5.2 SUPERANNUATION

Overview

Addressing the unfunded superannuation liability remains a key area of focus for the Government for this and future Budgets.

The Budget continues the strategy announced in May 2000 for meeting the objective of a 90% funding level of the superannuation liability by 2039-40. Integral to this strategy, the Government continues to review its investment strategy to optimise returns to the Superannuation Provision Account.

An asset consultant and master custodian will be appointed to assist the Government with the investment of money held in the account. The Finance and Investment Advisory Board will continue to provide expert advice to the management of the Territory's investment and borrowings.

In 2000-01, an amount of $154m will been paid to the Superannuation Provision Account. Of this amount, $119m is the equalisation payment from the ActewAGL joint venture partnership.

By addressing the issue of unfunded liability with significant allocations now, the Government will be able to remove budgetary pressures that would have emerged in future years due to the requirement to meet escalating annual costs from a largely unfunded position. This strategy reflects the Government's commitment to responsible financial management with long term benefits to the ACT community.

Superannuation Financing

Appropriations to the Superannuation Provision Account aim to establish a fund of significant size which, together with the fund's investment earnings, provides for the emerging superannuation costs for the Government over the longer term. The injection of $300m into the account during 1999-2000, along with $154m in 2000-01, was a significant building block in this process.

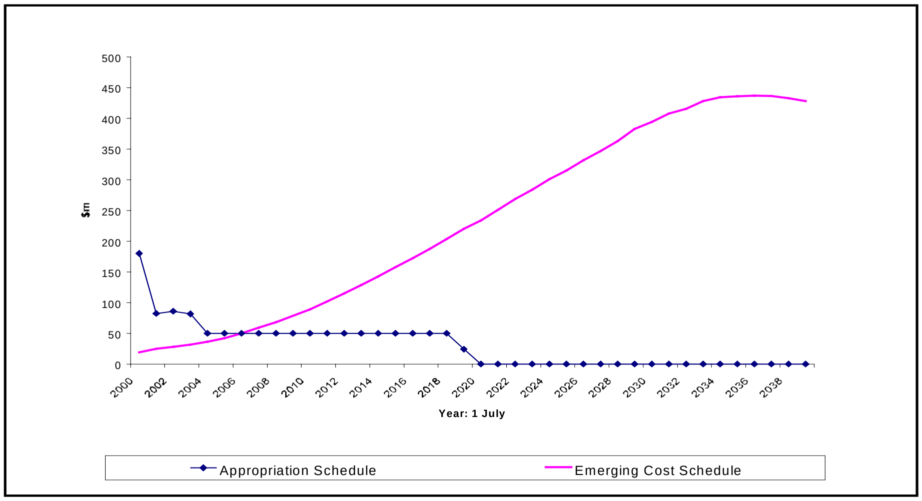
The budget for 2001-02 provides for additional amounts of $50m above emerging cost in 2001-02, $50m in 2002-03 and $50m in 2003-04 into the Superannuation Provision Account.

Financial modelling of the combined effect of the additional budget funding and allowance for emerging costs indicates that, given the target rates of investment earnings, it will take approximately 19 years to build a fund of sufficient size to enable additional contributions to cease.

The modelling incorporates the Government's plan that after 2003-04, the appropriation amount will be capped at $50m until the fund is sufficient. Under this plan, $50m would be required from 2003-04 to 2018-19, followed by $24m in 2019-20, at which time, the fund would be equal to 89% of accrued liabilities. With real investment earnings remaining at 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.

Figure 5.2.1 compares the actuarial estimates of annual emerging cost over the next forty years with the budget funding discussed above. Values incorporated are in nominal terms, i.e., indexed to reflect actuarial assumptions for annual movements in CPI and salaries.

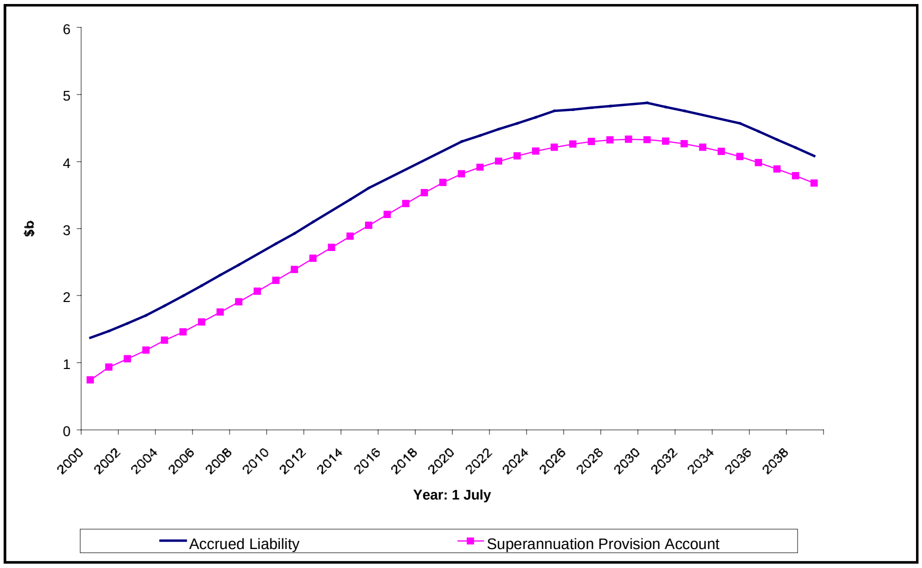
Figure 5.2.1
Annual Funding and Emerging Cost



There is a threshold issue as to whether the fund should be 100% funded. As the rate of investment earnings of the fund is likely to 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 over funding. The approach by many private sector companies and government bodies 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 (gross) liability is estimated to peak at $2 billion 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. Values incorporated are in nominal terms, i.e., indexed to reflect actuarial assumptions for annual movements in CPI and salaries.

Figure 5.2.2
Funding Outcomes



Review of the fund will be undertaken on a regular basis due to the potential for variation in investment earnings. These reviews will be undertaken in conjunction with the triennial review of superannuation liabilities which is anticipated to take place when CSS and PSS data become available during 2001-02.

Superannuation Liabilities

A review of the accrued liabilities projection was undertaken in 2000-01. The financial assumptions were revised to bring them into line with current projections for salary growth, CPI and investment returns. New modelling was also undertaken to incorporate a revised closure date of the CSS/PSS scheme to new entrants to 30 June 2002. This reflects a deferral of two years from the previous date of 30 June 2000. This had the result of increasing the number of members in the fund, and hence increased the accrued liability from the previous Budget.

The 2001-02 Budget estimates show that the funding level of superannuation liabilities is estimated to increase from 63% as at 30 June 2001 to 73% as at 30 June 2005, as shown in Table 5.2.2 below:

Table 5.2.2
Percentage funding of liabilities

30 June	Assets $'000	Liabilities $'000	% Funded
2001	934,263	1,473,246	63%
2002	1,057,545	1,586,582	67%
2003	1,187,523	1,708,700	69%
2004	1,336,659	1,849,564	72%
2005	1,461,131	1,996,725	73%

The liability figures include the annual provision for the actuarial variations to the estimated liability, amortised over a period of twelve years to smooth the impact on financial statements. These figures are directly comparable to those contained in Budget Paper No. 4.

Protection of Superannuation Funding

The *Territory Superannuation Provision Protection Act 2000* was passed in June 2000. 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 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 aims to avoid the likelihood of overfunding.