The Commissioner of Superannuation's Annual Report

2018-19

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The Honourable Nicole Manison MLA
Treasurer
GPO Box 3146
Darwin NT 0801

Dear Treasurer

In accordance with the provisions of section 40 of the *Superannuation Act 1986*, I am pleased to provide to you with my report on the operation and management of the following superannuation and pension schemes for the financial year ended 30 June 2019:

- Administrators Pension Scheme
- Legislative Assembly Members' Pension Scheme
- Northern Territory Government Death and Invalidity Scheme
- Northern Territory Government and Public Authorities' Superannuation Scheme
- Northern Territory Supplementary Superannuation Scheme.

Yours sincerely

James Richards
Commissioner of Superannuation
18 December 2019

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About this annual report

Welcome to the annual report of the Commissioner of Superannuation (Commissioner).

Under section 40 of the *Superannuation Act 1986*, the Commissioner is required to report annually to the Treasurer on the operation and management of each superannuation and pension scheme for which the Commissioner had responsibility during the financial year (collectively referred to as the Northern Territory Government (NTG) schemes). For 2018-19, the NTG schemes are the:

- Northern Territory Government and Public Authorities' Superannuation Scheme (NTGPASS)
- Northern Territory Supplementary Superannuation Scheme (NTSSS)
- Northern Territory Government Death and Invalidity Scheme (NTGDIS)
- Legislative Assembly Members Pension Scheme (LAMS)
- Administrators Pension Scheme (APS)

This report is available electronically, via website download or email.

Historically annual reports have been prepared for both NTGPASS and LAMS under their enabling legislation but not for NTSSS, NTGDIS or APS. Accordingly, this is the first time a report is provided for these schemes.

During the 2018-19 financial year, the Commissioner administered the Northern Territory Police Supplementary Benefit Scheme (NTPSBS) under a delegation from the trustees of that scheme. These trustees have separate annual reporting obligations to the Treasurer. Consequently, this report does not cover the operation or management of NTPSBS in any detail.

Objective

The objective of this report is to provide the Treasurer (as the minister responsible for public sector superannuation policy and administration), members of the NTG schemes and other interested parties with information on the administration, operation and management of the NTG schemes during the 2018-19 financial year.

Reporting requirements

Section 40 of the *Superannuation Act 1986* requires, within six months of the end of each financial year, the Commissioner to provide a report to the Treasurer, as responsible minister, on the operation and management of each of the NTG schemes.

The Treasurer is required to table the report in the Legislative Assembly within six sitting days of its receipt.

Report structure

Each of the NTG schemes are administered by the Commissioner, with support from staff of the Northern Territory Superannuation Office (NTSO), a division of the Department of Treasury and Finance (DTF). Consequently, a number of operational and management issues are common to the NTG schemes. With this is mind, the report is presented in three major sections:

- year in review – a summary of major operational and management issues relating to the NTSO and NTG schemes, particularly where they apply to more than one scheme
- governance arrangements – summarises the governance arrangements for the NTG schemes
- scheme performance – an overview of each NTG scheme, operation and management issues specific to that scheme, and relevant performance information.

Year in review

Management and administration reforms

The 2018-19 financial year was a year of significant change in the operation and management of a number of NTG schemes. This change was preceded by the Territory Government approving a number of reforms in May 2018 that were intended to address emerging risks associated with the management of its closed defined benefit superannuation schemes and declining scheme membership.

The identified risks included:

- the increasing burden of reporting to the Australian Taxation Office (ATO) and the Australian Prudential Regulation Authority (APRA) as a consequence of operating funds as part of a number of the NTG schemes
- constant legal, policy, tax and reporting changes affecting superannuation at the national level
- requirement for staff of NTSO to maintain specialised superannuation, taxation and prudential expertise
- the need to replace an aging information technology system used to manage superannuation accounts as it was coming to the end of its life.

To address these risks, government decided to simplify the administration of NTGPASS, LAMS and NTPSBS by:

- transferring the fund included within NTGPASS (which contained member contributions and earnings on these contributions) to an external superannuation fund to manage and invest on behalf of NTGPASS members. After this transfer occurred, NTGPASS members have had the option to make their compulsory member contributions to this external superannuation fund or to another fund of their choosing
- transferring the fund from which LAMS pensions are paid (which predominantly contained contributions made from the Central Holding Authority (CHA), together with a small amount of member contributions) to CHA. Following this transfer, LAMS pensions are paid from CHA in the same way as salaries
- reform the trustee arrangements for NTPSBS by replacing the nine-member Superannuation Trustee Board (STB) with three individual trustees nominated, respectively, by the Northern Territory Police Association, the Commissioner of Police and the Under Treasurer.

External legal and tax advice was obtained in implementing all of the reforms, to ensure member benefits would not be negatively impacted in any way. The NTGPASS and LAMS reforms were implemented by the *Superannuation Legislation Amendment Act 2019*, with the NTPSBS reforms implemented by amendments to the NTPSBS Deed.

The *Superannuation Legislation Amendment Act 2019* also dissolved the STB on 26 June 2019, as the STB no longer had any responsibilities once the above reforms were completed.

Further details on the reforms to NTGPASS and LAMS, and the transfer of the schemes' funds, are set out in the Scheme performance section of this report.

Market performance

Global share markets were volatile throughout the year, despite commencing with strengthening global economic growth and very accommodative global monetary policy. This was counterweighed during the year by rising United States' interest rates, global trade tensions (including increased tariff rates) and the uncertainty of Brexit.

Australian shares also exhibited volatility over the 2018-19 financial year while delivering strong absolute returns. Australian shares outperformed their (hedged) global counterparts. Strong positive absolute returns were the trend across the various Australian asset classes with bond markets participating as the Reserve Bank of Australia (RBA) shifted to a more accommodative monetary policy preference. The weakening Australian dollar also boosted returns from any asset class with foreign unhedged exposure. All of these factors contributed to strong investment returns over the year.

In Australia, economic growth slowed further to 1.8 per cent in the year through to March 2019, the slowest growth recorded since the global financial crisis. Amid the softening economic conditions, the RBA ended a 34-month pause to cut the official cash rate to a historic low of 1.25 per cent in June 2019 with further rate adjustments signalled by the RBA. This was done in a bid to combat weakening employment, wages and inflation.

Specific details of the performance of the LAMS fund and different investment options in the NTGPASS fund are provided in the Scheme performance section later in this report.

Territory Liability

The Territory's liability to pay superannuation and pension benefits for the NTG schemes and NTPSBS is actuarially assessed each year and reported in the Treasurer's Annual Financial Report, which also includes the Territory's liability for Supreme Court Judges' Pensions and pensions under the Commonwealth Superannuation Scheme.

The assumptions used in calculating the liabilities for each NTG scheme, and explanations regarding why they have changed, are in that scheme's Actuarial review section in the Scheme performance part of this report, and in the actuarial summary part of the NTPSBS annual report.

The liabilities for the NTG schemes and NTPSBS are summarised below as at 30 June 2019 and 30 June 2018.

Scheme	Liability at 30 June 2019 ($ million)	Liability at 30 June 2018 ($ million)
NTGPASS	953.2	927.6
NTSSS	234.6	224.4
NTGDIS	88.2	70.4
LAMS	91.0	68.1
APS	3.4	4.0
NTPSBS	85.7	70.1

Commonwealth superannuation law reforms

There were two significant reforms affecting superannuation and pension schemes during 2018-19.

The first significant reform was implementation of the Commonwealth's Member Account Transaction Service (MATS). MATS is the latest enhancement to SuperStream, an information technology solution used to pay the majority of superannuation benefit payments in Australia. The aim of MATS is to provide greater visibility to scheme members and the ATO of contributions made by employers and received by superannuation funds. Rather than reporting annually to the ATO on the amount of contributions received in member accounts, under MATS the NTSO commenced reporting to the ATO in January 2019 within a few days of each contribution being received in an individual's account. This means that from January 2019, the ATO and scheme members were able to confirm contributions being made into members' accounts within a few days of payment occurring.

The second significant reform was the Commonwealth's Protecting Your Super amendments. The amendments commenced on 1 July 2019 and contain the following elements:

- a cap on administration and investment fees charged on superannuation accounts with balances of $6000 or less at 3 per cent of the account balance, in addition to banning superannuation funds from charging exit fees for any account
- a requirement of superannuation funds to only offer insurance on an opt-in basis in relation to accounts:
  - with balances below $6000
  - of new members who are under 25 years old
  - or that have not received a contribution for 13 months or longer
- changes to strengthen the ATO-led consolidation regime by requiring the transfer of all inactive accounts where the balances are below $6000 to the ATO. The ATO has been given powers to reunite ATO-held accounts with the mem ber's account where possible.

Of note is that none of the Protecting Your Super reforms applied to any of the NTG schemes, as none of these schemes:

- charge members administration or investment fees
- charge members for insurance cover
- are subject to the ATO's superannuation account consolidation regime. This is because the account consolidation measures do not apply to defined benefit superannuation schemes and pensions, such as the NTG schemes.

Eligible rollover fund

As part of amendments to the *Superannuation Act 1986* made in 2016, the Legislative Assembly approved that inactive, lost and unclaimed NTGPASS and NTSSS accounts could be transferred to an eligible rollover fund (ERF). An ERF is a specialised superannuation fund that is dedicated to trying to reunite lost superannuation fund members, and members who are not eligible to continue membership of a fund, with their unclaimed superannuation.

The primary reason for engaging an ERF is to increase the chance lost members will be reunited with their superannuation.

Some unclaimed Territory benefit entitlement accounts under NTGPASS and NTSSS were established in the 1980s, though many were established in the 1990s. Many of these accounts are the result of short-term employment in the Territory by members who never maintained contact and for whom the NTSO has no current contact details.

The STB and Commissioner selected AUSfund as the ERF for lost and unclaimed NTGPASS and NTSSS accounts. As part of amendments to the NTPSBS Deed commencing on 19 June 2019, AUSfund also became the ERF for unclaimed NTPSBS benefits.

During the year, the lost and unclaimed superannuation benefits of 226 former Territory Government employees, worth a total of $3.58 million, were transferred to AUSfund.

Anti-money laundering and counter-terrorism financing

The Commonwealth's Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) legislation imposes a range of governance and operational obligations on superannuation funds and other entities involved in the financial services industry, designed to combat money laundering and terrorism financing activities.

The main governance and operational obligations require compliance with an AML/CTF program, which include a detailed risk assessment, member identification requirements, staff training and due diligence programs, as well as maintaining a range of records and regular reporting to the Australian Transaction Reports and Analysis Centre (AUSTRAC).

The AML/CTF programs for NTGPASS and NTSSS were implemented by the NTSO in early 2008, and are reviewed annually and updated as appropriate. An annual compliance report is submitted to AUSTRAC in March each year.

AUSTRAC has provided a reporting exemption for the other NTG schemes, however, they remain subject to AML/CTF legislation.

Member education

The NTSO aims to provide information to assist members in understanding their entitlements under the defined benefit superannuation scheme of which they are a member. Information covering matters such as investment options is available on the website along with a range of publications including forms and fact sheets. Relevant information is kept up to date and new items are developed as required.

NTSO staff engage with members over the phone, by email or in person through arranged appointments. Members are encouraged to seek the services of a qualified professional as the NTSO cannot provide personal financial advice.

In March 2019, a total of 23 NTGPASS information seminars were held in Alice Springs, Casuarina, Darwin, Katherine, Nhulunbuy, Palmerston and Tennant Creek. A total of 914 NTGPASS members and their spouses registered to attend the seminars. The primary focus of the seminars was the NTGPASS management and administration reforms, including the transfer of the NTGPASS fund to Statewide. Statewide participated in the seminars in order to explain the transfer process, the products and services it was offering NTGPASS members and to discuss any concerns. Other topics were also covered in response to members' questions.

Online member information

The annual member information statement provides key information to each member of NTGPASS, NTSSS and the NTPSBS about his or her accumulation account and defined benefit. Member information statements from previous years can be viewed online by current members at ntgpass.nt.gov.au. Members must have access to ePASS to view the available information.

Investment manager structure

JANA Investment Advisers Pty Ltd (JANA) was the implemented investment consultant for NTPSBS, NTGPASS and LAMS, up until the transfer of the funds associated with NTGPASS and LAMS. JANA continues as the implemented investment consultant for NTPSBS.

In its role as implemented investment consultant, JANA provided advice on investment objectives and strategies, and selected and monitored investment managers. JANA provided the STB with quarterly reports on risk and asset allocation as well as information on investment performance. As part of risk management, JANA applied a range of stress testing (scenario analysis) to the investment portfolios. JANA also undertook regular portfolio rebalancing to bring the actual asset mix in line with the target allocations set out for each fund (refer to the Scheme performance section later in this report). JANA aimed to keep the actual asset allocation of each investment option in each fund within the target allocation. The asset allocation ranges were continually monitored to ensure they were within targets.

JANA appointed investment managers across different asset classes, such as international and Australian shares, property and fixed interest securities. This created a diversified portfolio that helped minimise risk and produced positive long-term returns.

Professional memberships

All staff of the NTSO and trustees of the NTPSBS are members of the Association of Superannuation Funds of Australia (ASFA). ASFA is a national not-for-profit and apolitical organisation that represents the interests of superannuation funds, trustees and members. Membership fees are paid from the NTSO's budget. ASFA is the peak industry body for Australia's superannuation funds. It undertakes extensive analysis and research on superannuation, and provides education and professional development courses for trustees and fund administrators.

Governance

Key changes

During the year there were changes to the governance and administration arrangements of NTGPASS, LAMS and NTPSBS. These changes can be summarised as follows:

- NTGPASS – prior to 8 May 2019, the STB acted as trustee of the NTGPASS fund (which the Commissioner invested and administered on the STB's behalf), and the Commissioner had responsibility for administering NTGPASS and paying NTGPASS benefits. Following the 8 May 2019 transfer of the NTGPASS fund to Statewide, the STB ceased to be involved with NTGPASS, with legislative amendments making the Commissioner solely responsible for administering NTGPASS and paying NTGPASS benefits.
- LAMS – prior to 12 May 2019, the STB acted as trustee of the LAMS fund and was also responsible for managing and administering LAMS. The Commissioner undertook certain delegated duties and functions on the STB's behalf. Following the 12 April 2019 transfer of the LAMS fund to CHA, the STB ceased to be involved with LAMS, and full responsibility for its management and administration passed to the Commissioner.
- NTPSBS – prior to 19 June 2019, the STB acted as trustee of the NTPSBS fund and was also responsible for administering NTPSBS. The Commissioner undertook certain delegated duties and functions on the STB's behalf. From 19 June 2019, the nine-member STB was replaced as trustee by three individual trustees nominated, respectively, by the Northern Territory Police Association, the Commissioner of Police and the Under Treasurer. The Commissioner continues to undertake delegated duties and functions on behalf of the new trustees.

The governance and administration arrangements for NTSSS, NTGDIS and APS remained unchanged, with the Commissioner and NTSO responsible for the administration and management of each of these schemes.

Trustee arrangements

At 1 July 2018, the STB was trustee of the funds associated with NTGPASS, LAMS and NTPSBS. The STB was also responsible for the administration and management of both LAMS and NTPSBS (with performance of some duties and functions delegated to the Commissioner).

The members of the STB during the year were:

- Ms Kathleen Robinson FCPA BBus (Acc) – Chairperson
- Ms Marianne McAdie BBUDP – Deputy Chairperson
- Mr Craig Graham BEc – member, Under Treasurer
- Ms Sarah Burchett – member, nominated by Unions NT
- Mr Mark McAdie BEc M Pub Pol Grad Cert App Mgt – member, nominated by Commissioner of Police
- Mr Alex Pollon GAICD – member, nominated by the Under Treasurer
- Mrs Tiziana Hucent BBus (Acc) CPA – member, nominated by the Under Treasurer
- Mr Daniel Bacon – member, nominated by the Northern Territory Police Association (appointed 13 March 2019)
- Mr Michael Martin OAM FCPA BA BCom Grad Dip (Admin) AdvDip (Superannuation) GAICD – member, nominated by Unions NT (appointment expired on 10 May 2019)
- Mr Col Goodsell – member, nominated by the Northern Territory Police Association (resigned 10 January 2019)

In implementing the NTGPASS, LAMS and NTPSBS administration and management reforms announced by government in May 2018, the Legislative Assembly enacted the *Superannuation Legislation Amendment Act 2019*. In relation to the STB, that Act:

- amended the *Legislative Assembly Members' Pensions Act 1979* (LAMS Act) (formerly the *Legislative Assembly Members' Superannuation Fund Act 1979*) on 12 April 2019 by transferring:
  - the fund associated with LAMS to CHA

- responsibility for administration and management of LAMS to the Commissioner

- amended the *Superannuation Act 1986* by:
  - allowing the transfer of the fund associated with NTGPASS to an external fund to manage and invest on behalf of NTGPASS members. The STB and Commissioner chose Statewide to be that fund, with the transfer occurring on 8 May 2019
  - transferring full responsibility for administration and management of NTGPASS to the Commissioner from 8 May 2019
- dissolved the STB on 26 June 2019, and transferred its remaining functions and responsibilities to the Commissioner.

On 19 June 2019, prior to the STB being dissolved, the NTPSBS Deed was amended to reform the trustee arrangements for NTPSBS. These amendments replaced the nine-member STB with three individual trustees nominated, respectively, by the Northern Territory Police Association, the Commissioner of Police and the Under Treasurer.

The nominated trustees of NTPSBS commenced in that role on 19 June 2019 and are:

- Mr Daniel Bacon – nominated by the Northern Territory Police Association
- Mr Mark McAdie BEc M Pub Pol Grad Cert App Mgt – nominated by Commissioner of Police
- Mr Alex Pollon GAICD – nominated by the Under Treasurer.

Each of these trustees was also a member of the STB at the time of its dissolution.

Trustee meetings

The STB met four times during the year. The meetings related to general STB business, investment decisions of the funds associated with NTGPASS, LAMS and NTPSBS, and approving the transfer of the NTGPASS fund to Statewide. STB meeting dates and attendance are detailed below.

Meeting date	STB members in attendance
17 August 2018	6
30 November 2018	7
22 February 2019	6
29 March 2019	7

Representatives of JANA attended the first three meetings to provide an update on investment performance and present on contemporary investment topics.

There was no requirement for the new NTPSBS trustees to hold a meeting in the reporting period.

Trustee remuneration

Payments to STB members were made in accordance with a determination under the *Assembly Members and Statutory Officers (Remuneration and Other Entitlements) Act 2006*, which sets the rates payable for attendance at meetings, travel and other STB-related activities. Remuneration was not payable where an STB member is also an employee of the Northern Territory Public Sector (NTPS), the Commonwealth or a state public service.

In 2018-19, three STB members were entitled to receive sitting fees for meeting attendance and the total amount of remuneration received was $3800.

The NTPSBS Deed was amended on 19 June 2019 to mirror the STB's arrangements, with the NTPSBS fund required to pay trustee sitting fees as if the trustees were a board remunerated under the *Assembly Members and Statutory Officers (Remuneration and Other Entitlements) Act 2006*. No remuneration was paid to the new NTPSBS trustees acting in that capacity in the reporting period.

Trustee expenses

Prior to dissolution of the STB, the *Superannuation Act 1986* required the funds administered by the STB to pay expenses incurred by or on behalf of the STB in relation to the management of the fund. These expenses included investment management fees, tax agent fees and board expenses.

The costs of day-to-day administration and management of the funds was paid by the Territory. These costs include the salaries of the Commissioner and NTSO staff, actuarial fees, office accommodation and system administration costs. The costs of some services are recovered through fees, such as family law valuations and benefit quote requests. The NTPSBS Deed was amended on 19 June 2019 to mirror these arrangements.

The NTSO provided secretariat services to the STB and will also provide these services to the new NTPSBS trustees. These services include recording minutes of meetings, preparation and distribution of meeting papers, financial and investment reports, travel arrangements and payment of sitting fees.

The STB resolved to apply its associated costs across the funds it administered (NTGPASS, LAMS and NTPSBS) according to the value of funds under management.

STB expenses for 2018-19 totalled $3800 and were solely attributable to sitting fees.

Conflicts of interest

STB members who had a direct or indirect interest in any matter being considered, had to disclose the nature of that interest as soon as possible at a STB meeting.

The disclosure of interests did not apply where a STB member had a direct or indirect interest in a matter because they were a member of a superannuation scheme in relation to which the STB exercised powers or functions, or if they were a member of an incorporated company with 25 or more members of which they were not a director.

The STB maintained a conflict of interest register as part of its best practice processes. At the commencement of each meeting, members were required to sign the register and record any disclosure in the minutes of that meeting.

Where a disclosure was made in relation to a matter being considered, members could not take part in deliberations or decisions made on that matter and the member was disregarded for constituting a quorum on that matter. During the year, there was one conflict of interest registered by a STB member.

The NTPSBS trustees did not hold any meetings in the reporting period, however, will continue to follow these best practice processes.

Review of decisions

Section 49C of the *Superannuation Act 1986* provides a mechanism for members of NTG schemes, and for other persons dissatisfied by a decision of the Commissioner, to request the Commissioner to reconsider a decision made by the Commissioner about the operation or management of an NTG scheme in relation to a particular person. The *Superannuation Act 1986* also provides that a decision in relation to the operation or management of an NTG scheme as a whole is not a reviewable decision (as that decision will not relate to a particular person).

During the year one person requested a decision relating to her be reviewed. The Commissioner's delegate had not made a decision on that request as at the end of the reporting period.

Northern Territory Civil and Administrative Tribunal

Once the Commissioner has reviewed a decision under the *Superannuation Act 1986*, the person who requested the review can apply to the Northern Territory Civil and Administrative Tribunal (NTCAT) under section 49G of the *Superannuation Act 1986* for a further review of that decision.

NTCAT has the power to vary the Commissioner's decision. Information on how to make an application to NTCAT is available on the website www.ntcat.nt.gov.au.

No review applications were made to NTCAT during the year.

Complaints

The NTSO has a complaints management policy and internal complaints management framework. The objective of the policy is to ensure complaints are dealt with fairly, promptly, and in an efficient and confidential manner. No complaints were received during 2018-19.

Compliance with Commonwealth superannuation legislation

The superannuation industry is regulated by an extensive and diverse legislative framework.

All the NTG schemes are 'exempt public sector superannuation schemes' and therefore not regulated under the Commonwealth *Superannuation Industry (Supervision) Act 1993* (SIS Act). SIS legislation treats exempt public sector superannuation schemes as complying funds for concessional taxation and superannuation guarantee purposes.

A Heads of Government Agreement (HOGA) between the Territory and the Commonwealth provides that, despite not being regulated under the SIS Act, the Territory's schemes will be administered in accordance with the Commonwealth's retirement income policies and principles, including those relating to preservation, vesting and portability of benefits. The schemes remain subject to other legislation affecting superannuation, such as relating to income tax, the superannuation surcharge and splitting of benefits under the *Family Law Act 1975*.

Each scheme was a complying fund for the purposes of the *Income Tax Assessment Act 1997* during the reporting period. Consequently, income tax is assessable at 15 per cent on net investment earnings and net taxable contributions, and 10 per cent on realised capital gains, with tax exemptions provided on ordinary earnings from assets held to support current pension income streams.

Audits

The Northern Territory Auditor-General's Office has historically provided audit services to the funds associated with NTGPASS, LAMS and NTPSBS. The financial statements of each of these funds was required to be audited by the Auditor-General and tabled in the Legislative Assembly.

As a consequence of amendments made by the *Superannuation Legislation Amendment Act 2019*, the fund associated with LAMS ceased to exist on 12 April 2019 when its assets were transferred to CHA and the fund associated with NTGPASS was transferred to Statewide on 8 May 2019. As both these funds no longer exist, the audit requirements were also removed from the *Legislative Assembly Members' Pension Act 1979* and the *Superannuation Act 1986*. Despite this, the Commissioner has requested the Auditor-General to audit special-purpose financial statements for both the LAMS and NTGPASS funds on a one-off basis. The financial statements will be provided to the Treasurer once the audits have been completed.

The requirement to audit the fund associated with the NTPSBS remains, with audited financial statements for that fund included in the NTPSBS annual report.

Prior to 2015-16, the Auditor-General's office also undertook an annual audit regarding compliance of each NTG scheme with the SIS Act and principles of the HOGA. In 2015-16, NTSO moved to a one-in-three-year compliance audit, self-certifying to the Commonwealth on its endeavours to comply with Commonwealth retirement policy as outlined in the HOGA. This compliance audit is not mandated by legislation.

A triennial assurance review of the NTG schemes was conducted internally by DTF as at 30 June 2018. The review assessed all of the NTG schemes against each of the principles of the Commonwealth's retirement income policy and found there were no significant issues that would undermine the policy. However, the review did identify two areas where NTGPASS was not in complete alignment with all principles in the policy.

These were:

- portability and consolidation of benefits – under the *Superannuation Act 1986* there were a number of historical agreements with other jurisdictions that provided limited portability of some NTGPASS benefits, which is inconsistent with this principle
- preservation – in certain circumstances under the NTGPASS rules, the rules provide that members are entitled to receive their NTGPASS benefits on the grounds of 'invalidity'. However, this ground is less stringent than the criteria specified under regulations to the SIS Act relating to 'total and permanent incapacity', with the consequence that NTGPASS members may anticipate receiving their NTGPASS benefits when they are not entitled to do so under Commonwealth law.

With respect to the first issue, this has been addressed by amendments to relevant sections within the *Superannuation Act 1986* made by the *Superannuation Legislation Amendment Act 2019* – the restrictions regarding portability of member benefits were removed. For the second issue, the Commissioner intends to recommend actions that can be taken to ensure NTGPASS fully aligns with the Commonwealth's retirement income policy. Details on any actions taken in this regard will be included in the next annual report.

This report (historically, the NTGPASS Annual Report) will be provided to the Commonwealth each year to assist it in monitoring the Territory's compliance under the HOGA.

Actuarial services

Actuarial services for the NTG schemes are provided under a panel contract. The contract, which runs until 30 June 2020, has Cumpston Sarjeant Pty Ltd and PricewaterhouseCoopers Securities Ltd on the panel.

Details of the actuarial firms responsible for each NTG scheme are as follows:

NTG scheme	Actuary
NTGPASS	PricewaterhouseCoopers Securities Ltd
NTSSS	PricewaterhouseCoopers Securities Ltd
NTGDIS	PricewaterhouseCoopers Securities Ltd
LAMS	Cumpston Sarjeant Pty Ltd
APS	Cumpston Sarjeant Pty Ltd

Cumpston Sarjeant Pty Ltd also provides actuarial services for the NTPSBS.

Under the terms of the HOGA, there is an expectation the Territory will undertake regular actuarial reviews of the NTG schemes and NTPSBS. In this regard, the *Superannuation Act 1986* requires an actuarial review of NTGPASS and NTGDIS every three years, the LAMS Act requires an actuarial review of LAMS every three years and the NTPSBS Deed requires an actuarial review of NTPSBS every three years. For NTSSS and APS, there is no legal requirement for regular actuarial reviews, however, actuarial reviews are undertaken every three years in line with the other schemes. The actuaries update their reviews annually to take into account changes to scheme membership, member wages and investment markets, with these updates used to report the Territory's superannuation scheme liabilities.

Actuarial reviews examine the experience of each scheme during the previous three years and prepare projections of the Territory-financed cash flows and accrued liabilities.

In addition to undertaking actuarial reviews, the actuaries provide advice on superannuation policy matters, including advice on the offset provisions to apply where a member is retired on the grounds of invalidity and entitled to workers compensation benefits due to an injury (relevant to NTGPASS and NTGDIS). The actuaries have also assisted with advice in relation to taxation deductions available to funds associated with the different schemes.

The most recent actuarial review of each NTG scheme was undertaken as at 30 June 2019, with a summary of the actuary's report and estimates of future cash flows needed to fund the Territory-financed component of benefits and accrued liabilities of each scheme provided in the Scheme performance section of this report.

Scheme performance

NTGPASS

Scheme overview

NTGPASS is a defined benefit superannuation scheme that provides members with a lump sum benefit upon resignation, age retirement, retrenchment, death or invalidity. NTGPASS is established under the *Superannuation Act 1986*, which sets out the arrangements for management and administration of the scheme, and the NTGPASS Rules, which provide for the calculation of NTGPASS benefits.

Prior to 8 May 2019, NTGPASS lump sum benefits comprised two components: a member accumulation component and a Territory-financed component.

The member accumulation component comprised member contributions, rollovers and investment earnings. Members were required to contribute either 2, 3, 4, 5 or 6 per cent of their contribution salary to the NTGPASS fund after tax. The member component was subject to recent reforms with all NTGPASS accumulation accounts transferred to Statewide on 8 May 2019 (see Reforms to the management and administration of NTGPASS). The transfer of these funds did not change the rules or entitlements as they relate to members, that is, members must still make contributions (whether to Statewide or another fund chosen by the member) and they remain entitled to a Territory-financed component.

The Territory-financed component is calculated according to a formula that is based on the member's length of membership in the scheme, final average salary and contribution rate during membership. NTGPASS members are also entitled to a separate Territory-financed benefit from the NTSSS. The activities of NTSSS for the year are provided separately in this report.

NTGPASS was closed to employees whose employment with the Territory government or a public authority commenced on or after 10 August 1999.

Reforms to the management and administration of NTGPASS

In May 2018, government announced a range of management and administration reforms to the NTGPASS arrangements, including a successor fund transfer (SFT) of all NTGPASS accumulation accounts to an external superannuation fund to manage and invest on behalf of members.

An SFT is a compulsory transfer of member benefits from one superannuation fund to another. SFTs must comply with conditions defined under the Commonwealth's Superannuation Industry (Supervision) Regulations 1994, including ensuring members receive equivalent rights to those under NTGPASS and the transfer is in the best interests of NTGPASS members.

There were no changes to the NTGPASS Territory-financed component, which continues to be paid by the Territory whenever employees cease membership of the scheme. Under the reforms, members are required to continue contributing to their superannuation in return for earning their defined benefit.

In June 2018, a total of 35 member seminars were held throughout the Territory to inform members of the reforms and provide reassurance the reforms would not change the NTGPASS defined benefits. Following these seminars, information and consultation seminars were held with union representatives and superannuation funds. The seminars provided feedback to the Commissioner to take into consideration when developing the selection criteria prior to calling for requests for proposals from interested superannuation funds.

In December 2018 the STB, as trustees of the NTGPASS fund, selected Statewide to receive the transfer of NTGPASS accumulation accounts.

A further 23 member seminars were held throughout the Territory in early March 2019, explaining the reforms in more detail, including how members will be impacted and why Statewide was selected. Statewide participated in the seminars, providing information with the aim to assist members in the transition of their accumulation accounts and the future management of and access to their funds.

The formal agreement for the transfer of the NTGPASS fund to Statewide was signed on 29 March 2019. On 2 April 2019, the Commissioner of Superannuation issued a significant event notice to all NTGPASS members by both post and email, formally explaining how and when the transfer of their accumulation accounts would occur, how accounts would change and other important aspects such as fees, access to additional insurance and access to Statewide's online systems.

The transfer of the NTGPASS fund occurred at close of business 7 May 2019, with members able to choose whether to leave their superannuation savings with Statewide or roll them over to another fund of their choice from the following week. Members also now have a range of contemporary services, such as online account access, additional insurance, a greater range of investment options and financial planning, none of which were able to be offered by the NTSO.

The performance of the NTGPASS fund for the period 1 July 2018 to 7 May 2019 when the fund was transferred to Statewide is provided below.

Operational activity

Table 1 reports on the activities of the NTSO in its administration and management of NTGPASS. It shows the actual performance against targets, some of which are also published in the DTF Annual Report.

Most contact with members during the year arose in responding to member inquiries regarding benefit status, scheme rules, statement requests and contributions.

Table 1: Superannuation Office activity

	2018-19 Target	2018-19 Actual
Benefits processed[1]	1 750	1 855
Member statements issued within approved timeframes	100%	100%
Average days to make benefit payments:		
• from date of receipt of all information[2]	30	9
• where there is a delay in the receipt of information[3]		15

1 Includes both NTGPASS and NTSSS benefits processed by the NTSO.
2 As a non-APRA-regulated superannuation fund, benefits are processed as soon as practicable but within 30 days.
3 All necessary information from the member and the employing agency must be received before a benefit can be paid.

Benefit payments

Table 2 reports the different categories of NTGPASS benefits paid. Of members leaving NTPS employment, age retirement was the most common type of benefit category and had the greatest monetary value. During 2018-19, 334 superannuation benefits were paid, totalling $157.95 million, $6.02 million less than the 764 benefits paid in 2017-18.

The reduction in the number of benefits paid during 2018-19 was a result of a concerted effort during 2017-18 to pay a large number of unclaimed NTGPASS benefits relating to members who had ceased membership for a variety of reasons prior to that year.

Table 2: Total NTGPASS benefits paid for the year ended 30 June

Type of benefit	2018-19 Number of members	2018-19 Total paid $M	2017-18 Number of members	2017-18 Total paid $M
Resignation	49	19.44	298	26.32
Age retirement	149	99.43	164	96.69
Retrenchment	36	27.42	23	14.88
Invalidity	3	1.64	5	2.47
Death	6	3.11	8	3.95
Antidetriment[1]	1	0.03	2	0.03
Retained[2]	90	6.88	264	19.63
Total	**334**	**157.95**	**764**	**163.97**

1 Anti-detriment payments are paid with death benefits to offset the contributions tax paid on a benefit. Following changes to income tax legislation these payments only apply to deaths before 1 July 2017, and can no longer be paid after 30 June 2019.

2 Retained accounts relate to the unclaimed NTGPASS benefits of former members where the Territory-financed component of their NTGPASS benefit was paid into their member accumulation account. Retained accounts have ceased to exist from 8 May 2019, when the NTGPASS fund was transferred to Statewide.

Note: Amounts reflect actual payments made and may be inconsistent with financial statements due to accounting treatment.

Contributions

Table 3 shows the number of contributors and value of contributions received into the NTGPASS fund. In 2018-19, there was a decrease in the value of compulsory superannuation contributions received, reflecting both the ongoing decline in the number of NTGPASS members and that contributions were no longer being received from 7 May 2019 following the transfer of the NTGPASS fund to Statewide.

Table 3: Total contributions received by the NTGPASS fund for the reporting period

	Ending 7 May 2019 Number of contributors	Ending 7 May 2019 Value $M	2017-18 Number of contributors	2017-18 Value $M
Superannuation				
Compulsory	2 547	12.57	2 742	15.44
Voluntary:				
Active	51	0.76	68	1.65
Salary sacrifice	511	3.80	571	5.33
Roll overs	489	5.36	593	19.71
ATO contribution	44	0.01	59	0.01
Total	**3 642**	**22.5**	**4 033**	**42.14**

Membership profile

During the year, active membership of NTGPASS decreased by 8.9 per cent from 2575 to 2346 due to members claiming their benefits and exiting the scheme, while the number of former members with NTGPASS accounts reduced from six to nil. Additionally, the accumulation accounts of 2386 members were transferred to Statewide under a successor fund transfer of the NTGPASS fund on 8 May 2019.

Active members

Active members of NTGPASS are those members employed by the Territory or one of its public authorities who are required to make contributions under the NTGPASS Rules and eligible to receive a Territory-financed benefit when they leave employment or exit the scheme. Table 4 illustrates the changes in active NTGPASS membership.

Table 4: Changes to active NTGPASS members

	2018-19	2017-18
Active members at beginning of period	2 575	2 773
Less exits		
Resignation	40	33
Age retirement	131	123
Retrenchment	38	16
Invalidity	4	2
Death	3	6
Opt out	13	18
Total exits	229	198
Members at 30 June	**2 346**	**2 575**

Member contribution rates

Active members must contribute 2 to 6 per cent of their contribution salary into their nominated superannuation complying fund account. Prior to 8 May 2019, these contributions were required to be paid into the member's account within the NTGPASS fund.

Of active members, 85 per cent choose to contribute at the highest rate of 6 per cent.

Membership by age and gender

Women continue to represent the majority of active members at 63.12 per cent of the total membership. Just under half (48 per cent) of active members are in the 50 to 59 age group, with 26 per cent under age 50 and 25 per cent age 60 and over.

NTGPASS fund performance

All NTGPASS fund investment options recorded positive investment returns in 2018-19, with a return for the default growth option of 5.96 per cent for the financial year up to 7 May 2019.

Returns for superannuation accounts were calculated and applied weekly. The historical NTGPASS investment returns are published on the NTSO website. Net earnings of the fund were distributed among members prior to the transfer to Statewide.

During the year, the number of NTGPASS members declined from 2575 to 2346 active members and the total value of superannuation benefits paid to NTGPASS members was $148.72 million, including $66.44 million paid from the fund. The value of the fund as at close of business 7 May 2019 was $557.3 million, a decrease of $22.6 million compared to its value at 30 June 2018. The decrease in the size of the fund is attributable to the benefits paid exceeding the investment returns and member contributions prior to the SFT occurring at close of business on 7 May 2019.

More information on the fund's performance and investments is set out below.

Investment returns

NTGPASS is an exempt public sector superannuation scheme and therefore not regulated by the Australian Securities and Investments Commission (ASIC) or Australian Prudential Regulation Authority (APRA). Nonetheless, for information purposes, long-term returns (that is, 5-year, 10-year and since inception), calculated as the compound average effective rate of net earnings, have been calculated consistently with the financial services regulations that are overseen by ASIC.

Table 5 details the NTGPASS fund's investment returns for the partial year 2018-19 (up to 7 May 2019), the full 2017-18 financial year, the 5-year and 10-year average returns to 7 May 2019, as well as the average annual return (compound average effective rate of net earnings) since each option commenced. Investment options have been introduced at different times since 2007. The returns reported in Table 5 assume investment in that option for the full reporting period.

Table 5: Investment returns

Investment option	Commencement	2019[1]	2018	5-year average	10-year average	Since inception
		%	%	%	%	%
Managed cash	March 2009	2.45	1.87	2.01	2.62	2.68
Conservative	July 2007	4.34	2.97	4.18	5.54	4.32
Cautious	July 2007	5.14	5.26	5.73	7.14	5.01
Growth (default)	1986	5.96	8.16	7.39	8.80	5.67
Assertive	July 2007	6.20	9.59	8.13	9.50	5.50
Aggressive	July 2007	6.56	11.47	9.10	10.35	5.58

1 Year to 7 May 2019

Table 6 reports the net return over the last five years (including the financial year to 7 May 2019) for the superannuation growth (default) option after accounting for the effect of inflation, as measured by the consumer price index (CPI).

Table 6: Growth option investment returns after inflation

	2019[1]	2018	2017	2016	2015	5-year average
	%	%	%	%	%	%
Investment return	5.96	8.16	10.63	1.66	10.79	7.39
CPI	1.60	2.10	1.90	1.00	1.50	1.62
Real rate of return	4.29	5.94	8.57	0.65	9.15	5.67

1 Year to 7 May 2019

Note: Real rate of return = $\frac{\text{Investment returns - CPI}}{\text{1 + CPI}}$

Value of the fund's investments

The value of the NTGPASS fund's investments represents the cumulative value of the fund's cash (and cash equivalents) as well as its investments. This value does not include the value of the employer-sponsor receivables (that is, the Territory Government's liability) or other assets. Table 7 details the value of the NTGPASS fund's investments over the five years to 7 May 2019.

The decrease in asset values for between 30 June 2018 and 7 May 2019 reflects that benefit payments exceeded member contributions and investment returns between those dates. The $401.1 million decrease in investment values in 2015-16 was largely due to the $278 million transfer of 'adherent' accounts through a successor fund transfer to Sunsuper on 15 February 2016, as well as other adherent members rolling out to other superannuation funds prior to and immediately after that transfer. Adherent accounts are accounts belonging to former NTGPASS members and the spouses of NTGPASS members.

The change in investment composition (from investments in life policies to investments in trusts) that occurred in May 2016, was required as a consequence of changes to the manner in which JANA, the NTGPASS fund's investment advisor, operated its business. The increase in the value of investments over the two years, 2017 and 2018, were a result of strong investment returns in both years.

Table 7: Five-year summary of the value of the fund's investments

	7 May 2019	2018	2017	2016	2015
	$M	$M	$M	$M	$M
Cash and cash equivalents	0.7	2.0	1.9	1.8	0.4
Investments in life policies	–	–	–	–	947.3
Investments in trusts	556.6	577.9	573.8	545.4	0.6
Total value of investments	557.3	579.9	575.7	547.2	948.3

The NTGPASS fund's assets and liabilities were transferred to Statewide effective close of business 7 May 2019.

Member investment choices

Prior to the transfer of the NTGPASS fund to Statewide, members had six investment options from which to choose. Premixed asset allocations were determined for each option, containing a different mix of growth assets (property and shares) and defensive assets (fixed interest and cash). To improve diversity and reduce risk, low correlation and multi-asset strategies were also introduced in several investment options.

Superannuation members could choose one option for their account balance and another option for their future contributions. Where members did not choose an investment option, their member accounts continued to be invested in the growth (default) option. Members were able to change (switch) the option in which their accumulation account was invested and future contributions were invested. A total of 49 requests for superannuation account investment switches were processed during the year to 7 May 2019.

Table 8 shows the distribution of member accounts across investment choices for superannuation accounts as at 7 May 2019. The majority of NTGPASS member funds remain in the growth investment option.

Table 8: Member investment choice

Investment option	Superannuation accounts % of funds
Managed cash	1.57
Conservative	2.04
Cautious	2.10
Growth (default)	88.49
Assertive	1.75
Aggressive	4.05
Total	**100.00**

Return and risk objectives

As part of risk management, JANA (the implemented investment consultant for NTGPASS) applied a range of stress testing (scenario analysis) to the NTGPASS investments and conducted regular portfolio rebalancing in order to bring the actual asset mix of the different investment options in line with their respective target asset allocations. Through this, JANA aimed to keep the actual asset allocation of each investment option in the NTGPASS fund within plus or minus 5 per cent of the target allocation. The asset allocation ranges were continually monitored to ensure they were within targets.

JANA appointed investment managers across different asset classes, such as international and Australian shares, property and fixed interest securities. This creates a diversified portfolio that helps minimise risk and produce positive long-term returns. JANA's managers hold around 2000 bonds and invest in shares in around 1500 different companies across 60 industries and in over 40 countries.

Each investment option had a return and risk objective to assist members in choosing the investment option with the asset allocation and risk profile that best suited their personal circumstances and appetite for investment risk.

The return objective for an investment option is the net return (that is, after fees and taxes) the option was expected to achieve above the rate of inflation (as measured by the increase in CPI) over rolling five-year periods. For example, the return objective for the growth option is expected to be at least 3 percentage points higher than inflation, when measured over a rolling five-year period.

Table 9 details the results of each option measured against their return objectives. For 2018-19, the five-year average CPI is 1.62 per cent. The five-year average return exceeds the target for all options other than managed cash, therefore all options other than managed cash have met their return objectives. This five-year average is calculated on a simple average basis, which is different to the compound average approach under the financial services regulations. It is important to note that the CPI is as at 30 June 2019, not at 7 May 2019 (when the 2018-19 investment returns were determined).

Table 9: Return objectives for investment options

	CPI +	Return objective	5-year average[1]	Objective met
	%	% pa	%	
Managed cash	0.5	2.12	2.01	No
Conservative	2.0	3.62	4.19	Yes
Cautious	2.5	4.12	5.75	Yes
Growth (default)	3.0	4.62	7.44	Yes
Assertive	3.5	5.12	8.22	Yes
Aggressive	4.0	5.62	9.23	Yes

CPI: consumer price index; pa: per annum

1 Calculated based on actual rates of return on investment options for the 2014-15 financial year to the 2018-19 financial year up to 7 May 2019.

The standard risk measure (SRM) objective on an investment option is expressed as an average number of years out of 20 where the option is expected to have a negative return. For example, the growth option was expected, on average, to have a negative return four out of every 20 years.

Table 10 details the results of each option measured against its risk objectives. The conservative, cautious and aggressive options have not met their SRM objectives, as negative returns have been experienced more frequently than the expected target.

Table 10: Original and new risk objectives

Investment option	SRM objective	Result	SRM result	Objective met
Managed cash	0.0 in 20 years	0 in 10 years	0.0 in 20 years	Yes
Conservative	1.5 in 20 years	1 in 12 years	1.7 in 20 years	No
Cautious	2.5 in 20 years	2 in 12 years	3.4 in 20 years	No
Growth (default)	4.0 in 20 years	3 in 33 years	1.8 in 20 years	Yes
Assertive	4.5 in 20 years	2 in 12 years	3.4 in 20 years	Yes
Aggressive	5.0 in 20 years	3 in 12 years	5.1 in 20 years	No

Growth option

Approximately 88.49 per cent of members' accounts were invested in the growth (default) option, which allocated about 75 per cent of the invested amounts to growth assets (shares and property) and 25 per cent to defensive assets (cash and fixed interest). As noted above, the return and risk objectives for this option were to achieve a net return greater than CPI plus 3 per cent over rolling five-year periods and to limit the probability of a negative return to four out of every 20 years, on average. The key drivers to achieving the objective are the strategic asset allocation (between growth and defensive assets) and the performance of the underlying investment markets in which these assets were invested.

Over the past 33 years the growth option has exceeded expectations, with only three negative returns in 33 years.

Actuarial review

The last triennial actuarial review of NTGPASS was performed as at 30 June 2019 by Catherine A Nance FIAA, from PricewaterhouseCoopers Securities Ltd and the results were provided in her report dated 30 August 2019.

The triennial review dealt with the Territory-financed employer liabilities, which are guaranteed by the Territory under the *Superannuation Act 1986* and met on an emerging-cost basis. The future employer cash flows and accrued liabilities were projected to the year 2054.

The scheme started in 1986 and was closed to new employees commencing employment with the Territory Government or a Public Authority from 9 August 1999. The employer cash flow (payments) for the year ended 30 June 2019 was $90.3 million (excluding invalidity and death benefits paid by the Territory). It is expected the cash flow will be slightly lower in the next year ($90.1 million) and from there it will fall each year. Cash flows are expected to decline slowly, becoming zero by 2053.

The actuarial estimates of future cash flows to fund the Territory-financed component of NTGPASS benefits and accrued liabilities of the scheme (based upon nominal values) have been updated based on 2018-19 information as shown in Table 11.

Table 11: Estimated NTGPASS Territory-financed benefit costs, year to 30 June

	Estimated cash flow	Estimated accrued liability
	$M	$M
2020	90.1	776.9
2025	79.7	641.1
2030	72.3	449.2
2035	56.3	247.3
2040	31.8	95.5
2045	10.9	20.1
2050	1.4	1.2

The discount rate used for valuation purposes is 1.3 per cent in the actuarial report of 2019, down from 2.6 per cent in 2018. This rate was provided to PricewaterhouseCoopers by DTF, and is comparable to the effective yield on the 10-year government bond rate at 30 June 2019. The rate of general salary inflation is assumed at 2.5 per cent from 2019-20 to 2020-21 and then 3.0 per cent per annum thereafter. On this basis the accrued employer liability was $953.2 million as at 30 June 2019, an increase of $25.6 million from last year's figure of $927.6 million. The actuarial report of 2019 projects nominal accrued liability to peak this year. The last members are expected to leave by 2052, at which stage the liabilities will be zero.

The valuation basis change and experience for the year ending 30 June 2019 is a Territory liability increase of 5.8 per cent ($52.6 million). This resulted from:

- the decrease in discount rate (liability increase of $86.7 million) from 2.6 to 1.3 per cent
- an increase due to demographic assumptions (liability increase of $5.7 million) offset by
- a reduction in the short-term salary increase assumption (liability reduction of $26.7 million) from 3.5 to 2.5 per cent per annum to 2020-21 (coupled with no annual increase for the same period for executive contract officers)
- a liability decrease ($13.1 million) due to membership experience differing from that expected.

NTGPASS member contributions are paid into an externally administered complying superannuation fund nominated by the member. The financial soundness of NTGPASS arises from the legislated guarantee that the Territory will pay benefit entitlements as they are due. This is an appropriate way to meet benefits in a public sector scheme, provided the extent and nature of the liabilities are disclosed and included within public sector accounts, as is the case with NTGPASS.

NTSSS

Scheme overview

The NTSSS was established by an instrument signed on 4 January 1989 (the NTSSS Instrument) by the then Treasurer.

The NTSSS is administered by the Commissioner and staff of the NTSO.

The NTSSS is a non-contributory scheme (that is, neither the member nor the Territory make contributions). It provides a lump sum employer-financed superannuation benefit at the rate of 3 per cent of a member's final salary for each year of full-time service since 1 October 1988. The NTSSS closed to employees who commenced employment with the Territory Government or a Territory Government public authority on or after 10 August 1999 (employees who transfer between these employers are entitled to ongoing membership). While open, the NTSSS covered most Territory public sector employees (including permanent, temporary, casual or irregular employees) and many office holders.

NTSSS benefits are paid by the Territory from CHA at the time scheme membership ceases, which for most members occurs when their employment ceases. There is no NTSSS fund and therefore no member contributions or rollovers can be accepted.

The Territory introduced the *Superannuation Guarantee (Safety Net) Act 1993* following the introduction of superannuation guarantee legislation by the Commonwealth, to ensure it met its superannuation guarantee obligations. For some employees, the *Superannuation Guarantee (Safety Net) Act 1993* authorises their NTSSS benefits to be increased above the 3 per cent level provided in the NTSSS Instrument in order to meet superannuation guarantee requirements. This was necessary because many NTSSS members did not belong to NTGPASS for a sufficient time to earn a benefit under that scheme, making NTSSS their sole superannuation benefit.

Operational activity

The NTSSS is closed to new members, accordingly, the key operational activities relating to that scheme are:

- recording member service and salary details, to enable benefits to be calculated and paid
- calculating and reporting member benefits at different points in time (for example, for proceedings under the *Family Law Act 1975*, at 30 June each year when providing the ATO with account information and members with their annual statement)
- calculating and paying member benefits when members claim those benefits
- explaining benefit calculations and scheme rules to members and their financial advisers.

Membership profile

Members of NTSSS are those members who have been employed by an employer covered by NTSSS (the Territory Government and certain Territory Government public authorities) who are eligible to receive an NTSSS benefit. Table 12 illustrates changes in NTSSS membership. Of note is that 8617 accounts were created in 2017-18 following a review of historical payroll records. These accounts relate to the service of employees prior to 10 August 1999.

Table 12: Changes to NTSSS membership

	2018-19	2017-18
Members at beginning of period	12 814	5 018
Plus new accounts	4	8 617
Less exits:		
Resignation	845	588
Age retirement	623	194
Retrenchment	42	23
Invalidity	3	5
Death	8	11
Other[1]	3	
Total exits	1 524	821
Members at 30 June	**11 294**	**12 814**

1 Members identified during the year who are ineligible for an NTSSS or superannuation guarantee benefit.

Women represent the majority of active NTSSS members at 66.52 per cent of total NTSSS membership (62.51 per cent of membership in 2018). Of active NTSSS members, 37.31 per cent are in the 50 to 59 age group, with 29.90 per cent under age 50 and 32.78 per cent age 60 and over.

Benefit payments

Table 13 reports on the number and type of NTSSS benefits paid, as well as their value, during the last two financial years.

Table 13: Total NTSSS benefits paid for the year ending 30 June

	2018-19		2017-18	
Type of benefit	Number of benefits	Total paid $	Number of benefits	Total paid $
Resignation	845	5 395 889	663	6 834 363
Age retirement	623	14 211 915	212	12 482 139
Retrenchment	42	4 032 920	23	1 861 185
Invalidity	3	234 410	5	406 467
Death	8	408 644	6	460 751
Total	**1 521**	**24 283 778**	**909**	**22 044 906**

Note that the majority of the NTSSS benefit payments in Table 13 related to periods of employment prior to the financial year in which they were paid. That is 1282 of the benefits paid in 2018-19, with a value of $3 366 873, related to members whose employment ended before the 2018-19 financial year and 714 of the benefits paid in 2017-18, with a value of $6 923 526, related to members whose employment ended before the 2017-18 financial year.

Actuarial review

The last triennial actuarial review of the NTSSS scheme was performed as at 30 June 2019 by Catherine Nance FIAA, from PricewaterhouseCoopers Securities Ltd and the results were provided in her report dated 30 August 2019.

The triennial review dealt with the employer liabilities, which are guaranteed by the Territory under the NTSSS Instrument and met on an emerging-cost basis. The future employer cash flows and accrued liabilities were projected to the year 2055.

The scheme started in 1989 and was closed to employees commencing on or after 10 August 1999. The employer cash flow for the year ended 30 June 2019 was $22.0 million (this is, the value of benefit payments for members who left during the year ($20.9 million) plus benefits for members who left during the year but were yet to receive their benefits ($1.1 million) – payments for departures in earlier years have been excluded from this calculation). It is expected the 2018-19 cash flows represent the peak, declining in 2019-20 to $21.8 million and continuing to slowly decline to zero by 2053.

The discount rate used for valuation purposes is 1.3 per cent in the actuarial report of 2019, down from 2.6 per cent in 2018. The rate of general salary inflation is assumed at 2.5 per cent for 2019-20 and 2020-21 and then 3.0 per cent per annum thereafter. On this basis the accrued employer liability was $234.6 million as at 30 June 2019, an increase for $224.4 million at 30 June 2018. The actuarial report of 2019 projects that the liability peaked during 2018-19. The last members are expected to leave NTSSS during 2052, at which stage the liabilities will be zero.

NTGDIS

Scheme overview

NTGDIS provides free death and invalidity benefits to eligible employees up to age 60. The scheme was introduced in 2007 as part of amendments to the *Superannuation Act 1986* intended to provide death and invalidity benefits equivalent to those provided to members of NTGPASS. NTGDIS benefits are payable in addition to any private insurance cover purchased through a life insurance provider or a superannuation fund.

NTGDIS is administered by the Commissioner of Superannuation and NTSO.

NTGDIS membership covers the following employees up to age 60, where they are not current members of NTGPASS:

- employees under the *Public Sector Employment and Management Act 1993* who are:
  - a permanent employee (full time or part time)
  - a temporary employee on a fixed-term contract of at least six months
  - a temporary employee on a short-term contract who has had at least six months continuous employment
- police officers
- executive contract officers.

Members of the Legislative Assembly elected for the first time at the general election held on 18 June 2005 or a later general election or by-election are also members of NTGDIS.

Eligibility and entitlement to NTGDIS benefits automatically cease when an employee ceases NTG employment. Casual employees are not eligible for NTGDIS benefits.

Under NTGDIS, a death benefit is only payable when the member is survived by one or more dependants. At the time of death, a dependant includes:

- a spouse/de facto partner (including same sex)
- children and adopted children of any age
- a person who had an 'interdependency relationship' (as defined in the SIS Act) with the deceased.

An invalidity retirement benefit can only be paid where an NTGDIS member (or former member) has been assessed, based on specialist medical information, as being totally and permanently incapacitated for any form of employment as at the date his or her employment ceased.

NTGDIS benefits are calculated according to a formula that takes into account the member's nominal retirement age, which is age 65 for most members. Once a member reaches age 50 the level of their benefit progressively reduces such that members aged 60 and older have no entitlement to benefits from the scheme.

If an employee is entitled to payments under workers compensation legislation or a workers compensation agreement such as a 'Hopkins' agreement, the NTGDIS benefit will be reduced by the amount of the workers compensation payments.

If a workers compensation payment is paid periodically, the notional redemption value of the compensation benefit will be actuarially calculated to determine the amount of the NTGDIS lump sum benefit.

In most cases, the NTGDIS benefit will be completely offset by the workers compensation payment.

Operational activity

The primary operational activities relevant to NTGDIS are:

- providing advice regarding the scheme's operation and member entitlements to members, financial advisers and human resource units
- considering and deciding NTGDIS applications
- paying NTGDIS benefits.

Membership profile

Details regarding current NTGDIS members and the level of cover provided to them as at 30 June 2019 is set out in Table 14.

Table 14: NTGDIS membership and benefits profile at 30 June

	2019	2018
Number of members		
Female	12 460	11 937
Male	6 487	6 256
Average age	39.9	40.0
Total annual salary of all members	$1 837M	$1 709M
Average salary	$96 967	$93 920
Total death/invalidity cover[1]	$7.7B	$7.2B
Average death/invalidity cover	$406 330	$393 085

1 The total amount of death or invalidity benefits payable if all NTGDIS members were to die or become invalids at the reporting date.

Benefit payments

Details of NTGDIS benefits paid up to 30 June 2019 is set out in Table 15.

Table 15: NTGDIS benefit payments up to 30 June

	2019	2018
Death benefits		
Number paid	5	4
Value of benefits	$568 755	$1 172 995
Invalidity benefits		
Number paid	2	3
Value of benefits	$423 926	$569 154

Actuarial review

The last triennial actuarial review of NTGDIS was performed as at 30 June 2019 by Catherine Nance FIAA, from PricewaterhouseCoopers Securities Ltd and the results were provided in her report dated 30 August 2019.

The triennial review dealt with the liability to pay benefits, which is guaranteed by the Territory under the *Superannuation Act 1986* and met on an emerging-cost basis.

Through NTGDIS, the Northern Territory has extended death and invalidity cover to all public sector employees under choice of fund arrangements. The cover is self-insured, with the Territory Government meeting the cost as the amounts become payable. The scheme formally commenced from 1 July 2007 and is open to new members.

The benefits payable in the event of death or invalidity retirement are set out in the *Superannuation Act 1986*. These benefits are the same as for NTGPASS, that is, 17.5 per cent of salary for each year of future service to age 65 for members up to age 50, but decreasing to nil at age 60.

The amount of benefits payable are reduced in the case where:

- workers compensation benefits are payable
- in the event of death under age 60, there are no dependants.

The accrued liability estimate for the year ended 30 June 2019 was $88.2 million, an increase from $70.4 million at 30 June 2018. The increase in the value of the liability may be explained as follows:

- an increase of about 13.6 per cent ($10.6 million) due to a decrease in the discount rate from 2.6 per cent to 1.3 per cent – this rate is comparable to the 10-year Commonwealth bond rate at 30 June 2019
- an increase of about 4.5 per cent ($3.4 million) due to a change in the demographic assumptions
- an increase of about 10.3 per cent ($7.2 million) due to a change in the level of cover being provided ($7.2 billion at June 2018 to $7.7 billion at June 2019). This is mainly due to the increase in the number of NTGDIS members over the year of 4.1 per cent and the increase in average salary, which for continuing members was 6.0 per cent (2.5 per cent higher than expected)
- a decrease of about 1.9 per cent ($1.5 million) due to a reduction in the short-term salary increase assumption from 3.5 to 2.5 per cent per annum (no increase for executive contract officers) over the period to 2020-21.

The financial soundness of NTGDIS arises from the legislated guarantee that the Territory will pay benefit entitlements as they are due. This is an appropriate way to meet benefits in a public sector scheme, provided the extent and nature of the liabilities are disclosed and included within public sector accounts, as is the case with NTGDIS.

LAMS

Scheme overview

LAMS was established by the LAMS Act and provides a superannuation defined benefit for eligible members of the Northern Territory Legislative Assembly, their surviving and former spouses and de facto partners. LAMS commenced operation on 23 September 1979 and was closed to new members on 9 May 2005. Since that date, parliamentarians elected to the Legislative Assembly for the first time have the superannuation guarantee paid to their nominated complying superannuation fund.

Prior to 12 April 2019, the LAMS Act required members and the Territory to contribute to a fund established under that Act (the LAMS fund), which was invested to provide member benefits. The STB was the trustee of the LAMS fund and responsible for administration of the LAMS Act. The Commissioner and staff of the NTSO undertook the day-to-day operations of LAMS and management of the LAMS fund on behalf of the STB. Members contributed 11.5 per cent of their basic and additional salary to the fund. The amount the Territory was required to contribute was determined in accordance with actuarial advice.

As part of administration and management reforms enacted by the *Superannuation Legislation Amendment Act 2019*, which commenced on 12 April 2019:

- the LAMS fund was closed, with its assets and liabilities transferred to CHA
- future member contributions are payable to CHA, rather than the LAMS fund
- LAMS superannuation benefits and pensions are paid from CHA, rather than the LAMS fund
- responsibility for administration and management of LAMS transferred from the STB to the Commissioner.

These reforms did not change the defined benefits provided under LAMS, which are either:

- a lifetime pension for members who have been elected on at least three occasions to the Legislative Assembly and who have served eight years. Members may elect to commute (cash) all or part of their pension to a lump sum within six months of leaving the Legislative Assembly
- or a lump sum benefit equal to 2.5 times the member's own contributions and interest for members who do not meet the eligibility criteria for a pension.

The surviving spouse/de facto partner of a LAMS member who has died is also entitled to a defined benefit based on the entitlements of the deceased member. Ex spouses/de facto partners may also receive a LAMS defined benefit in accordance with the superannuation-splitting provisions of the Commonwealth *Family Law Act 1975*.

Operational activity

As LAMS is closed to new members, the only operational activities now relevant to this scheme are ensuring pensions are paid correctly and reported properly to the ATO, and contributions from the last contributing member are received by CHA.

Prior to 12 April 2019, the STB was responsible for managing and investing the LAMS fund. This activity ceased when the LAMS fund transferred to CHA.

Membership profile

Active members of LAMS are those members elected to the Northern Territory Legislative Assembly who are eligible to make contributions under the LAMS Act. The remaining members of LAMS are pensioners who are either former members of the Legislative Assembly, the surviving spouses/de facto partners or ex spouses/de facto partners of former members of the Legislative Assembly, or a pensioner whose pension has been suspended following re-election to the Legislative Assembly.

Table 16 provides details of the membership of LAMS, broken down by member category, at 30 June.

Table 16: Changes in LAMS membership at 30 June

	2019	2018
Former assembly member pensioners	32	33
Spouse/de facto pensioners	3	2
Ex spouse/de facto pensioners	2	2
Contributing members	1	1
Suspended pensioners	1	1
Total	39	39

Benefit payments

During 2018-19 LAMS pensions totalled $4.08 million, an increase from the $3.97 million paid in 2017-18.

LAMS fund performance

The investment return performance of the LAMS fund applied to member accounts in 2018-19 was 5.14 per cent, which is lower than the 9.53 per cent rate applied to member accounts in 2017-18.

The LAMS fund ceased to exist on 12 April 2019, when its assets and liabilities transferred to CHA.

Actuarial review

The triennial actuarial review of LAMS was carried out as at 30 June 2019 by John Rawsthorne FIAA of Cumpston Sarjeant Pty Ltd with the results presented in his report dated 15 August 2019.

The scheme opened in 1979, was closed to new members in 2005, and the contributory membership has decreased quickly since. The reversionary nature of the lifetime pension (that is, transfers to a spouse on death of the member) means there will be pensions payable from the scheme for many years, despite there only being one active contributing member remaining as at 30 June 2019. The most important assumptions in determining the eventual employer liability are the rate of future salary and pension growth, and the longevity of pensioners.

The financial operation of LAMS was modified on 12 April 2019 – the fund that held the LAMS assets ceased to exist and assets were transferred to CHA. The obligation to make benefit payments now falls upon CHA, to be made on an emerging-cost basis, and member contributions are paid directly into CHA. Consequently, LAMS changed from being a funded scheme to an unfunded scheme.

Accrued liabilities of LAMS at 30 June 2019 were $91.0 million compared to $68.1 million at 30 June 2018. The liability increase of $22.9 million is attributable to:

- a reduction in the discount rate applied to value the liability (the previous discount rate assumed pensions were paid from a funded source, so used an investment-based assumption of 6.5 per cent – they are now paid from an unfunded source, so now a 1.3 per cent discount rate is applied, based on 10-year Commonwealth bonds)

offset by:

- a lower than expected rate of salary escalation (due to a freeze on increases in the salaries of members of the Legislative Assembly for two years, before increasing to 3 per cent per annum over the long term)
- other experience variations.

Benefit payments are expected to be about $4.1 million in 2019-20, and will increase in nominal terms to about $4.9 million per annum by 2030 before starting to decrease from 2036.

The financial soundness of LAMS arises from the legislated guarantee that the Territory will pay benefit entitlements as they are due. This is an appropriate way to meet benefits in a public sector scheme, provided the extent and nature of the liabilities are disclosed and included within public sector accounts, as is the case with LAMS.

APS

Scheme overview

The APS is established under the *Administrators Pensions Act 1981*. It was open from 1 January 1981 to 26 April 2006.

The APS is administered by the Commissioner and staff of the NTSO.

The APS provides former Administrators of the Northern Territory a lifetime pension. For an Administrator who served five years or more, the maximum pension amount is 60 per cent of the annual basic salary of the current Administrator (these salaries are regularly reviewed and set by the Commonwealth Remuneration Tribunal). For an Administrator who served less than five years, their maximum pension is a pro-rata amount of 60 per cent of the annual basic salary of the current Administrator.

Under section 3E of the *Administrators Pensions Act 1981*, if an Administrator received an assessment for the superannuation surcharge (a tax on superannuation contributions that applied between 1997 and 2005), the Administrator could elect to have the Territory pay that tax liability in return for a reduction to their pension. This option was taken up by two former Administrators.

Separately, under section 7 of the *Administrators Pensions Act 1981*, the amount of an Administrator's pension is required to be reduced by the amount of any pension or retiring allowance payable to them in respect of any other remunerative activity they had undertaken, for example, an entitlement to a pension as a consequence of being a former judge of the Supreme Court of the Northern Territory. Similarly, if an Administrator had received a superannuation lump sum in respect of other remunerative activity undertaken, this would also reduce his or her Administrator's pension.

As a consequence of section 7 of the *Administrators Pensions Act 1981*, two former Administrators were not entitled to pensions under the Act. Separately, two other former Administrators negotiated pension arrangements outside of the *Administrators Pensions Act 1981*. One Administrator negotiated a pension equal to the pension they received from the Commonwealth in respect of previous employment. The other Administrator, who had never been a Supreme Court judge, negotiated a pension based on the pensions paid to judges of the Northern Territory Supreme Court.

As a consequence of these different arrangements, the pensions of former Administrators increase:

- under the *Administrators Pensions Act 1981*, at the time the basic salary of the current Administrator increases, by the amount of that salary increase
- under the pension linked to a Commonwealth pension, every six months, in line with consumer price index (CPI) increases
- under the pension linked to the salaries of Supreme Court judges, at the time the salary of Supreme Court judges increases, by the amount of that salary increase.

When an Administrator or former Administrator dies, their spouse or de facto partner is also entitled to a lifetime pension. That pension is two thirds of the pension to which the Administrator would have been entitled had they resigned immediately before their death, or if the former Administrator was already receiving a pension, two thirds of that pension.

The *Administrators Pensions Act 1981* also contains rules regarding who will receive a pension in the event an Administrator or former Administrator dies, leaving both a spouse and a de facto partner.

Operational activity

As the APS is closed to new members, the only operational activity relevant to that scheme is ensuring pensions are paid correctly and reported properly to the ATO.

As there are three different pension arrangements in place (pensions under the *Administrators Pensions Act 1981*, a pension linked to a Commonwealth pension and a pension linked to the salaries of Supreme Court judges), each with a different approach to increases, the NTSO monitors changes to the basic salary of the current Administrator, movements in CPI and increases to salaries paid to Supreme Court judges, and then increases pensions accordingly.

Membership profile

Three former Administrators receive an APS pension and one spouse of a former Administrator receives a spouse's pension.

Benefit payments

Total APS pension payments during 2018-19 were $338 679, an increase from the $332 061 paid in 2017-18.

Actuarial review

The last triennial actuarial review of the APS was performed as at 30 June 2019 by John Rawsthorne FIAA, from Cumpston Sarjeant Pty Ltd and the results were provided in his report dated 15 August 2019.

The triennial review dealt with the Territory's liabilities as pension sponsor under the APS, which are met on an emerging-cost basis. The future pension cash flows and accrued liabilities were projected to the year 2055.

The scheme started in 1981 and was closed to new members from 26 April 2006. The cash flow for the year ended 30 June 2019 was $345 000. Due to the age of the pensioners, it is expected the cash flow will decline slowly over time, becoming zero by 2055.

The discount rate used for valuation purposes is 3.5 per cent. The rate of pension increase is assumed to be 2.0 per cent in 2019-20, 2.5 per cent in 2020-21 and 3.0 per cent per annum thereafter. On this basis the Territory's accrued liability at 30 June 2019 is $3.444 million a decrease from $3.97 million at 30 June 2018. The last members are expected to leave the APS by 2055, at which stage the liabilities will be zero.