HEALTH WEALTH CAREER

DEPARTMENT OF FINANCE

PCSS LONG TERM COST REPORT 2017

A REPORT ON THE LONG TERM COST OF THE PARLIAMENTARY CONTRIBUTORY SUPERANNUATION SCHEME

PREPARED BY MERCER CONSULTING (AUSTRALIA) PTY LTD USING DATA AS AT 30 JUNE 2017

25 JUNE 2018

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EXECUTIVE SUMMARY

We are pleased to present this report on the actuarial investigation of the long term costs of the Parliamentary Contributory Superannuation Scheme (PCSS), prepared at the request of the Department of Finance. This report has been carried out based on membership data as at 30 June 2017.

PREVIOUS LONG TERM COST REPORT

The previous actuarial investigation into the long term costs of the PCSS was undertaken by Mercer Consulting (Australia) Pty Limited, based on data as at 30 June 2014. The outcomes of that investigation are outlined in a report entitled *PCSS – Long Term Cost Report 2014*, dated 2 July 2015 (2014 LTCR).

PURPOSE OF THE REPORT

This report estimates the long term cost of providing superannuation benefits to members of the PCSS. The scheme costs have been estimated in three ways:

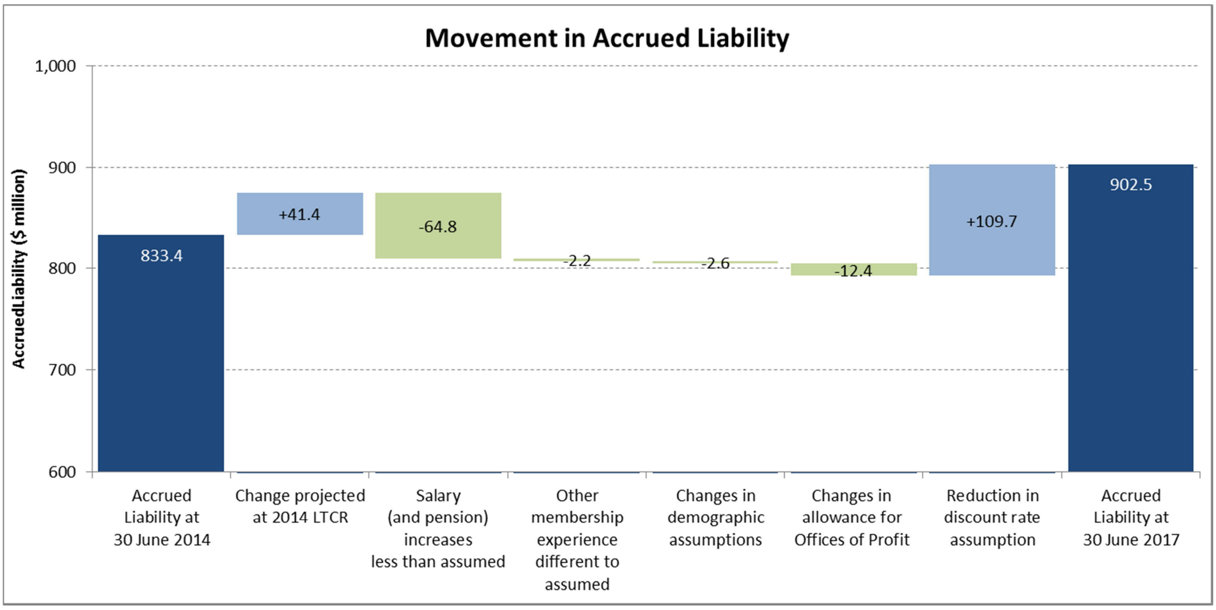
- accrued liability as at 30 June 2017;
- projected annual outlays; and
- the notional employer contribution rate.

ACCRUED LIABILITY

The accrued liability represents an estimate of the present value of the benefit entitlements in respect of service already rendered to the Australian Government. The total accrued liability of the PCSS at 30 June 2017 was $902.5 million. This compares with the accrued liability calculated as at 30 June 2014 (the effective date of the previous report) of $833.4 million.

The accrued liability was expected to increase during the investigation period as further benefit accruals and notional interest on accrued liabilities were expected to more than outweigh the reduction in liabilities as a result of benefit payments during the period. The accrued liability has also increased significantly as a result of the change to the discount rate.

The 2014 LTCR projected that the accrued liability would be $874.8 million as at 30 June 2017, $27.7 million less than the current estimate. The factors leading to the difference in the previously projected accrued liability are quantified in the following chart:



The most significant items are the reduction in the discount rate from 6% per annum to 5% per annum and the lower than assumed salary (and pension) increases.

Further details are provided in Section 5.

PROJECTED OUTLAYS

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

Year Ending 30 June	Nominal Outlays ($ million)
2018	42.9
2019	43.7
2020	47.5

Further detail regarding the projected outlays is contained in Section 6.

NOTIONAL EMPLOYER CONTRIBUTION RATE

The notional employer contribution rates (NECR) represent the estimated contribution rates as a percentage of salary that would be required to finance the benefits accruing to contributors over the next three years (from 1 July 2017 to 30 June 2020).

The NECR as at 30 June 2017 is calculated as 49.9% of total salaries.

Further details are provided in Section 7.

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SCHEME INFORMATION

The PCSS is governed by the *Parliamentary Contributory Superannuation Act 1948* (the Act). Membership of the PCSS was compulsory for all parliamentarians prior to the 2004 Federal election. The PCSS was closed to new members from 9 October 2004.

Parliamentarians elected since 2004, including former parliamentarians who return, are not eligible to join the PCSS and instead have superannuation contributions paid to an accumulation plan. This report is limited to the costs of the PCSS and does not consider contributions to other superannuation plans.

Members are required to make contributions towards the cost of the PCSS. These contributions are paid to Consolidated Revenue. The Australian Government meets all of the costs of benefits from Consolidated Revenue as they become due. This is an acceptable method of funding as the Scheme is effectively guaranteed by the Australian Government.

The PCSS is untaxed and no tax is levied on employer contributions. The PCSS is an exempt public sector superannuation scheme under the *Superannuation Industry (Supervision) Act 1993*.

Since the last report, a Federal Election was held on 2 July 2016. Of the 28 members who exited the Scheme the during the review period, 21 left as a result of the election.

The 2016 Federal Budget introduced a number of changes to the taxation of superannuation benefits. These changes have now been legislated and in most cases are effective from 1 July 2017.

The changes affect the taxation of superannuation benefits (including benefits paid by the Scheme), and impose additional administrative requirements. However, they are not expected to affect the cost of providing benefits payable from the Scheme.

We note also that since 30 June 2017 the Federal Government has passed legislation enabling same sex marriages to be recognised. This did not impact the Scheme financially as same sex partners were already eligible to receive spouse benefits from the Scheme.

Details of the benefits of the PCSS are set out in Appendix A.

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MEMBERSHIP AND DATA

This report has been based on data supplied by the Department of Finance which carries out the administration of the scheme.

We have conducted a range of validity data checks including internal consistency and general reasonableness, and a reconciliation of membership movements, but we have not verified or audited any of the information provided. However, we are satisfied that the data is sufficiently accurate for the purpose of this report. The scheme's administrator is ultimately responsible for the validity, accuracy and comprehensiveness of this information.

The membership of the scheme as at 30 June 2017 is summarised below:

Headcount	Males	Females	Total	Average Age
Contributors	23	8	31	57.2
Retirement pensioner	275	64	339	71.9
Spouse pensioner	1	83	84	80.8
Contingent spouse pensioner*	12	-	12	83.2
Deferred retirement pensioner	1	1	2	51.0
Associate spouse** pensioner	1	13	14	60.7
Total	**313**	**169**	**482**	**72.3**

* Prior to 1984, members were able to commute 100% of their pension benefit without affecting the reversionary pension payable in the event of their death to a surviving spouse.

** Member's former spouse following a Family Law split. Figures include one deferred associate spouse pensioner.

At the investigation date, total pensions in payment amounted to $43.1 million per annum. This includes reductions as a result of income received from an office of profit or membership of State Parliament, plus the 2% increase in parliamentary salaries which occurred on 1 July 2017.

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ASSUMPTIONS

In order to value the liabilities, it is necessary to make assumptions regarding the incidence, timing and amount of future benefits. These assumptions fall into two broad categories:

- economic assumptions: relating to the general economic environment and not directly to the membership of the scheme; and
- demographic assumptions: relating to the experience of the membership of the scheme.

This section sets out the assumptions used in this report and highlights any changes from those used for the 2014 LTCR. The assumptions are detailed in Appendix C.

In total, the changes in assumptions have resulted in an increase to the accrued liability of $94.7 million, or +11.7%, as at 30 June 2017.

Section 8 provides sensitivity analysis of the results under different individual assumptions.

ECONOMIC ASSUMPTIONS

Key Economic Assumptions

The key economic assumptions include:

- future increases in salaries, which also determines the level of pension increases; and
- a discount rate.

The relationships between the assumptions adopted for these factors have a greater bearing on the long term cost estimates of the scheme than do the individual assumptions. This is due to the effect of one assumption being used to project the liability into the future (future salary and pension increases) and another assumption being used to discount that liability to current day values (discount rate).

The key economic assumptions are shown below together with the assumptions from the 2014 LTCR:

	Assumption as at 30 June 2017	Assumption as at 30 June 2014
Salary and pension increases	4% per annum	4% per annum
Discount rate	5% per annum	6% per annum

The discount rate assumption is consistent with that adopted for the PSS and CSS Long Term Cost Report 2017, which covers the Australian Government's main civilian superannuation schemes, the Public Sector Superannuation Scheme (PSS) and the Commonwealth Superannuation Scheme (CSS). The salary and pension increase assumption is 0.5% per annum higher than the salary increase assumption adopted for the PSS and CSS Long Term Cost Report 2017, as discussed below.

Salary and Pension Increases

The assumed rate for long term future salary and pension increases has been determined having regard to the average expected long term outlook for national wage inflation.

This approach differs slightly from the approach used to determine the salary increase assumption for the PSS and CSS Long Term Cost Report 2017. For those Schemes, consideration was also given to shorter term expectations for national wage growth, given the relatively short duration of salary linked liabilities. This resulted in a lower average salary increase assumption than that adopted for this Scheme.

It should be noted the assumed rate of salary increase represents increases in the basic parliamentary salary only. Individual members may experience higher (or lower) increases in their total salary, due to changes in their additional officeholder allowances.

Whilst changes in additional officeholder allowances will affect the rate at which members will accrue benefits in the future, these are not relevant to the valuation of accrued liabilities, as benefits which have already accrued to members increase only in line with basic salary.

Officeholder Allowances

Each member's actual officeholder allowance at the valuation date is assumed to continue at the same percentage of salary until the date of exit. Although in practice it is expected that members will change officeholder positions from time to time, this assumption is considered to provide a reasonable approximation of the overall impact of officeholder allowances and is unchanged from the 2014 LTCR.

Discount Rate

The discount rate is used to calculate the present value of projected future benefit payments and provide a summary measure of those cash flows. The accrued liability represents the present value of the estimated future benefit payments in respect of service already rendered. A lower discount rate leads to a higher estimate of the unfunded liability, and vice versa.

The present value does not change the ultimate benefit payments, as these are dictated by actual experience, but does however provide a manageable way to assess and compare the value of expected future cash flows, expressed in today's dollars.

The discount rate has been determined based on the expected return on Government bonds over the long term, as this would be the cost to the Australian Government were it to fund future benefit payments via borrowings. This contrasts to a funded scheme where a discount rate is typically based on an assumption for the investment earning rate on the scheme's assets.

Consistent with the PSS and CSS Long Term Cost Report 2017, we believe a long term rate of 5% per annum is appropriate to assume as a discount rate.

DEMOGRAPHIC ASSUMPTIONS

The demographic assumptions adopted incorporate the results of an analysis of the membership experience. The analysis is set out in Appendix B. Details of the updated demographic assumptions are set out in Appendix C.

Offices of Profit and Membership of State Parliament

An office of profit is a position (as specified in the Act) in respect of which a salary or similar allowance is payable by an Australian government. 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.

The experience analysis indicated that the level of reductions applying during the review period was higher than previously assumed. As a result we have increased the assumed level of future reductions and extended the period over which they are assumed to apply. The impact of this change was to reduce the value of accrued liabilities as at 30 June 2017 by approximately $12.4 million. Further details are provided in Appendix B.

Retirement

Retirements are assumed to occur at election dates and elections are assumed to occur once every three years. Assumed rates of retirement are unchanged from the 2014 LTCR.

Commutation of Pension

Generally, retiring members may elect to convert up to 50% of the pension to a lump sum payment. Unchanged from the 2014 LTCR, it is assumed that 5% of pension entitlements will be commuted to a lump sum.

Invalidity

All remaining contributors have at least 12 years' service and are therefore eligible for a pension benefit irrespective of the reason for retirement. Therefore, no specific allowance is made for invalidity retirement. This is consistent with the assumption used for the 2014 LTCR for members with more than 12 years' service.

Death

Rates of death are assumed to be the same as the mortality assumptions used in the PSS and CSS Long Term Cost Report 2017. These rates are unchanged from the 2014 LTCR.

Allowance has also been made for assumed future improvements (i.e. reductions) in pensioner mortality. Assumed improvement rates have been updated to reflect the short term (25 year experience) and long term (125 year experience) factors derived by the Australian Government Actuary and published in the Australian Life Tables 2010-12. The short term improvement factors are significantly higher (i.e. result in lower projected mortality) than the long term improvement factors.

Short term improvements are incorporated for the period 2018 to 2021, with long term improvements assumed thereafter.

Spouse Assumptions

Assumptions regarding the spouses of members are unchanged from the 2014 LTCR.

Future New Entrants

No allowance is made for future new entrants. The PCSS is closed to new members.

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ACCRUED LIABILITY

The accrued liability represents the discounted present value of the estimated future benefit payments 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.

VALUATION METHODOLOGY

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 – that is, the benefit that would be payable at each future date if the benefit were calculated by reference to service to the valuation date only. The present value of the accrued liability is determined by discounting these expected payments back to the valuation date.

The calculation methodology is consistent with the requirements of Professional Standard No. 402 of the Institute of Actuaries of Australia *"Determination of Accrued Benefits for Defined Benefit Superannuation Funds"*.

The same methodology was used for the 2014 LTCR.

RESULTS

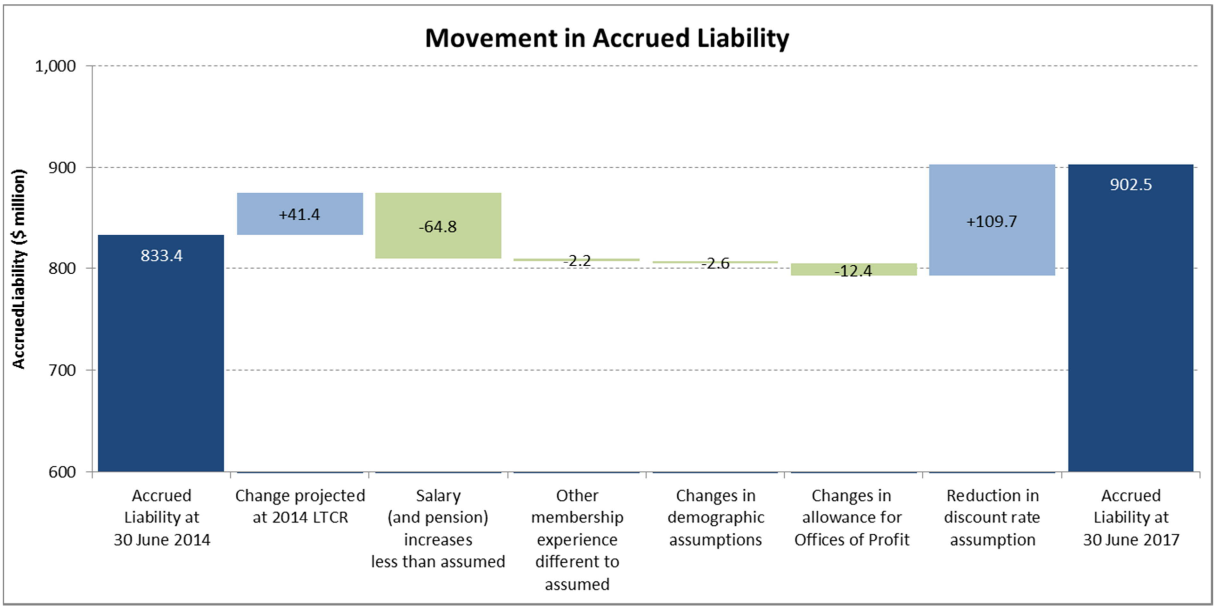
The following table shows the accrued liability of the scheme as at 30 June 2017:

As at 30 June 2017	Accrued Liability ($ million)
Contributors	122.0
Pensioners	780.5
Total	**902.5**

ANALYSIS OF CHANGE COMPARED WITH PREVIOUS REPORT

The 2014 LTCR projected that the accrued liability would be $874.8 million as at 30 June 2017, $27.7 million less than the actual accrued liability.

The factors leading to the difference in the previously projected accrued liability are quantified in the following chart:



The most significant items are the reduction in the discount rate from 6% per annum to 5% per annum and the lower than assumed salary (and pension) increases.

PROJECTED ACCRUED LIABILITY

Based on the assumptions used for this investigation, the projected nominal accrued liability over the next 40 years is shown below. The accrued liability is expected to increase over the next few years before declining, reflecting the decrease in new benefit accruals and the increase in benefit payments as the remaining active members retire.

As at 30 June	Accrued Liability ($ million)
2017	902.5
2018	908.0
2019	912.9
2020	912.2
2021	911.0
2022	908.8
2023	902.0
2024	894.4
2025	885.5
2026	873.1
2027	859.9
2028	845.4
2029	828.7
2030	810.5
2031	791.2
2032	770.2
2033	748.0
2034	724.6
2035	699.9
2036	674.2
2037	647.4
2038	619.6
2039	591.3
2040	562.4
2041	533.1
2042	503.7
2043	474.0
2044	444.4
2045	415.0
2046	385.8
2047	357.1
2048	328.9
2049	301.4
2050	274.8
2051	249.1
2052	224.4
2053	200.9
2054	178.5
2055	157.5
2056	137.8
2057	119.6

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PROJECTED OUTLAYS

The projected outlays represent the future cost of scheme benefits paid each year. The expected (nominal) outlays for the next 40 years are:

Year Ending 30 June	Nominal Outlays ($ million)
2018	42.9
2019	43.7
2020	47.5
2021	47.4
2022	48.4
2023	51.7
2024	51.9
2025	52.6
2026	55.4
2027	55.4
2028	56.1
2029	57.5
2030	58.1
2031	58.3
2032	59.0
2033	59.1
2034	59.2
2035	59.3
2036	59.2
2037	58.9
2038	58.6
2039	57.8
2040	56.9
2041	55.9
2042	54.7
2043	53.4
2044	51.9
2045	50.3
2046	48.6
2047	46.8
2048	44.9
2049	42.8
2050	40.6
2051	38.4
2052	36.2
2053	33.8
2054	31.6
2055	29.2
2056	26.8
2057	24.5

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NOTIONAL EMPLOYER CONTRIBUTION RATE

The notional employer contribution rate (NECR) represents the estimated contribution rates that would be required to finance the benefits accruing over the next three years (from 1 July 2017 to 30 June 2020). That is, if the scheme was fully funded at the valuation date and contributions were made at the NECR, the liability for contributors would be expected to remain fully funded at the end of the period.

The NECR is determined using long term assumptions as this rate is notional in nature. No employer contributions are actually paid to the scheme.

METHOD OF DETERMINING THE NOTIONAL EMPLOYER CONTRIBUTION RATES

A notional fund with initial assets equal to the accrued liabilities at the valuation date is projected for the three years to 30 June 2020, together with notional employer contributions, investment earnings and benefit payments in line with the valuation assumptions. The notional contributions are determined so that the projected notional assets are equal to the projected accrued liabilities after three years. The NECR is the notional employer contributions expressed as a constant annual percentage of projected salaries.

As in previous valuations, we have also calculated the expected cost of providing future service benefits to existing contributors over their projected remaining membership.

RESULTS

% of Salaries	NECR	Future Service Rate
As at 30 June 2014	41.6	31.4
As at 30 June 2017	49.9	35.1
Movement	+8.3	+3.7

These rates have increased primarily due to the reduction in discount rate assumption.

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SENSITIVITY ANALYSIS

ECONOMIC ASSUMPTIONS

The sensitivity of the estimated accrued liability as at 30 June 2017 to the key economic assumptions was tested by measuring the effect of varying each key assumption in turn by plus or minus 1% whilst keeping all other assumptions unchanged.

The alternative assumptions used were:
- discount rate plus 1% (increased to 6% per annum);
- discount rate minus 1% (reduced to 4% per annum);
- salary and pension increases plus 1% (increased to 5% per annum); and
- salary and pension increases minus 1% (reduced to 3% per annum).

Assumption	Accrued Liability as at 30 June 2017 ($ million)	Impact ($ million)
Base case	**902.5**	**-**
+1% per annum discount rate	796.1	-106.4
-1% per annum discount rate	1,038.6	+136.1
+1% per annum salary and pension increase	1,033.9	+131.4
-1% per annum salary and pension increase	797.8	-104.7

DEMOGRAPHIC ASSUMPTIONS

The sensitivity of the estimated accrued liability to certain demographic assumptions was tested by measuring the effect of varying each assumption in turn whilst keeping all other assumptions unchanged.

The alternative assumptions used were:
- 25% higher retirement rates;
- 25% lower retirement rates;
- 5% higher pensioner mortality rates (e.g. a 3% probability of death becomes 3.15%); and
- 5% lower pensioner mortality rates (e.g. a 3% probability of death becomes 2.85%).

Assumption	Accrued Liability as at 30 June 2017 ($ million)	Impact ($ million)
Base case	**902.5**	**-**
25% higher retirement rate	907.9	+5.4
25% lower retirement rate	899.4	-3.1
5% higher pensioner mortality	892.4	-10.1
5% lower pensioner mortality	916.8	+14.3

Please note that the alternative results shown above are illustrations only, and show what may occur under assumed future experiences which differ from the base case assumptions. These scenarios do not in any way constitute upper or lower bounds and the results may differ significantly from the ranges shown above, depending on actual future experience.

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ACTUARY’S CERTIFICATION

PROFESSIONAL STANDARDS AND SCOPE

This report satisfies the requirements of Professional Standard No. 400 of The Institute of Actuaries of Australia. Professional Standard No. 400 relates to the preparation of reports commenting on the financial condition of defined benefit superannuation funds.

USE OF REPORT

This investigation report should not be relied upon for any other purpose or by any party other than the Australian Government. Mercer is not responsible for the consequences of any other use. This report should be considered in its entirety and not distributed in parts.

The advice contained in this report is given in the context of Australian law and practice. No allowance has been made for taxation, accountancy or other requirements in any other country.

ACTUARIAL UNCERTAINTY AND ASSUMPTIONS

An actuarial investigation provides a snapshot of a scheme’s financial condition at a particular point in time, and projections of a scheme’s estimated future financial position based on certain assumptions. It does not provide certainty in relation to a scheme’s future financial condition or its ability to pay benefits in the future.

Future funding and actual costs relating to a scheme are primarily driven by the scheme’s benefit design, the actual rate of salary inflation and any discretions exercised by the Australian Government. The scheme’s actuary does not directly control or influence any of these factors in the context of an actuarial investigation.

A scheme’s future financial position and the estimated long term cost depend on a number of factors, including the amount of benefits the scheme pays, the cause and timing of member withdrawals, plan expenses, the level of taxation and the amount earned on any assets invested to pay the benefits. These amounts and others are uncertain and unknowable at the valuation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, assumptions, as described in Section 4, are used to select a single scenario from the range of possibilities. The results of that single scenario are included in this report.

However, the future is uncertain and a scheme's actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. For this reason this report also shows the impact on the results of certain changes in assumptions.

Actuarial assumptions may also be changed from one valuation to the next because of mandated requirements, scheme experience, changes in expectations about the future and other factors. We did not perform, and thus do not present, an analysis of the potential range of future possibilities and scenarios.

Because actual scheme experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit related issues should be made only after careful consideration of alternative future financial conditions and scenarios, and not solely on the basis of a set of results.

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25 June 2018

APPENDIX A

SUMMARY OF BENEFITS

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 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 2017 the Parliamentary Allowance was $160,650.

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. For periods of service less than one year, the 6.25% is pro-rated based on the number of days served. (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; less
   (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. Note that the commuted amount would be subject to preservation requirements, as described below.

PRESERVATION OF BENEFITS

All benefits payable from the Scheme are subject to the preservation requirements of the Superannuation Industry (Supervision) Act 1993. These requirements do not generally affect the payment of benefits in pension form (such as the Retiring Allowance). However, they restrict the amount of lump sum benefit which can be paid to a member before i) reaching preservation age (between 55 and 60, depending on the member's date of birth) and retiring from the workforce OR (ii) turning 65. Where a benefit is subject to preservation, it cannot be paid in cash to the member but must be transferred to another fund within the superannuation system.

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 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 member's former spouse and the member's benefit is reduced to reflect the value of the pension or deferred pension entitlement created.

DIVISION 293 TAX LIABILITY

An additional 15% contributions tax for high income earners (i.e. incomes of greater than $300,000) was introduced from 1 July 2012. This tax is payable by the member rather than the Scheme. However, in certain cases a member may request that the Scheme pay the tax on the member's behalf, in which case the benefit payable to the member is reduced.

APPENDIX B

EXPERIENCE OF THE SCHEME

RECONCILIATION OF CONTRIBUTORY MEMBERS

	Male	Female	Total
As at 30/06/14	**44**	**15**	**59**
Deaths/Invalidity	-	-	-
Retirement (lump sum)	-	-	-
Retirement (pension)	-21	-7	-28
Deferred to age 55	-	-	-
As at 30/06/17	**23**	**8**	**31**

RECONCILIATION OF PENSIONERS

	Retiree	Spouse	Contingent Spouse	Deferred Retiree	Associate Spouse*	Total
As at 30/06/14	**332**	**79**	**16**	**4**	**12**	**443**
New	+26	+20	-	-	+2	+48
Deaths	-21	-15	-4	-	-	-40
Transfers	+2	-	-	-2	-	-
As at 30/06/17	**339**	**84**	**12**	**2**	**14**	**451**

* Member's former spouse following a Family Law split. Figures include one deferred associate spouse pensioner.

INCREASES IN PARLIAMENTARY ALLOWANCE

The basic parliamentary salary increased from $154,400 as at 1 July 2014 to $160,650 as at 1 July 2017. This represents an average increase of 1.3% per annum compound over the three year period. This was also the rate of increase in pensions over the review period. This is lower than the rate assumed for the previous report. The impact of this was to reduce the value of accrued liabilities at 30 June 2017 by approximately $64.8 million (based on the assumptions adopted in the previous report).

The salaries of those members who were members throughout the entire three year review period increased at an average rate of 5.6% per annum 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 2014.

The increase in basic salary is considered a more reliable measure for comparative purposes as benefits which have already accrued to members will increase in line with basic salary, rather than the member's total salary. However, when considering the cost of future benefits (i.e. the NECR) the increase in total salaries is also relevant as members accrue supplementary benefits in respect of any additional offices held.

OFFICES OF PROFIT AND MEMBERSHIP OF STATE PARLIAMENT

An office of profit is a position (as specified in the Act) in respect of which a salary or similar allowance is payable by an Australian government. 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.

For the 2014 LTCR we had assumed that these reductions would:

- increase from the 30 June 2014 level of $1,663,000 per annum in line with assumed future pension increases; and
- decrease by 10% of the original amount each year, meaning that by 30 June 2024, there would be no further reductions.

The 10 year period was an approximation, based on an underlying assumption that the pensioners who were subject to reductions would, over time, cease to hold the positions resulting in reductions to their pension, and that no new reductions would commence.

The following table shows the estimated reductions and suspensions at the end of each year during the valuation period, compared with the amount assumed for the previous report.

As at	Estimated (per annum)	Assumed (per annum)
30 June 2015	$1,994,000	$1,663,000
30 June 2016	$1,518,000	$1,557,000
30 June 2017	$1,795,000	$1,439,000

The level of reductions and suspensions as at 30 June 2017 is significantly higher than was previously projected. We have therefore undertaken further analysis to better understand the characteristics of members holding office of profit. This analysis showed:

- During the three year review period there were more members who commenced a new office of profit than members ceasing to hold an office of profit;
- The average age of members holding offices of profit at 30 June 2017 was approximately 65;
- Approximately half of the salaries relating to offices of profit are paid to members aged less than age 60.

If one assumes that all existing offices of profit will continue until age 70 (the assumed retirement age for the Scheme), this suggests that approximately half of the current reductions would continue to apply for at least a further 10 years. Although in practice some members could be expected to cease holding office before age 70, it would also be expected that some members will continue to hold office beyond age 70, and some members will be appointed to new offices. Therefore, we have extended the period over which the reductions are assumed to reduce to zero to 20 years.

The adopted assumptions are described in Appendix C.

RETIREMENT

In the previous actuarial investigation, it was assumed that members would only retire at an election date. The percentage of members assumed to retire at each election varied from 20% for those with between 8 and 12 years of membership to 50% for those with greater than 18 years of membership. In addition, all members were assumed to retire at the election following their 70th birthday.

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 2014 LTCR assumptions:

Election Period	8-12 years membership		12-18 years membership		18+ years membership*	
	Actual	Expected	Actual	Expected	Actual	Expected
10 Oct 2001 to 8 Oct 2004	10	17	7	10	6	12
9 Oct 2004 to 23 Nov 2007	26	17	5	12	14	12
24 Nov 2007 to 21 Aug 2010	9	6	13	19	10	19
22 Aug 2010 to 9 Sep 2013**	1	4	21	14	16	15
10 Sep 2013 to 2 Jul 2016***	-	-	7	8	21	20
Total	**52**	**55**	**58**	**65**	**50**	**69**
Last 3 elections	**10**	**10**	**41**	**41**	**47**	**54**

* including 100% decrement for members aged 70 or over at the time of election for 2016 election.

** including all exits between the 2010 election and the 2013 election.

*** including all exits between 2 July 2016 and 30 June 2017.

It can be seen that over the last five elections, the number of members exiting the scheme is slightly lower than assumed. However, the experience is quite variable. Based on the above analysis we are satisfied that the assumptions adopted for the previous review continue to be reasonable.

In addition to the above analysis, we have separately reviewed the experience of members aged 70 or over at the 2016 election. Of the members over age 70 at the 2016 election, approximately 70%have exited the scheme. Based on this review we are satisfied that the assumption that all members retire at the election following their 70th birthday remains reasonable. Although a small number of members do continue beyond age 70, the financial impact of this is not material.

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 5.1%, compared with the assumed percentage of 5%. That is, experience was in line with the assumptions.

CONTRIBUTOR MORTALITY/INVALIDITY

In the three year review period, no contributory members died in service or retired due to invalidity.

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 2014 LTCR assumptions.

	Actual	Expected	A/E
Former Members*	25	27.1	92%
Spouses	14	16.6	84%
Total	**39**	**43.7**	**89%**

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

The actual pensioner mortality experience for the PCSS was lower than assumed for former member pensioners and slightly lower than assumed for spouse pensioners. However, given the small number of pensioners in the scheme the experience can vary significantly due to random fluctuations. Over the last three valuation periods, the experience for spouse pensioners has been very close to that assumed whilst the mortality for former members has been consistently lower than assumed. At this stage we have continued to adopt the same assumptions as those adopted for the larger schemes, but recommend the mortality of former member pensioners continue to be monitored. We note that, given the relatively high level of reversionary pension and the assumed age difference between former members and their spouses, the impact of changing the mortality rates for former members only is much smaller than the impact of changing the mortality for all pensioners (as described in Section 8).

APPENDIX C

DETAILS OF ACTUARIAL ASSUMPTIONS

ECONOMIC ASSUMPTIONS

Discount Rate

The assumed long term average discount rate is 5% per annum.

Salary/Pension Increases

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

Officeholder Allowance

Each member’s officeholder allowance is assumed to continue at the current percentage of salary until the date of exit.

Taxation

No allowance has been made for:

- Superannuation surcharge, as members’ benefits are reduced by a surcharge offset amount.
- Excess contributions tax, as this is payable by the member.
- Division 293 tax on contributions for those with incomes above the threshold, is this is payable by the member.

In determining the projected outlays, no adjustment is made for any tax payable by members on receipt of a benefit.

DEMOGRAPHIC ASSUMPTIONS

Future New Contributory Members

No allowance has been made for future new entrants. The scheme is closed to new members.

Commutation of Pension

On retirement, 5% of pension entitlements are assumed to be commuted to a lump sum.

Retirement Rates

Retirements are assumed to occur at election dates and elections are assumed to occur once every three years.

Years of Membership	Retirement at each election
< 12	n/a
12 to 18	30%
> 18	50%

In addition to the above retirement rates, any members remaining at age 70 are assumed to retire at the election following their 70th birthday.

Death and Invalidity Retirement Rates

Age	Death	
	Male	Female
45	0.063%	0.041%
50	0.088%	0.062%
55	0.124%	0.106%
60	0.183%	0.173%
65	0.274%	0.269%

No specific allowance is made for invalidity retirement as all remaining contributors have at least 12 years' service and are therefore eligible for a pension benefit irrespective of the reason for retirement.

Proportion Married

Age	Male	Female
60	86%	37%
70	81%	26%
80	63%	8%
90	33%	0%
100	3%	0%

The above rates include allowance for same sex marriages.

Age Difference between Member and Spouse

It is assumed that male members are four years older than their spouse, and that female members are four years younger than their spouse.

Pensioner Mortality Rates

Age	Male		Female	
	Retiree	Widower	Retiree	Widow
60	0.257%	0.602%	0.208%	0.330%
65	0.464%	1.036%	0.341%	0.515%
70	0.888%	1.835%	0.640%	0.863%
75	1.722%	3.029%	1.166%	1.490%
80	3.572%	5.281%	2.293%	2.830%
85	7.372%	9.490%	4.827%	5.728%
90	13.838%	15.665%	9.911%	10.683%
95	24.320%	23.847%	17.328%	18.933%
100	41.266%	35.329%	30.897%	33.393%
105	100.000%	100.000%	100.000%	100.000%

The mortality rates shown above include assumed improvements to 2017.

Future Mortality Improvements

Allowance is made for assumed future improvements (i.e. reductions) in pensioner mortality.

Improvements in mortality have been updated to reflect the short term (25 year experience) and long term (125 year experience) factors derived by the Australian Government Actuary and published in the Australian Life Tables 2010-12. The short term improvement factors are significantly higher (i.e. result in lower projected mortality) than the long term improvement factors.

Short term improvements are incorporated for the period 2018 to 2021, with long term improvements assumed thereafter.

Offices of Profit and Membership of State Parliament

Allowance is made for future reductions in pensions payable from the Scheme as a result of pensioners receiving income from an office of profit or membership of State Parliament.

We have assumed that the overall level of reductions will:

- increase from the current 30 June 2017 level of $1,795,000 per annum, in line with assumed future pension increases; and
- decrease by 5% of the original amount each year, meaning that by 30 June 2037 there would be no further reductions.

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