



8 May 2008

The Hon Lindsay Tanner MP
Minister for Finance and Deregulation
Parliament House
CANBERRA ACT 2600

The Hon Wayne Swan MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Minister and Treasurer

Target asset level declaration for the Future Fund

In accordance with Schedule 3 of the *Future Fund Act 2006*, I have pleasure in attaching a written declaration stating the target asset levels for the following three financial years:

- 2007-08
- 2008-09
- 2009-10; and

a written statement setting out the reasons for specifying the target asset levels.

Yours sincerely

Dr David Knox, Fellow of the Institute of Actuaries of Australia
Designated Actuary to the Future Fund



Target asset level declaration

In accordance with Schedule 3 of the *Future Fund Act 2006*, I, David Montgomery Knox, FIAA, of Mercer (Australia) Pty Ltd, 33 Exhibition Street, Melbourne, being the Designated Actuary to the Future Fund, declare the following amounts as the **target asset levels** for the following years:

2007-08	\$90.1 billion
2008-09	\$93.2 billion
2009-10	\$96.3 billion

David Knox
8 May 2008

Reasons for specifying the target asset levels

In declaring the target asset levels for 2007-08, 2008-09 and 2009-10, I, David Montgomery Knox, FIAA, of Mercer (Australia) Pty Ltd, 33 Exhibition Street, Melbourne, being the Designated Actuary to the Future Fund, relied upon requested projections of unfunded liabilities carried out by the actuaries to the following schemes:

- Commonwealth Superannuation Scheme;
- Public Sector Superannuation Scheme;
- Defence Force Retirement and Death Benefit Scheme;
- Military Superannuation and Benefits Scheme.

These projections used a long term discount rate of 7.2% pa. This rate was selected after taking into account the following factors:

- The benchmark return of CPI + 4.5 to + 5.5 per cent per annum over the long term as set out in the Future Fund Investment Mandate Directions 2006;
- Expenses of funds management;
- An assumed long term inflation rate of 2.5 per cent per annum, which is consistent with the rate used by the actuaries in the 2005 Long Term Cost Reports for the above schemes;
- The statement of investment policies issued by the Future Fund in January 2008;
- The likelihood that the Future Fund's investments in its early years of operations may not be as diversified as will occur in later years.

The projections were based on projected membership for each year but used membership data as at 30 June 2007 as a base. The projections also used the same demographic and economic assumptions (except for the discount and short term inflation rates) that were used in the most recent Long Term Cost Reports for each scheme. Higher inflation rates were assumed for the next three years.

In addition to the above schemes, the declared target asset levels also allow for the unfunded liabilities in respect of pensions, allowances or other benefits payable under the following legislation:

- the *Parliamentary Contributory Superannuation Act 1948*
- the *Judges' Pension Act 1968*
- section 4, 4A or 4AA of the *Governor-General Act 1974*.

The allowances for these liabilities were based on the AASB 119 information as at 30 June 2007 prepared by the relevant scheme actuaries which was calculated using a discount rate of 6.4% per annum. These liabilities were then adjusted to allow for the higher discount rate.

David Knox
8 May 2008