



**PROFESSIONAL STANDARD 401
SUMMARIES OF ACTUARIAL REPORTS ON THE
FINANCIAL CONDITION OF DEFINED BENEFIT
SUPERANNUATION FUNDS**

1. INTRODUCTION

APPLICATION

Actuaries who are required to prepare a “*short actuarial report*” commenting on the financial condition of a defined benefit superannuation fund.

LEGISLATION / AUTHORITY

The Guidance note should be read in conjunction with Australian Accounting Standard 25 (paragraphs 63 and 64), Professional Standard No. 400 and the *SIS Act and Regulations*.

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STANDARD

1. Short actuarial reports are required for the following purposes.

Type 1 Reports

To present the key results of an investigation in a concise format, for the benefit of members and other parties who have an interest in the results. A particular case is a report intended to be appended to a fund’s financial statements to fulfill the requirements of paragraphs 63 and 64 of Accounting Standard AAS 25.

Type 1 short reports are effectively summaries of actuarial reports which are themselves covered by Professional Standard 400.

Type 2 Reports

To express the actuary's opinion on a fund's financial condition at times between formal actuarial investigations.

2. Short actuarial reports may be provided either in the form of an Appendix to a full report where the full report is prepared in accordance with Professional Standard 400 (applicable only to Type 1 reports), or in the form of a separate letter or as an addendum to another document.
3. All short reports covered by this Standard should include:
 - (a) The name and qualifications of the actuary.
 - (b) The name of the fund.
 - (c) The net market value of the assets.

Type 1 Reports

4. In addition to the information referred to in the previous paragraph, Type 1 reports should include:
 - (a) The effective date of the valuation being reported on.
 - (b) The total amount required to meet the total benefits which would be payable if all active members voluntarily left employment at the date of investigation and received their vested entitlement.
 - (c) The total amount required to provide for:
 - any former members' or dependants' pensions (including allowance for pension increases provided by the documentation, in accordance with precedent or the intentions of the trustees and/or employer-sponsor),
 - any former members' or dependants' outstanding allocated pension balances,

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- benefits for members past retirement age, but not retired,
 - deferred benefits for former members or dependants, and
 - additional benefits of an accumulation nature held in respect of active or former members.
- (d) The ratio of the assets of the fund to the total vested benefits, (b) above. The amount specified in (c) may be excluded from both the assets and liabilities or included in both the assets and liabilities depending on the circumstances. The actuary should comment on the treatment.
- (e) The value of the assets used in determining the recommended contribution rates.
- (f) Either
- (i) The total accrued retirement benefits calculated in accordance with professional Standard 400, or
 - (ii) The total discounted value of accrued benefits calculated in accordance with Professional Standard 400.
- (g) The ratio $[(e) - (c)] / [(f) - (c)]$.
- (h) A brief description of the method used to apportion benefits between past and future membership in determining the amount given in sub-paragraph (f) above and, a brief description of the method and assumptions used to determine the Actuarial value of the accrued benefits. Any significant changes in methods and assumptions since the last actuarial investigation should be briefly described.
- (i) The recommended contribution rates.
- (j) A statement of the actuary's opinion on whether, at the valuation date, the value of the assets of the fund is adequate to meet the value of the liabilities of the fund in respect of accrued benefits in the fund of members of the fund.

- (k) A statement made in accordance with sub-regulations 9.31 (3) and (4) of the SIS Regulations regarding the financial position of the fund.
5. AAS 25 requires a statement of the actuary's opinion "as to the financial condition" of the fund. In formulating such an opinion, the actuary should consider factors such as:
- (a) The extent to which:
 - (i) vested benefits, and
 - (ii) benefits payable on termination of the fund, and
 - (iii) the actuarial value of accrued benefits (Professional Standard 402), and
 - (iv) minimum requisite benefits for Superannuation Guarantee purposes,

are covered by the net market value of assets or the value of assets used in the determination of contribution rates, as appropriate, and likely changes to the extent of such coverage over the next three years, and in the longer term.
 - (b) Likely cash flow requirements in the next three years.
 - (c) The nature of the assets and their suitability in meeting the liabilities.

Type 2 Reports

6. In addition to the information referred to in paragraph 3, Type 2 reports should include:
- (a) The date as at which the report is being prepared (referred to in this Professional Standard as the "reporting date"), and
 - (b) The effective date of the last full investigation, and
 - (c) The date of the report.

7. Type 2 reports may be required in a range of circumstances. At one extreme, the actuary may not be in a position to make calculations (or estimates) of the amounts and ratios referred to in sub-paragraphs (b) to (g) of paragraph 4 at the reporting date. The actuary may merely have received assurances from the trustee that since the date of the last review:
- (a) The contributions have been paid at the rates recommended at the last actuarial investigation, and
 - (b) No circumstances have arisen which would have materially influenced the financial condition of the fund (possibly after further general or specific enquiries by the actuary).
8. At the other extreme, the actuary may have been supplied with sufficient information to be able to estimate the amount and ratios referred to in paragraph 4, and to make a fresh recommendation regarding contribution rates. As the information supplied may fall short of that required for a full actuarial investigation, the actuary may also need to obtain assurances from the trustee along the lines of paragraph 7.
9. The circumstances which may arise are too varied for this Standard to attempt to prescribe the contents of Type 2 reports in detail. However, the following general guidance is appropriate:
- (a) The actuary should include a description of the data used for the report and an opinion on the quality of the data and its consistency with the data used in the last valuation.
 - (b) The actuary should include as much of the information specified in paragraph 4 as has been calculated, or estimated, as at the reporting date. Where amounts or ratios in these sub-paragraphs at the reporting date are not available, it may be appropriate to include amounts or ratios calculated at earlier dates.
 - (c) If the methods and assumptions, implicit in any estimates or calculations made at the reporting date, have changed from those used previously, the changes should be described in the report.
 - (d) When the actuary is relying on, amongst other things, assurances from the trustees on the matters referred to in

paragraph 7 above, this fact should be included in the report. Of course, if such assurances cannot be given, or are qualified to such an extent that the actuary believes a more detailed review of the fund's financial condition is required, a full actuarial investigation should be conducted, or other appropriate action taken.

- (e) Where the actuary receives assurances from the trustee, the actuary should check that the information provided is not contradicted by any other information available to the actuary and should state this in the report.

END OF PROFESSIONAL STANDARD 401