



Australian Government

Department of Finance and Deregulation

Mr Kevin Stevenson
 The Chairman
 Australian Accounting Standards Board
 PO Box 204
 Collins Street West VIC 8007

Dear Mr ~~Stevenson~~ *Kevin*

AASB Exposure Draft 223 – Superannuation Entities

I am writing to you in relation to the above-mentioned exposure draft that proposes that all superannuation entities be required to disclose member benefit obligations in their financial statements. This follows a meeting with Mr Angus Thomson and Ms Daisy Yang of the AASB staff on Thursday 31 May. Our superannuation staff in particular found the meeting very useful in that it allowed them to further understand the background to this proposed standard and its intended purpose and well as providing the opportunity to discuss in detail the Commonwealth's unfunded benefit superannuation arrangements.

While I support this disclosure of member benefit obligations for superannuation entities that are responsible for managing member funds and discharging member benefit obligations, I suggest the relevance of this requirement is less clear in relation to the Commonwealth's unfunded defined benefit schemes, which are structured in a substantially different way to most other superannuation schemes.

The Commonwealth Superannuation Corporation (CSC) is a superannuation entity that manages the administration and investment of funds for the Australian Government's main civilian and military superannuation schemes. All the schemes, except for one¹, are unfunded defined benefit schemes.

For these unfunded defined benefit schemes, the financial responsibility for discharging the member benefit obligations rests with the Commonwealth. Scheme legislation specifically provides that the Commonwealth is to meet unfunded member benefit payments from the Consolidated Revenue Fund and not from fund assets. This is different from other defined benefit schemes, even those that operate on a "best endeavours" basis.

While the funds themselves have no obligation to make these payments, the Commonwealth provides extensive disclosures about its obligations. First, the unfunded liabilities for defined benefit obligations are disclosed annually in both the consolidated financial statements and those of Finance and the Department of Defence, in accordance with *AASB 119 Employee Benefits*. These statements are audited by the Auditor-General.

¹ For the Public Sector Superannuation Accumulation Plan (PSSAP), the CSC currently already reports on member benefit obligations and the assets available to meet member obligations in its financial statements.

Second, the Australian Government also publishes triennial actuarial reports prepared by independent actuaries that disclose the unfunded liabilities for these schemes. The civilian 2011 actuarial reports are available from the Finance website at <http://www.finance.gov.au/superannuation/pss-and-css-scheme-costs.html> . The reports provide information on the value of the assets of the funds, employer contribution rates and a statement regarding the adequacy of the funding of the liabilities of the funds, as required under the *Superannuation Industry (Supervision) Regulations* (SIS regulations).

Finally, the CSC's annual accounts refer to the Commonwealth's published information.

The unique nature of the Commonwealth funds has been reflected in the requirements of the SIS regulations that relate to the funding and solvency of defined benefit funds, by taking into account the 'unique' funding arrangements for benefits payable from the Commonwealth defined benefit schemes compared to other defined benefit schemes in the private sector and in some States. The responsibility, as prescribed by the scheme legislation, to fund the unfunded benefits is placed on the Commonwealth, that is, the employer. Division 9.3 of the SIS regulations that relates to the funding and solvency of defined benefit funds does not apply to the Commonwealth's regulated unfunded defined benefit superannuation schemes (see regulation 9.05 of the SIS regulations.)

The CSC is responsible for investing the fund assets (member contributions and employer productivity contributions paid under these schemes). When member benefits become payable to the member, the accumulated contributions plus earnings are transferred to the Consolidated Revenue Fund (CRF) and the member benefit is financed from the CRF on an unfunded basis. The fund assets managed by the CSC are a minor component of the superannuation liability. I also note that the arrangements for the Future Fund, established to contribute in future years to the Commonwealth's obligations under the superannuation schemes, does not constitute part of the schemes either legally or managerially.

In short, the disclosure principles of ED 223 are met by the Commonwealth, publishing the relevant information in its accounts and making available other information.

For the above reasons, I consider CSC having to report the Commonwealth superannuation liability in its financial statements would create unnecessary duplication and not necessarily provide greater clarity. This could confuse the potential users of these financial statements, including scheme members as it could give a misleading impression regarding the surety and funding of their benefits, particularly given the legal form and substance of the requirements applying to the Commonwealth schemes.

I have also attached some further information in relation to particular aspects of the Commonwealth's unfunded defined benefit schemes which reflect other matters discussed at the meeting with Mr Thomson and Ms Yang.

I would appreciate the Board's consideration of the issues I have raised and your advice in due course on the matter. I understand that Mr Thomson is gathering information about a range of public sector schemes to assist in this regard.

Background Information-Commonwealth Defined Benefit Superannuation Schemes

Main Schemes

The main Commonwealth defined benefit superannuation schemes are the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) and the Military Superannuation and Benefits Scheme (MSBS). The CSS was closed in 1990 and the PSS was closed in 2005. The MSBS is open to members of the Australian Defence Force

Choice of Superannuation Fund

Members of the CSS, PSS and MSBS do not have choice of superannuation fund as prescribed under the Superannuation Guarantee arrangements.

Portability of Superannuation Benefits

While the *Superannuation Industry (Supervision) Act 1993*, which regulates the superannuation industry, allows the rollover (portability) of accumulated benefits from one complying superannuation fund to another superannuation fund, it does not require unfunded public sector superannuation schemes, to provide this option. CSS, PSS and MSBS members are not able to rollover their accrued benefits to another superannuation fund.

Application of the 15 per cent concessional contributions tax to unfunded CSS, PSS and MSBS notional employer contributions

CSS, PSS and MSBS unfunded notional employer contributions are not subject to the 15 per cent contributions tax. In addition, the 'grandfathered' arrangements that generally apply to defined benefit superannuation schemes do not apply to the CSS, PSS and MSBS notional employer contributions. Unfunded CSS, PSS and MSBS benefits are subject to taxation when paid.

Stronger Super Reforms

The CSS, PSS and MSBS are regulated superannuation funds for the purpose of *Superannuation Industry (Supervision) Act 1993*.

The CSS, PSS and MSBS will be required to comply with the Stronger Super Reforms to the extent that the reforms apply or impact on those schemes.

Financial Statements for the CSS, PSS and MSBS

The trustee of the CSS, PSS and MSBS, that is the Commonwealth Superannuation Corporation, is required by legislation to provide an annual report and financial statements in relation to the management of each superannuation scheme of which it is trustee, to the Minister for Finance and Deregulation. The Minister is required to arrange for a copy of the annual report and financial statements and Auditor-General's report to be tabled in both Houses of Parliament.

The annual report and financial statements provide extensive disclosure in relation to the CSS, PSS and MSBS. Below is a link to the annual report and financial statements for the 2010-11 financial year:http://www.esc.gov.au/annualreport/1011/pdf/1010_aria_ar.pdf and http://www.militarysuper.gov.au/lib/pdf/annual_report_parliament1011.pdf.

The contact officer on this matter is Ms Sharon Ong, Assistant Secretary, Superannuation Branch, who can be contacted by email at sharon.ong@finance.gov.au or on (02) 6215 2485.

Yours sincerely



Peter Gibson
A/g First Assistant Secretary
Financial Reporting and Cash Management Division
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