

## Chapter 6: Projection of outlays

6.1 A projection of annual Commonwealth outlays has been carried out to show the impact of the schemes in the long term. The Table below shows the actual outlays for 1991-92, 1992-93, every third year thereafter and for each of the years since 2004-05 for the DFRDB, the MSBS, and the two schemes combined. It also shows projected outlays for the next four years and then every fifth year from 2014-15. Note that the projections assume that the MSBS remains open to new ADF personnel.

### Actual and projected Commonwealth outlays

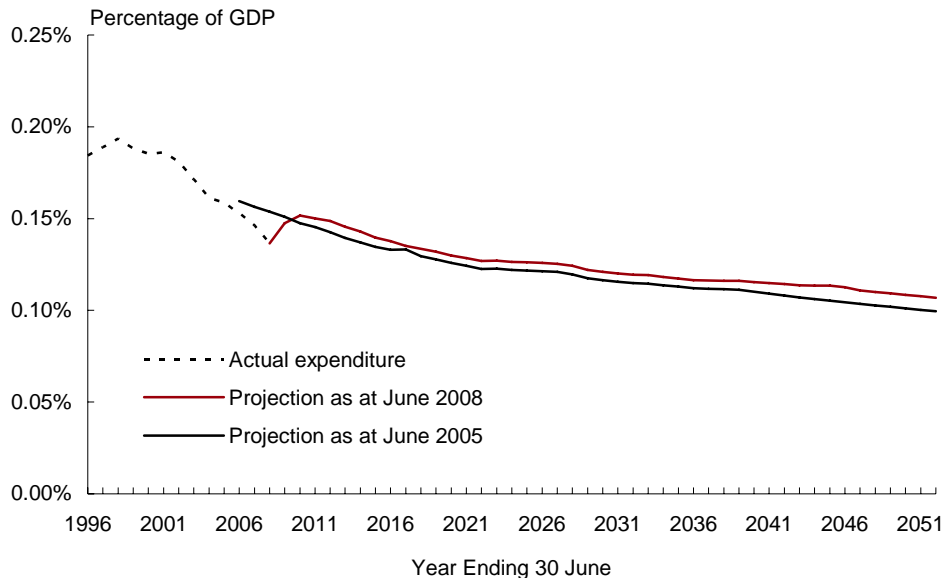
Year	DFRDB (\$m)	MSBS (\$m)	SG contributions (\$m)	Total (\$m)	As a percentage of GDP
<b>Actual</b>					
1991-92	600	32	-	632	0.16
1992-93	703	139	-	842	0.21
1995-96	801	153	-	954	0.20
1998-99	986	158	-	1,144	0.19
2001-02	1,160	171	-	1,331	0.18
2004-05	1,222	202	-	1,424	0.16
2005-06	1,269	209	-	1,478	0.15
2006-07	1,307	224	-	1,531	0.15
2007-08	1,295	249	-	1,543	0.14
<b>Projected</b>					
2008-09	1,444	291	45	1,780	0.15
2009-10	1,498	330	47	1,875	0.15
2010-11	1,516	370	49	1,935	0.15
2011-12	1,537	410	51	1,998	0.15
2014-15	1,591	544	57	2,192	0.14
2019-20	1,657	880	69	2,606	0.13
2024-25	1,689	1,447	84	3,220	0.13
2029-30	1,687	2,132	103	3,922	0.12
2034-35	1,651	3,052	125	4,828	0.12
2039-40	1,556	4,315	152	6,023	0.12
2044-45	1,394	5,904	185	7,483	0.11
2049-50	1,168	7,612	225	9,005	0.11

1. These figures have **not** been adjusted to 2008 dollars.
2. The figures up to 2007-08 reflect the actual expenditure in those years.
3. An allowance for payments to the MSBS ancillary section to meet Superannuation Guarantee obligations following the move to an Ordinary Time Earnings (OTE) base from 1 July 2008 has been included. The amount included is \$45 million, indexed in line with the general wage growth assumption.
4. The Australian Bureau of Statistics (ABS) retrospectively increased historic GDP figures. The figures as a percentage of GDP up to 2004-05 have not been adjusted for this and are as recorded in previous Long Term Cost Reports.

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6.2 The chart below shows total projected outlays as a percentage of GDP over the next 44 years. For comparison purposes, actual outlays since 1996 and the projection of the equivalent figures taken from the 2005 Report are also shown.

### Actual and projected Commonwealth outlays as a percentage of GDP



6.3 The initial increase in outlays as a percentage of GDP reflects both the lower GDP growth projected for 2008-09 and 2009-10 and an anticipated return to more normal exit rates following the very low rates of withdrawal which depressed cashflows in 2007-08. Following this initial increase, outlays as a percentage of GDP gradually decline over the projection period. There are two main reasons for this reduction:

- the number of ADF personnel is assumed to remain constant at the 30 June 2008 level, and so to fall as a percentage of the total population; and
- there is a cost saving arising from the fact that the MSBS is expected to be cheaper in the long term than the DFRDB.

6.4 Actual expenditure in 2005-06 and 2006-07 was close to the projections made in the 2005 Report. In 2007-08, expenditure was around \$40 million lower than expected, due to a fall in the benefits paid under the DFRDB. The lump sum benefits, which reflect turnover rates in the DFRDB, fell by around \$50 million from their level in the previous year. Anecdotal evidence suggested that this was partly a short term effect associated with the introduction of various retention initiatives and that the low turnover rates would not persist. Our valuation assumes a return to the turnover rates applying before 2007-08.

- 6.5 Over the three years to 2008, GDP was considerably higher than projected and this has also contributed to the significant drop in outlays when expressed as a percentage of GDP.
- 6.6 Overall, the projected outlays for the next 44 years are higher in dollar terms than the projections from the 2005 Report, particularly in the long term where they are around 20 per cent higher. There are a number of factors contributing to this result, most importantly, the increase in military personnel numbers and the increased prevalence of invalidity retirements. The larger than anticipated increases in superannuation salary over 2007-08 due to remuneration reform also flow through as higher benefit payments in the future. The incorporation of an allowance of \$45 million (indexed) to cover the Superannuation Guarantee obligations also has a small impact on cashflows.
- 6.7 These increases in nominal outlays are largely matched by higher projected GDP and, as a result, the projected outlays as a percentage of GDP over the next 44 years are only a little higher than the estimates made in 2005.
- 6.8 Given the projected decline in costs as a percentage of GDP, the establishment of the Future Fund and the implicit Commonwealth guarantee to pay benefits, we believe that the current method of funding benefits is adequate from the perspective of the continuing financial viability of the schemes.