

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

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.

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 the 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 time of self-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, therefore 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.

In June 2000, the *Territory Superannuation Provision Protection Act 2000* was passed. This legislation ensures that funds provided in the Budget for the purposes of whole of Government Superannuation liability 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 Government is committed to the effective management and eventual elimination of unfunded superannuation liabilities through 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.

Superannuation Financing

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 liabilities. The long-term target of 90% recognises the potential movements in both asset and liability levels over this time frame.

The achievement of this objective is dependent on investment returns, together with annual appropriations, to build funds in the SPA to provide for the annual and long-term superannuation liabilities of the Government.

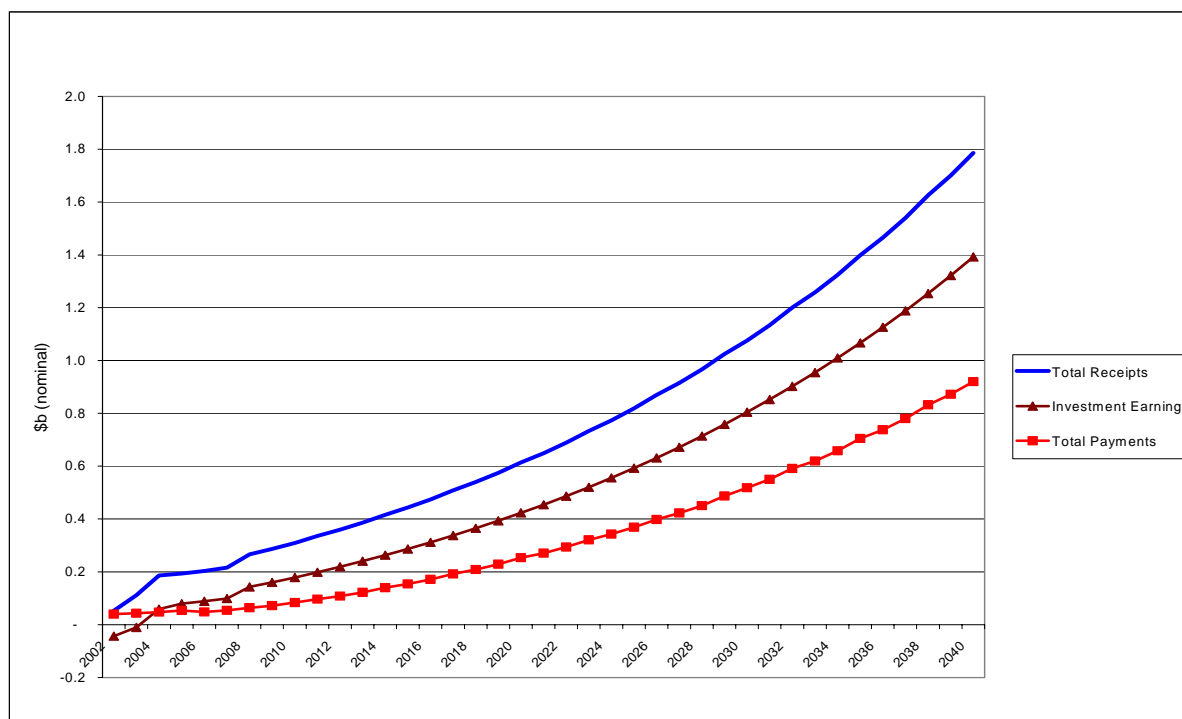
The estimated negative return for 2002-03, following the negative return in 2001-02, has impacted on the ability of the SPA to achieve the 2040 funding objective, given the compounding effect investment returns have over time.

To meet the target of 90% coverage by 2039-40, the SPA requires annual appropriations of \$94.6m commencing from 2004-05 (in 2003-04 value), indexed in line with the estimated inflation of accruing liabilities.

The financial model supporting the long-term funding target assumes that real investment earnings will be realised at 3% over 2003-04, 4% over the forward estimate period, and 5% per annum thereafter. The expected improvement in returns is due to an expectation of a recovery in global equity markets, as well as a gradual change in investment allocations to a more growth-oriented portfolio capable of achieving higher returns.

Figure 7.3.1 illustrates that from 2003-04 the combination of estimated investment earnings and annual appropriations generates cash inflows in excess of the total outflows 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 of superannuation liabilities 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 2003-04 Budget estimates show that SPA total receipts will be equivalent to or greater than the annual accruing liability, except for 2002-03 due to negative estimated investment earnings, as shown below.

**Table 7.3.1
Annual Funding and Accruing Liability**

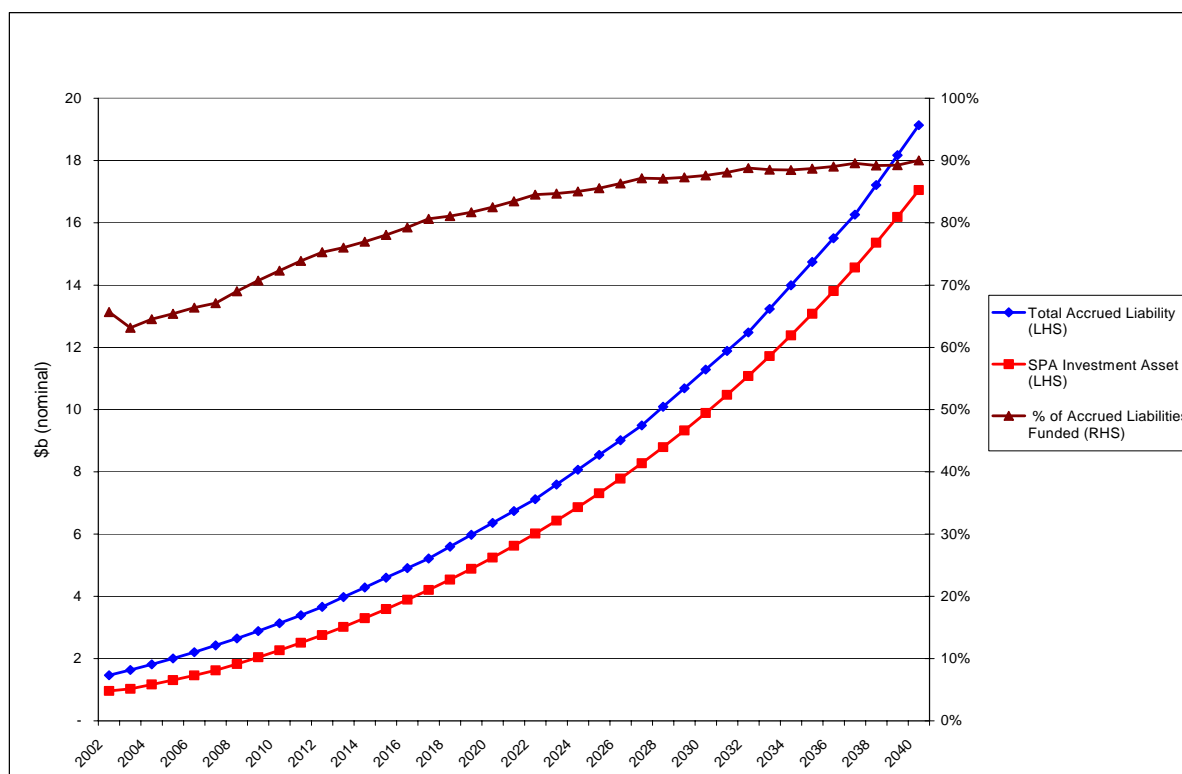
30 June	Employer Contributions \$'000	Annual Budget Injection \$'000	Investment Earnings \$'000	Total Receipts \$'000	Annual Accruing Liability \$'000
2003	14 138	107 969	-10 100	112 007	166 617
2004	14 724	112 768	59 064	186 556	179 687
2005	14 898	98 783	79 746	193 427	190 175
2006	15 072	99 374	88 896	203 342	203 442
2007	15 252	101 859	99 046	216 157	215 437

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.

Superannuation Liabilities

An actuarial review of the accrued and projected superannuation liability was completed in January 2003, based upon salary data at 30 June 2002. The actuary's assumptions accommodated current Budget estimates of projected salary growth and inflation.

**Figure 7.3.2
Superannuation Funding**



In nominal terms, the superannuation liability is expected to reach \$19.1 billion in 2040, with matching assets estimated to be \$17.1 billion.

The 2003-04 Budget estimates show the effect of the negative investment returns in 2002-03. The funding level of superannuation liabilities is estimated to fall to 63% in 2002-03 from 65% at 30 June 2002. The funding level is forecast to improve slowly over the Budget and forward years, as shown in Table 7.3.2.

**Table 7.3.2
Percentage funding of liabilities**

30 June	Assets \$'000	Liabilities \$'000	% Funded
2003	1 032 118	1 634 505	63%
2004	1 170 810	1 814 830	65%
2005	1 310 299	2 003 776	65%
2006	1 465 157	2 207 874	66%
2007	1 626 624	2 424 027	67%

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

The 2003-04 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 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.