This document has been re-classified in accordance with the Policy for Developing Professional Practice Documents (Sep 2022). References to the classification have been updated, but all other content remains unchanged since the date of the document. The document will be subject to further review by the relevant Practice Committee(s) at a future date.

SUPERANNUATION PRACTICE COMMITTEE

Technical Paper: Notional Taxed Contributions and Superannuation Guarantee Increases

March 2013

A. Purpose and status of Technical Paper

1. This Technical Paper was prepared by the Superannuation Practice Committee ("SPC") of the Actuaries Institute ("Institute"). Its purpose is to advise members of the views of the SPC in regard to determining notional taxed contribution (new entrant) rates applicable during the period 2013-2019 in which the Superannuation Guarantee ("SG") rate is to increase from 9% to 12%.

2. This Technical Paper does not represent a Professional Standard or Practice Guideline of the Institute.

3. Feedback from Institute members is encouraged and should be forwarded to Paul Shallue via email to paul.shallue@mercer.com.

4. This is the first version of this Technical Paper.

B. Background

5. The Income Tax Assessment Act 1997 (Cth) and the Income Tax Assessment Regulations 1997 (Cth) ("Regulations") require trustees of superannuation funds to obtain the advice of an actuary to determine the new entrant rate or rates to be used by the trustee in the calculation of notional taxed contributions for defined benefit members.

6. Under the Regulations, a new entrant rate is required to be determined by an actuary for each benefit category of a fund, based on the benefit design applicable to that benefit category and the methodology set out in the Regulations.

7. The new entrant rate for a benefit category is the rate that represents the long-term cost, expressed as a percentage of superannuation salary, of providing as much of the

fund benefit as is payable on a voluntary exit to a hypothetical new entrant to the benefit category.

8. If the benefit design applicable to a benefit category is amended, actuarial advice will be required as to whether the change may affect the new entrant rate and, if so, the new entrant rate will need to be re-calculated. However it is worth noting that rounding rules may mean that the new entrant rate is unchanged even where benefits have been improved.

C. Calculation of new entrant rates allowing for SG increases

9. The current SG rate of 9% is to increase progressively to 12.0% as follows:

Effective Date	SG Percentage
1 July 2013	9.25%
1 July 2014	9.50%
1 July 2015	10.0%
1 July 2016	10.5%
1 July 2017	11.0%
1 July 2018	11.5%
1 July 2019	12.0%

10. In many cases, the minimum requisite benefits ("MRBs") provided from defined benefit funds will need to be improved beginning 1 July 2013 in order that the sponsoring employers can meet their full SG obligation via the fund. The improved MRBs and the associated SG rates (notional employer contribution rates) will need to be certified by an actuary in a Benefit Certificate (refer Professional Standard 403).

11. To the extent that any such improvements are made via defined benefits (including accumulation-style MRBs to the extent that they relate to the defined benefit component), actuarial advice will be required as to whether the change affects the fund's new entrant rate(s) and, if so, the new entrant rate(s) will need to be re-calculated.

12. It is expected that, in many cases, the minimum defined benefits will be designed to increase progressively over 2013-2019, in line with the SG increase schedule. As the term of a Benefit Certificate cannot be more than 5 years, it is expected that new Benefit Certificates will generally cover the period 1 July 2013 to 30 June 2018, with the

MRBs specified allowing for an SG rate of 9.25% during 1 July 2013 to 30 June 2014, 9.50% during 1 July 2014 to 30 June 2015 and so forth, with the final year rate being 11.0% during 1 July 2017 to 30 June 2018.

13. For the purpose of re-calculating the new entrant rate(s) applicable from 1 July 2013, the question then arises as to what level of MRBs this calculation should be based on:

Approach 1: MRBs assuming the MRB accrual rate* applicable during 2013/14 applies throughout the membership of the hypothetical new entrant?

Approach 2: MRBs assuming the MRB accrual rate* increases to the extent set out in the current Benefit Certificate? For example, where there is a five year Benefit Certificate commencing 1 July 2013 which allows for the SG increases over this period, the new entrant rate calculation would allow for the MRB accrual rate increasing progressively over 2013-2018 as specified in the Benefit Certificate and assume that the MRB accrual rate remains at the 2017/18 level (corresponding to an SG rate of 11.0%) over the remaining membership of the hypothetical new entrant.

Approach 3: MRBs assuming the MRB accrual rate* increases progressively over 2013-2018 as set out in the new Benefit Certificate (based on the example for Approach 2), with further increases in line with the SG rate at 1 July 2018 and 1 July 2019 and then remains at the 2019/20 MRB accrual rate (corresponding to an SG rate of 12.0%) over the remaining membership of the hypothetical new entrant?

Approach 4: Something else?

14. The view of the SPC is that Approach 1 is the most appropriate in the circumstances. Under this approach, in cases where the MRB accrual rate is to increase annually with each increase in the SG rate, a new entrant rate would be calculated for each MRB accrual rate, assuming in each case that the relevant year's MRB accrual rate continues to apply throughout the whole membership of the hypothetical new entrant.

* For clarity, the term 'MRB accrual rate' when used in this Technical Paper is intended to cover the level of contributions to an accumulation-style MRB underpinning a defined benefit, as well as a defined benefit-style MRB accrual rate.

15. This approach has the advantage that the new entrant rate applicable each year will reflect the current MRB accrual rate, rather than potentially being inflated by taking into account increases that may occur in later years. This will generally be more consistent with the treatment of accumulation members, whose concessional contributions will reflect the current year's SG rate.

16. It will also achieve the same result as would be achieved under Approach 2 by not building future SG increases into Benefit Certificates – that is, by issuing Benefit Certificates which specify the current year's MRB accrual rate for future years as well as the current year, and replacing the Benefit Certificate annually over the next 7 years to accommodate the increase in the SG rate each year.

17. It is noted that, if either Approach 2 (with a Benefit Certificate allowing for future increases in the MRB accrual rate) or Approach 3 (allowing for future increases in the MRB accrual rate even where not specified in the current Benefit Certificate) were adopted, it would be arguable that the new entrant rate would still need to be re-calculated each year, as a hypothetical new entrant in later years would enter with the MRB commencing at a higher level. This would be an inappropriate outcome.

D. Preparation of Benefit Certificates

18. The legislation does not prescribe any particular requirements for the certification of new entrant rates and benefit categories by actuaries. The SPC sees no barrier to actuaries preparing a new certificate for a fund in 2013 (for example) that sets out the new entrant rates applicable for each year from 1 July 2013 up to 30 June 2020 (with the 2019/20 rates also to apply in subsequent years), subject to any suitable caveats (for example, where the new entrant rates are predicated on the issuing of Benefit Certificates in a particular manner).

END OF TECHNICAL PAPER