From: [redacted].
To: [redacted]
Cc: [redacted]
Subject: Letter to the Editor - Mr. Daryl Dixon''s Article in PS Informant - 3 April 2012
Date: Monday, 9 April 2012 4:21:00 PM
Attachments: Table 2 - Thornton Open Letter.jpg
Importance: High

Dear Editor,

I refer to Mr. Daryl Dixon's article in the PS Informant (3rd April 2012, pg 28), where he provides commentary (not least) on the Future Fund and Commonwealth superannuation liabilities.

Firstly, Mr. Dixon's assertions about the performance of the Future Fund fails to recognise that the Future Fund remained substantially in cash on an incremental basis for the first 2 and a half years after its inception; with the added burden of being politically encumbered with a large holding of poorly performing Telstra stock. As such, the Fund's performance can only truly be measured over the last three years with the last two years of it posting double digit returns. An inflation adjusted return of 3.67% over this 3yr period is not bad considering the current world economic malaise and the performance of other funds of comparable size.

Secondly, Mr Dixon asserts that previous actuarial assumptions about super scheme performance and employee longevity have "proven untrue". These comments are somewhat unfounded because past assumptions were (in part) based upon schemes running their full term with respect to scheme membership. As history would attest, the retrenchment of 8,000 public servants in 1996-97 alone, resulted in the PSS scheme having to refund $350M. Not only did this withdrawal undermine the PSS scheme's design and longer term performance; this policy action has and continues to add substantially to the consequential liabilities of funding redundancy pensions from Consolidated Revenue for many decades to come; resulting in Billions of dollars of unexpected expenditure. The moral of this story, and a stern warning to all sides of politics: short term political gains can have serious long term financial implications. Policies of public sector retrenchment do not necessarily reflect "responsible economic management"!

Thirdly, and with respect to comments that the superannuation liabilities are currently "more than double the Future Fund's assets"; well, Mr Dixon might like to review the 2008 'Target Asset Level' Report for the Future Fund. Upon initial review of the 2008 report he might readily conclude that the value of the fund is in fact about 75% of the target liability. However, on closer observation of the 2008 & 2010 reports side by side he might very well ask: Why within two years was there a major upward revision of 9.4% in the liability estimates being made (i.e. a $6.5B increase in liabilities between 2008/9 & 2009/10)? Could Dr Knox, who holds a PhD in actuarial science, be so very wrong in his 2008 estimate?

Mr Dixon won't find much solace either in the 2010 independent actuarial review of the Government's liabilities as undertaken by Cumpston Sergeant. Reading between the lines, this firm clearly questioned its independence given that it was expressly asked not to assess the base assumptions of the liability estimates undertaken by the Department of Finance (DoFD). In addition, the firm place very clear caveats on its assessment of "reasonableness" with respect to some of the DoFD assumptions and estimates given. This was particularly the case when referring to the "pension take up rate" assumptions for both the PSS and MSBS, where they stated that the assumptions were "reasonable, but highly uncertain."

Such comments were substantiated not least by the fact that when interviewing one of the Actuary's concerned, Cumpston Sergeant learned that the *"pension take-up represented perhaps 20-30% of the initial increase in liability, although he* [the actuary] *had not directly quantified it"*. In other words, the Actuary concerned had just plucked the assumption out of .... thin air!

If the foregoing is not enough to raise major concerns, then official FOI data received late last year by this author clearly showed that as at 30 June 2011: pensions were still being recorded (and perhaps even paid) against dead recipients; there were some recipients who supposedly joined their respective Commonwealth Super Schemes when they were a negative number (e.g. minus 75 years of age); and where one person apparently lived to the ripe old age of 125 years and another 7 who reached 123 years; setting eight new world records for life expectancy!

To top this all off, Mr Dixon and your readers might like to review what Mr. David Richardson from 'The Australia Institute' had to say in the PS Informant on the 7th June 2011. In that article, Mr. Richardson seriously questioned the Government's accounting methods and strongly suggested that there was evidence of "double accounting" occurring; creating what he thought might be a "10Billion dollar white hole".

There is no doubt that Mr Dixon is a well respected stalwart in the Finance and Superannuation industry, but it would seem that on this occasion that he has fallen prey to some of the "Dark Art" deceptions that are all too common with the Dept of Finance and Treasury.

Kind regards

Peter Thornton
Kambah ACT
[redacted]

PS I would be more than happy to substantiate every point made here with evidence. The attached snapshot of FOI data received is a small sampler.

PSS For those who did not see the original article, here's a copy from Mr. Dixons [website]