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9 March 2010

The Hon Lindsay Tanner MP
Minister for Finance and Deregulation
Parliament House
CANBERRA ACT 2600

The Hon Wayne Swan MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Minister and Treasurer

TARGET ASSET LEVEL DECLARATIONS

In accordance with Schedule 3 of the *Future Fund Act 2006*, I am pleased to provide you with target asset level declarations for 2009-10 and the four subsequent financial years. Under the provisions of Clause 7(c) of that Schedule, not more than one target asset level declaration is to be in force for any particular financial year. I am, therefore, revoking the declaration for 2009-10 dated 8 May 2008.

As required under Schedule 3, I am also providing a written statement setting out my reasons for specifying the target assets levels included in this declaration.

Yours sincerely

Peter Martin
Australian Government Actuary
Designated Actuary to the Future Fund

Target asset level declaration

In accordance with Schedule 3 of the *Future Fund Act 2006*, I, Peter Colin Martin, FIAA and Australian Government Actuary, being the Designated Actuary to the Future Fund, declare the following amounts as the target asset levels for the following years:

2009-10	\$99.7 billion
2010-11	\$103.2 billion
2011-12	\$106.7 billion
2012-13	\$110.3 billion
2013-14	\$114.0 billion

Statement of Reasons for Specifying the Target Asset Levels

The target asset levels specified in the document dated 9 March 2010 have been determined on the basis that they are my best estimates of the present value at the start of the relevant financial year of the Commonwealth's projected unfunded superannuation liability (as that term is defined in the *Future Fund Act 2006*) in respect of services rendered before the start of that year.

This liability arises under the following seven schemes (listed in descending order of size of liability as at 30 June 2009):

- the Commonwealth Superannuation Scheme (CSS) covering benefits paid under the *Superannuation Act 1922* or the *Superannuation Act 1976*;
- the Defence Force Retirement and Death Benefits Scheme (DFRDB) covering benefits paid under the *Defence Forces Retirement Benefits Act 1948* or the *Defence Force Retirement and Death Benefits Act 1973*
- the Public Sector Superannuation Scheme (PSS) covering benefits paid under the scheme established by the *Superannuation Act 1990*;
- the Military Superannuation and Benefits Scheme (MSBS) covering benefits paid under the scheme established by the *Military Superannuation and Benefits Act 1991*;
- the Parliamentary Contributory Superannuation Scheme (PCSS) covering benefits paid under the *Parliamentary Contributory Superannuation Act 1948*;
- the Judges' Pension Scheme covering benefits paid under the *Judges' Pensions Act 1968*; and
- the pensions provided for former Governors-General under the *Governor-General Act 1974*.

Only the MSBS and Judges' Pension Scheme remain open to new members and, for the purposes, of preparing the declarations we have assumed that this will continue to be the case.

Formal actuarial reviews as at 30 June 2008 were conducted on each of the above schemes over 2008-09. The reviews involved a comprehensive analysis of the experience of the schemes over the preceding three years and selection of demographic assumptions which reflected that experience and other collateral information which might provide guidance on future behaviour. I have therefore retained the demographic assumptions from those reviews in arriving at the estimates of the projected unfunded superannuation liability.

The 2008 actuarial reviews of the schemes used the following economic assumptions:

- pension indexation rate for the CSS, DFRDB, PSS and MSBS 2.5% per annum
- pension indexation rate for the remaining three schemes 4.0% per annum
- non-promotional wage growth for all schemes 4.0% per annum

- discount rate for all schemes 6.0% per annum

The pension indexation and wage growth assumptions are consistent with Treasury views on the medium to long term macroeconomic outlook and I have retained them for the current purpose. In selecting the valuation discount rate, I have had regard to:

- the investment mandate for the Future Fund as set out in the Future Fund Investment Mandate Directions 2006;
 - the Directions specify that the benchmark return for the Future Fund over the long term is to be between 4.5 and 5.5 percentage points in excess of the CPI;
- investment performance to date, both before and after investment expenses;
- the assumed long term rate of growth in the CPI of 2.5 per cent per annum;
- discussions with the Future Fund Management Agency regarding the likely trajectory of future earnings and expenses; and
- the valuation discount rate adopted for the previous target asset level declaration.

After taking account of these matters, I have selected a valuation discount rate of 7.2% per annum. This is unchanged from the discount rate adopted for the previous target asset level declaration dated 8 May 2008.

For CSS, DFRDB, PSS, MSBS and the Judges' Pension Scheme, I have relied on projections of the unfunded liability prepared by the scheme actuaries using the assumptions described above and membership data as at 30 June 2009. For the PCSS, I have relied on the projections prepared by the scheme actuary using the assumptions from the 2008 review and membership data as at 30 June 2009. I have then adjusted these projections to take account of the higher valuation discount rate being used for the current purpose. Together, these six schemes account for more than 99.9 per cent of the total unfunded superannuation liability. More approximate methods were used to estimate the negligible remaining component.