Combined Schools Superannuation Fund
Newsletter
Vol. 18 Autumn 2003

Investment Commentary

- Global markets punish Australia
- CSSF results better than most
- Knee-jerk reactions to be avoided

Summary of Articles

The December quarter did nothing to mitigate the losses which had accrued throughout the year. We are unaware of any fund in Australia returning a positive result, in a period where the median loss was 7.3%, compared to the CSSF Balanced Option –4.4%. (Only our 2nd negative year since inception in 1959).

Rather than repeat information which has already had considerable press exposure, we thought that the Editorial in the Financial Review, 8th January 2003 covered the main issues succinctly and, to the point:

"For the $550 billion Australian superannuation industry, the negative 2002 year is a case of welcome to the real world. As bad as –7.3 per cent over the past year looks, the rest of the world has been suffering larger falls in returns over the past three years, and it continues to face the same uncertainty in investment markets.

It would be easy to start panicking about negative returns, but the 9 million Australians who have their retirement savings in superannuation deserve a more rational response. The industry needs to turn its mind to sensible responses, while the federal government also needs to acknowledge that it has an important role to play.

The first thing for fund members to realize is that the negative returns are no one's "fault". The universal system of saving for future retirement involves a belief in investing in a wide variety of assets, predominantly in equities. No one is proposing to change this approach, though the industry should be ready to consider how to modify traditional asset allocation models for a rapidly changing investment environment.

The first requirement is for fund members to be educated enough to respond in a sensible way. A knee-jerk response could mean selling out of equities ahead of a major rally.

A frank board of trustees would tell fund members that the latest results are underlining previous warnings that future returns are going to be much lower than the 20 per cent plus returns seen in the 1980s and '90s.

continued page 2

continued from page 1

The next fact of life is that there is a simple equation in superfunds:

contributions ***plus*** *investment returns* ***equals*** *benefits*.

Where there are falls in investment returns, either future benefits will decline or contributions need to increase (at least until investment returns stabilize again).

In a recent survey by Pricewaterhouse Coopers for the senate inquiry, it emerged that Australia was the only country among 20 developed economies which taxed upfront contributions. Canberra's 15 per cent bite taken from initial contributions is above even the more rapacious unit trust and life office up-front fees of 30 or 40 years ago.

In the long-term, the biggest contribution the government could make might be to reconsider its policy of up-front taxes on employer contributions: the 15 per cent tax reduces the 9 per cent of salary to 7.65 per cent, providing a drag on contributions which, over the life of a member, will have a much larger impact on final benefits than fees and charges."

INSURANCE COVERS

(a) Death

(b) Total and Permanent Disablement

(c) Total and Temporary Disablement

Last year, we paid out $579,410 in claims in respect of members who, at the commencement of the year, had little (if any) inkling that over the course of the ensuing 12 months, they would be the subject of a claim.

That's what insurance is all about – being a backstop when the unexpected accident/illness comes about. Insurance premiums are based on statistics – for example, of 1000 people aged XX, over the course of a year, 1 or 2 or 3 will die. The statistics can't tell who, just the number.

Good health management is, of course, having an effect on improving these statistics and reducing prices.

We are very pleased to advise that the Fund has been able to negotiate new rates from 1st January 2003 which average 10% less than those previously in force. In addition, we have been able to credit members with a 15% rebate in respect of premiums payable for 2002, arising from a claims experience which was better than expected. The continuity of this latter rebate is dependent on claims received but our aim would be to maintain this, in the year ahead, if at all possible.

That's what insurance is all about – being a backstop when the unexpected accident/illness comes about.

CONSUMERS HARD HIT BY SUPER FEES

This was the headline in an article in The Age, Saturday 8th February 2003.

It referred to a report by the Australian Prudential Regulatory Authority (APRA) which noted that 75% of members of Australia's superannuation funds incurred expenses in excess of 1% (and this did not include any entry or exit fees)!

CSSF is in the 25% of funds with expenses less than 1%.

The Report goes on to say that for retail funds, expenses account for 28% of gross returns, whilst for not-for-profit funds (as per CSSF) expenses account for 5% of gross returns.

Turning to returns, not-for-profit funds (read CSSF) had returns averaging 54% higher than retail funds.

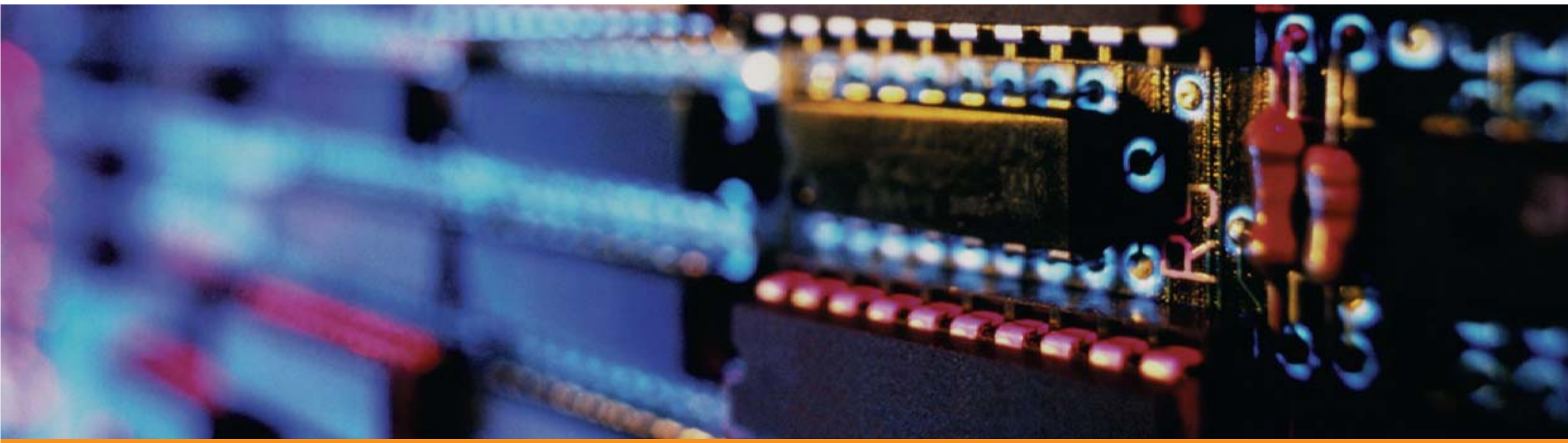
If there is this proven "negative relationship" between higher costs and lower returns, how is it that funds of this nature continue to operate in a supposedly "informed marketplace?"

The answer is simple ... they are "sold" by intermediaries (e.g. financial planners; agents; etc) who have an interest in the sale. This is generally a commission, or salary, from the promoter of the product. We all want to receive the best possible value for our money and, if a well-presented personage with some "expert knowledge" assures us that what they are offering is the "best thing since sliced bread", why would we not believe that? As the evidence shows, many do and, live to regret it!

CSSF has no salespeople. We rely totally on the ability of our members to understand the workings of the marketplace and how their best interests are served by linking up with CSSF.

It is extremely humbling, but most fulfilling to hear over and over again, from our members and our participating schools that joining CSSF was "the best thing they ever did".

And we aim to keep it that way!



CSSF newsletter an award winner!

The Conference of Major Superannuation Funds (CMSF) is holding its Annual Conference in Hobart, in March 2003.

One of its aim is to encourage good communication between Funds and members and, a competition is held to assess Funds which are achieving that aim.

Our Quarterly Newsletter has won a Silver Award at the Conference. Thanks to all those who are involved in its preparation, but even more importantly we do hope that members are reading and absorbing the various articles, to improve their understanding of a fairly complex subject.

CSSF

Member Investment Options – Unit Prices

The following are the respective Unit Prices for each Investment Option, as at 31st December 2002.

	Unit Price		%
	31/12/2002	**31/12/2001**	**Increase(Decrease)**
Australian Shares	1.40411	1.50610	(6.8)
International Shares	0.81672	1.05728	(22.8)
Fixed Interest	1.21801	1.13521	7.3
Property	1.42037	1.29710	9.5
Balanced	1.20444	1.26014	(4.4)
Capital Stable	1.20760	1.18282	2.1
Ethical	1.08119	1.28125	(15.6)
Cash	1.16584	1.13085	3.1

Pick the Index Competition

Our last Quarter's competition, to predict the S&P/ASX 300 Index closing figure at 31st January 2003 was won by **Lars Paulson** from **Caulfield Grammer**. The index was 2953.5 and Lars's entry was the closest.

Here we go again.

As at 31st January 2003 the S&P/ASX300 Index was

2953.5

Fax this page before 15th April 2003 to Combined Schools Secretariat (03) 9640 0787.

CSS S&P/ASX 300 Index Competition

NAME: ____________________

____

SCHOOL: ____________________

____

PHONE: ____________________

My estimate of the S&P/ASX300 Index as at 30th April 2003 is:

[ ]

The winner will receive a voucher for an all-inclusive "Dinner for Two" at a 5 star Restaurant of their choice and a one year subscription to Personal Investment Magazine.

Attention, New Members

When you join CSSF, there is a strong likelihood that you will have at least one superannuation account (if not more) arising from your previous place(s) of employment. These will accrue fees which can be avoided by amalgamating all of these holdings into your CSSF account. There would have been a "Transfer Request Form" in your Welcome Pack, but if you don't have one, it is simply a matter of ringing Jane Hargreaves or Craig Mason at the Secretariat, and we will arrange everything for you.

Level 9, 155 Queen Street
Melbourne Victoria 3000

GPO Box 4559 SS
Melbourne Victoria 3001

Telephone (03) 9691 2900
Facsimile (03) 9640 0787

Website: www.cssf.com.au