Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Finance and Deregulation Portfolio

Future Fund Management Agency

Additional Estimates Hearing – February 2008

Question: F87

Outcome: Enhanced capacity for the Australian Government to offset unfunded superannuation liabilities

Topic: Inflation rate assumption

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Senator Watson asked:

Given that current inflation is well above the 2.5 per cent assumption used in the annual report, has the Fund revised its inflation assumptions so as not to overstate expected returns?

Answer:

The investment mandate requires the Fund to adopt a return of at least Consumer Price Index (CPI) +4.5 to 5.5 per cent per annum over the long term. The mandate recognises that during the initial transition period, as the long-term strategic asset allocation is developed, a return lower than the benchmark return is expected.

In its last annual report the Fund reported against the investment mandate's CPI based benchmark and will continue to do so in future.

In addition, in constructing the long-term investment portfolio and recognising the potential for temporary disturbances in the CPI measure, the Fund has adopted and reported against an inflation assumption of 2.5 per cent per annum, consistent with the mid point of the Reserve Bank of Australia's target range. Over time the Fund will assess the behaviour of the CPI and the RBA's underlying measure of inflation relative to this long-term assumption.