7.3 SUPERANNUATION

Overview

The majority of employees within the ACT Public Sector are members of the Commonwealth Superannuation Scheme (CSS) or the Public Superannuation Scheme (PSS). Currently new permanent employees commencing service with the ACT public sector can only join the PSS.

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. The CSS and PSS superannuation arrangements are administered by the Commonwealth agency Comsuper.

Under the arrangements agreed with the Commonwealth, the ACT Government is to reimburse Comsuper for the emerging cost of superannuation entitlements in respect of ACT Government employees who are members of the CSS or PSS. The date from which these entitlements started to accrue is 1 July 1989.

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, but an ACT Government account to receive appropriations and make payments in connection with the Government's superannuation liabilities.

The unfunded liability of the Government's superannuation schemes represents the future benefits that members have accrued during past service which are not covered by fund assets. Unfunded liabilities have arisen as a result of the Territory not fully funding liabilities from the inception of self-government.

The SPA receives appropriations and contributions from:

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

The following payments are made from the SPA:

- emerging Cost Payments to the Commonwealth; and
- administration costs.

In June 2000 the *Territory Superannuation Provision Protection Act 2000* was passed. This legislation ensures 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 effect of the legislation is that funds earmarked to meet future superannuation liabilities, and invested in a similar fashion as the assets of a true superannuation scheme, are not available for other uses.

The Government is committed to the effective management and eventual elimination of unfunded superannuation liabilities via an actuarially calculated funding plan that is reviewed every three years. Employer contribution levels are periodically reassessed to ensure they are consistent with the underlying full cost of the two superannuation schemes.

The funding strategy is targeted towards achieving a position at 30 June 2040 where estimated assets of the SPA equate to 90% of the actuarially determined liability. The long-term target of 90% recognises the potential movements in both asset and liability levels over this time frame.

Superannuation Financing

A strategy was announced in May 2000 to meet the objective of a 90% funded superannuation liability by 30 June 2040. The achievement of this objective is dependent upon investment returns, together with annual appropriations, to build funds in the SPA to provide for the ongoing/long-term superannuation liabilities of the Government.

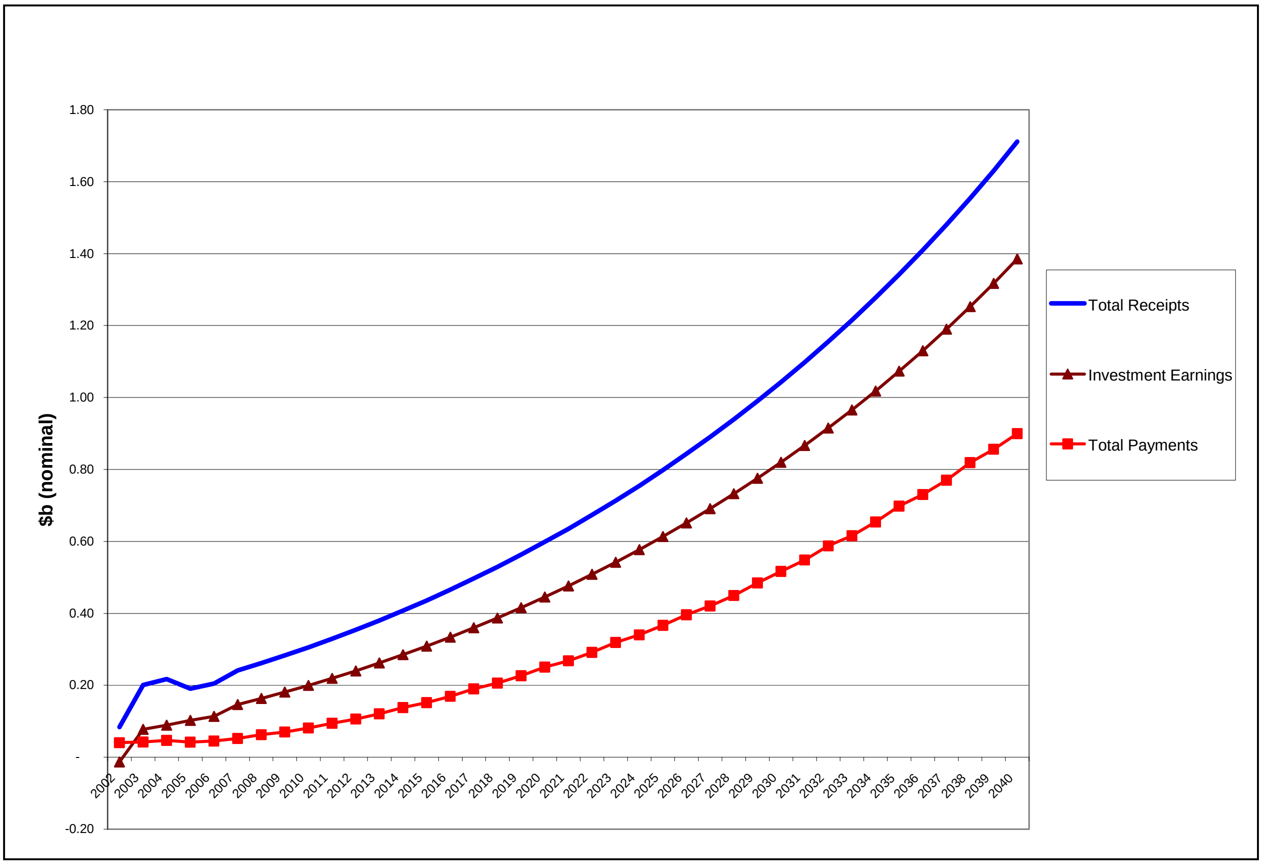
During 2001-02, the Government reviewed its investment strategy to ensure that long-term returns on the SPA portfolio are maximised (within acceptable risk limits) to reduce the superannuation liability of the Territory. Over this time the SPA portfolio held a higher proportion of cash in anticipation of the outcome of the review. This proved to be of benefit as the global recession, and the events of September 11, 2001 in the United States, depressed financial markets and investment returns. SPA investment returns in 2001-02 are estimated to be negative, however, the higher proportion of cash has shielded the SPA from potentially larger losses. The negative return for 2001-02 has had a significant impact upon the ability of the SPA to achieve the 2040 funding objective, given the compounding effect of investment returns over time.

To meet the target of 90% coverage by 2039-40, the SPA requires annual appropriations commencing 2004-05 of $68m (in 2002-03 value) indexed in line with the estimated inflation of accruing liabilities. In addition, amounts are required to meet past years' underpayments of emerging costs and emerging costs payable, as well as additional injections of $68.8m per annum, for the two years up to 2003-04.

The financial modelling supporting the long-term funding target assumes that real investment earnings will be at 5 percent per annum.

Figure 7.3.1 illustrates that the combination of investment earnings and annual appropriations generates cash inflows in excess of total outflows to be made from the SPA. This net cash inflow provides the accumulation of funds to meet the 90% funding objective in 2040.

Figure 7.3.1
SPA Inflow and Outflow



Actuarial estimates are based on a wide range of economic, financial and demographic assumptions. Over time, actual outcomes in relation to salary 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 2002-03 Budget estimates show that SPA total receipts will be greater than the annual accruing liability, except for 2001-02 due to negative investment earnings, 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
2002	14,679	83,400	-13,000	85,079	154,607
2003	15,240	107,969	77,578	200,787	168,148
2004	15,398	112,140	89,441	216,979	178,795
2005	15,544	74,767	102,373	192,684	189,398
2006	15,663	75,489	113,645	204,797	204,305

The employer contribution figures include Government Business Enterprise and Statutory Authority contributions. The annual budget injection figures include capital injections and funding to meet annual superannuation expenses. The annual accruing liability figure is the annual increase in the outstanding employer superannuation liability.

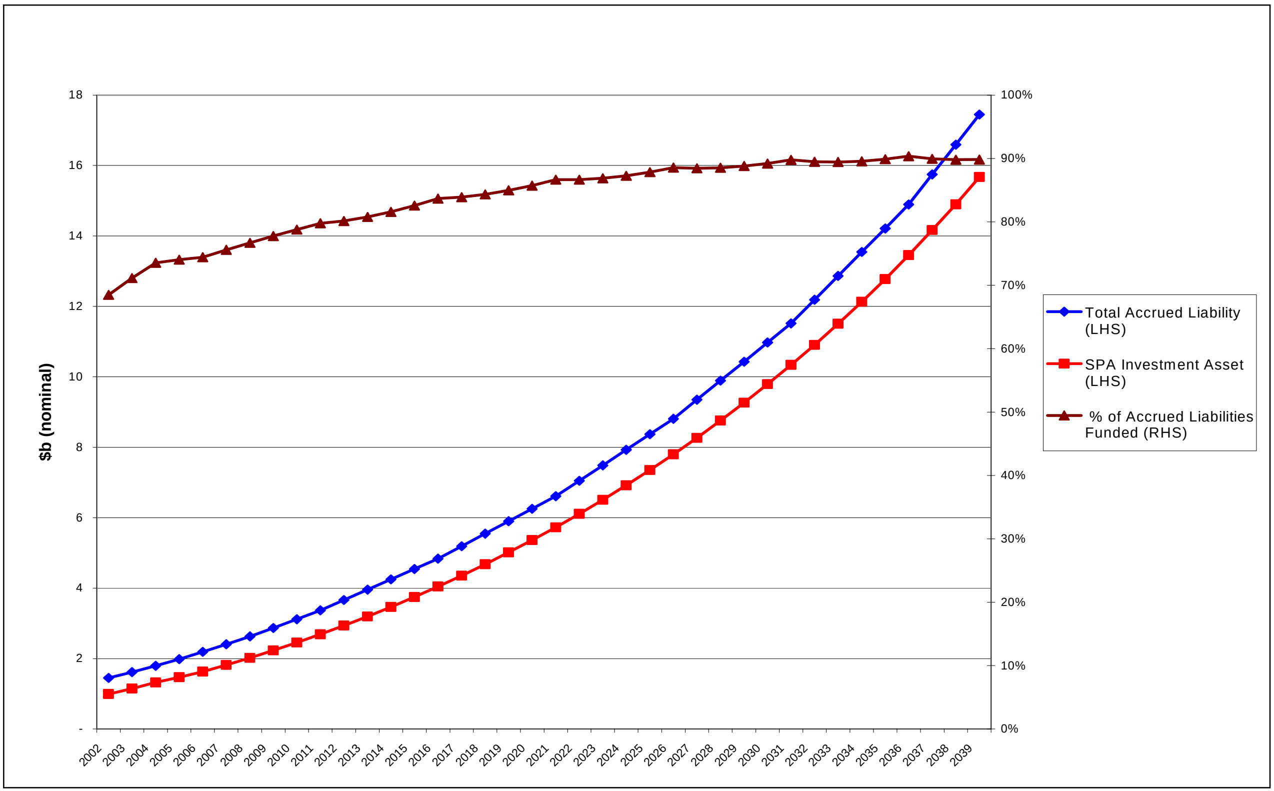
Superannuation Liabilities

An actuarial review of the accrued and projected superannuation liability was completed in March 2002, based on salary data at 30 June 2001. The actuary's assumptions accommodated current estimates of projected salary growth, inflation and investment returns.

The previous actuarial review assumed the objective to implement a fully-funded choice of fund arrangement for ACT Government employees from 1 July 2002. This had the effect of the liability peaking in 2030-31 and gradually decreasing thereafter.

Reflecting a change to superannuation policy of indefinite continuing membership of PSS for ACT Government employees, the current liability calculations reflect the continuing growth in liability on the assumption of constant staffing levels until 2039-40.

Figure 7.3.2
Superannuation Funding



In nominal terms, the superannuation liability is expected to reach $17.5 billion in 2040, with matching assets estimated to be $15.7 billion.

The 2002-03 Budget estimates show that the funding level of superannuation liabilities is estimated to increase from 68% as at 30 June 2002 to 74% as at 30 June 2006, as shown in Table 7.3.2 below:

Table 7.3.2
Percentage funding of liabilities

30 June	Assets $'000	Liabilities $'000	% Funded
2002	992,552	1,449,241	68%
2003	1,150,646	1,617,390	71%
2004	1,320,977	1,796,185	74%
2005	1,469,944	1,985,583	74%
2006	1,629,629	2,189,888	74%

The liability figures exclude the annual provision for actuarial variations to the estimated liability.

The Commonwealth Budget for 2002-03 and forward years assumes closure of the PSS at 30 June 2003, and the adoption of fund of choice for its employees thereafter. The Commonwealth notes its intention to re-introduce legislation to achieve this – a previous attempt has been blocked in the Senate.

These Budget Papers assume the continued operation of the PSS and continuing membership for new entrants into the ACT Public Service. Should the PSS be closed and the ACT Government adopt fund of choice arrangements, budgeted costs in the short-term are unlikely to vary significantly. If implemented, the Territory would meet the accruing employer liability as it fell due, and the unfunded employer contribution liability of CSS and PSS members would cease to increase indefinitely.