The Future Fund and Payments for Unfunded Superannuation for the next forty years.

The Long Term Cost Report 2017 prepared by Mercers estimated the unfunded liability of the CSS and PSS schemes at 30 June 2017 to be $137.8b. (This did not include the Parliamentary Contributory Superannuation Scheme, the Governor-General Pension Scheme, the Judges' Pensions Scheme, or the Federal Circuit Court Judges Death and Disability Scheme.) The discount rate used was 5%.

The LTCR 2017 prepared by the Australian Govt Actuary estimated the unfunded liability of the Military Schemes (the DFRB, the DFRDB, the MSBS and the ADF Cover for death and disability) to be $83.1b, again as at 30 June 2017 and using 5% discount rate. The total of these two figures being $220.9b.

In July 2018 Mercers revised the Target Asset Level for the Future Fund to $180.2b, that being Mercers estimate of the assets required to offset the unfunded liability of all the above schemes including the lesser civilian schemes not included in its LTCR 2017 report. The reason for the substantial drop in the total UL was the use of 6% as the discount rate.

The 2019 Annual Reports of the Departments of Finance and Defence included estimates of the Unfunded Liability for all of the civilian schemes and all of the military schemes. The combined total being $415.1b (civilian $233.1b and military $182.0b). This whopping increase is due to the use of discount rates of 1.7% and 1.9%. The justification for this rests on accounting standards that specify that discount rates should be set at the Government bond rate, this being the rate that would have to be paid if the Unfunded Liability was funded by borrowings. This ignores the fact that the Future Fund was set up to offset the Unfunded Liability.

The two LTCR 2017 reports provide estimates of the outlays that will be required to be paid in each of the forty years 2017/18 to 2056/18. These figures can be discounted to 30 June 2017 to provide an estimate of the Present Value of Future Outlays (PVFO) using a range of discount rates.

The PVFO is not the same as Unfunded Liability. The latter is defined as an estimate of the present value of **the superannuation entitlements in respect of service already rendered**, less the value of assets held by the schemes. The PVFO is an estimate of the present value of future payments and so includes an element of payment for future service and therefore will exceed the UL at any point in time. Because most of the schemes have been closed for many years the numbers of entitled personnel still providing service is reducing and the indications are that the difference is not great.

The Present Value as at 30 June 2017 of Future Outlays taken from the LTCR 2017 reports for a wide range of discount rates is as follows:

	Civilian CSS & PSS	Military not inc ADF Cover	Total
Discount %	$bn	$bn	$bn
1.90%	258.7	158.4	417.1
5.00%	146.5	84.9	231.4
6.00%	125.5	71.3	196.8
8.00%	95.1	52.2	147.3
10.00%	74.9	39.9	114.8

At 30 September 2019 the value of the Future Fund was estimated at $166b. Its 10 year return is 10% pa. A not unreasonable conclusion is that the Future Fund is already at a level that is comfortably able to fund outlays for the next forty years for civilian and military schemes not including ADF Cover.

Tom Hayes 9/19