

Senate Finance and Public Administration Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
ADDITIONAL ESTIMATES 2015-16

Finance Portfolio
9 February 2016

Department/Agency: Department of Finance
Outcome/Program: 2/2.6
Topic: Act of Grace nominal interests

Senator: Wong
Question reference number: F157
Type of question: Written
Date set by the committee for the return of answer: Friday, 1 April 2016

Number of pages: 2

Question:

Within Program 2.6 as shown in the 2015-16 Finance PAES on page 34, there is a line for “Act of Grace nominal interests”.

1. Can the Department explain for what purpose is this line of expenses for?
2. How are the amounts of funding in each financial year worked out?
3. Can the Department provide a profile of the historical actuals for these expenses going back the last five financial years (ending 2013-14)?

Answer:

1. The purpose of this line of expenses is to account for the nominal interest accrual of the superannuation Act of Grace liability and Act of Grace payments for *Cornwell-type* claims that are outside of statute of limitations period.

Superannuation Act of Grace liability relates to special circumstances where individuals are not covered by the civilian or parliamentary superannuation Acts, but were deemed eligible for Act of Grace payments relating to these Acts.

Cornwell-type claims relate to situations where an individual received incorrect advice about their eligibility to join a civilian or parliamentary superannuation scheme.

2. The nominal interest accrual of the superannuation Act of Grace liability reflects the expense associated with the fact that the present value calculation of the liability will increase each year as the future obligation is discounted by one less year, with reference to the current discount rate. Assuming a constant discount rate, this expense will therefore decrease each year as no further claimants (excluding *Cornwell-type* claimants) are expected. Actual and revised budget estimates for this expense are calculated with reference to the current discount rate, however, out year amounts are calculated with reference to long term cost report rates advised by Finance’s actuaries. *Cornwell-type* claims, which are also included in this figure

in the PAES, are based on the expected number of claims and the average settlement figure and recognised as an expense in that year.

3. The actual Act of Grace expenses for the last five financial years (ending 2013-14) are available from the Finance Annual reports for each year, and are as follows:

Financial Year	\$'000
2009-10	310
2010-11	645
2011-12	3,651
2012-13	443
2013-14	661