

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

Finance Portfolio
20 October 2015

Department/Agency: Department of Finance
Outcome/Program: 2/2.6
Topic: Projected nominal total unfunded liability

Senator: Gallagher

Question reference number: F5

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Question:

Senator GALLAGHER: The long-term cost report for PSS and CSS. ... It shows that the projected nominal total unfunded liability continues to increase until 2034. My question is whether you could enlighten me as to the reason that 2034 is the peak, or the tipping point?

Mr Greenslade: There is a general trend. Liabilities increase, which is essentially due to demographics, and there are people coming into extended employment that are adding to the superannuation benefits which accrue and impact on the liability. But the schemes are closed, including the military scheme being closed, so, over time, there is a drop off and the demographics kick in. So there is a trend going up as existing serving people are accruing benefits and there is a trend going down as—

Ms Halton: As people are passing away.

...

Mr Greenslade: Essentially that is it. As to why it is precisely 2034, I can get back to you, but essentially it is the demographic trend.

Answer:

Up until 2034, the accruing benefits from the future employment of CSS and PSS contributors and the superannuation interest expense (which both increase the liability), exceed the level by which the liability is reduced by the benefit payments. Around 2034, the combined number of pensioners of both schemes peaks and there are fewer contributing members adding to the liability. The balance therefore tips at this time and the level of benefit payments then exceeds the superannuation interest expense and contributor benefit accruals, leading to a net reduction in the unfunded liability.