



JOINT MEDIA RELEASE

The Hon. Peter Costello MP
Treasurer of the
Commonwealth of Australia

Senator the Hon. Nick Minchin,
Minister for Finance and Administration

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Future Fund

The Australian Government announced during the 2004 federal election that it would establish a Future Fund to meet unfunded superannuation liabilities, contribute to national savings and increase net worth. Unfunded superannuation liabilities are the Australian Government's largest liability, currently amounting to more than \$91 billion and are expected to grow to around \$140 billion by 2020.

Legislation to establish the Future Fund, an independent statutory board and a new statutory agency to support the management of the Fund, will be introduced into Parliament later this year.

By establishing the Future Fund now, the Government will strengthen its medium term fiscal policy to ensure we are better able to meet the challenges of the future. Saving now to meet payments in the future will help to ensure the sustainability of the Budget. Future Governments should not have to cut services or raise taxes in order to meet growing demographic pressures in areas like health and aged care. The Future Fund will also ensure that liabilities currently incurred will not be passed on to future generations, freeing up resources from the budget that would otherwise not have been available.

The Fund aims to accumulate financial assets to offset the Government's unfunded superannuation liabilities by 2020. Achieving this aim will require significant investment by the Government and the continuation of good fiscal management. The amount of the Government's initial investment in the Fund will be finalised once the 2004-05 Final Budget Outcome is known. On current projections, the initial transfer (including from existing deposits held at the Reserve Bank) will be around \$16 billion.

To grow the Future Fund the Government will reinvest all of the Fund's earnings. Funds will accumulate until the level of assets is sufficient to offset the liability. The Future Fund will be quarantined from the rest of the Budget through legislation.

The Fund will be managed by an independent statutory board, the Future Fund Management Board, which will make investments in accordance with a broad investment mandate issued by the Treasurer and the Minister for Finance and Administration. Board members will be selected by the Government for their expertise in investment and corporate governance and the Board will set the investment strategy and the strategic asset allocation for the Fund.

The Government will provide \$31.2 million over four years from 2005-06, including \$1 million in capital funding, to establish the Future Fund Management Agency. In addition, the Government will provide funding of \$0.9 million in 2005-06 to the Treasury to facilitate implementation of the Fund.

The Agency, to be established in the Finance and Administration portfolio, will provide executive support and investment advice to the Board. While actual investment management will be contracted out to private sector funds managers, the Board with the assistance of the Agency will be responsible to the Government for the performance and management of the Fund's assets.

The cost of contracting out investment activities to fund managers, and the remuneration of Board

members, will be met from the Fund.

Legislation is expected to pass later this year at which time the Government will appoint a Board and issue an investment mandate, setting the broad parameters for investment of the initial capital.

CANBERRA
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