



Institute of Actuaries of Australia

2004 Financial Services Forum ...The New Environment

SPONSORS



TOWERS
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2004

Financial Services Forum

...The New Environment



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SMSF Issues

Cohen Watson BCM, FIAA

SMSF Sub-Committee

- SMSF Sub-committee formed 18 months ago
 - Recognise SMSF issues very different to large funds
 - Assists SEBPC on issues pertaining to SMSFs and SAFs
 - Report to SEBPC
 - Don't operate in our own right
 - Happy for SMSF issues to be raised with us directly
 - Current sub-committee members
 - Cohen Watson (Perth), Warren King (Syd), Meg Heffron (Syd), Jeff Humphreys (Syd), Peter Crump (Adel), Christine Moran (Adel), Allen Truslove (Melb), deLancey Worthington (Melb)

Tax Exemption

- Valuation of pension for life-time/fixed term pensions
 - s273A
 - “assets invested, held in reserve”; and
 - amount that if accumulated at rate actuary expects will be fund earning rate, would provide amount required to discharge liabilities
 - S283
 - amount that if accumulated at rate actuary expects will be fund earning rate, would provide amount required to discharge liabilities
 - ATO view - ID 2002/368
 - Value of pension using a best estimate basis
 - Expected earning rate
 - Segregated assets, but principles apply to unsegregated

Tax Exemption

- Need for consistency between actuaries
 - Seems to be differing methodologies among actuaries
 - Best estimate basis may not always be being applied
 - Best estimate interpreted differently
 - Danger to profession in:
 - Inconsistencies between actuaries
 - Running against ATO's stated view
 - SEBPC intend to tighten GNs to confirm best estimate value using expected earning rate

No more tax certificates for allocated pensions!!!

- Allocated & Growth pensions
 - Certification will not be required for 04/05 yr onwards
 - Calculation of % for unsegregated assets
 - How will consistency be achieved by accountants?
 - May need some help from actuaries?
 - Have suggested actuarial involvement in providing some guidelines

Unsatisfactory financial position

- Life-time and fixed term pensions
- Drafted some principles to promote consistency
 - Ignore general liability caps when assessing value for UFP
 - Comply with s130 of SIS where assets not sufficient to cover actuarial value of expected future payments
 - Provide guidance on acceptable courses of action
 - One acceptable action to maintain pension at current level
 - provided member & trustee agree
 - recognise that assets may not be sufficient if reality matches assumptions
 - On commencement, pension level must be set so that financial position is “satisfactory”

Unsatisfactory financial position

- ATO response to draft principles
 - Generally agreed with approach
- EXCEPT ATO view is that:
 - If assets no longer sufficient to support expected payments, pension no longer meets RBL pension standards
 - Must be commuted and repurchased to maintain RBL concession
- SMSF Sub-committee still working through issues

UFP and contravention reporting

- Note issued to all actuaries by SEBPC
- New dob-in provisions
 - Standard ATO contravention reporting form for SMSFs
- Compliance
 - Opinion that contravention may have, may be or may occur
 - In course of actuarial function
 - Reporting obligation to:
 - Trustee
 - Regulator if it may affect interests of members/beneficiaries

UFP and contravention reporting

- Solvency
 - Opinion that financial position may be, about to become, unsatisfactory
 - Reporting obligation to Trustee and Regulator
- DB funds
 - Failure to implement actuarial recommendation relating to contributions
 - Reporting obligation to:
 - Trustee
 - Regulator if it may affect interests of members/beneficiaries
- Penalties apply (monetary and/or jail time)

20 September 2004 changes

- Life-time pensions: guarantee period lesser of:
 - 20 years;
 - life expectancy.
- Life-expectancy fixed term pensions
 - Available term to match reflect term for growth pensions
- New Term Allocated Pension (growth) pensions
- Watch new life tables from 1 January 2005
 - Optional early adoption if commencing on or after 20/9/04

20 September 2004 changes

- Asset-test exemption
 - Reducing to 50% for new “purchased” pensions from 20/9/04
 - Deprivation calculation still relevant?
 - New non-purchased income streams still 100% exempt!
 - Level playing field? Protecting public servants?
- What happens if commute/rollover post 20 Sept?
 - DFACS position: “Limited rollover relief is being considered”
- Be careful about being too conservative now:
 - Must still meet RoPP test
 - Impact on deprivation assessment

Reviewing PS/GNs

- Review of all PSs/GNs from SMSF perspective
 - Part of larger SEBPC review
 - Clarify provisions which may not be as relevant
 - any changes will be exposed for comment
- Reminder: existing standards still apply
 - PS400 primary standard for actuarial reviews
 - GN 465 only one opinion in overall requirements
 - Code of Conduct
 - Para 27: best judgement to ensure advice based on sufficient and reliable data, adequate and appropriate assumptions ...

12 May 2004 DIY changes

- Main 12 May changes for SMSFs
 - full allocation of contributions
 - within 28 days of month end
 - accum fund MRB = all benefits (account balance)
 - min. 50 db members for fund to accept new db member
 - min. 50 members to pay new db pension
 - grandfather existing pensions in payment
 - intention is that cannot start a new db pension from 12 May
 - grandfathering very badly worded
- Implemented as “integrity measures”
 - No prior consultation with industry

Since 12 May 2004

- Transitional measures announced
 - Allows db pensions to be commenced up to 30 June 2005 if:
 - Member of DIY fund at 11 May 2004
 - Retire after age 55 or reach age 65
- ATO Draft Determination SD 2004/D1
 - Narrow interpretation of grandfathering provision
 - SMSF cannot start new db pension post 30/6/05
 - Also applies to commute/repurchases if restructuring
 - Comments due 31 August 2004
 - Will accept until 15 October 2004

Since 12 May 2004

- Two Senate hearings held
 - Submissions on www.apf.gov.au
 - Senate report due end August
- Labor motion to disallow db pension regs
 - still law in the meantime
- Treasury review announced
 - address concerns and examine possible alternatives

Treasury review

- Concerns noted were:
 - Access to unintended tax/social security benefits (eg RBL compression)
 - Estate planning outside what was intended and not available to other super fund members
 - Ability to effectively pool risk and guarantee income payments
- Review to examine options for small funds to provide pensions
 - Design features of prospective pensions that address concerns
 - Management of investment, liquidity and mortality risks
 - Likely future demand for such pensions
- Initial submissions due by 1 October 2004
- Treasury discussion paper by end of year
- Final report to govt. by April 2005

Treasury review

- IAAust intending to make submission
 - will suggest ways of dealing with concerns
- Possible suggestions may include:
- RBL concerns:
 - update SIS 1B valuation factors
 - apply purchase price for purchased pensions
 - amend formula for treatment of undeducted contributions
 - Social security:
 - 50% exemption should already address
 - apply additional cap if still concerned

Treasury review

Possible suggestions ...

– Estate planning concerns

- Address some of mis-information being put forward
- Actuarial controls to limit build-up of reserves?
- Ensuring reasonable level of pension commenced?
- Review of high probability requirement for Centrelink?
- Additional tax applied when reserves allocated to other members?

Treasury review

- Possible suggestions...
 - Guaranteeing income payments
 - Separate argument to revenue concerns
 - Reserving used to minimise risk of failure
 - Mbrs aware of risk – enter arrangement in full knowledge
 - Annuities not seen as value for money – but no other option
 - Difficulties being encountered by annuity providers
 - Increasing longevity – how to cope? Insurers pass risk to consumer via variable bonuses.
 - Why the need in light of growth pensions getting same tax/social security treatment?
 - Allow pensions to be reduced on actuarial advice
 - Alternative structures
 - Suggestions welcome.....

Pensions and DIY funds

- If you feel strongly, consider making your own submission
- SMSF sub-committee preparing a DIY pension paper intended to:
 - Promote greater understanding within IAAust
 - Form basis of informed debate within IAAust
 - If possible, assist in reaching consensus view with IAAust on legitimacy of life-time/fixed term pensions from DIY funds
- Your ideas/issues/suggestions welcome.....