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**PROFESSIONAL STANDARD 402**

**DETERMINATION OF ACCRUED BENEFITS FOR DEFINED  
BENEFIT SUPERANNUATION FUNDS**

**September 2012**

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## **1 INTRODUCTION**

### **1.1 Application**

- 1.1.1 This Professional Standard applies when a Member is required to determine Accrued Benefits or the Actuarial Value of Accrued Benefits for a Fund in accordance with a Professional Standard or mandatory Guidance Note of the Institute, unless the other Professional Standard or mandatory Guidance Note of the Institute requires that an alternative method be used in the particular circumstances to which that Professional Standard or mandatory Guidance Note applies.
- 1.1.2 Having determined the Accrued Benefits or the Actuarial Value of Accrued Benefits for a Fund under this Professional Standard, the Member may be required to make adjustments to the amounts so determined under another Professional Standard or mandatory Guidance Note.
- 1.1.3 Work performed under this Professional Standard is Prescribed Actuarial Advice. Members' attention is directed towards the requirements of the Code in relation to Prescribed Actuarial Advice, as well as to Practice Guideline 199.01 (Prescribed Actuarial Advice Reporting).

### **1.2 Classification**

- 1.2.1 This Professional Standard has been prepared in accordance with the Institute's Policy for Drafting Professional Standards. This Professional Standard must be applied in the context of the Code.
- 1.2.2 This Professional Standard is binding on Members of the Institute of Actuaries of Australia in respect of all work covered by the Professional Standard.
- 1.2.3 Non-compliance with this Professional Standard by a Member engaged in work covered by this Professional Standard may constitute Actionable Conduct and may lead to penalties under the Institute's Disciplinary Scheme.
- 1.2.4 This Professional Standard in itself defines the requirements of the Institute in respect of all work covered by the Professional Standard. If a Member believes that this Professional Standard is ambiguous or for some other reason wishes to seek clarification of it, that Member may consult the Institute's Professional Standards Committee for guidance as to the interpretation of the Professional Standard. Apart from legislation or regulatory standards, no other document, advice or consultation (including Practice Guidelines of the Institute) can be taken to modify or interpret the requirements of this Professional Standard.
- 1.2.5 Members who find that they cannot carry out work in a manner that complies with this Professional Standard must decline to carry out the work, or terminate their agreement to do so.

### 1.3 Background

The determination of Accrued Benefits or the Actuarial Value of Accrued Benefits for a Fund is required for different purposes under various legislation, accounting standards and actuarial standards.

### 1.4 Purpose

The purpose of this Professional Standard is to provide Members with principles and directions that must be followed with regard to the work described in clause 1.1.

### 1.5 Previous versions

This Professional Standard was first issued in November 1994. There are no other previous versions of this Professional Standard.

### 1.6 Legislation

1.6.1 If there is a difference between this Professional Standard and the applicable legislation, the legislation takes precedence. In this context, legislation includes regulations, prudential standards, subordinate standards, rules issued by government authorities and standards issued by professional bodies which have the force of law.

1.6.2 A reference to legislation or a legislative provision in this Professional Standard includes any statutory modification, or substitution of that legislation or legislative provision and any subordinate legislation issued under that legislation or legislative provision. Similarly, a reference to a Professional Standard or mandatory Guidance Note includes any modification or replacement of such.

## 2 COMMENCEMENT DATE

This Professional Standard commences on 1 January 2013.

## 3 DEFINITIONS

3.1 In this Professional Standard:

**'Accrued Benefit'** means the amount of the Fund member's prospective benefit entitlement which is determined in accordance with this Professional Standard to have accrued in respect of Membership completed up to the effective date of determination.

**'Accumulation Member'** means a member of a Fund who is not a Defined Benefit Member.

**'Actuarial Value of Accrued Benefits'** means the present value of expected future benefit payments which is determined in accordance with this Professional Standard, based on projected salaries and other

assumptions, as arising from Membership up to the effective date of determination.

'**Code**' means the Code of Professional Conduct of the Institute.

'**Defined Benefit Member**' has the same meaning as set out in SIS Regulation 1.03.

'**Defined Benefit Pension**' has the same meaning as set out in SIS Regulation 9.04E.

'**Fund**' means a defined benefit fund as defined in SIS Regulation 1.03.

'**Material**' means relevant to the Fund's circumstances and is either important or essential in the opinion of the Member. For this purpose, 'Material' does not have the same meaning as that used in Australian accounting standards.

'**Membership**' means, except where otherwise specified, the period used to determine benefits as appropriate in the particular circumstances.

'**Normal Retirement Date**' has the same meaning as that in the Fund's governing rules. If there is no single normal retirement date for a Fund member, the Member must, if necessary, choose the most appropriate Normal Retirement Date for the purpose of the calculation.

'**Projection Date**' means a date at which Accrued Benefits on each mode of exit are calculated for the purposes of calculating the Actuarial Value of Accrued Benefits.

'**SIS Regulations**' means the Superannuation Industry (Supervision) Regulations 1994 (Cth).

- 3.2 A word that is derived from a defined word has a corresponding meaning.
- 3.3 Other capitalised terms used in this Professional Standard have the same meaning as set out in the Code.

## **4 MATERIALITY**

- 4.1 The Member must take Materiality into account when making a determination under this Professional Standard. In determining whether something is Material, the Member must take into account the purpose for which the determination of Accrued Benefits or Actuarial Value of Accrued Benefits is being undertaken. Whether something is Material or not will always be a matter requiring the exercise of the Member's professional judgment.
- 4.2 If, in the Member's opinion, a matter required to be considered under this Professional Standard is not Material in the circumstances, then:

- (a) the Member must document that the matter is not Material and provide reasons for forming that opinion, but does not have to further consider that matter; and
- (b) if the matter is not relevant to the Fund's circumstances, the matter may be omitted from his or her report or advice; or
- (c) if the matter is relevant to the Fund's circumstances, the Member must state in his or her report or advice that the matter is not Material and provide reasons for such opinion.

## **5 DETERMINATION OF ACCRUED BENEFITS: ACCUMULATION MEMBER**

### **5.1 If all accounts fully vested at all times – no reserve allocation on exit**

If an Accumulation Member's benefit entitlement on voluntary exit at any time is determined solely as the total of their account balances, then the member's Accrued Benefit at any time is the total of their account balances at that time.

### **5.2 If all accounts not fully vested at all times – no reserve allocation on exit**

5.2.1 If an Accumulation Member's entitlement on voluntary exit at any time is not equal to the total of their account balances due to the application of a vesting factor (or factors), then the Member must determine the member's Accrued Benefit at any time as the sum of the member's accrued account balances at that time. In such cases, the Member must determine the accrued account balance for each relevant account as the account balance multiplied by the retirement vesting factor. The Member must determine the retirement vesting factor, subject to clause 5.2.2, for each relevant account as:

- (a) the maximum vesting factor; or
- (b) the vesting factor applicable at the Normal Retirement Date.

5.2.2 If the Member considers it appropriate given the circumstances, including the purpose of the determination of Accrued Benefits, the design of the vesting factors and Materiality, the Member may use a retirement vesting factor equal to the vesting factor applicable at the effective date of determination but must explain in his or her report or advice why this is considered appropriate.

### **5.3 If a reserve allocation on exit may apply**

If an Accumulation Member's benefit entitlement on exit (either from the Fund or from the Accumulation Member's current category of the Fund) includes a share of a reserve (for example, an investment fluctuation reserve), then the Member must determine the Accumulation Member's Accrued Benefit as set out above plus the share of reserve which would apply if the Accumulation Member exited at that time.

#### **5.4 Other designs**

If an Accumulation Member's benefit entitlement includes any component determined in a manner not described above, the Member must determine the Accrued Benefit in a manner which is reasonably consistent with the above clauses of Section 5.

### **6 DETERMINATION OF ACCRUED BENEFITS: ACTIVE DEFINED BENEFIT MEMBER**

#### **6.1 Additional accumulation benefits**

If an active Defined Benefit Member has an accumulation benefit entitlement in the Fund in addition to their defined benefit entitlement, the Member must determine the Defined Benefit Member's Accrued Benefit as the total of:

- (a) the Accrued Benefit in respect of the Defined Benefit Member's accumulation benefit entitlement determined in accordance with Section 5; plus
- (b) the Accrued Benefit in respect of the Defined Benefit Member's defined benefit entitlement determined in accordance with the remainder of this Section 6.

#### **6.2 Defined benefit retirement benefits**

6.2.1 The Member must use an approach to determining Accrued Benefits which is appropriate having regard to the determination of retirement benefits under the Fund's governing rules.

6.2.2 In respect of a lump sum retirement benefit determined as a multiple of current salary or final average salary, the Member must determine the Accrued Benefit on retirement using either an actual accrual approach or a proportionate approach:

(a) ***Actual accrual approach***

The Accrued Benefit on retirement under the actual accrual approach is the product of the accrual percentage applicable to a Fund member, the period of completed Membership relating to the particular accrual percentage and the Fund member's current salary or final average salary (as applicable). If there is more than one accrual percentage and/or benefit salary, then the products are summed to obtain the Accrued Benefit for a particular Fund member.

(b) **Proportionate approach**

The Accrued Benefit on retirement under the proportionate approach is:

$$\left[ \begin{array}{c} \text{Retirement benefit} \\ \text{at Normal} \\ \text{Retirement Date} \end{array} \right] \times \left[ \frac{\text{Membership to effective date} \\ \text{of determination}}{\text{Membership to Normal} \\ \text{Retirement Date}} \right]$$

where "Retirement benefit at Normal Retirement Date" is calculated using current salary or final average salary (as applicable) at the effective date of determination.

6.2.3 In the case of the proportionate approach set out in clause 6.2.2(b):

- (a) an adjustment must be made if benefits accrue at different rates in respect of different periods of Membership; and
- (b) the period of Membership used for pro-rating must be adjusted so that it is the period over which the retirement benefit accrues,

unless the Member believes that either or both of the above would not be appropriate in the circumstances (in which case, if the effect is Material, the Member must explain, in his or her report or advice, why either or both of the above would not be appropriate).

6.2.4 Under either the actual accrual or proportionate approach, Membership must include an appropriate allowance for Membership of any previous Fund if assets of the previous Fund have been incorporated in the current Fund and used to provide defined benefits.

6.2.5 If the retirement benefit is defined as a pension determined as a multiple of current salary or final average salary, then the Member must use one of the approaches set out in clause 6.2.2 to determine the Fund member's accrued pension. The Member must then determine the Accrued Benefit on retirement as the value of that accrued pension calculated as at Normal Retirement Date (or an earlier date if the Member considers it appropriate) using assumptions which the Member considers appropriate in the particular circumstances (including, if applicable, assumptions regarding the percentage of a pension commuted to a lump sum at conversion rates specified in the governing rules).

6.2.6 If the retirement benefit is subject to a minimum benefit based on the accumulation of Fund member and/or employer contributions (whether notional or actual), the Member must also apply the minimum in determining the Accrued Benefit in accordance with section 5.

### 6.3 Death and disablement benefits

6.3.1 The Member must use an approach to determining Accrued Benefits which is appropriate having regard to the determination of death and



disablement benefits under the Fund's governing rules and taking into consideration the specific circumstances for which it is being used.

6.3.2 The Member must determine the Accrued Benefits on death and disablement using either an accrued retirement benefit approach or a proportionate approach:

(a) **Accrued retirement benefit approach**

The Member must determine the Accrued Benefit on death or disablement under the accrued retirement benefit approach as either:

- (i) the Accrued Benefit on retirement determined as set out in clause 6.2; or
- (ii) the same proportion of the death or disablement benefit at the effective date of determination as the Accrued Benefit on retirement at the effective date of determination bears to the retirement benefit at Normal Retirement Date, with the latter benefit calculated using current salary or final average salary (as applicable).

(b) **Proportionate approach**

The Accrued Benefit on death or disablement under the proportionate approach is equal to either:

- (i) the amount of the death or disablement benefit at the effective date of determination; or
- (ii) the amount calculated as follows:

$$\left[ \begin{array}{c} \text{Death or} \\ \text{disablement} \\ \text{benefit at} \\ \text{effective date of} \\ \text{determination} \end{array} \right] \times \left[ \frac{\text{Membership to effective} \\ \text{date of determination}}{\text{Membership to Normal} \\ \text{Retirement Date}} \right]$$

6.3.3 If the death or disablement benefit is defined as a lifetime pension, the Member must use one of the approaches set out in clause 6.3.1 to determine the Accrued Benefit on death or disablement, based on the lump sum value of the pension determined using assumptions which the Member considers appropriate in the particular circumstances (including, if applicable, assumptions regarding the percentage of pensions commuted to a lump sum at conversion rates specified in the Fund's governing rules).

6.3.4 In the case of any benefit payable in respect of a 'terminal medical condition', the Member must determine the Accrued Benefit in a manner which is reasonably consistent with this clause 6.3.

#### **6.4 Resignation benefits**

- 6.4.1 If resignation benefits are determined as a multiple of current salary or final average salary, the Member must determine the Accrued Benefit on resignation in a manner consistent with clause 6.2, with the exception that any vesting or discount factors must be calculated based on completed service or Membership (or age, if applicable) at the effective date of determination.
- 6.4.2 If resignation benefits are based on the accumulation of Fund member and/or employer contributions, the Accrued Benefit on resignation must relate only to contributions payable up to the effective date of determination. If a vesting factor applies, the Member must determine that vesting factor based on completed service or Membership (or age, if applicable) at the effective date of determination, or such higher factor as the Member determines to be appropriate in the circumstances.
- 6.4.3 The Accrued Benefit on resignation will generally be equal to the actual resignation benefit that applies at the effective date of determination. If this is not the result of the method chosen by the Member and the difference is Material, the Member must explain in his or her report or advice why the chosen method is considered appropriate.

#### **6.5 Alternative benefit determination**

If any benefit is defined (in full or in part) in a manner not described in clauses 6.1 to 6.4 (for example, a fixed dollar amount), the Member must determine the Accrued Benefit in a manner which is reasonably consistent with the above clauses of Section 6.

#### **6.6 Changes to approach**

The Member's relevant report or advice must briefly describe the approach used to apportion benefits between past and future Membership. If the approach used is changed from that previously used to determine Accrued Benefits, the Member must indicate the reason(s) for making the change and, if Material, quantify the effect of the change in his or her report or advice.

### **7 DETERMINATION OF ACTUARIAL VALUE OF ACCRUED BENEFITS**

#### **7.1 Consistency of approach**

- 7.1.1 In determining the Actuarial Value of Accrued Benefits, it is usually necessary to project the Accrued Benefits on each mode of exit to Projection Dates. Subject to the remainder of this section 7, for active Defined Benefit Members, the Member must use a method of apportioning benefits at each Projection Date between past and future Membership which is consistent with the methods described in clauses 6.2 to 6.4 of this Professional Standard. The Member must apply assumptions about relevant parameters such as salary growth, decrements and compound interest discounting to determine the present value of such benefits.

7.1.2 When calculating the Actuarial Value of Accrued Benefits that depends on current salary or final average salary, the Member must use projected current salary or final average salary (as applicable) at the relevant Projection Date to calculate projected Accrued Benefits. If projected current salary is used to determine an Accrued Benefit which is related to average salary, an appropriate adjustment must be made.

7.1.3 If, in determining the Actuarial Value of Accrued Benefits, a vesting scale and/or discount factor applies and the Accrued Benefits are being calculated at Projection Dates then the vesting factor and/or discount factor at each Projection Date must be determined based on:

- (a) service or Membership projected to be completed at the Projection Date; or
- (b) service or Membership completed at the effective date of determination of the Actuarial Value of Accrued Benefits,

unless the Member considers that the above would not be appropriate in the circumstances.

If basis (a) is not applied and the basis applied is not mandated (for example, by an accounting standard), and there is a Material difference between the determination made as compared to the determination that would have resulted under basis (a), the Member must explain the difference in his or her report and why the chosen basis is appropriate in the circumstances (either explicitly or by reference to a previous report or advice).

7.1.4 In determining the Actuarial Value of Accrued Benefits that is based on the accumulation of Fund member and/or employer contributions (whether notional or actual):

- (a) the Member must base the projected Accrued Benefits on the projected accumulation account including allowance for contributions only up to the effective date of determination of the Actuarial Value of Accrued Benefits; or
- (b) otherwise, if the proportionate approach is used, the Member may base the projected Accrued Benefits on the projected accumulation account including allowance for contributions up to the Projection Date.

7.1.5 The Member may use the approach referred to in clause 7.1.4(b) only in cases where the Member considers it appropriate to do so, having regard to the purpose of the calculations and the circumstances of the Fund. The most common circumstance where it would be acceptable for the Member to use the approach referred to in clause 7.1.4(b) to determine the Actuarial Value of Accrued Benefits for an accumulation account would be in cases where the Accrued Benefit is the greater of a salary-related benefit and an accumulation of Fund member and/or employer contributions (whether notional or actual) and the proportionate approach is being used for the salary-related component.

7.1.6 If the Accrued Benefit is the greater of a salary-related benefit and an accumulation of Fund member and/or employer contributions (whether notional or actual), it is acceptable for the Member to calculate the Actuarial Value of Accrued Benefits using the approach referred to in clause 7.1.4(a) for the accumulation component in cases where the proportionate approach is used for the salary-related component.

## 7.2 Retirement benefits – proportionate approach

7.2.1 For the purpose of calculating the Actuarial Value of Accrued Benefits, the Accrued Benefit on retirement calculated at each Projection Date using the proportionate approach referred to in clause 6.2.2(b) must be calculated by the Member as follows:

$$\left[ \begin{array}{c} \text{Retirement benefit} \\ \text{at Projection Date} \end{array} \right] \times \left[ \frac{\text{Membership to effective date of} \\ \text{determination}}{\text{Membership to Projection Date}} \right]$$

7.2.2 In the case of the proportionate approach set out in clause 7.2.1, the principles set out in clauses 6.2.3 to 6.2.6 must also be applied on a consistent basis, but with vesting factors (where applicable) determined as set out in clause 7.1.3.

## 7.3 Death and disablement benefits – proportionate approach

7.3.1 For the purpose of calculating the Actuarial Value of Accrued Benefits, the Accrued Benefit on death or disablement at each Projection Date under the proportionate approach is:

$$\left[ \begin{array}{c} \text{Death or} \\ \text{disablement benefit} \\ \text{at Projection Date} \end{array} \right] \times \left[ \frac{\text{Membership to effective date of} \\ \text{determination}}{\text{Membership to Projection Date}^*} \right]$$

\*Membership to Normal Retirement Date may be used instead.

7.3.2 In the case of the proportionate approach set out in clause 7.3.1, the principles set out in clauses 6.3.2 to 6.3.3 must also be applied on a consistent basis.

## 7.4 Resignation benefits – proportionate approach

For the purpose of calculating the Actuarial Value of Accrued Benefits, the Accrued Benefit on resignation at each Projection Date where determined using the proportionate approach must be calculated in a manner consistent with clause 7.2.

## **8 OTHER LIABILITIES**

8.1 When determining Accrued Benefits or the Actuarial Value of Accrued Benefits for a Fund and measuring the benefits to which Fund members are entitled in respect of Membership completed at the effective date of determination, the Member must consider both the normal Fund benefits payable in respect of active Fund members and any other benefit liabilities, including but not limited to:

- (a) any Defined Benefit Pensions (including allowance for pension increases provided by the Fund's governing rules or, if the Member considers it appropriate in the circumstances, in accordance with precedent or the expressed intentions of the Fund's trustees and/or employer-sponsor);
- (b) any allocated or account-based pension balances;
- (c) benefits for Fund members past their Normal Retirement Date, but not retired;
- (d) deferred benefits for Fund members or dependants; and
- (e) additional benefits of an accumulation nature not already accounted for above.

8.2 The Member must make allowance for any additional liabilities (including those listed in clause 8.1 above) in determining total Accrued Benefits and/or the Actuarial Value of Accrued Benefits in a manner which the Member reasonably believes to be appropriate in the particular circumstances or in accordance with other relevant Professional Standards or mandatory Guidance Notes. If allowance is not made for pension increases provided in accordance with precedent or the expressed intentions of the Fund's trustees and/or employer-sponsor, then (subject to Materiality), the Member must state this in his or her report or advice and explain why this is considered appropriate.

## **9 OTHER ADJUSTMENTS**

9.1 When determining both Accrued Benefits and the Actuarial Value of Accrued Benefits, the Member must consider whether it is appropriate to make adjustments (either on an individual Fund member or group basis) if the vested benefits at the effective date of determination exceed the unadjusted Accrued Benefits or the unadjusted Actuarial Value of Accrued Benefits at that date.

9.2 The Member must state in his or her report or advice whether such an adjustment has been made and explain the nature of any such adjustment.

## **10 REPORTING**

The Member must comply with the reporting requirements in clauses 4, 5.2.2, 6.2.3, 6.6, 7.1.3, 8.2 and 9.2 of this Professional Standard (if

applicable) and in the Code. The Member's attention is also drawn to Practice Guideline 199.01 (Prescribed Actuarial Advice Reporting). Further, if the purpose of the determination relates to work being performed under another Professional Standard, then the Member must also comply with the reporting requirements in that other Professional Standard.

**END OF PROFESSIONAL STANDARD 402**