

## 8.3 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 payment 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, including such things as years of service, final average salary, and own 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 employees employed in a permanent capacity. The PSS is a partially funded defined benefit scheme, with 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.

Both the CSS and PSS schemes are administered on behalf of the Territory by the Commonwealth agency, ComSuper. For more information on either the CSS or PSS superannuation schemes, the ComSuper website is <http://www.comsuper.gov.au>.

## **Superannuation Provision Account (SPA)**

The Superannuation Provision Account (SPA) was established in 1991 as a vehicle 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 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 paid.

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 and eventual elimination of unfunded superannuation liabilities through a funding plan that is reviewed annually. Employer contribution levels are also periodically re-assessed to ensure they are consistent with the underlying full cost of the two superannuation schemes.

The funding strategy is targeted towards achieving a position as at 30 June 2040, where estimated assets of the SPA equate to 90% of the actuarially determined liabilities. The long-term target of 90% recognises the potential movements in both asset and liability levels over this timeframe. The achievement of this objective is dependent upon investment returns, together with annual appropriations, to build funds in the SPA to provide for the current and non-current superannuation liabilities of the Government.

Each year, the level of internal funding is reviewed. The resultant required level of budget injections is recalculated on the basis of maintaining a constant level of funding (in real terms) into the SPA over the full period to 30 June 2040, thereby providing a measure of intergenerational equity over future Budgets.

This is similar to other jurisdictions that are managing the legacy of defined benefit unfunded superannuation arrangements through clearly enunciated funding plans. This forms an integral component of responsible financial management of a very significant component of the overall liabilities of most Public Sectors throughout Australia.

**Figure 8.3.1  
SPA Inflow and Outflow**

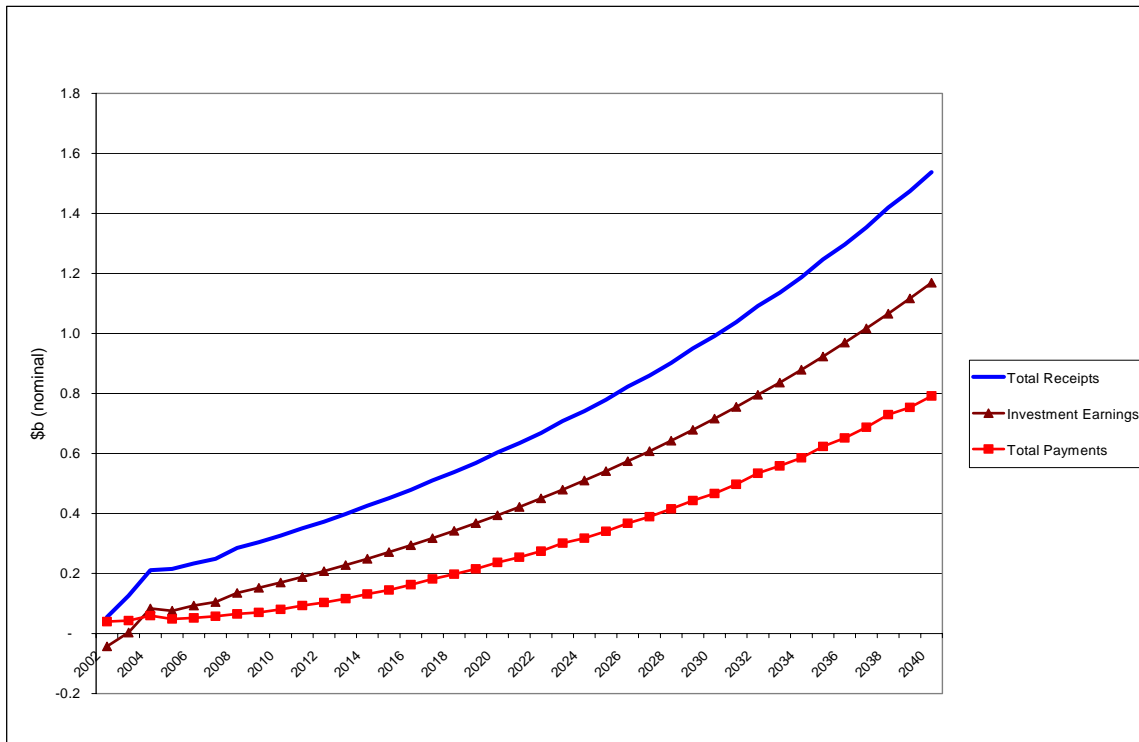


Figure 8.3.1 illustrates that from 2004-05 the combination of estimated investment earnings and annual appropriations generates cash inflows in excess of total outflows to be made from the SPA. This net cash inflow provides the accumulation of funds necessary to meet the 90% funding objective by 2040.

The 2004-05 Budget estimates show that SPA total receipts will be greater than the annual accruing liability, as shown below:

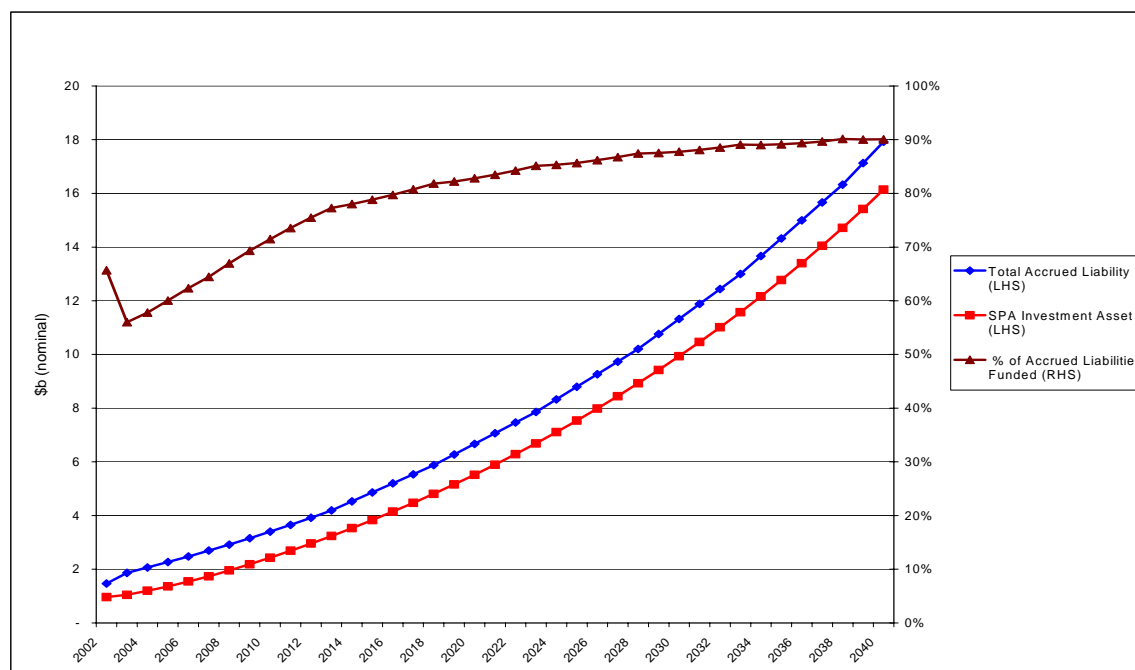
**Table 8.3.1  
Annual Funding and Accruing Liability**

30 June	Employer Contributions \$'000	Annual Budget Injection \$'000	Investment Earnings \$'000	Total Receipts \$'000	Annual Accruing Liability \$'000
<b>2004</b>	12 767	112 768	83 508	209 043	204 779
<b>2005</b>	15 228	124 014	75 809	215 051	201 321
<b>2006</b>	15 581	125 236	93 046	233 863	209 147
<b>2007</b>	15 919	128 367	104 980	249 266	219 309
<b>2008</b>	16 096	131 576	135 654	283 326	227 335

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. These figures are directly comparable to

those contained in Budget Paper No.4. The annual accruing liability figure is the annual increase in the outstanding employer superannuation liability.

**Figure 8.3.2  
Superannuation Funding**



In nominal terms, the superannuation liability is modelled to reach \$17.1 billion by 30 June 2040, with matching investment assets estimated to be \$16.1 billion.

The funding level is forecast to improve slowly over the Budget forward years, as shown in Table 8.3.2 below:

**Table 8.3.2  
Percentage funding of liabilities**

30 June	Assets \$'000	Liabilities \$'000	% Funded
<b>2004</b>	1 194 795	2 070 594	58%
<b>2005</b>	1 361 069	2 269 569	60%
<b>2006</b>	1 542 948	2 476 368	62%
<b>2007</b>	1 735 622	2 693 331	64%
<b>2008</b>	1 953 371	2 918 318	67%

The liability figures exclude the accounting effects of the provision for the actuarial variations to the estimated liability.

## **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, and Australian direct unlisted property.

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

The Superannuation Unit does not undertake day-to-day 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 are entered into to 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 to the calculation date. This approach, which is known as the 'actual accruals' basis, is in line with standard international accounting practice.

The 2004-05 Budget for the Superannuation Unit incorporates the latest triennial review of the Territory's superannuation liabilities as at 30 June 2003, conducted by the Government's consulting actuary, Towers Perrin.

This report sets out the following key results:

- projection of accrued superannuation liabilities in respect of ACT Government employees who are members of the CSS or the PSS; and
- annual payments that should be made by the ACT Government to the Commonwealth to discharge its superannuation liability. These recommended payments are known as the Emerging Cost Payments.

The financial impact of the review was a recommendation to increase the superannuation benefits liability as at 30 June 2003 by \$232m.

## **Financial Assumptions**

The calculation of Accrued Liabilities and the projected stream of emerging costs require assumptions about the future experience of the membership of the CSS and PSS and financial experience. Actuarial estimates of superannuation liabilities are based on a wide range of economic, financial and demographic assumptions.

The actuarial assumptions used for the latest Territory triennial report 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, Mercers.

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

- short-term assumptions have not been adopted. In previous reports ACT Budget parameters were adopted over the Budget period;
- the long term real assumptions have not changed. But importantly, the nominal values of the assumptions have been reduced;
- the assumed long-term rate of CPI increase has been reduced from 3.5% per annum to 2.5% per annum. This reflects the current outlook for inflation and the Reserve Bank target inflation level of 2 to 3% per annum;
- the demographic assumptions are adopted from the Commonwealth's Long Term Cash Report (LTCR), which better reflect the recent experiences of the CSS and the PSS; and
- the results are based on the key assumption that the PSS will remain indefinitely open to new members.

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.

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 will cease to increase indefinitely.

Legislation to amend the scheme design of the PSS was introduced into the Commonwealth Parliament in March 2004. The amended scheme design would introduce an accumulation arrangement from 1 July 2005 for which the employer would be required to contribute 15.4% of the superannuable salary and to meet scheme administration costs. Similarly, the unfunded employer contribution would cease under the new proposed arrangement.

## **Totalcare Employees**

In February 2004, the Treasurer announced that the Government was investigating possible inconsistencies with the application of appropriate superannuation arrangements for Totalcare employees. 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 currently estimated at \$12.5million.