



SUPERANNUATION AND EMPLOYEE BENEFITS PRACTICE COMMITTEE

Notice to Members: Preparation of Benefit Certificates pending new Professional Standard

September 2008

The purpose of this Notice to Members is to provide guidance to members preparing Benefit Certificates in the period prior to the date of issue of the new Professional Standard dealing with this matter.

The issuing of this Notice to Members was approved by Council at its August 2008 meeting.

Background

In April 2008 the Superannuation and Employee Benefits Practice Committee ("SEBPC") issued a [Discussion Note](#) regarding the preparation of Benefit Certificates and the design of Minimum Requisite Benefits allowing for the Superannuation Guarantee earnings base change to Ordinary Time Earnings ("OTE") from 1 July 2008.

Regulations dealing with the implementation of OTE from 1 July 2008 for defined benefit funds were made on 24 June 2008. The regulations were in line with the SEBPC's expectations as set out in the April 2008 Discussion Note.

As foreshadowed in the Discussion Note, the SEBPC is preparing a Professional Standard dealing with the preparation of Benefit Certificates, which will replace the current Guidance Note 456 (March 1995). It is currently expected that a discussion draft of the proposed new Professional Standard will be circulated to members following the Professional Standards Committee meeting in mid-October 2008, in accordance with the Due Process for the Development and Amendment of Professional Standards.

Allowing for due process, the new Professional Standard will not be issued in time to be used for a Benefit Certificate commencing 1 July 2008, which must be issued on or before 14 November 2008 (unless the Tax Commissioner approves a later date up to 30 December 2008).

In view of this, the following guidance is provided to members regarding the preparation of Benefit Certificates commencing on or after 1 July 2008 which are to be issued before the new Professional Standard is available.



Compliance with legislation and GN 456

Members are reminded that they have an overarching obligation to comply with the law and any legislative/regulatory requirements.

In regard to the preparation of Benefit Certificates from 1 July 2008, the provisions of GN 456 that allow the determination of a notional employer contribution rate on an earnings base other than OTE are inconsistent with the legislative provisions in effect from 1 July 2008 and must be disregarded.

Subject to this requirement, and to the exception set out below, Benefit Certificates issued before the new Professional Standard is available must continue to comply with GN 456, taking into account the guidance provided in the April 2008 Discussion Note.

As set out in the April 2008 Discussion Note, any existing Benefit Certificates which use an earnings base lower than OTE beyond 1 July 2008 must be replaced with effect from 1 July 2008.

Exception to compliance with GN 456: Where OTE at Prior Review Date Used

Section 4.5 of GN 456 states (in effect) that SAL (as defined therein) can be determined using annual salary(ies) at the prior review date(s), either in lieu of current salary at the date of exit or for the determination of average salary, but only where the Notional Earnings Base is something other than OTE.

As set out in the April 2008 Discussion Note, SEBPC anticipates that the new Professional Standard will allow the use of OTE averaged over a period prior to the fund review date¹ preceding the date of termination ("New OTE Averaging Method"), but with a modified F factor of 0.0925 for an averaging period of 3 years or more generally $0.0856 + .0023 \times$ the averaging period in years.

Until the new Professional Standard is issued, members issuing Benefit Certificates using the New OTE Averaging Method, but otherwise complying with GN 456, will be considered to have met mandatory Institute guidance, provided that the F factor has been determined as set out above (or higher).

¹ Or other annual date such as 30 June or birth date.



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Where this exception applies, the statement required to be included in the Benefit Certificate by section 9.1(e) of GN 456 may be amended to a statement that each notional employer contribution rate has been calculated in accordance with the Superannuation Guarantee (Administration) Regulations 1993 (Cth) and guidance issued by the Institute of Actuaries of Australia.

Further information about this Notice

Any queries regarding this Notice to Members should be directed to the SEBPC via email to paul.shallue@mercer.com.