



11 April 2016

Ms Gabrielle Woods
Inquiry Secretary
Legislative Council
Parliament House
HOBART TAS 7000

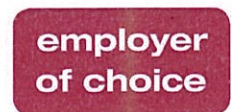
Re RBF Unfunded Liability Inquiry

Dear Committee Members

I refer to the letter dated 18 March 2016 from the Hon Ruth Forrest MLC inviting submissions that address the reasons for, and implications of, significant increase in the employer contributions necessary to fund ongoing benefits. This letter provides information to be considered by the Committee in addressing its terms of reference.

The following table provides the value of the unfunded liability in the RBF accounts for the past seven years:

Financial Year	Unfunded liability amount	Reference in financial statements
2014-15	\$4,459,336,000	Note 12
2013-14	\$4,370,762,000	Note 12
2012-13	\$4,221,587,000	Note 16
2011-12	\$4,113,731,000	Note 16
2010-11	\$4,010,557,000	Note 16
2009-10	\$4,196,934,000	Note 16
2008-09	\$3,823,229,000	Note 16



Each year, the Actuary calculates the accrued benefits figures to be included in the financial statements. The above shortfall amount is the difference between the actuarially determined accrued benefits figure and the net assets of the Contributory Scheme. To calculate the accrued benefit number the Actuary uses many economic and demographic assumptions (which may change year to year). RBF engages the State Actuary, Dr David Knox of Mercer Consulting, to complete these calculations. Dr Knox is best placed to explain these calculations to the Committee and would be pleased to come to Hobart and discuss this with the Committee. Dr Knox can be contacted on (03) 9623 5464.

The below facts were briefly discussed with Dr Knox in preparing this response to the Inquiry:

“The major reasons, as mentioned in the 2013 triennial review of the RBF Contributory Scheme, are as follows:

At 30 June 2010, the overall financial position of the Scheme was a deficit of \$258 million. As at 30 June 2013, this deficit has increased to \$344 million.

The major factor contributing to the increase in deficit in recent years is the addition of interest (at the assumed earning rate) to the previous deficit. This increase was expected as the adjustments to employer contributions to reduce the deficit only commenced in July 2012.

Other factors which occurred during the three years to increase the deficit included:

- expenses during the period in excess of the assumed rate;
- higher take up of pension than assumed;
- the average member contribution rate increased during the period; and
- investment earnings were marginally lower than assumed.

As a result of this experience, we have increased the future level of assumed expenses and increased the assumed level of pension take up in the future; both of these changes have had an adverse impact.

However, offsetting the above, the following factors had a favourable impact on the financial position:

- the agreement to increase the employer share from 75% to 76.5% of the Basic Benefit with effect from 1 July 2012;
- salary increases during the period at less than the assumed rate; and
- a decrease in assumed future salary increases for five years, reflecting the current economic conditions.

Overall, ignoring the interest effect, the negative factors have slightly outweighed the positive factors.”

Going back to the 2010 triennial report into the RBF Contributory Scheme, the impact of the GFC was assessed as follows:



"The most significant event which affected the Scheme during the three year period was the global financial crisis and the related effect on financial markets. In fact, the Scheme's investment return for the three year period was minus 3.5% per annum compared to an expected return of 7% per annum. This negative investment return had an adverse effect on the Scheme's financial position of about \$480 million."

Based on the information provided above and factors affecting the funding shortfall, the State's budgetary position will continue to be impacted well into the future by the required employer contributions to the RBF defined benefit schemes.

Thank you for the opportunity to contribute to the Inquiry. Please contact Mark Leis on 6165 1791 should you have any further queries in regards to this submission.

Yours sincerely

Philip Mussared
Chief Executive Officer
Retirement Benefit Fund