7.3 UNFUNDED SUPERANNUATION LIABILITY

Introduction

ACT Government employees are members of a number of different superannuation schemes as arrangements have changed over time. Currently approximately half of all current full time ACT employees are members of defined benefit superannuation schemes that are closed to new ACT employee members, and where the liabilities are unfunded until retirement. All superannuation liabilities incurred for new employees since 1 July 2005 are fully funded through defined contribution scheme arrangements.

Managing the defined benefit superannuation liability over time remains one of the key financial objectives of the Government. Unlike other jurisdictions, the ACT Government does not operate a superannuation fund for employees. The Government has established a Superannuation Provision Account (SPA) for the purpose of holding and investing financial assets set aside to meet the Government's employer superannuation benefit obligations (emerging cost payments).

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

The defined benefit superannuation schemes are the Commonwealth Superannuation Scheme (CSS) and 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 over time. 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 annual 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, a defined contribution plan (accumulation) arrangement where the employer (ACT Government) is required to contribute 15.4 per cent of an employee's salary. Existing CSS and PSS members were not able to transfer to the new superannuation scheme. The PSSap closed to new ACT Public Service employees on 6 October 2006.

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 Government's appointed default superannuation fund.

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 (increasing to 9.25 per cent in 2013-14 followed by gradual incremental increases up to 12 per cent by 2019-20) 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.

Members of the Legislative Assembly (MLAs)

There are two superannuation arrangements for Members of the ACT Legislative Assembly. 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*.

Those Members elected at or after the 2008 general election, and who were not an existing member of the DB Scheme prior to the election, 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.

Defined Benefit Unfunded 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 is in accordance with *AASB 119 Employee Benefits* and the requirement to use a projected unit credit valuation approach.

Table 7.3.1 sets out details on the estimation and calculation of the liability.

Table 7.3.1
Defined Benefit Superannuation Liability

	2012-13 Est. Outcome $'000	2013-14 Budget $'000	2014-15 Estimate $'000	2015-16 Estimate $'000	2016-17 Estimate $'000
Opening Liability	**7,489,965**	**5,088,070**	**5,362,666**	**5,631,678**	**5,894,212**
Service Cost	256,952	139,033	134,679	130,287	125,577
Interest Cost	264,214	313,777	330,007	345,899	361,386
Benefit Payments	-146,722	-178,215	-195,674	-213,651	-233,781
Actuarial (Gain)/Loss[1]	-2,776,338	0	0	0	0
Closing Liability	**5,088,070**	**5,362,666**	**5,631,678**	**5,894,212**	**6,147,395**

Notes:
This table may not add due to rounding
1: The actuarial gain is the change in the present value of the superannuation liability resulting from a change in the actuarial discount rate assumption. The liability valuation at 30 June 2013 and the forward years utilises a long term discount rate of 6 per cent. The actual discount rate at 30 June 2012 was 3.41 per cent.

The defined benefit superannuation liability is estimated to grow to approximately $6.147 billion by 30 June 2017. The service cost associated with the accrual of new employee superannuation benefits is forecast to decrease over time as ACT employee members leave the schemes through resignation or retirement. The interest cost is forecast to increase due to past benefits accrued by ACT employee members becoming one year closer to payment.

Apart from the annual changes to the discount rate, which is required by accounting standards, the annual actuarial review incorporates updated annual salary and membership data.

Every three years the actuary undertakes a more comprehensive review of the defined benefit employer superannuation liability by also incorporating a review of all financial and demographic assumptions, following a comprehensive review of actual outcomes and membership experience over time. The outcomes from this analysis form the basis for the financial and demographic assumptions adopted for the annual reviews of the liability and emerging cost projections.

The 2013-14 Budget estimates for the SPA incorporate the latest annual actuarial review of the defined benefit employer superannuation liabilities using salary and membership data as at 30 June 2012.

As at 30 June 2012 there were 10,215 active contributing members currently employed by the ACT Government (i.e. eligible employees of directorates, authorities, Territory-owned Corporations, ActewAGL and Calvary public hospital).

There were also 10,337 current deferred beneficiaries, who have left the schemes and ACT employment, but are owed a benefit upon retirement by the ACT Government, and 8,447 pensioners who are receiving ongoing retirement benefits from the ACT Government.

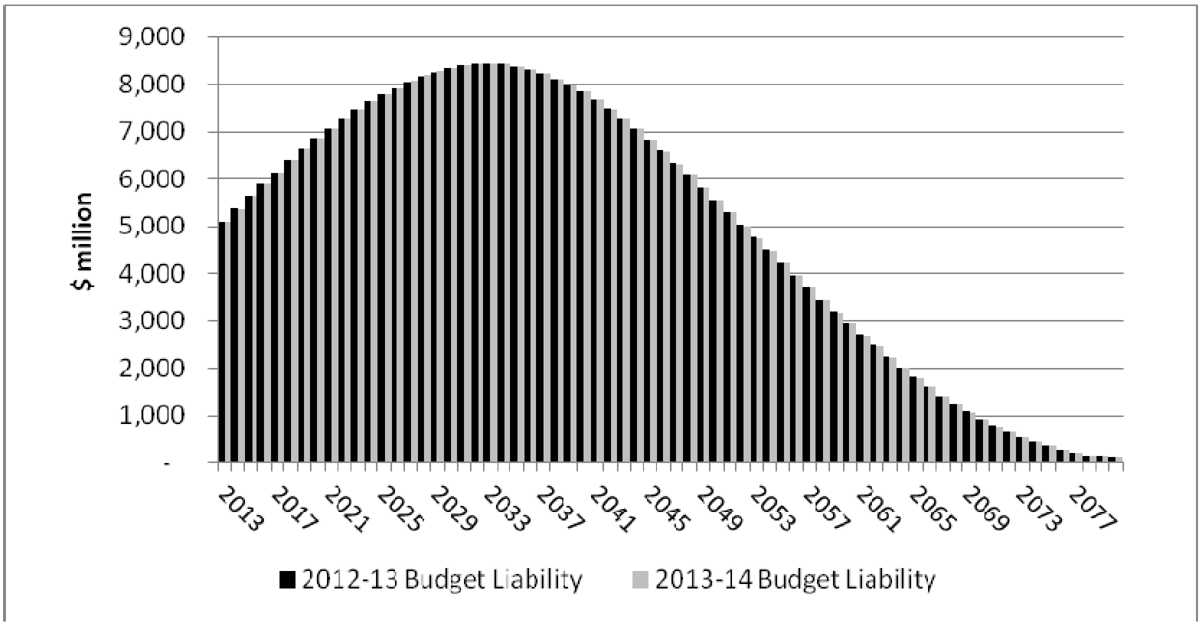
In addition, as at 30 June 2012, there are also 6,572 scheme members (contributors and deferred beneficiaries), who had previously been employed, but are not currently employed by the ACT Government, that have accrued a superannuation benefit with the ACT Government.

There are also 1,510 current pensioners who were not employees of the ACT Government when they retired but had previous ACT Government employment experience and are paid a partial benefit.

The results from the annual actuarial review as at 30 June 2012 were in-line with the triennial actuarial review as at 30 June 2011 with no material changes to the liability valuation or benefit payment estimates.

The impact on the estimates for the projected defined benefit employer superannuation liabilities is illustrated in Figure 7.3.1, with the impact on the benefit payment estimates illustrated in Figure 7.3.2.

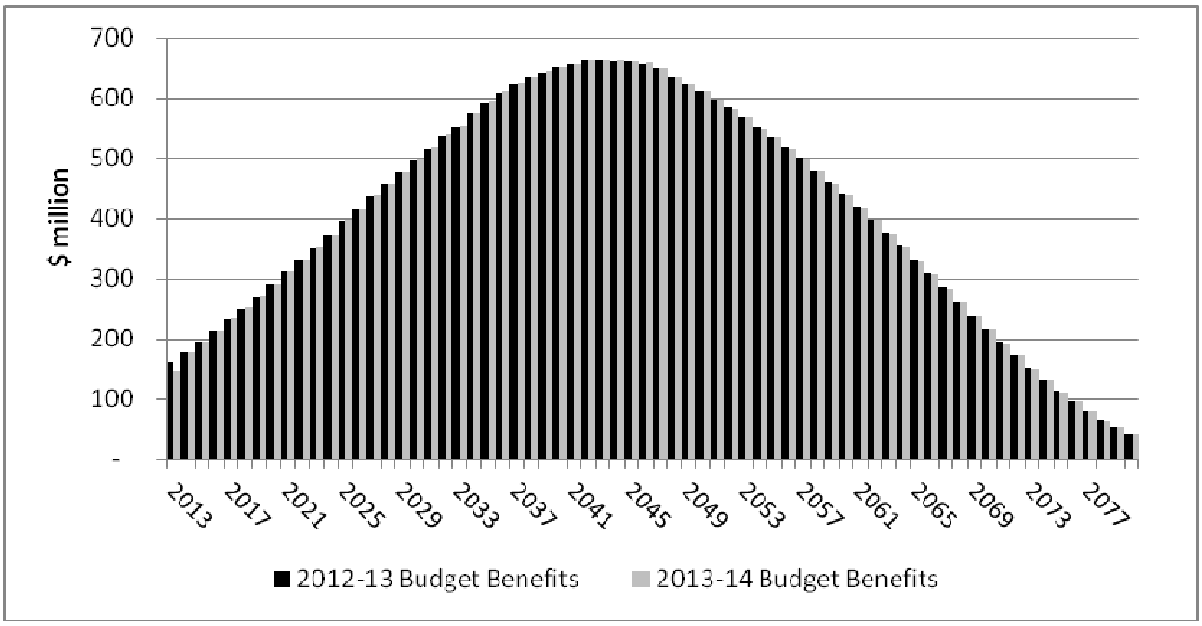
Figure 7.3.1
Annual Actuarial Revision to the Estimated Employer Superannuation Liability



The defined benefit superannuation liability is still projected to peak, in nominal terms, at approximately $8.4 billion by 2033.

The impact on the estimates for the Territory's projected emerging cost payments is illustrated below in Figure 7.3.2.

Figure 7.3.2
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 $147 million in 2012-13 to a peak of $664 million by 2043.

The total expected retirement benefit payments across the 2013-14 Budget and forward years are projected to be $821 million.

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 appropriation and investment earnings.

The 2013-14 Budget reflects a revision to the defined benefit superannuation funding plan by the Government through an annual increase in Budget appropriation to the SPA to a level that matches the annual benefit payments. This will allow the SPA financial investment assets to grow with all earnings unencumbered by the management of cash flows associated with benefit payments, supporting the Government's financial objective of fully funding the defined benefit superannuation liability. The Government will review this arrangement once the Budget returns to surplus.

Details on the movement in assets are set out below in Table 7.3.2.

Table 7.3.2
Superannuation Assets

	2012-13 Est. Outcome $'000	2013-14 Budget $'000	2014-15 Estimate $'000	2015-16 Estimate $'000	2016-17 Estimate $'000
Opening Assets	**2,257,863**	**2,577,646**	**2,766,679**	**2,970,033**	**3,188,644**
Net Investment Earnings	324,395	195,122	209,552	225,067	241,753
Appropriation	147,649	178,216	195,674	213,650	233,781
Benefit Payments	-146,722	-178,216	-195,674	-213,650	-233,781
Other Payments	-5,539	-6,090	-6,198	-6,455	-6,689
Closing Assets	**2,577,646**	**2,766,679**	**2,970,033**	**3,188,644**	**3,423,708**

Note: This table may not add due to rounding

Providing funding for superannuation helps reduce the longer term cost of defined benefit superannuation as investment returns provide a source of funding for future liabilities.

The margin between the liability and assets represents the level of unfunded superannuation liability in the defined benefit schemes. The estimated funding level of defined benefit employer superannuation liabilities over the Budget and forward years is projected to increase as illustrated below in Table 7.3.3.

Table 7.3.3
Superannuation Liability Funding

	2012-13 Est. Outcome $'000	2013-14 Budget $'000	2014-15 Estimate $'000	2015-16 Estimate $'000	2016-17 Estimate $'000
Superannuation Liability	5,088,070	5,362,666	5,631,678	5,894,212	6,147,395
Investments	2,577,646	2,766,679	2,970,033	3,188,644	3,423,708
Unfunded Liability	**2,510,424**	**2,595,987**	**2,661,645**	**2,705,568**	**2,723,687**
Funding Percentage	**51%**	**52%**	**53%**	**54%**	**56%**