

Subject: FW: Question regarding the ACT Public Sector Superannuation Submission [SEC=UNOFFICIAL]

Importance: High

From:

Sent: Friday, 10 November 2017 5:10 PM

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In relation to your questions, we have consulted with the ACT Government's actuary, who has provided the following advice:

Q.1 Why has the ACT's employer contribution cost (NECR) increased over time to the current level?

The Notional Employer Contribution Rates (NECRs) have increased materially over time because of four main reasons:

1. Increase in proportion of members assumed to take a pension. Since 2008 the proportion of retiring members assumed to take a pension has increased from 60% to 75%.
2. Older members make higher contributions. In 2008 the calculation assumed all members contributed 4.75% of salary. An age based scale is now used increasing significantly at older ages.
3. Lighter pension mortality assumptions.
4. The Projected Unit Credit funding method¹ used leads to higher rates at older ages. This is because there is a shorter time until retirement for older members and less discounting.

¹ Method used by actuary to determine the value of Accrued Superannuation Liability and is consistent with current practice of the Australian Accounting Standard AASB119 and its requirement to use a projected unit credit valuation approach

All of these reasons also continue to apply in the future so the NECRs are expected to continue to increase.

These same factors have driven an increase in the PSS contribution rates in relation to the Commonwealth Government's PSS liability as reflected in the "PSS and CSS Long Term Cost Report 2014 (LTCR)", refer to Section 7, page 34 (http://www.finance.gov.au/sites/default/files/PSS%20CSS%20LTCR%202014_3.pdf). The costs associated with this particular defined benefit superannuation scheme should therefore not be of a surprise to the Commonwealth!

The following table shows the main reasons for the larger increases in the ACT NECR. The NECRs shown exclude the 3% productivity contribution and do not include all changes.

Date of Change	Prior contribution Rate (% of Salary)	New Contribution Rate (% of Salary)	Main reasons for increase
1 July 2012	17.8%	19.7%	<ul style="list-style-type: none">• Older membership• Higher Member Contribution Rates for older members

			<ul style="list-style-type: none"> • Increase in pension take up
1 July 2009	16.3%	17.8%	<ul style="list-style-type: none"> • Older membership • Higher Member Contribution Rates for older members, with age based scale used. • Lighter pension mortality assumptions
1 July 2008	13.3%*	16.3%	<ul style="list-style-type: none"> • The 13.3% is from 30 June 2008 LTCR prior to adjustment for ACT Salaries and retrenchments. The 16.3% is based on ACT assumptions. • Higher Member Contribution Rates for members. LTCR assumed 4.75% of salary while ACT assumed 5.86%. • Higher pension take up. LTCR assumed 60% and the ACT moved to 70%.

*If the 30 June 2005 LTCR report is used the contribution rate was 12.6%. The pension take up rate on retirement was 50% and the assumed member contribution rate was 5%.

Q.2 What factors have caused the divergence between the PSS scheme compared with other State defined benefit schemes?

There is no straight forward or simple response to this question. The reason for this is that all defined benefit superannuation schemes are different. For example:

- the time that schemes were closed will impact on the growth rate of contributing members and subsequent liability value;
 - o we know that peer defined benefit schemes were generally closed many years before access to the PSS was closed enabling those employers to offer much lower cost superannuation arrangements generally at the minim SG rate
 - o this also means that over the relevant period, the percentage of current contributors to defined benefit schemes is considered to be much higher for ACT than peers
- some schemes may only offer a lump sum benefit, may offer lump sum and pension, may offer pension only;
- the underlying factors used to calculate the various benefits will be different;
- different taxation arrangements;
- different employee contribution rate scales; etc

One example that we can provide is the Victorian "New Scheme*":

- The New Scheme was the superannuation fund for Victorian public servants from 1 July 1988 to 31 December 1993.
- Its contribution rates range from 7.4% of salary when a member does not contribute to 10.3% when they contribute 7% of salary.
- Key reasons these are lower than the ACT NECRs are:
 1. Discount Rate 7% p.a. used, materially higher than the ACT 6%. Also uses 4% salary and 2.5% CPI increases.
 2. Lump sum Retirement Benefit, not pension
 3. Less generous retirement lump sum. Estimated accrual is 8.5% for member that does not contribute (subject to SG underpin) while ACT is 11%. At 5% member contribution rate the New Scheme accrual is 17.5% while ACT's is 21%.
 4. The New Scheme is taxed while PSS employer finalised benefits are untaxed.

* This information is largely from the publicly available 2015 triennial valuation of the Emergency Services and State Superannuation Scheme.

I hope this is useful, as I don't consider that it is possible for us to provide anything more, particularly given the range of differing provisions among State superannuation schemes. However, if you have any specific queries about the information presented above, please contact [REDACTED].

Regards

