

## **Standing Committee on Finance and Public Administration**

### **ANSWER TO QUESTION ON NOTICE**

**Budget Estimates Hearing – May 2010**

**Finance and Deregulation Portfolio**

#### **Outcome 1, Program 1.2**

**Topic: Pension Indexation in Australian Government Civilian and Military Superannuation Schemes.**

**Question reference number: F32**

**Type of Question: Hansard F&PA 85-86, 26 May 2010**

**Date set by the committee for the return of answer: 9 July 2010**

**Number of Pages: 3**

**Senator Gary Humphries asked:**

**HUMPHRIES**—The Matthews report, again adopting what the department of finance put to it, stated that unfunded liabilities accruing by 2020 for civilian and military pensions, using the CPI or MTAW method, would be in the order of \$82 billion. This figure appears to have been derived by taking a proportion of the 45-year term of unfunded liabilities. Is it possible to tell us how much of a discount there was over that 45-year period to account for the deaths of people who would have been in that scheme for part of the time?

**Mr Sotiropoulos**—We do not have that level of information. That is something that the actuaries would have used as part of their methodology.

**Senator HUMPHRIES**—Can we seek that information from the actuaries.

**Mr Tune**—I think what is being said is the correct interpretation—that the actuaries would feed in their standard assumptions and come up with those figures.

**Senator HUMPHRIES**—But we do not know what the standard assumptions are. If we knew what they were, we would be able to—

**Mr Sotiropoulos**—We will have access to the studies, so we will take that on notice. We will have a look at that and get back to you.

**Senator HUMPHRIES**—Thank you.

#### **Answer:**

The Matthews report in relation to civilian superannuation pensions relied on the assumptions used in the preparation of the 2005 Long Term Cost Reports for the PSS and CSS. Those mortality rates are reproduced below:

#### **Pensioner Mortality**

The table below shows the mortality rates assumed for normal and dependent pensioners in the year 1 July 2005 to 30 June 2006.

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| Pensioner Mortality Assumptions<br>(per 1,000 pensioners at age shown) |             |         |             |        |
|------------------------------------------------------------------------|-------------|---------|-------------|--------|
| Age Attained                                                           | Males       |         | Females     |        |
|                                                                        | Age Retired | Widower | Age Retired | Widow  |
| 20                                                                     | -           | 0.98    | -           | 0.31   |
| 30                                                                     | -           | 1.17    | -           | 0.37   |
| 40                                                                     | -           | 1.51    | -           | 0.76   |
| 50                                                                     | -           | 3.23    | -           | 1.89   |
| 55                                                                     | 2.19        | 5.38    | 2.05        | 3.06   |
| 60                                                                     | 3.80        | 9.00    | 3.23        | 4.69   |
| 65                                                                     | 7.51        | 15.23   | 5.32        | 7.36   |
| 70                                                                     | 14.55       | 26.17   | 9.09        | 12.21  |
| 75                                                                     | 27.06       | 41.41   | 16.29       | 20.73  |
| 80                                                                     | 53.17       | 68.43   | 31.31       | 38.44  |
| 90                                                                     | 173.52      | 181.79  | 123.95      | 130.55 |
| 100                                                                    | 383.07      | 383.07  | 385.23      | 381.42 |

The table below shows the mortality rates assumed for invalid pensioners with duration less than 3 years. The duration refers to the time since the member became an invalid pensioner.

| Invalid Pensioner Mortality<br>(per 1,000 pensioners at duration shown) |       |         |
|-------------------------------------------------------------------------|-------|---------|
| Duration (Years)                                                        | Males | Females |
| 0 – 1                                                                   | 91.00 | 46.00   |
| 1 – 2                                                                   | 45.00 | 26.00   |
| 2 – 3                                                                   | 30.00 | 25.00   |

The table below shows the mortality rates assumed in the 1 July 2005 to 30 June 2006 year for invalid pensioners with duration greater than three years.

| Invalid Pensioner Mortality – Duration Greater than 3 Years<br>(per 1,000 pensioners at age shown) |       |         |
|----------------------------------------------------------------------------------------------------|-------|---------|
| Age Attained                                                                                       | Males | Females |
| 20                                                                                                 | 0.86  | 0.46    |
| 30                                                                                                 | 0.97  | 0.56    |
| 40                                                                                                 | 1.37  | 1.12    |
| 50                                                                                                 | 2.73  | 2.61    |
| 55                                                                                                 | 4.36  | 4.41    |
| 60                                                                                                 | 7.78  | 7.16    |
| 65                                                                                                 | 14.31 | 11.86   |
| 70                                                                                                 | 24.35 | 19.82   |

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|     |        |        |
|-----|--------|--------|
| 75  | 39.14  | 32.15  |
| 80  | 68.04  | 51.01  |
| 90  | 178.91 | 163.45 |
| 100 | 383.07 | 385.23 |

#### Improvements in Pensioner Mortality

Improvements in mortality for age dependent pensioners, dependent pensioners and invalid pensioners with duration greater than three years have been taken from Australian Life Tables 2000-02. The 25 year experience in the Australian Life Tables 2000-02 has been used for the short term assumptions and the 105 year experience has been used for the long term assumptions.

No improvements in mortality are assumed in respect of invalid pensioners with duration less than three years.

The following table summarises the assumed rates of improvement in future pensioner mortality.

| <b>Assumed Rates of Mortality Reduction<br/>(% per annum)</b> |                                                     |               |                                            |               |
|---------------------------------------------------------------|-----------------------------------------------------|---------------|--------------------------------------------|---------------|
| <b>Age<br/>Attained</b>                                       | <b>Short Term<br/>(1 July 2005 to 30 June 2009)</b> |               | <b>Long Term<br/>(1 July 2009 onwards)</b> |               |
|                                                               | <b>Male</b>                                         | <b>Female</b> | <b>Male</b>                                | <b>Female</b> |
| 60                                                            | 3.27                                                | 2.46          | 1.20                                       | 1.40          |
| 70                                                            | 2.75                                                | 2.40          | 0.90                                       | 1.21          |
| 80                                                            | 2.06                                                | 2.14          | 0.73                                       | 1.05          |
| 90                                                            | 1.40                                                | 1.44          | 0.46                                       | 0.61          |
| 100                                                           | 0.83                                                | 0.89          | 0.64                                       | 0.71          |