CSS financial statements

MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Information Required for Purposes of Australian Accounting Standard AAS 25 Relating to the Actuarial Valuation of the Commonwealth Superannuation Scheme as at 30 June 2008

Purpose of Report

This statement has been prepared for the purposes of AAS 25 as at 30 June 2008 for the Commonwealth Superannuation Scheme (CSS) at the request of the Australian Reward Investment Alliance (ARIA).

This extract summarises the actuarial valuation of the Scheme as at 30 June 2008 carried out by Mercer (Australia) under the advice of Martin Stevenson FIAA, FIA and Darren Wickham FIAA. It has been prepared for the purposes of inclusion with the Scheme Accounts and is in a form that complies with the Australian Accounting Standard AAS 25.

Accrued and Vested Benefits

AAS 25 requires the disclosure of Accrued and Vested benefits at the reporting date.

For the purpose of AAS 25 the following amounts have been determined:

Reporting Date	Accrued Benefits $billion	Vested Benefits $billion
30 June 2008	65.3	67.4

Accrued Benefits have been determined as the present value of expected future benefit payments that arise from membership of the CSS up to the reporting date.

Vested Benefits are benefits which the CSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elected the benefit option which is most costly to the Scheme.

The method and assumptions used to determine Accrued and Vested Benefits are summarised in Attachment 1 to this statement.

Accrued Benefits have been calculated in a manner consistent with Guidance Note 454 and Professional Standard 402 issued by the Institute of Actuaries of Australia.

Review of Actuarial Report

CSS financial statements

Page 2

AAS 25 also requires the notes to the Scheme accounts to include a summary of the most recent actuarial report of the CSS. Attachment 2 to this Statement provides a summary of the report on the Long Term Cost of the Public Sector Superannuation Scheme (PSS) and the CSS carried out as at 30 June 2008. The summary has been prepared in accordance with Professional Standard 401 issued by the Institute of Actuaries of Australia and contains the information required under AAS 25.

Martin A Stevenson
Fellow of the Institute of Actuaries of Australia
Worldwide Partner, Mercer (Australia) Pty Ltd

June 2009

Darren Wickham
Fellow of the Institute of Actuaries of Australia
Principal, Mercer (Australia) Pty Ltd

June 2009

c:\runzone\gd1wppdf04_slot-01_email1_email1_ba8dbed7-5871-430b-93c9-b41f6ef5e6da\01003 001 css aas25 at 30 june 2008 v3.doc

CSS financial statements

Attachment 1 to AAS 25 Statement

Method of Determining Accrued and Vested Benefits

Accrued Benefits were determined as the present value of expected future benefit payments that arise from membership of the CSS up to the date of calculation. The expected future benefits were determined allowing for future salary growth to the date of exit.

The approach used to apportion benefits between past and future membership involves an "actual accrual" or "Projected Unit Credit Method" (or PUCM) approach.

This involves determining the total benefit using:

Accrued Multiple (calculated using membership to the date of the valuation)	×	Final Average Salary at future date

The benefit is then adjusted to be the unfunded benefit by deducting accumulated member and productivity contributions.

The method used to apportion benefits between past and future membership has changed since the statement as at 30 June 2005. The reason for the change in method was to bring the calculations into line with the Budget process and Australian Accounting Standards for employer reporting.

The past membership component of the member-financed lump sum benefits and of the productivity superannuation benefits is taken to be the accumulated amount of contributions and interest at the calculation date.

Vested Benefits are determined as the value of benefits which the CSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elect the benefit option which is most costly to the CSS.

Assumptions Used to Determine Accrued Benefits

The assumptions used to determine Accrued Benefits are the same as those used for the most recent actuarial investigation into the long term cost of the PSS and the CSS as at 30 June 2008. Therefore, the Accrued Benefit calculated for AAS 25 purposes is the same as that calculated for the purposes of the Long Term Cost Report.

CSS financial statements

Page 4

The financial assumptions used to determine the Accrued Benefits along with those used for the recent actuarial investigation are shown in the table below:

Item	AAS 25	Long Term Cost Report
CPI Increases	2.5% per annum	2.5% per annum
Investment Return	6.0% per annum	6.0% per annum
General Salary Increases	4.0% per annum	4.0% per annum

A summary of the other assumptions used is contained in Appendix B of the Long Term Cost Report of the PSS and the CSS.

c:\runzone\gd1wppdf04_slot-01_email1_email1_ba8dbed7-5871-430b-93c9-b41f6ef5e6da\01003 001 css aas25 at 30 june 2008 v3.doc

CSS financial statements

Page 5

Attachment 2 to AAS 25 Statement

Summary of the Long Term Cost Report

The latest actuarial investigation into the long term cost of the PSS and CSS was conducted at 30 June 2008.

This attachment provides a summary of that report.

Membership Data

Data relating to the membership of the PSS and the CSS was provided by ComSuper, the Schemes' administrator, on behalf of ARIA, for the purposes of this investigation.

The table below summarises the total membership of the CSS as at 30 June 2008.

CSS MEMBERSHIP as at 30 JUNE 2008			
	Male	**Females**	**Total**
Number of Contributors	14,397	7,765	22,162
Salaries - Total - Average	$1,291 m $89,671	$611 m $78,686	$1,902 m $85,823
Number of Deferred Beneficiaries	8,363	3,098	11,461
Number of Age Pensioners	51,543	17,920	69,463
Number of Invalidity Pensioners	12,756	4,682	17,438
Number of Reversionary Pensioners	1,313	27,218	28,531

c:\runzone\gd1wppdf04_slot-01_email1_email1_ba8dbed7-5871-430b-93c9-b41f6ef5e6da\01003 001 css aas25 at 30 june 2008 v3.doc

CSS financial statements

Assumptions

The key economic assumptions adopted for this review are shown in the table below. The assumptions adopted for the previous review (which was carried out as at 30 June 2005) are shown for comparison purposes.

Item	Assumption	2005 Investigation
CPI Increases	2.5% per annum	2.5% per annum
Investment Returns	6.0% per annum (nominal) 3.5% per annum (real)	6.0% per annum (nominal) 3.5% per annum (real)
General Salary Increases	4.0% per annum (nominal) 1.5% per annum (real)	4.0% per annum (nominal) 1.5% per annum (real)
GDP Increases	2.4%* per annum (real)	2.3% per annum (real)

* The GDP increase rate is the average of the annual rates over the period from 2008 to 2048.

Of the key economic assumptions only the GDP increase assumption is different between the 2005 investigation and the 2008 investigation.

The demographic assumptions at 2008 have been revised from those at 2005 to more closely reflect actual experience of the Scheme. These are set out in Appendix B of the Long Term Cost Report.

Of the changes in assumptions, the most significant were:

- change to apportionment method;
- increase in the take-up of resignation benefits at age 54.

Value of Assets

The PSS and CSS are partly funded to the extent that real assets are held in respect of member contributions and productivity superannuation contributions. The realisable value of the CSS assets as at 30 June 2008 was $6.1 billion.

Accrued Benefits

The value of accrued benefits as at 30 June 2008 was $65.3 billion.

Accrued Benefits were determined as the present value of expected future benefit payments that arise from membership of the CSS up to the date of calculation. The expected future benefits were determined allowing for future salary growth to the date of exit. Benefits were apportioned between past and future membership by multiplying the accrued multiple at the calculation date by the Final Average Salary at the date of exit.

CSS financial statements

The past membership component of the member-financed lump sum benefits and of productivity superannuation benefits is taken to be the accumulated amount of contributions and interest at the calculation date. An amount of $6.1 billion has been included in the Accrued Benefit in respect of the member financed benefits and productivity superannuation benefits.

The Accrued Benefit also includes an amount of $45.4 billion in respect of pensioners and preserved beneficiaries of the CSS.

Vested Benefits

Vested Benefits of the CSS were not calculated as a part of the Long Term Cost Report as at 30 June 2008 but were calculated separately.

The estimated value of the Vested Benefits of the CSS as at 30 June 2008 is $67.4 billion.

Vested Benefits are determined as the value of benefits which the CSS would be required to pay if all members were to voluntarily leave employment on the reporting date and elected the benefit option which is most costly to the CSS.

Financial Condition

The CSS is a partially funded scheme. As a consequence, the value of Accrued Benefits and Vested Benefits is significantly more than the realisable value of Scheme assets at the same date.

However, the CSS operates under an underlying guarantee from the Commonwealth Government. Further, the investigation shows that the projected combined Commonwealth costs in respect of the PSS and CSS reduce as a percentage of projected Gross Domestic Product over the next 40 years.

Martin A Stevenson
Fellow of the Institute of Actuaries of Australia
Worldwide Partner, Mercer (Australia) Pty Ltd

June 2009

Darren Wickham
Fellow of the Institute of Actuaries of Australia
Principal, Mercer (Australia) Pty Ltd

June 2009