3 February 2009

Parliamentary Contributory Superannuation Scheme

Actuarial Investigation as at 30 June 2008

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Consulting. Outsourcing. Investments.

Contents

1

Executive Summary

The accrued liabilities are the liabilities for superannuation entitlements in respect of service already rendered to the Australian Government. The total accrued liabilities of the Parliamentary Contributory Superannuation Scheme (PCSS) at 30 June 2008 were $701.6m. This compares with a reported figure of $634.0m as at 30 June 2005.

The increase since the last review is primarily due to notional interest on accrued liabilities, and the accrual of new benefits during the period. The increase is lower than expected due to favourable experience, and a more accurate valuation methodology.

For the PCSS as a whole the Notional Employer Contribution Rate (NECR) is 47.9% of total salaries. The NECR is the rate necessary to ensure that employer-financed benefits would remain fully funded in three years time, assuming it were fully funded at the valuation date.

Whilst the NECR is suitable for budgeting purposes, a more appropriate measure of the long term cost of the scheme is the cost of providing future service benefits to existing members over their remaining membership. This future service cost is 35.6% of total salaries.

The projected benefit payments of the PCSS for the next three years are as follows:

2008/09	$29.2 m
2009/10	$29.8 m
2010/11	$36.9 m

2

Introduction

This report has been prepared by Mercer (Australia) Pty Ltd (Mercer) at the request of the Department of Finance and Deregulation (Finance). It describes the results of our investigation into the financial position of the Parliamentary Contributory Superannuation Scheme (PCSS). The report complies with Professional Standards 400 and 401 of the Institute of Actuaries of Australia.

The purpose of the investigation was to estimate:

- The accrued liabilities of the PCSS as at 30 June 2008;
- The Notional Employer Contribution Rate which would need to be paid, to ensure the PCSS were fully funded at 30 June 2011, assuming that it was fully funded at 30 June 2008;
- The cashflows of the PCSS over the next three year period.

The last investigation was carried out by Mercer using data as at 30 June 2005. The key findings of that report were:

- The Notional Employer Contribution Rate was calculated to be 55.9% of salaries, where salaries include Additional Office Holder Allowances;
- The accrued liabilities were calculated to be $634.0m.

The Scheme was closed to new members on and from the 2004 election. New Members entering Parliament at the 2004 election or later receive a defined superannuation contribution from the Commonwealth. This contribution is paid into another superannuation fund.

The PCSS is governed by the Parliamentary Contributory Superannuation Act 1948 (the Act), and covers members of Federal Parliament. Details of the benefits provided under the PCSS are set out in Appendix A. We understand that under legislation currently before Parliament, same sex partners will be eligible to receive the benefits which are currently payable to spouses of members.

Since the last investigation, there has been one Federal Election, on 24 November 2007. As a result of the election 49 members left the PCSS, including 14 Senators whose membership ceased at 30 June 2008.

We are not aware of any other significant events affecting the valuation during the review period.

3

Membership

This investigation has been based on data supplied by Finance which carries out the administration of the PCSS. We are satisfied that the data provided by Finance is accurate for the purposes of this report.

Details of membership movements during the review period are provided in Appendix B. The following is a summary of contributory member numbers during the review period.

	Male	**Female**	**Total**
At 1 July 2005	138	50	188
Exits	42	17	59
At 30 June 2008*	96	33	129

*After the change in Senators at 30 June 2008

The following is a summary of PCSS membership as at 1 July 2008.

	Male	**Female**	**Total**
Contributors	96	33	129
Former Member Pensioners	260	43	303
Spouse Pensioners	1	86	87
Contingent Spouses	-	21	21
Associate Pensioners	-	5	5

As at 1 July 2008, the annual rate of pensions currently in payment was approximately $29.2 million (after allowing for suspensions and reductions in respect of offices of profit). As at 1 July 2005, the annual rate of pension currently in payment was $23.4 million. The increase is primarily due to the commencement of new pensions following the election in November 2007.

For a period prior to 1984, members were able to commute 100% of their pension benefit without affecting the reversionary pension benefit payable to the spouse in the event of death of the former contributor. The spouses of members who elected to commute 100% are described as ‘Contingent Spouses’ in the table above. Since 1984, members are only able to commute up to 50% of their pension, and any commutation reduces the reversionary pension benefit as well as the member’s pension benefit.

The Act allows for the splitting of superannuation benefits following marriage breakdown. In such cases, the member spouse’s benefit is reduced and a separate pension or deferred pension entitlement is created for the non member spouse. Associate pensioners in the table above are former spouses of members in respect of whom a pension benefit is payable.

4

Experience of the Scheme

Increases in Parliamentary Allowance

The basic parliamentary salary increased from $111,150 as at 1 July 2005 to $127,060 as at 1 July 2008. This represents an average increase of 4.6% pa compound over the three year period. This was also the rate of increase in pensions over the investigation period. This is higher than the rate assumed at the previous investigation.

The salaries of those members who were members throughout the entire three year investigation period increased at an average rate of 5.8% pa compound. This is higher than the increase in the basic salary over the period because several members have moved to additional offices with higher salaries since 1 July 2005.

However, it should be noted that the increase in basic salary is a more reliable measure for comparative purposes as the major benefits are ultimately related to basic salary.

Contributor Mortality

In the three year review period, one contributory member died in service.

Contributor Invalidity

There were no invalidity retirements during the period.

Contributor Resignation/Retirement

The following table shows the actual number of members resigning or retiring during each election period, compared with the approximate expected number based on the 2005 assumptions.

Election Period	0-8 years membership		8-12 years membership		12-18* years membership		18+* years membership	
	Actual	Expected	Actual	Expected	Actual	Expected	Actual	Expected
14 Mar 1993 to 2 Mar 1996	26	14	13	10	23	20	7	9
3 Mar 1996 to 3 Oct 1998	21	14	6	8	13	18	9	7
4 Oct 1998 to 9 Oct 2001	9	16	6	11	12	12	4	11
10 Oct 2001 to 8 Oct 2004	15	11	10	17	7	12	6	12
9 Oct 2004 to 23 Nov 2007**	7	6	26	17	5	16	14	12
Total	**78**	**61**	**61**	**63**	**60**	**78**	**40**	**51**
Last 3 elections	**31**	**33**	**42**	**45**	**24**	**40**	**24**	**35**

*16 years for periods prior to 9 Oct 2001.

** including all exits between the 2007 election and 30 June 2008

It can be seen that over the last five elections, the experience of members exiting the scheme relative to the assumptions varies between members with different membership periods. More members with shorter membership periods have left over this time than expected, whereas the number of members leaving with more than 12 years of membership has been less than assumed.

Over the investigation period, the most significant feature is the higher than expected number of members leaving with 8 to 12 years membership, and the lower than expected number of members leaving with 12 to 18 years membership.

We have also separately reviewed the experience of members aged 66 or over at the 2007 election. In the previous investigation, all members were assumed to exit at the election following their 66th birthday. Of 11 members in this category at the election, 6 have exited the scheme.

Commutation of Pensions

Of those members leaving the PCSS during the three year review period who were entitled to a pension benefit, the average commutation percentage (weighted by the pension amount) was 8%, compared with the assumed percentage of 10%. This is very close to expected and will have had no significant impact on the financial position of the PCSS.

Pensioner Mortality

The following table shows the actual number of pensioner deaths in the three year review period, compared with the expected number based on the 2005 assumptions.

	Actual	**Expected**	**A/E**
Former Members#	22	21.0	105%
Spouses	23	21.6	107%
Total	45	42.6	106%

#Includes members who commuted 100% of their pension where a “contingent spouse” remains.

It can be seen that the experience was close to expected and will have had a very small positive impact on the financial position.

5

Assumptions for this Investigation

Financial Assumptions

In determining the economic basis to be adopted, the most important consideration for this scheme is the relationship between rates of salary escalation and the rate used to discount the scheme's liabilities.

The last investigation assumed a discount rate of 6.0% per annum, reflecting the long-term cost of government borrowing, and general salary increases of 4.0% per annum. This resulted in a gap of 2.0% per annum.

For this investigation, we have retained these assumptions, which have also been adopted for the 2008 PSS and CSS Long Term Cost Report. This report covers the Australian Government's main civilian superannuation schemes, the Public Sector Superannuation Scheme (PSS) and the Commonwealth Superannuation Scheme (CSS).

A 4% salary increase assumption is also consistent with the current long term outlook for wage inflation.

Officeholder Allowances

At the last review, we used each member's actual officeholder allowance as at the valuation date, and assumed that each member's officeholder allowance would continue at the same percentage of salary until the date of leaving the PCSS. Although in practice it is expected that members will change officeholder positions from time to time, this is considered to provide a reasonable approximation of the overall impact of officeholder allowances.

We have retained this method for the current investigation.

Contributor Mortality

As the number of deaths of PCSS contributors has been small, the experience is insufficient to form a reliable guide and the assumptions are based on the experience of larger public sector schemes.

The mortality of contributors has been assumed to be the same as that used for the 2008 PSS and CSS Long Term Cost Report. Compared with the previous investigation, this basis has lower mortality rates for all members, reflecting the recent experience of PSS and CSS members.

Contributor Invalidity

As the number of invalidity retirements from the PCSS has been small in the past, the experience is insufficient to form a reliable guide and the assumptions are based on the experience of larger public sector schemes. We have assumed that there are no invalidity retirements after 12 years service as all members are then eligible for a pension benefit.

The invalidity rates of contributors with less than 12 years service have been assumed to be the same as those used in respect of the CSS for the 2008 PSS and CSS Long Term Cost Report, and all invalid retirees are assumed to be Class 1. In practice, the number of Class 2 and 3 invalids is expected to be very small, and the impact of allowing for these types of benefits in the valuation would be negligible.

Contributor Resignation/Retirement

Based on the experience of the Scheme outlined in section 3.4 above, we have reduced the percentage of members retiring with 12 to 18 years of membership at the election date from 40% to 35%. The experience of the last three elections showed lower turnover for these members than assumed.

While there is some evidence of this trend for the longer serving members as well, the experience is more variable. Also, as members with more than 18 years service do not generally accrue benefits, it is important not to underestimate the number of retirements in this category. Therefore we have not changed this assumption.

We have not adjusted the assumptions for shorter serving members (less than 12 years) as the experience was reasonably close to expected, and in any event these assumptions are no longer financially significant (due to the decreasing number of members in these categories).

For previous investigations we have assumed that all members would retire at the election following their 66th birthday. The observed experience indicates an increasing trend towards later retirement, with less than half of members over age 66 at the last two elections retiring. For this investigation, we have assumed that all members retire at the election following their 70th birthday. (Prior to this age the above service based assumptions would apply).

The assumptions adopted are as follows:

(i)

Years of Membership at election date	Percentage of members retiring at each election
0 to 8	15%
8 to 12	20%
12 to 18	35%
Greater than 18	50%

(ii) Retirements are only allowed for at election dates, which are assumed to occur once every three years. For Senators, the probability of retirement at the first or third election after their appointment is assumed to be zero;

(iii) Prior to completion of 12 years service, all retirements are assumed to be involuntary. In practice, the number of members retiring voluntarily with between 8 and 12 years service who do not qualify for a pension is small enough to ignore this possibility; and

(iv) For valuation purposes, any members remaining in the PCSS at age 70 are assumed to retire at the election following their 70th birthday.

Commutation of Pension

The percentage of pension entitlements commuted at the three most recent elections was:

Election Year	Percentage of pensions commuted
2001	16%
2004	4%
2007	8%

For the 2005 investigation we reduced the assumption for members commuting their pension benefits to a lump sum from 15% to 10% of the pre-commutation pension. For this investigation we have retained the assumption that 10% of pension entitlements will be commuted.

Pensioner Mortality

For retiring members and spouses of former members, we have adopted pensioner mortality rates and improvements in mortality that are the same as those used for the 2008 PSS and CSS Long Term Cost Report.

Overall this represents an improvement in pensioner mortality (over and above the improvement assumed at the previous investigation), and higher rates of future improvement than those adopted at the previous investigation.

The actual pensioner mortality experience for the PCSS was slightly heavier than that experienced in the CSS/PSS for this investigation period. However, given the small number of pensioners in the scheme the experience can vary significantly due to random fluctuations. Over the past three investigation periods the experience has been very close to that of the CSS/PSS. Therefore we consider it appropriate to continue to use the same assumptions as those adopted for the larger schemes.

Invalid Pensioner Mortality

In respect of invalid pensioners, there is insufficient experience to make an analysis, and an approximation is necessary. For invalid retirees who exited before 1994, we have assumed that mortality will be the same as for other former members. For invalid retirees after 1994, we have adopted the long term mortality rates used for the 2008 PSS and CSS Long Term Cost Report.

Pensioner Marital Status

At the last investigation the assumptions adopted for pensioner marital status were age dependent, and varied for males and females. We have retained these rates for this valuation.

We have also continued to assume that males will be 4 years older than their spouse.

Offices of Profit and Membership of State Parliament

In certain circumstances, the pension benefit of a pensioner is reduced if the pensioner receives income from an office of profit or membership of State Parliament.

As at 30 June 2008, the total amount of these reductions was approximately $600,000 per annum. We have reduced the accrued liability in respect of pensioners by $3 million, as an approximate allowance for the reduction in pension benefits due to pensioners holding offices of profit.

This is a bigger adjustment than was made at the previous valuation, as the amount of these reductions is bigger.

New Entrants

As the Scheme is now closed to new members, no assumptions regarding new members are required.

6

Accrued liabilities

Accrued Liabilities

The accrued liabilities are the liabilities for superannuation entitlements in respect of service already rendered to the Australian Government. They do not fall due until the benefits are payable which, generally, is when members retire and so they are spread over many years into the future. The present value represents the amount which would need to be set aside at the valuation date to provide for these benefits at the time they are payable, assuming the valuation assumptions were borne out in practice.

Method of Valuing

The valuation method evaluates, for each member, expected future benefit payments for each future year multiplied by the probability that the benefit will be payable in that year. The accrued liability is determined as the part of the total benefit which has accrued to the valuation date. The present value of the accrued liability is determined by discounting these expected payments back to the valuation date.

Results

The following table shows the present value of accrued liabilities of the PCSS, as at 30 June 2008.

Estimate of Accrued Liabilities at 30 June 2008	
	$ million
Contributors	204.0
Pensioners	497.6
Total	**701.6**

Analysis of Change Compared with previous investigation

Based on the assumptions adopted at the previous review and actual cashflows during the period, we would expect the accrued liabilities to have changed as follows:

	$ million
Liability at 30 June 2005	**634.0**
Employer Contributions at Notional Rate	38.0
Member Contributions	7.8
Benefits	-82.4
Interest (at discount rate)	122.0
Expected Liabilities at 30 June 2008	**719.4**

The difference between the expected liabilities and actual liabilities as at 30 June 2008 can be approximately broken down as follows:

	$ million
Expected Liabilities at 30 June 2008	**719.4**
Salary Increases greater than expected	9.4
Change in Resignation/Retirement assumption	-6.0
Change in Pensioner Mortality assumption	15.0
Allowance for same sex partners	1.4
Change in Adjustment for Offices of Profit	-0.5
Change in Valuation Methodology*	-31.5
Other	-5.6
Actual Liabilities at 30 June 2008	**701.6**

*As part of this investigation, we made some refinements to our valuation methodology, resulting in a more accurate valuation. This included (for example) allowing for increases in salary at 1 July each year, rather than halfway through each year.

The main item included in “Other” is the difference in the actual membership profile compared with that which would be expected, if the assumptions at the last review were borne out in practice.

7

Notional Employer Contribution Rate

Notional Employer Contribution Rate

The Notional Employer Contribution Rate (NECR) is the Government's employer contribution rate necessary to ensure that employer-financed benefits from the PCSS would remain fully funded in three years time, assuming it were fully funded at the valuation date. Following the practice adopted at the last actuarial investigation, the NECR is expressed as a percentage of total salaries, i.e. total Parliamentary Allowance plus additional office holder allowances.

Method of Determining the Notional Employer Contribution Rate

A notional fund equal to the accrued liabilities at the valuation date is projected together with member contributions, benefit payments and investment return in line with the valuation assumptions to 30 June 2011. The additional amount over this determined figure required to cover the expected accrued liabilities at 30 June 2011 is to be covered by notional employer contributions with interest. These notional employer contributions are expressed as a constant annual percentage (equal to the NECR) of total salaries payable over the 3 years to 30 June 2011.

Results

For the PCSS as a whole the NECR is 47.9% of total salaries, including additional allowances.

Previous Result

At the previous investigation, the NECR was calculated as 55.9% of total salaries. There are a number of factors that have affected the NECR, but the main one is the change in age and membership distribution of contributors between the previous investigation and this investigation. For example:

- The average period of membership has increased from 10.4 years to 12.5 years. The cost of accruing benefits reduces as the period of membership increases.

- The average age of members has increased from 51.5 to 53.5. Other things being equal, the cost of accruing benefits reduces as the member's age increases.
- The proportion of members eligible for "deferred" pension benefits rather than immediate pension benefits has increased. As these benefits are less costly to the employer, this reduces the average required employer contribution.

The change in resignation/retirement assumptions will have also contributed to the reduction in the NECR.

Long Term Cost

Whilst the NECR is suitable for budgeting purposes, it does not provide a good indication of the long term cost as it can fluctuate significantly over time. The main source of instability in the NECR arises from the large variations in election exit experience, coupled with the large variation in accruing cost for different periods of service, i.e. the cost is much greater in the early years of service.

A more appropriate determinant of the long term cost is the cost of providing future service benefits to existing contributor members over their remaining membership.

The future service cost of providing future service benefits to existing contributor members over their remaining membership, calculated using the assumptions outlined in this report, is 35.6% of total salaries. At the last valuation the calculated future service cost was 44.6% of total salaries. The reduction in this rate is due to the same factors identified above.

The fact that this rate is lower than the NECR indicates that the NECR will continue to reduce over time, if the valuation assumptions are borne out in practice.

8

Projected Liabilities and Cashflows

Based on the assumptions used for this valuation, we have projected the value of accrued liabilities in the scheme over the next 40 years:

Projected Accrued Liabilities		
As at 30 June	Nominal Costs ($ millions)	Discounted Costs ($ millions)
2008	701.6	701.6
2009	726.8	685.6
2010	752.0	669.3
2011	768.9	645.6
2012	786.3	622.8
2013	804.3	601.0
2014	811.1	571.8
2015	821.7	546.5
2016	832.1	522.1
2017	835.7	494.7
2018	838.9	468.4
2019	841.5	443.3
2020	836.4	415.7
2021	833.0	390.5
2022	828.4	366.4
2023	820.0	342.2
2024	810.9	319.2
2025	800.9	297.4
2026	786.8	275.7
2027	773.1	255.5
2028	758.0	236.4
2029	740.9	218.0
2030	722.7	200.6
2031	703.4	184.2
2032	682.5	168.6
2033	660.9	154.0

2034	638.2	140.3
2035	614.4	127.4
2036	589.9	115.4
2037	564.7	104.2
2038	538.7	93.8
2039	512.3	84.1
2040	485.6	75.2
2041	458.6	67.0
2042	431.6	59.5
2043	404.5	52.6
2044	377.7	46.4
2045	351.2	40.7
2046	325.1	35.5
2047	299.5	30.9
2048	274.6	26.7

Note: The discounted costs in the above table have been calculated using a discount rate of 6% per annum, which has been used to calculate the present value of the liability at each date.

We have projected the expected benefit payments each year for the next 40 years based on the assumptions used for this valuation in the table below.

Projected Benefit Payments		
Year ending 30 June	**Nominal Costs ($ millions)**	**Discounted Costs ($ millions)**
2009	29.2	28.4
2010	29.8	27.3
2011	36.9	31.9
2012	35.2	28.7
2013	35.9	27.7
2014	42.5	30.9
2015	41.4	28.3
2016	42.2	27.3
2017	48.0	29.2
2018	47.5	27.3
2019	48.3	26.2
2020	52.4	26.8
2021	52.2	25.2
2022	53.1	24.2
2023	56.2	24.1
2024	56.6	22.9
2025	57.0	21.8
2026	59.2	21.4
2027	59.2	20.1
2028	59.6	19.1

2029	60.5	18.3
2030	60.9	17.4
2031	60.8	16.4
2032	61.0	15.5
2033	60.8	14.6
2034	60.5	13.7
2035	60.2	12.9
2036	59.6	12.0
2037	58.9	11.2
2038	58.0	10.4
2039	57.0	9.6
2040	55.8	8.9
2041	54.4	8.2
2042	53.0	7.5
2043	51.4	6.9
2044	49.6	6.3
2045	47.8	5.7
2046	45.8	5.1
2047	43.8	4.6
2048	41.6	4.2

Note: The discounted costs in the above table have been calculated using a discount rate of 6% per annum, which has been used to calculate the present value of the liability at each date.

9

Conclusions

The accrued liabilities are the liabilities for superannuation entitlements in respect of service already rendered to the Australian Government. The total accrued liabilities of the PCSS at 30 June 2008 were $701.6m. This compares with a reported figure of $634.0m as at 30 June 2005.

The increase since the last review is primarily due to notional interest on accrued liabilities, and the accrual of new benefits during the period. The increase is lower than expected due to favourable experience, and a more accurate valuation methodology.

For the PCSS as a whole the NECR is 47.9% of total salaries.

Whilst the NECR is suitable for budgeting purposes, a more appropriate measure of the long term cost of the scheme is the cost of providing future service benefits to existing members over their remaining membership. This future service cost is 35.6% of total salaries.

The projected benefit payments of the PCSS for the next three years are as follows:

2008/09	$29.2 m
2009/10	$29.8 m
2010/11	$36.9 m

Esther Conway

Esther Conway, BSc, FIAA
3 February 2009

Appendix A

Member Contributions and Benefits Summary

This report covers liabilities relating to members of the PCSS. Provisions relating to the PCSS are set down in the *Parliamentary Contributory Superannuation Act 1948*. The provisions of the PCSS are complex and a **summary** of the principal provisions of the PCSS is set out below. It should not be used to calculate benefits for individuals.

Definitions

Additional Office Holder Allowance refers to the extra remuneration paid to a Member for holding an Additional Office.

Additional Office refers to a Ministerial or other paid office held by the Member in Federal Parliament.

Member refers to a Senator or Member of the House of Representatives.

Parliamentary Allowance refers to the base level of salary paid to parliamentarians. At 1 July 2008 the Parliamentary Allowance was $127,060.

Service refers to a Member's period of service in Federal Parliament (which may include previous periods of Federal, State or Territory parliamentary service) or notional service "purchased" with the payment of a superannuation benefit from another scheme.

Term refers to a complete period between elections provided that, for a Senator whose term exceeds 3 years, the Senator shall be deemed to have completed an additional Term at the end of that Term.

Member Contributions

Members must contribute at the rate of 11.5% of their Parliamentary Allowances for the first 18 years of membership and at the rate of 5.75% of their Parliamentary Allowances for subsequent membership. In addition, they must contribute at the rate of 11.5% of their Additional Office Holder Allowances if they have not attained their maximum supplementary pension entitlement and at a rate of 5.75% of their Additional Office Holder Allowances if they have attained their maximum supplementary pension entitlement.

Retiring Allowance

This is a pension benefit which is payable if the Member leaves Federal Parliament and has:

(i) completed 12 or more years of Service; or
(ii) served 4 Terms; or
(iii) retired involuntarily after either 3 Terms or 8 years of Service.

The benefit payable is a base pension plus, where the Member has held Additional Offices, a supplementary pension in respect of each Additional Office held.

The base pension is equal to a percentage of Parliamentary Allowance of 50% plus 2.5% for each year of Service in excess of 8. (The percentage is subject to a maximum of 75%.)

The supplementary pension payable in respect of an Additional Office is equal to 6.25% of the Additional Office Holder Allowance paid in respect of that Office for each year of Service that the Member held that Additional Office. (Supplementary pensions are aggregated where the Member has held more than one Additional Office and the total rate of supplementary pension is subject to a maximum of 75% of the Additional Office Holder Allowance payable in respect of the highest paid Additional Office.)

Invalidity Retirement

On the basis of two medical certificates, a Member retiring for invalidity reasons is classified as a Class 1, Class 2 or Class 3 invalid.

- Class 1 invalidity applies to Members who are considered to be 60% or more incapacitated. The benefit is a pension of 50% of the Parliamentary Allowance.
- Class 2 invalidity applies to Members who are considered to be 30% or more incapacitated but are not Class 1 invalids. The benefit is a pension of 30% of the Parliamentary Allowance.
- Class 3 invalidity applies to Members who are considered to be below 30% incapacitated. The benefit is the higher of, a refund of Member's contributions plus 2 and 1/3 times the Member's contributions paid in the last 8 years of service, or the Superannuation Guarantee safety net amount.

Where a Member's benefit on involuntary retirement is higher than the invalidity benefit, the higher involuntary retirement benefit is payable.

Lump Sum Withdrawal Benefit

A Member who leaves Federal Parliament and who does not qualify for a Retiring Allowance or an Invalidity Benefit will be entitled to receive a lump sum benefit. The benefit will be equal to:

A + (B x C) where	A	=	the total contributions paid by the Member
	B	=	2 1/3, if the retirement was involuntary, or
		=	1 1/6, if the retirement was voluntary
	C	=	the contributions paid by the Member in the previous 8 years.

This benefit is subject to a minimum of the Superannuation Guarantee safety net amount, which is calculated as:

> The voluntary retirement lump sum amount, if any, at 30 June 1992, plus
> The total contributions paid by the Member since 1992, plus
> Contributions at the Superannuation Guarantee rate, plus
> Interest on the above amounts at the rate determined for the PSS.

Death in Service Benefit

(a) Where the Member is survived by a spouse - an annuity of five-sixths (5/6ths) of the Retiring Allowance that would have been payable to the Member had the Member qualified for a Retiring Allowance on the date of death. (If the Member had not completed 8 years of Service at that time, it is deemed that 8 years of Service had been completed.)

(b) Where the Member is not survived by a spouse but is survived by dependent children - an annuity payable to each dependent child equal to the annuity which would have been paid to a surviving spouse divided by the greater of 4 and the number of dependent children.

(c) Where the Member is not survived by a spouse or dependent children - an amount equal to the higher of the Member’s contributions plus 2 1/3 times the Member’s contributions paid in the last 8 years of Service, or the Superannuation Guarantee safety net amount.

Benefit on Death Whilst Receiving a Retiring Allowance

(a) Where the former Member is survived by a spouse - an annuity of five-sixths (5/6ths) of the Retiring Allowance which was payable to the former Member.

(b) Where the former Member is not survived by a spouse but is survived by dependent children - an annuity payable to each dependent child equal to the annuity which would have been paid to a surviving spouse divided by the greater of 4 and the number of dependent children.

(c) Where the Member is not survived by a spouse or dependent children - an amount equal to the excess, if any, of:

   (i) an amount equal to the higher of the Member’s contributions plus 2 1/3 times the Member’s contributions paid in the last 8 years of Service, or the Superannuation Guarantee safety net amount; over

   (ii) the total Retiring Allowance received by the former Member.

Indexation of Retiring Allowance and Annuities

Generally, Retiring Allowances and annuities payable to dependants are indexed at the rate at which Parliamentary Allowances increase.

Commutation

A former Member who qualified for a Retiring Allowance, other than a person who retired because of ill-health, may elect to commute up to 50% of that allowance to a lump sum. The commutation factor is 10 if the former Member is below age 66 at retirement. The commutation factor, if the former Member's age is 66 or more at the commencement of the most recent term, is 10 reduced by 0.5 for every year the former Member's age exceeds 65.

Deferred Members

With effect from the November 2001 Federal Election, the rules of the PCSS were amended so as to create a new category of members. In this report, we refer to this new category as Deferred Members. Generally speaking, anyone joining the PCSS on or after the November 2001 Federal Election will be a Deferred Member.

The provisions for Deferred Members are the same as those applying to other Members, with the following exception. If a Deferred Member leaves Federal Parliament and is eligible to receive a Retiring Allowance, payment of the Retiring Allowance does not commence until the Deferred Member has attained age 55, or is deemed to be an invalid. Similarly, if the Deferred Member wishes to commute any part of the Retiring Allowance, the commuted amount is not payable until the Deferred Member has attained age 55.

Surcharge

From 1996 to 30 June 2005, a surcharge tax was imposed on employer superannuation contributions in respect of members with adjusted taxable incomes greater than a specified threshold.

The surcharge is paid by the Scheme, and members' benefits are reduced to reflect the amount of surcharge paid. However, the total reduction to the benefit cannot exceed:

- 15% of the employer financed benefit arising between 20 August 1996 and 30 June 2003; plus
- 14.5% of the employer financed benefit arising in the year ended 30 June 2004; plus
- 12.5% of of the employer financed benefit arising in the year ended 30 June 2005.

Family Law

The Act allows for the splitting of superannuation benefits following marriage breakdown. In such cases, a separate pension or deferred pension entitlement is created for the non member spouse and the member spouse's benefit is reduced to reflect the value of the pension or deferred pension entitlement of the non-member spouse.

Appendix B

Membership Movements During Review Period

Changes in Contributor Membership

	Male	Female	Total
At 1/7/2005*	**138**	**50**	**188**
Deaths	-	(1)	(1)
Invalidity	-	-	-
Retirement (lump sum benefit)	(3)	(3)	(6)
Retirement (pension benefit)	(39)	(13)	(52)
At 30/6/2008**	**96**	**33**	**129**

**after change in Senators as a result of the 2004 election*
***after change in Senators as a result of the 2007 election*

Changes in Pensioner Membership

	Former Members		Spouses		Contingent Spouses		Associates		Total
	Male	Female	Male	Female	Male	Female	Male	Female	
At 1/7/2005*	**237**	**33**	**1**	**86**	**-**	**24**	**-**	**-**	**381**
Opening Adjustment	-	-	-	-	-	-	-	1	1
New Pensioners	39	13	-	21	-	-	-	4	77
Deaths	(21)	(2)	-	(21)	-	(3)	-	-	(47)
Transfers In	-	-	-	-	-	-	-	-	-
Transfers Out	-	-	-	-	-	-	-	-	-
At 30/6/2008**	**255**	**44**	**1**	**86**	**-**	**21**	**-**	**5**	**412**

**after change in Senators as a result of the 2004 election*
***after change in Senators as a result of the 2007 election*

Appendix C

Assumptions

Discount Rate

The assumed long term average discount rate is 6% per annum.

Salary/Pension increases

The assumed long term rate of increase in salaries and pensions is 4% per annum.

Officeholder Allowance

We have assumed that each member's officeholder allowance will continue at the same percentage of salary until the date of leaving the PCSS.

Contributor Deaths and Invalidity Retirements

The tables below show the number of contributing members per 10,000 assumed to leave during each year as a result of death or invalid retirement at selected ages.

Age	Deaths		Invalidities	
	Males	Females	Males	Females
25	0.23	0.12	0.18	0.12
30	0.31	0.14	0.32	0.32
35	0.40	0.21	0.57	0.61
40	0.50	0.28	0.79	1.03
45	0.69	0.45	1.27	1.64
50	0.97	0.68	1.94	2.55
55	1.38	1.14	3.05	4.26
60	2.03	1.86	6.01	6.46
64	2.78	2.62	6.93	8.04

Contributor Retirements

The assumptions adopted are as follows:

(i)

Years of Membership at election date	Percentage of members retiring at each election
0 to 8	15%
8 to 12	20%
12 to 18	35%
Greater than 18	50%

(ii) Retirements are only allowed for at election dates, which are assumed to occur once every three years. For Senators, the probability of retirement at the first or third election after their appointment is assumed to be zero.

(iii) Prior to completion of 12 years service, all retirements are assumed to be involuntary.

(iv) Any members remaining in the PCSS at age 70 will retire at the election following their 70th birthday.

Commutation of Pension

We have assumed that 10% of every pension will be commuted.

Pensioner Mortality

The tables below set out the number of pensioners per 1,000 assumed to die during each year at selected ages.

Pensioner Mortality (per 1000 pensioners at age shown)				
	Males		Females	
Age	Former Member	Spouse (female)	Former Member	Spouse (male)
20	0.43	0.28	0.20	0.90
30	0.55	0.34	0.25	1.16
40	0.69	0.67	0.49	1.42
50	1.30	1.65	1.12	2.91
55	1.99	2.69	1.83	4.84
60	3.47	4.14	2.90	8.15
65	6.91	6.48	4.77	13.89
70	12.94	10.78	8.88	24.07
75	24.31	18.37	15.96	38.48
80	48.29	34.23	30.83	64.28
90	162.04	118.76	122.40	174.28
100	379.48	352.79	362.67	373.59

Improvements in Pensioner Mortality

Improvements in pensioner mortality have been taken from Australian Life Tables 2000-02, which is the standard used by the Australian Government Actuary and the Australian Bureau of Statistics for projections of the Australian population.

The following table summarises the assumed rates of improvement in future mortality of age and dependent pensioners.

Assumed Rates of Mortality Reduction (% per annum)				
	Male		**Female**	
Age	2008/15	2015 +	2008/15	2015 +
60	3.27	1.20	2.46	1.40
70	2.75	0.90	2.40	1.21
80	2.06	0.73	2.14	1.11
90	1.40	0.46	1.44	0.61
100	0.83	0.64	0.89	0.71

Pensioner Proportions Married

The table below sets out the proportion married at selected ages.

Age	Males	Females
20	6%	16%
25	49%	53%
30	77%	66%
35	85%	69%
40	87%	70%
45	87%	70%
50	87%	55%
55	86%	41%
60	85%	36%
65	83%	31%
70	80%	25%
75	74%	14%
80	62%	7%

In addition to the above rates, we have assumed that 1% of members will have a partner of the same sex.

Pensioner Age Difference

We have assumed that male pensioners will be four years older than their female spouse, or the same age as their same sex partner.

Offices of Profit

We have reduced the estimated accrued liability in respect of pensioners by $3 million, as an approximate allowance for the reduction in pension benefits due to pensioners holding offices of profit.

Surcharge

We have assumed that the cost of any surcharge payable by the scheme will be recovered via a deduction from the benefits paid to members. Therefore, surcharge can be ignored for the purposes of this report.

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Mercer (Australia) Pty Ltd
ABN 32 005 315 917
33 Exhibition Street Melbourne Vic 3000
GPO Box 9946 Melbourne Vic 3001
61 3 9623 5555