

**GUIDANCE NOTE 457
BENEFIT CERTIFICATES FOR "DEEMED"
DEFINED BENEFIT FUNDS**

APPLICATION

Actuaries providing Benefit Certificates for superannuation funds which are deemed defined benefit funds by virtue of Sections 6A and 6B of the Superannuation Guarantee (Administration) Act 1992 (the SG Act).

LEGISLATION

This Guidance Note deals with the preparation by actuaries of Benefit Certificates provided to employers contributing to superannuation funds which are the subject of a conversion notice under Sections 6A and 6B of the SG Act.

CLASSIFICATION

Compliance with this Guidance Note is mandatory.

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DEFINITION

"Surplus assets" means the excess (if any) of assets at net market value over members' total account balances, whether vested or not.

"SIS Regulations" means the Regulations under the Superannuation Industry (Supervision) Act 1993.

1 INTRODUCTION

The concept of a "deemed" defined benefit fund was introduced as a procedure whereby defined contribution funds are permitted to utilise surplus assets in lieu of employer contributions to provide benefits which count as employer support for Superannuation Guarantee purposes. The purpose of this Guidance Note is to guide actuaries in the preparation of Benefit Certificates for these funds.

2 GUIDANCE NOTE 456

The sections of Guidance Note 456 dealing with accumulation style benefits in defined benefit funds are applicable. The Benefit Certificate should include a Notional Employer Contribution Rate (NECR) and Minimum Requisite Benefits (MRBs) determined using the principles in that Guidance Note.

The relevant sections of that Guidance Note in this context are Sections 1,2,3,6,8 and 10.

3 ACTUARIALLY CONTROLLED "DEFINED CONTRIBUTION" FUNDS

Some funds which provide benefits on retirement expressed in terms of an accumulation of contributions with interest are funded using actuarial techniques which include making allowance in advance for future forgone benefits. In other words, from a funding point of view they have been operating as a standard defined benefit fund.

If the Trustees have determined that such a fund does not qualify as a defined benefit fund under the terms of the relevant legislation, but the employer wishes to use the fund for SG purposes, this can only be done by way of a conversion notice.

If such a fund is the subject of a conversion notice the Actuary should follow the requirements set out in Guidance Note 456 when preparing a Benefit Certificate. The Actuary should only sign a Certificate in these circumstances if:

- (a) the fund is under proper actuarial control which would meet the actuarial reporting requirements for a defined benefit fund set out in the SIS Regulations; and
- (b) the actuary is satisfied that if the fund were subject to the Funding and Solvency requirements applicable to conventional defined benefit funds those requirements could be met during the currency of the Certificate.

Such funds should be treated by the actuary as if they were a genuine defined benefit fund for Benefit Certificate purposes.

4 SOURCE OF EMPLOYER CONTRIBUTIONS

It is acceptable for part or all of the NECR to be "met" out of surplus assets in the fund. However, the actuary should only sign a Benefit Certificate if satisfied that the surplus so used is wholly or principally derived from:

- surplus which arose in respect of employer contributions paid before 1 July 1992, or
- surplus derived from employer contributions paid after 30 June 1992 in excess of contributions which are certified by the employer to be contributions paid by the employer in respect of the employer's Superannuation Guarantee obligations,

and in addition that the surpluses used were not derived in a significant degree from:

- member contributions
(except that surpluses arising from earnings in excess of crediting rates prior to the introduction of compulsory vesting standards under the Occupational Superannuation Standards Regulations can be used)
- Superannuation Guarantee contributions paid after 30 June 1992

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- investment fluctuation reserves, including those held at 30 June 1992
 - reserves which have arisen from deductions made from member account balances (eg provisions for payment of death or disability benefits or insurance premiums), including those held at 30 June 1992.

The actuary should also be satisfied -

- (a) on general grounds that the surplus is appropriate for the use to which it is being put, and
- (b) that surplus assets which are subject to the Benefit Certificate are being credited to the accounts of members of the fund in accordance with the Benefit Certificate.

5 PERIOD OF CERTIFICATION

In making the above determination the actuary must be satisfied that the above tests will be met throughout the currency of the Certificate. The actuary must ensure the term of the Certificate is such that this requirement will be satisfied.

6 APPLICATION TO MASTER TRUSTS

Where a Master Trust is the subject of a Benefit Certificate, or a number of Benefit Certificates, the actuary must ensure that the requirements of Section 4 above are met in respect of each sub-fund in which part or all of the NECR is being "met" of out surplus in the sub-fund. Furthermore the actuary should ensure that there are no significant cross-subsidies between sub-funds within the Master Trust.

7 INFORMATION TO BE INCLUDED IN THE CERTIFICATE

The Benefit Certificate must include: -

- (a) The name of the employer/s requesting the Certificate, or if the Trustee of the superannuation fund has requested the Certificate on behalf of the employer/s, the name of the Trustee.
- (b) The name of each superannuation fund to which the NECR relates.
- (c) A description of each class of members covered by the Certificate.
- (d) The NECR for each class of members covered by the Certificate.
- (e) A statement that each NECR has been calculated in accordance with the Superannuation Guarantee (Administration) Regulations and this Guidance Note.

The actuary's attention is drawn to Regulations 3 and 4 of the Superannuation Guarantee (Administration) Regulations and the statement required therein. The Institute considers that the required statement may be made in the case of every Benefit Certificate which complies with this Guidance Note, and the Benefit Certificate should include the required statement.

- (f) A statement to the effect that where part or all of the NECR is being met from surplus in the fund, or in one or more sub-funds within a Master Trust, the use of the surplus is appropriate and in accordance with the requirements of this Guidance Note.
- (g) A description of the MRBs for each class of members covered by the Certificate, either directly or by reference to the governing rules.
- (h) A description of the approach adopted when allowing for death and disablement costs and expenses, in accordance with the principles in paragraph 3.5 of Guidance Note 456.
- (i) The date on which the Certificate takes effect.

- (j) The date beyond which the Certificate will cease to have effect in the opinion of the actuary.
- (k) The name, address and qualifications of the actuary.
- (l) The date of signing the Certificate.

8 RESPONSIBILITY OF THE ACTUARY

Before signing a Benefit Certificate under this Guidance Note, the actuary must be fully familiar with the operations of the defined contribution fund.

END OF GUIDANCE NOTE 457

