

ACPSRO - Report on Future Fund

October 2021

Future Fund (FF)

- The FF 2021 Annual Report states that the FF had reached \$198B in value at 30 June 2021.
- The performance for the year (1920/21) was 22 %, much the same as the performance of other superannuation funds.
- The asset allocation to achieve this was: Australian Equities 8.5%, Global Equities 27%, Private Equities 17.5%, Property and Infrastructure etc. 33%, and Cash 13%.
- The FF average return since inception (2006) was 8.4 %.
- The FF return for last 10 years was 10.1 %.
- The FF Target Return is 6.6 % (CPI + 4 - 5%).

UNFUNDED LIABILITY (UL)

- The present (presumably 30/6/2021) UL is estimated as \$270B. (From Budget Paper No 1, 2021-22 Budget).
- The 2050 UL is estimated as \$430B. (From Budget Paper No 1, 2021-22 Budget).
- The UL is recalculated every 3 years (last time for 30/6/2017, reported in 2019); it increases in amount because of higher salaries and thus higher superannuation etc. It will stabilise,.
- The basis of the UL is the Present Day value of 40 years of future superannuation outlays for DB superannuation. This is determined by using a Discount Rate, usually the Long Term Bond Rate. The UL is thus very sensitive to the adopted Discount Rate; a higher Discount Rate reduces the UL, while a lower Discount Rate increases the UL
- In the past, Treasury/Finance has used a Discount Rate of 6 %.This determined that the FF would be able to meet superannuation costs by 2020; thus the Budget would no longer be used.
- Because of lower Bond Rates, Treasury/Finance has recently reduced the Discount Rate to just under 2 %. In the latest Budget it has adopted 2.5 % for the Discount Rate and a UL of \$270B.
- The Future Fund Agency had advised the Department of Finance that the funding transfer needed to be extended to 2027; this has been accepted by the Government.
- ACPSRO in its appraisals on its Web Site, noted that the appropriate Discount Rate is surely the FF performance, not the Bond Rate. This could be either the Target Return rate of 6.6 %, or the 10 year performance figure of 10%. In our ACPSRO appraisal, we found that a Discount Rate of about 7 %pa would achieve a UL comparable to the FF value and thus permit transfer of funding from the Budget, from the original date of 2020.

FUTURE VALUE OF THE FUTURE FUND

- The FF value is \$198B at 30/6/2021.
- If the FF performs at 10 % pa, then after a further 5 years it will be worth about \$320B and after 10 years about \$500B.
- Thus within 5-10 years the FF would be adequate to meet the adopted Treasury/Finance UL estimate, based on a 2-5 % Discount Rate.

END