

## CHAPTER 5: NOTIONAL CONTRIBUTION RATES

- 5.1 A notional employer contribution rate has been calculated to illustrate the effective cost of the superannuation benefits being provided by the Commonwealth as a percentage of the salaries of scheme members. It represents the estimated contribution rate that would be required to fund the benefits accruing to serving members over the next three years on the basis that benefits are attributed to periods of service on a pro-rata basis. In other words, if the scheme was exactly fully funded in respect of 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.
- 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 2002 Report are also shown.

### Notional Employer Contribution Rates as a Percentage of Superannuation Salary

	MSBS	DFRDB	Combined
2002 Report	23.2%	33.9%	25.3%
Current Report	24.7%	33.5%	26.0%

#### Notes:

1. The MSBS rates exclude the cost of the retention benefit.
2. The 2002 and 2005 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 2002 and 2005. Details are given in Chapter 4.
4. These rates include the 3% productivity benefit.

- 5.3 The increase in the MSBS notional employer contribution rate is due to changes in valuation assumptions. Of particular relevance is the increase in the proportions of the employer components of benefits assumed to be taken in pension form. The pension benefit is a significantly more expensive benefit to provide compared to the alternative lump sum. This has had a significant impact on reported costs. Also contributing to the increase are the changes in the pensioner mortality assumptions and assumptions about proportions married on death.
- 5.4 The effects mentioned in the previous paragraph have been partially offset by the adoption of lower rates for invalidity A and invalidity B contributor exits, as well as lower rates for deaths of contributors in service.

- 5.5 The DFRDB is now closed to new entrants. The changes in assumptions and membership structure have resulted in a small reduction in the notional employer contribution rate.
- 5.6 The increase in the combined rate from 25.3 per cent of salaries in 2002 to 26.0 per cent of salaries in 2005 is due to the increase in the MSBS notional employer contribution rate. At 30 June 2005, DFRDB contributory members represented only 14 per cent of total contributory members and changes in the MSBS rate will tend to dominate the combined rate. The decrease in the numbers of the more expensive DFRDB members since 2002 and their replacement by relatively cheaper MSBS members has moderated the impact of the increase in the MSBS rate on the combined rate.
- 5.7 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. More details are provided on the basis of this method in *The Financing and Costing of Government Superannuation Schemes*.