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PCSS Long Term Cost Report 2023

A Report on the Long Term Cost of the Parliamentary Contributory Superannuation 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 Parliamentary Contributory Superannuation Scheme (PCSS 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 PCSS 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 *PCSS Long Term Cost Report 2020*, dated 24 June 2021 (2020 LTCR).

Purpose of the Report

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

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

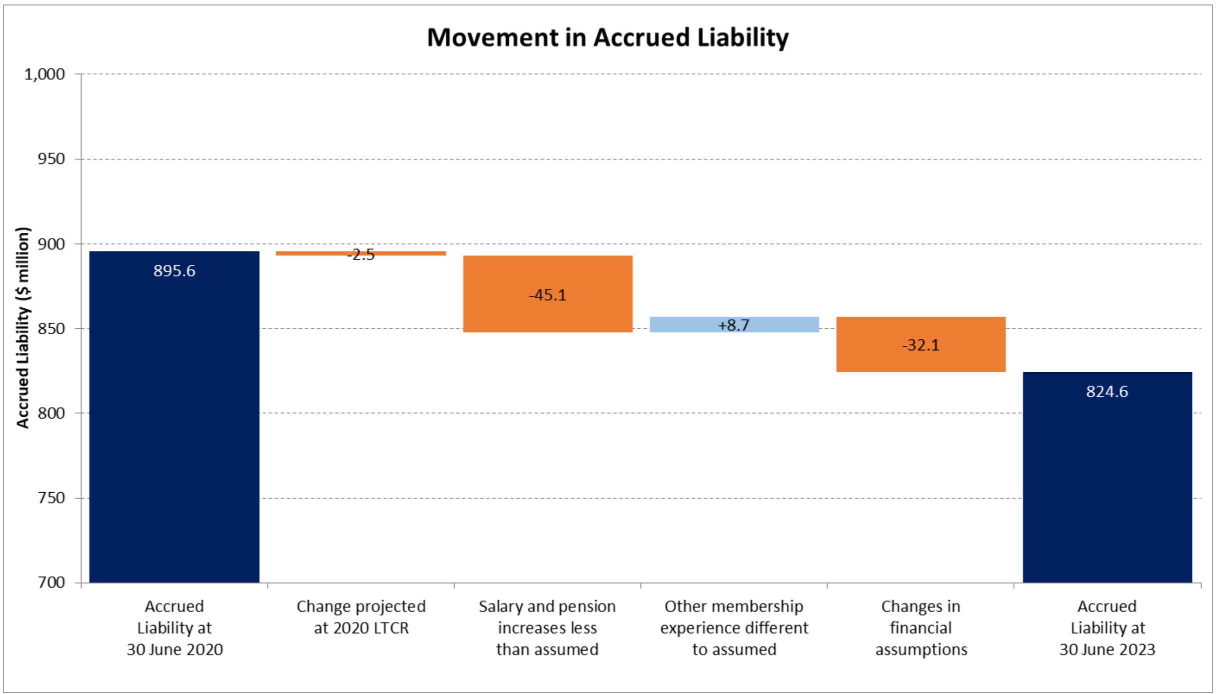
Accrued Liability

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 PCSS at 30 June 2023 was $824.6 million. This compares with the accrued liability calculated as at 30 June 2020 of $895.6 million.

The accrued liability was expected to decrease during the investigation period as the payment of benefits was expected to outweigh the cost of further benefit accruals and notional interest on accrued liabilities.

The 2020 LTCR projected that the accrued liability would be $893.1 million as at 30 June 2023, $68.5 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 PCSS for the next three years are as follows:

Year Ending 30 June	Nominal Outlays ($ million)
2024	47.1
2025	47.8
2026	50.3

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 to contributors over the next three years (from 1 July 2023 to 30 June 2026).

The NECR as at 30 June 2023 is calculated as 29.3% 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 sensitivity analysis included in Section 8 is intended to demonstrate the potential impacts should actual experience remain above or below the long term assumptions.

Section 2

Scheme Information

The PCSS is governed by the *Parliamentary Contributory Superannuation Act 1948* (the Act). Membership of the PCSS was compulsory for all parliamentarians prior to the 2004 Federal election. The PCSS was closed to new members from 9 October 2004.

Parliamentarians elected since 2004, including former parliamentarians who return, are not eligible to join the PCSS and instead have superannuation contributions paid to an accumulation plan. This report is limited to the costs of the PCSS and does not consider contributions to other superannuation plans.

Members are required to make contributions towards the cost of the PCSS. These contributions are paid to Consolidated Revenue. The Australian Government meets all of the costs of 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 PCSS is untaxed (meaning that no tax is levied on employer contributions) although individuals may be required to pay additional tax as a result of their membership of the Scheme. The PCSS is an exempt public sector superannuation scheme under the *Superannuation Industry (Supervision) Act 1993*.

Since the last report, a Federal Election was held on 21 May 2022. The majority of the contributory members who exited the Scheme during the review period left as a result of the election.

References in the Act to the *Family Law Act 1975* were updated since the 2020 LTCR via the *Family Law Amendment (Western Australia De Facto Superannuation Splitting and Bankruptcy) Act 2020*, but this has not had a material impact on the value of the accrued liability, projected outlays or NECR.

Details of the benefits of the PCSS 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:

Headcount	Males	Females	Total	Average Age (years)
Contributors	4	6	10	60.2
Retiree pensioners	250	60	310	75.1
Spouse pensioners*	4	100	104	80.1
Deferred pensioners*	2	2	4	54.4
Contingent spouse pensioner**	6	-	6	86.5
Total	**266**	**168**	**434**	**75.9**

* Includes associate spouses who are former spouses of members following a Family Law split.

** Prior to 1984, members were able to commute 100% of their pension benefit without affecting the reversionary pension payable in the event of their death to a surviving spouse.

At the investigation date, total pensions in payment amounted to $45.6 million per annum. This figure is after allowance for reductions as a result of income received from an office of profit or membership of State Parliament.

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 economic assumptions resulted in a decrease to the accrued liability of $32.1 million, or -3.7%, 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.

It should be noted the assumed rate of salary increase represents increases in the basic parliamentary salary only. Individual members may experience higher (or lower) increases in their total salary, due to changes in their additional officeholder allowances.

Whilst changes in additional officeholder allowances will affect the rate at which members will accrue benefits in the future, these are not relevant to the valuation of accrued liabilities, as benefits which have already accrued to members increase only in line with basic salary.

Officeholder Allowances

Each member's actual officeholder allowance at the valuation date is assumed to continue at the same percentage of salary until the date of exit. Although in practice it is expected that members will change officeholder positions from time to time, this assumption is considered to provide a reasonable approximation of the overall impact of officeholder allowances. It is unchanged from the 2020 LTCR.

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.

Offices of Profit and Membership of State Parliament

An office of profit is a position (as specified in the Act) in respect of which a salary or similar allowance is payable by an Australian government. In certain circumstances, the pension benefit of a pensioner is reduced if the pensioner receives income from an office of profit or membership of State Parliament.

The assumed amount of future reductions has been updated based on the reductions as at 30 June 2023. The period over which reductions are assumed to apply has been extended by three years compared with the 2020 LTCR.

Retirement

Retirements are assumed to occur at election dates and elections are assumed to occur once every three years. Assumed rates of retirement are unchanged from the 2020 LTCR.

Commutation of Pension

Generally, retiring members may elect to convert up to 50% of the pension to a lump sum payment. Allowance is made for 5% of pension entitlements to be commuted to a lump sum. This assumption is 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 pensioner mortality are assumed to be 90% of the assumptions used in the *PSS and CSS Long Term Cost Report 2023*. 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

All remaining contributors have at least 12 years' service and are therefore eligible for a pension benefit irrespective of the reason for retirement. Therefore, no specific allowance is made for invalidity retirement.

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 2020 LTCR.

Future New Entrants

No allowance is made for future new entrants. The PCSS is closed to new members.

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.

The calculation methodology is 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.

The same methodology was used for the 2020 LTCR.

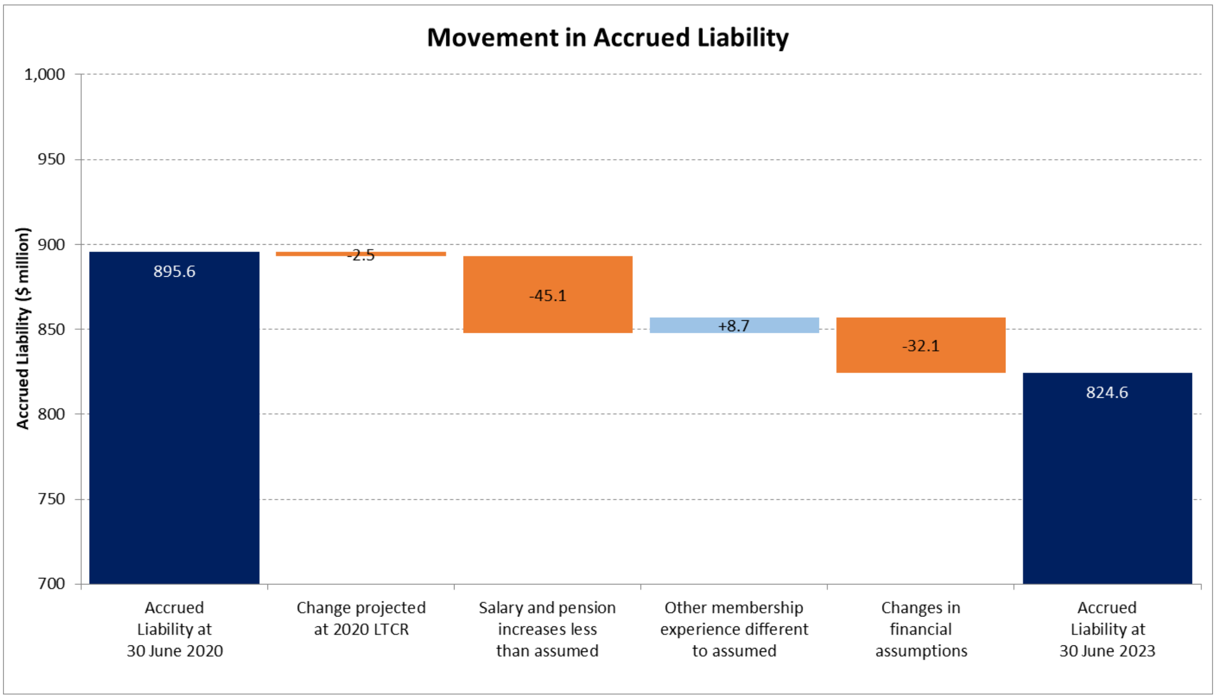
Results

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

As at 30 June 2023	Accrued Liability ($ million)
Contributors	45.2
Pensioners	779.4
Total	**824.6**

Analysis of Change Compared with Previous Report

The 2020 LTCR projected that the accrued liability would be $893.1 million as at 30 June 2023, $68.5 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 salaries and pensions increased by less than previously assumed. Changes to the salary and pension increase assumption have 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. The accrued liability is expected to decrease in the future, reflecting the fact that there are now very few members accruing new benefits.

As at 30 June	Accrued Liability ($ million)	As at 30 June	Accrued Liability ($ million)
2023	824.6	2044	417.6
2024	818.9	2045	390.4
2025	811.7	2046	363.4
2026	801.1	2047	336.7
2027	789.8	2048	310.5
2028	777.3	2049	284.9
2029	762.6	2050	260.1
2030	746.6	2051	236.2
2031	729.6	2052	213.2
2032	710.8	2053	191.1
2033	691.0	2054	170.2
2034	670.3	2055	150.5
2035	648.2	2056	132.0
2036	625.2	2057	114.7
2037	601.4	2058	98.9
2038	576.7	2059	84.3
2039	551.3	2060	71.2
2040	525.3	2061	59.7
2041	498.8	2062	49.5
2042	472.0	2063	40.6
2043	444.9		

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	47.1	2044	48.3
2025	47.8	2045	46.8
2026	50.3	2046	45.3
2027	50.4	2047	43.6
2028	50.9	2048	41.9
2029	52.3	2049	40.0
2030	52.6	2050	38.0
2031	53.0	2051	36.0
2032	53.8	2052	33.9
2033	53.8	2053	31.8
2034	53.9	2054	29.7
2035	54.1	2055	27.5
2036	53.9	2056	25.4
2037	53.7	2057	23.2
2038	53.3	2058	21.0
2039	52.8	2059	19.0
2040	52.1	2060	16.8
2041	51.4	2061	14.7
2042	50.4	2062	12.8
2043	49.4	2063	11.0

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 accrued liability 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.

Results

	NECR (% of Salaries)
As at 30 June 2020	36.6
As at 30 June 2023	29.3
Movement	-7.3

This rate has decreased because more of the remaining contributors are projected to reach their maximum supplementary pension and because a lower rate of future salary increase is assumed.

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	**824.6**	**-**
+1% per annum discount rate	736.4	-88.2
-1% per annum discount rate	931.6	+107.0
+1% per annum salary and pension increase rate	927.9	+103.3
-1% per annum salary and pension increase rate	737.9	-86.7

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	47.1	-	-
2025	47.8	+0.5	-0.5
2026	50.3	+1.0	-1.0
2027	50.4	+1.5	-1.5
2028	50.9	+2.1	-2.0
2029 – 33	265.6	+19.1	-17.7
2034 – 38	268.9	+33.5	-30.0
2039 – 43	256.1	+45.7	-39.2
2044 – 48	226.0	+53.0	-43.2
2049 – 53	179.7	+52.9	-41.2
2054 – 58	126.8	+45.4	-33.6
2059 – 63	74.4	+31.7	-22.0

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	**824.6**	**-**
5% higher pensioner mortality	811.7	-12.9
5% lower pensioner mortality	838.2	+13.6
25 year experience future mortality improvements	836.6	+12.0

In general, the impact of changes to the demographic assumptions has less of an impact on the accrued liability than changes to the economic assumptions.

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, movements in the CPI, investment returns, any discretions exercised by the Australian Government, or choices made by members. 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 PCSS. Provisions relating to the PCSS are set out in the *Parliamentary Contributory Superannuation Act 1948*. The provisions of the PCSS are complex. A **summary** of the principal provisions is set out below. This summary should not be used to calculate benefits for individuals.

Definitions

Additional Office Holder Allowance refers to the extra remuneration paid to a Member for holding an Additional Office.

Additional Office refers to a Ministerial or other paid office held by the Member in Federal Parliament.

Member refers to a Senator or Member of the House of Representatives.

Parliamentary Allowance refers to the base level of salary for superannuation purposes. At 1 July 2023 the Parliamentary Allowance was $171,740.

Service refers to a Member's period of service in Federal Parliament (which may include previous periods of Federal, State or Territory parliamentary service) or notional service "purchased" with the payment of a superannuation benefit from another scheme.

Term refers to a complete period between elections provided that, for a Senator whose term exceeds 3 years, the Senator shall be deemed to have completed an additional Term at the end of that Term.

Member Contributions

Members must contribute at the rate of 11.5% of their Parliamentary Allowances for the first 18 years of membership and at the rate of 5.75% of their Parliamentary Allowances for subsequent membership. In addition, they must contribute at the rate of 11.5% of their Additional Office Holder Allowances if they have not attained their maximum supplementary pension entitlement and at a rate of 5.75% of their Additional Office Holder Allowances if they have attained their maximum supplementary pension entitlement.

Retiring Allowance

This is a pension benefit which is payable if the Member leaves Federal Parliament and has:

(i) completed 12 or more years of Service; or

(ii) served 4 Terms; or

(iii) retired involuntarily after either 3 Terms or 8 years of Service.

The benefit payable is a base pension plus, where the Member has held Additional Offices, a supplementary pension in respect of each Additional Office held.

The base pension is equal to a percentage of Parliamentary Allowance of 50% plus 2.5% for each year of Service in excess of 8. (The percentage is subject to a maximum of 75%.)

The supplementary pension payable in respect of an Additional Office is equal to 6.25% of the Additional Office Holder Allowance paid in respect of that Office for each year of Service that the Member held that Additional Office. For periods of service less than one year, the 6.25% is pro-rated based on the number of days served. (Supplementary pensions are aggregated where the Member has held more than one Additional Office and the total rate of supplementary pension is subject to a maximum of 75% of the Additional Office Holder Allowance payable in respect of the highest paid Additional Office.)

Invalidity Retirement

On the basis of two medical certificates, a Member retiring for invalidity reasons is classified as a Class 1, Class 2 or Class 3 invalid.

- Class 1 invalidity applies to Members who are considered to be 60% or more incapacitated. The benefit is a pension of 50% of the Parliamentary Allowance.
- Class 2 invalidity applies to Members who are considered to be 30% or more incapacitated but are not Class 1 invalids. The benefit is a pension of 30% of the Parliamentary Allowance.
- Class 3 invalidity applies to Members who are considered to be below 30% incapacitated. The benefit is the higher of, a refund of Member's contributions plus 2 and 1/3 times the Member's contributions paid in the last 8 years of service, or the Superannuation Guarantee safety net amount.

Where a Member's benefit on involuntary retirement is higher than the invalidity benefit, the higher involuntary retirement benefit is payable.

Lump Sum Withdrawal Benefit

A Member who leaves Federal Parliament and who does not qualify for a Retiring Allowance or an Invalidity Benefit will be entitled to receive a lump sum benefit. The benefit will be equal to:

A + (B x C) where A = the total contributions paid by the Member

B = 2 1/3, if the retirement was involuntary, or

= 1 1/6, if the retirement was voluntary

C = the contributions paid by the Member in the previous 8 years.

This benefit is subject to a minimum of the Superannuation Guarantee safety net amount, which is calculated as:

- The voluntary retirement lump sum amount, if any, at 30 June 1992, plus
- The total contributions paid by the Member since 1992, plus
- Contributions at the Superannuation Guarantee rate, plus
- Interest on the above amounts at the rate determined for the PSS.

Death in Service Benefit

A. Where the Member is survived by a spouse - an annuity of five-sixths (5/6ths) of the Retiring Allowance that would have been payable to the Member had the Member qualified for a Retiring Allowance on the date of death. (If the Member had not completed 8 years of Service at that time, it is deemed that 8 years of Service had been completed.)

B. Where the Member is not survived by a spouse but is survived by dependent children - an annuity payable to each dependent child equal to the annuity which would have been paid to a surviving spouse divided by the greater of 4 and the number of dependent children.

C. Where the Member is not survived by a spouse or dependent children - a lump sum equal to the higher of the Member's contributions plus 2 1/3 times the Member's contributions paid in the last 8 years of Service, or the Superannuation Guarantee safety net amount.

Benefit on Death Whilst Receiving a Retiring Allowance

A. Where the former Member is survived by a spouse - an annuity of five-sixths (5/6ths) of the Retiring Allowance which was payable to the former Member.

B. Where the former Member is not survived by a spouse but is survived by dependent children - an annuity payable to each dependent child equal to the annuity which would have been paid to a surviving spouse divided by the greater of 4 and the number of dependent children.

C. Where the Member is not survived by a spouse or dependent children - an amount equal to the excess, if any, of:

   (i) a lump sum equal to the higher of the Member's contributions plus 2 1/3 times the Member's contributions paid in the last 8 years of Service, or the Superannuation Guarantee safety net amount; less

   (ii) the total Retiring Allowance received by the former Member.

Commutation

A former Member who qualified for a Retiring Allowance, other than a person who retired because of ill-health, may elect to commute up to 50% of that allowance to a lump sum. The commutation factor is 10 if the former Member is below age 66 at retirement. The commutation factor, if the former Member's age is 66 or more at the commencement of the most recent term, is 10 reduced by 0.5 for every year the former Member's age exceeds 65.

Deferred Members

With effect from the November 2001 Federal Election, the rules of the PCSS were amended so as to create a new category of members. In this report, we refer to this new category as Deferred Members. Generally speaking, anyone joining the PCSS on or after the November 2001 Federal Election will be a Deferred Member.

The provisions for Deferred Members are the same as those applying to other Members, with the following exception. If a Deferred Member leaves Federal Parliament and is eligible to receive a Retiring Allowance, payment of the Retiring Allowance does not commence until the Deferred Member has attained age 55, or is deemed to be an invalid. Similarly, if the Deferred Member wishes to commute any part of the Retiring Allowance, the commuted amount is not payable until the Deferred Member has attained age 55. Note that the commuted amount would be subject to preservation requirements, as described below.

Preservation of Benefits

All benefits payable from the Scheme are subject to the preservation requirements of the *Superannuation Industry (Supervision) Act 1993*. These requirements do not generally affect the payment of benefits in pension form (such as the Retiring Allowance). However, they restrict the amount of lump sum benefit which can be paid to a member before i) reaching preservation age (between 55 and 60, depending on the member's date of birth) and retiring from the workforce OR (ii) turning 65. Where a benefit is subject to preservation, it cannot be paid in cash to the member but must be transferred to another fund within the superannuation system.

Surcharge

From 1996 to 30 June 2005, a surcharge tax was imposed on employer superannuation contributions in respect of members with adjusted taxable incomes greater than a specified threshold.

The surcharge is paid by the Scheme, and members' benefits are reduced to reflect the amount of surcharge paid. However, the total reduction to the benefit cannot exceed:

- 15% of the employer financed benefit arising between 20 August 1996 and 30 June 2003; plus
- 14.5% of the employer financed benefit arising in the year ended 30 June 2004; plus
- 12.5% of the employer financed benefit arising in the year ended 30 June 2005.

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.

Division 293 Tax Liability

An additional 15% contributions tax for high income earners (i.e. incomes of greater than $250,000) was introduced from 1 July 2012. This tax is payable by the member rather than the Scheme. However, in certain cases a member may request that the Scheme pay the tax on the member's behalf, in which case the benefit payable to the member is reduced.

Appendix B
Experience of the Scheme

Reconciliation of Contributory Members

	Males	Females	Total
As at 30 June 2020	**12**	**6**	**18**
Deaths/Invalidity	-	-	-
Retirement (lump sum)	-	-	-
Retirement (pension)	8	-	8
Deferred to age 55	-	-	-
As at 30 June 2023	**4**	**6**	**10**

Reconciliation of Pensioners

	Retiree	Spouse*	Deferred**	Contingent Spouse	Total
As at 30 June 2020	**322**	**99**	**5**	**12**	**438**
New	+8	+16	-	-	+24
Deaths	-21	-16	-	-1	-38
Transfers	+1	+5	-1	-5	-
As at 30 June 2023	**310**	**104**	**4**	**6**	**424**

* Includes associate spouses who are former spouses of members following a Family Law split.

** Includes one deferred associate spouse pensioner.

Increases in Parliamentary Allowance

The basic parliamentary salary (for superannuation purposes) increased from $167,150 as at 1 July 2020 to $171,740 as at 1 July 2023. A salary increase of 4% effective from September 2024 was determined by the Remuneration Tribunal. This increase is allowed for in the results of this report. The average rate of increase since the 2020 LTCR was 2.2% per annum compound. The rate of increase in pensions is the same as the rate of increase in salary.

The actual rate of increase is lower than the rate assumed for the previous report. The impact of this was to reduce the value of accrued liabilities at 30 June 2023 by approximately $45.1 million (compared with the previously projected values and based on the assumptions adopted in the previous report).

Offices of Profit and Membership of State Parliament

An office of profit is a position (as specified in the Act) in respect of which a salary or similar allowance is payable by an Australian government. In certain circumstances, the pension benefit of a pensioner is reduced if the pensioner receives income from an office of profit or membership of State Parliament.

For the 2020 LTCR we had assumed that these reductions would:

- increase from the 30 June 2020 level of $1.6 million per annum in line with assumed future pension increases; and
- decrease by 5% of the original amount each year, meaning that by 30 June 2040, there would be no further reductions.

The 20-year period was an approximation, based on an underlying assumption that the pensioners who were subject to reductions would, over time, cease to hold the positions resulting in reductions to their pension, and that no new reductions would commence.

The level of reductions and suspensions as at 30 June 2023 is broadly in line with what was previously projected when adjusted for the actual increases in basic parliamentary salary.

We have therefore maintained the same methodology, adjusted to reflect the actual level of reductions at 30 June 2023.

Contributor Mortality/Invalidity

In the three-year review period, no contributory members died in service or retired due to invalidity.

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	21	23.6	89%
Spouses	16	13.6	118%
Total	**37**	**37.2**	**99%**

The actual pensioner mortality experience was broadly in line with that previously assumed. Assumed mortality rates for pensioners continue to be based on 90% of the rates used for PSS and CSS pensioners.

Retirement

Based on the assumptions used for the previous actuarial investigation, 10 contributors were assumed to retire during the three-year period to 30 June 2023. The actual number of retirees was 8. We are satisfied that the previous assumptions continue to be reasonable.

Commutation of Pensions

Of those members leaving the PCSS during the three-year review period who were entitled to a pension benefit, none elected to commute a portion to a lump sum. The assumed commutation percentage for the 2020 LTCR was 5%. We are satisfied that the small allowance for commutations made for the previous review continues to be reasonable.

Spouses

Thirteen pensioners who died during the three-year review period had a spouse. This was higher than the nine expected based on the 2020 LTCR assumptions.

On average, there was a three year age difference between a deceased pensioner and their spouse. This was broadly consistent with the 2020 LTCR assumptions.

Appendix C
Details of Actuarial Assumptions

Economic Assumptions

The key long term economic assumptions used 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

Officeholder Allowances

Each member's actual officeholder allowance at the valuation date is assumed to continue at the same percentage of salary until the date of exit.

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

Offices of Profit and Membership of State Parliament

Allowance is made for future reductions in pensions payable from the Scheme as a result of pensioners receiving income from an office of profit or membership of State Parliament.

We have assumed that the overall level of reductions will:

- increase from the current 30 June 2023 level of $1.6 million per annum in line with assumed future pension increases; and
- decrease by 5% of the original amount each year, meaning that by 30 June 2043 there would be no further reductions.

Retirement Rates

All remaining contributions have at least 18 years' service. Contributors who have attained age 70 and 50% of other contributors are assumed to retire at each election.

Death and Invalidity Retirement Rates

	Death	
Age	Male	Female
45	0.064%	0.039%
50	0.088%	0.060%
55	0.124%	0.097%
60	0.183%	0.166%
65	0.274%	0.249%

No specific allowance is made for invalidity retirement as all remaining contributors have at least 12 years' service and are therefore eligible for a pension benefit irrespective of the reason for retirement.

Proportion with Spouses

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

The above rates include allowance for same sex marriages.

Age Difference between Member and Spouse

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

Pensioner Mortality Rates

	Male		Female	
Age	Retiree	Widower	Retiree	Widow
60	0.218%	0.490%	0.185%	0.275%
65	0.391%	0.705%	0.280%	0.408%
70	0.757%	1.126%	0.532%	0.690%
75	1.481%	1.946%	0.995%	1.215%
80	2.918%	3.577%	2.073%	2.341%
85	6.111%	6.973%	4.523%	4.847%
90	12.521%	12.845%	10.045%	9.866%
95	22.031%	19.458%	17.272%	17.054%
100	33.852%	27.092%	27.473%	26.361%
105	46.514%	34.400%	37.515%	36.257%
110	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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