7.3 SUPERANNUATION

Overview

This chapter provides details of the Territory's superannuation arrangements for ACT Government staff and the interaction of these arrangements with the Commonwealth.

These arrangements were negotiated at the time of self-government, and facilitate the mobility of staff between the ACT Public Service and the Commonwealth by allowing portability of the same superannuation arrangements.

The Territory's superannuation liability for employees who are not Commonwealth Superannuation Scheme (CSS) or Public Superannuation Scheme (PSS) members, is fully funded at the level to meet the Superannuation Guarantee requirements, by regular payments to approved superannuation schemes. As these liabilities are fully funded, they are not included in this chapter.

Superannuation Schemes

With effect from 1 July 1989, the ACT Government became a separate body politic and is responsible to the Commonwealth for the employer-financed portion of superannuation benefits provided to employees for their period of employment with the ACT Government. This employer-financed component is the total benefit payable (excluding the productivity component) less the accumulated member contributions with interest.

All permanent employees within the ACT Public Sector are members of either the CSS or the PSS. Both schemes incorporate defined benefits, 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 level of employee contributions.

The CSS closed to new members from 1 July 1990. The CSS is a hybrid scheme, in the sense that it incorporates both a defined benefit and an accumulation benefit. Like the PSS, it is a partially funded scheme. Unlike the PSS, the CSS was primarily designed as a pension based scheme.

The PSS was opened on 1 July 1990, and is compulsory for all ACT Government employees employed in a permanent capacity. The PSS is a partially funded defined benefit scheme, with mandatory employee contributions and a 3% employer productivity superannuation contribution paid to the scheme administrator. The scheme was primarily designed as a lump sum payment arrangement, but a pension option is also available.

Commonwealth legislation to amend the scheme design of the PSS from defined benefit to defined contribution to new members from 1 July 2005 has been passed. The amended scheme design will introduce an accumulation arrangement from 1 July 2005 for which the employer will be required to contribute 15.4% of the superannuable salary and to continue to meet the scheme's administration costs.

The CSS and PSS are administered on behalf of the Territory and Territory employee members by the Commonwealth agency, ComSuper. ComSuper will also administer the new PSS defined contribution scheme from 1 July 2005. For more information on the CSS or PSS, the ComSuper website is http://www.comsuper.gov.au.

Superannuation Provision Account (SPA)

The Superannuation Provision Account (SPA) was established in 1991 to assist the Government in managing its superannuation liabilities. The SPA is not a superannuation scheme for ACT Government employees, but an ACT Government account to receive appropriations and make payments in connection with the Government's superannuation liabilities.

The operations of the SPA are subject to the legislative requirements of the *Territory Superannuation Provision Protection Act 2000*. This legislation limits moneys standing to the credit of the SPA to be used for superannuation purposes only, and not to be used for the general purposes of Government.

The SPA receives appropriations and contributions from:

- the ACT Budget; and
- off-budget government agencies. These contributions are made on an accruing cost basis. Accordingly, there are accumulating assets in the SPA in respect of these off-budget agencies to discharge future benefits.

The following payments are made from the SPA:

- emerging cost payments to the Commonwealth; and
- administration costs.

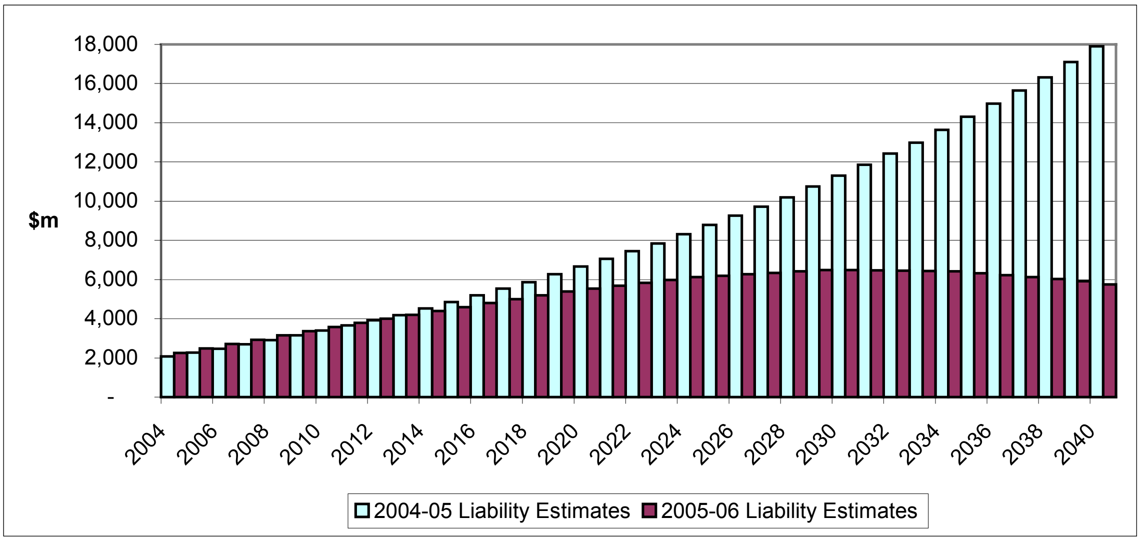
Superannuation Funding

The Government is committed to the effective management of superannuation liabilities through a funding plan that is reviewed periodically. Employer contribution levels are also periodically re-assessed to ensure they are consistent with the underlying full cost of the two superannuation schemes.

The Government has a commitment to fund 90 per cent of accrued superannuation liabilities by 30 June 2040. In light of the significantly lower projected liabilities following the introduction of the PSS accumulation scheme, this target date will also be reviewed during 2005-06 with a view to determining whether an earlier date should be adopted. The outcome of this process will be reported in the 2006-07 Budget.

The projections included in the budget provide for retention of capital injections at past assumed levels plus fully funding employer contributions for new employees from 1 July 2005. This increases the total cash funding of superannuation liabilities above that provided in past budgets.

Figure 7.3.1
Actuarial Revision to Estimated Superannuation Liabilities



Notes
The 2004-05 accruing liabilities incorporates an increase in liabilities at 30 June 2004 of $183.5 million, reflecting the financial impact of actual salary and staffing levels at 30 June 2004.

Figure 7.3.1 illustrates the significant impact to the actuarial estimates for the Territory's superannuation liabilities due to the closure of the defined benefit PSS from 1 July 2005, and the requirement of the Territory to meet the accruing employer liability as it falls due.

The 2005-06 Budget estimates show that SPA total receipts will be greater than the annual accruing liability from 2005-06, as shown below:

Table 7.3.1
Annual Funding and Accruing Liability

30 June	Employer Contributions $'000	Annual Budget Injection $'000	Investment Earnings $'000	Total Receipts $'000	Annual Accruing Liability $'000
2005	14 905	122 182	136 372	273 459	414 295
2006	15 522	125 236	102 627	243 385	226 080
2007	15 689	128 367	127 678	271 734	220 750
2008	15 845	131 576	142 969	290 390	219 116
2009	16 025	134 866	159 089	309 980	218 218

Note: The 2004-05 accruing liabilities incorporates an actuarially determined increase in liabilities at 30 June 2004 of $183.5million, to take account of actual salary and staffing levels at 30 June 2004.

The employer contribution figures include Government Business Enterprise and Statutory Authority contributions. The annual accruing liability figure is the annual increase in the outstanding employer superannuation liability for employees who are members of the CSS and PSS.

In nominal terms, and based on the current actuarial determination, the superannuation liability is modelled to peak at approximately $6.5 billion by 30 June 2029.

The funding level of superannuation liabilities is forecast to increase slowly over the Budget and forward years following the increase in unfunded liabilities in 2004-05 due to the substantial actuarial revision.

Table 7.3.2
Percentage funding of liabilities

30 June	Assets $'000	Liabilities $'000	% Funded
2005	1 447 094	2 480 943	58%
2006	1 626 868	2 707 023	60%
2007	1 829 509	2 927 773	62%
2008	2 042 190	3 146 890	65%
2009	2 266 537	3 365 107	67%

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 direct unlisted property.

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

The Superannuation Unit does not undertake investment management in-house. External, asset specific, professional wholesale fund managers are appointed to manage the Territory's financial assets. The individual investment management agreements that are entered into 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*.

The Superannuation Unit also utilises the services of an appointed Asset Consultant, a Master Custodian and a Finance and Investment Advisory Board.

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 accepted international accounting practice.

The 2005-06 Budget for the Superannuation Unit incorporates the latest actuarial review of the Territory's superannuation liabilities using salary data as at 30 June 2004, conducted by the Government's consulting actuary.

This report sets out the following key results:

- projection of the Territory's accrued superannuation liabilities in respect of ACT Government employees who are members of the CSS or the PSS defined benefit schemes; and
- annual payments that should be made by the Territory to the Commonwealth to discharge its superannuation liability with respect to benefits currently payable to members. These recommended payments are known as the emerging cost payments.

The financial impact of the latest actuarial review was a recommendation to increase the superannuation benefits liability as at 30 June 2005 by $214m, which includes a revision to past liabilities up to 30 June 2004 of $183.5m.

Financial Assumptions

The calculation of accrued superannuation liabilities and the projected stream of emerging cost payments require assumptions about the future membership of the CSS and PSS and future anticipated financial experience. Actuarial estimates of superannuation liabilities are also based on a wide range of economic, financial and demographic assumptions.

The actuarial assumptions used for the latest actuarial report are the same as those used in the previous review, and are the same as the assumptions used in the Long Term Cost Report (LTCR) of the CSS and PSS as at 30 June 2002 for the Commonwealth, prepared by their consulting actuary.

The key differences in the financial assumptions in the current projections from those adopted for the previous Territory actuarial report include:

- adoption of short-term salary growth assumptions, due to the recent EBA outcomes for staff; and
- the key assumption that the defined benefit PSS will close to new members from 1 July 2005.

Over time, actual outcomes in relation to compensation growth, investment returns, staff movements, mortality, morbidity, inflation and the preference for lump sum benefits over pensions will vary from what has been assumed by the actuary. To the extent that these occur, there will be changes in both the cash flow profile for the Government and the period of time over which the unfunded liability will be eliminated.

The new PSS accumulation scheme requires the Territory to contribute to the scheme as the liability is incurred. In practice this will mean fortnightly contributions are made based on the agreed percentage of employee salaries paid.

Totalcare Employees

Past Totalcare employee records are being reviewed and the Government has indicated that all obligations relating to past and current employees will be met.

The current superannuation liability of the Territory incorporates an amount estimated at $17.3 million. This estimate has not changed from last financial year.