QON No. 8

Legislative Assembly for the Australian Capital Territory
Select Committee on the Fiscal Sustainability of the ACT

Inquiry into the Fiscal Sustainability of the ACT

Answer to question on notice

Asked by: Ms Jo Clay MLA

Addressed to: Treasurer

In relation to: Commonwealth superannuation scheme

Hearing: 05 March 2026
Received: 13 March 2026
Answer Due: 20 March 2026

In relation to Commonwealth superannuation, the Government is not primarily an investor, so investment returns are not classified as revenue in Government Finance Statistics.

If the ACT set up a standalone financial corporation, it would count investment returns as revenue because the corporation would be a commercial entity (and financial returns are its primary purpose). The ACT Government would also have more control over the investment.

1. Has ACT Government considered doing this?

2. Would it provide any revenue benefits?

MR CHRIS STEEL MLA: The answer to the Member's question is as follows:

Current and former ACT employees are members of Commonwealth Government defined benefit superannuation schemes, including the Commonwealth Superannuation Scheme ("CSS") and the Public Sector Superannuation Scheme ("PSS").

Both of these schemes are administered by the Commonwealth Superannuation Corporation ("CSC") including managing and investing member and employer productivity contributions, and the calculation and ongoing payment of member retirement benefits.

- The CSS defined benefit superannuation scheme includes two benefit components being an employer defined benefit lifetime indexed pension based on a formula including final salary, years of service and age at retirement, as well as an accumulation component based on member contributions, employer productivity contributions and the investment earnings achieved by CSC on member contribution balances (member contributions & employer productivity contributions).

- The PSS defined benefit superannuation scheme includes a defined benefit component based on a formula including final salary, years of service, level of member contributions and age at retirement. The member's superannuation benefit can be paid as a lifetime indexed pension, lump sum or combination of both. The employer's defined benefit payable is the member's total calculated superannuation benefit less the accumulation component including member contributions and employer productivity contributions and investment earnings achieved by CSC on member balances.
- Both schemes are closed to new ACT employees. As at 30 June 2025 there were 4,453 current ACT employees actively contributing to the CSS (56) and PSS (4,397) with the Territory recognising an employer defined benefit superannuation liability for over 34,000 current and past ACT employees.

The Territory reimburses CSC on a quarterly in-arrears basis from the Superannuation Provision Account ("SPA") for the Territory's 'employer' share of member retirement benefits paid by CSC.

- The SPA currently receives budget appropriation that matches the estimated annual Territory employer share of superannuation benefit payments to be paid to CSC each year.
- For the 2025-26 financial year the SPA will receive $451.859 million in Budget appropriation and pay this amount to CSC to reimburse the Commonwealth for the Territory's employer share of member retirement benefit payments.
- The SPA's financial investment assets are held by the Territory and invested via the Territory Banking Account ("TBA") investment platform managed by Treasury. The CSC does not hold any Territory investment assets and the Territory is not an 'investor' in the schemes.
- The funding plan objective is to use investment assets held by the SPA to reimburse the Commonwealth for the Territory's ongoing employer share of retirement benefit payments made by CSC, once the defined benefit superannuation liability is fully funded by investment assets held in the SPA.
    - Once full funding is achieved then annual Budget appropriation to the SPA will cease.

The Territory's defined benefit superannuation liability is a liability to the Commonwealth, as the CSS and PSS are Commonwealth Government superannuation schemes and **not** Territory superannuation schemes. The liability is the Territory's obligation to reimburse the Commonwealth for future retirement benefits that have been accrued by current and former ACT employees who are members of the CSS and PSS.

Accounting for the Territory's superannuation liability and the investment assets being set aside to fund this ongoing obligation is different under both Australian Accounting Standards and the Australian Government Uniform Presentation Framework when compared to other State Governments that <u>have their own</u> defined benefit superannuation schemes.

- Australian Accounting Standard *AASB119 Employee Benefits* governs how the Territory must recognise, measure and disclose employee benefits, including defined benefit post-employment benefits.
    - The liability valuation is the calculated value of all future benefit payments recognised to date, that is discounted to present value.

- Superannuation expense includes both Service Cost and Interest Cost.
  - Service Cost is the increase in the present value of the liability resulting from employee service in the current period.
  - Interest Cost is the expected change in the scheme's net liability over a financial year due to the passage of time as benefits are one year closer to being paid. This arises from discounting the long-term obligations to present value.
- For a defined benefit superannuation scheme the Interest Cost expense is calculated on the Net Liability Obligation, which is the Gross Liability Obligation less Plan Assets.
  - Plan Assets being those financial investment assets that form part of a defined benefit superannuation scheme.
- As the CSS and PSS are not Territory superannuation schemes, the Territory's Interest Cost expense is calculated on the total Gross Liability Obligation and **not** the Net Liability Obligation, as there are **no** Plan Assets.
  - Other States with their own defined benefit superannuation schemes therefore recognise a lower Interest Cost expense (calculated on the Net Liability Obligation) and lower overall superannuation expense (Service Cost + Interest Cost) due to the existence of Plan Assets.
  - However, these Schemes do not recognise any investment assets in the Balance Sheet or recognise any investment earnings in the Operating Statement. State defined benefit superannuation schemes recognise a net liability position (Liability less Plan Assets) in the Balance Sheet and a net superannuation expense in the Operating Statement.
  - The Territory recognises a Gross Liability Obligation and the total value of investment assets in the Balance Sheet and recognises the Gross Superannuation Expense (Service Cost + Interest Cost) and all investment earnings in the Operating Statement.
- Under Australian Accounting Standards the investment earnings on the SPA's investment assets are fully recognised and accounted for in each financial year.

• The Australian Government Uniform Presentation Framework ("UPF") is an agreed national framework under which the Commonwealth, State and Territory Governments present their budget and financial information in a standardised, comparable format.
  - The framework aligns with *AASB1049 Whole of Government and General Government Sector Financial Reporting* which harmonises Government Finance Statistics ("GFS") and Generally Accepted Accounting Principles ("GAAP").
  - Under the Framework governments must publish a comprehensive Operating Statement, showing the Net Operating Balance, and Balance Sheet, showing Net Worth, Net Financial Worth, Net Financial Liabilities and Net Debt.

- Under this Framework the accounting by State Governments for their defined benefit superannuation schemes is not impacted, with recognition of a net defined benefit superannuation liability in the Balance Sheet and inclusion of the net superannuation expense in the Net Operating Balance.
- However under the UPF the Territory's accounting for the defined benefit superannuation liability obligation to the Commonwealth is adversely affected. While the framework allows for the recognition of the gross superannuation liability obligation and total investment assets on the Balance Sheet, as well as the gross superannuation expense in the Net Operating Balance, a key issue is the recognition of the investment earnings in the Net Operating Balance.
- Under the Framework, due to the definitions of transactions and economic flows in the GFS Framework only investment income (interest, dividends and distributions) derived from the investment assets can be recognised in the Net Operating Balance. Any investment asset capital gains (valuation increases) are recognised under Other Economic Flows and not included in the Net Operating Balance, as this revenue is not treated as revenue from transactions.
- Therefore comparison of the Territory's Net Operating Balance with other States with defined benefit superannuation schemes is compromised due to the Territory's Net gains on financial assets being excluded from the Net Operating Balance. From year to year net capital gains on the investment assets can be a material component of the total investment earnings derived from the financial assets held by the SPA.
- Under the UPF the net gains on financial assets are recognised and accounted for in the Operating Result, which is outlined below the Net Operating Balance.

Approved for circulation to the Select Committee on the Fiscal Sustainability of the ACT

Signature: Date: 20/3/26

By the Treasurer, Chris Steel MLA