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## **EXPLANATORY MEMORANDUM TO PROFESSIONAL STANDARD 402 (DETERMINATION OF ACCRUED BENEFITS FOR DEFINED BENEFIT SUPERANNUATION FUNDS)**

**September 2012**

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### **About this Explanatory Memorandum**

This Explanatory Memorandum has been prepared to assist Members in understanding the revised version of Professional Standard 402 (Determination of Accrued Benefits for Defined Benefit Superannuation Funds) ("PS 402") which replaces the version issued in November 1994.

### **Exposure Drafts and submissions received**

In March 2011, an Exposure Draft of proposed changes to PS 402 was released for comment. Two submissions were received, the substance of which may be summarised as:

- (a) a need for greater flexibility to accommodate the range of benefit designs encountered in practice; and
- (b) queries and suggestions relating to the completeness, clarity and consistency of wording.

Key changes made in the Second Exposure Draft in response to the submissions received on the first Exposure Draft were:

- ▶ including a new definition of "Normal Retirement Date";
- ▶ introducing a new section 4 addressing materiality;
- ▶ providing guidance on suitable methods of determining the accrued portion of a benefit, including the determination of any vesting factors, while still allowing, in some circumstances, additional flexibility for the Member to use an alternative method that he or she believes is more appropriate in the circumstances; and
- ▶ requiring the Member to explain in his or her advice or report the reasons why the standard methods set out in the Professional Standard are not appropriate in the circumstances.

The Second Exposure Draft of proposed changes to PS 402 was released in May 2012. Again, two submissions were received and taken into account in developing the final of the standard. The key issues raised by submitters are reflected in the changes made since the Second Exposure Draft, which are summarised below.

### **Key changes from Second Exposure Draft**

The key changes made have been:

- ▶ clause 6.3.1(b): the clause now makes provision for alternative methods of determining Accrued Benefits on death and disablement under the proportionate approach. This is to ensure consistency with the accrued retirement benefit approach by allowing the accrued death or disablement benefit to be calculated by pro-rating the death or disablement benefit at the effective date of determination by membership to the effective date of determination divided by membership to normal retirement date;
- ▶ clause 7.1.5: this is a new clause clarifying the situations in which the Actuarial Value of Accrued Benefits that is based on the accumulation of Fund member and/or employer contributions (whether notional or actual) can be determined using the proportionate approach (set out in clause 7.1.4(b)); and
- ▶ clause 7.3.1: provision has been made for an alternative approach to determining the Accrued Benefit on death or disablement at each future Projection Date under the proportionate approach for the purposes of calculating the Actuarial Value of Accrued Benefit to be consistent with clause 6.3.1(b).

### **Commencement date**

The commencement date for PS 402 is 1 January 2013.

### **END OF EXPLANATORY MEMORANDUM**