

## 5.2 SUPERANNUATION

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### Overview

The key initiatives for 2000-01 address the financing and management of the Territory's unfunded superannuation liability, identified as Key Result Area (b) in the Government Plan:

*b) Provide for the superannuation liability by the 2001-02 Budget.*

The Budget incorporates a strategy for meeting the objective specified in this Key Result Area. The strategy includes:

- increased annual appropriations to the Superannuation Provision Account totalling \$120m across the Budget period;
- allocation to the Superannuation Account of funds that become available from the equalisation payment relating to the proposed ACTEW/AGL joint venture partnership;
- introduction of legislation to ensure funds set aside for superannuation may only be used for superannuation; and
- formation of a Finance and Investment Advisory Board to provide expert input to the management of the Territory's investments and borrowings.

These initiatives build on earlier moves to address the financing of superannuation liabilities. The payment of an additional \$300m into the Superannuation Provision Account occurred in February 2000 and the Government will introduce fully-funded superannuation arrangements for new entrants as soon as practicable.

The effect of these initiatives will be to remove the significant budgetary pressures that would have emerged in future years due to the requirement to meet escalating annual costs from a largely unfunded position.

### Superannuation Financing

Previous budgets have provided for an annual appropriation to the Superannuation Provision Account of an amount equal to the annual emerging cost of benefits paid by ComSuper to persons with service in the ACTPS. Modelling indicates that the continuation of this policy would require the annual appropriation to gradually increase to \$139m in 1999-2000 dollars by 2024-25. At that point, the fund would be sufficient to meet the annual cost without further appropriation until the CSS and PSS liabilities are extinguished. While this approach would provide a solution to the financing issue, the peak annual payment of \$139m is unacceptably high.

The financing challenge is the early establishment of a fund of sufficient size which, together with the fund's investment earnings, can be used to reduce the future call on the budget during

the peak period. The injection of \$300m into the Superannuation Provision Account during 1999-2000 was a significant building block in this process.

The Budget for 2000-01 provides for additional amounts above the emerging cost of \$5m in 2000-01, \$15m in 2001-02, \$50m in 2002-03 and \$50m in 2003-04.

The equalisation payment arising from the ACTEW/AGL joint venture partnership will also provide an opportunity for additional funding of superannuation liabilities. Consideration will be given to the allocation of at least \$100m during 2000-01.

Financial modelling of the combined effect of the additional budget funding and an assumed injection of \$150m from the ACTEW/AGL joint venture partnership indicates that, given reasonable rates of investment earnings, it will take approximately eight years to build a fund of sufficient size to enable contributions to cease.

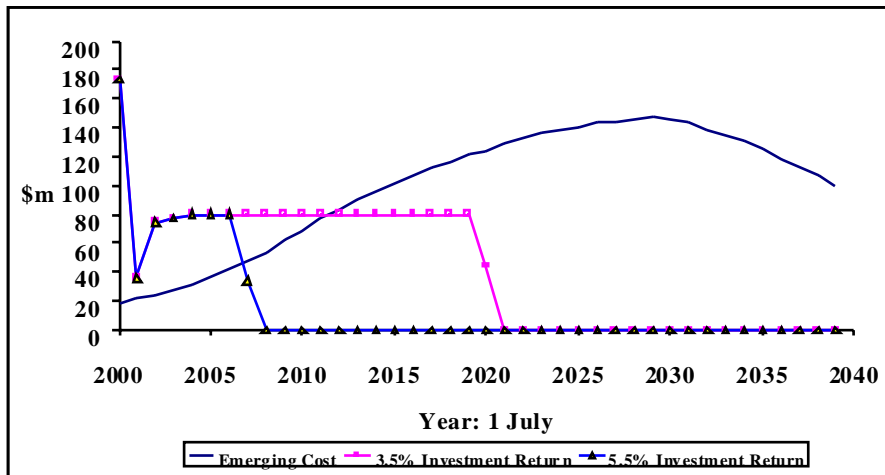
The modelling assumes that once the annual budget appropriation of the emerging cost and the additional amount reaches a total of \$80m it will be capped at that amount until the fund is sufficient. After 2003-04, three years at \$80m would be required, followed by one year at \$34m. The fund would then be equal to 85% of accrued liabilities. With real investment earnings remaining at 5.5% the fund would be sufficient to meet each year's annual emerging cost payment. At the end of the forty-year projection period, the fund would be equal to 90% of accrued liabilities.

The assumed rate of investment earnings of 5.5% was adopted after taking into account the conservative rate of 3.5% used by the actuary for long term projections and the actual rate of 7.5% achieved since the Superannuation Provision Account was established in 1991-92.

The modelling indicated that investment earnings of 3.5% would also generate a fund of sufficient size, but a longer period of contributions would be required. Annual budget payments of \$80m would be required until 2020-21, followed by \$64m in 2021-22. At that date the fund would be equal to almost 100% of accrued liabilities and would equal 90% of liabilities at the end of the forty-year projection period.

Chart 5.2.1 compares the actuarial estimates of annual emerging cost over the next forty years with the budget funding discussed above. The emerging cost peaks at \$148m in 2029-30.

**Figure 5.2.1 – Annual Funding and Emerging Cost**



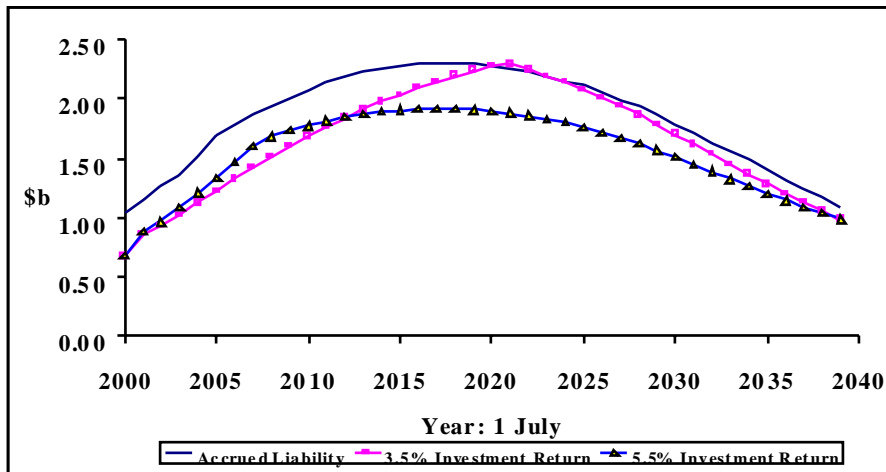
Continuation of the past earnings rate of 7.5% real would mean that no further Budget contributions would be required. The fund would build from its initial level of 65% of accrued liabilities to reach 117% of liabilities at the end of the forty-year projection period.

A threshold issue is whether it is essential for the fund to be equal to 100% of liabilities. The Commonwealth Superannuation Scheme (CSS) and the Public Sector Superannuation Scheme (PSS) are defined benefit funds. The benefits eventually paid will depend on years of service, salary levels, promotion and a range of other factors. At any point before benefits are paid the assessment of accrued liabilities is an estimate by the actuary of the likely progression of the variable factors during the working life of the current scheme members. As such, the estimate may vary over time.

In addition, the rate of investment earnings will also vary over time. Sustained periods of earning rates above those used in setting funding levels could mean that an objective of 100% funding may result in overfunding. The approach by many private sector companies is to set the funding level at 90-95% of accrued liabilities. For the Budget strategy, a target of 90% funded at the end of the 40 year projection period was adopted.

The accrued liability is estimated to peak at \$2.3b in 2017-18. Figure 5.2.2 compares the accrued liabilities with the fund that will be established by the funding strategy adopted in the 2000-01 Budget.

**Figure 5.2.2 – Funding Outcomes**



The potential for variation in investment earnings suggests that a regular review should be undertaken of the level of the fund and the Budget contributions. This review will be undertaken in conjunction with the triennial review of superannuation liabilities to 30 June 2001. This review is anticipated to take place when CSS and PSS data becomes available during 2001-02.

### Superannuation Liabilities

The annual emerging cost and accrued liabilities projections used in the financial modelling were based on the actuarial reports prepared for the 1998-99 financial statements and the triennial review of superannuation liabilities.

The audited financial statements for the year ended 30 June 1999 reflect the actuary's report that the liability previously reported to 30 June 1998 should be reduced by \$99.96m. The reduction follows the comparison of the ComSuper actual experience data up to 30 June 1998 with the projections used to derive the original estimate.

The audited financial statements recognise that the unrealised gain arising from the actuarial review will be capitalised and amortised over a 12 year period (ie \$8.330m each year) to reflect the age retirement profile of the members of the CSS and PSS superannuation schemes. The period of 12 years was determined by the actuary to be the estimated future membership period for CSS and PSS members at the review date.

The budget estimates incorporate a further adjustment relating to the review of the assumptions used to derive the estimates of superannuation liabilities. The financial assumptions were revised to bring them into line with current projections for salary growth, CPI and investment returns. The demographic assumptions were revised in accordance with the findings of the actuary's analysis of the updated superannuation data from ComSuper.

Table 5.2.1 shows the estimates of accrued liabilities provided by the actuary for the Budget period. As discussed above, these represent reductions from the previous audited and budgeted figures. The variation column shows the underlying reduction in accrued liabilities compared with the 1999-2000 Budget estimates. The 2000-01 Budget estimates of accrued liabilities are higher than those in Table 5.2.1 as the Budget adopts the same treatment as used in the audited 1998-99 financial statements, ie the actuarial reductions are amortised over a twelve year period. The Budget figures also include the liabilities relating to the superannuation scheme for Members of the Legislative Assembly. The total annual amortisation from 1999-2000 is \$25.797m, comprising the first adjustment of \$8.330m and the further adjustment of \$17.467m.

**Table 5.2.1 Estimates of Accrued Superannuation Liabilities**

	<b>1999-2000 Budget \$'000</b>	<b>2000-01 Budget \$'000</b>	<b>Variation \$'000</b>
<b>1998-1999</b>	1 251 310	939 370	311 940
<b>1999-2000</b>	1 418 925	1 069 635	349 290
<b>2000-2001</b>	1 594 673	1 208 572	386 101
<b>2001-2002</b>	1 771 824	1 354 029	417 795
<b>2002-2003</b>	1 942 178	1 506 050	436 128
<b>2003-2004</b>		1 671 253	

The 2000-01 Budget estimates show that the funding level of superannuation liabilities is estimated to increase from 29% as at 30 June 1999 to 63% as at 30 June 2004, as shown in Table 5.2.2 below.

**Table 5.2.2 Percentage funding of liabilities**

<b>30 June</b>	<b>Assets \$'000</b>	<b>Liabilities \$'000</b>	<b>% Funded</b>
<b>1999</b>	362 711	1 247 810	29
<b>2000</b>	715 679	1 375 777	52
<b>2001</b>	789 703	1 481 678	53
<b>2002</b>	878 701	1 585 464	55
<b>2003</b>	1 009 037	1 689 509	60
<b>2004</b>	1 141 440	1 808 385	63

The percentage funding is based on the liabilities shown in Table 5.2.1, ie from the actuarial report rather than the amortisation method, is estimated to be over 65% during the Budget period.

### *Protection of Superannuation Funding*

The *Territory Superannuation Provision Protection Bill 2000* was introduced into the Legislative Assembly on 30 March 2000.

The intention of the Bill is to ensure that funds provided in the Budget for superannuation must be paid into a superannuation banking account. Once in that account the funds may

only be used for superannuation purposes. Investment earnings will also be retained and may only be used for superannuation purposes.

The Bill implements the recommendation in the February 1999 Report of the Select Committee on the Territory's Superannuation Commitments:

Recommendation 5, page 30 – “The Committee recommends that legislation be introduced to ensure funds dedicated to superannuation remain dedicated. The Committee also recommends that the legislation contain clauses which require a majority of votes in the Assembly for a change in the use of funds dedicated for superannuation purposes.”

The effect of the legislation will be that funds in excess of the amount needed to meet liabilities will not be recoverable for other Territory purposes without reference back to the Legislative Assembly for an amendment. Therefore the funding strategy should avoid the likelihood of overfunding.

#### *Finance and Investment Advisory Board*

The Budget initiative to increase substantially the moneys set aside for superannuation will establish a fund of significant size. At 30 June 2000 the market value of invested funds is estimated to be over \$700m. By the end of the Budget period it is estimated to be around \$1billion.

The management of the long term investment of these moneys will benefit from the expertise available through the creation of the Finance and Investment Advisory Board, announced by the Treasurer in the Legislative Assembly on 29 February 2000.

