Senator the Hon Simon Birmingham
Minister for Finance
Parliament House
Canberra ACT 2600

The Hon Josh Frydenberg MP
Treasurer
Parliament House
Canberra ACT 2600

25 June 2021

Dear Minister and Treasurer

Subject: **Future Fund - Target Asset Level Declaration**

In my capacity as the 'Designated Actuary' under Schedule 3 of the *Future Fund Act 2006* (the Act), I am pleased to provide you with the target asset levels for the four financial years from 2020-21 through to 2023-24:
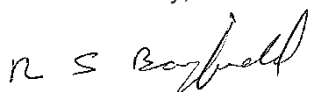
Financial Year	Target Asset Level
2020-21	$207.5 billion
2021-22	$215.1 billion
2022-23	$222.7 billion
2023-24	$230.5 billion

The target asset level represents, as at the start of a financial year, the balance of the Future Fund expected to be required to offset my best estimate of the present value of the Australian Government's projected unfunded superannuation liabilities (as defined in the Act) which have accrued in the relevant schemes up to that point in time.

The current benchmark investment return for the Future Fund is, as set out in the *Future Fund Investment Mandate Direction 2017*, an average return of at least the Consumer Price Index (CPI) + 4 to + 5 per cent per annum over the long term.

Additional details, including my statement of reasons for specifying the particular target asset levels, are set out in the Attachment to this letter.

Yours sincerely,

Richard Boyfield
Fellow of the Institute of Actuaries of Australia
Designated Actuary to the Future Fund

Attachment

Relevant Australian Government Superannuation Schemes

The target asset level relates to the Australian Government's unfunded superannuation liabilities arising under the following schemes (listed in descending order of size of unfunded liability as at 30 June 2020):

• the Public Sector Superannuation Scheme (PSS) covering benefits paid under the scheme established by the *Superannuation Act 1990*;

• the Commonwealth Superannuation Scheme (CSS) covering benefits paid under the *Superannuation Act 1922* and the *Superannuation Act 1976*;

• the Military Superannuation and Benefits Scheme (MSBS) covering benefits paid under the scheme established by the *Military Superannuation and Benefits Act 1991*;

• the Defence Force Retirement and Death Benefits Scheme (DFRDB) covering benefits paid under the scheme established under the *Defence Force Retirement and Death Benefits Act 1973*;

• the Judges' Pensions Scheme (JPS) covering benefits paid under the *Judges' Pensions Act 1968*;

• the Parliamentary Contributory Superannuation Scheme (PCSS) covering benefits paid under the *Parliamentary Contributory Superannuation Act 1948*;

• the death and disability benefits under the *Australian Defence Force Cover Act 2015* (ADF Cover);

• the Defence Forces Retirement Benefits Scheme (DFRB) covering benefits paid under the *Defence Forces Retirement Benefits Act 1948*; and

• the Governor-General Pension Scheme (G-GPS) covering pensions paid under *Governor-General Act 1974*.

The JPS, G-GPS and ADF Cover remain open to new entrants. Future benefit payments from all the other schemes are limited to existing members and their dependants.

Attachment

Reasons for the Target Asset Level

In order to value the unfunded superannuation 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 schemes; and

- demographic assumptions: relating to the experience of the membership of the scheme.

Economic Assumptions

I have assumed the long term average growth rate in CPI to be 2.5% per annum.

The actuarial reviews conducted for the relevant schemes as at 30 June 2020 use the following economic assumptions:

- CPI-linked pension increases of 2.5% per annum;

- Salary-linked pension increases of 4% per annum (1.5% per annum real); and

- General salary increases (i.e. excluding promotional or merit based increases) of 3.5% per annum (1% per annum real) for CSS and PSS contributors and 4% per annum for other schemes (1.5% per annum real). Lower increases are assumed for the CSS and PSS to reflect the shorter expected remaining period of service relative to the other schemes.

These CPI and wage growth assumptions are based on the medium to long term macroeconomic outlook. I consider these to be best estimate salary and pension increase assumptions.

The target asset level for a particular financial year is intended to be my best estimate of the assets that would be required in order that, together with investment earnings on those assets, they would be sufficient to meet future unfunded benefit payments in respect of service rendered before the start of the year. As such, the discount rate used to calculate the present value of future payments needs to represent the expected investment return on Future Fund assets.

The assumption for future investment returns has therefore had regard to:

- the current investment mandate, policy and strategy of the Future Fund;

- historical investment performance of the Future Fund;

- the assumed long term rate of growth in the CPI of 2.5% per annum;

- current global economic conditions which feature real interest rates that are abnormally low by historical standards;

- drawdowns from the Future Fund in the future; and

- discussions with the Future Fund Management Agency regarding expectations of future earnings.

Attachment

Based on the above factors, I have assumed a rate of future investment return of 6% per annum.

This rate is used to discount expected unfunded superannuation cash outflows to determine the projected unfunded superannuation liability in respect of services rendered before the start of the relevant financial year.

Demographic Assumptions

Demographic assumptions for the relevant schemes are reviewed every three years, incorporating analysis of historical membership experience and expectations for the future. Demographic assumptions have been made as part of the formal actuarial reviews prepared as at 30 June 2020.

I consider these best estimate demographic assumptions.

Actuarial Uncertainty

The unfunded superannuation liabilities will depend on a number of factors, including the number of people paid benefits, the amount of benefits paid, and the amount earned on any assets invested to pay the benefits. These future amounts are uncertain and cannot be known at the date the projections are prepared. However, these are predicted to fall within a reasonable range of possibilities.

To prepare this declaration, actuarial assumptions are used to select a single scenario from the range of possible future outcomes. The actual experience will likely be different to what is assumed. The difference may be significant or material. Furthermore, different assumptions or scenarios may also be within the reasonable range and projections based on those assumptions would be different. Actuarial assumptions may also be changed from time to time to reflect emerging experience, changes in regulatory requirements, or changes in expectations about the future.

Reliance on Projections

I am the scheme actuary for the CSS and PSS and have prepared projections of the unfunded superannuation liabilities for these two schemes.

However, I have relied upon projections prepared by other actuaries in relation to all other schemes and supplied to me for the purposes of the target asset declaration. I am satisfied that these projections are appropriate for this purpose.