6.3 SUPERANNUATION

Overview

ACT Government employees are members of a number of different superannuation schemes. All liabilities incurred for new employees since 1 July 2005 are fully funded. A large proportion of the current employees who joined prior to 1 July 2005 (and almost all of the past employees) are members of defined benefit schemes.

Fully funding the defined benefit superannuation liability over time remains one of the key financial objectives of the Territory. The Territory does not operate a superannuation fund for employees. The Superannuation Provision Account (SPA) holds and invests financial assets, and makes payments to the Commonwealth administering agency ComSuper for emerging costs (employee superannuation benefit payments).

The estimated superannuation liability at the end of June 2011 is approximately $4.3 billion, reflecting an unfunded liability of $2.0 billion. At June 2011, the funding of liabilities is expected to improve from 44 per cent (30 June 2010) to approximately 53 per cent. Over the forward estimates period, the ratio of funding to liabilities is projected to increase to 56 per cent by 30 June 2015.

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). Until 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 became 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 PSSap closed to new ACT Public Service employees on 6 October 2006.

The scheme has a defined contribution plan (accumulation) arrangement where the employer is required to contribute 15.4 per cent of an employee's 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 who are members of the PSSap as the liability is funded at the same time employees receive their fortnightly salary.

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 super 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.

New fund of choice arrangements do not require an employer productivity contribution on behalf of employees. The Territory does not have any ongoing financial liability in respect of employees who 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 (MLAs)

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

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)*, 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 their salary to the Territory Banking Account, and accrue a retirement benefit through an annual defined benefit multiple. This multiple accrues based on the number of 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 the equivalent of 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 being used for superannuation purposes only, not for general Government purposes.

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, known as the ‘actual accruals’ basis, is in line with Australian Accounting Standard AASB119 and the requirement 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 requires 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 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, improved rates of life expectancy, 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 2011-12 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 2010.

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.

As at 30 June 2010, there were 11,368 contributing members currently employed by the ACT Government (i.e. eligible employees of directorates, authorities, territory-owned Corporations, ActewAGL and Calvary public hospital). In addition, there were 7,138 current pensioners, 405 dependant pensioners, and 10,986 deferred beneficiaries who were employees of the ACT Government when they ceased employment.

In addition, as at 30 June 2010, there were 4,541 contributing members who had previously been employed, but were not currently employed, by the ACT Government. There were also 1,151 current pensioners, 30 dependant pensioners and 2,543 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 6.3.1.

Table 6.3.1
Actuarial Revision to the Annual Defined Benefit Superannuation Expenses

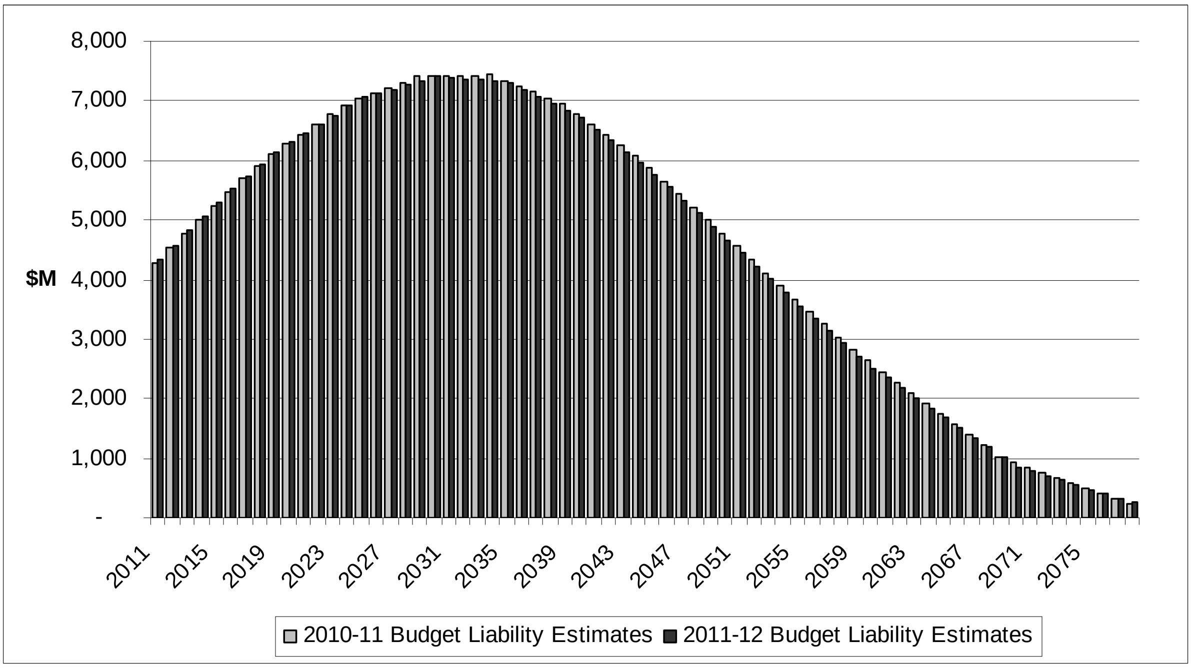
	Membership $'000	Financial Assumptions $'000	Demographic Assumptions $'000	Methodology $'000	Total Expense Impact $'000
30 June 2012	100	0	0	600	700
30 June 2013	(200)	0	0	600	400
30 June 2014	(300)	0	0	600	300
30 June 2015	(500)	0	0	600	100

As this revision is a result of an annual actuarial review and not a major triennial review, no changes were made to any of the financial and demographic assumptions.

The impact from the changes in membership is due to variations in membership which arise when the actual membership experience at 30 June 2010 is different from that expected.

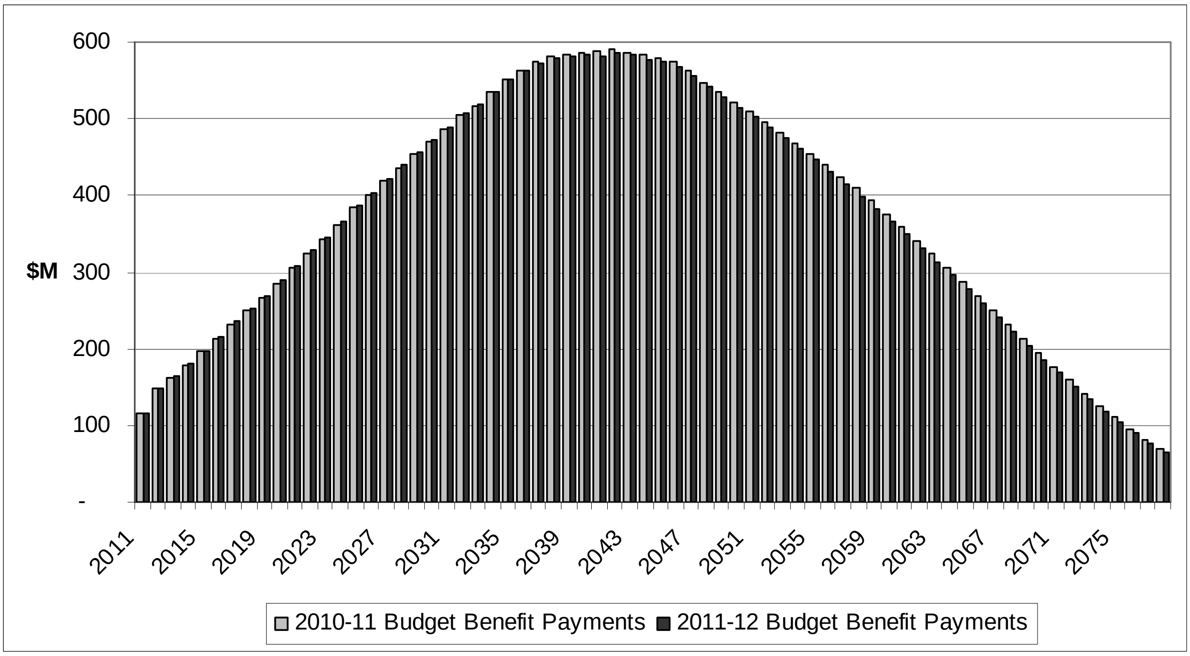
The impact on the estimates for the Territory's projected employer superannuation liabilities is illustrated in Figure 6.3.1.

Figure 6.3.1
Actuarial Revision to Estimated Employer Superannuation Liabilities



In nominal terms, and based on the current actuarial determination, the defined benefit superannuation liability is projected to peak at approximately $7.4 billion by 30 June 2030 (estimated at $7.4 billion by 30 June 2034 in the 2010-11 Budget). As illustrated in the chart, the latest actuarial liability projections remain largely in-line with the previous projections. The impact on the estimates for the Territory's projected emerging cost payments is illustrated below in Figure 6.3.2.

Figure 6.3.2
Actuarial Revision to Estimated Employer Emerging Cost Payments



The annual cash (employee superannuation benefit) payments (in nominal terms) made to the Commonwealth to extinguish the liabilities are projected to increase significantly over time from approximately $115 million in 2010-11 to a peak of $586 million by 2042.

The most recent actuarial review estimates that benefit payments are projected to increase over the 2011-12 Budget and forward years by $6 million, compared with the projected profile in the 2010-11 Budget. The total expected cash payments across the 2011-12 Budget and forward years is projected to be $692 million.

The estimates for the annual emerging cost payments to be made from the SPA to the Commonwealth over the 2011-12 Budget and forward years are shown below in Table 6.3.2.

Table 6.3.2
Projected Defined Benefit Superannuation Payments

	CSS $'000	PSS $'000	Total $'000
30 June 2012	89,077	60,341	149,418
30 June 2013	95,792	68,619	164,411
30 June 2014	103,032	77,591	180,623
30 June 2015	109,999	87,746	197,745

Note: Table may not add due to rounding

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 2010, the liability was 44 per cent funded by financial investment assets. The net investment return achieved to 30 June 2010 was CPI plus 4.2 per cent (or 7.0 per cent nominal) per annum, falling below the long-term investment return objective of CPI plus 5 per cent (or 7.5 per cent nominal) per annum.

Incorporating an estimated return of 13 per cent nominal for the 2010-11 financial year, the net investment return estimated to be achieved as at 30 June 2011 is CPI plus 4.6 per cent (or 7.4 per cent nominal) per annum over the last fifteen financial years.

The current funding strategy objective and budget appropriation commitments will be maintained until a review of the progress against the funding plan is next completed in conjunction with the next triennial actuarial review. The triennial actuarial review will comprehensively reassess all the financial and demographic assumptions underpinning the liability projections. This review is to be undertaken in the 2011-12 financial year.

Budget and Forward Year Funding Estimates

The estimates of the annual funding items and the annual accrued liability are set out below in Table 6.3.3.

Table 6.3.3
Annual Funding and Accruing Liability[1]

	Annual Budget Injection $'000	Net Investment Earnings $'000	Total Receipts $'000	Annual Accruing Liability[2] $'000
30 June 2012	144,047	174,909	318,956	249,800
30 June 2013	147,649	186,826	334,475	245,700
30 June 2014	151,341	198,719	350,060	240,300
30 June 2015	155,124	210,513	365,637	233,300

Notes:
1. The figures exclude MLA liabilities, which are not material when compared to the defined benefit CSS/PSS superannuation liability estimates.
2. The annual accruing liability figure is net of actual benefit payments identified in Table 6.3.2.

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 measures the cost of superannuation for existing employees in a given year (in other words, it is the increase in the present value of the defined obligation resulting from employee service in the current period). The interest cost measures the interest accrued on superannuation liabilities for former and existing employees that were accrued in previous years (in other words, it 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).

The CSS/PSS defined benefit employer superannuation liabilities are a substantial portion of all General Government Sector liabilities. As at the end of the 2010-11 financial year, these liabilities will total approximately $4.3 billion. The investment assets set aside to meet these projected liabilities will total approximately $2.3 billion. The Territory will therefore have an unfunded liability position of $2.0 billion, or an estimated funded percentage of 53 per cent, at the commencement of the 2011-12 Budget year. The 2010-11 Budget projected a funding ratio of 53 per cent as at 30 June 2011.

The funding level of superannuation liabilities is forecast to improve over the forward years as illustrated in Table 6.3.4.

Table 6.3.4
Percentage Funding of CSS/PSS Defined Benefit Liabilities

	Assets $'000	Liabilities $'000	% Funded
30 June 2011	2,300,510	4,320,800	53%
30 June 2012	2,463,811	4,570,600	54%
30 June 2013	2,627,491	4,816,300	55%
30 June 2014	2,790,426	5,056,600	55%
30 June 2015	2,951,690	5,289,900	56%

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 6.1 Investments.