

Department of Finance

Judges' Pension Scheme Long Term Cost Report 2020

A Report on the Long Term Cost of the
Judges' Pension Scheme

24 June 2021

Prepared by Mercer Consulting (Australia) Pty Ltd

Contents

1. Executive Summary	1
2. Scheme Information	3
3. Membership and Data	4
4. Assumptions	5
5. Accrued Liability	8
6. Projected Outlays	11
7. Notional Employer Contribution Rates	12
8. Sensitivity Analysis	13
9. Actuary's Certification	16
Appendix A: Summary of Benefits	18
Appendix B: Experience of the Scheme	20
Appendix C: Details of Actuarial Assumptions	23

1

Executive Summary

We are pleased to present this report on the actuarial investigation of the long term cost of the Judges' Pensions Scheme (the Scheme or JPS), prepared at the request of the Department of Finance. This report has been carried out based on membership data as at 30 June 2020.

Previous Long Term Cost Report

The previous actuarial investigation into the long term cost of the Scheme was undertaken as at 30 June 2017 by Esther Conway on behalf of Mercer Consulting (Australia) Pty Limited. The outcomes of that investigation are outlined in our report entitled *Judges' Pension Scheme Long Term Cost Report 2017*, dated 25 June 2018 (2017 LTCR).

Purpose of the Report

This report estimates the long term cost of providing benefits to members of the Scheme and monitors progress of the accrued liability. The Scheme costs have been estimated in three ways:

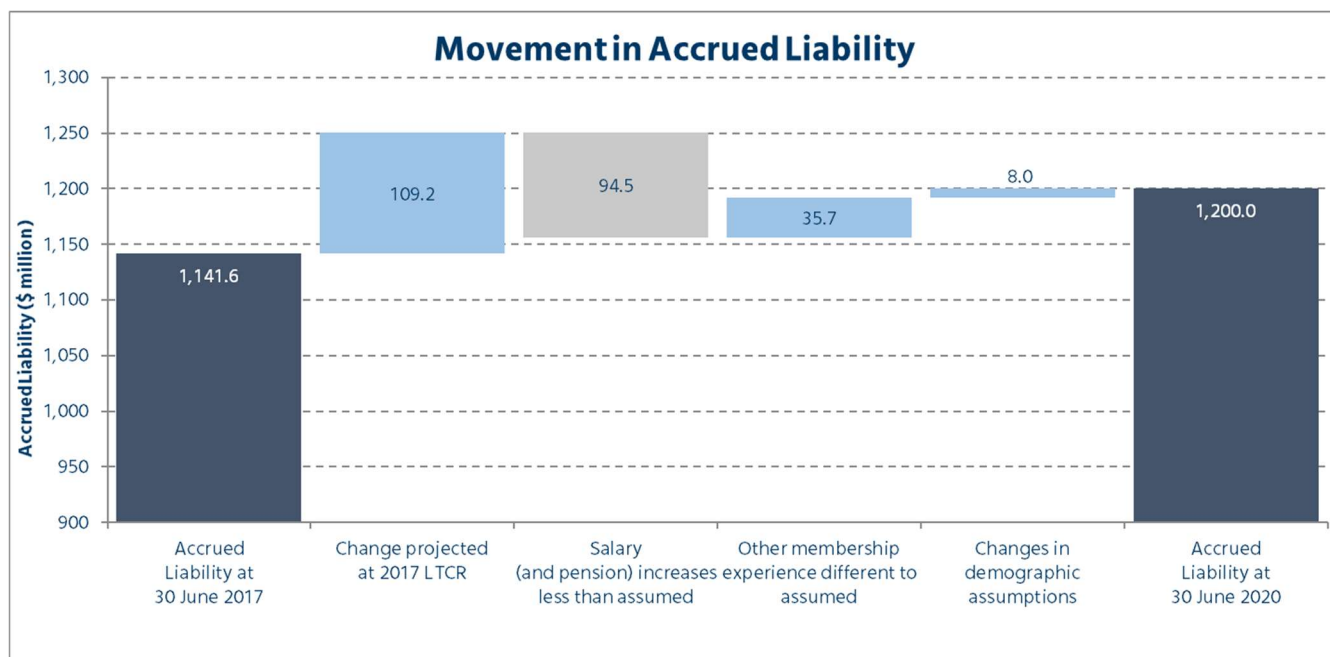
- accrued liability as at 30 June 2020;
- projected net annual outlays; and
- the notional employer contribution rate.

Accrued Liability

The accrued liability represents an estimate of the present value of the superannuation entitlements in respect of service already rendered. The accrued liability of the Scheme at 30 June 2020 was \$1,200.0 million. This compares with the accrued liability calculated as at 30 June 2017 of \$1,141.6 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 2017 LTCR projected that the accrued liability would be \$1,250.8 million as at 30 June 2020, \$50.8 million more than the current estimate. The factors contributing to the change in the accrued liability are quantified in the following chart:



The most significant item is that salary and pension increases were less than assumed.

Further details are provided in Section 5.

Projected Outlays

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

Year Ending 30 June	Nominal Outlays (\$ million)
2021	55.6
2022	59.5
2023	63.6

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

Notional Employer Contribution Rate

The notional employer contribution rate (NECR) represents the estimated contribution (as a percentage of serving judges' salaries) that would be required to finance the benefits accruing over the next three years (from 1 July 2020 to 30 June 2023).

The NECR as at 30 June 2020 is calculated as 91.6% of total salaries.

Further details are provided in Section 7.

2

Scheme Information

The Scheme is governed by the *Judges' Pensions Act 1968* (the Act) and covers the following office holders:

- Justices of the High Court of Australia;
- Judges of the Federal Court of Australia;
- Judges of the Family Court of Australia (including the Family Court of Western Australia);
- Judges of the Australian Capital Territory Supreme Court appointed before self-government; and
- Persons who, under the Act, have the same status of Justice or a Judge.

The Scheme remains open to new members.

Members do not contribute to the Scheme and the Australian Government meets all of the costs of benefits (except for one retired Judge of the ACT Supreme Court for whom the ACT Government funds 80% of the 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 Scheme is untaxed, although individuals may be required to pay additional tax as a result of their membership of the Scheme. The Scheme is an exempt public sector superannuation scheme under the *Superannuation Industry (Supervision) Act 1993*.

There have been a number of amendments to the Act since the 2017 LTCR as noted below, but these have had no material impact on the value of the accrued liability, projected outlays or NECR:

- The amended legal definition of marriage within the new *Marriage Amendment (Definition and Religious Freedoms) Act 2017* was recognised on 9 December 2017.
- The Act was amended by the *Public Sector Superannuation Legislation Amendment Act 2018* to address matters relating to additions to preliminary definitions, clarification on surcharge debt and superannuation contribution concession, and increase the age for an eligible child from 16 to 18 years.
- References in the Act to the *Family Law Act 1975* were updated via the *Civil Law and Justice Legislation Amendment Act 2018*.

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

3

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 data validity 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 2020 is summarised below:

Serving Judges	Headcount			Average Age	Annual Salaries
	Males	Females	Total		
High Court	4	3	7	62.4	\$3,919,430
Federal Court	38	14	52	60.2	\$24,384,000
Family Court	21	17	38	61.9	\$17,845,550
Fair Work Commission	2	-	2	62.0	\$959,599
Total	65	34	99	61.1	\$47,108,579

Pensioners	Headcount			Average Age	Annual Pensions
	Males	Females	Total		
Retirement	121	32	153	76.8	\$42,056,561
Invalidity	4	1	5	67.0	#
Spouse	3	57	60	81.1	\$10,451,900
Associate Spouse*	1	4	5	70.4	#
Total	129	94	223	77.6	\$54,338,315

* Member's former spouse following a Family Law split

Not separately disclosed

4

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 2017 LTCR. The assumptions are detailed in Appendix C.

In total, the changes in demographic assumptions have resulted in an increase to the accrued liability of \$8.0 million, or 0.7%, as at 30 June 2020.

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 pension and salary increases) and the other assumption being used to discount that liability to current day values (discount rate).

For the purpose of this LTCR we have not adopted different economic assumptions for the short term and long term. To adopt, for example, short term salary increase assumptions would necessitate the use of short term discount rate assumptions. However, as noted above, it is the relationships or 'gap' between the assumptions that determines the value placed on benefit liabilities. Whilst in the short term these rates may vary, in the longer term we expect the relationships to remain stable. Use of short term assumptions may be appropriate for other purposes.

The key long term economic assumptions remain unchanged from the 2017 LTCR and are set out in the table below:

	Assumption as at 30 June 2020	Assumption as at 30 June 2017
Salary and pension increases	4.0% per annum	4.0% per annum
Discount rate	5.0% per annum	5.0% per annum

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.

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. In isolation, a lower discount rate leads to a higher estimate of the accrued 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 assumption is the same as that used for the PSS and CSS Long Term Cost Report 2020.

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

Demographic Assumptions

The demographic assumptions adopted incorporate the results of a detailed 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.

Retirement

Assumed rates of retirement are unchanged from the 2017 LTCR.

Invalidity

Rates of invalidity retirement are assumed to be the same as those used in the PSS and CSS Long Term Cost Report 2020, extended to age 70 (age 65 for Fair Work Commission). These rates have been changed from the 2017 LTCR to more closely match the emerging experience.

Death

Rates of death in service are assumed to be the same as the mortality assumptions used in the PSS and CSS Long Term Cost Report 2020. These rates have been updated based on emerging experience.

Based on Scheme experience, retiree and spouse pensioners are assumed to experience mortality at 90% of the rates applicable in the PSS and CSS, while invalidity pensioners are assumed to experience mortality at the same rates applicable in the CSS. The application of the 90% factor to female retiree and spouse pensioners is an update since the previous valuation, where only male retiree pensioners were assumed to experience mortality at 90% of the CSS and PSS rates. The underlying assumed rates of death have been updated to reflect the emerging experience of the PSS and CSS pensioners.

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 2015-17. 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 2021 to 2024, with long term improvements assumed thereafter.

Spouse Assumptions

The assumed proportion of members with a spouse declines with age. The proportions have been increased to better align with the Scheme's experience.

The assumed age differences between members and their spouses are unchanged from the 2017 LTCR.

Future New Entrants

Each departing Judge is assumed to be replaced by a new entrant. The assumed distribution and characteristics of new entrants is unchanged from the 2017 LTCR.

5

Accrued Liability

The accrued liability represents the discounted present value of the estimated future benefit payments in respect of service already rendered. These benefits are generally paid as lifetime pensions, commencing 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.

In the past, two different methods have been used to determine that part of the liability which had accrued up to the valuation date:

Best Estimate Method - Under this method, benefits were assumed to accrue to a member over a member's entire expected service period (based on the assumptions adopted).

AASB119 Method - Under this method, benefits were assumed to accrue to each member over the period until the member first becomes eligible to receive a retirement benefit. That is, if a member joins prior to age 50, benefits are assumed to accrue evenly over the period from joining until the member reaches age 60. Upon becoming eligible there is no further accrual.

For the purposes of this valuation, we have adopted the AASB119 Method in determining the accrued liability (both at valuation date and in the future), for consistency with results reported in Australian Government financial statements.

For determining the NECR, we have adopted the Best Estimate Method. Our understanding is the primary use of this rate is to estimate the value of the benefits provided as a component of an individual's overall remuneration. For this purpose, it is appropriate that the value be spread over an individual's entire service period (i.e. the Best Estimate Method), rather than just the period until becoming eligible to receive a retirement benefit.

Both calculation methodologies are consistent with the requirements of Professional Standard No. 402 *"Determination of Accrued Benefits for Defined Benefit Superannuation Funds"* issued by the Institute of Actuaries of Australia.

Results

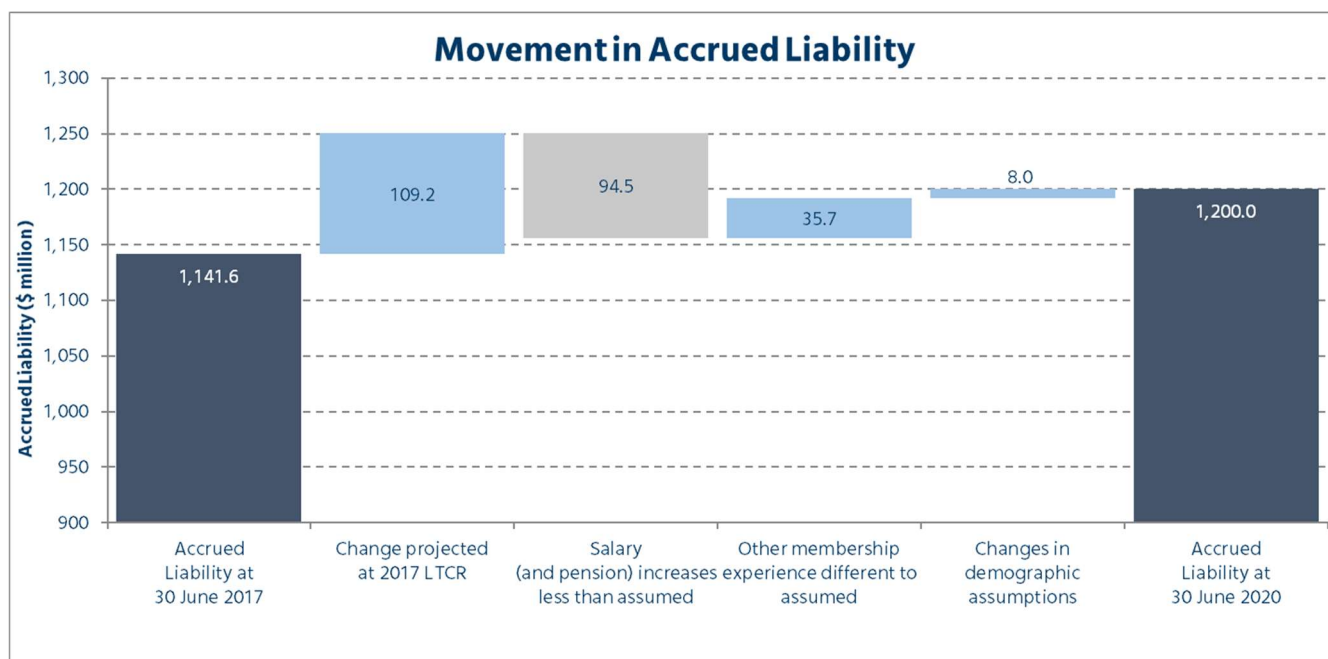
The following table shows the accrued liability as at 30 June 2020:

As at 30 June 2020	Accrued Liability (\$ million)
Serving Judges	409.7
Pensioners	790.3
Total	1,200.0

Analysis of Change Compared with Previous Report

The 2017 LTCR projected that the accrued liability would be \$1,250.8 million as at 30 June 2020, \$50.8 million more than the actual accrued liability.

The factors contributing to the change in the accrued liability are quantified in the following chart:



The most significant item is that salary and pension increases were less than assumed.

Projected Accrued Liability

Based on the assumptions used for this investigation, the projected nominal unfunded liability over the next 40 years is shown below. As the Scheme remains open to new entrants the accrued liability is expected to continue to increase over time.

As at 30 June	Accrued Liability (\$ million)	As at 30 June	Accrued Liability (\$ million)
2020	1,200.0	2041	2,446.3
2021	1,236.2	2042	2,539.2
2022	1,278.5	2043	2,630.7
2023	1,328.0	2044	2,730.3
2024	1,379.7	2045	2,834.9
2025	1,429.4	2046	2,945.5
2026	1,481.0	2047	3,057.7
2027	1,535.5	2048	3,175.4
2028	1,588.2	2049	3,301.6
2029	1,638.8	2050	3,434.7
2030	1,689.4	2051	3,571.7
2031	1,753.3	2052	3,718.8
2032	1,810.9	2053	3,875.9
2033	1,870.4	2054	4,034.0
2034	1,930.1	2055	4,199.4
2035	1,992.3	2056	4,375.1
2036	2,054.3	2057	4,562.6
2037	2,123.7	2058	4,754.8
2038	2,197.5	2059	4,955.5
2039	2,277.0	2060	5,166.0
2040	2,359.5		

6

Projected Outlays

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

Year Ending 30 June	Nominal Outlays (\$ million)	Year Ending 30 June	Nominal Outlays (\$ million)
2021	55.6	2041	131.0
2022	59.5	2042	134.6
2023	63.6	2043	140.0
2024	66.7	2044	144.5
2025	70.2	2045	149.4
2026	73.1	2046	153.6
2027	76.4	2047	158.7
2028	79.0	2048	164.2
2029	82.3	2049	169.3
2030	86.7	2050	174.3
2031	90.6	2051	180.7
2032	94.8	2052	186.3
2033	98.5	2053	192.1
2034	102.5	2054	200.6
2035	106.8	2055	208.7
2036	111.5	2056	216.4
2037	114.9	2057	223.9
2038	118.6	2058	233.1
2039	122.6	2059	242.5
2040	127.0	2060	251.5

7

Notional Employer Contribution Rate

The notional employer contribution rate (NECR) represents the estimated contribution rate that would be required to finance the benefits accruing to contributors over the next three years (from 1 July 2020 to 30 June 2023). 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 notional in nature. No employer contributions are actually paid to the scheme.

Method of Determining the Notional Employer Contribution Rate

A notional fund with initial assets equal to the accrued liabilities at the valuation date is projected for the three years to 30 June 2023, 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 described in Section 5, the NECR has been determined using the Best Estimate Method to determine the accrued liabilities at each relevant date.

The NECR has been determined using the same assumptions adopted for the other results presented in this report.

Results

NECR (% of Superannuation Salaries)	
As at 30 June 2017	90.6
As at 30 June 2020	91.6
Movement	1.0

The NECR has increased slightly, primarily due to the increase in average age of active members, and hence shorter term to retirement.

8

Sensitivity Analysis

Economic Assumptions

The sensitivity of the estimated accrued liability as at 30 June 2020 to the key economic assumptions was tested by measuring the effect of varying each key assumption in turn by plus or minus 1% per annum whilst keeping all other assumptions unchanged.

The alternative assumptions used were:

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

Assumption	Accrued Liability as at 30 June 2020 (\$ million)	Impact (\$ million)
Base case	1,200.0	-
+1% per annum discount rate	1,066.3	-133.7
-1% per annum discount rate	1,362.8	+162.8
+1% per annum salary and pension increase	1,356.8	+156.8
-1% per annum salary and pension increase	1,068.6	-131.4

The discount rate assumption has no impact on the projected outlays. The sensitivity of the projected outlays to a 1% per annum higher or lower salary and pension increase assumption is shown in the following table below.

Period Ending 30 June	Change in Nominal Outlays (\$ million)		
	Base case assumptions	+1% per annum salary and pension increases	- 1% per annum salary and pension increases
2021	55.6	-	-
2022	59.5	+0.6	-0.6
2023	63.6	+1.2	-1.2
2024	66.7	+1.9	-1.9
2025	70.2	+2.7	-2.7

Period Ending 30 June	Change in Nominal Outlays (\$ million)		
	Base case assumptions	+1% per annum salary and pension increases	- 1% per annum salary and pension increases
2026 – 30	397.5	+27.9	-26.3
2031 – 35	493.2	+60.5	-54.3
2036 – 40	594.6	+105.5	-90.3
2041 – 45	699.5	+164.5	-134.3
2046 – 50	820.1	+242.5	-188.6
2051 – 55	968.4	+348.0	-258.0
2056 – 60	1,167.4	+497.3	-351.4

Post valuation date events

Economic activity and the future outlook have been particularly volatile over the last 12-18 months due to the COVID-19 pandemic. Whilst this can have an impact on short term outcomes the purpose of this report is to focus on the longer term position in relation to the Scheme, and to enable comparison with the longer term position at the previous valuation date. Given the success of the development of vaccines and the return to economic growth we believe the longer term assumptions as set out in Section 4 remain appropriate for this purpose.

We note that the expectation in the short term is for general salary increases to be below the longer term rate. The main impact of this would be that nominal outlays would be lower than those presented in this report, particularly in the short term.

Over the long term there will be periods where actual experience is either above or below the long term average assumed. We do not believe the short term expectations are outside the normal range of variation and so will not materially impact the longer term projections.

The sensitivities above are intended to demonstrate the potential impacts should rates remain above or below the assumed levels in the longer term.

Demographic Assumptions

The sensitivity of the estimated accrued liability as at 30 June 2020 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:

- 5% higher pensioner mortality rates (e.g. a 3% probability of death becomes 3.15%);
- 5% lower pensioner mortality rates (e.g. a 3% probability of death becomes 2.85%); and
- future improvements in pensioner mortality in line with short term (25 year experience) factors only, with no reversion to long term factors after 2024.

Assumption	Accrued Liability as at 30 June 2020 (\$ million)	Impact (\$ million)
Base case	1,200.0	-
5% higher pensioner mortality	1,179.2	-20.8
5% lower pensioner mortality	1,222.2	+22.2
25 year experience future mortality improvements	1,216.1	+16.1

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

9

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, scheme 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 and Appendix C, 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.

Prepared by:



Esther Conway

Fellow of the Institute of Actuaries of Australia
Principal

Peer Reviewed by:



Guy Holley

Fellow of the Institute of Actuaries of Australia
Principal

24 June 2021

Appendix A

Summary of Benefits

This report covers liabilities relating to members of the Scheme. Provisions relating to the Scheme are set down in the *Judges' Pensions Act 1968*. The provisions of the Scheme are complex and a **summary** of the principal provisions is set out below. It should not be used to calculate benefits for individuals.

Member Contributions

Members are not required to contribute to the Scheme. The Australian Government meets the whole cost of the Scheme.

Retirement Benefit

Minimum Age for Retirement Pension:	Age 60
Maximum Retirement Age (except FWC):	Age 70
Maximum Retirement Age (FWC):	Age 65

The benefit payable for a judge who has attained 10 or more years of service and the minimum retirement age is a lifetime pension of 60% of the salary currently paid in respect of an equivalent appointment to that of the judge at the time of retirement.

The benefit payable for a judge who retires at the maximum retirement age and with at least six, but less than ten, years of service is a lifetime pension of 0.5% of the appropriate judicial salary for each completed month of service.

Invalidity Retirement

The benefit payable for a judge who is certified by the Finance Minister as having retired on the grounds of permanent disability or infirmity, is a lifetime pension of 60% of the salary currently paid in respect of an equivalent appointment to that of the judge at the time of invalidity retirement.

Spouse's Benefit

On death in service of a married judge, 62.5% of the pension the judge would have received had they retired either voluntarily or, if not eligible for a voluntary retirement pension, on the grounds of invalidity, on the date of their death.

On the death of a married retired judge, providing the marriage took place:

- prior to the later of retirement and age 60 years; or
- at least 5 years before the judge's death;

62.5% of the pension entitlement of the retired judge.

Note that marriage includes de facto relationships and same sex partners.

Resignation (or voluntary exit not included above) and Death in Service with no spouse

If voluntary exit occurs:

- prior to attainment of age 60 years; or
- prior to the maximum retiring age with less than 10 years judicial service; or
- at the maximum retiring age with less than 6 years of judicial service;

no pension benefit is payable from the Scheme.

Similarly, a judge dies in service with no spouse or eligible children, no pension benefit is payable from the Scheme.

However, a lump sum benefit is payable where necessary to ensure that Superannuation Guarantee requirements are satisfied.

Family Law

The Scheme was amended with effect from 15 March 2013 to provide a new approach to splitting of superannuation for Family Law purposes. Before the change, the Scheme operated on a “percentage only” basis where the non-member spouse received a percentage of each pension payment during the member spouse’s lifetime. Following the change, the member spouse’s pension is reduced and a separate pension, or deferred pension, entitlement is created for the member’s former spouse. Transitional arrangements apply for some members who had pre-existing Family Law splits.

Superannuation Surcharge and Division 293 Tax

The benefits set out above apply to those judges who have no surcharge or Division 293 debt account. If a judge has a surcharge or Division 293 debt account at the time a benefit becomes payable, benefits are reduced in line with the relevant legislative provisions.

Appendix B

Experience of the Scheme

Reconciliation of Serving Judges

	High Court	Federal Court	Family Court	Fair Work Commission	Total
As at 30 June 2017	7	47	37	3	94
New	0	13	11	0	24
Age Retirement	0	8	9	1	18
Invalidity Retirement	0	0	1	0	1
As at 30 June 2020	7	52	38	2	99

Reconciliation of Pensioners

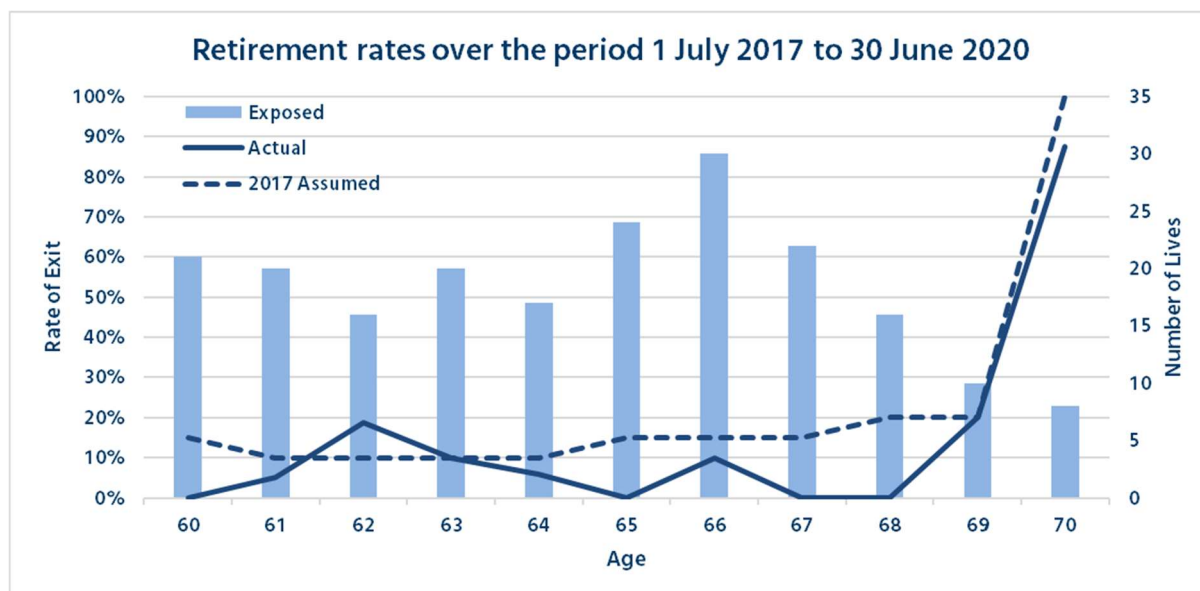
	Retirement	Invalidity	Spouse	Associate Spouse	Total
As at 30 June 2017	152	4	50	5	211
New	18	1	12	0	31
Deaths	17	0	2	0	19
As at 30 June 2020	153	5	60	5	223

Salary and Pension Increases

At 1 July 2020, the salary paid to a Federal Court Judge was \$468,020. The equivalent salary at 1 July 2017 was \$449,840. This represents an average annual increase of 1.3% per annum. Salaries for other Judges were increased at the same rate (other than minor rounding differences).

Retirement

The following chart shows the actual number of retirements at each age in the three year review period, compared with the expected number based on the 2017 LTCR assumptions:



Overall, 18 Judges retired compared with 33 expected. Given the small size of the Scheme, we would expect to see significant variations in the numbers between different periods.

Invalidity

There was one invalidity retirement during the period which was in line with the number expected based on the 2017 LTCR assumptions.

Mortality

No serving Judges died in service during the review period.

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 2017 LTCR assumptions:

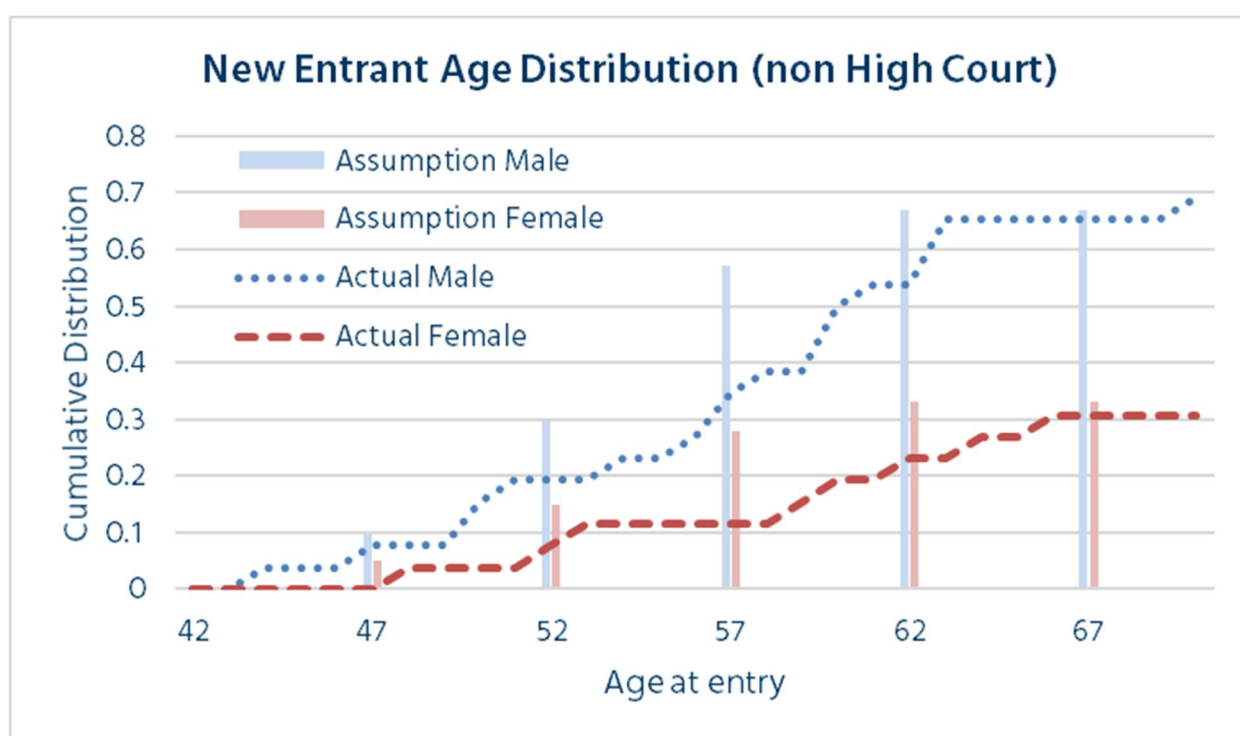
	Actual	Expected	A/E
Retirees	15.0	15.6	96%
Spouses	2.0	8.9	22%
Invalidity	0.0	0.2	0%
Total	17.0	24.6	69%

Overall, the number of retiree pensioner deaths was in line with the number expected based on the 2017 LTCR assumptions. The actual mortality experience was less than assumed for spouse pensioners. Experience can vary significantly due to random fluctuations, which are not necessarily representative of the longer term experience.

New Entrant Age distribution

In the previous investigation, the adopted new entrant distribution was age 60 for High Court Judges and an assumed percentage for each 5 year age interval for non-High Court Judges.

As can be seen in the graph below, the age and gender distribution of new entrants has been broadly consistent with this assumption:



Appendix C

Details of Actuarial Assumptions

Economic Assumptions

The key long-term economic assumptions adopted are shown in the table below:

Assumption (per annum)	
Salary and pension increases	4.0%
Discount rate	5.0%

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, as 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 Members

Fair Work Commissioners are assumed not to be replaced as the Scheme is no longer open to these individuals.

High Court Judges are assumed to be replaced by a new entrant aged 60. The assumed proportion of male and female new entrants is based on the current membership (i.e. 57% male and 43% female).

Other Judges are assumed to be replaced by a new entrant according to the following distribution:

Age	Male	Female
47	10%	5%
52	20%	10%
57	27%	13%
62	10%	5%
Total	67%	33%

Retirement Rates

Prior to maximum retiring age (70 except for the FWC where it is 65), Judges only become eligible for benefits upon both completion of 10 years' service and attainment of age 60. No voluntary resignation or retirement is assumed before a Judge becomes eligible. Once eligible, retirement is assumed at the following rates, except in the first year of eligibility, where double the rate is assumed:

Age	Fair Work Commission	Non-Fair Work Commission
60	15%	15%
61	10%	10%
62	10%	10%
63	10%	10%
64	10%	10%
65	100%	15%
66	-	15%
67	-	15%
68	-	20%
69	-	20%
70	-	100%

Death and Invalidity Retirement Rates

Age	Death		Invalidity	
	Male	Female	Male	Female
45	0.064%	0.039%	0.140%	0.172%
50	0.088%	0.060%	0.213%	0.268%
55	0.124%	0.097%	0.336%	0.447%
60	0.183%	0.166%	0.625%	0.678%
65	0.274%	0.249%	0.000%	0.000%

Proportion Married

Age	Male	Female
60	92.50%	83.50%
70	92.50%	75.50%
80	88.00%	50.50%
90	54.50%	11.00%
100	14.00%	3.00%

The above rates include allowance for same sex marriages.

Age Difference between Member and Spouse

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

Pensioner Mortality Rates

Age	Male			Female		
	Retiree	Invalid	Widower	Retiree	Invalid	Widow
55	0.148%	0.751%	0.356%	0.148%	0.457%	0.206%
60	0.236%	1.118%	0.529%	0.198%	0.652%	0.293%
65	0.428%	1.629%	0.771%	0.302%	0.975%	0.439%
70	0.829%	2.375%	1.233%	0.572%	1.561%	0.742%
75	1.611%	3.684%	2.117%	1.068%	2.593%	1.304%
80	3.134%	5.975%	3.841%	2.205%	4.513%	2.489%
85	6.415%	10.573%	7.320%	4.725%	8.293%	5.064%
90	12.861%	16.859%	13.194%	10.291%	15.072%	10.107%
95	22.378%	24.156%	19.764%	17.447%	23.171%	17.227%
100	33.935%	33.193%	27.158%	27.473%	31.602%	26.361%
105	46.514%	42.044%	34.400%	37.515%	42.406%	36.257%
110	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%

The mortality rates shown above include assumed improvements to 2020.

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 2015-17. 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 2021 to 2024, with long term improvements assumed thereafter.

Mercer Consulting (Australia) Pty Ltd

ABN 55 153 168 140

AFS Licence # 411770

Collins Square, 727 Collins Street

Melbourne VIC Australia 3008

GPO Box 9946 Melbourne VIC 3001

www.mercer.com.au