8.3 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. Currently approximately half of all current full time ACT employees are members of defined benefit superannuation schemes.

Managing the defined benefit superannuation liability over time remains one of the key financial objectives of the Territory. The ACT Government 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 2012 is approximately $4.8 billion, reflecting an unfunded liability of $2.5 billion. At June 2012, the funding of liabilities is expected to improve from 46 per cent (30 June 2011) to approximately 49 per cent. Over the forward estimates period, the ratio of funding to liabilities is projected to increase to 50 per cent by 30 June 2016.

The current level of annual budget appropriation to the SPA will be maintained during this period of global and domestic economic uncertainty. The Government will continue to monitor and assess the ongoing progress against the current financial objectives.

ACT Government Employee Superannuation Arrangements

Superannuation arrangements for employees vary due to the type of superannuation scheme available at the time of commencing employment. The superannuation arrangements applicable to permanent ACT Government employees are outlined below.

Defined Benefit Superannuation Schemes

Approximately half of all current full time ACT employees are members of the Commonwealth Government administered defined benefit superannuation schemes, the Commonwealth Superannuation Scheme (CSS) or the Public Sector Superannuation Scheme (PSS). The CSS has been closed to new members since 1 July 1990 and the PSS closed since 30 June 2005.

The CSS and PSS are types of defined benefit superannuation schemes, in which some or all of the benefits payable to members are defined in advance according to a set of formulas which are linked to factors such as years of service, final average salary and level of individual member contribution. With the exception of employer productivity contributions, the employer financed component of entitlements is unfunded and is not required to be paid until a member takes their benefit entitlement.

The CSS and PSS are administered by the Commonwealth Government agency, ComSuper with all benefits paid to employees by ComSuper. The ACT Government reimburses ComSuper for the cost of superannuation benefits paid in respect of current and former ACT Government employees that reflects the period of service with the ACT Government.

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 (ACT Government) is required to contribute 15.4 per cent of an employee’s salary. Employee members also 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 who are members of the PSSap as the liability is funded at the same time employees receive their fortnightly salary.

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 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 employer (ACT Government) is required to contribute 9 per cent of the employee’s salary. The ACT Government will contribute an additional 1 per cent for employees who contribute 3 per cent or more of their salary to the fund.

The ACT Government does not have any ongoing financial liability in respect of employees who are members of either a superannuation fund of their choice or the 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 are members of an unfunded defined benefit superannuation arrangement (DB Scheme), prescribed under the *Legislative Assembly* (*Members’ Superannuation) Act 1991*.

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. The Territory is required to contribute the equivalent of 14 per cent of the Member’s eligible salary. The ACT Government will contribute an additional 1 per cent for Members who contribute 3 per cent or more of their salary to the fund.

Superannuation Provision Account

The Superannuation Provision Account (SPA) was established in 1991 with the aim of accumulating financial assets to fund the ACT Government's CSS and PSS defined benefit employer superannuation liabilities (the "defined benefit employer superannuation liability").

The SPA is not a superannuation scheme for ACT Public Service employees, nor does it receive contributions from ACT Government employees. The SPA is an ACT Government account which receives appropriations and makes payments to the Commonwealth Government in connection with the defined benefit CSS and 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 defined benefit employer 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 AASB 119 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 defined benefit employer superannuation liabilities and the projected stream of employee retirement benefit payments require the actuary to make many financial and demographic assumptions about the future membership experience of current and former ACT Government employees that have membership of the CSS and PSS. All of these assumptions influence the estimated 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. As a result, 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 complete their related service.

Triennial Actuarial Review of Defined Benefit Employer Superannuation Liabilities

Each year the actuary undertakes a review of the defined benefit employer superannuation liabilities which incorporates updated annual salary and membership data.

Every three years the actuary undertakes a more comprehensive review of the defined benefit employer superannuation liabilities by also incorporating a review of all financial assumptions, as well as a detailed analysis of the demographic assumptions based on the CSS and PSS membership experience. The outcomes from this analysis form the basis for the financial and demographic assumptions applied to the membership base for the liability and emerging cost projections.

The 2012-13 Budget estimates for the SPA incorporate the latest triennial actuarial review of the defined benefit employer superannuation liabilities using salary and membership data as at 30 June 2011.

This triennial actuarial review sets out the following key results:

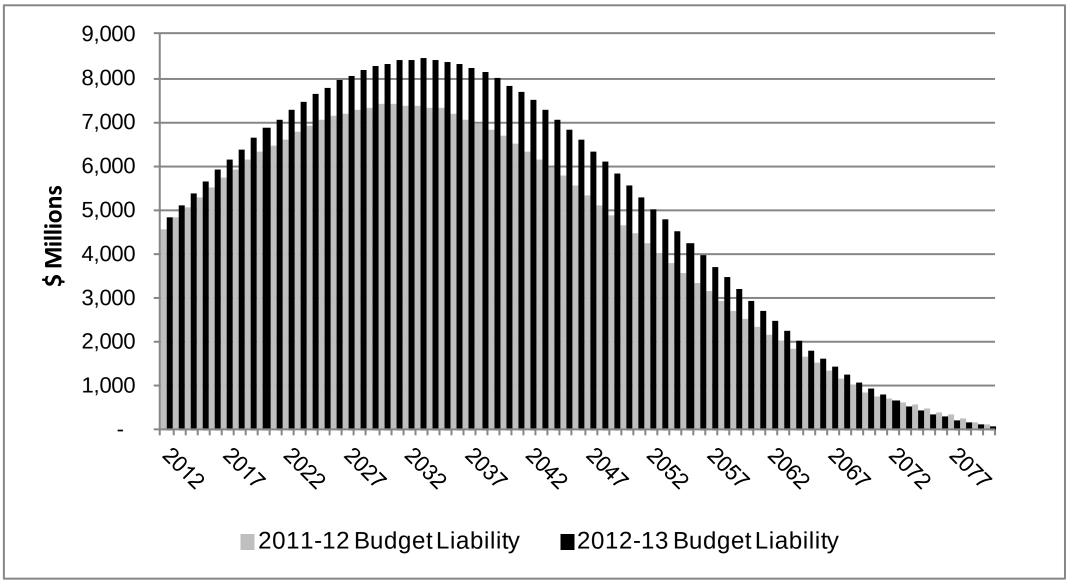
- recommended changes to the 2008 demographic assumptions, due to the experience analysis over the three years to 30 June 2011, or longer when required;
- projections of the defined benefit employer superannuation liabilities (employer component only), in respect of ACT Government employees (current and former) who are members of the CSS or PSS defined benefit schemes; and
- projections of the annual benefit payments that should be made by the ACT Government 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 2011, there were 10,882 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 7,519 current pensioners, 444 dependant pensioners, and 10,484 deferred beneficiaries who were employees of the ACT Government when they ceased employment.

In addition, as at 30 June 2011, there were 4,499 contributing members who had previously been employed, but were not currently employed by the ACT Government. There were also 1,308 current pensioners, 35 dependant pensioners and 2,143 deferred beneficiaries who were not employees of the ACT Government when they ceased contributory membership, but had previous ACT Government employment experience.

The impact on the estimates for the projected defined benefit employer superannuation liabilities is illustrated in Figure 8.3.1.

Figure 8.3.1
Actuarial Revision to Estimated Employer Superannuation Liabilities



The projected liability has increased by $248 million as at 30 June 2012, rising to $380 million by 2015-16 compared with the 2011-12 Budget estimates. This increase is a result of actual membership experience as at 30 June 2011 being higher than what was projected at the time of the 2010 valuation and changes to a number of the demographic assumptions applied by the actuary which reflect actual experience of members of the CSS and PSS superannuation schemes.

The main changes to the demographic assumptions in the actuarial valuation included increased pension election by PSS members at retirement, increased preservation of benefits by PSS members upon resignation, improvements in pensioner mortality, changes to the selection of CSS pension benefit options by members upon retirement, retrenchment or death/invalidity and a reduction in retirement rates for PSS members.

Small changes in the expected value of member benefits can have, in aggregate, a material financial impact on the total projected liability. The defined benefit superannuation liability is now projected to peak, in nominal terms, at approximately $8.4 billion by 30 June 2033 (estimated at $7.4 billion by 30 June 2030 in the 2011-12 Budget).

The impact on the estimates for the projected defined benefit superannuation expense is illustrated in Table 8.3.1.

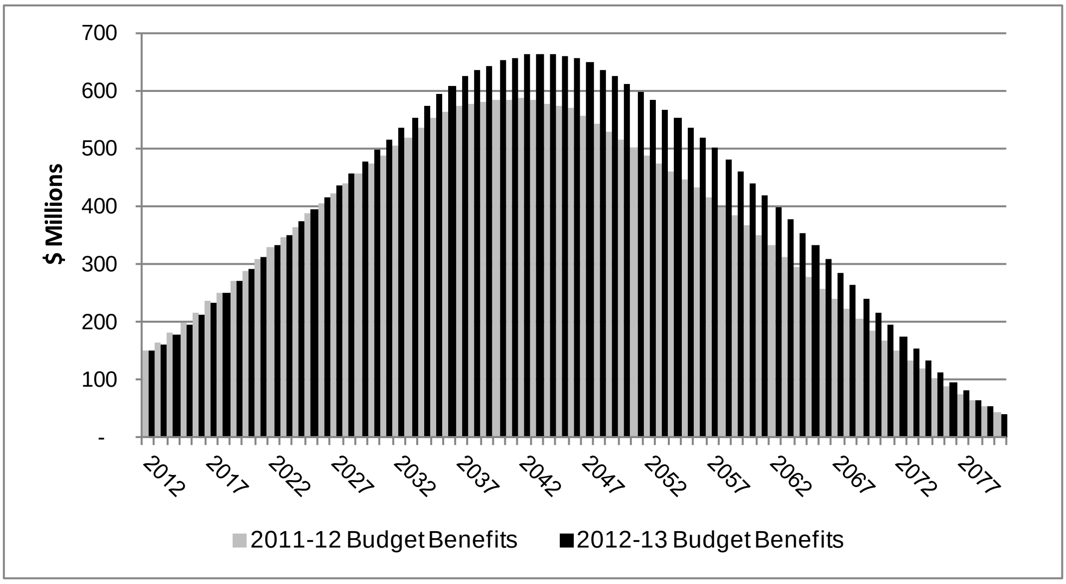
Table 8.3.1
Actuarial Revision to the Annual Defined Benefit Superannuation Expenses

	Membership $'000	Financial Assumptions $'000	Demographic Assumptions $'000	Methodology $'000	Total Expense Impact $'000
30 June 2013	7,300	0	20,700	0	28,000
30 June 2014	7,600	0	22,100	0	29,700
30 June 2015	7,800	0	23,500	0	31,300
30 June 2016	8,000	0	25,000	0	33,000

As a result of the increase in the projected liability, annual superannuation expenses will also increase with the annual impact set out in Table 8.3.1 above.

The impact on the estimates for the Territory's projected emerging cost payments is illustrated below in Figure 8.3.2.

Figure 8.3.2
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 over time from approximately $153 million in 2011-12 to a peak of $664 million by 2043.

The total expected cash retirement benefit payments across the 2012-13 Budget and forward years is projected to be $747 million.

The estimates for the annual emerging cost payments to be made from the SPA to the Commonwealth Government over the 2012-13 Budget and forward years are shown below in Table 8.3.2.

Table 8.3.2
Projected Defined Benefit Superannuation Payments

	CSS $'000	PSS $'000	Total $'000
30 June 2013	97,941	63,842	161,782
30 June 2014	105,463	71,901	177,363
30 June 2015	112,589	82,581	195,170
30 June 2016	119,772	93,357	213,128

Note: Table may not add due to rounding.

Defined Benefit Superannuation Funding

The Government maintains as a key financial objective, a funding plan to extinguish the Territory's unfunded defined benefit superannuation liability by way of accumulating funds in the SPA which are sourced from both annual budget contributions and investment earnings.

As at 30 June 2011, the liability was 46 per cent funded by financial investment assets. The net investment return achieved for the fifteen years to 30 June 2011 is CPI plus 4.4 per cent (or 7.2 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 investment return of 5.3 per cent nominal for the 2011-12 financial year, the long term (sixteen years) net investment return is estimated to be CPI plus 4.3 per cent (or 7.1 per cent nominal) per annum as at 30 June 2012.

Over the forward estimates period, the ratio of funding to liabilities is projected to increase to 50 per cent by 30 June 2016.

The current level of annual budget appropriation to the SPA will be maintained during this period of global and domestic economic uncertainty. The Government will continue to monitor and assess the ongoing progress against the current financial objectives.

Budget and Forward Year Funding Estimates

The estimates of the annual funding items and the annual accrued liability are set out below in Table 8.3.3.

Table 8.3.3
Annual Funding and Accruing Liability[1]

	Annual Budget Injection $'000	Net Investment Earnings $'000	Total Receipts $'000	Annual Accruing Liability[2] $'000
30 June 2013	147,649	178,047	325,696	276,421
30 June 2014	151,341	189,512	340,853	273,230
30 June 2015	155,124	200,835	355,959	267,181
30 June 2016	159,001	211,939	370,940	260,725

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 8.3.2.

The accruing liability figure represents the growth in the total liability 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, or 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 which arises because the benefits are one period closer to settlement.

As at the end of the 2011-12 financial year, the projected defined benefit employer superannuation liability will total approximately $4.8 billion. The investment assets set aside to fund this liability will total approximately $2.3 billion. The estimated unfunded liability is $2.5 billion, or an estimated funded percentage of 49 per cent.

The estimated funding level of defined benefit employer superannuation liabilities over the Budget forward years is illustrated below in Table 8.3.4.

Table 8.3.4
Percentage Funding of CSS/PSS Defined Benefit Liabilities

	Assets $'000	Liabilities $'000	% Funded
30 June 2012	2,347,761	4,818,162	49%
30 June 2013	2,505,273	5,095,584	49%
30 June 2014	2,662,273	5,367,814	50%
30 June 2015	2,816,437	5,634,995	50%
30 June 2016	2,967,368	5,895,720	50%