario and other plausible variations to the investment return

(b) Shock scenarios, including less likely but possible economic and demographic outcomes.

*Basic scenarios*

5.23 The table below sets out the economic assumptions used for the 10-year projections:

| Projection | Investment return % pa | Final average salary increase % pa | Real rate of return % pa |
|---|---|---|---|
| "Standard" | 6.5 | 5.0 | 1.5 |
| "Unfavourable" | 5.0 | 5.0 | 0.0 |
| "Standard Plus" | 7.0 | 5.0 | 2.0 |
| "Favourable" | 8.0 | 5.0 | 3.0 |

*"Standard" projection*

5.24 The standard projection assumes a 1.5% per annum real rate of return over the next 10 years. The only change in the standard projection scenario since the last actuarial review is that the new entrant salary has increased from $50,000 to $52,000.

*"Unfavourable" projection*

5.25 The unfavourable projection assumes that the Fund under-performs the standard assumption by 1.5% per annum, giving an assumed real rate of return of 0.0% per annum over the next 10 years.

*"Standard Plus" projection*

5.26 The standard plus projection assumes that the Fund earns 0.5% per annum more than that assumed for the standard projection, giving an assumed real rate of return of 2.0% for the next 10 years

*"Favourable" projection*

5.27 The favourable projection assumes that the Fund earns 1.5% per annum more than that assumed for the standard projection, giving an assumed real rate of return of 3.0% for the next 10 years.

## Shock scenarios

5.28 In light of the present volatility in the investment markets, we have projected a number of economic assumptions whereby the investment return in the first one or two years of the projection period is significantly less than the long term assumption.

*0% investment return in year 1, 6.5% thereafter*

5.29 This projection assumes an investment return of 0% in the first year, then 6.5% per annum thereafter. That is, a real rate of return of –5% in the first year and 1.5% per annum for the remainder of the projection period (assuming salary increases of 5% per annum).

*-5% investment return in year 1, 6.5% thereafter*

5.30 This projection assumes an investment return of -5% in the first year, then 6.5% per annum thereafter. That is, a real rate of return of –10% in the first year and 1.5% per annum for the remainder of the projection period.

*-5% investment return in year 1 and 2, 6.5% thereafter*

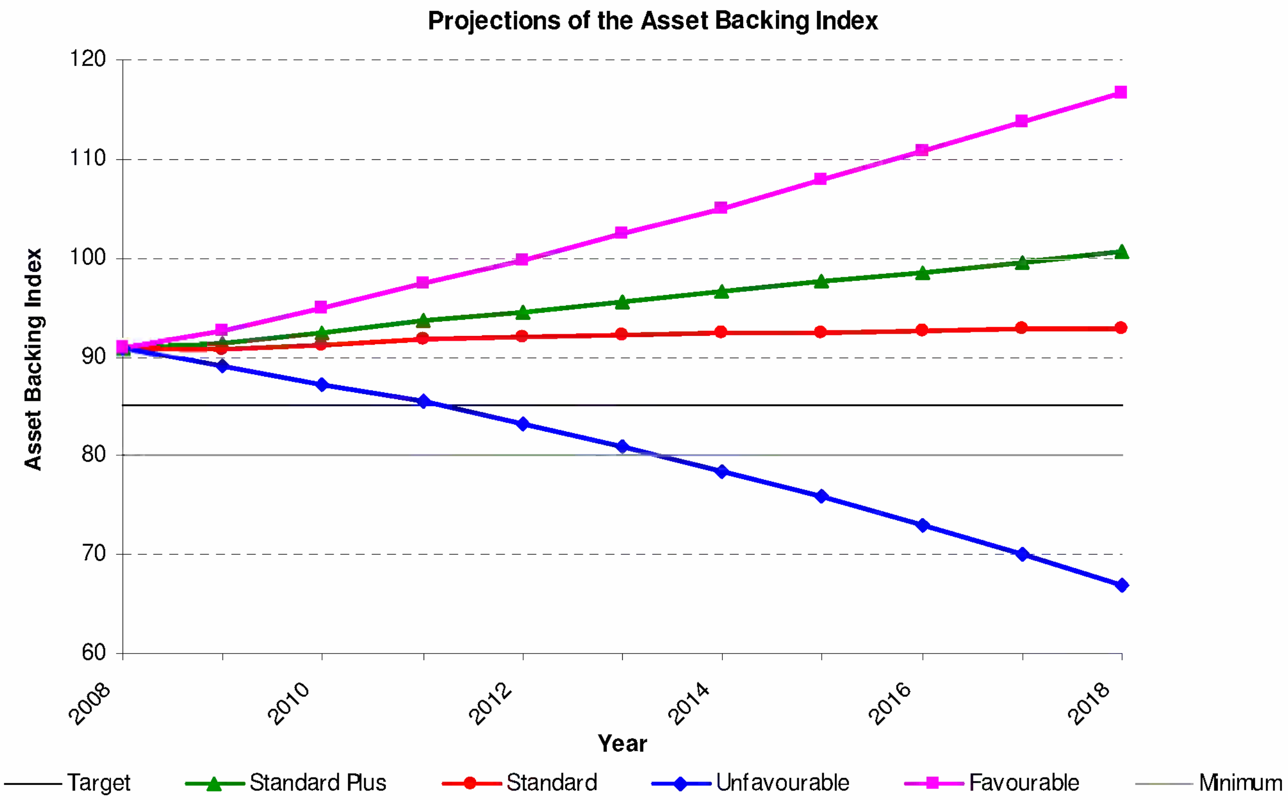
5.31 This projection assumes an investment return of -5% per annum in the first two years, then 6.5% per annum thereafter. That is, a real rate of return of –10% per annum in the first two years and 1.5% per annum for the remainder of the projection period.

# 6. PROJECTION RESULTS

## Asset backing index projection

*Basic scenarios*

6.1 The results of the basic projection scenarios are displayed in the following graph:




6.2 These projections show that, under the standard assumptions (real return of 1.5% per annum), the asset backing index is relatively constant, increasing marginally from 91 to 93 over the projection period.

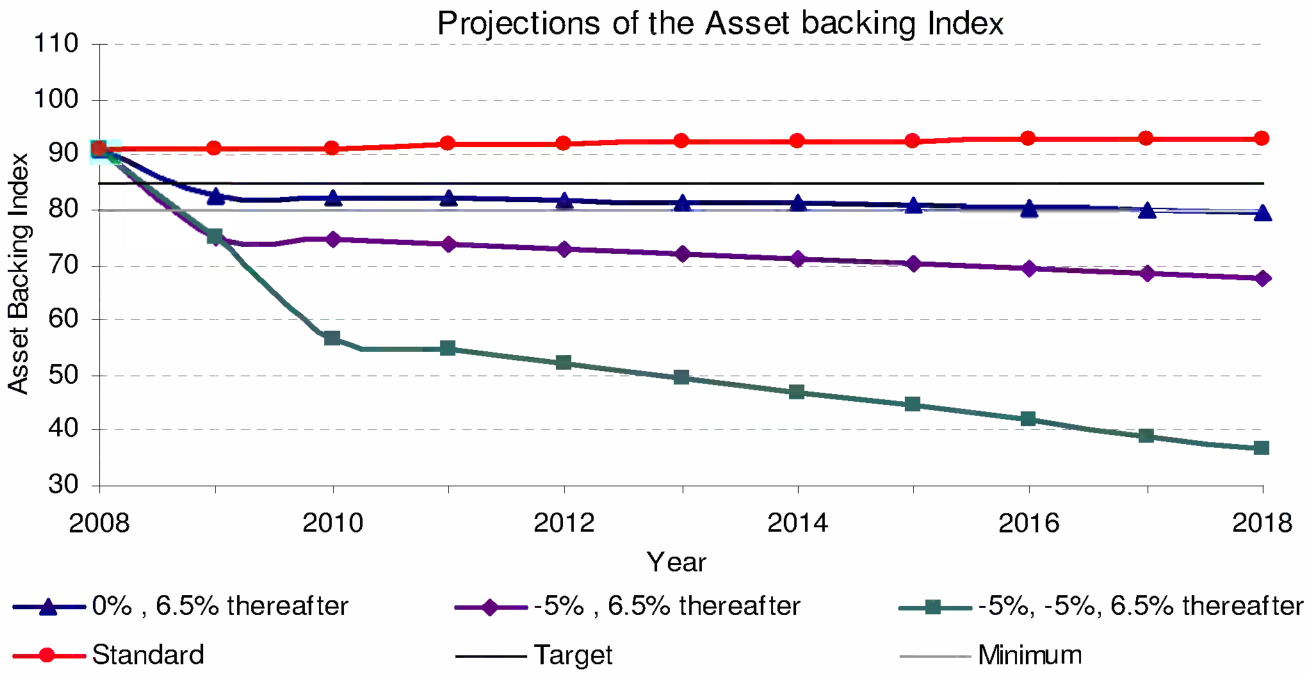
6.3 Under the standard plus assumptions (real return of 2% per annum), the asset backing index steadily increases to 101 by the end of the projection period.

6.4 Under the favourable assumptions (real return of 3% per annum), the asset backing index increases steadily to 117 by the end of the projection period.

6.5 Under the unfavourable assumptions (real return of 0% per annum), the asset backing index decreases steadily to drop below the target level of 85 after three years, reaching 67 after 10 years.

**Shock scenarios**

6.6 The results of the shock projection scenarios are displayed in the following graph.




6.7 The shock scenario projections indicate that an investment return of 0% or worse in the first year will have a substantial impact upon the financial position of the Fund.

6.8 Under the assumption of 0% investment return in the first year, then 6.5% per annum investment return thereafter, the asset backing index falls to 82 after the first year (i.e. below the target level of 85), then gradually declines to 80 by the end of the projection period.

6.9 Under the assumption of -5% investment return in the first year, then 6.5% per annum investment return thereafter, the asset backing index falls to 75 after the first year (i.e. below the minimum level of 80) and continues to decline, albeit more gradually, reaching 67 by the end of the projection period.

6.10 Under the assumption of -5% per annum investment return in the first two years, then 6.5% per annum investment return thereafter, the asset backing index falls to 57 after the second year and continues to 37 by the end of the projection period.

## Summary of projections

6.11 With an initial asset backing index of 91, the annual contributions and investment earnings are sufficient to meet the liabilities if investment returns exceed salary inflation by 1.5%, as illustrated by the standard scenario.

6.12 However, the projections show that if investment returns do not exceed salary inflation by 1.5% per annum, the asset backing index will decline over time. For example, if investment returns equal salary inflation (that is, a real return of 0% per annum), the asset backing index could fall below 85 within three years and continue to decline thereafter.

6.13 Although not shown above, our projections indicate the shortfall of investment return over salary inflation must be no more than 3% (that is, an investment return of 2% or better assuming a salary increase of 5%) if the Fund is to retain an asset backing index of at least 85 and a 10% asset protection reserve at 30 June 2009.

6.14 For each additional 1% shortfall, the asset protection reserve would need to be reduced by 1% in order to maintain an asset backing index of 85. Consequently, an investment return of -8% or worse during 2008/09 would completely extinguish the asset protection reserve.

6.15 These projections illustrate that the financial position of the Fund is very sensitive to real returns less than 1.5% per annum, particularly real returns less than 0% per annum.

6.16 As there is a significant risk that investment returns may fail to exceed salary increases by 1.5% per annum over the short-term, we believe that the current level of defined benefit assets should be maintained to protect the financial position of the Fund.

## Vested benefits projections

6.17 We also projected the ratio of the net market value of defined benefits assets to the vested benefits over the next ten years. This ratio measures the extent to which the minimum entitlements of members are covered by the net market value of the assets of the Fund.

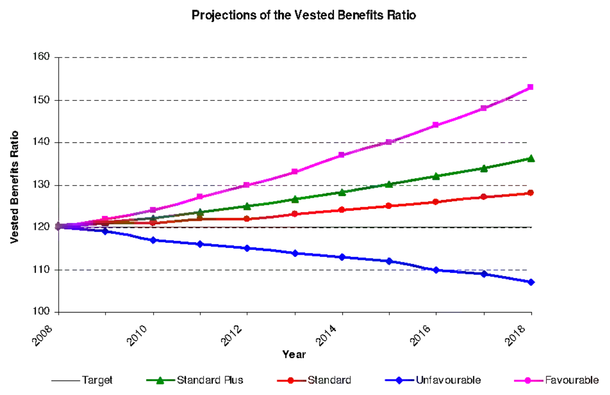
6.18 The projections only relate to the defined benefit portion of vested benefits. We note the asset protection reserve has been included in the assets for these projections.

6.19 A vested benefits ratio less than 100% indicates the net market value of assets is insufficient to cover the minimum entitlements of the members and that the Fund is in an unsatisfactory financial position. The target vested benefits ratio is 120%.

6.20 As at 30 June 2008 the vested benefits ratio was 120% and the net market value of assets exceeded the vested benefits by $29.6 million.

## Basic Scenarios

6.21 The results of the basic projection scenarios are displayed in the following graph.




6.22 Under all of the basic projection scenarios, a ratio in excess of 100% is maintained throughout the 10 year projection period.

6.23 Under the standard scenario (1.5% real rate of return), the vested benefits ratio increases gradually to 128% by the end of the projection period.

6.24 Under the standard plus scenario (2% real rate of return), the vested benefits ratio increases to 136% by the end of the projection period.

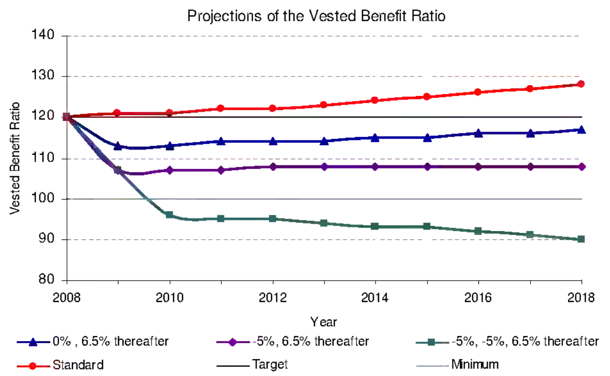
6.25 Under the favourable scenario (3% real rate of return), the vested benefits ratio improves dramatically, reaching the 153% by the tenth year.

6.26 Under the unfavourable scenario (0% real rate of return), the vested benefits ratio drops gradually to 107% by the end of the projection period.

6.27 The basic projection scenarios indicate that the Fund is expected to remain solvent in all the above scenarios. We note that, as no asset protection reserve was set aside in these projections, a vested benefits ratio of 120% or better is important to protect against a fall in the market value of assets.

## Shock Scenarios

6.28 The results of the shock projection scenarios are displayed in the following graph.




6.29 The shock projection scenarios indicate that under all but one scenario the vested benefits ratio is expected to remain over 100% (ie the Fund is expected to remain solvent), however the ratio is below the target ratio of 120% throughout the projection period for all shock scenarios.

6.30 Under the assumption of -5% per annum investment return in the first two years, then 6.5% per annum investment return thereafter, the vested benefits ratio is expected to fall to 96% in the second year. That is, under this scenario, the Fund is expected to be in an unsatisfactory financial position after two years.

6.31 Although not shown above, our projections indicate the shortfall of investment return over salary inflation must be no more than 17% (that is, an investment return of -12%, assuming 5% salary increase) if the Fund is to remain solvent at 30 June 2009.

## 7. RECOMMENDATIONS

7.1 Although the financial position is currently satisfactory at an initial asset backing index of 90.9, investment returns need to exceed salary inflation by 1.5% per annum to maintain an asset backing index above 85 over the long-term. That is, the Fund must achieve real return of at least 1.5% per annum over the long-term.

7.2 At present, the Fund is subject to the dual risk of poor investment returns and high salary increases which may result in real returns less than 1.5% per annum over the short-term.

7.3 If investment returns of 2% or better are achieved over the next year (assuming 5% salary increase), the Fund is expected to retain an asset backing index of at least 85 and a 10% asset protection reserve as at 30 June 2009.

7.4 In addition, by reducing the asset protection reserve the Fund is expected to be able to withstand investment returns of up to -8% (assuming a 5% salary increase) in 2008/09 and still retain an asset backing index of 85 at 30 June 2009.

7.5 The Fund is expected to maintain a satisfactory financial position (as measured by assets, excluding supplementary disablement pension assets, exceeding vested benefits) at 30 June 2009 if an investment return of -12% or better (assuming a 5% salary increase) is achieved in 2008/09. However, lower real returns may require additional action in order to avoid the Fund being in an unsatisfactory financial position.

7.6 As there is a significant risk that investment returns could fail to exceed salary increases by 1.5% per annum over the short-term, we believe that the current level of defined benefit assets should be maintained to protect the financial position of the Fund.

### Contribution rate

7.7 Under Regulation 16 of the regulations governing the Fund, we are required to advise the Board of the amounts or rates of contribution required from the Fire and Emergency Services Authority of Western Australia and each associated employer.

7.8 Each employer is required to contribute at a rate of at least 8.75% of salaries. Currently, the employer contributes at a rate of 11.75% of salaries, representing the minimum 8.75% plus an additional 3% of salaries as a result of an industrial agreement.

7.9 The employer also contributes an additional 1% of salaries to the Fund in order to fund the supplementary disablement benefits available through the Fund.

7.10 We recommend the employer contribution rate remain unchanged at a rate of 11.75% of salaries until the next actuarial review of the Fund.

### Next actuarial review

7.11 The next actuarial review of the Fund should be completed as at 30 June 2009.

## 8. INVESTMENTS

### Management of assets

8.1 As at 30 June 2008, the total assets invested were $360,045,798. The table below shows the split between the external managers and the assets invested by the Board.

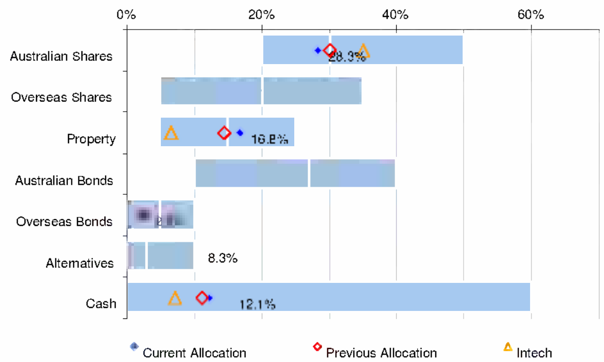
| Core Managers | Structure | Assets invested at 30 June 2007 | Assets invested at 30 June 2008 | Proportion of Fund at 30 June 2008 (30 June 2007) |
|---|---|---|---|---|
| BGI | Unit trust | $0 | $72,456,687 | 20.1% (0.0%) |
| Invesco | Individual mandate | $55,016,866 | $0 | 0.0% (14.3%) |
| Maple-Brown Abbott | PST | $68,504,299 | $73,740,993 | 20.5% (17.9%) |
| Schroders | Unit trust | $59,063,868 | $72,032,952 | 20.0% (15.4%) |
| UBS | Unit trust | $62,671,490 | $0 | 0.0% (16.3%) |
| **Non-Core Managers** | | | | |
| Challenger (Aust shares) | Unit trust | $22,025,840 | $16,954,142 | 4.7% (5.8%) |
| Challenger (SRI) | Unit trust | $13,157,031 | $13,169,296 | 3.7% (3.4%) |
| Credit Suisse (OS shares) | Unit trust | $16,491,088 | $14,252,274 | 4.0% (4.3%) |
| AMP (property) | PST | $13,117,940 | $14,875,988 | 4.1% (3.4%) |
| Grange (fixed interest) | Individual mandate | $13.960,576 | $10,594,644 | 2.9% (3.6%) |
| Grange (enhanced cash) | Unit Trust | $11,346,631 | $0 | 0.0% (3.0%) |
| **Board** | | | | |
| Board Investments: | | $48,078,752 | $71,968,822 | 20.0% (12.6%) |
| **Total Investments** | | **$383,434,381** | **$360,045,798** | **100.0% (100.0%)** |

8.2 The investment in the Barclays Global Investors (BGI) Balanced Fund commenced in July 2007, replacing the investment with Invesco.

8.3 In 2007, the investment in the UBS Balanced Fund was fully redeemed and additional investments were made in the BGI Balanced Fund, Maple-Brown Abbott Pooled Superannuation Trust and Schroders Balanced Fund.

## Asset allocation

8.4 The chart below shows the asset allocation of the Fund as at 30 June 2008, against the benchmark and the targeted ranges as set out in the Investment Policy Statement. For comparison, the asset allocation as at 30 June 2007 and the asset-weighted average of Intech Pooled Superannuation Trusts as at 30 June 2008 are also shown.




8.5 The Fund's exposure to the Australian share sector decreased from 30.1% to 28.3% over the year and is below the benchmark allocation of 30.0%.

8.6 Exposure to overseas shares decreased over the year to 17.1% and remains below the benchmark exposure of 20.0%.

8.7 The Fund's overall exposure to shares of 45.4% is significantly below the industry average of 58.7%.

8.8 Property exposure increased from 14.4% to 16.8% over the year and is above both the benchmark allocation of 15.0% and the industry average exposure of 6.5%.

8.9 Australian bond exposure decreased by 1.2% over the year to 14.9% and is significantly below the benchmark allocation of 27.0%. However, this exposure is close to the industry average exposure of 15.1%.

8.10 Exposure to overseas bonds increased slightly over the year to 2.5% of assets, but remains below the benchmark allocation of 5.0%, and the industry average of 6.6%.

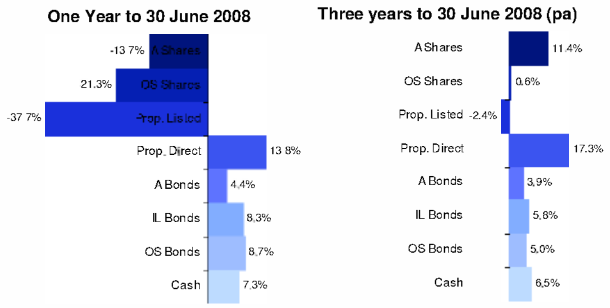
8.11 The Fund's exposure to alternative assets increased over the year from 6.9% to 8.3% of assets. Exposure continues to be significantly above the benchmark allocation of 3.0% but is within the targeted range.

8.12 Cash holdings increased by 0.9% over the year to 12.1% of assets and remains above the benchmark position of nil and the industry average of 7.2%.

8.13 The asset allocation for the Fund as at 30 June 2008 is in accordance with the Investment Policy Statement and is reasonable having regard to the liabilities of the Fund.

## Investment market performance

8.14 The year to 30 June 2008 was a difficult period for investors with heightened levels of volatility and negative returns in the Australian shares, overseas shares and listed property sectors. The graph below shows the one and three year returns to 30 June 2008 for each of the major asset classes. The indices used are shown in Appendix H.




8.15 Australian shares declined by 13.7% during the year as fears of an economic slowdown, rising interest rates and rising oil prices lowered consumer sentiment. The Consumer Discretionary (-40%) and Financial (-30%) sectors were amongst the worst performing sectors over the year. The annual returns of the Materials (+20%) and Energy (+42%) sectors benefited from strong commodity prices and rising oil prices.

8.16 Overseas shares also declined over the year, returning -21.3% on an unhedged basis (ie in Australian dollar terms) and -15.7% if the impact of currency movements (a strengthening Australian dollar) is ignored. Volatility was a feature of equity markets over the year as growing uncertainty led investors to react strongly to economic news as it became available. The implications of the rapid increase in borrower defaults in the US filtered through global markets and equities were sold heavily as investors sought to reduce risk. Companies with high levels of existing debt were subject to increased scrutiny.

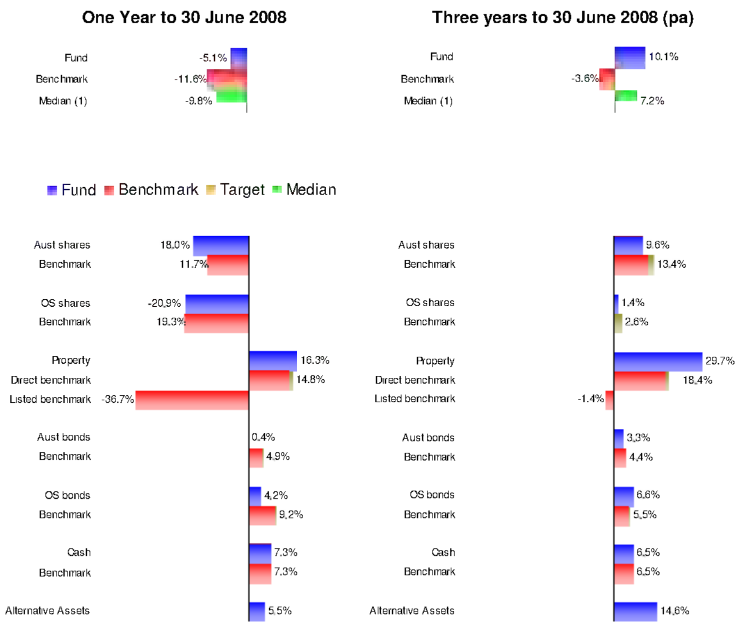
8.17 The listed property sector fell by 37.7% as large amounts of debt and difficulties in obtaining finance threatened the viability of a host of companies. Profit downgrades combined with a general loss of confidence in the sector also led to trusts with less severe issues being sold down. Direct property returned 13.8% over the year.

8.18 The annual returns of overseas bonds (+8.7%) and inflation linked bonds (+8.4%) both exceeded the return of cash (+7.3%) while Australian bonds returned 4.4% over the year.

8.19 The Reserve Bank of Australia (RBA) increased interest rates by 0.25% four times during the year to 7.25% while Australian banks also increased lending rates on their own accord. Inflation for the year to 30 June 2008 was 4.5% well above the RBA target of between 2% and 3%.

## Fund highlights

8.20 The graph below shows the Fund's performance (before tax and investment and administration fees) over one and three year periods to 30 June 2008. Also shown is the Fund's performance in each of the major asset sectors compared to the relevant index and target. Note that the values shown next to the benchmarks are based on the relevant index plus the additional target. The target returns for each asset class are set out in Appendix I.




*[1]Note median refers to the median return of managers in the Intech growth survey.*

8.21 The Fund returned -5.1% (before tax and fees) over the year, which was above both the target return of -11.6% (consisting of a benchmark of -12.9% plus a target of 1.3%), and the median growth manager return of -9.8%. An exposure to direct property and an over-weight exposure to alternative assets assisted performance. Out-performance in the property sector was the main positive contributor to overall performance.

Under-performance in the Australian shares, Australian and overseas bonds reduced the overall returns.

8.22 The Australian share sector return was significantly below the benchmark of -13.7% over the year, with MBA, Schroders, Challenger and Challenger SRI all under-performing against the benchmark.

8.23 In the overseas share sector, the Fund's return of -20.9% was above the benchmark of -21.3% but below the target of -19.3%. Performance was hindered by MBA and Schroders but Credit Suisse out-performed.

8.24 The performance of the Fund's investments in the property sector was substantially above the listed property benchmark of -37.7% over the year. The re-valuation of the Board's direct property holdings contributed significantly to the out-performance.

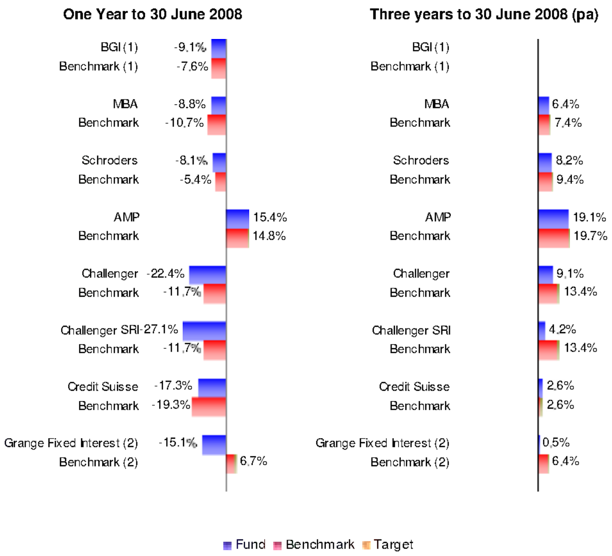
8.25 In the Australian bond sector, the Fund's performance was below the benchmark return of 4.4% and the target return of 4.9%. The negative performance of the assets which were invested with Grange detracted from performance over the year. In the overseas bond sector the under-performance of Schroders contributed to a return which was below the benchmark return. The Fund's cash sector performed in-line with the benchmark.

8.26 The alternative assets including Linq Resources and the alternative assets of each of the diversified managers, returned 5.5% over the year.

8.27 For the three years to 30 June 2008, the Fund out-performed its benchmark, target and the median growth manager return. Out-performance in the property sector and an exposure to (and performance of) alternative assets contributed positively to performance.

## Manager highlights

8.28 The graph below shows the performance (before tax and fees) of each of the Fund's investments over one and three year periods to 30 June 2008 (where available). Also shown are the managers' benchmark and target returns. Note that the values shown are the managers' benchmarks plus the additional target.




[1] *The investment in BGI commenced in July 2008. The return shown for BGI is for the 11 months from 1 August 2007 to 30 June 2008.*

[2] *The Grange mandate specifies a performance target of 1.0% above benchmark. This target has been used in comparing Grange's performance, rather than the target of 0.5% for Australian bonds as specified in Appendix I.*

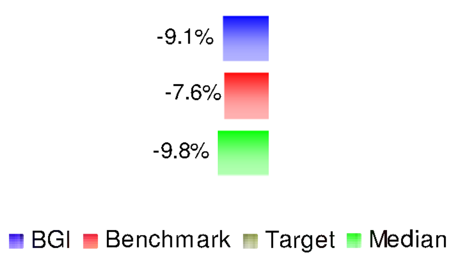
## Detailed investment manager analysis

8.29 Note that in the graphs below, the value shown above the target is the benchmark return after the target is added. All returns shown are before tax and fees.

## BGI

8.30 The Invesco mandate was replaced in July 2007 by an investment in the BGI Balanced Fund.

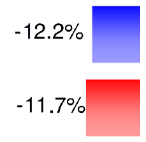
### Total portfolio (11 months to 30 June 2008)




8.31 For the 11 months to 30 June 2008 the BGI return of -9.1% was below the benchmark return over the same period.

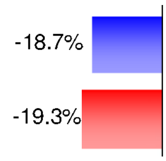
### Australian shares

### 11 months

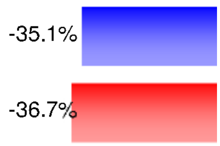



### Overseas shares

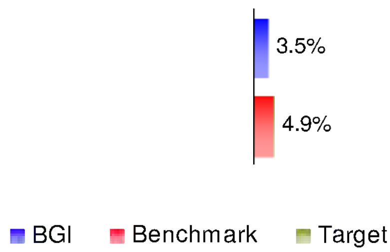
### 11 months




### Australian property

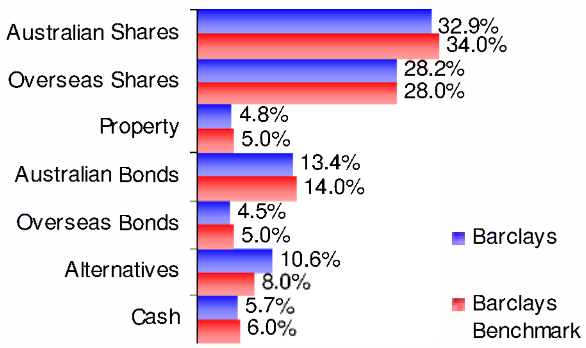



### Australian bonds



## Asset allocation

8.32 The adjacent graph shows BGI's asset allocation against their benchmark as at 30 June 2008.




## PWC view

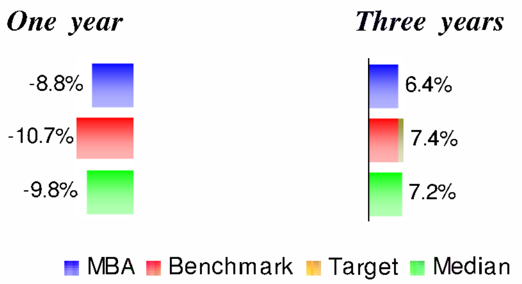
8.33 We believe BGI's performance is consistent with their core, style-neutral approach. We last met with BGI in April 2008 to review their investment process. We remain comfortable with the Fund's investment with the BGI Balanced Fund.

## Invesco

8.34 Following a number of significant changes to the Invesco Australian equity team, the investment with Invesco was fully redeemed by the end of July 2007.

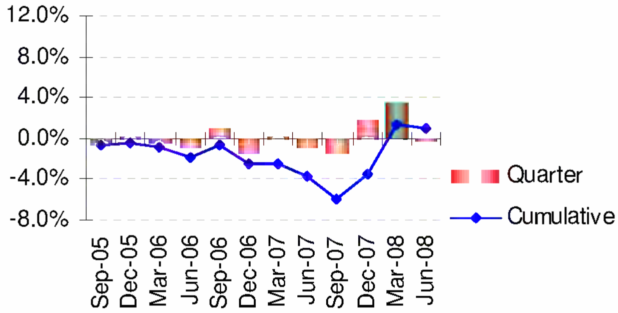
## Maple-Brown Abbott

### Total portfolio




8.35 The performance of MBA was above both the target and the median return over the one year period but below over the three year period.

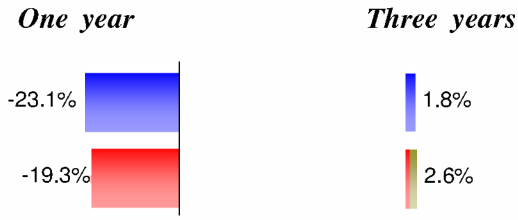
8.36 The adjacent graph shows the value added by MBA (gross of tax and fees) over the benchmark on a quarterly and cumulative basis over the past three years. Over this period, performance has been above benchmark.



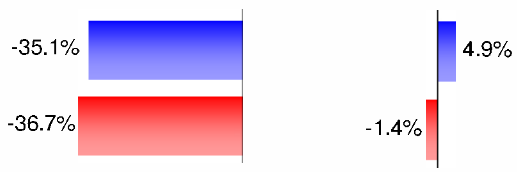

8.37 In the sector performance graphs shown below, MBA performed above benchmark in the Australian property and Australian bond sectors over the one year and three year time periods. Over the one year and three year time periods MBA under-performed in the Australian and overseas shares sectors.

## Australian shares

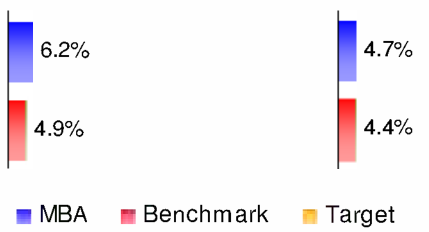

## Overseas shares




## Australian property

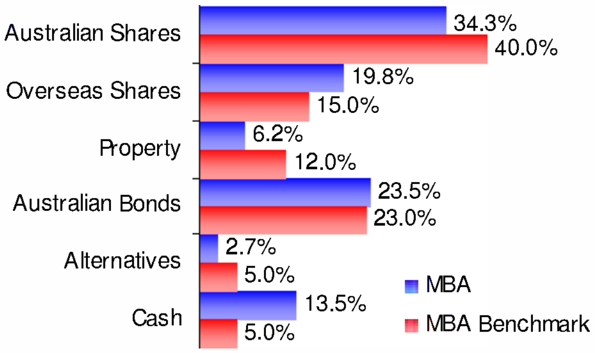



## Australian bonds



## Asset allocation

8.38 The adjacent graph shows MBA's asset allocation against their benchmark as at 30 June 2008.




## PWC view

8.39 We believe MBA's performance and asset allocation decisions are consistent with their value style and contrarian views on markets. We remain comfortable with the Fund's investment in the MBA PST.

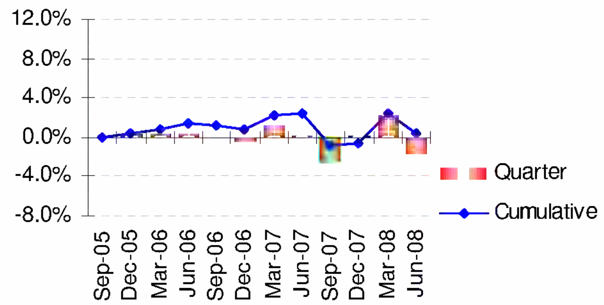
## Schroders

### Total portfolio

***One year*** ***Three years***


8.40 Schroders performed above the median manager return but below the benchmark return over both the one and three year periods.

8.41 The adjacent graph shows the value added by Schroders (gross of tax and fees) over the benchmark on a quarterly and cumulative basis over the past three years. Over this period, performance has been slightly above benchmark.




## Australian shares

***One year*** ***Three years***


## Overseas shares

***One year*** ***Three years***


## Australian property

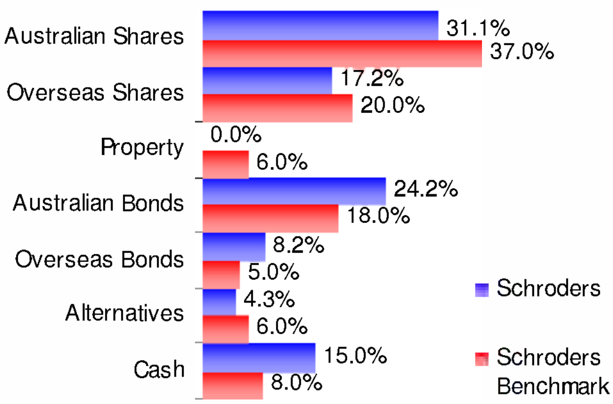
8.42 Schroders continued to have a nil exposure to property during the year, because they believe it does not offer a high enough yield for the amount of risk involved. The performance of Schroders benefited from this decision since the listed property index returned -37.7% over this period.

## Australian bonds

***One year*** ***Three years***


## Asset allocation

8.43 The adjacent graph shows Schroders' asset allocation against their benchmark as at 30 June 2008.



## PWC view

8.44 The Schroders Balanced Fund is a well diversified portfolio, with diversification enhanced through the inclusion of a range of strategies. We last met with Schroders in March 2008 to review their investment process. We remain comfortable with the Fund's investment with Schroders.

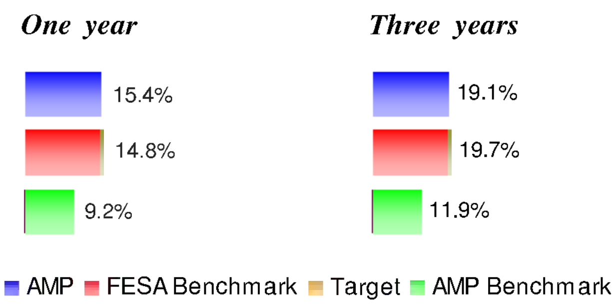
## UBS

8.45 Following a number of changes to the Australian equity team and UBS' strategy for the overseas equity portfolio, the Board decided to redeem the investment with UBS, and the assets to be split between BGI, Schroders and MBA.

8.46 The investment with UBS was fully redeemed in December 2007. For the period between 30 June 2007 and 30 November 2007 the investment returned 0.5%.

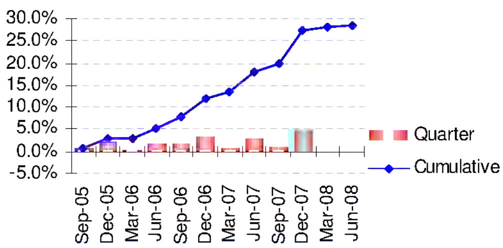
## AMP

### Total porfolio




8.47 The AMP investment was adjusted from 50% listed/ 50% direct property to entirely direct property in October 2006. The FESA benchmark return shown above is 50% listed/50% unlisted property for the period 1 July 2005 to 31 October 2006 and 100% unlisted from 1 November 2006 to 30 June 2008. AMP out-performed the FESA benchmark over the one year period, and under-performed the FESA benchmark over three years. Performance was above the AMP benchmark over the one and three year periods.

8.48 The adjacent graph shows the value added by AMP (gross of tax and fees) over AMP's benchmark on a quarterly and cumulative basis over the past three years. On a three year basis, AMP has performed above their benchmark.




## Asset allocation

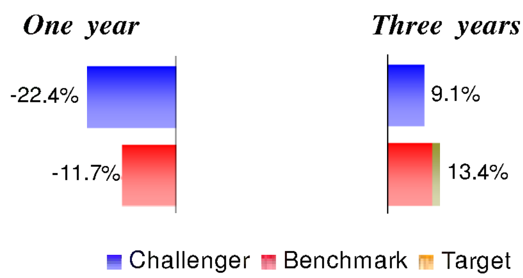
8.49 Following a change in October 2006, the AMP investment is now entirely direct property.

## PWC view

8.50 The AMP investment is a core, well diversified direct property fund. We remain comfortable with the Fund's investment with AMP.

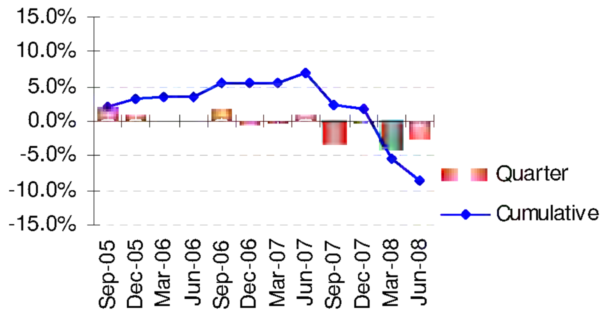
## Challenger Australian Share Fund

### Austrlian shares




8.51 Challenger performed below the benchmark over the one and three year periods.

8.52 The adjacent graph shows the value added or lost by Challenger gross of tax and fees over the benchmark on a quarterly and cumulative basis over the past three years. Over this period, the investment has been below benchmark.

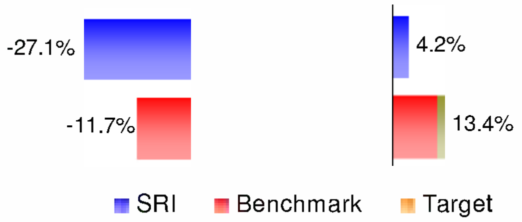



## PWC view

8.53 We met with Challenger during the quarter to investigate the reasons for their recent under-performance. The key contributors were an over-weight exposure to industrials and an under-weight exposure to resources which hindered performance in the current market cycle. We acknowledge the reasons for these positions and believe Challenger would be well positioned (relative to index) should weakness occur in resource stocks. However, we continue to investigate several stock selection decisions that have also had a material impact on performance and we met with Challenger in mid August to address this further. As a result of this meeting, we are satisfied that Challenger's quantitative and qualitative research process is sound and that the portfolio construction process and risk controls are at a high level. We remain comfortable with the Fund's investment in Challenger.

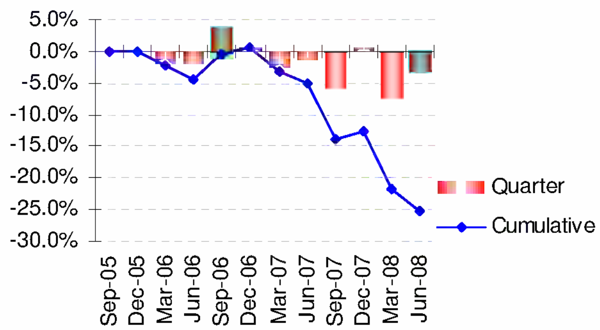
## Challenger SRI

*One year* *Three years*




8.54 Challenger SRI under-performed against the benchmark over both the one year and three year time periods.

8.55 The adjacent graph shows the value added or lost by Challenger SRI gross of tax and fees over the benchmark on a quarterly and cumulative basis over the past three years. Over this period, the SRI investment has been below the benchmark.




## PWC view

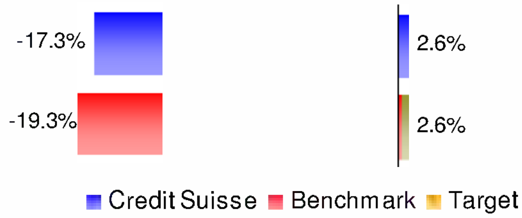
8.56 During the year we reviewed the approach of the Socially Responsible Investment (SRI) Share Option. We recommended that the SRI Option should continue to invest in socially responsible investments though the Board should also allow investments in sustainable investment products provided they meet the broad social and environmental values of the option. However, we remain comfortable with the current approach of investing in a single socially responsible Australian shares product.

8.57 The reasons for Challenger's SRI under-performance were similar to the Challenger Australian Share Fund. We remain comfortable with the Fund's investment in Challenger.

## Credit Suisse

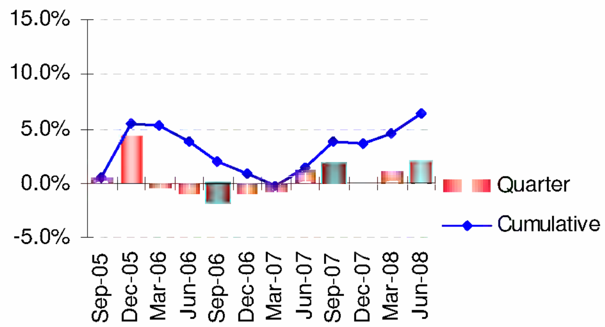
### Overseas shares

*One year* *Three years*




8.58 Credit Suisse out-performed the benchmark over one year and performed in line with the target over three years.

8.59 The adjacent graph shows the value added by Credit Suisse (gross of tax and fees) over the benchmark on a quarterly and cumulative basis since inception of the investment. Over this period Credit Suisse has performed above the benchmark.



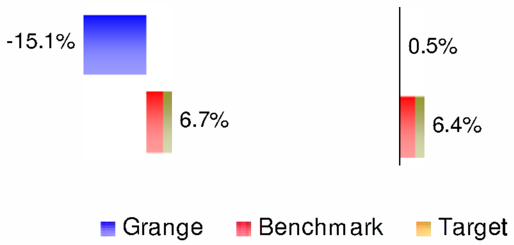

## PWC view

8.60 The Credit Suisse International Share Fund is a style neutral fund managed by a number of portfolio managers with either global or regional specialities. We remain comfortable with the investment in Credit Suisse.

## Grange/Lehman Brothers/Prescott Securities

### Fixed interest

*One year* *Three years*



8.61 Grange performed below the benchmark over both the one and three year periods, as the portfolio was impacted by the credit crunch. The portfolio does not have any direct exposure to US sub-prime mortgages, however, has been adversely impacted by exposure to Collateralised Debt Obligations (CDOs), some of which have exposure to US banking and finance companies.

8.62 Grange was bought out by Lehman Brothers during the year. Lehman Brothers requested a termination of the mandate with the Fund so they can focus on asset securitisation, rather than asset management. The portfolio is now being managed by Prescott Securities.

## Enhanced cash

8.63 The Grange Enhanced Cash investment returned 4.1% over the period from 1 July 2007 to February 2008 when the Grange/Lehman Brothers Enhanced Cash Fund was wound up.

## PWC view

8.64 We understand Prescott Securities are managing the fixed interest mandate with an approach of winding up the portfolio over time, through securities maturing, or redeeming investments as suitable opportunities to exit become available. We believe this is an appropriate approach.

8.65 Prescott Securities are also monitoring the investments in the portfolio, and we understand they are currently investigating the likely impact on the portfolio from the collapse of Lehman Brothers.

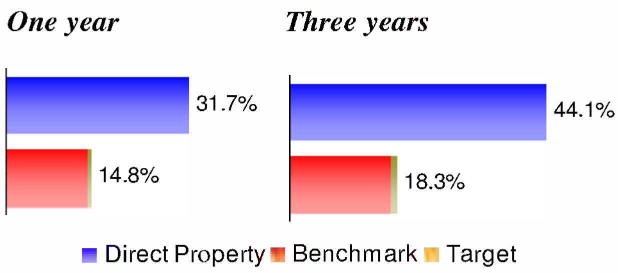
## Board

8.66 The table below shows the split of the Board's assets as at 30 June 2008.

| Assets | Amount invested as at 30 June 2008 |
|---|---|
| Direct Property | $35,995,400 |
| Alternative assets[1] | $17,020,972 |
| Members Equity Super Loans Trust | $586,946 |
| Cash including working capital and accrued interest | $18,365,504 |
| Total | $71,968,822 |

[(1)]*Alternative assets include the investment in Linq Resources.*

## Direct property




8.67 The Board's direct property performance (which includes Grange property investments) was well above the target return of 14.8% for the year to 30 June 2008, with the re-valuation in June 2008 assisting performance. Over the past three years, performance has been above the target return of 18.3% pa.

## Alternative assets

8.68 The Board's alternative assets returns are shown in the table below.

| Period ending 30 June 2008 | Return[1] (per annum) |
|---|---|
| One Year | 5.5% |
| Three Years | 14.6% |

[(1)]*The returns include the return of Linq Resources.*

## Asset allocation

8.69 The Board's alternative assets as at 30 June 2008 were as follows:

(a) Foundation Millennium 2000 Unit Trust - $411,661;

(b) Foundation Millennium IIF Trust - $271,297; and

(c) Linq Resources Fund - $16,338,034.

8.70 Note: the Board's alternative assets exclude uncalled capital for the following:

(a) Foundation Millennium 2000 Unit Trust - $97,789; and

(b) Foundation Millennium IIF Trust - $73,116.

## Declared interest rate

8.71 From time to time the Board is required to review the interest rate, which applies to the member accounts, additional voluntary contributions, rollovers contributed by members into the Fund, other additional accumulation accounts and account based pension accounts, such as allocated pension accounts.

8.72 When determining the interest rate to be credited to members' benefits, the returns calculated are the cash-weighted returns taking into account the movement in funds during the year.

8.73 The earning rates for the 2007/2008 year, based on the final draft accounts, are shown below.

| Net of tax Fund returns | Gross of expenses | Net of expenses (administration) |
|---|---|---|
| Actual Fund Return | -5.25% | -5.48% |
| Smoothed Fund Return | -3.23% | -3.46% |
| **Gross of tax Fund returns (pensioners)** | | |
| Actual Fund Return | -6.09% | -6.33% |
| Smoothed Fund Return | -3.75% | -3.99% |

8.74 The pre-tax, pre-administration expenses return on the Fund was -6.09% for the year.

8.75 The crediting rates for the 2007/2008 year, as declared by the Board, are -3.2% for active members and -3.8% for pensioners, before the Fund administration fee. The history of the Fund's crediting rate to members is shown in Appendix C.

## Member Investment Choice (MIC) crediting rates

8.76 The crediting rates for the 2007/2008 year for each of the Fund's investment choice options are shown below. The tax rates and investment management expenses which we have assumed when calculating the crediting rates are shown in Appendix J.

| | Crediting rates net of tax and expenses |
|---|---|
| Cash | 5.8% |
| Capital Stable | -4.7% |
| Growth | -11.0% |
| SRI | -25.8% |
| Shares | -17.2% |
| Australian Shares | -16.0% |

## 9 Insurance

9.1 The Fund's insurance arrangements in respect of death and total and permanent disablement (TPD) cover are currently insured with Hannover Life Re of Australasia Ltd.

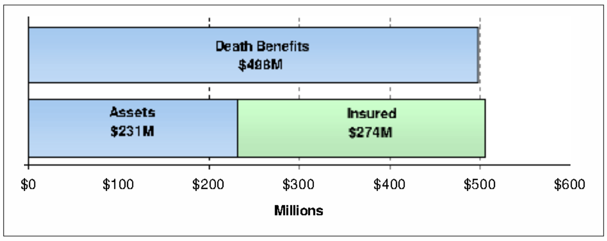
9.2 The experience of the Fund over the past five years is shown below, along with the cost of the insurance:

| Year ending 30 June | Net premiums paid $ | Claims $ |
|---|---|---|
| 2004 | 441,660 | 211,357 |
| 2005 | 469,452 | 303,951 |
| 2006 | 491,180 | 911,448 |
| 2007 | 517,886 | 247,313 |
| 2008 | 698,881 | 9,186 |

9.3 Insurance claims paid in the 2007/2008 year totalled $9,186, which is significantly lower than the average claims of $418,517 paid in the previous four years.

9.4 In order to ensure the security of members' benefits, the level of insurance should cover the portion of the death and disability benefits not covered by the assets in the Fund.

9.5 Depicted below are the total death benefits for active members compared to the net market value of assets as at 30 June 2008 (less $127 million in accumulation assets belonging to inactive members and the supplementary disability pension section). The insured portion of the death benefits is calculated as the future service component of members' death benefits.




9.6 The Fund's assets relating to active members, together with the insured amounts, total $505 million, which covers 101% of the total death benefits of active members of the Fund. Coverage has decreased from 105% last year, primarily due to the poor investment returns.

9.7 We believe the current insurance arrangements are adequate.

## 10 Reliance and limitations

10.1 Our work has been conducted for the Board of the Fire and Emergency Services Superannuation Fund for the purpose of the actuarial review and for no other purpose. No third party may use or rely on our work for any purpose.

10.2 This report is not for the purpose of AASB 119, "Employee Benefits", which specifies the manner in which the employer, not the Fund, is to report the defined benefit liabilities.

10.3 Unless required by law, no copy of or extract from this report is to be distributed to third parties without our prior written consent. We may at our discretion, grant or withhold our consent or grant our consent subject to conditions.

10.4 No oral or written reference to the content of this report may be made by the Board to any third parties without our prior written consent. We may, at our discretion grant or withhold our consent or grant it subject to conditions. We approve of a copy of this report being included as part of your 2007 annual report.

10.5 Our responsibilities and liabilities are to the Fire and Emergency Services Superannuation Fund in the context of the use of our report for the purpose set out above. We do not accept any liability or responsibility in relation to the use of our report for any other purpose.

10.6 The advice contained in this report is based on the circumstances of the Fire and Emergency Services Superannuation Fund as a whole. It does not take into account the specific circumstances of any individual.

10.7 This report must be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other.

## 11. APPENDICES

*Appendix A - Summary of Contributions and Benefits*

*Appendix B - Summary of Accounts*

*Appendix C - Historical performance*

*Appendix D - Historical asset backing index levels*

*Appendix E - Projection Assumptions*

*Appendix F - Statement of Accrued Benefits for the purpose of Australian Accounting Standard 25*

*Appendix G - Actuarial Statements for the purpose of the Supperannuation Indutry (Supervision) Act 1993*

*Appendix H - Indices Used for Performance Benchmarking*

*Appendix I - Investment Performance Targets for Managers*

*Appendix J - Assumed Tax Rates and Expenses for Member Investment Choice (MIC) Earning Rates*

# Appendix A:

## Summary of contributions and benefits

The following is a brief summary of the contributions and benefits for the Fire and Emergency Services Superannuation Fund as at 30 June 2008, on which this report is based.

### Category A members

1.1 This category primarily consists of the defined benefit members of the Fund. Category A members over the age of 55 or with more than 30 years' membership can elect to transfer their defined benefit into an accumulation account.

### Member contributions

1.2 All Category A members contribute 6.25% of salary.

1.3 Members may elect to make additional contributions in order to receive a higher defined benefit (see "upgraded defined benefit" section below).

1.4 Members may also make additional voluntary contributions into the Fund. These contributions form an additional accumulation in respect of the member, to which interest is credited at the end of each year.

### Employer contributions

1.5 The employer contributes the balance of the cost of providing benefits. The employer is currently contributing at the rate of 11.75% of salaries for all Category A members.

1.6 In addition, the employer currently contributes 1% of salary in respect of all Category A members to provide the supplementary disablement benefit.

### Benefits – Category A accumulation members

1.7 Where a member has elected to transfer their defined benefit to their accumulation account before their 65th birthday, they will receive the balance of their accumulation account upon leaving service for any reason other than death or total and permanent disablement.

1.8 Upon death or total and permanent disablement, the member will receive the greater of:

(a) Accumulation account; and

(b) Death/total and permanent disablement benefit which the member would have received if they had remained as a defined benefit member.

1.9 The accumulation account will earn interest at the net fund earning rate and will be debited with any expenses, tax and insurance costs. Category A members who make this election are not entitled to any future surplus distributions.

### Benefits – Category A defined benefit members

### Retirement benefit

1.10 A member who retires on or after their 55th birthday is entitled to receive a lump sum benefit equal to the sum of:

(a) 21.5% of final average salary for each year of membership of the Fund before 1 July 2004;

(b) 18% of final average salary for each year of membership of the Fund after 1 July 2004.

1.11 Final average salary is defined as the average salary of the member during the three years immediately preceding retirement.

1.12 In addition, members may elect to make additional contributions in order to receive a higher retirement benefit (see "upgraded defined benefit" section below).

1.13 In the event a Category A member continues in employment to their 65th birthday, their defined benefit is automatically transferred to their accumulation account on their 65th birthday (if they have not already elected to do so). On leaving service for any reason, such a Category A member will receive the balance of their accumulation account.

### Death or total and permanent disablement (TPD) benefit

1.14 If death occurs before a member reaches the age of 65, the member will receive the lesser of:

(a) Retirement Benefit Multiple calculated at age 65 using 21.5% for each year of membership of the Fund; and

(b) a benefit multiple of 7.525 (which is based on 35 years' membership at 21.5%);

*times* Final Average Salary

or, if greater, the early retirement benefit (regardless of age at death disablement).

### Partial and permanent disablement (PPD) benefit

1.15 If a member is classified as being partially and permanently disabled, an early retirement benefit is payable (regardless of age at disablement).

1.16 If the member has elected to make additional contributions in order to receive a higher retirement benefit, this higher amount is paid.

**Resignation benefit**

1.17 A member who resigns before their 55th birthday is entitled to receive a lump sum benefit equal to 21.5% of their final average salary for each year of membership of the Fund before 1 July 2004 plus 18% of their final average salary for each year of membership of the Fund after 1 July 2004, reduced by a compound discount factor of 2.0% per annum for the remaining period to age 55 years, with a maximum discount period of 18 years.

1.18 In addition, members may elect to make additional contributions in order to receive a higher resignation benefit (see "upgraded defined benefit" section below).

**Supplementary disablement benefit**

1.19 If a member is partially and permanently disabled and:

(a) is entitled to and is paid the partial and permanent disablement benefit; and

(b) has not, before the termination of employment, been offered alternative employment

then that member is entitled to an additional benefit equivalent to the difference between the TPD benefit and the PPD benefit. The member may elect, subject to the discretion of the Board, to receive the benefit as either a lump sum or as an income stream paid over five years.

1.20 This benefit applies to both defined benefit and accumulation members of Category A.

**Upgraded Defined Benefit**

1.21 Effective from 1 July 2005, members may elect to upgrade the benefit accrual rate for their resignation, retirement and the partial and permanent disablement benefits for each year of membership from 18% to 21.5%. The election must be made in writing to the Board on an annual basis, effective from 1 July following the date of election.

1.22 If a member elects to upgrade their benefits, they must contribute an additional amount, net of tax, of 3.5% of salary (or 4.12% of salary if met via salary sacrifice).

**Additional accumulation benefits**

1.23 Additional accumulation amounts, such as voluntary contributions, rollovers (which are not used to purchase additional service) and surplus distributions are accumulated with interest and paid in addition to the above benefits.

Any superannuation surcharge paid by the Fund in respect of a member is accumulated with interest and deducted from the member's benefit on ceasing employment.

**Category B members**

1.24 This category consists of temporary employees, casual employees, Board members and any other member who does not wish to join Category A.

**Member contributions**

1.25 Members may contribute additional voluntary contributions as outlined above.

**Employer contributions**

1.26 The employer contributes the minimum percentage of salary required under the SG legislation. This rate is 9% of salary with effect from 1 July 2002 and applicable to ordinary time earnings from 1 July 2008.

**Benefits**

1.27 A Category B member leaving for any reason receives the balance of their contribution account.

**Category C members**

1.28 This category consists of the spouses of Category A and B members.

**Member contributions**

1.29 Category A or B members may contribute voluntary contributions on behalf of their spouse or de facto partner.

**Benefits**

1.30 A Category C member leaving for any reason receives the balance of their contribution account.

## Appendix B: Summary of accounts

| | 2006/07 $ | 2007/08 $ |
|---|---|---|
| **Net Assets at start of period** | | |
| Market value | 318,430,827 | 376,917,812 |
| Investment adjustment | 6,050,186 | 7,914,310 |
| Smoothed market value | 312,380,641 | 369,003,502 |
| **Additions to assets** | | |
| Member contributions | 6,401,998 | 2,336,413 |
| Employer contributions | 15,834,768 | 20,478,259 |
| Spouse contributions | 1,244,666 | 1,188,974 |
| Other contributions (1) | 3,302,755 | 3,005,315 |
| Contributions surcharge | -22,701 | -14,991 |
| Group life claims | 247,313 | 9,168 |
| Investment revenue | 54,706,501 | -23,106,059 |
| **Total additions** | **81,715,300** | **3,897,079** |
| **Reductions in assets** | | |
| Benefits paid | 16,196,301 | 20,860,028 |
| Group life premiums | 517,886 | 698,881 |
| Administration expenses | 676,209 | 805,453 |
| Provision for income tax | 5,837,920 | 80,268 |
| **Total reductions** | **23,228,316** | **22,444,630** |
| **Net Assets at end of period** | | |
| Market value | 376,917,811 | 358,370,277 |
| Investment adjustment(2) | 7,914,310 | 0 |
| Smoothed market value | 369,003,502 | 358,370,277 |

(1) *Other contributions are the total of Co-Contributions, Transfers In, Rollover Benefits received and Lump Sum Benefits.*

(2) *Based on a write-down of 2.1% in 2006-07 and nil in 2007-08.*

(3) *Small differences may occur due to rounding.*

These figures have been based on audited accounts for the 2006/07 years, together with the unaudited accounts for the 2007/08 year.

## Appendix C: Historical performance

***Historical investment returns and increases in average salary***
Shown below is a history of the annual investment returns of the Fund since 1977 and the average increase in Category A defined benefit salaries (for continuing members only).

| Year ending 30 June | Annual investment returns % | Annual increase in average salary % |
|---|---|---|
| 1978 | 17.1 | 19.4 |
| 1979 | 12.7 | 8.2 |
| 1980 | 18.5 | 6.1 |
| 1981 | 13.1 | 12.7 |
| 1982 | 0.4 | 16.0 |
| 1983 | 22.4 | 5.0 |
| 1984 | 13.8 | 10.0 |
| 1985 | 21.4 | 4.4 |
| 1986 | 26.3 | 5.2 |
| 1987 | 25.2 | 6.4 |
| 1988 | -8.2 | 8.2 |
| 1989 | 8.2 | 14.2 |
| 1990 | 7.7 | 8.6 |
| 1991 | 10.2 | 7.4 |
| 1992 | 13.3 | 2.3 |
| 1993 | 11.0 | 1.7 |
| 1994 | 8.7 | 9.2 |
| 1995 | 7.8 | 4.1 |
| 1996 | 9.6 | 2.9 |
| 1997 | 19.9 | 3.5 |
| 1998 | 11.0 | 7.4 |
| 1999 | 8.3 | 7.2 |
| 2000 | 13.0 | 4.7 |
| 2001 | 4.8 | 4.2 |
| 2002 | -4.6 | 6.8 |
| 2003 | -1.9 | 4.2 |
| 2004 | 11.1 | 6.7 |
| 2005 | 12.0 | 7.3 |
| 2006 | 15.9 | 5.5 |
| 2007 | 15.9 | 8.9 |
| 2008 | -5.3 | 2.8 |
| Since inception | 10.6% pa | 7.1% pa |

***Historical smoothed returns & increases in average FAS***

Shown below is a history of the annual increases in smoothed investment returns and three-year average salaries (for Category A defined benefit members) since 1977.

| Year ending 30 June | Annual smoothed investment returns % | Annual increase in 3-year average salaries % |
|---|---|---|
| 1978 | 17.1 | 14.1 |
| 1979 | 11.0 | 12.2 |
| 1980 | 12.7 | 10.3 |
| 1981 | 15.6 | 9.0 |
| 1982 | 9.5 | 11.7 |
| 1983 | 14.0 | 10.6 |
| 1984 | 18.0 | 9.9 |
| 1985 | 14.8 | 6.4 |
| 1986 | 16.9 | 6.3 |
| 1987 | 15.3 | 5.8 |
| 1988 | 8.4 | 6.0 |
| 1989 | 14.6 | 6.0 |
| 1990 | 10.3 | 10.1 |
| 1991 | 9.3 | 9.3 |
| 1992 | 10.6 | 7.8 |
| 1993 | 7.7 | 4.4 |
| 1994 | 8.2 | 3.5 |
| 1995 | 8.3 | 4.0 |
| 1996 | 8.2 | 4.3 |
| 1997 | 13.8 | 4.0 |
| 1998 | 11.0 | 3.6 |
| 1999 | 10.8 | 5.1 |
| 2000 | 13.0 | 5.8 |
| 2001 | 8.7 | 5.5 |
| 2002 | 1.6 | 4.8 |
| 2003 | -1.4 | 4.6 |
| 2004 | 7.9 | 4.7 |
| 2005 | 10.1 | 5.7 |
| 2006 | 15.7 | 6.2 |
| 2007 | 15.5 | 7.4 |
| 2008 | -3.2 | 6.8 |
| Since inception | 10.7% pa | 6.9% pa |

***Historical performance against investment objective***

The Fund's overall investment objective is to earn at least 4% per annum in real yields (on an unadjusted basis) over and above the increase in final average salaries on a rolling ten year basis.

Shown below is a history of the rolling ten year real yields since inception of the Fund compared to the Fund's investment target of 4% per annum.

| Year ending 30 June | Rolling ten-year real return | Target return |
|---|---|---|
| 1987 | 7.3% | 4% |
| 1988 | 5.3% | 4% |
| 1989 | 5.4% | 4% |
| 1990 | 4.3% | 4% |
| 1991 | 4.0% | 4% |
| 1992 | 5.8% | 4% |
| 1993 | 5.3% | 4% |
| 1994 | 5.4% | 4% |
| 1995 | 4.3% | 4% |
| 1996 | 3.0% | 4% |
| 1997 | 2.7% | 4% |
| 1998 | 5.0% | 4% |
| 1999 | 5.1% | 4% |
| 2000 | 6.1% | 4% |
| 2001 | 5.9% | 4% |
| 2002 | 4.3% | 4% |
| 2003 | 2.9% | 4% |
| 2004 | 3.1% | 4% |
| 2005 | 3.3% | 4% |
| 2006 | 3.7% | 4% |
| 2007 | 3.0% | 4% |
| 2008 | 1.0% | 4% |

***Comparison of investment returns and crediting rates***

Shown below is a history of the actual and smoothed investment rates of return for the defined benefit section and account based pension section of the Fund, together with a history of the crediting rates declared to members' accounts for comparison.

| Year ending 30 June | Annual investment returns | | Crediting rates declared | |
|---|---|---|---|---|
| | Actual returns % pa | Smoothed returns % pa | Non-Pension members % pa | Account based pension members (untaxed return) % pa |
| 1978 | 17.1 | 17.1 | | |
| 1979 | 12.7 | 11.0 | | |
| 1980 | 18.5 | 12.7 | | |
| 1981 | 13.1 | 15.6 | | |
| 1982 | 0.4 | 9.5 | | |
| 1983 | 22.4 | 14.0 | | |
| 1984 | 13.8 | 18.0 | | |
| 1985 | 21.4 | 14.8 | | |
| 1986 | 26.3 | 16.9 | | |
| 1987 | 25.2 | 15.3 | | |
| 1988 | -8.2 | 8.4 | 8.10[1] | |
| 1989 | 8.2 | 14.6 | 14.50 | |
| 1990 | 7.7 | 10.3 | 9.70 | |
| 1991 | 10.2 | 9.3 | 9.00 | |
| 1992 | 13.3 | 10.6 | 9.70 | |
| 1993 | 11.0 | 7.7 | 7.40 | |
| 1994 | 8.7 | 8.2 | 7.50 | |
| 1995 | 7.8 | 8.3 | 7.60 | 8.85 |
| 1996 | 9.6 | 8.2 | 7.50 | 8.25 |
| 1997 | 19.9 | 13.8 | 13.50 | 14.75 |
| 1998 | 11.0 | 11.0 | 11.00 | 11.50 |
| 1999 | 8.3 | 10.8 | 10.50 | 11.00 |
| 2000 | 13.0 | 13.0 | 12.75 | 13.50 |
| 2001 | 4.8 | 8.7 | 8.5 | 8.25 |
| 2002 | -4.6 | 1.6 | 1.5 | 2.0 |
| 2003 | -1.9 | -1.4 | -1.5 | -1.5 |
| 2004 | 11.1 | 7.9 | 8.0 | 8.5 |
| 2005 | 12.0 | 10.1 | 10.0 | 10.5 |
| 2006 | 15.9 | 15.7 | 15.4 | 16.5 |
| 2007 | 15.9 | 15.5 | 15.5 | 16.5 |
| 2008 | -5.3 | -3.2 | -3.5 | -4.0 |

*(1) Crediting rate for the period 1 January 1988 to 30 June 1988.*

The Fund also offers investment choice for accumulation only members or members with additional accumulation accounts.

## Appendix D: Historical asset backing index levels

The historical asset backing index values for the Fund since 1977 are as follows:

| 1 July | Asset backing index | |
|---|---|---|
| 1977 | 27.5 | |
| 1978 | 49.7 | |
| 1979 | 55.6 | |
| 1980 | 65.1 | |
| 1981 | 70.9 | |
| 1982 | 72.2 | |
| 1983 | 78.2 | |
| 1984 | 82.8 | |
| 1985 | 83.0 | |
| 1986 | 86.2 | |
| 1987 | 89.5 | |
| 1988 | 82.3 | (benefit improvements made during the year) |
| 1989 | 90.0 | (prior to benefit improvements) |
| | 83.5 | (after benefit improvements) |
| 1990 | 83.9 | |
| 1991 | 83.1 | |
| 1992 | 84.5 | |
| 1993 | 81.8 | (benefit improvements made during the year) |
| 1994 | 82.0 | |
| 1995 | 90.3 | (prior to benefit improvements) |
| | 87.3 | (after benefit improvements) |
| 1996 | 91.0 | |
| 1997 | 100.4 | (prior to surplus distribution) |
| | 89.1 | (after surplus distribution) |
| 1998 | 95.9 | (no allowance for benefit protection reserve) |
| | 81.9 | (includes allowance for benefit protection reserve) |
| 1999 | 86.8 | (prior to surplus distribution) |
| | 85.0 | (after surplus distribution of approximately $1.5m) |
| 2000 | 93.4 | (prior to surplus distribution) |
| | 85.0 | (after surplus distribution of approximately $7.7m) |
| 2001 | 85.0 | (with a 10 year benefit protection reserve) |
| 2002 | 85.0 | (with a 6 year benefit protection reserve) |
| 2003 | 86.5<br>85.0 | (prior to an asset protection reserve)<br>(with an asset protection reserve of 0.8% of assets) |
| 2004 | 88.4<br>85.0 | (prior to an asset protection reserve)<br>(with an asset protection reserve of 1.5% of assets) |
| 2005 | 92.3<br>85.0 | (prior to an asset protection reserve)<br>(with an asset protection reserve of 6% of assets) |
| 2006 | 102.4<br>89.4 | (prior to asset protection reserve)<br>(with an asset protection reserve of 10%) |
| 2007 | 108.9<br>97.0 | (prior to asset protection reserve)<br>(with an asset protection reserve of 10%) |
| 2008 | 104.2<br>90.9 | (prior to asset protection reserve)<br>(with an asset protection reserve of 10%) |

[(1)] *All indices after 1998 and before 2003 include a 10 year benefit protection reserve unless indicated otherwise.*

[(2)] *If the assets exceed the undiscounted accrued retirement benefits, the asset backing index is equal to the ratio of the assets to the undiscounted accrued retirement benefits.*

**Historical retirement benefit improvements**

Shown below is a history of improvements to the Fund's retirement benefit since inception of the Fund in 1977.

| Year ending 30 June | Improvements to benefit accrual rate & surplus distributions |
|---|---|
| 1977 | Initial benefit accrual rate of 12.5%. |
| 1980 | In February 1981, the benefit accrual rate for future membership was increased to 15.0%. Benefit accrual rate for past membership remained at 12.5%. |
| 1985 | In late 1984, the benefit accrual rate for past membership was increased to 13.5%. The benefit accrual rate for future membership remained at 15.0%. |
| 1986 | In late 1985, the past benefit accrual rate was increased to 15.0%, while the future benefit accrual rate was increased to 16.0%. |
| 1987 | In late 1986, past and future benefit accrual rates were increased to a uniform 16.5%. |
| 1988 | Effective 14 August 1987, the benefit accrual rate was increased to 17.5% (past and future).<br>Effective 28 October 1987, the benefit accrual rate was increased to 19.0% (past and future). |
| 1990 | Effective 29 December 1989, the benefit accrual rate was increased to 20.0% (past and future). |
| 1993 | Effective 1 October 1992, the benefit accrual rate was increased to 21.0% (past and future). |
| 1996 | Effective 25 September 1995, the benefit accrual rate was increased to 21.5% (past and future). |
| 1998 | Effective 1 July 1997, $10m of surplus was distributed to Category A members as an additional accumulation amount (distribution was a proportionate allocation based on fully preserved withdrawal benefits less any additional accumulation balances). |
| 1999 | Effective 1 July 1999, approximately $1.5m in surplus was distributed to Category A members as an additional accumulation amount. Each Category A member received a distribution based on 1.5% of the defined benefit component of their withdrawal benefit. |
| 2000 | Effective 1 July 2000, approximately $7.7m in surplus was distributed to Category A members as an additional accumulation amount. Each Category A member received a distribution based on 7% of the defined benefit component of their withdrawal benefit. |
| 2004 | Effective 1 July 2004, the retirement benefit accrual rate was decreased to 18% (for future service), although the benefit accrual for death and total and permanent disablement benefits was retained at 21.5% per year of membership. |
| 2005 | Effective 1 July 2005, members have the option to elect a higher retirement benefit accrual rate of 21.5% (instead of 18%). |

## Appendix E: Projection assumptions

The following assumptions were made in the "basic scenario" projections of the Fund.

| Projection | Final average salary increase % pa | Investment return (net of tax) % pa | Assumed real rate of return % pa |
|---|---|---|---|
| "Standard" | 5.0 | 6.5 | 1.5 |
| "Unfavourable" | 5.0 | 5.0 | 0.0 |
| "Standard Plus" | 5.0 | 7.0 | 2.0 |
| "Favourable" | 5.0 | 8.0 | 3.0 |

1.1 Current members continue in the Fund until they leave service due to disablement reasons or retire and are replaced by "typical" new entrants.

1.2 Partial Disablement Decrement: 5% of members over the age of 40 are assumed to leave service due to partial disablement.

1.3 Expected Retiring Date: 50% of the members aged between 55 and 65 are assumed to retire each year. Any remaining members at age 65 are assumed to retire at that age.

1.4 Typical New Entrants: New entrants are assumed to join at age 35, with a starting salary of $52,000 in current dollars. Of these new entrants, 12.5% were assumed to elect the higher benefit accrual rate.

1.5 Members who have elected to make an additional contribution in order to receive higher resignation, retirement and partial disablement benefits will continue to do so. The higher benefit accrual rate is 21.5% and the additional contribution rate, net of tax, is 3.5% of salary.

1.6 The cost of group life insurance and expenses (net of tax deductions) was assumed to be 2.0% of salaries.

1.7 Employer contributions continue at the current levels, i.e. at 11.75% of salary.

1.8 Employer contributions, net of group life insurance and expenses, will be taxed at 15%. In addition, the following "shock" scenarios were projected:

***0% investment return in year 1, 6.5% thereafter***

1.9 This projection assumes an investment return of 0% in the first year, then 6.5% per annum thereafter. That is, a real rate of return of –5% in the first year and 1.5% per annum for the remainder of the projection period.

***-5% investment return in year 1, 6.5% thereafter***

1.10 This projection assumes an investment return of -5% in the first year, then 6.5% per annum thereafter. That is, a real rate of return of –10% in the first year and 1.5% per annum for the remainder of the projection period.

***-5% investment return in years 1 and 2, 6.5% thereafter***

1.11 This projection assumes an investment return of -5% per annum in the first two years, then 6.5% per annum thereafter. That is, a real rate of return of –10% per annum in the first two years and 1.5% per annum for the remainder of the projection period.

## Appendix F: Statement of accrued benefits for the purpose of Australian Accounting Standard 25

1.1 This summary has been prepared as at 30 June 2008 for the purposes of Australian Accounting Standard AAS 25, for the Fire and Emergency Services Superannuation Board. The results in this summary should not be used for any other purposes other than the preparation of financial statements in accordance with AAS 25.

1.2 The calculation of the accrued benefits for accounting purposes requires the calculation of the present value of expected future benefits payable from the Fund using a "current, market-determined, risk-adjusted discount rate" appropriate to the Fund. Taking this into account, the calculation of accrued benefits was based on the following financial assumptions:

a) Future investment returns (net of tax and investment expenses):
6.5% per annum

b) Salary inflation assumption:
5.0% per annum

1.3 The assumed investment returns (i.e. the discount rates) have been selected by the Fund Actuary having regard to the liabilities and investments of the Fund, and are based on the expected returns on the Fund's assets. The financial assumptions are consistent with those detailed in Appendix E of this report using the "standard" projection basis.

1.4 Accordingly, a 1.5% per annum real rate of return was used to determine the accrued benefits as at 30 June 2008.

1.5 When calculating the present value of members' accrued benefits, all members were assumed to remain in the Fund until reaching age 55, at which time they were assumed to retire. No discount was applied to those members aged 55 and over. This is consistent with the funding method used in the actuarial valuation, which aims to fully fund for all accrued retirement benefits of members on reaching age 55.

### Method of calculation

1.6 The past membership component of all benefits payable in the future was calculated on an actual accrual basis, where the accrued retirement multiple is the product of past membership at the valuation date and the benefit accrual rate of 18% or 21.5%, as applicable.

1.7 The current final average salary of each member was inflated to the expected date of leaving service and multiplied by the accrued retirement multiple. The future benefit was then discounted to a present value using the assumptions detailed above.

1.8 An adjustment was also made on an individual basis to increase the present value of accrued benefits to the vested benefit for each member if its value was less than the member's vested benefit.

1.9 All accumulation-type liabilities were valued at their current nominal value.

1.10 The assumptions detailed above are consistent with those used in the most recent actuarial review.

## Results

1.11 Based on the above assumptions, the present value of the accrued benefits as at 30 June 2008, for the purposes of AAS 25, was calculated to be:

| | |
|---|---|
| Value of Accrued Defined Benefits for Category A Members as per AAS25 | $151,032,960 |
| Category A additional accounts for defined benefit members | $34,904,639 |
| Category A accumulation accounts | $10,731,843 |
| Category B accumulation accounts | $2,626,117 |
| Category C accumulation accounts | $7,665,499 |
| Family law default accounts | $715,064 |
| Retained benefits | $54,406,209 |
| Account based pensions | $60,437,685 |
| Supplementary disability pensions | $710,396 |
| Present value of accrued benefits for AAS25 purposes | $323,230,412 |
| Net market value of assets | $358,370,277 |

1.12 At the valuation date, the ratio of the market value of the Fund's assets to the present value of accrued benefits was 111%. That is, the assets are sufficient to cover the accrued benefits.

1.13 The weighted average term of the liabilities was 13 years as at 30 June 2008.

1.14 The present value of accrued benefits has been calculated in accordance with Professional Standards and Guidance Notes issued by the Institute of Actuaries of Australia.

Catherine Nance FIAA
*Authorised Representative* (#265248) *of*
*PricewaterhouseCoopers Securities Ltd*

19 September 2008
Date

## Appendix G: Acturial statements for the purpose of the Superannuation Industry (Supervision) Act 1993

1.1 In accordance with Regulation 9.31 of the Superannuation Industry (Supervision) Regulations, I hereby make the following statements regarding the Fire and Emergency Services Superannuation Fund:

a) The net market value of the assets of the Fund as at 30 June 2008 was $358,370,277.

b) I believe that, as at 30 June 2008, the value of the assets of the Fund is adequate to meet the value of the liabilities in respect of both:

(i) $317,694,335 in vested resignation benefits, comprised of $145,496,883 in vested benefits for defined benefits members plus $172,197,452 in accumulation accounts and supplementary disability pension liabilities;

(ii) $323,230,412 in accrued retirement benefits, comprised of the value of accrued defined benefits of $151,032,960 plus $172,197,452 in accumulation accounts and supplementary disability pension liabilities.

c) I have recommended the employer's contribution for Category A defined benefit members be maintained at the existing rate of 11.75% of salaries plus the additional 1% of salaries for the supplementary disablement section.

(d) Employers contributing for Category A accumulation and Category B accumulation members are required to contribute at the minimum rates applicable under the SG legislation.

(e) No contributions are required for Category C members.

(f) The next actuarial valuation should be conducted as at a date no later than 30 June 2009.

(g) The financial position of the Fund remains sound. I believe that:

(i) the assets at 30 June 2008; plus

(ii) member and employer contributions over the next three years; plus

(iii) expected investment earnings over the next three years are sufficient to meet the liabilities of the Fund expected to arise over the next three-year period.

(h) I believe there is a high degree of probability that the Fund will be able to pay the supplementary disablement pensions as required under the governing rules. This opinion has been given for the purpose of Regulation 9.31(1)(ba) of the Superannuation Industry (Supervision) Act and in accordance with Guidance Note 465 issued by the Institute of Actuaries of Australia.

(i) As at 30 June 2008, the Fund was not in an unsatisfactory position as defined in Regulation 9.04 of the Superannuation Industry (Supervision) Act 1993.

(j) The appropriate funding and solvency certificate for the Fund was in place during the year to 30 June 2008 and I believe that funding and solvency certificates covering the next three year period will be able to be certified.

Catherine Nance FIAA
*Authorised Representative* (#265248) *of*
*PricewaterhouseCoopers Securities Ltd*

19 September 2008
Date

## Appendix H: Indices used for performance benchmarking

| Sector | Index |
|---|---|
| Cash | UBS Bank Bill Index |
| Australian Bonds | UBS Composite Bond Index |
| Australian Shares | S&P/ASX 300 (Merged) Accumulation Index |
| Property – Direct Board | ULP Asset Weighted Direct Property Index |
| Property - Listed | S&P/ASX 300 Listed Property Index |
| Offshore Shares | MSCI World (ex Australia) Accumulation Index – unhedged |
| Offshore Bonds | Salomon Bros World Government Bond (ex Australia) Index – hedged |

## Appendix I: Investment performance targets for managers

Shown below are the investment performance targets for each sector:

| Sector | Target out-performance of relevant index (% per annum) |
|---|---|
| Cash | +0.0% |
| Australian Bonds | +0.5% |
| Australian Shares | +2.0% |
| Property | +1.0% |
| Offshore Shares | +2.0% |
| Offshore Bonds | +0.5% |
| Total Portfolio | +1.3% |

## Appendix J: Assumed tax rates and expenses for Member Investment Choice (MIC) earnings rates

Shown below are the assumed tax rates and investment management expenses for the MIC earnings rates.

| Option | Tax rate assumed | Expenses assumed[1] (per annum) |
|---|---|---|
| Cash | 15% | 0.21% |
| Capital Stable | 4% | 0.41% |
| Growth | 11% | 0.51% |
| SRI | 5% | 0.80% |
| Shares | 10% | 0.50% |
| Australian Shares | 6% | 0.48% |

*(1)The administration fee of 0.23% per annum is in addtion to these investment management expenses.*

**PricewaterhouseCoopers**
**Securities Ltd**
**ACN 003 311 617**
**ABN 54 003 311 617**
**Holder of dealer's licence No 11203**

QV1
250 St George's Terrace
PERTH WA 6000
GPO Box D198
PERTH WA 6840
DX 77 Perth
Australia

www.pwcglobal.com/au
Telephone 61 8 9238 3000
Facsimile 61 8 9238 3999
Direct phone 08 9238 5201
Direct fax 08 9488 8684