

Statement of Corporate Intent 2014/15

Table of Contents

Executive Summary	2
1. Industry Overview	3
GESB Overview	5
1.1. Heads of Government Agreement (HoGA)	5
1.2. Our Business – Nature and Scope	5
1.3. Fund Overview	9
a Schemes Profile	9
b Guarantees.....	10
c Membership.....	10
1.4. Purpose.....	11
1.5. Strategic Objectives – State and Corporate.....	11
1.6. Corporate Responsibilities	12
1.7. The GESB Board.....	12
1.8. The Treasurer.....	13
2. Performance Targets	14
2.1. Key Results Areas	14
3. Major Programs of Work - 2014/15	16
3.1. State Government Reform.....	16
3.2. Commonwealth Superannuation Reform	18
3.3. Member Service and Engagement	19
3.4. Net Benefit to Members	20
3.5. Employer Service and Engagement.....	21
3.6. Efficient operations	22
3.7. Engaged people	22
4. Risk Management	24
5. Financial Forecasts	25
5.1. Financial Statements and Projections.....	25
5.2. Accounting Policies	25
5.3. Borrowing Arrangements	25
5.4. Projected Financial Statements - GESB	26

Executive Summary

This is the Government Employees Superannuation Board's (GESB's) 2014/15 Statement of Corporate Intent (SCI).

It provides information on:

- the environment in which GESB will operate in 2014/15;
- how GESB will continue to work with the State in implementing the State Government's superannuation reforms;
- GESB's corporate objectives;
- the initiatives GESB will pursue during the next twelve months to achieve those objectives;
- GESB's key performance targets; and
- financial forecasts for 2014/15.

GESB's purpose is *to improve the long term financial well-being of our members*. This is consistent with the *State Superannuation Act 2000* and GESB's core values. GESB's corporate goal is *to deliver value to members and employers within the Government's policy framework*.

GESB seeks to deliver value to its members by providing competitive superannuation and retirement products and net investment returns, with highly rated member services.

In addition to managing its core business, GESB will continue to allocate resources through 2014/15 to work with the State Government to implement one of the final State superannuation reforms: The procurement of administration services from a specialist external provider - outlined in *Putting Members First - A Review of Superannuation Arrangements for the WA Public Sector*. (The Whithear Report, Feb 2010). GESB will also commit resources to the transfer of lost or unclaimed superannuation to the Australian Taxation Office and to assess impacts and undertake activities related to the Commonwealth Government's *Stronger Super* reforms subject to State Government policy objectives.

The transition to an external service provider during 2014/15 will have a significant impact on GESB's business model. During and post implementation the objective is to ensure GESB continues to maximise the net financial return and quality of services to members (and employers). In addition to focusing on the transition to the provider, significant effort will be required to ensure the future GESB organisation is resourced adequately.

GESB's financial forecasts for 2014/15, which are presented in this SCI, show projected funds flows, Funds under Management (FuM), budgeted expenses and capital investment required to support the future GESB organisation. The financial outcomes for future years, including the potential impacts that will flow from implementation of Federal reforms, are presented in the Strategic Development Plan (SDP).

1. Industry Overview

The superannuation industry in Australia experienced significant growth in terms of assets in the 12 months to September 2013. Total industry assets increased by 17.2% to \$1.75 trillion, growing in relative terms to over 100 per cent of national gross domestic product (GDP).^{1,2} The sector also enjoyed double digit Rates of Return (ROR) for the first time since the 2007/08 financial year as a resurgent share market helped funds boost average member account balances by 20%.³ However, this period of significant growth and performance has disguised some significant pressures facing the industry.

The industry continued to manage changes in regulations, technology, product complexities, member demographics and operating and investment environments during 2013/14. The implementation of the Commonwealth Government's *Stronger Super* reforms and the start of new APRA Reporting Standards meant funds' resources were geared towards implementing change, with much of the effort being focused on the development and promotion of *MySuper* products. At the same time, a shift in member demographics saw contributions into the system start to reduce and benefit payments out of the system increase materially as the 'baby-boomer' generation move into the pension phase and the majority still take lump sum rather than pension payments.

Contributions to all entities (excluding SMSFs) for the 12 month period ending September 2013 were \$90.3 billion, down 0.8% from the previous year. Benefit payments over the period increased by 6.4% with members moving to the pension phase continuing to take lump sum payments and those with substantial superannuation balances at retirement overwhelmingly opting to put their money into their own SMSFs.⁴ Competition in the market also intensified as funds struggled to maintain economies of scale in a period of further member account consolidations due to the *Unclaimed Super Money* and *Lost Member* transfers coming into effect in 2013.⁵

Despite these challenges, superannuation assets are forecast to grow at an average rate of 8.2% to \$3.3 trillion over the next 15 years, underpinned by the compulsory nature of the Superannuation Guarantee (SG) contribution and the prospect of a return of a more normalized investment environment.⁶ The post-retirement market is expected to grow more than 165% to be approximately 39% of all superannuation fund assets by June 2028 on the premise that most funds today have set up their own retirement products and an increasing number of members would purchase a pension product or annuity within the same fund they accumulate their benefits; thus implying a shift towards more retirement assets being retained in the system for a longer period.⁷

The industry as at 30 June 2013 comprised of approximately 31 million accounts across 305 managed funds and over half a million SMSFs. SMSFs continue to hold the largest share of assets, accounting for 31% of total assets. Retail funds account for 26% and industry funds account for 20%; while public sector funds and corporate funds account for 16% and 4% respectively. The remaining 3 per cent is held by *Balance of Life Office Statutory* funds with assets of almost \$1 billion. The average balance per account is estimated to be \$51,400 however many people still hold more than one superannuation account, so the average member balance will be higher than this figure. Members of small funds (including SMSFs) held the largest average account balance, \$524,905. Corporate fund members held an average account balance of \$119,711, public sector fund members held \$76,978 on average (excluding unfunded portions of defined benefit schemes); retail fund members held \$29,370 on average and industry fund members held \$28,172 on average.

¹ APRA Statistics – Quarterly Superannuation Performance September 2013

² Deloitte Actuaries & Consultants – Dynamics of the Australian Superannuation System (*The next 20 years: 2013 – 2033*)

³ APRA Statistics - Annual Superannuation Bulletin June 2013

⁴ APRA Statistics – Quarterly Superannuation Performance September 2013

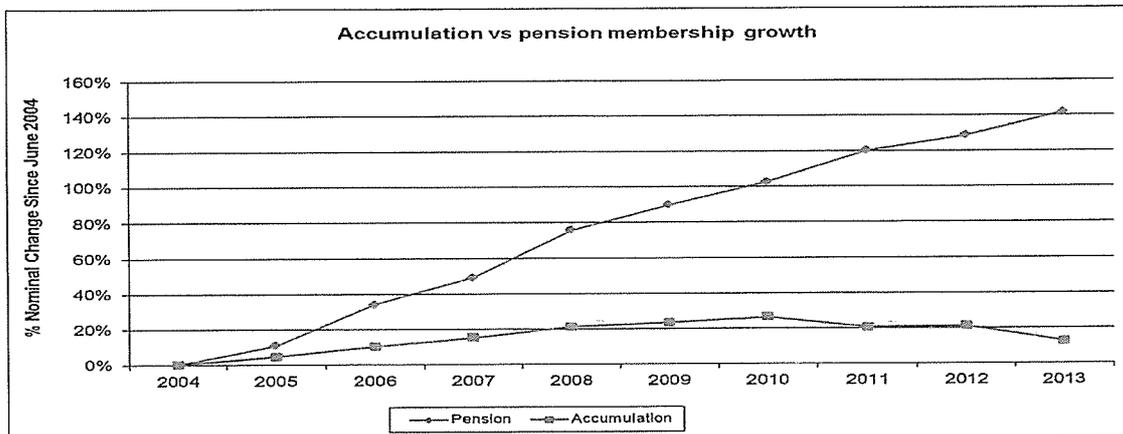
⁵ APRA Statistics - Annual Superannuation Bulletin June 2013

⁶ Rice Warner Actuaries - Superannuation Market Projections 2013 Research Report

⁷ Rice Warner Actuaries - Superannuation Market Projections 2013 Research Report

Growth in the demand for post-retirement products, education and financial advice as a result of an ageing population is continuing with the number of members converting from the accumulation phase to the pension phase more than doubling since June 2004 compared to accumulation membership, where membership growth is declining.⁸

Nominal change in membership since June 2004



Source: APRA Statistics – Superannuation Fund-level Profiles and Financial Performance June 2013

The 2013/14 financial year has seen the introduction of mandatory *MySuper* default products for default SG contributions and the application of the *SuperStream* initiatives. The primary aims of these reforms are to:

- increase efficiency in the system through electronic and standardised transactions;
- improve the level of overall fund governance through standards and regulation;
- reduce the number of superannuation accounts per individual; and
- reduce investment costs in default funds through legislated, simplified product design.

GESB already meets many of these objectives with strong fund governance, efficient electronic contribution processing, account consolidation programs, effective risk management and sound long-term net returns.

Superannuation trustees and administrators have invested significant resources to accommodate the Commonwealth's *SuperStream* electronic processing objective and *MySuper* default fund. As at 31 March 2014, 117 authorities to offer a *MySuper* product had been approved. The default investment options offered by retail and industry funds differ greatly with two thirds of retail master trusts utilising a lifecycle investment strategy and 89% of industry funds using their pre-existing default Balanced option.⁹ There is now increased fee competitiveness and fee transparency under *MySuper*, particularly from the retail sector where fees have dropped significantly, mainly as a result of providing passively managed *MySuper* offerings. It is questionable whether the fee reductions will be sustainable over the long term due to the increased need for funds to commit resources towards member engagement activities and the lack of member number growth.

To increase engagement, funds are increasing their customer analytics capabilities, enabling them to implement more targeted communication strategies. There is also increasing activity via electronic channels with 55% of funds in 2013 using social networking websites to target members and 56% and 44% of funds respectively having websites that are fully compatible with iPad/tablets and mobile phones.⁹

Capital investment to accommodate fund mergers together with revenue reduction from a decline in the number of accounts will place significant financial pressure on administrators who have not already invested in electronic contribution processing. Their current fee charging models are unlikely to be sustainable and the industry is likely to see an increase in activity based fees.⁹

⁸ APRA Statistics – Superannuation Fund-level Profiles and Financial Performance June 2013

⁹ SuperRatings Annual Benchmarking Study, February 2014

To date funds have made few changes to their insurance offerings under *MySuper*. Many have experienced significant increases in premiums, however, on the back of increased claims experience driven by greater awareness of insurance available within superannuation funds and a significant increase in mental health related claims.⁹ The average increase in premiums for the 18 months to June 2013 was 26.3% for Death and TPD and 14.7% for income protection. It will be important for funds to review their insurance product offerings to ensure they are appropriate for their membership.

External changes at both Commonwealth and State level continue to present a range of emerging issues for the industry and GESB; related primarily to economies of scale, liquidity and the impact of regulatory changes. There is still uncertainty around some key aspects of the Commonwealth's reform and how this will impact funds, for example the review into the role of default superannuation in modern awards.

Where practicable GESB seeks to align itself with the intent of the Commonwealth's reform. This is consistent with the principles of the Heads of Government Agreement (HOGA).

GESB Overview

GESB is a State Statutory Authority which administers a number of EPSSSs in the Australian superannuation industry. An EPSSS is a scheme that the Commonwealth has agreed to exempt from the *Superannuation Industry (Supervision) Act 1993* (SIS Act) governing legislation. This is in recognition of the complexities associated with, and the relevant State laws governing, public sector schemes.

1.1. Heads of Government Agreement (HoGA)

The State of Western Australia is a signatory to the HoGA with the Commonwealth in respect of all its public sector superannuation schemes. Under the HoGA, in recognition of the circumstances surrounding the GES schemes (such as the complex nature of the defined benefit schemes, the public accountability of the schemes, the State laws governing the schemes Constitutional Protection and State prudential controls), the Commonwealth agreed to exempt the GES schemes from the relevant Commonwealth governing legislation for superannuation funds, i.e. SIS Act.

As a consequence, the SIS Act provides that exempt public sector superannuation schemes, such as the GES schemes, are deemed to be complying superannuation funds for superannuation guarantee purposes under the *Superannuation Guarantee (Administration) Act 1992* and for income tax purposes under the *Income Tax Assessment Act 1936*.

In return for these exemptions, the State Government agreed to ensure that members' accrued benefits will be fully protected and that the GES schemes will conform broadly to the principles of the Commonwealth's Retirement Income Policy through the HoGA. The incorporation of some of these principles is evident in the *State Superannuation Act 2000* (SSA) and State Superannuation Regulations 2001 (SSR).

1.2. Our Business – Nature and Scope

As a State Government owned superannuation and retirement services entity, GESB manages superannuation accounts and investments for more than 334,000 current and former WA public sector workers. GESB currently operates within its 2013/14 SCI approved target of 215 FTE. The number of FTE in GESB for the 2014/15 financial year will be substantially reduced due to the implementation of outsourcing; however exact numbers are still being determined.

GESB manages an investment portfolio of \$17.8bn (as at 31 December 2013) of which some 83 percent (\$14.8bn) is managed for members in market linked schemes where members bear the investment risk. A \$2.8bn investment portfolio is managed for the State to support its defined benefit liabilities.

GESB's total assets increased by 21% in the 2012/13 financial year, compared with only 15.7% growth in the overall Australian superannuation market, and increased a further 12% to the end of

December 2013.¹⁰ This significant growth in assets was the result of continued sound investment performance, high levels of member contributions and the retention of retirement benefits. In the 2012/13 financial year GESB experienced a growth of 16.8% in member voluntary contributions compared to 8.4% across the industry and subsequently the net outflow ratio of the fund was 12% better than the industry median.¹¹ (See growth metrics table below)

SUPERRATINGS 2013 GROWTH METRICS

Growth Metric	GESB	Large Funds	Industry Median	SuperRatings Assessment
FUM Growth	21.9%	19.1%	16.0%	Well Above Benchmark
Member Growth	1.7%	0.1%	-1.4%	Well Above Benchmark
Employer Contribution Growth	7.7%	-2.3%	-2.6%	Well Above Benchmark
Member Contribution Growth	16.8%	11.2%	8.4%	Above Benchmark
Transfer Contribution Growth	13.7%	12.8%	11.9%	Above Benchmark
Total Contribution Growth	10.7%	4.8%	2.0%	Well Above Benchmark
Net Outflow (Benefits/Cont's)	57.0%	60.4%	68.9%	Above Benchmark
Active Members	48.4%	68.0%	64.2%	Below Benchmark
Average Account Balance	\$46.4K	\$57.1K	\$47.4K	Benchmark
Operating Expense Growth	0.9%	15.8%	14.0%	Well Above Benchmark

Source: SuperRatings Benchmark 2013 - GESB

The introduction of Choice of fund for Public Sector employees in March 2012 has yielded a member attrition rate of only 2.5%.

Around 15% of new employees joining the WA public sector were forecast to choose an alternative superannuation fund to GESB, however over the last 21 months to 31 December 2013 only 8% of new public sector employees have chosen an alternative superannuation provider, leading to revised forecasts in choice attrition rates. GESB's objective is to ensure all members make an informed choice and to minimise attrition of active members.

GESB received contributions of \$2.1 billion and paid out \$1.3 billion in benefits during the 2012/13 financial year. GESB currently retains 67% of retirement benefit payments within its allocated pension product.¹² The average member account balance increased from \$39K to \$46K and the active member ratio increased marginally to 48.4% at end-June 2013 from 48.3% at end-June 2012, but is still significantly lower than the industry average. This ratio will increase with the implementation of lost and unclaimed super.

The ageing WA public sector workforce (25% of the current WA public sector workforce are over 55 years of age) poses a particular issue for GESB with about a third of current members in the accumulation phase set to retire in the next 15 years. It is estimated that over \$8bn in retirement benefits will be payable in the next 5 years, thus retention of retirement funds into GESB's allocated pension product is an important strategic objective.

A substantial reduction in operating costs and positive membership growth meant that GESB's cost per member of \$120 remains significantly lower than the rest of the industry (\$217 average cost per member)¹³, where in contrast to GESB, funds have experienced negative member growth and increased operating costs as a result of investment in systems upgrades related to the incoming regulatory changes.

GESB's investment framework operates in accordance with Prudential Guidelines issued by the Treasurer.

The schemes that GESB manages are governed under State laws, in particular the SSA¹⁴ and SSR¹⁵. While some public sector funds in other states are no longer publicly owned or have

¹⁰ APRA Statistics - Annual Superannuation Bulletin June 2012, GESB Marketing Statistics, 28 February 2013

¹¹ SuperRatings Benchmarking Survey 2013

¹² *It's a member choice to transfer to the Allocated Pension*

¹³ SuperRatings Benchmarking Survey 2013

¹⁴ State Superannuation Act 2000

¹⁵ State Superannuation Regulations 2001

become Commonwealth regulated, GESB manages its schemes as an EPSSS under the State regulatory framework.

GESB's primary functions under the SSA (*section 6 (1) (a) – (f)*), include to:

- Manage the Fund;
- Develop and implement an investment strategy;
- Provide information, advice and assistance to the Minister and the Treasurer on matters relating to superannuation; however Cabinet transferred the delivery of this function to the Department of Treasury and is subject to a Memorandum of Understanding between the Chairman and the Under Treasurer.
- Provide or facilitate provision of products and services to members of schemes administered by the Board and Employers;
- Provide a service of receiving superannuation contributions paid by Employers and crediting them to the Fund or remitting them on behalf of Employers to other funds;
- Administer the schemes or select and appoint external administrators of the schemes and monitor their administration; and
- So far as practicable, provide information to members and employers regarding their rights and entitlements under the schemes administered by GESB.

Key activities undertaken by GESB include:

- processing account transactions;
- providing financial and retirement education through metro and regional seminars, printed and electronic communication;
- assisting members via phone, face-to-face, mail, email or on-line; and
- delivering general advice on retirement options.

Consistent with the State Government superannuation reforms, many of these activities have been tendered for possible provision by commercial administration companies. It is anticipated that this may result in a transition to a commercial supplier in the first half of the 2014/15 financial year, with considerable resource and workflow impacts.

GESB is primarily a self-funded agency, though it recovers the operational costs of administering the State's defined benefit schemes, other Government related activity including the cost of Government relations, and reform related costs from Treasury. Income is generated through:

- account administration fees debited to accounts for members of market linked schemes;
- account administration and investment management fees charged to the State for administering the defined benefit schemes¹⁶
- investment management fees from member funds of market linked schemes; and
- insurance administration fees from member insurance premiums.

In relation to the market linked schemes, the net excess of income over costs has historically been transferred to an Operational Risk Reserve (ORR) and more recently into an Accumulation General Reserve (AGR) as the ORR has reached the Board endorsed target range of 50-60 basis points.

GESB maintains insurance cover for risk events through RiskCover which provides \$300 million cover for general and professional liability which includes fraud or operating risk events and maintains Directors' & Officers' liability cover through the open market. Business insurance does not protect against investment volatility. The Board also mitigates risk through a system of internal controls.

¹⁶ State's defined benefits schemes include the Parliamentary Pension Scheme (PSS), Judges Pension Scheme (JPS), Gold State Superannuation (GSS), WA Public Sector Pension Scheme.

Operating under the SSA, GESB delivers products with below average fees and highly rated services to members and the State.¹⁸

In 2013/14, GESB was again recognised in the industry, and by members and employers:

- Achieved highest industry ratings for accumulation & retirement products - 'Platinum Rating' (SuperRatings), '5 Apples' (ChantWest) and '5 Quality Stars' (Heron Partnership);
- Awarded '7 year Platinum Performance' rating for accumulation and retirement products by SuperRatings, recognizing the fund as a "best value for money" superannuation fund;
- 1st quartile ranking for GESB Super's default Balanced Growth Plan's returns (3 year & 5 year) and above median (1 years), maintaining a 'Leading' 5 year trend;¹⁷
- Second lowest quartile ranking for accumulation & retirement product fees¹⁸
- Awarded the Australian Marketing Institute (AMI) Award in the category of Best New Product, Brand or Service Launch for the launch of the Retirement Options Service;
- National finalists of ASFA's Integrated Campaign of the Year Award;
- ATA State award for Contact Centre of the Year for the third consecutive year [2011 (under 50 seats), 2012 (31 to 80 seats) and 2013 (31 to 80 seats)];
- Internal communications campaign, 'Deliver with pride' awarded the 2013 International Association of Business Communicators (IABC) Gold Quill Award of Merit;
- 2013 financial statements recognised by the Australasian Reporting Awards with a Bronze medal award;
- Recognized as a Top 20 'Best Practice' agency by the OAG
- Award winning financial literacy program, Into Your Comfort Zone (IYCZ) presented at the international financial literacy and retirement savings seminar in Kuala Lumpur at the invitation of the Malaysian government's superannuation fund;
- Employer satisfaction with service of 84% with 89% of employer representatives likely to choose GESB as a default fund;¹⁹
- Member satisfaction with service of 89%;²⁰
- GESB was ranked 6th overall for members' satisfaction with their fund (June 2013);²¹
- GESB was ranked in the top 3 funds for member engagement in the CoreData 2013 Member Engagement Research Report;
- Historically high staff satisfaction score of 77% and high retention rates through a period of significant organisational change; and
- Health and wellness program, GESB Goodlife ranked 3rd on HBF's Corporate Wellness Leader board.

GESB continues to deliver on its business as usual activities to members during the 2013/14 financial year whilst resources are heavily committed to the successful implementation of the SAOP. In addition a number of new initiatives were implemented aimed at improving the member experience and/or increasing efficiency, including the implementation of:

- 'Consolidation Days' – a new workplace service for members to support them in completing all required paperwork for account consolidation at one time;
- the dedicated Insurance Claims Consultant (ICC) team that provides support to members during the insurance claims process improving the member experience during a stressful time and reducing claim duration;
- Retirement Reward seminars for members of GESB's Retirement Income product;
- enhancements to online insurance capabilities with GESB Super and WSS members now being able to increase their cover online;

¹⁷ SuperRatings, Fund Crediting Rate Survey, Dec 2013

¹⁸ SuperRatings Benchmarking Survey 2013

¹⁹ Painted Dog, Employer Satisfaction and Engagement Research, Aug 2013

²⁰ Painted Dog, GESB Member Experience Research, Dec 2013

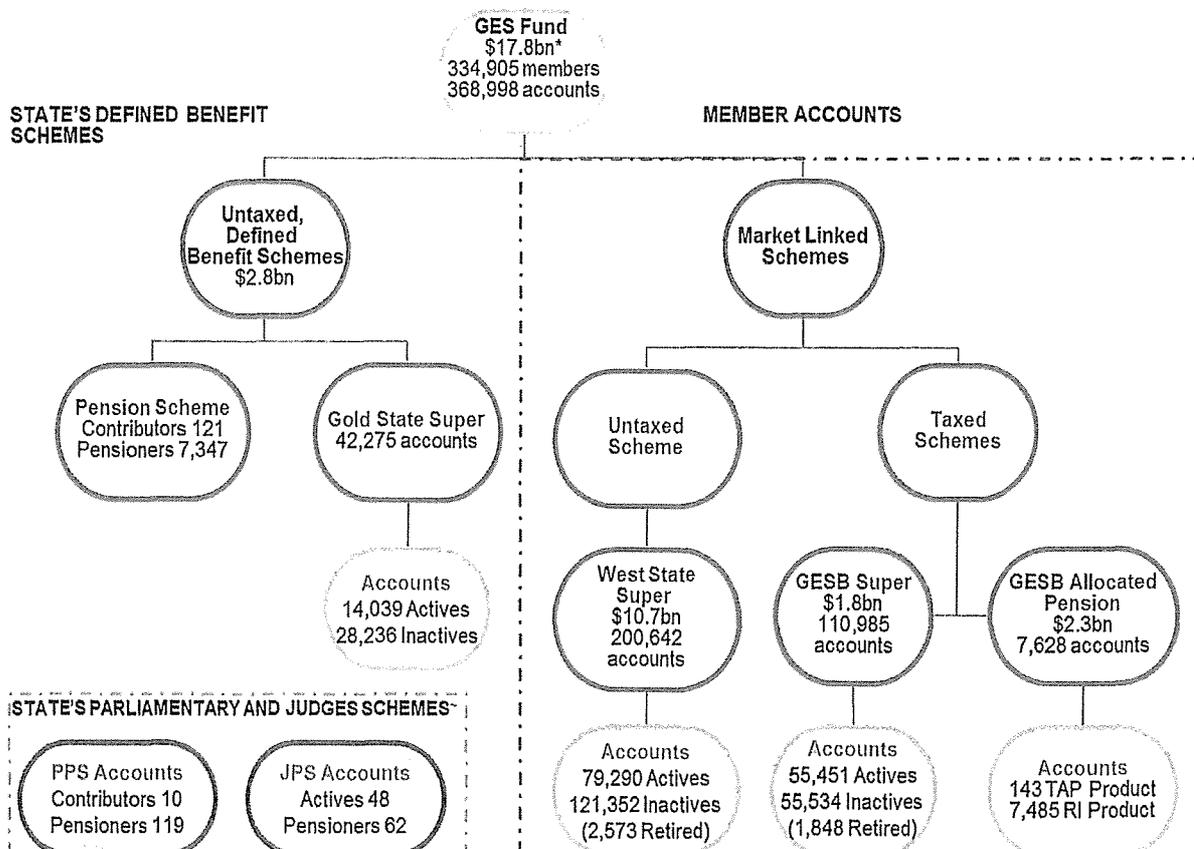
²¹ Investment Trends Member Sentiment and Communication Report, September 2013

- the 'GESB Intelligence' intranet site that provide Member Services Consultants with better access to information;
- the redesign and restructuring of Member on Line (MOL) to be more user friendly;
- the Online Investment Dashboard as part of the Federal Government Stronger Super reform initiatives, which provides members and advisors with more user friendly access to information aiding fund comparisons;
- improvements to member statements aimed at increasing member engagement;
- e-Rollovers were implemented as part of the *SuperStream* project. GESB is now capable of receiving and sending rollovers electronically meaning a quicker end to end process for members. E-Contribution functionality is also being implemented in 2014 to enable employers to comply with the data standards; and
- system upgrades including the upgrades to Capital 10 and EIW, transition of Goldmine to Compass, a Windows 7 Desktop upgrade and other legislative changes for example the Member Contribution Statement (MCS) upgrade.

1.3. Fund Overview

As previously stated, GESB has an investment portfolio of \$17.8 billion (as at 31 December 2013) of which \$14.8 billion (83%) is held in market linked schemes where members bear investment risk for their chosen investment plan. The Board determines an appropriate investment strategy for each investment plan, within guidelines issued by the Treasurer, to achieve the targeted long-term net return objectives for these members.

a Schemes Profile



Source: GESB Marketing Statistics, 31 December 2013

*GES Fund assets include assets held in reserve.

-GESB also administers the Parliamentary (PPS) and Judges Pension (JPS) schemes on behalf of the Parliamentary Superannuation Board and the Treasurer respectively. These schemes are not included in the GES Fund.

b Guarantees

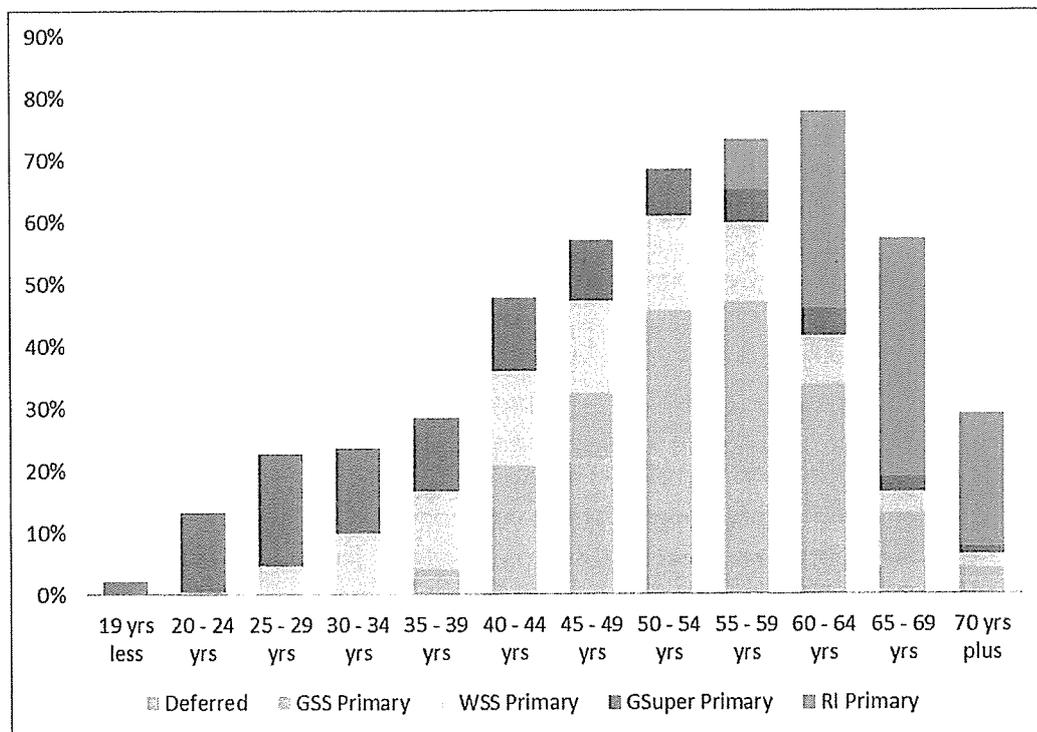
The State guarantees to pay every benefit payable under a scheme, including the accumulation, retirement and defined benefit schemes.²² This is particularly relevant for members of the State’s defined benefit schemes which are not fully funded.

The State does not guarantee any particular investment performance for members of the retirement and accumulation schemes; however a guaranteed benefit component exists for WSS members who joined the scheme prior to 1 July 2001. This guarantees that a WSS member’s benefit cannot be less than the account balance as at 1 July 2001 plus CPI+2%. If this is the case, the additional amount credited in order to bring the benefit up to this figure is the benefit guarantee amount. The State does guarantee that there are sufficient assets and liquidity to pay an accrued benefit when it is due and payable. The guarantee, together with the Operational Risk Reserve (ORR), protects the Fund and members’ benefits in the event of loss as a result of an operational risk event, while the ORR serves to protect the State in the event of a loss resulting from an operational risk event.

c Membership

Employees aged 45 and over comprise a greater proportion of the public sector workforce (51.9%) when compared with the broader WA labour force (37.8%).²³ Nearly 83,000 members are currently of retirement age. However, approximately 62,000 members in the accumulation schemes do not reach retirement age for at least another 25 years. Generally as members get closer to retirement and/or accumulate substantial account balances they become more engaged with their superannuation and have higher requirements for education services, transaction processing and usage of the call centre and website.

**Members by Age and Primary Account Type
as at 31 December 2013**



²² State Superannuation Act 2000, Division 5, Sections 31 and 32

²³ 'State of the Sector 2013', Public Sector Commission

1.4. Purpose

GESB's purpose is to *improve the long term financial well-being of our members*.

To meet this purpose GESB provides superannuation administration and member services, simple advice, and other ancillary products and services for its members. GESB also provides administration services to the State for its defined benefit schemes and investment services for members and the State with effective diversification to deliver sound, risk adjusted, long-term net returns.

In meeting its purpose GESB aims to provide the best value, quality service fund available for current and former WA public sector employees. This is consistent with its governing legislation, the SSA, which requires GESB to act, as far as is practicable, in the best interests of members while performing its functions.

1.5. Strategic Objectives – State and Corporate

State Policy Initiatives

The State Government's major superannuation policy initiatives to be actioned in 2014/15 include:

- finalisation of the Whithear Report recommendation to procure administration services from a specialist external provider;
- determination of a policy response to the Commonwealth's *Stronger Super* initiatives in relation to *MySuper*, *SuperStream* and *Governance*; and
- completion of the implementation of remittance of unclaimed/lost super monies to the Australian Tax Office (ATO).

Corporate Goal

GESB's corporate goal is to *deliver value to members and employers within the State Government's policy framework*.

Value to members means providing competitive superannuation and retirement products and net investment returns, with highly rated member services.

Value to employers means servicing employers through work-place education and advice programs and support around choice.

Efficient administration and competitive investment returns, with appropriate risk management, are delivered within the State Government policy framework.

These outcomes will continue to be achieved through a focus on members, efficient operations, and people management, underpinning GESB's sustainable financial performance.

Within these strategic themes, GESB's corporate objectives are:

- **Competitive investment returns:** competitive superannuation and retirement products and services, and net investment returns;
- **Prudent cost management:** prudent management of our cost base;
- **Effective risk management:** manage our business responsibly; and
- **Capable people:** build a performance culture focused on member value.

Our Values

GESB is a values-based organisation. Our values are:

- **Put members first** – We are committed to improving our members' long-term financial well-being through understanding their needs and considering their interests in everything we do.

-
- **Sustainable performance** – We pride ourselves on being knowledgeable and insightful. We make balanced decisions for the long term. We think ahead and always look for ways to improve our performance at every level.
 - **Achieve together** – We partner with our members, inspiring confidence in their future through education and advice. We are positive and energetic in the way we provide services to our members and the State, and in the way we manage their monies.
 - **Act with integrity** – We make responsible decisions based on thorough analysis and make a point of sharing our knowledge. We approach every aspect of our work ethically, and operate transparently and with full accountability. We demonstrate our sense of responsibility on a daily basis, by ‘taking ownership’ of members’ issues and seeing enquiries through to ensure a satisfactory outcome.

1.6. Corporate Responsibilities

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

- **State Regulatory Compliance.** The SSA governs the powers and functions of the GESB Board and responsibilities toward members. The SSR set out the rules of the superannuation schemes.
- **State Government Policy.** As a government trading enterprise, GESB acts in accordance with relevant State Government legislation and policies.
- **Heads of Government Agreement (HoGA).** Schemes managed by GESB are exempt from the Commonwealth governing legislation for superannuation funds (the *Superannuation Industry Supervision Act 1993*), Corporations Law, parts of the Superannuation Guarantee (SG) Act and parts of the Income Tax Act. However, GESB’s schemes are deemed to conform broadly to the principles of the relevant Commonwealth legislation under the HoGA.
- **Commonwealth Regulatory Compliance.** GESB aligns to Commonwealth regulatory requirements as a matter of best practice, where practicable.
- **Competition and Consumer Act.** GESB manages compliance with the Australian Consumer Law in the *Competition and Consumer Act (2010)* through policies, procedures and internal legal review.

1.7. The GESB Board

As a statutory authority, the GESB Board has powers and functions under the SSA and has a statutory obligation as far as practicable to act in members’ best interests. GESB is ultimately accountable to the Treasurer.

Under Statutory Corporations (Liability of Directors) Act (1995) GESB’s directors are required to owe the corporation similar duties to those owed by directors under the Commonwealth Corporations Act 2000. The GESB Board, in serving the corporation, must serve the interests of its members.

The GESB Board is responsible for the overall governance and performance of GESB in accordance with the SSA. The GESB Board has responsibility for all matters relating to the operation of GESB. In governing GESB, the GESB Board sets the values and standards and ensures that GESB’s obligations to its members and other stakeholders are understood and met.

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

Section 8 of the SSA states that the GESB Board comprises seven directors of whom -

- one is to be appointed by the Governor as chairman on the nomination of the Treasurer;

-
- three are to be appointed by the Governor as Employer directors; and
 - three are to be elected in accordance with the regulations as Member directors.

1.8. The Treasurer

The Treasurer is the responsible Minister for GESB. Specific responsibilities of the Treasurer under the SSA include (but are not restricted to):

- administering the SSA and SSR;
- WA public sector superannuation policy generally;
- issuing Prudential Guidelines that cover the nature of investments that the GESB Board can make;
- issuing Reserving Guidelines which govern the reserving of the GES Fund;
- approving the appointment of Investment Managers;
- approving GESB's Statement of Corporate Intent (SCI) & Strategic Development Plan (SDP);
- making and amending regulations;
- nominating GESB Employer Directors, Chairman and Deputy Chairman for appointment by the Governor in Executive Council;
- directing the GESB Board; and
- directing employers around superannuation practice and procedures.

2. Performance Targets

2.1. Key Results Areas

Major initiatives and key business activities in 2014/15 are aligned with GESB's six key result areas:

1. Net benefit to members
2. Financial performance
3. Member service and engagement
4. Employer service and engagement
5. Efficient operations
6. Engaged people

GESB will continue to deliver good value to members and the State and be self-sustaining.

The key result areas reflect GESB's focus on providing net benefits to members through sound investment returns, low fees and through increased member engagement in their superannuation. GESB is also focussed on providing ongoing support to employers, particularly during the implementation of the Commonwealth Government's *SuperStream* initiatives. Maintaining appropriately skilled staff during and post the transition to an external administrator is critically important in order for GESB to continue to deliver services to members and employers. A key objective of the Superannuation Administration Outsourcing Project (SAOP) is to maintain or improve services to members and employers and to deliver these services efficiently.

GESB continues to review its operating costs in order to ensure administration costs remain competitive. In the 2012/13 financial year GESB reduced operating expenses by 0.9% to \$120 per member, compared to an increase of 14% (to \$217 per member) in the industry average.²⁴ This was the fourth year in a row that GESB has experienced a decrease in cost per member against the industry trend of significant increases each year, leading to GESB's 'Well above benchmark' rating against the industry for this measure.

In 2013/14 GESB's total cost to asset ratio is forecast to reduce to 0.59% - below the target objective from the Cooper Review for a *MySuper* product of 0.66% and in line with the actual for 2012/13 of 0.60%. The total cost to asset ratio is a key measure together with (risk appropriate) returns as these two measures provide the end net value to both members and the State.

GESB's FUM is forecast to grow to \$28.5bn by June 2019 due to continuing sound investment performance, and a high level of member discretionary contributions. However an increasing number of retirements by an ageing public sector workforce and the attraction of SMSFs amongst retirees with large accounts will mean GESB needs to focus on retention of its members. .

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

²⁴ SuperRatings Benchmark Report – GESB 2013

The following measures and targets have been set for GESB's key result areas for 2014/15:

Key Result Area	Key Indicators	Frequency	Unit	2014/15 Budget	2013/14 Budget	2013/14 Forecast	2012/13 Actual
Net Member Benefits - Investments	Gold State Super Net Return vs Primary Objective ¹	Annually	#	Outperform	NA	NA	NA
	GESB Super Default Plan Net Return vs Primary Objective ¹	Annually	#	Outperform	NA	NA	NA
	West State Default Plan Net Return vs Primary Objective ¹	Annually	#	Outperform	NA	NA	NA
	Retirement Income Balanced Plan Net Return vs Primary Objective ¹	Annually	#	Outperform	NA	NA	NA
	Gold State Super vs Benchmark ¹	Annually	#	Outperform	NA	NA	NA
	GESB Super Default Plan Net Return vs Benchmark ¹	Annually	#	Outperform	NA	NA	NA
	West State Default Plan Net Return vs Benchmark ¹	Annually	#	Outperform	NA	NA	NA
	Retirement Income Balanced Plan Net Return vs Benchmark ¹	Annually	#	Outperform	NA	NA	NA
Net Member Benefits - Fees	WSS Default Plan Fee Quartile ²	Annually	#	Below Median	Below Median	Below Median	Below Median
	GESB Super Default Plan Fee Quartile ²	Annually	#	Below Median	Below Median	Below Median	Below Median
Financial Performance	Funds under Management	Monthly	\$b	20.2	16.7	18.2	15.9
	Net Funds Flow	Monthly	\$m	791	740	817	924
	Cost-to-Asset Ratio	Monthly	%	0.53	0.59	0.57	0.58
	MER excluding contribution to Reserves ⁵	Monthly	%	0.41	0.42	0.42	0.41
	MER including contribution to Reserves ⁵	Monthly	%	0.50	0.52	0.52	0.50
Member Service and Engagement	Member Satisfaction ³	Quarterly	%	80	NA	NA	82
	Member Retention Retirement Rate (inc TTR)	Monthly	%	65	55	65	65
Employer Service and Engagement	Employer Engagement ⁴	Annually	%	75	75	75	81
Efficient Operations	Administration cost per accumulation account ⁶	Monthly	\$	118	115	104	97
	Administration cost per defined benefit account ⁶	Monthly	\$	185	245	233	197
	- Gold State cost per account	Monthly	\$	155	244	231	195
	- Pension Scheme cost per account	Monthly	\$	346	252	247	220
Engaged People	Staff Satisfaction	Quarterly	%	55	55	55	77

Notes

- Budget and forecasts for 2013/14 and actuals for 2012/13 for Investments are not available (NA) as they are new measures incorporated into the scorecard from 2014/15.
- "Below median" targets GESB fees being lower than the median fee of all superannuation funds as reported by SuperRatings "Fund Credit Rate Survey".
- Member Satisfaction with Service is a survey performed by Painted Dog (reported quarterly) and is the % of members who are satisfied with the service provided by GESB (6 to 10 out of 10).
- The % of employers engaged with GESB measured using a model developed by Painted Dog Research which incorporates 6 'satisfaction' and 'loyalty' measures.
- The 2013-14 Forecast was prepared in line with the Treasury mid-year review process in October 2013. It includes actual experience up to 30 September 2013 and a projection of expected activity from 1 October 2013 – 30 June 2014.
- The Budget Administration Cost per Accumulation Account of \$118 is based on total admin costs of \$35.2m and average account numbers of 299,281. If the lost and unclaimed super legislation is not completed and these accounts are not rolled out then the estimated Administration Cost per Accumulation Account would be \$112 based on estimated admin costs of \$36m and average account numbers of 321,792. The budget Administration Cost per Defined Benefit Account of \$185 is based on total admin costs of \$8.2m and average account numbers of 44,241.

Key assumptions for 2014/15 budget:

- Projections include assumptions relating to investment performance, salary increases and member behaviour. Any variations between these and actual performance could impact GESB's key result areas.
- Gross investment returns are assumed to be 8.2% for 2014/15 and are based on individual scheme returns provided by GESB's asset consultant.
- For the cost to asset ratio, costs include operating and investment management expenses.
- Investment management costs include manager out-performance fees.
- GESB continues to be default fund for most WA public sector employers.

GESB expects to invest \$500k in capital programs during 2014/15. Capital expenditure is depreciated in accordance with accounting standards, reflected in administration expenses by scheme, and recovered through fees and charges.

3. Major Programs of Work - 2014/15

In 2014/15, GESB remains committed to continuing to provide efficient, low cost superannuation and retirement products and services that meet its members' and the State's needs in a sustainable and responsible manner. GESB has a strong risk management and compliance culture that ensures protection of fund assets.

The areas of focus for the 2014/15 financial year are largely an extension of the 2013/14 financial year until the transition to the external service provider has been implemented. Once transition is complete a review of GESB's strategic priorities including product, service and channel strategies will be carried out.

The priority areas are as follows:

- **State and Federal reform**

- GESB will continue working with the State to implement the State superannuation reforms in 2014/15 and to also ensure its compliance with relevant Commonwealth legislation changes.

- **State reform:**

- Transition to an external service provider with no degradation of services;
 - Implementation of an adequately resourced future GESB organisation;
 - Implementation of Lost Unclaimed Superannuation legislation.

- **Federal reform:**

- Implementation of any Federal legislative changes where relevant.

- **Member service and engagement:**

- Maintenance of service levels to members as GESB transitions;
 - Active retention of accumulation and retired members;
 - Small inactive account consolidation;
 - Continuation of targeted communication campaigns to increase awareness and engagement in superannuation and GESB;
 - Enhancements to GESB's website and member online (MOL) services (digital strategy);
 - Review of GESB's accumulation, retirement and insurance product offerings to ensure they are appropriate for members;
 - Pricing review of all market linked products.

- **Employer service and engagement:**

- Continued provision of all services currently provided to employers, including establishment of adequate processes and services for employers by the Service Company.

- **Investment strategy:**

- Continue to progress the implementation of increased diversification of asset classes and investment strategies;
 - Completion of Custodian Services tender process.

- **Efficient operations:**

- Effective contract management of outsourced contract to ensure 'value for money' and limit potential future increases in fees charged to members;
 - Development and implementation of an IT transition strategy.

- **Engaged people:**

- Establishment of the future GESB organisational structure; and
 - Continuation of the Change Management Program and other initiatives focussed on maintaining employee satisfaction and retention within the future GESB organisation.

3.1. State Government Reform

Outsourcing of Administration Services

GESB continues to work with Treasury to progress the outsourcing of administration services for all State superannuation schemes currently administered by GESB.

A preferred respondent has been selected and approved by the Treasurer. Contract negotiations are underway with an expected completion date in mid-2014. Upon successful conclusion of contract negotiations, operational handover of administration services to the external service provider is currently scheduled for the second half of 2014.

GESB remains focussed on putting members first and has an ongoing commitment to maintain the current range of superannuation services and service levels to members (and employers) to ensure their satisfaction. Service standards and performance levels will be maintained leading into and beyond the outsourcing project.

The objective during the transition to an outsourced provider is to ensure the change is managed in a way that is seamless to members and employers. Post implementation, the objective is to ensure GESB continues to maximise the net financial return and quality of service to members (and employers).

The preferred tender's proposal demonstrated they are best placed to:

- Deliver a long term value for money outcome for members and the State;
- Position GESB to continue delivering benefits to members in a changing super environment;
- Enable GESB to adapt to future market conditions and mitigate risks through ongoing access to expertise and technology; and
- Help to reduce the cost impacts of Commonwealth reforms and avoid a longer term rise in Defined Benefit costs by leveraging the enhanced scale and lower costs available through an outsourced service provider.

The risks to GESB and the State if the organisation is not transitioned effectively are a potential decline in the quality of services to members and employers, that GESB and the State's objectives are not met including the objective to obtain 'value for members', the risk of reputational damage and a rise in member exits. Management actions to mitigate the identified risks include a Service Agreement being included in the contract, project governance in place including Joint Steering Committee oversight and development of a detailed Transition and Transformation Plan.

It will be important for GESB to maintain operational stability during this transition period so that it can cope with the likely changes and contribute to the structuring of the ongoing organisation. A major focus for 2014/15 that will require significant resources, will be the establishment of the continuing GESB organisation including identification of required resources, recruitment, accommodation, systems and processes, alongside the delivery of business as usual activities and transition to the external provider.

Default fund status

Once the transition to an external administration service provider has occurred, the only recommendation from the Whithear Report ('Putting Members First, February 2010) that has not been addressed is – *that the Government assess the market for the provision of a 'default fund' for public sector employee superannuation in parallel with the transaction to procure administration services.*

In March 2012, the State Cabinet agreed not to test the market for a default fund at that time and noted that GESB Super will remain the default fund for new public servants in the choice environment. The SCI and SDP documents have been produced using the assumption that GESB will remain the default fund provider for the medium term however this may be reviewed by the State.

Unclaimed and Lost Super

Unclaimed Super Monies (USM) is an additional piece of State Government reform introduced in July 2010. GESB members who have been inactive for 5 years and have an account balance less than \$2,000 must have their accounts transferred to the ATO.

Lost Super relates to the transfer of balances of un-contactable members to the ATO. A lost or un-contactable member is where the member has not had a contribution in the last 12 months and two written communications have been returned unclaimed.

It is estimated this will affect around 46,400 GESB members in 2014/15 though it will have minimal impact on FuM or net expense reduction. This requires State legislation to be enacted to allow the transfer of such funds to the ATO. It is expected that legislation will be passed and enacted in 2014 for the first bulk transfer to occur by October 2014.

In association with the USM reform, member protection standards on accounts with less than \$1,000 that applied in SIS regulated funds were repealed, effective from 1 July 2013. This was also due to the introduction of *MySuper* products for default funds and the requirement that there be no cross subsidisation between members of *MySuper* products.

However, it has been acknowledged that members of GESB's accumulation schemes are at a comparative disadvantage to members of SIS regulated funds because of the inability for 'unclaimed' and 'lost' accounts to be transferred to the ATO at this stage. As a consequence GESB will continue to maintain member protection in the default schemes until July 2015.

3.2. Commonwealth Superannuation Reform

Ongoing Reform

There are three elements to the previous Federal Government *Stronger Super* reform package remaining that are relevant to GESB: *MySuper*, *SuperStream* and *Governance*. The HoGA has been amended by the various states to reflect the principles of the package for the various public sector schemes. This will require the states and their EPSSS to broadly comply with the principles of the Commonwealth's retirement income policy, including those related to *Stronger Super*. GESB has worked with Treasury to determine what elements of these reforms should be adopted and continues to advise the Treasurer accordingly. The updated HoGA has been submitted to the Treasurer and Treasury are preparing a Cabinet submission, along with preliminary advice on *Stronger Super* and its applicability to the State's public sector superannuation arrangements. GESB has committed resources to ensure it remains compliant with relevant legislation and is prudently managing risk to the State by ensuring our products and services reflect policy and legislative changes stemming from the reform.

MySuper

Legislation to enable funds to offer a *MySuper* product was enacted in late 2012. Regulated super funds needed to have a *MySuper* offering in place on 1 January 2014 in order to receive default SG contributions.

WA public sector employers are not subject to this section of the SG Act and can therefore make default SG contributions to an exempt public sector superannuation scheme which is not a *MySuper* product. Whether GESB offers such a product will depend on other matters including the ability for members to easily compare super funds. Any decision on this will be made by the Treasurer on the advice of Treasury and GESB.

The Commonwealth legislation contains specific requirements for *MySuper* products as well as required changes for Choice products which related to disclosure, cost allocation and insurance. GESB has assessed these changes with Treasury and has put in place measures to address these requirements.

GESB is also assessing its products in relation to the *MySuper* requirements in preparedness should the WA Treasurer agree to adopt the *MySuper* package for the State's default schemes. The assessment will include a review of product design including investment options and the insurance strategy. Overall, the impact of *MySuper* badging has been assessed as minimal as GESB Super and WSS already meet most of the *MySuper* product requirements.

SuperStream

The objective of the *SuperStream* initiative is to make the processing of everyday transactions easier, cheaper and faster. Two of the key changes in the *SuperStream* package of reforms are the adoption of data and payment standards for both employer contributions, and rollovers between funds. Data and payment standards changes will have a moderate impact given GESB has already implemented electronic contributions receipting and a clearing house. A business case is currently being progressed and these standards will be implemented within the calendar year. Changes have been required to systems and processes involving the way in which rollover

transactions are distributed amongst funds. These changes were implemented in early 2014 and should result in more expedient and efficient processing of rollovers to and from other superannuation funds.

A draft State Policy on Superannuation Data Standards has been developed outlining a State policy approach to the new Superstream Superannuation Data and Payment Standards (the Standards) to be adopted by Western Australian Public Sector Employers (WA Public Sector employers) in relation to their superannuation contribution obligations. The Standards require employers to adopt the uniform set of data standards published by the Australian Tax Office (ATO) for superannuation contribution data transactions.

The policy position proposed is WA Public Sector employers adopt the Standards at a payroll level for all superannuation contributions on or by 1 July 2017. It is also proposed that WA Public Sector employers may use a third party [the Government Employees Superannuation Board (GESB) or outsourced service provider's Clearing House] to ensure Choice of Fund (Choice) contributions meet the Standards for the period 1 July 2015 until 30 June 2017.

Governance

The Governance component of Stronger Super aims to strengthen the governance, integrity and regulatory settings of the superannuation system. The governance stream has been developed into prudential standards regulated by the Australian Prudential Regulatory Authority (APRA). The APRA prudential standards do not apply to EPSSSs given they are regulated under a State framework. However, there may be benefits in harmonising some of the State's prudential standards with those imposed by APRA for consistency and, in some cases, a higher level of risk management.

To this end, the SSIG has agreed that, with the State Treasurer's approval, GESB should adopt the Commonwealth's prudential standards as far as practicable providing it does not compromise the State's regulatory framework or fetter the Treasurer's ability to discharge his responsibilities as prudential regulator of the EPSSSs. Work for this initiative is underway and expected to be finalised next year.

Other Commonwealth superannuation reform initiatives

Other current and emerging Federal reforms will be monitored to determine any impact on GESB and its products and services. For example any reform items which emerge from the Financial System Inquiry (FSI) due to report to the Federal Treasurer in November 2014.

3.3. Member Service and Engagement

GESB provides a range of superannuation and retirement products, as well as member education and simple advice services. Members can access GESB's information and education services through seminars, webinars over the phone, in printed materials and on-line.

GESB has an ongoing focus to maintain its current services to members to retain high member satisfaction and industry recognition of its education services, throughout and post transition to an external service provider. For GESB and the State, one of the key challenges is maintaining satisfaction whilst the organisation is undergoing considerable change as a result of the State and Commonwealth Superannuation reforms.

During 2014/15 GESB will continue to empower members to actively engage with their super by making informed choices. This will be achieved by delivering value to members through timely, relevant messages, educational tools and competitive products.

Areas of focus for member service and engagement for 2014/15 include:

- **Active member retention:** targeted communication and engagement strategies that aim to ensure members make informed choices and to minimise attrition of active members. Choice of fund for Public Sector employees was introduced on 30 March 2012. GESB currently receives 95% of SG contributions from about 95% of the active public sector

workforce and about 92% of new employees entering the public sector choose GESB (as at December 2013);

- **Small inactive account consolidation:** Along with implementation of the lost and unclaimed super, GESB will continue to implement initiatives that support the Whithear Report recommendation around reducing the number of small inactive accounts in GESB;
- **Retirement support and retention:** Currently GESB retains 67% of eligible retirement benefits into the RI product (December 2013). Retention levels were expected to decrease with the closure of GESB Financial Advice, however the launch of the Retirement Options Service (ROS) for members in late 2012, has proven to be successful in maintaining high retention levels. The aim of this service is to inform, educate and support members as they plan and prepare for retirement and it is available to all GESB members. The ROS provides factual information and general advice only. This service will continue to be offered to members in 2014/15, along with Simple Advice, by the external service provider and seminars by the Key Account Management (KAM) team;
- **Third party support:** Ensuring external financial advisers are appropriately informed on GESB products will mitigate the risk that members are provided with advice which may be detrimental to their individual circumstances. GESB also provides factual information sessions to external advisers as well as providing a specific information portal on the GESB website;
- **Insurance claims:** GESB has implemented a more holistic insurance claims process with the aim of providing a more transparent, easy and empathetic claims experience for our members. This is achieved by providing a centralised contact point for members during the claims process. This service will continue post transition to the service provider;
- **Online enhancements:** Enhancements will continue to be made to GESB's website and member online (MOL) services (digital strategy) to increase effectiveness of this channel as a self-service tool and to increase awareness and engagement;
- **Member Services Centre (MSC):** The MSC will be managed by the service provider after transition however the current services provided to members will be maintained and to ensure this, service standards will be built into the Service Agreement as well as appropriate relationships structures and processes put in place;
- **Product reviews:** Post-transition GESB, as part of its strategic review, will evaluate its products including:
 - Complete development of and implement GESB's approach to *MySuper*, including a review of product design for WSS and GESB Super to ensure they meet the needs of GESB's members;
 - Review of GESB's retirement product offerings to ensure they are appropriate for GESB's retired members;
 - Conduct a pricing review of all products once transition to the Service Provider has occurred and the future GESB organisation is in place;
 - Conduct a review of GESB's insurance offerings and implement changes where the need is identified.

3.4. Net Benefit to Members

Competitive investment performance

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

The main element of investment strategy is the long-term allocation of assets between broad asset classes (equities, cash, property, etc.). This allocation has a major impact on the risk and return profile of the investment options within the Fund.

In 2014/15, GESB aims to progress the implementation of increased diversification of asset classes and investment strategies. This initiative is designed to diversify the sources of risk and return in the investment portfolio with the goal of building a more robust and stable portfolio.

The Board has agreed to a number of other investment initiatives including:

- A review of the appropriateness of the default fund structures and asset allocations;
- The implementation of a core infrastructure strategy;
- The consideration of a fixed income allocation within higher risk and return / uncorrelated assets;
- The consideration of a managed futures allocation within higher risk and return / uncorrelated assets;
- The tender for custodial services.

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

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

Fees/pricing

Pricing for GESB's market linked superannuation and retirement schemes is determined by the Board based on annual reviews of each portfolio's financial and competitive position. The Board aims to ensure that pricing is set to provide value to members, maintain viability of GESB, maintain risk reserves to ensure capital adequacy relative to risk and assets, meet the Sole Purpose Test and recover the full costs of each product.

Pricing was last agreed by the Board in June 2011, as a decision was made by the Board in 2012 to delay any pricing reviews until post transition to an external service provider, when ongoing operating costs could be accurately determined.

Following transition, in the first half of the 2014/15 financial year, a full pricing review will be conducted.

Reserves

In 2013/14 RI, WSS and GESB Super are generating a surplus. Their fees sit below average when compared to the industry and this is expected to continue over the longer term.²⁵

Net excess of income over costs for the market linked schemes has historically been transferred to an Operational Risk Reserve (ORR). As GESB's ORR reached the Board endorsed target range of 50-60 basis points in the September 2013 quarter, an Accumulation General Reserve (AGR) was established with surplus funds transferred to this account whilst the ORR remains on target. The AGR is designed to support the costs of strategic development and ongoing Commonwealth superannuation reforms that are relevant for the accumulation and retirement product schemes.

The pricing review will involve a review of reserving target ranges and the levels required to cover unforeseen risks with outsourcing and other legislative changes that arise.

3.5. Employer Service and Engagement

Employers from across the Western Australian public sector are key stakeholders in GESB. State Government employers are highly satisfied with GESB's services²⁶, working in partnership with GESB to improve financial literacy and to implement employee retention strategies through superannuation (e.g. transition to retirement strategies). This is particularly important given the ageing demographic profile of the Western Australian public sector and average employee tenure of 7 years in the sector.

GESB's award winning Into Your Comfort Zone program was showcased at an international seminar run by the Malaysian government's superannuation fund, EPF, as best practice in workplace financial literacy programs. This work-place education program will continue to be rolled out through state government employers throughout metro and regional Western Australia.

²⁵ Super Ratings Annual Benchmarking Survey 2013

²⁶ Painted Dog, GESB Employer Satisfaction and Engagement Research, 2013

Building upon the webinar experience to date, GESB will continue to expand its webinar program to incorporate employer servicing whilst maintaining focus on improving operational efficiency.

Post transition, the administration services provider will be delivering some administration services directly to employers. Appropriate new service standards and measures are being developed to ensure the current levels of services are maintained. New processes will also be established between GESB's Key Account Management (KAM) team and the provider to ensure the KAM team continue to be supported in their roles and dealing with employer related issues.

3.6. Efficient operations

Provision of relatively low cost products and services requires constant improvement in operating efficiency combined with maintenance of relative economies of scale. GESB has been recognised as a good 'value for money' fund by SuperRatings with respect to its operating cost per member. In an industry that has experienced significant increases in costs per year over the past 5 years, GESB has managed to maintain costs. A key focus for GESB in 2014/15 and in subsequent years will be to continue to provide 'value for money' to members and the State through containment of operating costs coupled with strong asset growth.

Superannuation Administration Outsourcing Contract Management

The 'value for money' assessment carried out as part of the SAOP evaluation process demonstrated that outsourcing to the preferred service provider will lead to costs savings when compared to the Public Sector Comparator (PSC) showing the current cost of GESB delivering all services.

Effective management of the major administration outsourcing contract once in place will be vital to ensure the 'value to members' and 'maintenance of service levels to members and employers' objectives are realised. Governance structures will be established and dedicated resources will be allocated to ensure adherence to the Service Agreement.

Transition to the outsourced service provider as well as establishment of the future GESB organisation will require the development and implementation of a detailed IT transition strategy to ensure a smooth transition and that the new organisation is supported. Development of this plan is currently underway.

Administration Efficiency Dividend

On 17 April 2012, the Treasurer announced an efficiency dividend to be applied to discretionary spending for 2012/13 and the subsequent three financial years. For the 2014/15 financial year GESB's efficiency dividend is 5.5% or \$2.918m. The anticipated achievement of this target has been incorporated into the SCI budget for administration expenses.

Capital expenditure

The majority of IT services, systems and capital programs will be transferred to the external service provider, who will be responsible for ensuring continued service delivery to members (and employers), including incorporation of any legislative changes.

GESB expects to invest \$500k in capital programs during 2014/15. Capital expenditure is depreciated in accordance with accounting standards, reflected in administration expenses by scheme, and recovered through fees and charges.

3.7. Engaged people

GESB continues to have a high level of employee satisfaction as a result of initiatives that have been put in place to manage key material risks around retention of staff during implementation of the State reforms.

Ongoing people management strategies will need to be implemented throughout 2014/15, particularly in the first half of the year during the significant transition to an external administration provider and establishment of the future GESB organisation.

This will include the current training and access to professional development and leadership opportunities, as well as increased career development support and coaching. This is particularly important to help retain key skills during a time of uncertainty and transition for many staff.

With potential changes to the business likely in 2014/15 from the external provision of administration services, GESB will continue its workforce transition plan. This initiative focuses on:

1. Change management;
2. Ensuring the right skills are retained within GESB until and after the transition to an external administration service provider; and
3. Assisting staff through any major organisational restructure that may arise.

4. Risk Management

GESB is governed by the SSA and SSR. It is also subject to relevant State Government guidelines as published from time to time.²⁷ Appropriate risk management is an important element of good corporate governance and is a specific requirement under the SIS Act for Registrable Superannuation Entity (RSE) licence holders. Although not a RSE, GESB complies with the spirit of the SIS Act as a matter of best practice and consistent with the HoGA.

GESB operates under a Risk Management Framework and the strategic planning process takes into account GESB's material risks when considering its purpose, corporate objectives, strategic issues and strategic direction. Risks are reviewed quarterly and reported to Management, the Board, the Audit & Risk Committee, and the Treasurer.

The level of risk that the organisation is willing to accept to achieve its objectives is determined by the Board. This is articulated as the Board's risk appetite. Annually the Board reviews its strategic direction, material risks and risk appetite.

GESB reviews its material risks and risk appetite annually. This process involves workshops with both Executive Management and the Board. Consideration is given to GESB's internal and external environment. The Board formally agrees GESB's material risks and appetite and Executive Management monitor these on a quarterly basis.

GESB's risk environment continues to be heavily influenced by the Superannuation Administration Outsourcing Project. GESB continues to work closely with Treasury to ensure key milestones are met. GESB's current material risks that are outside of appetite relate to loss of leadership, capacity and capability, inability to resource preferred 'continuing GESB' structure in accordance with SAOP timelines and achieving an optimal outcome in relation to the custodial services contract. These risks are aligned to the SAOP and their mitigation is heavily influenced by the outcomes of this initiative.

²⁷ Public Sector Commissioner's Circular 2009-19 – Risk Management and Business Continuity Planning

5. Financial Forecasts

5.1. Financial Statements and Projections

Total funds under management are expected to increase to \$20.3 billion by 30 June 2015. Funds under management are reported in the financial statements as investments plus cash and cash equivalents.

5.2. Accounting Policies

GESB prepares its financial statements in accordance with Australian Accounting Standards, including AAS25 Financial Reporting by Superannuation Plans as amended by AASB 2005-13, Amendments to Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) as applied by the Treasurer's Instructions (TI) and the SSA.

5.3. Borrowing Arrangements

On 30 May 2001, the Western Australian Treasury Corporation and GESB entered into a \$635 million lending facility for a fixed-rate loan. The loan was incurred to enable the balances on West State Super members' accounts at 1 July 2001 to be fully funded from an investment perspective. This funding was a pre-requisite for GESB to introduce Member Investment Choice from 1 July 2001. The loan is unsecured and is repayable in quarterly instalments over 20 years. It bears interest at a fixed rate of 6.5699% plus a government fee of 0.7% p.a. The interest payment for 2013/14 will be \$25m; the forecast for 2014/15 is \$22.4m. The projected outstanding balance at the end of each financial year is outlined below.

Western Australian Treasury Corporation Loan Schedule	
30-Jun-14	322,146,635
30-Jun-15	284,864,534
30-Jun-16	244,991,391
30-Jun-17	202,347,116
30-Jun-18	156,739,097
30-Jun-19	107,961,338
30-Jun-20	55,793,516
30-Jun-21	-

5.4. Projected Financial Statements - GESB

a Statement of Change in Net Assets

For the Financial Year Ending 30th June	FORECAST 2014 \$'000	BUDGET 2015 \$'000
Net Assets Available to pay Benefits at the Beginning of the Financial Year	15,456,361	17,907,543
REVENUE		
Investment Revenue		
Realised Income	462,764	451,684
Realised Changes in Net Market value of Investment Assets	364,975	451,684
Unrealised Changes in Net Market value of Investment Assets	1,013,606	602,244
Income from Investment¹	1,841,345	1,505,612
Superannuation Revenue		
Contributions		
Member	743,475	759,063
Employer	1,509,890	1,578,808
Rollover into Retirement Products	764,697	747,215
Inward Transfers	572,190	572,431
Member Insurance Benefits Received	34,025	46,122
Other Income	17,721	12,702
	3,641,998	3,716,341
TOTAL REVENUE	5,483,343	5,221,953
EXPENSES		
Superannuation Benefit Payments	2,749,369	2,852,796
Administration Expenses ²	42,623	42,619
Treasury Funded Reform Expenses (through EERC)	1,967	-
Consolidated Account Appropriation Direct Expenses	-	-
Group Life Insurance Premiums ⁵	70,798	82,593
Investment Expenses ³	50,960	57,578
Changes in NMV other Assets	3,421	1,226
Loan Interest ⁴	(13,058)	22,436
TOTAL EXPENSES	2,906,080	3,059,248
Changes in Net Assets Before Income tax	2,577,263	2,162,705
Income Tax Expense	(126,081)	(132,479)
Changes in Net Assets After Income tax	2,451,182	2,030,226
NET ASSETS AVAILABLE TO PAY BENEFITS AT THE END OF THE FINANCIAL YEAR	17,907,543	19,937,769

Notes to the Key Variances:

- The budgeted investment income figure for 2015 reflects a gross long-term earnings rate of 8.2%.
- The Administration Expense budget for 2014/15 has been set based on the assumption that operational handover of administration services to a 3rd party provider will take place on 1 July 2014. During the period July to December 2014 GESB will transition to its future operating model and structure which is targeted to be in place by 1 January 2015. From this date GESB will realise the full cost savings anticipated as a result of administration outsourcing.
- Investment expenses are expected to increase in the 2015 budget due to, a projected increase of \$2b in Funds under Management.
- The Western Australia Treasury Corporation loan is reviewed each financial year end and adjusted to market value. The figure for loan interest in 2013/14 includes a reversal of the previous year loan revaluation adjustment of \$35.6m.
- AIA has proposed insurance premium increases of approximately 20%. Whilst these changes are subject to further negotiations, the fee increase has been included until negotiations are complete.

b Statement of Net Assets

For the Financial Year Ending 30th June	FORECAST	BUDGET
	2014	2015
	\$'000	\$'000
ASSETS		
Cash and Cash Equivalents	75,243	72,232
Investments	18,209,718	20,202,238
Plant and Equipment	576	480
Intangible Assets	686	747
Receivables	15,654	16,045
Prepayments	731	749
Deferred Tax Assets	5,106	5,106
TOTAL ASSETS	18,307,714	20,297,597
LIABILITIES		
Contributions Paid in Advance	1,729	1,772
Unpaid and Accrued Liabilities	209	209
Payables	23,772	24,366
Provision for Employee Entitlements	4,473	1,118
Provision for Post Employment Liabilities	1,986	497
Interest Bearing Loans & Borrowings	322,147	284,865
Current Tax Liabilities	45,855	47,001
TOTAL LIABILITIES	400,171	359,828
NET ASSETS AVAILABLE TO PAY BENEFITS	17,907,543	19,937,769

Statement of Net Assets by Scheme

For the Financial Year Ending 30th June	FORECAST	BUDGET
	2014	2015
	\$'000	\$'000
Defined Benefit Schemes	2,735,984	2,809,355
West State Super	10,938,277	12,042,634
GESB Super	1,948,339	2,385,752
Retirement Income - Allocated Pension	2,436,699	2,778,769
Retirement Income - Term Allocated Pension	22,126	22,067
Reserves	148,265	184,057
WATC loan	(322,147)	(284,865)
TOTAL NET ASSETS ALLOCATED	17,907,543	19,937,769

c Statement of Administration Expenses

For the Financial Year Ending 30th June	FORECAST	BUDGET
	2014	2015
	\$'000	\$'000
Employment Expenses	23,418	12,575
IT Services	7,860	2,801
Consultants	517	307
Accommodation	4,370	1,117
Professional Fees (Actuarial, Legal and Audit)	1,203	1,181
Printing, Postage & Records Management	1,867	1,043
Promotions and Advertising	495	416
Other	6,367	4,402
Third Party Administration Expenses	-	22,517
Less Allocation to Investments Expenses	(3,474)	(3,740)
TOTAL ADMINISTRATION EXPENSES	42,623	42,619

Notes to Administration Expenses

- Administration expenses will reduce overall in 2014/15 due to the efficiencies brought about by the Superannuation Administration Outsourcing Project.
- Some significant expenses in "Other expenses" include; irrecoverable GST, insurance and contractors.
- The full efficiencies of outsourcing will not be achieved in 2014/15. GESB will transition to its new operating model and structure following operational handover during July to December 2014. The new GESB structure is expected to be in place and the full efficiencies of outsourcing to be realised from 1 January 2015.

d Capital Expenditure

For the Financial Year Ending 30th June	FORECAST	BUDGET
	2014	2015
	\$'000	\$'000
Intangibles Inc Computer Software Development ¹	2,500	500
Office Furniture, Equipment & Renovations	50	25
TOTAL CAPITAL EXPENDITURE	2,550	525

Notes to the Key Variances:

1. GESB expects capital expenditure to reduce significantly as a result of the reduction in the number of applications required resulting from administration outsourcing.

e Cost Allocations

The total budgeted expenses (in \$000's) for 2014/15 are \$47,585, which include Administration Expenses (before allocation to investment expenses) of \$42,619 (refer table c) and Depreciation of \$1,226 (refer table a). These costs are split into direct and indirect costs, direct costs are the projected outsourced administration costs plus the direct Investment costs with the remainder being indirect costs. Indirect costs are allocated based on direct costs.

For the Financial Year Ending 30th June	FORECAST	BUDGET
	2014	2015
	\$'000	\$'000
Investment Expenses	3,474	3,740
Superannuation Reform	2,267	-
Government Services	104	50
Insurance	3,312	-
GESB Super	9,957	15,003
West State Super	17,714	16,865
Retirement Income	2,740	3,175
Retirement Allocated Pension	36	117
Gold State	9,620	5,777
Pension Scheme	1,847	2,433
Parliamentary & Judges	414	425
TOTAL ADMINISTRATION EXPENSES¹	51,485	47,585

Notes to the Key Variances:

1. The budgeted cost allocations for 2014/15 incorporate inflation linked increases, the introduction of an administration outsourced provider and changes in account numbers anticipated as a result of the introduction of unclaimed super.

f Consolidated Account Appropriation

The following table details GESB's costs to fund Government Services and DB administration which are recouped from Consolidated Account Appropriation.

For the Financial Year Ending 30th June	FORECAST	BUDGET
	2014	2015
	\$'000	\$'000
Gold State Administration Expenses	9,620	5,777
Pension Scheme Administration Expenses	1,847	2,433
Parliamentary & Judges	414	425
Total Recoup of Administration Expenses	11,881	8,635
Structural Factors	-	-
Government Services	104	50
Total Other Recoups	104	50
TOTAL ADMINISTRATION EXPENSES	11,985	8,685

Notes to the Key Variances:

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

Accumulation Scheme - Contribution to Reserves

For the Financial Year Ending 30th June	FORECAST 2014 \$'000	BUDGET 2015 \$'000
West State Super		
Revenues (Excluding Contribution to Reserves)	58,318	64,044
Expenses	(50,806)	(51,593)
Surplus / (Deficit)	7,512	12,451
Proposed Contribution to Reserves (13 bps)	13,565	14,889
Actual Contribution to Reserves	21,077	27,340
GESB Super		
Revenues (Excluding Contribution to Reserves)	14,411	16,798
Expenses	(16,222)	(21,712)
Surplus / (Deficit)	(1,811)	(4,914)
Proposed Contribution to Reserves (13 bps)	2,263	2,806
Actual Contribution to Reserves	452	(2,108)
Retirement Income		
Revenues	12,401	14,536
Expenses	(8,413)	(9,889)
Actual Contribution to Reserves	3,988	4,647
Retirement Allocated Pension		
Revenues	216	216
Expenses	(95)	(177)
Actual Contribution to Reserves	121	39
TOTAL ADMINISTRATION SCHEME SURPLUS / (DEFICIT)	25,638	29,918

Notes:

1. The Surplus / Deficit (inclusive of the contribution to reserves) of each scheme is the amount that will be transferred to Reserves.