

GUIDANCE NOTE 462 CALCULATIONS RELATING TO TRANSITIONAL REASONABLE BENEFIT LIMITS

APPLICATION

This Guidance Note is to be used by actuaries when requested to make calculations for July 1994 Transitional Reasonable Benefit Limit (TRBL) purposes.

LEGISLATION

The rules governing the calculation of TRBLs are set out in Part 5A (Reasonable Benefit Limits) of the Income Tax Regulations made under the Income Tax Assessment Act 1936 (ITAA).

FIRST ISSUED

November 1995

CLASSIFICATION

Compliance with the provisions of this Guidance Note is mandatory.

1. PURPOSE

- 1.1 From 1 July 1994, an individual's RBL is determined as a flat dollar amount rather than as a multiple of earnings as was the case prior to that date. There are limited transitional arrangements which will apply to certain individuals which result in them having a TRBL which is higher than the standard RBL.

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- 1.2 People aged at least 50 at 1 July 1994 are able to retain as their initial TRBL the dollar value to which they were entitled at 30 June 1994 on the RBL basis which applied up to that date where this exceeds the standard new RBL. There are no actuarial issues in the calculation of this amount and accordingly the detail of this calculation is not addressed further in this Guidance Note.
- 1.3 For people aged between 45 and 50 at 1 July 1994, the initial TRBL to which they are entitled is calculated as a blend of that which would apply if they were aged 50 or more and the greater of the RBL amount (where this term has the meaning given to it in Sections 140ZH - 140ZN of the ITAA) of the resignation benefit or the redundancy benefit to which they would have been entitled on 30 June 1994. For people aged below 45, the initial TRBL will be the greater of the RBL amount of the resignation benefit or the redundancy benefit to which they would have been entitled on 30 June 1994 provided that amount exceeds the standard new RBL. However the amount determined by this process is subject to a maximum of the RBL which applied to the person under the rules which operated up to 30 June 1994. In many cases the calculation of these amounts will be straightforward but there will be cases where this is not so. This Guidance Note addresses itself to the calculation of amounts in this last group.

2. APPLICATION

- 2.1 The situations where those requiring the calculation of the resignation or redundancy benefit for TRBL purposes are most likely to seek the assistance of an actuary are where the vested benefit is expressed in one or more of the following forms:
- (i) a deferred lump sum
 - (ii) a deferred pension
 - (iii) an actuarial reserve
 - (iv) a share of the fund
- 2.2 While there is nothing in the legislation governing the calculation of TRBLs which requires that the calculation be made by an actuary, actuarial advice is likely to be sought in many cases. When

requested to make such a calculation, an actuary should follow the principles set out in this Guidance Note.

3. CALCULATION PRINCIPLES

- 3.1 Any calculation made of a person's resignation or redundancy benefit should have due regard to the provisions of the governing rules of the fund or arrangement from which the entitlement would be paid. This principle is likely to be particularly significant in, but is not restricted to, cases where there is no past practice of paying the entitlement in question. If a person has the option of receiving several different benefits, the benefit with the highest RBL amount may be used.
- 3.2 To calculate the value of a pension (whether immediate or deferred), the actuary should first convert it to a capital value at the expected time of commencement of payment using the Pension Valuation Factors set out in the SIS Regulations. Alternatively, where commutation of the pension is permitted in the governing rules of the fund (so that the fund effectively provides the member with a choice between a deferred pension and a deferred lump sum) and a commutation basis which is different to the Pension Valuation Factors is either specified in those rules or has been consistently applied in the past, that different basis may be used in lieu of the Pension Valuation Factors if this would give a higher commuted value. This is equivalent to determining the value of the benefit as the greater of the value of the deferred pension and the value of the deferred lump sum.
- 3.3 Deferred benefits should be valued using assumptions in respect of the deferment period which are consistent with those used at the most recent actuarial valuation. If there has been no prior actuarial valuation, the assumptions adopted should be consistent with those which the actuary would adopt for a valuation at 30 June 1994. These assumptions should be determined following the principles set out in Professional Standard 400.
- 3.4 In calculating the value of a deferred benefit, the question may arise as to whether account should be taken of future discretionary increases during the deferment period. The Institute's view is that account should be taken of such increases if either:
- (i) There is a consistent past practice of granting such increases;
 - or

- (ii) The most recent actuarial valuation prior to 1 July 1994 made provision for future increases.
- 3.5 For actuarial reserve or share of fund calculations, the actuary should follow the past practice for calculating such benefits where that past practice exists and has been consistently applied over time. Where the past practice exists but has not been consistently applied over time, the actuary should follow the most recent approach used prior to 1 July 1994. Where there is no past practice, the actuary should adopt a calculation basis which is consistent with that which would be adopted for a valuation at 30 June 1994, consistent with Professional Standard 400 and, where relevant, with Professional Standard 402.
- 3.6 The entitlement to a particular benefit may be subject to certain conditions (e.g. the granting of consent by the employer, the exercise of a discretion by the employer or the Trustee or the giving of a certain period of notice of termination of employment by the benefit recipient).
The actuary should assume for purposes of the calculation that any notice requirements will be satisfied. In respect of employer consent or the exercise of a discretion, the actuary should have regard to past practice of the granting of the required consent or the exercise of the relevant discretion, customary industry practice in this area and any interpretive comment or ruling issued by the Australian Taxation Office.

END OF GUIDANCE NOTE 462

