



EXPLANATORY MEMORANDUM TO PRACTICE GUIDELINE 499.01

SELF INSURANCE FOR SUPERANNUATION FUNDS

June 2008

Why has this Practice Guideline been developed?

The Practice Guideline relating to self insurance for superannuation funds ("PG 499.01") was developed in response to APRA's stated intention to more closely regulate the self insurance arrangements of superannuation funds.

APRA has indicated that the financial management of self insurance arrangements in superannuation funds must include:

- ▶ for defined benefit funds, ongoing actuarial oversight; and
- ▶ for accumulation funds, maintenance of adequate, segregated insurance reserves which are subject to actuarial oversight.

The purpose of PG 499.01 is to assist actuaries in their oversight of self insurance arrangements and in advising superannuation fund trustees on the financial management of self insurance arrangements. It is not the Institute's role to regulate superannuation funds.

Importantly:

- ▶ the application of PG 499.01 will not be limited to trustees seeking an APRA licence and fund registration (and, as such, are required to comply with APRA's regulations), but will apply to any actuarial involvement with superannuation funds that have self insurance;
- ▶ self insurance is not appropriate for smaller superannuation funds. Consequently, PG 499.01 will, in practice, provide guidance with respect to certain funds only; and
- ▶ PG 499.01 discusses the establishment of insurance reserves. Whilst the intention is that the Actuary quantify the amount required to fund the insurance risk, neither the Actuary nor the Institute can require funds to establish such reserves under their Trust Deed and Rules.



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Consultation

PG 499.01 was drafted, at the request of the Superannuation and Employee Benefits Practice Committee, by members of that Committee who are involved with providing actuarial advice in relation to self insurance arrangements of superannuation funds.

PG 499.01 was first issued as an exposure draft (in the form of a draft Professional Standard) in late 2005. Comments were received at that time and appropriate adjustments made to the draft. Whilst there were some comments about wording and the precise application of the then-proposed standard, there were not significant issues with the underlying philosophy, practices and techniques.

Finalisation of the then-proposed professional standard was delayed as the Institute reviewed its Professional Standard / Guidance Note regime. That review has resulted in the material now being issued as a Practice Guideline, instead of a professional standard.

It is believed that the intent of PG 499.01 has been broadly adopted by actuaries working with superannuation funds which have self insurance arrangements.

Member support

As noted above, it is believed that PG 499.01 has general member support.

Drafting policy

It is confirmed that PG 499.01 has been drafted in accordance with the "Policy for Drafting and Developing Practice Guidelines" as issued by the Institute in June 2006.

Consistency with the Code of Professional Conduct and other relevant standards

PG 499.01 has been drafted in response to APRA's stated intentions regarding the self insurance arrangements of superannuation funds. In this context, PG 499.01 is consistent with the relevant legislation in that it provides guidance as to the actuarial oversight required by APRA.

PG 499.01 is also consistent with the Code of Professional Conduct, which requires actuaries to take reasonable steps to obtain adequate guidance in areas in which they provide advice.

END OF EXPLANATORY MEMORANDUM TO PRACTICE GUIDELINE 499.01