

Distribution: Public Hospitals

Subject: Superannuation Funding 1995/96

PURPOSE

To advise hospitals of adjustments to payments for hospital superannuation employer contributions.

BACKGROUND

- 1 Services purchased by the Department incorporate the cost of superannuation to employers within the payment rates for various services. Casemix payments in 1995/96 were calculated on the basis of the following superannuation costs:
 - *Basic Scheme* 7.5% of salary (up from 6% in 1994/95 and made up of 6% SGA and 1.5% HSB levy)
 - *Contributory Scheme* 7.0% of salary (down from 10% in 1994/95)
- 2 After these calculations were made, the State Government paid out the unfunded liabilities in June 1995 (including all liabilities related to non-Operating Fund staff) for the Hospital Superannuation Boards' (HSB) Basic Scheme. Thus there was no longer a need for the 1.5% levy on the basic scheme contribution to be imposed.
3. HSB actuaries in August clarified an unfunded liability in the Contributory Scheme estimated at \$260M as at 30 June 1995, and recommended that the employer contribution rate should increase to around 12%.
4. Negotiations between H&CS, Department of Treasury and Finance, and Hospital Superannuation Board have now been completed and the following actions agreed:
 - HSB would not increase the Contributory Scheme rates for the remainder of 1995/96;

- H&CS will be responsible for paying unfunded liabilities on behalf of hospitals for the Pensioner Component of the Contributory Scheme (it seems likely that Hospitals will be required to disclose these liabilities and payments made by H&CS in their annual statements).
- Hospitals will continue to meet the surcharge for current members of the Contributors Scheme. This surcharge is included in the 7% levy now applicable and is not an additional charge.

1995/96 PAYMENTS TO HOSPITALS

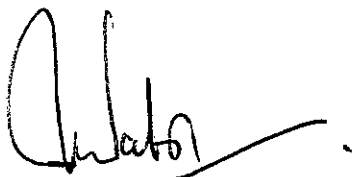
5. Payments made to hospitals for superannuation in 1995/96 have included the proposed 1% increase in the SGA, 0.5% increase in the HSB levy and a reduction from 10% to 7% in the Contributory Scheme. Estimates of the additional costs were based on historical cost data supplied by the HSB for the 11 months to May 1995. Overall an additional \$12M, including \$3.5M for an increased superannuation base, was provided in the Acute Budget. The additional funds formed part of the indexation of payments, and are detailed in point 2 of the attachment.

Since July 1995 a further \$7.5M additional funding has been provided for superannuation increases related to award increases and the Lochtenberg review.

BUDGET ADJUSTMENT TO BE MADE

6. Hospitals have not been required to pay the expected increase in the contributory rates nor the HSB surcharge in the Basic Benefits Scheme, therefore payments to the hospitals from the Department need to be adjusted accordingly. The total overpayment to hospitals is \$18M for the period 1 July 1995 to 30 June 1996.
7. Withdrawal of this overpayment was foreshadowed in the "Conditions of Funding 1995/96" (Section 2.22.3), released in June 1995 and detailed in Circular 21/1995 released in August 1995.
8. As the financial year is now well advanced, and hospitals may not have made provision for this recall of overpayments for superannuation, the recall will be spread over financial years 1995/96 and 1996/97. Some 40 percent of the overpayment (totalling \$7.2M across the State) will be recalled in the second payment made to hospitals in May 1996, with the remaining 60 percent being withdrawn evenly over the 24 payments to be made to hospitals during 1996/97. In addition, hospital budgets in 1996/97 will incorporate the full budget reduction for the year. That is payments from the Department to hospitals in 1996/97 will reflect lower amounts to be paid in 1996/97 as well as the 60% carried over from the previous (1995/96) year.

9. The payment made to hospitals on 22 May 1996 will also incorporate a payment of additional funding provided by Treasury for recent award changes (i.e. 2% increase for ANF effective from 1 February 1996 and other awards). This will largely cancel out the superannuation adjustment, and thus minimise the impact on hospital cash flow.
10. The Attachment details the method of calculation used to determine the funds to be withdrawn from your hospital's budget with the retraction of the HSB's proposed 1.5% basic scheme levy. Essentially the Attachment disaggregates the 1995/96 prices indexation factor of 2.6% and identifies an amount equivalent to the proposed 1.5% levy. Forty percent of this amount will be withdrawn in the second payment in May.
11. Should you have queries regarding matters raised in this Circular, please contact your regional Acute Health Manager in the first instance.



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