

## Summary

This report sets out estimates as at 30 June 2008 of the long term costs of superannuation benefits payable in respect of the members of the major superannuation schemes covering the vast majority of Australian Defence Force (ADF) personnel. The previous report was prepared using data as at 30 June 2005.

The schemes covered in this report are:

- the Military Superannuation and Benefits Scheme (MSBS) which commenced on 1 October 1991; and
- the Defence Force Retirement and Death Benefits Scheme (DFRDB) which has been closed to new members since the commencement of the MSBS.

## Notional employer contribution rates

The notional employer contribution rate is the contribution rate that would be required to fund the defined benefits accruing to serving members over the next three years on the basis that superannuation benefits are accrued uniformly over the period until a member exits from the scheme or reaches his or her maximum benefit limit, whichever occurs first. The following table shows the contribution rates for each scheme as calculated for this report and the previous report as at 30 June 2005.

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

Report as at	MSBS (%)	DFRDB (%)	Combined (%)
30 June 2005	24.7	33.5	26.0
30 June 2008	27.0	33.4	27.6

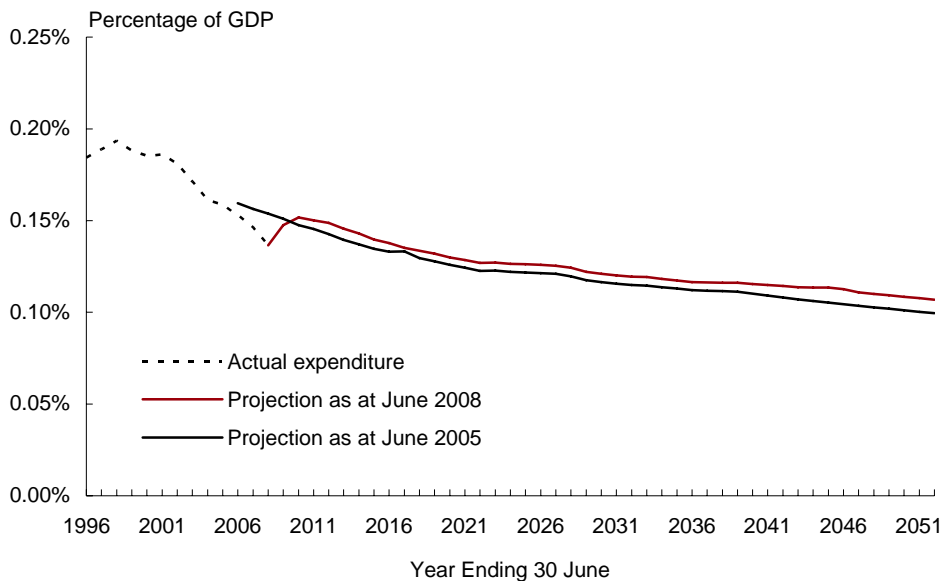
1. The MSBS rates exclude the cost of the retention benefit.
2. The 2005 and 2008 combined rates are weighted average rates based on salaries of the members of the two schemes projected over the three years following the review date.
3. Attention is drawn to the changes in assumptions between 2005 and 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.

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### Projection of employer costs

Direct Commonwealth outlays that will be required under the current method of funding benefits have been projected for the next 44 years and expressed as a percentage of Gross Domestic Product (GDP) so that the relativities of annual Government superannuation cash outlays can be matched against a relevant base. The following chart shows actual costs since 1996 and projected costs for the next 44 years, together with the costs that were projected in the 2005 Report.

#### Actual and projected employer costs as a percentage of GDP



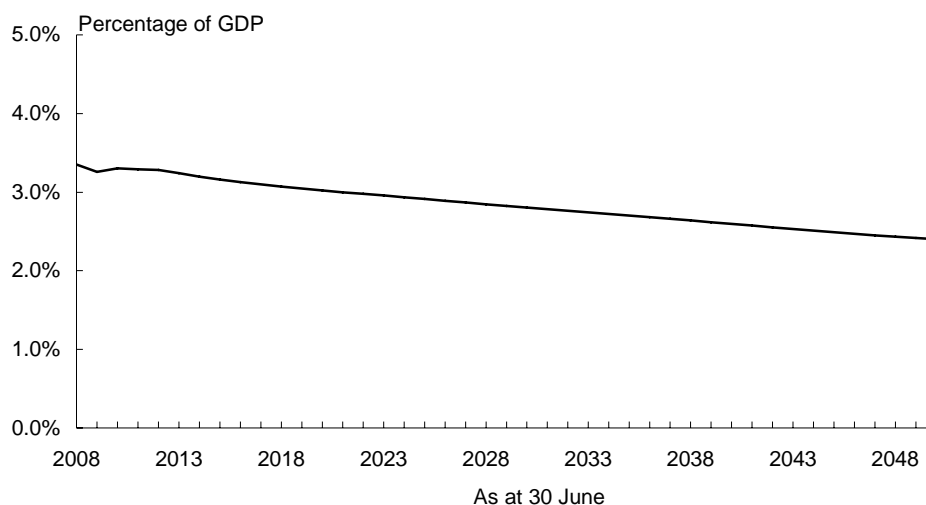
Annual costs represent approximately 0.15 per cent of GDP at present, falling to around 0.11 per cent of GDP in the long term. The current projections are slightly higher than the projections in the 2005 Report.

### Present value of unfunded liabilities

The unfunded liability in respect of benefits that have already accrued for current employees, former employees and pensioners has been estimated as \$37.9 billion as at 30 June 2008 of which \$25.1 billion relates to the DFRDB and \$12.8 billion to the MSBS. This is 3.4 per cent of GDP. This compares with the figures appearing in the last report of \$32.1 billion or 3.6 per cent of GDP as at 30 June 2005.

The following graph illustrates the projected fall off in the total unfunded liabilities as a percentage of GDP. The trend is clearly favourable with this measure of liabilities falling by around 25 percent over the 44 year projection period.

### Projected unfunded liabilities as a percentage of GDP



### Scheme membership

Over the three years to 30 June 2008, total contributory membership increased to around 54,500, following a period of several years where membership had been stable at around 51,000. The number of pensioner members in both schemes has continued to increase with almost 64,000 pensioners in total being valued for the current review. The number of MSBS members with a preserved benefit increased by approximately 13,000 over the three years from 2005 to 2008, to over 70,000.

### ADF Operational environment

The relatively high operational tempo of the ADF over recent years has been associated with a significant increase in the number of invalidity exits from the MSBS. This has increased the on-going costs for contributory members of the MSBS by the order of 10 per cent. There has also been an increase in the number of ADF personnel leading to a higher total salary base for superannuation purposes and hence higher dollar costs. There are a number of other indirect impacts on superannuation costs flowing from the operational environment which are discussed in Chapter 1.

### Changes to military superannuation since the previous report

There have been a number of relatively minor changes to military superannuation arrangements since the last report. The most significant, from a financial perspective, flowed from the change in the method of determining Superannuation Guarantee

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obligations. This change took effect from 1 July 2008 but the financial impact has been included in the cashflows reported here. A full discussion of the changes to scheme arrangements is provided in Chapter 2.

## Changes in assumptions since the previous report

The assumptions adopted and changes since the previous report are discussed in Chapter 4. The most significant change has been to allow for an increase in invalidity exits which has significantly increased costs. There have been a number of other changes to assumptions which have had a much smaller impact on scheme costs.

## Reviews of military superannuation arrangements

A Review of Military Superannuation headed by Mr Andrew Podger was announced in February 2007. The final report of the Review Team, submitted in July 2007, recommended the closure of the MSBS to new members and the establishment of a new accumulation scheme. There was also a review of the pension indexation arrangements for Australian Government superannuation schemes, which include the military superannuation schemes, carried out in the second half of 2008.

At the time of preparing this report, no decisions had been announced on any possible changes to military superannuation or pension indexation arrangements. We have therefore prepared this report assuming that the MSBS will continue to be open to new members and pension indexation arrangements will be unchanged.