6.3 SUPERANNUATION

Overview of 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 Australian Government that permanent ACT Government employees (those transferring from the Australian Government or new employees) could continue to access the Australian Government 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). Employee contributions of five per cent to the scheme are mandatory.

The PSS 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, with mandatory annual employee contributions of a minimum of two per cent to a maximum of ten per cent, and the employer productivity superannuation contribution paid to the scheme administrator (ComSuper).

The PSS was closed to new members from 1 July 2005.

Both the CSS and PSS incorporate defined benefits, 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.

Approximately 85 per cent of current ACT Government employees are members of either the CSS or PSS.

The CSS and PSS are administered on behalf of the Territory and Territory employee members by the Australian 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 scheme.

The scheme design is a defined contribution plan (accumulation) arrangement where the employer is required to contribute 15.4 per cent of employee superannuable salary. No employer productivity contribution on behalf of employees is associated with the PSSap. Employee members have the option of making additional contributions to the scheme.

The ACT Government does not have any ongoing financial liability in respect of the employees that are members of the PSSap as the liability is funded at the same time employees receive their fortnightly salary.

The PSSap closed to new ACT Government employees from 6 October 2006.

The PSSap is administered on behalf of the Territory and Territory employee members by the Australian Government agency, ComSuper.

Post 6 October 2006 - Fund of Choice Arrangements

The Government announced in the 2006-07 Budget its intention to place employee superannuation arrangements on a more sustainable footing. New employees now receive superannuation benefits that broadly match those offered by other state and territory governments and the community in general.

From 6 October 2006, the Territory introduced superannuation fund of choice arrangements for all new employees. Employees can elect to join a superannuation fund of their choice or alternatively they can join the fund that has been selected by the Territory as the default superannuation fund, currently First State Super.

The fund of choice arrangement is one where employees must join a defined contribution (accumulation) fund into which the ACT Government is required to contribute 9 per cent of the employee's eligible superannuable salary. The ACT Government will also contribute an additional 1 per cent for employees who contribute 3 per cent or more of their salary to the fund. No employer productivity contribution on behalf of employees is associated with choice of fund arrangements.

The ACT Government does not have any ongoing financial liability in respect of employees that 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

Members of the ACT Legislative Assembly assume membership of an unfunded defined benefit superannuation arrangement, prescribed under the *Superannuation (Legislative Assembly Members) Act 1991*.

Members are required to make compulsory contributions of five per cent of superannuable salary back to the Government and accrue a retirement benefit through an annual defined benefit multiple. This multiple accrues based on 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 Australian Government superannuation legislation, or rolled into a Member-nominated approved superannuation fund.

As identified in the 2006-07 Budget, for new members the level of accruing benefits (annual benefit multiple) is to be reduced in line with new superannuation arrangements applicable for ACT Government employees from 6 October 2006.

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 Government employees, nor does it receive contributions from ACT Government employees. The SPA is an ACT Government account which receives Government appropriations and make payments to ComSuper in connection with the Government'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 legislation limits moneys held within the SPA to be used for superannuation purposes only, not for the general purposes of Government.

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, which is known as the 'actual accruals' basis, is in line with accepted Australian accounting practice.

The 2007-08 Budget for the SPA incorporates the latest annual actuarial review of the Territory's defined benefit employer superannuation liabilities, conducted by the Government's consulting actuary, using salary and membership data as at 30 June 2006.

This annual actuarial report sets out the following key results:

- projections of the Territory's accrued superannuation liabilities (employer component only) in respect of ACT Government 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 Australian Government to discharge its employer superannuation liability with respect to benefits payable to members. These recommended payments are known as the emerging cost payments.

The ultimate cost of a defined benefit plan (final benefits to employees) is influenced by many variables and is therefore uncertain. This uncertainty is likely to persist over a long period of time. Accounting for defined benefit plans is complex because actuarial assumptions are required to measure the obligation, and the expense, and there is a possibility of actuarial gains and losses (these arise when actuarial assumptions are different from actual outcomes). The obligations are measured on a discounted basis because they may be settled many years after the employees render the related service.

The calculation of accrued employer superannuation liabilities and the projected stream of emerging cost payments require many assumptions about the future membership of the CSS and PSS. Actuarial estimates of the employer superannuation liabilities are based on a wide range of economic, financial and demographic assumptions. These assumptions include the discount rate, salary inflation, Consumer Price Index (CPI), increases in salary related to promotion, resignation, retirement, invalidity, mortality, mortality of pensioners and future mortality improvements, benefit stream election (lump sum, pension or both), and level of PSS member contribution.

The key differences in the current projections from those adopted for the previous year's actuarial report include:

- the use of salary and membership data as at 30 June 2006;
- an increase in the annual employee salary inflation assumption from 3.5 per cent to 4 per cent;
- an increase in the discount rate from 5.75 per cent to 6 per cent; and
- a change in the liability calculation methodology, relating to the identification of what part of each CSS and PSS member's service was in respect of employment with the ACT Government. This is relevant where a member may have spent some time with both the ACT and the Australian Governments.

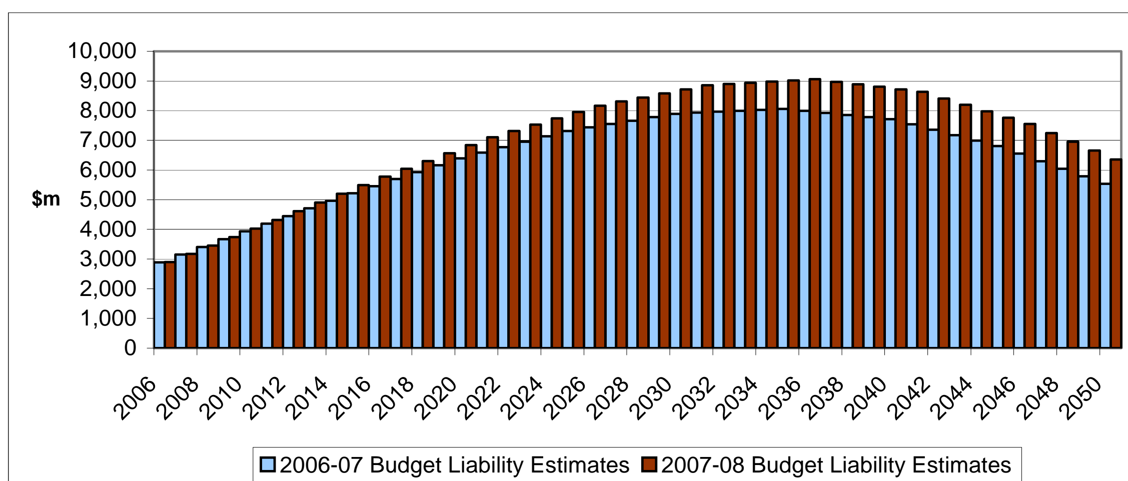
The changes outlined above have lead to an increase in defined benefit superannuation expenses. The financial impacts are shown in Table 6.3.1.

Table 6.3.1
Annual Increase in Expense from Actuarial Review

	Membership $'000	Discount Rate $'000	Salary Inflation $'000	Methodology $'000	Total $'000
30 June 2008	11,700	(11,500)	15,900	4,500	20,600
30 June 2009	6,400	(10,800)	17,000	10,500	23,100
30 June 2010	7,600	(10,200)	18,100	10,600	26,100
30 June 2011	8,100	(9,700)	19,100	10,800	28,300

The impact on the estimates for the Territory's projected employer superannuation liabilities is illustrated in Figure 6.3.1. In nominal terms, and based on the current actuarial determination, the defined benefit superannuation liabilities are now projected to peak at approximately $9.1 billion by 30 June 2036.

Figure 6.3.1
Actuarial Revision to Estimated Employer Superannuation Liabilities



Defined Benefit Superannuation Funding

The Government is committed to the effective management, and eventual elimination, of unfunded CSS/PSS defined benefit employer superannuation liabilities through an annual funding plan that is reviewed periodically. 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 plan targets 100 per cent funding of the defined benefit employer superannuation liabilities by 2030.

The SPA will need to make substantial, and growing, annual cash payments for superannuation – to meet emerging costs as benefits become payable and also scheme administration costs.

The estimates for the annual emerging cost payments to be made from the SPA to the Australian Government over the 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 2008	52,379	11,646	64,025
30 June 2009	56,335	15,264	71,599
30 June 2010	60,765	18,930	79,695
30 June 2011	65,469	23,372	88,841

To support these expenditures, and to realise the 100 per cent funding target, will require annual cash injections into the SPA.

Table 6.3.3
Annual Funding and Accruing Liability

	Annual Budget Injection $'000	Net Investment Earnings $'000	Total Receipts $'000	Annual Accruing Liability $'000
30 June 2008	130,500	158,550	289,050	278,370
30 June 2009	133,763	175,472	309,235	283,804
30 June 2010	137,107	192,722	329,829	288,120
30 June 2011	140,534	210,864	351,398	291,466

Note: The figure exclude both MLA and Totalcare superannuation liabilities, which are not material when compared to the defined benefit CSS/PSS superannuation liability estimates.

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

The CSS/PSS defined benefit employer superannuation liabilities are a substantial portion of all General Government Sector (GGS) liabilities, currently over 65 per cent of all liabilities. As at the end of the 2006-07 financial year, these liabilities will total approximately $3.2 billion. The investment assets set aside to meet these projected liabilities will total approximately $2.1 billion. The Territory will therefore have an unfunded liability position of $1.1 billion, or a funded percentage of 65 per cent, going into the 2007-08 Budget year.

The funding level of superannuation liabilities is forecast to improve over the Budget and 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 2007	2,075,389	3,172,677	65%
30 June 2008	2,311,156	3,451,047	67%
30 June 2009	2,543,587	3,734,851	68%
30 June 2010	2,788,403	4,022,971	69%
30 June 2011	3,045,801	4,314,437	71%

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 direct 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 all 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 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.

Australian Government Reform to the CSS and PSS

The Australian Government recently outlined a package of reforms, included in the 2007-08 Budget, designed to provide PSS and CSS members with more flexible super arrangements and encourage members to remain in the workforce longer.

The major reforms announced that are relevant to ACT Government employees, who are members of the CSS or PSS, and the Territory include:

- reform of Maximum Benefit Limits (MBLs) in the PSS from 1 January 2008;
- removing the requirement for mandatory member contributions in the PSS and in the CSS from 1 July 2008;
- choice of Superannuation fund for PSS members from 1 July 2008; and
- early access by employees to their member component of benefits on financial hardship or compassionate grounds.

The financial impact on the Territory, with the reform to the PSS MBLs and the removal of PSS mandatory contributions, is very difficult to estimate at this early stage. There is likely to be an increase in the PSS defined benefit superannuation liabilities of the Territory in the future, if employees choose to stay employed longer and therefore accrue a higher employer benefit multiple. However, this impact may be offset by the removal of the mandatory employee contributions. That is, if employees choose to reduce contributions, the annual accruing employer liability will be lower.

In the case of removing the mandatory member contribution for the CSS, if a CSS employee member decides to cease contributing this will have either no financial impact on the Territory, impacting only on the employee's final lump sum benefit (own contributions plus interest), or it may lead to a positive financial impact, due to the lower contributions plus interest balance under preserved rules (i.e 54 years 11 months) which would negate the benefit of the early retirement option as the pension is calculated on the member's lower accumulation balance.

The financial impact on the Territory due to the new Fund of Choice arrangements for PSS members cannot be quantified at this early stage. If ACT Government employee PSS members elect to take up this option, the financial impact on the Territory will be an increased cash requirement for payment to superannuation funds external to the Territory, offset by lower future projected PSS employer defined benefit superannuation liabilities. However, this option is unlikely to be exercised by large numbers of ACT Government PSS or PSSap members, due to the reduced employer-funded benefits payable under the current Fund of Choice arrangements.