

5.3 SUPERANNUATION

Overview

ACT Government employees are members of a number of different superannuation schemes. A large proportion of the current employees (and almost all of the past employees) are members of defined benefit schemes.

Fully funding the superannuation liability by 2030 is one of the key financial objectives of the Territory. The Territory does not operate a superannuation fund. The Superannuation Provision Account holds and invests superannuation assets, and makes payments to the Commonwealth administering agency ComSuper for emerging costs.

As at 30 June 2008, the liability was 65 per cent funded, with assets of \$2 billion and liabilities of \$3.1 billion.

The global financial crisis, and in particular, the performance of the equity markets has had a significant negative impact on the value of superannuation investments. The 30 June 2009 estimate for value of the portfolio of investments is \$1.8 billion, against the original budget estimate of \$2.3 billion.

The estimated superannuation liability at the end of June 2009 is approximately \$3.8 billion, reflecting an unfunded liability of \$2 billion. At June 2009, the liability is estimated to be 47 per cent funded.

Based on the current projections, further capital injections will be required to meet the target of fully funding the liability by 2030. Alternatively, higher investment returns would need to be realised.

The Government will be undertaking a review during 2009-10 to assess the magnitude and timing of further capital injections to achieve the objective of fully funding the liability.

ACT Government Employee Superannuation Arrangements

Superannuation arrangements for employees vary due to the type of superannuation scheme available at the time of commencing employment. An overview of each of the main superannuation arrangements applicable to permanent ACT Government employees is outlined below.

Defined Benefit Superannuation Schemes

From 1 July 1989, the ACT Government became a separate body politic. An agreement was reached with the Commonwealth Government that permanent ACT Government employees (those transferring from the Commonwealth Government or new employees) could continue to access the Australian Government Commonwealth Superannuation Scheme (CSS) arrangement. Casual employees were not eligible to join the CSS and therefore joined a

default superannuation accumulation scheme, the 'Australian Government Employees Superannuation Trust' (AGEST).

The CSS was closed to new members from 1 July 1990.

The CSS is a hybrid defined benefit scheme, in that it incorporates both a defined benefit and an accumulation benefit. It is a partially funded scheme with the compulsory employee contributions and the employer productivity contributions paid to the scheme administrator (ComSuper). Up to 30 June 2008, employee contributions of 5 per cent to the scheme were mandatory. From 1 July 2008, employee contributions to the scheme are voluntary.

The Public Service Superannuation (PSS) scheme was opened on 1 July 1990, and was compulsory for all ACT Government employees employed in a permanent capacity, unless the employee was an existing CSS member, or the CSS member chose to transfer from the CSS to the PSS. Casual employees were not eligible to join the PSS and therefore joined the default superannuation accumulation scheme, AGEST.

The PSS is a partially funded defined benefit scheme, which up until 30 June 2008 required mandatory annual employee contributions of a minimum of 2 per cent to a maximum of 10 per cent. As is the case with the CSS, from 1 July 2008 employee contributions are now voluntary. The employer productivity superannuation contributions continue to be paid to the scheme administrator (ComSuper).

The PSS was closed to new members from 1 July 2005.

Both the CSS and PSS incorporate a defined benefit, which means that benefits payable to members are defined in advance according to certain formulas, based on such factors as years of service, final average salary and the annual level of employee contribution.

The CSS and PSS are administered on behalf of the Territory and Territory employee members by the Commonwealth Government agency, ComSuper.

Public Sector Superannuation Accumulation Plan (PSSap)

From 1 July 2005, all new ACT Government employees were required to become members of the PSSap. Existing CSS and PSS members were not able to transfer to the new scheme.

The scheme design is a defined contribution plan (accumulation) arrangement where the employer is required to contribute 15.4 per cent of employee salary. No employer productivity contribution on behalf of employees is associated with the PSSap. Employee members also have the option of making additional contributions to the scheme.

The Territory does not have any ongoing financial liability in respect of the employees that are members of the PSSap as the liability is funded at the same time employees receive their fortnightly salary.

The PSSap closed to new ACT Public Service employees from 6 October 2006.

The PSSap is administered on behalf of the Territory and Territory employee members by the Commonwealth Government agency, ComSuper.

Post 6 October 2006 — Fund of Choice Arrangements

From 6 October 2006, the ACT Government introduced superannuation fund of choice arrangements for all new employees. Employees can elect to join a superannuation fund of their choice. If an employee does not elect a fund, he or she becomes an automatic member of the Territory's default superannuation fund, which is currently provided by First State Super.

The fund of choice arrangement is one where employees must join a defined contribution (accumulation) fund into which the Territory is required to contribute 9 per cent of the employee's salary. The Territory also contributes an additional 1 per cent for employees who contribute 3 per cent or more of their salary to the fund. No employer productivity contribution on behalf of employees is associated with fund of choice arrangements.

The Territory does not have any ongoing financial liability in respect of employees that are members of either a superannuation fund of their choice or the Territory's default superannuation fund, as the liability is funded at the same time employees receive their fortnightly salary.

Members of the Legislative Assembly

Members of the ACT Legislative Assembly assume membership, depending on eligibility, in one of two superannuation arrangements.

For those Members who were elected before the 2008 general election and have a relevant period of service and no discontinuance (refer to the *Legislative Assembly (Members' Superannuation) Act 1991*), they are members of an unfunded defined benefit superannuation arrangement (DB Scheme), prescribed under the *Superannuation (Legislative Assembly Members) Act 1991*.

- Members are required to make compulsory contributions of 5 per cent of salary to the Territory, and accrue a retirement benefit through an annual defined benefit multiple. This multiple accrues based on years in office and base salary movements. This annual defined benefit multiple can incorporate additional accrual of benefits in line with additional responsibilities held during the course of office. Once individuals leave public office, their benefits are calculated and paid to the individual, if allowable under current Commonwealth Government superannuation legislation, or rolled into a Member-nominated approved superannuation fund.

For those Members elected at or after the 2008 general election who were not an existing member of the DB Scheme prior to the election, they assume membership of a choice of fund accumulation scheme.

- Members may choose an eligible superannuation fund to which contributions are to be paid for the Member's benefit. The Territory is required to contribute 14 per cent of the Member's eligible salary. The Territory will also contribute an additional 1 per cent for Members who contribute 3 per cent or more of their salary to the fund.

A member of the DB Scheme may elect to transfer to a choice of fund accumulation scheme.

Superannuation Provision Account

The Superannuation Provision Account (SPA) was established in 1991 to assist the Government in managing its CSS/PSS defined benefit employer superannuation liabilities. The SPA is not a superannuation scheme for ACT Public Service employees, nor does it receive contributions from ACT Public Service employees. The SPA is an ACT Government account which receives appropriations and makes payments to the Commonwealth in connection with the Territory's defined benefit CSS/PSS employer superannuation liabilities.

The operations of the SPA are subject to the legislative requirements of the *Territory Superannuation Provision Protection Act 2000* and the *Financial Management Act 1996*. The *Territory Superannuation Provision Protection Act 2000* limits moneys held within the SPA to be used for superannuation purposes only, not for the general purposes of Government.

Defined Benefit Employer Superannuation Liabilities

The value of accrued superannuation liabilities is calculated as the present value of the future payment of benefits that have actually accrued in respect of service at the calculation date. This approach, which is known as the 'actual accruals' basis, is in line with Australian Accounting Standard AASB119 and the requirements to use a projected unit credit valuation approach.

The ultimate cost of a defined benefit plan (final retirement benefits to employees) is influenced by many variables and is therefore uncertain. This uncertainty is likely to persist over a long period of time.

The calculation of accrued employer superannuation liabilities and the projected stream of employee retirement benefit payments require the actuary to make many financial and demographic assumptions about the future membership experience of ACT employees currently in the CSS and PSS. All these assumptions influence the estimate of liability for each individual employee and their benefit cash payment profile.

Financial assumptions include the discount rate which is used to calculate the present value of the liabilities, salary inflation and long-term inflation. Demographic assumptions include increases in salary related to promotion, resignation, retirement, invalidity, mortality, mortality of pensioners and future mortality improvements, benefit stream election (lump sum, pension or both), and level of member contribution.

Accounting for defined benefit plans is complex because these actuarial assumptions are required to measure the obligations and the expense, and there is a possibility of actuarial gains and losses which can arise when actuarial assumptions are different from actual outcomes. The liabilities are measured on a discounted basis because they may be settled many years after the employees render their related service.

Annual Actuarial Review of Defined Benefit Employer Superannuation Liabilities

Each year the actuary undertakes a review of the Territory's defined benefit employer superannuation liabilities. The 2009-10 Budget estimates for the SPA incorporate the latest actuarial review of the Territory's defined benefit employer superannuation liabilities using salary and membership data as at 30 June 2008.

This annual actuarial review sets out the following key results:

- projections of the Territory's accrued superannuation liabilities (employer component only), in respect of ACT Public Service employees who are members of the CSS or PSS defined benefit schemes; and
- projections of the annual benefit payments that should be made by the Territory to the Commonwealth Government to discharge its employer superannuation liability, with respect to benefits payable to members. These payments are known as the emerging cost payments.

For this latest actuarial review, and every three years, the actuary undertakes a major triennial review. This is the same as the annual review, but also includes a comprehensive review of all of the demographic assumptions applied to the membership.

If any material differences are identified between the demographic assumptions previously adopted by the actuary over the last three years and the actual membership experience, the actuary will update the demographic assumptions applied to the valuation process.

As at 30 June 2008, there were 13,442 contributing members currently employed by the ACT Government (means eligible employees of departments, authorities, territory-owned corporations, ActewAGL and Calvary public hospital). In addition, there were 6,345 current pensioners, 329 dependant pensioners and 10,582 deferred beneficiaries who were employees of the ACT Government when they ceased.

In addition, as at 30 June 2008, there were 4,493 contributing members who had previously been employed, but were not currently employed, by the ACT Government. There were also 886 current pensioners, 27 dependant pensioners and 2,224 deferred beneficiaries who were not employees of the ACT Government when they ceased contributory membership, but were employed by the ACT Government previously.

The impact on the estimates for the Territory's projected defined benefit superannuation expense is illustrated in Table 5.3.1.

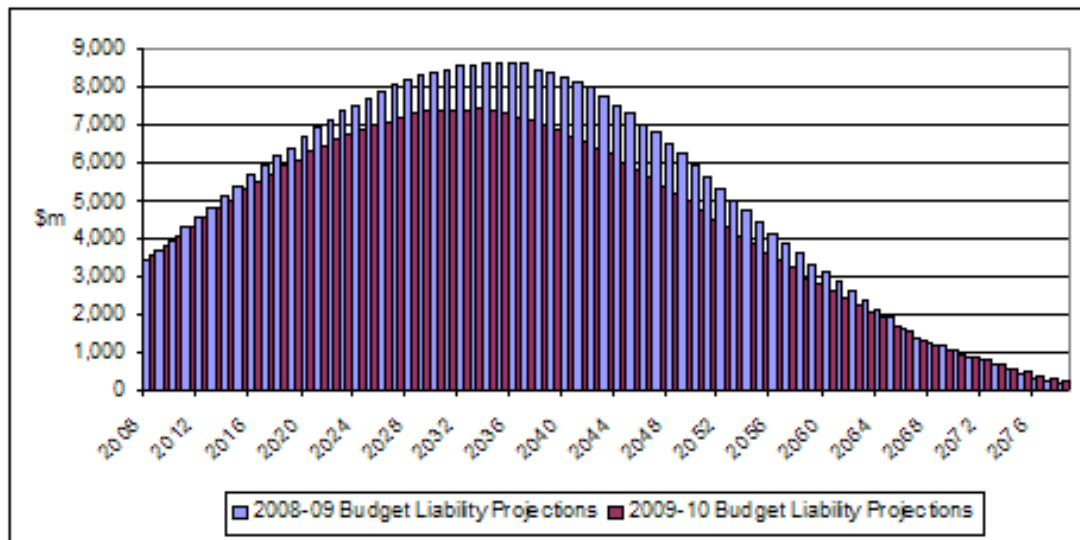
Table 5.3.1
Actuarial Revision to the Annual Defined Benefit Superannuation Expenses

	Membership	Financial Assumptions	Demographic Assumptions	Methodology	Total Expense Impact
	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2010	6,600	0	6,200	(12,700)	100
30 June 2011	6,600	0	5,400	(14,500)	(2,500)
30 June 2012	2,800	0	4,600	(15,900)	(8,500)

The methodology adopted for the latest triennial actuarial review was substantially the same as that adopted for the previous year’s actuarial review. Revisions were made in relation to the actuary’s assumptions about PSS indexed pensions and the percentage that is employer-financed. This has resulted in lower projected superannuation expenses over the Budget and forward years. This change was based on analysis of the benefits of current contributors. In making this change there is now consistency between the methods used to determine the accrued superannuation liability and the method used to assess the amount of the emerging cost each year.

The impact on the estimates for the Territory’s projected employer superannuation liabilities is illustrated in Figure 5.3.1.

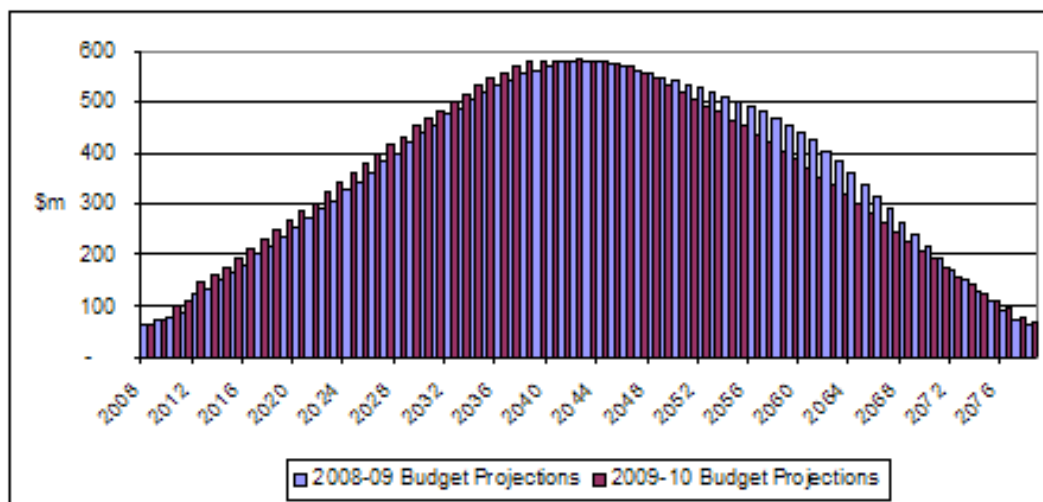
**Figure 5.3.1
Actuarial Revision to Estimated Employer Superannuation Liabilities**



In nominal terms, and based on the current actuarial determination, the defined benefit superannuation liabilities are now projected to peak at approximately \$7.4 billion by 30 June 2033 (estimated at \$8.6 billion by 30 June 2037 in the 2008-09 Budget). The decrease results from a combination of factors including an 11 per cent decrease in active contributors due to employees leaving ACT Government employment, higher scheme exits than forecast (including higher CSS 54/11 exits), and the positive impact due to changes in the calculation methodology, being offset by increased pensioner longevity, higher member contribution rates, and other small impacts associated with updated changes to the demographic experience of the membership.

The impact on the estimates for the Territory's projected emerging cost payments is illustrated in Figure 5.3.2.

Figure 5.3.2
Actuarial Revision to Estimated Employer Emerging Cost Payments



The annual cash (employee benefit) payments (in nominal terms) made to the Commonwealth to extinguish the liabilities over time are projected to increase significantly over time from approximately \$97 million in the 2009-10 financial year to a peak of \$588 million by 2042.

The most recent actuarial review estimates that benefit payments are now projected to increase over the 2009-10 Budget and forward years by \$92 million, with total expected payments of \$512 million. The benefit payment profile has been impacted by the changes in the membership experience, demographic assumptions and methodology. This has resulted in bringing forward a proportion of the projected payment profile. Over the full projection period, total estimated cash benefit payments have actually fallen by some \$235 million from the 2008-09 Budget estimates.

The estimates for the annual emerging cost payments to be made from the SPA to the Commonwealth over the Budget and forward years are shown below in Table 5.3.2.

Table 5.3.2
Projected Defined Benefit Superannuation Payments

	CSS \$'000	PSS \$'000	Total \$'000
30 June 2010	74,927	22,228	97,155
30 June 2011	82,136	27,284	109,420
30 June 2012	89,942	55,010	144,952
30 June 2013	97,264	63,272	160,537

Defined Benefit Superannuation Funding

The Government remains committed to the effective management, and eventual elimination, of the unfunded CSS/PSS defined benefit employer superannuation liabilities through a funding plan that is reviewed periodically.

As at 30 June 2008, the liability was 65 per cent funded by financial investment assets. The net annual investment return achieved to 30 June 2008 was CPI plus 5.6 per cent (or 8.4 per cent nominal), which was ahead of the long-term investment return objective of CPI plus 5 per cent (or 7.6 per cent nominal).

Over the course of 2008-09, the investment portfolio has incurred losses as a result of the effect of the global financial crisis and the continued deterioration in the global economic environment. The investment losses being recognised by the Territory are in-line with investment losses being recognised by other institutional and growth-orientated superannuation fund investors.

The current funding model, taking into account the most recent expectation for investment earnings for 2008-09, and incorporating the results of the latest actuarial review of liability and benefit payment projections, indicates that the 100 per cent funding target by 2030 will not be achieved without an increase in the cash funding contributed by Government and/or the achievement of investment returns in the future in excess of the return target.

Given the uncertainty about the timeframe for a return to 'normality' in the financial markets, the prudent approach is to make a full and robust assessment of the progress against the current Funding Plan in the 2010-11 Budget, and any necessary changes to the Plan will be made at that time.

Budget and Forward Year Funding Estimates

The estimates of the annual funding items and the annual accrued liability are set out below in Table 5.3.3.

Table 5.3.3
Annual Funding and Accruing Liability

	Annual Budget Injection \$'000	Net Investment Earnings \$'000	Total Receipts \$'000	Annual Accruing Liability \$'000
30 June 2010	137,107	138,890	275,997	258,478
30 June 2011	140,534	151,794	292,328	255,264
30 June 2012	144,048	163,704	307,752	250,646
30 June 2013	147,649	175,040	322,689	246,258

Note:

The figures exclude both MLA and Totalcare superannuation liabilities, which are not material when compared to the defined benefit CSS/PSS superannuation liability estimates.

The accruing liability figure represents the growth in liabilities from year to year and comprises the annual service and interest cost, less actual benefit payments. The service cost is the increase in the present value of the defined obligation resulting from employee service in the current period (in other words, it measures the cost of superannuation for existing employees in a given year). The interest cost is the increase during a period in the present value of a defined benefit obligation, which arises because the benefits are one period closer to settlement (in other words, it measures the interest cost on superannuation liabilities for former and existing employees that were accrued in previous years).

The CSS/PSS defined benefit employer superannuation liabilities are a substantial portion of all General Government Sector (GGS) liabilities. As at the end of the 2008-09 financial year, these liabilities will total approximately \$3.8 billion. The investment assets set aside to meet these projected liabilities will total approximately \$1.8 billion. The Territory will therefore have an unfunded liability position of \$2.0 billion, or a funded percentage of 47 per cent, at the commencement of the 2009-10 Budget year. This is a significant reduction of the 2008-09 Budget estimate for the 2009-10 Budget, which projected a 63 per cent funding ratio, and financial assets of \$2.3 billion.

The funding level of superannuation liabilities is forecast to improve over the forward years as illustrated in Table 5.3.4.

Table 5.3.4
Percentage funding of CSS/PSS Defined Benefit Liabilities

	Assets \$'000	Liabilities \$'000	% Funded
30 June 2009	1,790,620	3,796,687	47%
30 June 2010	1,968,391	4,055,165	49%
30 June 2011	2,144,821	4,310,429	50%
30 June 2012	2,300,967	4,561,075	50%
30 June 2013	2,456,289	4,807,334	51%

Superannuation Assets

The investment assets held by the SPA include Australian and international money market securities, Australian and international fixed interest securities, Australian and international equities, Australian private equity, and Australian indirect unlisted property. The investment assets are projected to grow over time through the injection of funds by Government (capital injections) and investment earnings, incorporating the re-investment of income.

These financial assets are invested and managed by Treasury, according to an asset allocation strategy that takes into account the risk/return objectives of the Territory, and the long-term nature of the projected defined benefit employer superannuation liabilities and projected cash flow requirements.

Treasury does not undertake investment management in-house. External, asset class specific, institutional fund managers are appointed to manage the Territory's financial assets. The individual investment management agreements prescribe all of the allowable investments that may be entered into in accordance with the *Financial Management Act 1996*, and the *Territory Superannuation Provision Protection Act 2000*.

Treasury also utilises the services of an appointed Asset Consultant, a Master Custodian and an Investment Advisory Board. Further information on the assets set aside for superannuation purposes is outlined in Chapter 5.1 Investments.