Superannuation (Productivity Benefit) (1999-2000 First Interest Factor) Declaration 1999 1999 No. 136

EXPLANATORY STATEMENT

STATUTORY RULES 1999 No. 136

SUPERANNUATION (PRODUCTIVITY BENEFIT) ACT 1988

ISSUED BY THE AUTHORITY OF THE MINISTER FOR FINANCE AND ADMINISTRATION

DECLARATION UNDER PARAGRAPH 3E(1)(a)

FIRST INTEREST FACTOR

The Superannuation (Productivity Benefit) Act 1988 (the PB Act) provides the mechanism by which the Superannuation Guarantee (SG) minimum superannuation contribution is made available to Australian Government employees (and certain other employees) who have no other employersponsored superannuation cover. Prior to 1 July 1992, the PB Act provided productivity superannuation to these employees.

Since 1 July 1990, the designated employers of employees covered by the PB Act arrangements have been required to pay periodic contributions based on the salary of the employee to the superannuation fund nominated by the Minister for Finance and Administration, or another superannuation fund approved by the Minister. Where the employee is eligible, contributions may be paid to a regulated fund as defined by the Superannuation Industry Supervision legislation.

Employers are required to pay to the same fund, on a once only basis, an amount being the entitlement accrued under the then Superannuation Benefit (Interim Arrangement) Act 1988 and an amount in respect of contributions which would have been paid after 1 July 1990, had the employee joined a fund on that date. The employer is required to pay extra amounts as interest on any contributions which are made to take account of loss of interest, since contributions began to accumulate on behalf of the employee and before such contributions are paid into a fund.

Paragraph 3E(1)(a) of the PB Act requires the Minister to declare before each financial year "the factor ascertained using a specified formula that is to be the declared first interest factor for that year". Subsection 3E(2) of the Act provides that the formula "is to involve the use of a rate specified in the declaration" and "may contain a variable that depends on the period, or another aspect, of the employment of the person in relation to whom the factor is to apply".

The first interest factor is used in subsection 8A(2) of the PB Act to determine the amount that is to accrue during all or part of a financial year on amounts which should have been paid to a superannuation fund as contributions in that year.

This Declaration cited as the **Superannuation (Productivity Benefit) (1999-2000 First Interest Factor) Declaration 1999** specifies that the rate to be used in the formula for the 1999-2000 year is 0.055 1, which is the rate expressed as a decimal per annum that is the estimated closing yield last published before 1 July 1999, in respect of 10-year non-rebate Treasury Bonds (ie 5.5 1 per cent per annum).

The effect of the formula is to accrue interest in a manner similar to that which would have applied if the contributions had been paid into a fund in regular payments throughout the year. The formula provides for interest to accrue on a daily basis on each amount which should have been paid (but was not) to a fund during the period 1 July 1999 to 30 June 2000 at half the rate set out in the declaration. The halving of the interest rate recognises that the full interest rate only applies for a full year, and applies for progressively shorter periods to moneys which would have been payable late in the year. The rate could apply for zero days to amounts payable on the last day of the financial year.

The Declaration commenced on gazettal.