Senate Finance and Public Administration Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

BUDGET ESTIMATES 2012-2013

Finance and Deregulation Portfolio

Department/Agency: Department of Finance and Deregulation
Outcome/Program: 1/1.2
Topic: Public Sector Superannuation Liability

Senator: Joyce
Question reference number: F148
Type of question: Written
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Number of pages: 1

Question:

a) What discount rate is used for valuation of the government's public sector superannuation liabilities? What is the justification for the use of this rate?

b) How much of the government's public sector superannuation liabilities will come due in the next 10 years?

c) What discount rate has the government used to value public sector superannuation liabilities due over the next 10 years? If a rate higher than the current 10-year government bond rate has been used, what is this justification for using this higher rate?

Answer:

a) The discount rate used to value the government's public sector superannuation liability for budget purposes is 6 per cent. This is the rate that has been determined by actuaries as the best long-term rate to match the duration of the liability that will extend over a number of decades into the future. While recent yields on government bonds have been lower than average, the long-term nature of the liability requires the use of a longer-term discount rate.

b) Unfunded benefit payments over the next 10 years will amount to approximately $69 billion in total. During this period, the liability will continue to grow as members in the schemes accrue additional benefits.

c) See response to Question b) above.