

**Senate Finance and Public Administration Legislation Committee**  
**ANSWERS TO QUESTIONS ON NOTICE**  
**BUDGET ESTIMATES 2014-15**

Finance Portfolio

**Department/Agency:** Comsuper

**Outcome/Program:** General

**Topic:** Superannuation information in the PBS

**Senator:** Lundy

**Question reference number:** F12

**Type of question:** Hansard, F&PA Committee, Page 40, 28 May 2014

**Date set by the committee for the return of answer:** Friday, 11 July 2014

**Number of pages:** 5

**Question:**

**Senator LUNDY:** I am conscious of time. I am going to ask you to put all of that in writing in a question on notice. Can you explain and reference everywhere within the respective budget papers that the government's liabilities, under whatever concept, are referenced and how they all fit together?

And can you make it so that a layman can read it ...

**Dr Helgeby:** We will take it on notice. Could I ask for clarification, though. Your specific issue is about the treatment of superannuation, and you would like us to show how superannuation works its way through the numbers?

**Senator LUNDY:** Yes, but I would like you to use as reference for any figures the references in the budget papers for this forthcoming budget. I want it to correlate specifically to line items, numbers and tables that I can find in the budget papers and not just an esoteric description of methodologies that I do not understand and that I do not think too many others who are looking at this for the first time and trying to do so over the budget papers would understand.

**Dr Helgeby:** We will give consideration to where in the papers these things appear.

...

**Dr Helgeby:** We will take that on notice.

**Answer:**

Superannuation estimates appear in various budget papers. The estimates are prepared on an accrual basis consistent with Australian Accounting Standards. This provides more transparency than just cash payments.

The Australian Government accounts for superannuation cover "civilian" and military defined benefit schemes and payments made to funded schemes such as the PSSap.

## Liability

The Australian Government has never fully funded its superannuation liabilities in relation to defined benefit schemes.

As the liability extends many years into the future, the liability is expressed as the present value of expected future benefit payments. The present value calculation requires future cashflows to be discounted so that the liability is expressed in today's dollars. For budget reporting purposes, a discount rate applied by actuaries in preparing Long-Term Cost Reports is used to value the superannuation liability. The discount rate is 6 per cent. This reduces the volatility in reported liabilities that would occur from year to year if the long-term government bond rate were used. Consistent with Australian Accounting Standards, the long-term government bond rate as at 30 June is used to calculate the superannuation liability for the purpose of actuals reporting (monthly financial statements, final budget outcome and consolidated financial statements).

The superannuation liability is included in the budget aggregate of net worth (total assets less total liabilities) but is not included in net debt, consistent with the Government Finance Statistics definition of these aggregates.

The superannuation liability is shown in the Australian Government balance sheet (Budget Paper No.1 Statement 9, Table 2, page 9-7) as shown below.

|                                 | <i>2013-14</i> | <i>2014-15</i> | <i>2015-16</i> | <i>2016-17</i> | <i>2017-18</i> |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
|                                 | <i>\$m</i>     | <i>\$m</i>     | <i>\$m</i>     | <i>\$m</i>     | <i>\$m</i>     |
| <b>Superannuation liability</b> | 157,067        | 163,228        | 169,320        | 175,263        | 181,126        |

The superannuation liability comprises the liability of defined benefit civilian schemes and military schemes. These may be found separately in "Provisions – superannuation" in the Finance Portfolio Budget Statements (PBS) Table 3.2.8, p73 and in the Defence PBS Table 70, p111 (there will be a minor difference in the sum of these amounts to the liability in Budget Paper No.1 Statement 9 due to technical accrual accounting adjustments).

The liability estimates presented in the Budget Papers may be reconciled with estimates for superannuation expenses and payments as follows:

Opening liability balance,  
plus superannuation expenses for defined benefit schemes  
less payments for unfunded defined benefit scheme pensions/lump sums  
equals Closing liability balance (allowing for any actuarial revaluations).

Actuarial revaluations of the liability are due to changes in discount rate, changes in scheme design or changes in other economic or demographic assumptions. These are shown in the operating statement and included in the aggregate of *other economic flows included in equity* (Budget Paper No. 1 Statement 9, Table 1, p9-5).

## Expenses

Superannuation expense is an accrual concept. Because defined benefit superannuation schemes are largely unfunded, superannuation expense is different to the cash flow impact.

The expenses are recognised in the operating statement (Budget Paper No. 1) in two rows, as follows:

|                                      | 2013-14       | 2014-15       | 2015-16       | 2016-17       | 2017-18       |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
|                                      | \$m           | \$m           | \$m           | \$m           | \$m           |
| Superannuation                       | 6,235         | 4,291         | 4,268         | 4,226         | 4,259         |
| Superannuation interest cost         | 8,320         | 9,275         | 9,630         | 9,979         | 10,333        |
| <b>Total superannuation expenses</b> | <b>14,555</b> | <b>13,567</b> | <b>13,898</b> | <b>14,206</b> | <b>14,592</b> |

Source: Budget Paper No.1 Table 1p9-5 and Note 7, p9-23

*Note: The service cost included in superannuation expenses in the 2013-14 year is determined in accordance with Australian Accounting Standards which require the use of a discount rate based on yield on long term government bonds at the commencement of the year. The rate used for 2013-14 is 4.3 per cent. The budget and forward years are based on the long term rate of 6 per cent.*

The first of the two superannuation expenses (\$4,291m in 2014-15) is a cost pertaining to both defined benefit schemes and funded accumulation schemes. For defined benefit schemes it includes what is sometimes referred to as the *service cost*, which is the cost of the additional benefit accrued by employees for an additional year of service. Payments for employer productivity contributions and accumulation superannuation schemes are also included in superannuation expense.

The second expense item reflects the fact that the present value calculation of the superannuation liability will increase each year as the future obligation is discounted by one less year. This is recognised as *superannuation interest cost*. It is not a cash payment but an expense recognised under accrual accounting.

The major part of the above total superannuation expense relates to defined benefit scheme expenses. These are shown in the Portfolio Budget Statements of Department of Finance and Department of Defence as follows:

|         | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|---------|---------|---------|---------|---------|---------|
|         | (\$m)   | (\$m)   | (\$m)   | (\$m)   | (\$m)   |
| Finance | 8,225   | 7,549   | 7,696   | 7,844   | 8,005   |
| Defence | 5,097   | 4,803   | 4,999   | 5,080   | 5,211   |
| Total   | 13,322  | 12,352  | 12,695  | 12,924  | 13,216  |

Source: Finance PBS Table 3.2.7, p71; Defence PBS Table 70, p110 (includes military retention benefits).

The remaining superannuation expenses relate to accumulation schemes and employer productivity contributions which are cash payments funded from departmental appropriations. These are reflected in the Portfolio Budget Statements of other agencies under the broader heading of employee benefits.

## Special Appropriations

To be consistent with accrual accounting, the special appropriation tables for defined benefit superannuation schemes are based on accrued expenses. The expenses by appropriation are shown in Budget Paper No.4 (Defence p77, Finance p79) and in the Resource Statement in the Portfolio Budget Statements for Defence (table 12, p29) and Finance (table 1.1, p16). They are not cash payments. That is, the amounts shown are an accrual concept, consistent with the presentation elsewhere in the Budget Papers, and do not directly relate to pensions or lump sums paid from those Special Appropriations.

## Cash Payments

Unfunded payments to beneficiaries for defined benefit superannuation schemes are paid from special appropriations. Payments are a cash, rather than an accrual, concept and are addressed in the cash flow statements in the budget papers.

The total of unfunded Australian Government payments to scheme beneficiaries is included, but not separately identified, within the aggregate of *payments for employees* in the Cashflow Statement (BP1, Statement 9, Table 3, p9-8).

The payments for defined benefit schemes are separately identified in the Portfolio Budget Statements for Finance and Defence as follows.

|  | 2013-14<br>(\$m) | 2014-15<br>(\$m) | 2015-16<br>(\$m) | 2016-17<br>(\$m) | 2017-18<br>(\$m) |
|--|------------------|------------------|------------------|------------------|------------------|
| Civilian defined benefit superannuation payment  | 5,545            | 5,772            | 6,021            | 6,298            | 6,792            |
| <i>less: funded offsets</i>                      | (1,644)          | (1,720)          | (1,847)          | (1,987)          | (2,258)          |
| Military defined benefit superannuation payments | 1,948            | 2,120            | 2,222            | 2,355            | 2,440            |
| <b>Superannuation benefit payments</b>           | <b>5,849</b>     | <b>6,172</b>     | <b>6,396</b>     | <b>6,666</b>     | <b>6,974</b>     |

Source: Finance PBS Table 3.2.9, p74; Defence PBS Table 64, p104

Payments are not broken down further by individual scheme in the budget papers.

As noted above, the estimates above may be reconciled with the change in the unfunded liability for 2014-15 as follows:

|  |                 |
|--|-----------------|
|  | 2014-15<br>\$bn |
| Opening liability balance  | 157.1           |
| plus superannuation expenses for defined benefit schemes                   | 12.4            |
| less payments for unfunded defined benefit scheme pensions/lump sums       | 6.2             |
| equals Closing liability balance (allowing for any actuarial revaluations) | 163.2           |

## **ComSuper PBS tables**

Superannuation estimates also appear in the ComSuper part of the Finance Portfolio PBS at Third Party Payments (page 134), and are prepared by ComSuper.

These estimates will only relate to those schemes that are administered by ComSuper. Finance administers the remaining, small, schemes.

The amounts shown for Department of Finance (i.e. civilian) superannuation schemes are the same as for those shown in Finance Special Appropriations (page 16). The amounts shown for Defence schemes are based on estimated cash payments (excluding payment of military retention benefits which are paid by Defence) included in the Defence administered cashflow statement (Defence PBS Table 71, p112) .

## **Statement 6 Programme and Function expenses**

Statement 6 in Budget Paper No. 1 presents estimates of general government sector expenses according to the various functions of government, on a fiscal balance basis. These functions are based on an international standard classification of functions of government that is incorporated into the Government Finance Statistics (GFS) reporting framework. Included in the total for government superannuation benefits sub-function (Table 4) are the administrative costs of the trustee and administrator and is therefore not directly comparable to other totals in either Budget Papers or Portfolio Budget Statements.