



Institute of Actuaries of Australia

**4th Financial Services Forum**

*Innovation in Financial Markets*

19 and 20 May 2008 – Melbourne

# **Institute of Actuaries of Australia Briefing Session**

## **SEBPC Update 1**

**Paul Shallue**

**Brad Jeffrey**



- Notional Taxed Contributions
- Allocations from Reserves
- SG Earnings Base to OTE
- Contributions in respect of Pensioners





## **NTCs – Overview**

- Outcome of Consultations to Date
- Legislation changes we intend to seek
- Other matters on the to-do list





## **NTCs – Positive Outcomes**

- Benefit categories
- 5 member rule – who is a DB member
- Non-accruing members – FAS indexation allowed
- Salary increase tests for cap eligibility
- Average entry age based on predecessor fund
- Treatment of discretionary benefits/member options
- Treatment of special designs





## NTCs – Negative Outcomes

- Sub-funds – related & unrelated employers (LC)
- 5 members in last 5 years rule for master trust funds (LC)
- Pension indexation changed since commencement (LC)
- Non-accruing members with MRB underpin
- Retrospective imposition of loss of cap on change of category
- Successor fund transfers – avoid NER change, loss of cap (LC) LC =legislative change to be sought





## NTCs – Our To-Do List: Other

- Submission on legislation changes
- Clarify W, X, Y and Z issues
- NTC on pension indexation rate increase – a W or X/Y?
- Successor fund transfers – new entrant rate; NTC cap
- New entrant rates for new funds and successor fund transfers
- Feedback?





## Allocations from Reserves

- SIS requires unallocated contributions to a reserve for accumulation interest to be allocated
- Allocations from reserves, generally, are concessional contributions
- Limited exceptions: Section 292-25.01(4)
- Principle – reserve not to be used as device to avoid reporting of concessional contributions





## Allocations from Reserves

S 292-25.01(4) Exceptions:

- Amount allocated in fair and reasonable manner:
  - to an account for every member of a plan
  - to an account for every member of a class within a plan and the reserve relates only to the class; and
- Amount is less than 5% of members' interest at time of allocation







# Allocations from Reserves

## Issues:

- Avoiding double counting of contributions that pass through reserves
- Avoiding capturing investment return allocations
- Distribution basis for 5% test – “fair and reasonable”
- Allocations of admin and group life costs – “reasonable”
- Surplus that accrued prior to 1 July 2007 – can it be used?
- Grossing up requirements
- Legitimate uses of reserve should not be caught





## **SG to OTE – Overview**

- Legislation & Guidance
- Examples of MRB designs
- Averaging & data issues (fully DB MRB)
- Maximum Contributions Base (MCB)





## **SG to OTE – Legislation & Guidance**

- SG Act changed in 2004, effective 1/7/08
- Regulations for DB funds expected shortly
- Discussion Note
- Draft Professional Standard to replace GN456





## SG to OTE – Standard DB MRB

- Three components
- Post 7/08 Comp =  $F \times (MCR/0.85 + NECR) \times OTE \times NM \times DF$ 
  - MCR more usually on SAL than OTE
- 1992-2008 Comp =  $F \times \text{Pre-2008 Accrued MRB Multiple} \times SAL \times DF$ 
  - SAL at least 2008 definition
- Pre-1992 Comp =  $1992 \text{ Withdrawal Multiple} \times SAL$ 
  - SAL at least 1992 definition





## **SG to OTE – Accumulation MRBs**

- Could be fully accum or accum add-on to DB MRB
- Add-on could be just to MRB or to all benefits (e.g. bonus)
- Conts need to be based on actual OTE (or actual OTE – SAL)
- Could convert from DB-style or mix to fully accum
- Consistent with accum funds (e.g. amount, timing for interest)
- Likely to be best approach with fluctuating OTE





## **SG to OTE – OTE Averaging (DB MRB)**

- OTE may have significant irregular items eg. bonuses
- Generally undesirable for DB MRB earnings base to fluctuate
- Not an issue if MRB never applies
- Averaging may be used to reduce fluctuations
- Be careful with non-integral periods & irregular items
- Average to last annual review date to be allowed
- Advise clients if significant anomalies possible





## **SG to OTE – Application of MCB**

- Accum-style MRB to be consistent with accum fund
- Hence a limit of 9% of MCB can be applied to quarterly conts to an accum MRB
- Annualised MCB approach problematic in partial quarters
  - e.g. if monthly conts limited to Quarterly MCB/3
- DB-style MRB uses annualised earnings base
- Hence use annualised MCB (Quarterly MCB x 4) with DB-style MRB
- No adjustment in partial quarters





## **SG to OTE – Conclusion**

- Eligibility for DB ‘grandfathering’
- Replacement of non-OTE benefit certificates
- Timing of benefit certificates
- Replacement of funding & solvency certificates
- Feedback?







## Contributions for Pensioners

- Tax deductibility generally restricted to current employees
- Limited deductibility for former employees
- Senate Standing Committee of Economics February 2007 Report identified shortcoming
- Shortcoming identified not broad enough!





# Contributions for Pensioners

- Submission 6 December 2007
- Requested, in respect of former employee:
  - any contribution within 12 months of employment cessation
  - any contribution to fund defined benefit pension
- Also, SIS Regs to be amended to permit fund to accept contributions in respect of pensioners
- Still waiting

