THE INSTITUTE OF ACTUARIES OF AUSTRALIA
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GUIDANCE NOTE 452 - SEGREGATED ASSETS CERTIFICATES BY ACTUARIES UNDER SECTION 273A AND SECTION 273B OF THE INCOME TAX ASSESSMENT ACT

APPLICATION

Actuaries providing certificates under paragraph 273A(b) and 273B(b) of the Income Tax Assessment Act.

LEGISLATION

This Guidance Note deals with the segregation of assets for purposes of Sections 273A and 273B of the Income Tax Assessment Act.

FIRST ISSUED

December 1991.

UPDATED

March 1993

November 1994

CLASSIFICATION

Compliance with the provisions of this Guidance Note is mandatory.

1.PURPOSE

1 The purpose of this Guidance Note is to provide advice to members on the operation of Sections 273A and 273B of the Income Tax Assessment Act ("the Act") relating to segregated assets. Taxation Ruling IT2617 requires that an actuarial certificate under paragraph 273A(b) or paragraph 273B(b) must include "confirmation that the valuation is consistent with any Guidance Notes issued by the Institute".

2.ACT PROVISIONS

1 Section 273A relates to segregated current pension assets. The Act requires that, for assets of the Plan to be recognised as segregated for the purposes of Section 273A, inter alia the Trustee must obtain an actuary's certificate "to the effect that the amount of assets, if accumulated after the particular time at the rate the actuary expects will be the rate of the fund's earnings on those assets, would provide the amount required to discharge in full the whole or the part, as the case may be, of the current pension liabilities as they fall due".

2.2 Section 273B relates to segregated non-current pension assets. The Act requires that, for assets of the Plan to be recognised as segregated for the purposes of Section 273B, inter alia the Trustee must obtain an actuary's certificate "to the effect that the amount of assets, together with any future contributions, if accumulated after the particular time at the rate the actuary expects will be the rate of the fund's earnings on those assets, would provide the amount required to discharge in full the whole or the part, as the case may be, of the non-current pension liabilities as they fall due".

3.INTERPRETATION

1 If actuarial certificates are required under both Sections 273A and 273B (that is, the plan has both segregated current pension assets and segregated non-current pension assets), the certificates are to be provided concurrently and by the same

actuary. To provide a certificate the actuary must be satisfied that the assets have been segregated and

that only payments relating to those pensions are met from the segregated assets during the currency of the certificate. In the case of segregated current pension assets the amount segregated may be less than, but cannot normally exceed the value of current pension liabilities. The balance of the assets of the superannuation plan which are not segregated current pension assets may, to the extent that the assets have been segregated, be certified as segregated non-current pension assets under Section 273B.

2 Where assets are segregated in respect of current pensions which are associated with individual pensioner accounts, commonly known as allocated pensions, the provisions of this Guidance Note will apply in the same way as for other types of segregated current pension liability, having regard to the commitments either explicit or implied in the payment of those pensions.

By definition the current pension liability in respect of an allocated pension may, in the absence of unusual terms or guarantees, be taken to be the value of the individual pensioner's account.

It is possible that the whole of the assets of a superannuation plan may be segregated in respect of current allocated pension liabilities, in which event the actuary should have particular regard to the provisions of Section 3.1 of this Guidance Note in relation to payment of current pensions.

4.ASSUMPTIONS

1 In the determination of assumptions to be used in valuing the current pension liabilities (or non-current pension liabilities) the actuary should have regard to the particular experience and circumstances of the plan. For example, if the plan provides pension indexation on a voluntary basis but there is a consistent history of such increases, and the most recent actuarial valuation has made allowance for such increases, it would be appropriate to include similar allowance in the valuation of current pension liabilities. In general, the assumptions adopted should be

consistent with those used in the previous actuarial valuation unless particular reasonssuggest a change. Particular items of experience of the plan that may be relevant include, but are not limited to, mortality, investment returns, pension increases and expenses.

2 In the valuation of current pension liabilities it is appropriate to allow for the value of reversionary pensions including:

(a) pensions that will become payable on the d eath of a current pensioner;

(b) pensions that will become payable on the death of a person who has previously commuted an entitlement to a pension in whole or in part.

5.ACTUARIAL CERTIFICATE

1 Whilst it is not necessary for an actuarial certificate required under paragraphs 273A(b) or 273B(b) to accompany the plan's tax return it is still necessary for the actuary to provide such a certificate to the Trustees at least once every three years. The certificate is required to be in a form approved by the Taxation Commissioner as detailed in Taxation Ruling IT2617.

2 In addition to the items specified in IT2617, where certificates are being provided under Sections 273A or 273B the actuarial certificate should provide the following information:

(a) data on which the certificate is based;

(b) a statement of the benefits which have been valued;

(c) a statement of the assumptions used to value the benefits including the rate of any assumed inflation of pension liability and the reasons for this assumption;

(d) such advice to the Trustees as the actuary deems necessary to ensure the segregated assets remain appropriate throughout the period covered by the certificate. This will depend upon such factors as whether the segregated assets represent a closed group, the relationship of the segregated assets to segregated liabilities, the size and volatility of the segregated assets and the valuation assumptions adopted.

3 It should be noted that it is possible for a certificate to cover a period of more than 1 year (up to a maximum of 3 years of income). In such cases the certificate should be prepared in the first year to which the certificate relates and should specify any circumstances under which the actuary will be required to undertake further calculations to ensure the amount of segregated assets remains appropriate.

6.MISCELLANEOUS

1 This Guidance Note has been prepared on the assumption that the actuary undertaking the work is familiar with the operations of the Plan through other work done for the plan. In practice this may not be so, in which case the actuary should have regard to the Code of Conduct, particularly Guidance Notes B.9 and B.10.

2 This Guidance Note was first issued in December 1991.

END OF GUIDANCE NOTE 452