

## Chapter 5: Notional contribution rates

- 5.1 A notional employer contribution rate has been calculated to illustrate the effective cost of the defined benefits being provided by the Commonwealth as a percentage of the superannuation salaries of scheme members. It represents the estimated contribution rate that would be required to fund the defined benefits accruing to serving members over the next three years on the basis that benefits are attributed to periods of service under the AASB 119 accrual methodology. In other words, if the scheme was exactly fully funded in respect of AASB 119 accrued benefits at the beginning of the three years and contributions were made at calculated rate, then the scheme would be expected to be exactly fully funded at the end of the period. Previous Long Term Cost Reports have attributed benefits to service on a pro rata basis. The notional contribution rate outcomes for the two accrual approaches are similar in the context of the military schemes and the resulting rates for the current report are the same when rounded to the nearest 0.1 per cent.
- 5.2 The table below shows the notional employer contribution rates for the two schemes separately and also a combined rate for both schemes. For comparison, the rates from the 2005 Report are also shown.

### Notional employer contribution rates as a percentage of superannuation salary

	MSBS (%)	DFRDB (%)	Combined (%)
2005 Report	24.7	33.5	26.0
Current Report	27.0	33.4	27.6

1. The MSBS rates exclude the cost of the retention benefit.
  2. The 2005 and 2008 combined rates are weighted average rates based on salaries of the members of the two schemes projected over the three years following the review date.
  3. Attention is drawn to the changes in assumptions between 2005 and 2008. Details are given in Chapter 4.
  4. These rates include the 3 per cent productivity contributions.
  5. The rates do not include the additional employer contributions paid as a result of the application of the OTE earnings base in calculating Superannuation Guarantee obligations from 1 July 2008. Contributions in respect of members of both schemes are paid to the ancillary section of the MSBS Fund. These contributions amount to around 1 per cent of superannuation salary.
  6. The 2005 Report figures are based on the pro rata accrual approach. The 2008 Report figures are based on the AASB 119 accrual approach.
- 5.3 The majority of the increase in the MSBS notional employer contribution rate is due to changes in valuation assumptions. The most important change to the assumptions is the increase in the assumed number of invalidity A retirements. This has had a significant impact on reported costs for male other rank members, who account for over 60 per cent of the costs for the scheme. Other

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changes in assumptions had a relatively minor impact on the notional employer contribution rate.

- 5.4 The DFRDB is now closed to new entrants. The changes in assumptions and membership structure have resulted in a minimal reduction in the notional employer contribution rate.
- 5.5 The increase in the combined rate from 26.0 per cent of salaries in 2005 to 27.6 per cent of salaries in 2008 is due to the increase in the MSBS notional employer contribution rate. At 30 June 2008, DFRDB contributory members represented just under 10 per cent of total contributory members and changes in the MSBS rate will tend to dominate the combined rate. The decrease in the proportion of DFRDB members since 2005 has moderated the impact of the increase in the MSBS rate on the combined rate.
- 5.6 The actuarial method used for calculating the notional employer contribution rate in both this report and the previous report is known as the Projected Unit Credit (PUC) method as set out in AASB 119.
- 5.7 As noted in Chapter 2, additional funded employer contributions are now also being made under the approach adopted to ensure compliance with Superannuation Guarantee requirements. These contributions are likely to amount to around \$45 million in 2008-09 or slightly less than 9 per cent of the allowances on which the contributions are paid. Using the same salary base as the notional employer contribution rates, the additional contributions represent around 1 per cent of superannuation salaries.