

CHAPTER 6: PROJECTION OF OUTLAYS

6.1 A projection of annual employer cashflows has been carried out to show the impact of the schemes on Commonwealth outlays in the long term. The Table below shows the actual historic outlays for 1991/92, 1992/93, every third year thereafter and for each of the years since 2001/02 for the DFRDB, the MSBS, and the two schemes combined. It also shows projected outlays for the next five years and then every fifth year thereafter.

Actual and Projected Commonwealth Outlays

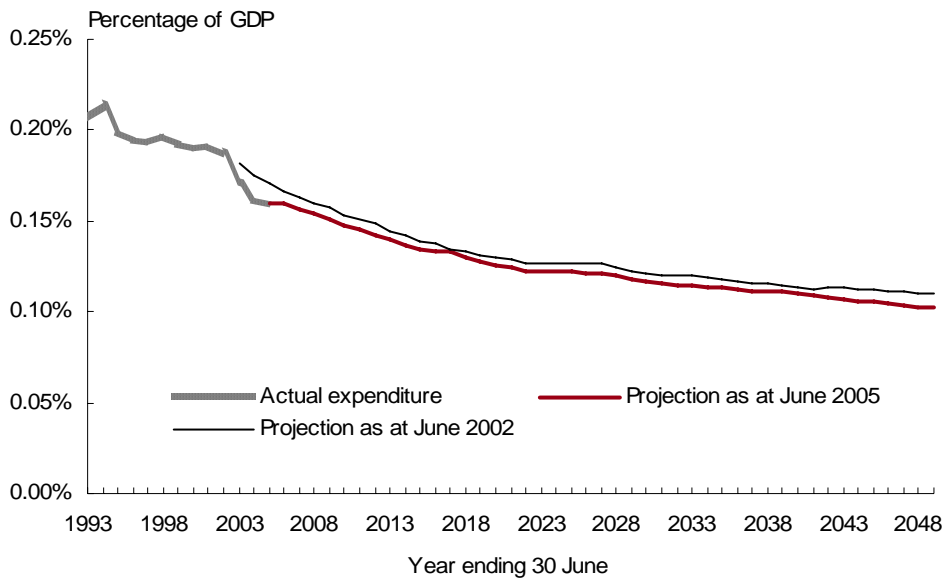
YEAR	DFRDB (\$m)	MSBS (\$m)	TOTAL (\$m)	As a percentage of GDP
Actual				
1991-92	600	32	632	0.16
1992-93	703	139	842	0.21
1995-96	801	153	954	0.20
1998-99	986	158	1,144	0.19
2001-02	1,160	171	1,331	0.19
2002-03	1,165	175	1,340	0.17
2003-04	1,174	183	1,357	0.16
2004-05	1,222	202	1,424	0.16
Projected				
2005-06	1,268	224	1,492	0.16
2006-07	1,305	238	1,543	0.16
2007-08	1,346	255	1,601	0.15
2008-09	1,378	279	1,657	0.15
2009-10	1,412	296	1,708	0.15
2014-15	1,530	473	2,003	0.13
2019-20	1,607	766	2,373	0.13
2024-25	1,636	1,252	2,888	0.12
2029-30	1,624	1,841	3,465	0.12
2034-35	1,582	2,636	4,218	0.11
2039-40	1,480	3,677	5,157	0.11
2044-45	1,314	4,843	6,157	0.11

Notes:

1. These figures have not been adjusted to 2005 dollars.
2. The figures up to 2004-05 reflect the actual expenditure in those years.
3. The Australian Bureau of Statistics (ABS) has retrospectively increased historic GDP figures. The figures as a percentage of GDP up to 2001/02 have not been adjusted for this and are as recorded in previous Long Term Cost Reports.

6.2 The chart below shows total projected outlays as a percentage of GDP over the next 40 years. For comparison purposes, the projection of the equivalent figures taken from the 2002 Report is shown.

Actual and projected Commonwealth outlays as a percentage of GDP



6.3 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 2005 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 over the three years was around 2 per cent lower than expected in dollar terms. As has been mentioned earlier in this report, there has been a noticeable drop in the resignation rates for long serving contributors. This has resulted in some deferral of cash benefit expenditure and hence the lower than expected cash expenditure over the three years. In the same period, GDP was considerably higher than projected and this has resulted in a significant drop in outlays when expressed as a percentage of GDP.

6.5 Overall, the projected outlays in dollar terms for the next 40 years are slightly higher in dollar terms than the projections from the 2002 Report, particularly in the long term where they are around 10 per cent higher. A significant factor in

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this pattern is the increased take up rate of pensions in the MSBS which has increased the reported costs of the MSBS. As most of the members of the MSBS are relatively young and not due to receive benefits for many years, the increase in cash outlays does not show up until a considerable time in the future.

- 6.6 The projected outlays as a percentage of GDP over the next 40 years are slightly lower than those from the 2002 projection, again due to changes in projected GDP.
- 6.7 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, I believe that the current method of funding benefits is adequate from the perspective of the continuing financial viability of the schemes.