

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

**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) and Professional Standard No. 400.

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

**Type 1**

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 fulfil 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**

To express the actuary's opinion on a fund's financial condition at a time when a full actuarial investigation has not been conducted, and a full actuarial report has not been prepared.

2. Such a report 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 addendum to another document.

#### **Type 1 and Type 2 Reports**

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 provide for existing members' or dependants' pensions, postponed retirements and deferred benefits for former members or dependants (the amount R in paragraph 15 of Professional Standard 400).
  - (c) Total vested benefits [excluding the amount in (b)].
  - (d) The ratio (net market value of the assets -(b))/(c).
  - (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) - (b))/(f).
  - (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, if option (ii) of sub-paragraph (f) is selected, a brief description of the method and assumptions used to value the accrued benefits. Any significant changes in methods and assumptions since the last actuarial investigation should be briefly described.
  - (i) The recommended contribution rates.
5. Paragraph 63(b) of AAS 25 requires a statement of the actuary's opinion "*as to the financial condition*" of the fund. In formulating such a statement, the actuary should consider factors such as:
- (a) The extent to which
    - (i) vested benefits,
    - (ii) benefits payable on termination of the fund,
    - (iii) accrued benefits, or present value of accrued benefits, whichever is included in the full report of which the short report is a summary, 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 in 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) Nature of the assets and their suitability, having regard to the nature of 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"),

- (b) the effective date of the last full investigation, and
  - (c) the date of the report on it.
7. Type 2 reports may be required in a range of circumstances. At one extreme, the actuary may have made no calculations (or estimates) of the amounts and ratios referred to in sub-paragraphs (b) to (g) of paragraph 4 at the reporting date, but may merely have been advised by the trustees
- (a) that contributions have been paid at the rates recommended at the last actuarial investigation, and
  - (b) (possibly after further general or specific enquiries by the actuary), that no circumstances have arisen which would have materially influenced the financial condition of the fund.
8. At the other extreme, the actuary may have been supplied with sufficient information to be able to estimate the amounts and ratios referred to in sub-paragraphs (b) to (g) of paragraph 4, and to make a fresh recommendation regarding contribution rates. As (by definition of the scope of this Professional Standard) the information supplied would have fallen short of that required for a full actuarial investigation, the actuary should also obtain advice from the trustees along the lines referred to in paragraph 7.
9. The circumstances which may arise are too varied for this Standard to attempt to prescribe in detail the contents of Type 2 reports which might be issued. However the following general guidance is appropriate:
- (a) The actuary should include as much of the information specified in sub-paragraphs (b) to (i) of 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 previously.
  - (b) If the methods and assumptions, implicit in any estimates or calculations made at the reporting date, have been changed from those used previously, descriptions of the changes should be included in the report.
  - (c) When the actuary is relying on, amongst other things, advice from the trustees on the matters referred to in paragraph 7 above, this fact should be included in the report. Of course, if such advice is not forthcoming, or if the terms of the advice are such 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.