Actuaries Institute

The New DB Funding Framework

27 March 2012 - Sydney

29 March 2012 - Melbourne

Introduction / Background

- Cooper review => Stronger Super
  - APRA to be given standards-making powers
  - Prudential standard on funding of vested benefits (VB)
  - DB funds currently self-insured allowed to continue
- APRA standards discussion paper Sept 2011
- AI response
- Draft Prudential standard on DB funding expected late April

AI – Requirements if <100% VBI (UFP)

- Notification to Trustee & APRA
- Remediation plan flexible within constraints:
  - Expected return to 100% VBI within max of 4 years of identifying UFP; longer to require APRA approval
  - Recognise further adverse experience may extend period
  - Max not default - shorter periods where possible
  - Subject to monitoring and control eg benefit payments
- May be special cases where ongoing < 100% VBI acceptable

Possible Requirements – Control During UFP

- Regular monitoring of experience and ongoing suitability of top-up program
  - Recognise data limitations
  - Avoid requiring frequent variation
- Funding of benefit payments – is specific top-up required?
- Power for trustee/actuary to suspend BPs in part or full
  - Currently actuary if technically insolvent (TI)
- BP monitoring process flexible to suit size of fund – actuary to specify?
- Any special rules if technically insolvent (TI)?

Funding & Solvency Certificates

- Should they be recast from MRB to VB?
- Can we get rid of clunky requirements?
  - Some timing issues
  - Don’t automatically lapse on notifiable events
  - Don’t automatically lapse if employer conts short/late?
  - Still replace before end of term?
- Currently need Special FSC if TI => require SFSC if UFP?
  - Eg. 12 month period
  - Review content requirements

Wind-up Priorities

- Current SIS provisions arguably inequitable in some situations
  - May advantage DB over DC
  - May advantage ex-employees over current employees
- Greater flexibility desirable from equity viewpoint but may not fit with priority for MRBs over other benefits
- May be transition issues associated with a change (e.g. pending wind-ups)
- Ranking of DB shortfalls on insolvency

Other Issues

- Segregation of DB and DC assets not required
- Agreed funding plan
- Treatment of sub-funds incl actuaries' responsibilities
- Special requirements for pension-paying funds – annual valuations and high probability statements
- Return of surplus provisions
- Self-insurance – restricted to DB (sub) funds that currently self-insure; subject to actuarial certification of adequacy
- Fit and proper provisions