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Judges' Pension Scheme Long Term Cost Report 2023

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

Department of Finance

28 June 2024

A business of Marsh McLennan

Contents

Section 1
Executive Summary

We are pleased to present this report on the actuarial investigation of the long term costs of the Judges' Pension Scheme (JPS or the Scheme), prepared at the request of the Department of Finance. This report has been carried out based on membership data as at 30 June 2023.

Previous Long Term Cost Report

The previous actuarial investigation into the long term costs of the JPS was undertaken as at 30 June 2020 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 2020,* dated 24 June 2021 (2020 LTCR).

Purpose of the Report

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

- accrued liability as at 30 June 2023;
- projected net annual outlays; and
- the notional employer contribution rate.

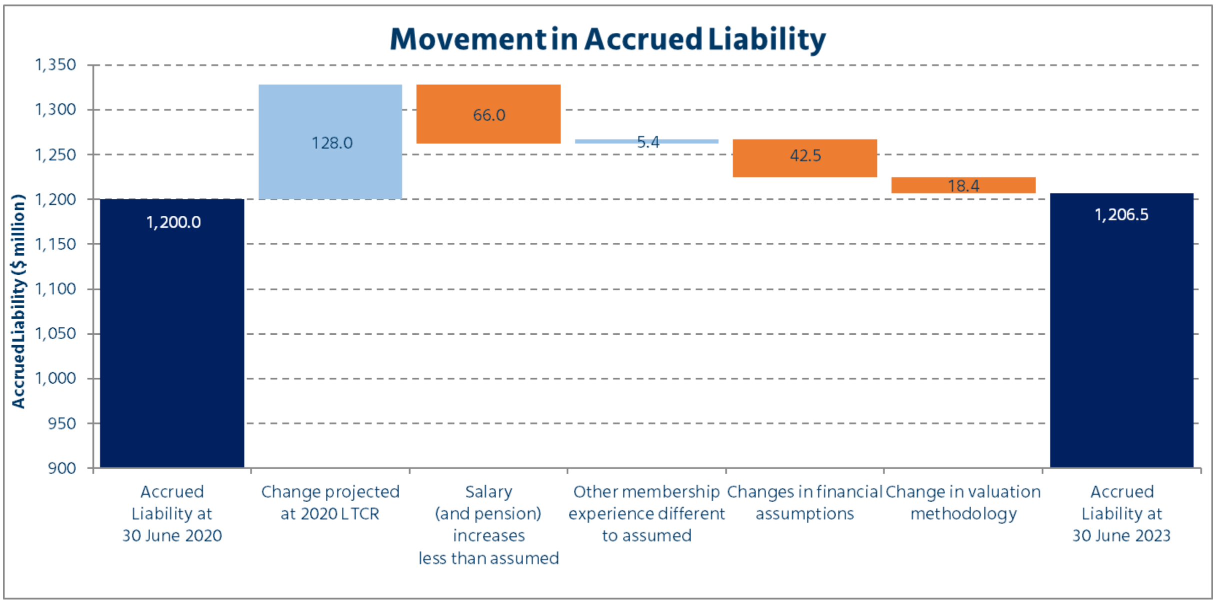
Accrued Liability

The accrued liability represents an estimate of the present value of the benefit entitlements in respect of service already rendered. The accrued liability of the JPS at 30 June 2023 was $1,206.5 million. This compares with the accrued liability calculated as at 30 June 2020 of $1,200.0 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 due to the payment of benefits.

The 2020 LTCR projected that the accrued liability would be $1,328.0 million as at 30 June 2023, $121.5 million more than the current estimate.

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



Further details are provided in Section 5.

Projected Outlays

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

Year Ending 30 June	Nominal Outlays ($ million)
2024	63.5
2025	66.4
2026	68.8

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 rate as a percentage of salary that would be required to finance the benefits accruing over the next three years (from 1 July 2023 to 30 June 2026).

The NECR as at 30 June 2023 is calculated as 89.6% of total salaries.

Further details are provided in Section 7.

Post Valuation Date Events

Economic activity and Scheme experience is expected to be volatile from year to year. Whilst this can have an impact on short term outcomes, the purpose of this report is to focus on the Scheme's longer term costs and to enable comparison with the position at the previous valuation date. Over the long term, there will be periods where actual experience is either above or below the assumed long term averages.

We believe that the economic experience since the valuation date is within the normal expected range of variation and so will not materially affect the longer term projections.

The sensitivities shown in Section 8 are intended to demonstrate the potential impacts should actual experience remain above or below the long term assumptions.

Section 2
Scheme Information

The JPS 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 JPS and the Australian Government meets all of the costs of benefits from Consolidated Revenue as they become due (except for one retired Judge of the ACT Supreme Court for whom the ACT Government funds 80% of the benefits). This is an acceptable method of funding as the Scheme is effectively guaranteed by the Australian Government.

The JPS is untaxed, although individuals may be required to pay additional tax as a result of their membership of the Scheme. The JPS 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 2020 LTCR as noted below, but these have had no material impact on the value of the accrued liability, projected outlays or NECR:

- References in the Act to the *Family Law Act 1975* were updated via the *Family Law Amendment (Western Australia De Facto Superannuation Splitting and Bankruptcy) Act 2020* .
- The Act was amended by the *Federal Circuit and Family Court of Australia (Consequential Amendments and Transitional Provisions) Act 2021* to reflect the establishment of the Federal Circuit and Family Court of Australia.

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

Section 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. 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 2023 is summarised below:

Serving Members	Males	Females	Total	Average Age (years)	Annual Salaries[1] ($'000s)
High Court	3	4	7	58.7	$4,188
Federal Court	34	18	52	60.1	$26,057
Family Court	24	16	40	60.5	$20,071
Fair Work Commission	1	-	1	60.0	$550
Total	**62**	**38**	**100**	**60.2**	**$50,866**

1 As at 1 July 2023.

Pensioners	Males	Females	Total	Average Age (years)	Annual Pensions[1] ($'000s)
Retirement	130	39	169	77.6	$49,653
Invalidity	4	1	5	70.0	#
Spouse	3	56	59	80.8	$10,924
Associate Spouse[2]	1	5	6	71.3	#
Total	**138**	**101**	**239**	**78.1**	**$62,584**

1 As at 1 July 2023.

2 Member's former spouse following a Family Law split.

Not separately disclosed.

Section 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 2020 LTCR. The assumptions are detailed in Appendix C.

While there were no changes to the demographic assumptions affecting the accrued liability, the changes in financial assumptions resulted in a decrease to the accrued liability of $42.5 million, or 3.5%, as at 30 June 2023.

Economic Assumptions

Key Economic Assumptions

The key economic assumptions include:

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

The relationship between these assumptions has 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 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 economic assumptions have changed from the 2020 LTCR and are set out in the table below:

Assumption as at	30 June 2023	30 June 2020
Salary and pension increase	3.7% per annum	4.0% per annum
Discount rate	5.0% per annum	5.0% per annum

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

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, with a particular focus on Treasury forecasts for long term wage inflation.

Although the impact of this change on the accrued liability at 30 June 2023 is relatively small (a reduction of 3.5%), the impact of the assumption change becomes more significant in relation to the longer term projections. For example, the impact on the projected accrued liability at 30 June 2060 is a reduction of 8.2%.

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 2023*.

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 2020 LTCR.

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 2023*. These rates are unchanged from the 2020 LTCR.

Rates of retiree and spouse pensioner mortality are assumed to be 90% of the assumptions used in the *PSS and CSS Long Term Cost Report 2023*, while invalidity pensioners are assumed to experience mortality at the same rates applicable in the CSS. These rates are unchanged from the 2020 LTCR.

Allowance has also been made for assumed future improvements (i.e. reductions) in pensioner mortality.

Invalidity Retirement

Rates of invalidity retirement are assumed to be the same as those used in the *PSS and CSS Long Term Cost Report 2023*, extended to age 70 (age 65 for Fair Work Commission). These rates are unchanged from the 2020 LTCR.

Spouse Assumptions

The assumed proportion of members with a spouse declines with age. The proportions are unchanged from the 2020 LTCR.

The assumed age differences between members and their spouses are unchanged from the 2020 LTCR.

Future New Entrants

Each departing Judge is assumed to be replaced by a new entrant. The assumed distribution and characteristics of new entrants have been changed from the 2020 LTCR to more closely match the emerging experience.

Section 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.

Consistent with the 2020 LTCR, we have applied two different methods to determine that part of the liability which had accrued up to the valuation date:

Best Estimate Method - Under this method, benefits are 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 are 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 the valuation date and in the future), for consistency with results reported in Australian Government financial statements.

Since the 2020 LTCR, we have refined the way we calculate accrued benefits under the AASB119 Method to more accurately reflect the JPS rules in respect of members joining the Scheme after age 60. We had previously calculated accrued benefits assuming these members were eligible to receive a retirement benefit immediately upon joining the Scheme, meaning that most of the cost was allocated to the first year of membership. The updated method spreads the cost more evenly over the period from joining to the date of first becoming eligible for a retirement pension.

This change was made for the first time in the calculations prepared for the Australian Government financial statements for the period ended 30 June 2021.

For determining the NECR, we have adopted the Best Estimate Method. We understand that this rate is primarily used 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 expected 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.

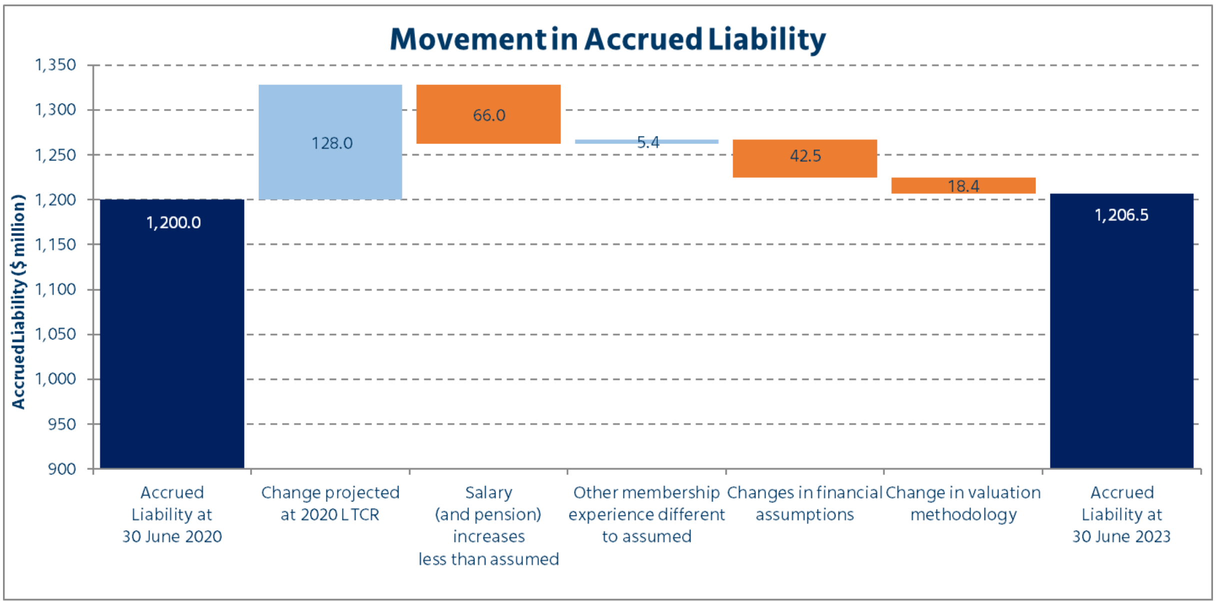
Results

The following table shows the accrued liability as at 30 June 2023:

As at 30 June 2023	Accrued Liability ($ million)
Serving members	338.7
Pensioners	867.8
Total	**1,206.5**

Analysis of Change Compared with Previous Report

The 2020 LTCR projected that the accrued liability would be $1,328.0 million as at 30 June 2023, $121.5 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 salaries and pensions increased by less than previously assumed. Changes to the future salary and pension increase assumption, and the slight change in valuation methodology (described above) also decreased the value of the accrued liability.

Projected Accrued Liability

Based on the assumptions used for this investigation, the projected nominal accrued 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)
2023	1,206.5	2044	2,339.8
2024	1,246.8	2045	2,418.7
2025	1,289.0	2046	2,498.1
2026	1,332.3	2047	2,574.3
2027	1,376.5	2048	2,657.3
2028	1,423.6	2049	2,748.1
2029	1,468.8	2050	2,836.0
2030	1,511.0	2051	2,940.6
2031	1,560.6	2052	3,056.7
2032	1,609.3	2053	3,177.0
2033	1,648.7	2054	3,311.1
2034	1,695.2	2055	3,444.1
2035	1,740.6	2056	3,587.9
2036	1,788.4	2057	3,727.4
2037	1,844.2	2058	3,865.5
2038	1,906.2	2059	4,012.3
2039	1,968.3	2060	4,158.5
2040	2,035.2	2061	4,298.7
2041	2,103.3	2062	4,457.5
2042	2,179.2	2063	4,614.1
2043	2,263.6		

Section 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)
2024	63.5	2044	129.8
2025	66.4	2045	133.2
2026	68.8	2046	138.3
2027	71.4	2047	144.8
2028	73.6	2048	148.0
2029	76.6	2049	153.1
2030	81.2	2050	160.7
2031	84.3	2051	164.7
2032	86.6	2052	169.6
2033	91.6	2053	174.9
2034	94.6	2054	178.8
2035	98.8	2055	184.0
2036	103.8	2056	188.5
2037	106.7	2057	197.2
2038	109.1	2058	205.3
2039	113.3	2059	211.2
2040	116.0	2060	220.6
2041	119.6	2061	232.1
2042	123.3	2062	238.9
2043	125.7	2063	250.6

Section 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 2023 to 30 June 2026). 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 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 2026, 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 Salaries)
As at 30 June 2020	91.6
As at 30 June 2023	89.6
Movement	-2.0

This rate has decreased slightly, primarily due to the lower salary increase assumption.

Section 8

Sensitivity Analysis

Economic Assumptions

The sensitivity of the estimated accrued liability as at 30 June 2023 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.

Assumption	Accrued Liability as at 30 June 2023 ($ million)	Impact ($ million)
Base case	**1,206.5**	**-**
+1% per annum discount rate	1,077.6	-128.9
-1% per annum discount rate	1,362.7	+156.2
+1% per annum salary and pension increase rate	1,357.3	+150.8
-1% per annum salary and pension increase rate	1,079.7	-126.8

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 table below:

Period Ending 30 June	Change in Nominal Outlays ($ million)		
	Base case assumptions	+1% per annum salary and pension increase rate	-1% per annum salary and pension increase rate
2024	63.5	-	-
2025	66.4	+0.6	-0.6
2026	68.8	+1.3	-1.3
2027	71.4	+2.1	-2.0
2028	73.6	+2.9	-2.8
2029 – 33	420.3	+29.6	-27.8
2034 – 38	513.0	+63.1	-56.6
2039 – 43	597.9	+106.4	-91.0
2044 – 48	694.1	+163.8	-133.6
2049 – 53	823.0	+244.2	-189.8
2054 – 58	953.8	+343.9	-254.7
2059 – 63	1,153.4	+493.2	-348.1

Demographic Assumptions

The sensitivity of the estimated accrued liability as at 30 June 2023 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 2023 ($ million)	Impact ($ million)
Base case	**1,206.5**	**-**
5% higher pensioner mortality	1,185.6	-20.9
5% lower pensioner mortality	1,228.9	+22.4
25 year experience future mortality improvements	1,225.9	+19.4

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.

Section 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 a 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.

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28 June 2024

Appendix A
Summary of Benefits

This report covers liabilities relating to members of the JPS. Provisions relating to the JPS are set down in the *Judges' Pensions Act 1968*. The provisions of the JPS are complex. A **summary** of the principal provisions is set out below. This summary 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, if 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 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.

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 2020	**7**	**52**	**38**	**2**	**99**
New	-	+13	+17	+1	+31
Age Retirement	-3	-11	-14	-2	-30
Invalidity Retirement	-	-	-	-	
Transfer	+3	-2	-1	-	-
As at 30 June 2023	**7**	**52**	**40**	**1**	**100**

Reconciliation of Pensioners

	Retirement	Invalidity	Spouse	Associate Spouse	Total
As at 30 June 2020	**153**	**5**	**60**	**5**	**223**
New	+30	-	+9	+1	+41
Deaths	-14	-	-10	-	-24
As at 30 June 2023	**169**	**5**	**59**	**6**	**239**

Salary and Pension Increases

At 1 July 2023, the salary paid to a Federal Court Judge was $500,136. The equivalent salary at 1 July 2020 was $468,020. This represents an average annual increase of 2.2% per annum, compared to the previously assumed increase of 4.0% per annum. Salaries for other Judges were increased at the same rate (other than minor rounding differences).

Invalidity

There were no invalidity retirements during the period compared with one expected.

Mortality

No serving Judges died in service during the review period compared with one expected.

Pensioner Mortality

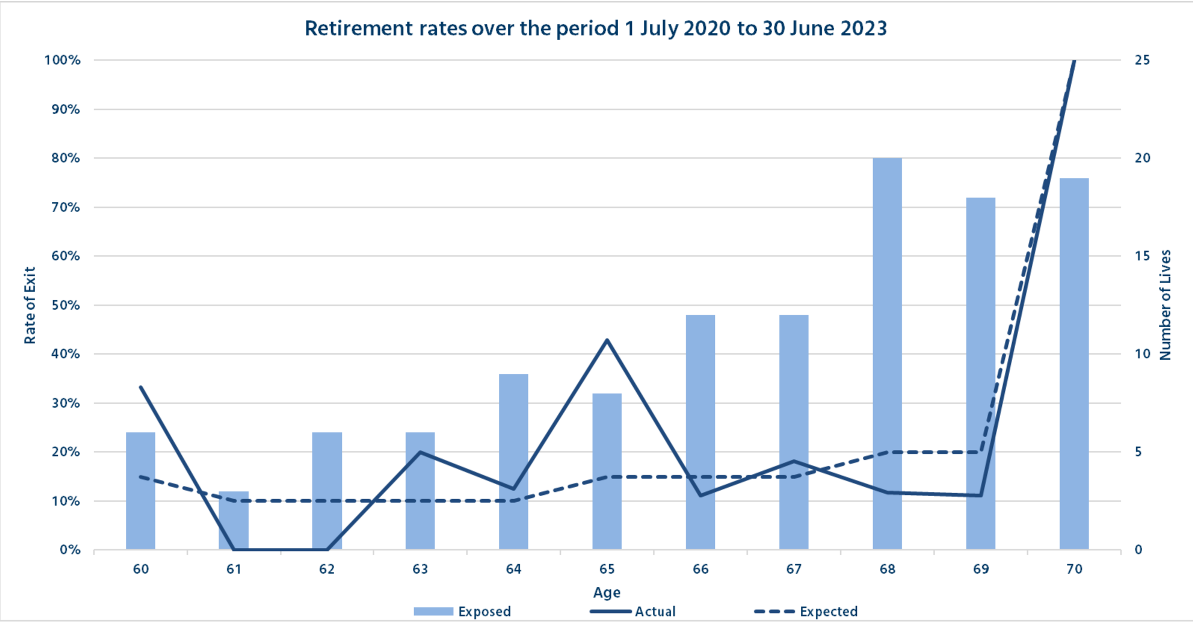
The following table shows the actual number of pensioner deaths in the three-year review period, compared with the expected number based on the 2020 LTCR assumptions:

	Actual (A)	Expected (E)	A/E
Retirees	14.0	16.6	84%
Spouses	10.0	10.9	92%
Invalidity	0.0	0.3	0%
Total	**24.0**	**27.8**	**89%**

Overall, the number of retiree pensioner deaths was less than assumed based on the 2020 LTCR assumptions. The actual mortality experience was broadly in line with the number expected for spouse and invalidity pensioners. Given the relatively small number of members, experience can vary significantly due to random fluctuations, which are not necessarily representative of the longer term experience.

Retirement

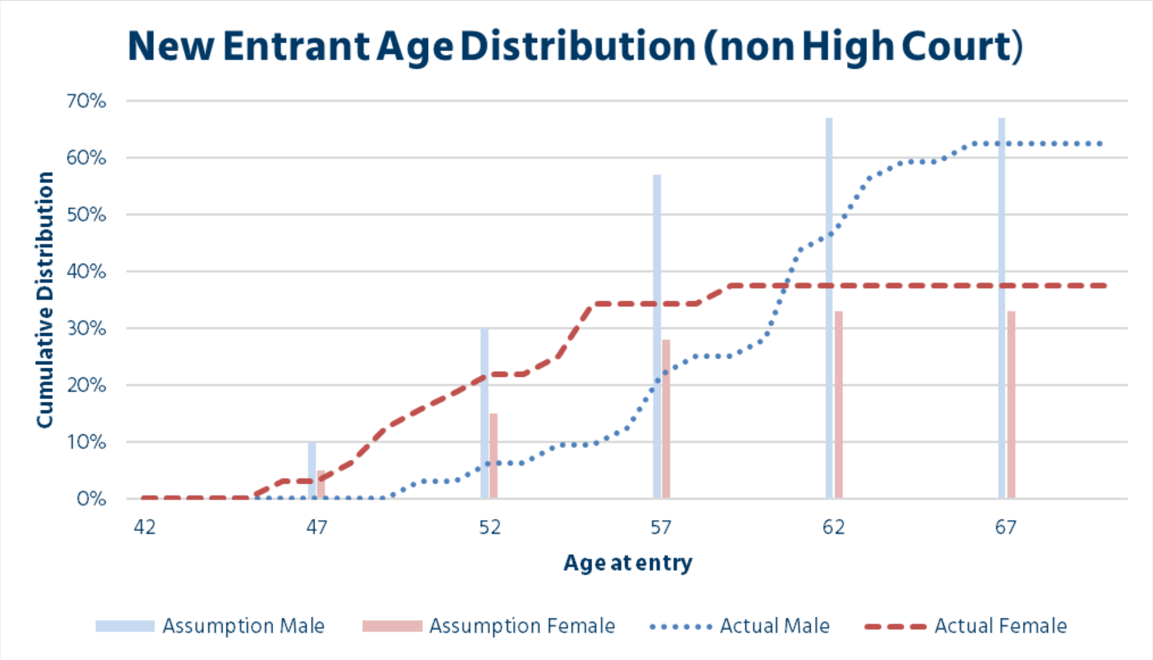
The following chart shows the actual number of retirements at each age in the three year review period, compared with the expected number based on the 2020 LTCR assumptions:



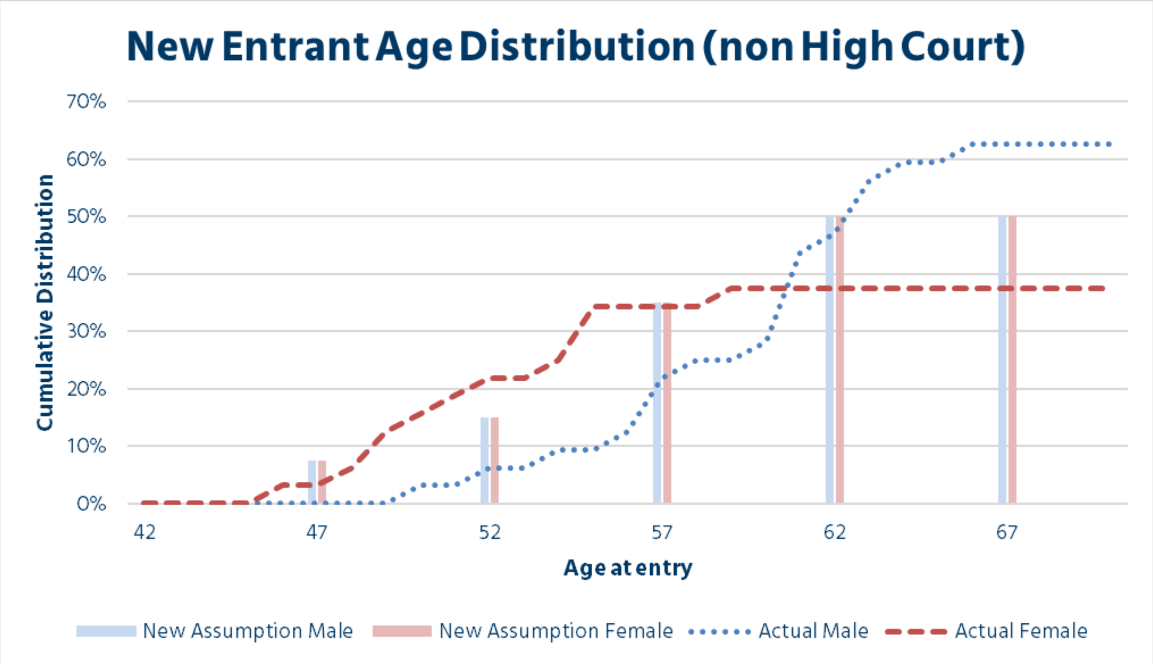
Overall, 30 Judges retired compared with 31 expected. We are satisfied that the previous assumptions continue to be reasonable.

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. The graph below compares the age and gender distribution of new entrants with that assumption:



It can be seen that the number of male new entrants at younger ages has been lower than assumed, with the converse situation for female new entrants. To better reflect the emerging experience, we have now adopted a unisex new entrant age distribution assumption, as illustrated in the graph below:



Appendix C
Details of Actuarial Assumptions

Economic Assumptions

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

Assumption as at	30 June 2023
Salary and pension increase	3.7% per annum
Discount rate	5.0% per annum

Taxation

No allowance has been made for:

- Superannuation surcharge (if applicable), as members' benefits are reduced by a surcharge offset amount.
- Excess contributions tax (if applicable), as this is payable by the member.
- Division 293 tax on contributions for those with incomes above the threshold (if applicable), 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. 50% male and 50% female).

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

Age	Male	Female
47	7.5%	7.5%
52	7.5%	7.5%
57	20%	20%
62	15%	15%
Total	**50%**	**50%**

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

	Death		Invalidity	
Age	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%

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.

Proportion with Spouses

Age	Male	Female
60	93%	84%
70	93%	76%
80	88%	51%
90	55%	12%
100	14%	3%

Pensioner Mortality Rates

	Male			Female		
Age	Retiree	Invalid	Widower	Retiree	Invalid	Widow
55	0.139%	0.706%	0.334%	0.140%	0.433%	0.195%
60	0.218%	1.034%	0.490%	0.185%	0.610%	0.275%
65	0.391%	1.488%	0.705%	0.280%	0.906%	0.408%
70	0.757%	2.168%	1.126%	0.532%	1.451%	0.690%
75	1.481%	3.386%	1.946%	0.995%	2.416%	1.215%
80	2.918%	5.564%	3.577%	2.073%	4.243%	2.341%
85	6.111%	10.072%	6.973%	4.523%	7.937%	4.847%
90	12.521%	16.413%	12.845%	10.045%	14.712%	9.866%
95	22.031%	23.782%	19.458%	17.272%	22.938%	17.054%
100	33.852%	33.113%	27.092%	27.473%	31.602%	26.361%
105	46.514%	42.044%	34.400%	37.515%	42.406%	36.257%
110	100%	100%	100%	100%	100%	100%

The mortality rates shown above include assumed improvements to 2023.

Future Mortality Improvements

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

Improvements in mortality 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 to 2024, with long term improvements assumed thereafter.

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