Actuaries Institute.

Professional Standard 403
Preparation of Benefit Certificates
May 2022 (rebranded October 2024)

IMPORTANT NOTICE TO MEMBERS

The Treasury Laws Amendment (Payday Superannuation) Regulations 2026 were made on 19 Feb 2026. This affects the requirements under PS 403 for the preparation of benefit certificates from 1 July 2026. An ATO overview of the changes is at Payday Super for super funds Overview - ASFA.

The Institute is currently reviewing the requirements of PS 403. The latest draft is can be viewed here. While the process of consultation is proceeding, a Member whose Client needs a benefit certificate in effect from 1 July 2026 before PS 403 has been is strongly encouraged to take the latest draft of PS 403 into account in providing that Service. To further support Members in this transition period the Superannuation and Investments Practice Committee have prepared a set of Q&A.

While the existing PS 403 remains in force after 1 July 2026 Council expects that a notice issued under this process will be treated as a guideline of the Institute for the purposes of section 3.3 of the Disciplinary Scheme, which provides that Misconduct includes non-compliance with a Professional Standard and any guidelines of the Institute in force from time to time. Accordingly, a Member who, in the circumstances described in this section, acts reasonably and in good faith having regard to the content of any such notice, may rely on that conduct in answer to any consideration of whether non-compliance with the relevant Professional Standard constitutes Misconduct by reliance by a Member on the draft guidance rather than the in-force PS 403.

It is anticipated that the revised PS 403 will be considered by Council at its meeting on Thursday 17 September and come into effect from 30 September 2026.

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1. Introduction

1.1. Application

1.1.1. This Professional Standard applies to a Member providing a Benefit Certificate for a Fund under section 10 of the SG Act. Employers who wish to use a Fund to satisfy all or part of their superannuation guarantee obligations must obtain a Benefit Certificate.

1.1.2. This Professional Standard also applies to Members who support another Member in providing a Benefit Certificate under the Professional Standard, as relevant to their contribution to the Services.

1.1.3. Legislation and other requirements which may be relevant to the work covered by this Professional Standard include:

a. the Superannuation Guarantee (Administration) Act 1992 (Cth);

b. the Superannuation Guarantee (Administration) Regulations 2018 (Cth);

c. the Superannuation Industry (Supervision) Act 1993 (Cth); and

d. the Superannuation Industry (Supervision) Regulations 1994 (Cth).

1.1.4. A Member who provides advice under clause 1.1.1 of this Professional Standard:

a. must be an Eligible Actuary; and

b. must exercise independent professional judgement and give impartial advice.

Members supporting the Member providing a Benefit Certificate under the Professional Standard are not required to be an Eligible Actuary.

1.1.5. All work performed under this Professional Standard, whether by the Member providing advice or by a Member supporting the Member providing advice, is designated as an Applicable Service. As such, the Member's attention is directed towards Practice Guideline 1 (General Actuarial Practice). In the case of a Member supporting the Member providing advice, Practice Guideline 1 applies as relevant to their contribution to the Services.

1.1.6. This version of the Professional Standard incorporates changes that strongly encourage the preparation of Benefit Certificates on a basis that prevents salary sacrifice contributions being used to reduce employer SG obligations (Preferred Approach). The changes take into account amendments to the SG Act provisions relating to accumulation funds that were made in 2019 and took effect from 1 January 2020.

1.2. Previous Versions

1.2.1. This Professional Standard replaces the version of Professional Standard 403 (Preparation of Benefit Certificates) issued in March 2021. The March 2021 update incorporated changes in relation to Members who support another Member providing a Benefit Certificate. The previous (March 2020) update took into account changes to the Institute's Code which took effect from March 2020, as well as legislative changes since the prior version of the Professional Standard was issued in October 2010 including, in particular, the replacement of the Superannuation Guarantee (Administration) Regulations 1993 with the Superannuation Guarantee (Administration) Regulations 2018.

1.3. About this Professional Standard

1.3.1. This Professional Standard:

a. has been prepared in accordance with the Institute's Policy for Developing Professional Practice Documents;

b. must be applied in the context of the Code;

c. binds Members of the Institute when they perform work that the Standard covers; and

d. defines the Institute's requirements for all work the Standard covers.

1.3.2. If a Member believes that this Professional Standard is ambiguous or wishes to seek clarification of it, then they may consult the Institute's Professional Practice Committee for an interpretation.

1.3.3. If a Member finds that they cannot carry out their work in a way that complies with this Professional Standard then they must either:

a. decline to carry out the work; or

b. end their agreement to do so.

1.3.4. If a Member does not comply with this Professional Standard, then that may constitute Misconduct under the Institute's Disciplinary Scheme.

1.3.5. This Professional Standard does not constitute legal advice. Any interpretation or commentary within this Professional Standard regarding specific legislative or regulatory requirements reflects the expectations of the Institute but does not guarantee compliance under applicable legislation or regulations. Accordingly, Members should seek clarification from the relevant regulator and/or seek legal advice in the event they are unsure or require specific guidance regarding their legal or regulatory obligations.

1.4. Other relevant documents

1.4.1. This Professional Standard must be applied in the context of the relevant law, and relevant accounting and auditing standards.

1.4.2. 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 includes any modification or replacement of that Professional Standard.

1.4.3. Apart from the Code, from legislation or from 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.

1.4.4. If there is a conflict between this Professional Standard and any legislation, then 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.

2. Commencement Date

This Professional Standard applies to Benefit Certificates signed on or after 1 July 2022.

3. Definitions

3.1. In this Professional Standard:

'**Applicable Services'** means Services that are designated in an Institute Professional Standard or Practice Guideline as being Applicable Services.

'**Benefit Certificate**' has the same meaning as set out in section 10 of the SG Act.

'**Choice**' means an election made, or right exercised, under the Choice of Fund Legislation.

'**Choice of Fund Legislation**' means the choice of fund provisions set out in Part 3A of the SG Act and any related provisions.

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

'**Commissioner**' means the Commissioner of Taxation.

'**DB Member Contributions**' means any Member Contributions which are utilised in the funding of a Fund Member's defined benefit interest (including, where the Preferred Approach is used, any relevant Sacrificed Contributions in respect of the period from the Preferred Approach Start Date).

'**Deemed Defined Benefit Fund**' means a superannuation fund for which a conversion notice given to the Commissioner by the Trustee under section 6B of the SG Act is in effect.

'Disciplinary Scheme' means the document of that name prepared by the Institute setting out the rules and procedures governing professional discipline of a Member, as amended by Council from time to time.

'Eligible Actuary' means:

a. a Fellow or Accredited Member of the Institute; or

b. a Member who is eligible to act in an actuarial capacity pursuant to a requirement under legislation.

'**Employer Contributions**' means any contributions actually or notionally paid to the Fund in respect of a Fund Member by the Fund Member's employer, but, if the Preferred Approach is adopted, excludes Sacrificed Contributions in respect of the period from the Preferred Approach Start Date.

'**Fund**' means a superannuation fund which is a "defined benefit superannuation scheme", as defined in section 6A(1) of the SG Act, or a Deemed Defined Benefit Fund.

'**Fund Member**' means a member of a Fund.

'**Fund Membership**' has a corresponding meaning.

'**Family Law**' means the Family Law Act 1975 (Cth) and its associated regulations.

'**Government Co-contributions**' means any amount payable to a Fund in respect of a Fund Member under the Superannuation (Government Co-contribution for Low Income Earners) Act 2003 (Cth).

'**Indexation**' means updating of an MRB amount for a Fund Member over a period with a rate equal to the change in the Fund Member's Salary over the same period or, in respect of Family Law-related amounts, at a rate prescribed or permitted under SIS or Family Law.

'Instructing Party' means the party which has engaged the Member to prepare a Benefit Certificate.

'**Investment Earnings**' means the investment earnings to be credited or debited to a Fund Member's benefit determined in accordance with the provisions of SIS, which may differ for different components of the Fund Member's benefit and, for the avoidance of doubt, includes indexation of Family Law-related amounts at a rate prescribed or permitted under SIS or Family Law.

'**Member Contributions**' means any contributions paid to the Fund in respect of a Fund Member other than Employer Contributions (refer clause 5.21 of this Professional Standard). (This means, where the Preferred Approach is used, Member Contributions includes any Sacrificed Contributions in respect of the period from the Preferred Approach Start Date.)

'**MRB**' means minimum requisite benefit as defined in SIS Regulation 1.03.

'**NECR**' means the notional employer contribution rate to be certified for a class of employees under section 10 of the SG Act.

'**No-TFN Tax**' means any additional tax for which a Fund may be liable due to non-provision by a Fund Member of a tax file number.

'**OTE**' means ordinary time earnings, as defined in section 6 of the SG Act, including the limitation to the maximum contributions base.

'**OTEM**' means:

- where the Preferred Approach is adopted:
  - OTE Base for the period from the Preferred Approach Start Date; and
  - OTE for the period prior to that date
- where the Preferred Approach is not adopted: OTE

'**OTE Base**' means ordinary time earnings base, as defined in section 23(2) of the SG Act (essentially OTE plus Sacrificed OTE, subject to a limit of the maximum contributions base).

'Preferred Approach' means a Benefit Certificate is prepared on a basis that does not allow any employer covered by the certificate to use Sacrificed Contributions to reduce their SG obligations during the effective period of the certificate (refer clauses 5.4 – 5.7).

'Preferred Approach Start Date' means the effective date from which the Preferred Approach applies, which is to be specified in the Benefit Certificate and must be no later than the effective date of the Benefit Certificate. However, if the Preferred Approach is to apply retrospectively without limitation, no Preferred Approach Start Date is required to be specified in the Benefit Certificate.

'**Prior Benefit Certificate**' means the Benefit Certificate applicable to the relevant class of employees on the day prior to the effective date of the Benefit Certificate being prepared.

'**Sacrificed Contribution**' has the meaning defined in section 6 of the SG Act.

'**Sacrificed OTE**' means a sacrificed ordinary time earnings amount, as defined in section 15A of the SG Act.

'**Salary**' means the Fund Member's earnings base or average earnings base, as relevant to the context. More than one Salary may be applicable to a Fund Member – for example, Salary may refer to base annual salary in one context and average OTE in another context. A Salary definition on which an accrued defined benefit is based must not be narrowed – that is, items of remuneration may be added to, but not removed from, the definition. For Indexation purposes, a consistent definition of Salary must be used. Salary may be capped as referred to in clauses 5.18-5.20 of this Professional Standard.

'**SG**' means the Superannuation Guarantee system established by the SG Act and related legislation.

'**SG Act**' means the Superannuation Guarantee (Administration) Act 1992 (Cth).

'**SG Charge**' means the superannuation guarantee charge payable by an employer under the SG Act and the Superannuation Guarantee Charge Act 1992 (Cth).

'**SG Regulations**' means the Superannuation Guarantee (Administration) Regulations 2018 (Cth).

'**SIS**' means the SIS Act and SIS Regulations together.

'**SIS Act**' means the Superannuation Industry (Supervision) Act 1993 (Cth).

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

'**Splitting Law**' means any legislation which enables all or part of a Fund Member's benefits or contributions to be transferred to, or in respect of, the Fund Member's spouse or former spouse, including Family Law.

'**Surcharge**' means the superannuation contributions tax as provided for in the Superannuation Contributions Tax (Assessment and Collection) Act 1997 (Cth) and includes any advance instalment of surcharge assessed under that Act.

'**Trustee**' has the same meaning as set out in section 10 of the SIS Act.

'**Voluntary Member Contributions**' means Member Contributions other than DB Member Contributions. (This means, where the Preferred Approach is used, Voluntary Member Contributions includes any Sacrificed Contributions in respect of the period from the Preferred Approach Start Date that are not included in DB Member Contributions.)

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. Effective Period of a Benefit Certificate

4.1. Section 10(3) of the SG Act provides that a Benefit Certificate has effect until:

a. minimum benefits are changed for any Fund Members covered by the Benefit Certificate;

b. another Benefit Certificate is issued;

c. a period of five years from the date of issue expires; or

d. in the case of a Deemed Defined Benefit Fund, the conversion notice is revoked; whichever occurs first.

4.2. For the avoidance of doubt, the reference to 'minimum benefits' in paragraph (a) of clause 4.1 of this Professional Standard is to be read as meaning MRBs as defined in this Professional Standard.

4.3. A Benefit Certificate may have a term of 5 years or a term of less than 5 years.

4.4. The term of a Benefit Certificate for a Deemed Defined Benefit Fund must also satisfy the requirement set out in clause A3.6 of Appendix 3 of this Professional Standard.

5. Notional Employer Contribution Rates and Minimum Requisite Benefits

5.1. The NECR is the contribution rate which must be specified in the Benefit Certificate as being appropriate to the MRBs described in the Benefit Certificate for a class of Fund Members.

Post-1 July 2008 NECR to be based on a minimum of OTE

5.2. The SG Act requires the NECR applicable for any period commencing on or after 1 July 2008 to be determined as a percentage of OTE. The NECR may be more or less than the rate of an employer's SG Charge under the SG Act.

5.3. However for accumulation funds, the SG Act requires OTE Base to be used as the SG earnings base from 1 January 2020, following amendments made in 2019. Whilst the amendments applied only to the SG Act provisions relating to SG support via accumulation funds, they were made for the stated purpose of:

- preventing contributions made under salary sacrifice arrangements (Sacrificed Contributions) from satisfying an employer's SG obligations; and
- specifically including salary or wages sacrificed to superannuation in the earnings base for calculating an employer's SG obligations.

NECR to be based on OTE Base under the Preferred Approach

5.4. Whilst it is not a legal requirement, the Institute considers that it is likely to be in the best interests of all parties that a Benefit Certificate prepared under this Professional Standard does not allow any employer covered by the certificate to use Sacrificed Contributions to reduce their SG obligations – that is, that the Preferred Approach is adopted.

5.5. Under the Preferred Approach, the MRB accruing during the effective period of the Benefit Certificate being prepared under this Professional Standard must provide employer support (measured in accordance with this Professional Standard) of at least the NECR times OTE Base (rather than OTE) and without counting any Sacrificed Contributions as employer support.

Use of Preferred Approach strongly encouraged

5.6. **The Institute strongly encourages that the Preferred Approach be used.** Before preparing a Benefit Certificate, a Member must seek agreement from the Instructing Party to the use of the Preferred Approach (unless seeking agreement is considered unnecessary because that approach is already established practice). Where the Instructing Party is not the principal sponsoring employer covered by the certificate and it is practical to do so, it is expected that the Member or the Instructing Party would generally seek the agreement of the affected employer/s to the Preferred Approach being used (when it is first applied) and confirmation that the administrative practices of the employer/s align with the Preferred Approach.

5.7. Where the Preferred Approach is followed, the certificate must include prominent wording to the effect that the certificate prevents salary sacrifice contributions being used to reduce the employer's SG obligations, for any salary sacrifice contributions relating to a period beginning on or after [the Preferred Approach Start Date]. The wording referring to the Preferred Approach Start Date is not required if the Preferred Approach is applied retrospectively without limitation.

Conditions for use of Non-Preferred Approach

5.8. A Member may, on the specific instructions of the Instructing Party, prepare a Benefit Certificate that does not follow the Preferred Approach (i.e. that allows an employer covered by the certificate to use Sacrificed Contributions to reduce their SG obligations), either for some or all benefit classes. In such cases the Member must:

i. satisfy themselves that the Instructing Party is adequately informed about the main advantages and disadvantages of the certificate being prepared on this basis

ii. include wording to the following effect prominently in the certificate:

- that the certificate does not prevent salary sacrifice contributions being used to reduce the employer's SG obligations (affected groups of employees may be specified if this does not apply to all employees covered by the certificate)

- that this is not the preferred practice of the Actuaries Institute but the certificate has been

prepared on this basis on the specific instructions of the Instructing Party and consider including brief comments on why treating DB funds consistently with accumulation funds is the preferred practice of the Institute

iii. ensure the Trustee/s of the Fund/s to which the certificate relates is/are informed of this aspect of the certificate

iv. recommend that the Trustee/s of the Fund/s to which the certificate relates consider/s what member disclosure obligations may arise from this aspect of the certificate

v. if use of a Non-Preferred Approach would be a change of practice for the employer:

- obtain confirmation from the Fund Trustee that potentially affected existing Fund members have been appropriately informed in advance of the pending change
- not issue the certificate with an effective date earlier than the date from which the Fund Trustee has advised potentially affected existing Fund members that the change is to occur

vi. if use of a Non-Preferred Approach relates to a Deemed Defined Benefit Fund, seek confirmation from the Fund Trustee that potentially affected existing Fund members have been appropriately informed about the treatment of salary sacrifice contributions, before issuing the certificate (note the comments in clause A3.2 of Appendix 3 and that clause 5.8(v) may also apply e.g. if the certificate being prepared is the first certificate applicable to a conversion period)

vii. within 30 days of issuing the certificate, advise the Chair of the Superannuation and Investments Practice Committee of the following details relating to the certificate:

- the effective period of the certificate
- whether the Fund is a Deemed Defined Benefit Fund
- the approximate number of DB members and the approximate number of accumulation members for whom a Non-Preferred Approach has been used
- whether use of a Non-Preferred Approach is a change of practice

Specification of NECR

5.9. The Benefit Certificate must specify the NECR as:

a. x%; or

b. “not less than x%”. In such a case, the Member must still define the MRBs precisely in the Benefit Certificate; or

c. set out in clause 6.7 of this Professional Standard,

where x% is the NECR determined as a percentage of OTEM as set out in clause 5.12 of this Professional Standard.

5.10. A Member may specify an NECR as x% in accordance with part (a) of clause 5.9 even if the minimum employer support provided by the relevant MRB may exceed x% of OTE in some or all cases, such as where the Preferred Approach is adopted. This approach may be more convenient where the NECR is used in the MRB formula, for example.

5.11. A Benefit Certificate may specify separate NECRs and/or separate MRBs for separate periods.

Where to find detailed requirements for determining the NECR

5.12. The requirements for determining the NECR vary according to the MRB design. Where an MRB:

a. has no defined benefit elements, the NECR must be determined in accordance with Section 6 of this Professional Standard and, in the case of a Deemed Defined Benefit Fund, having regard to the requirements set out in Appendix 3 of this Professional Standard;

b. has defined benefit elements, the NECR must be determined in accordance with Section 7 of this Professional Standard.

Solvency and other MRB design considerations

5.13. The MRB is subject to the minimum benefit requirements of Part 5 of the SIS Regulations and forms the basis for funding and solvency certification under Part 9 of the SIS Regulations, so that the size of the MRB will have implications for the future solvency of the Fund.

5.14. The definition of the MRB which accrues during the currency of a particular Benefit Certificate will potentially persist for many years after the expiry of the Benefit Certificate, both for minimum benefit and solvency purposes. That is, once an MRB has accrued, it is covered by the provisions of SIS and generally cannot be reduced. (Refer to Section 10 of this Professional Standard.)

5.15. Members must define MRBs with the above in mind and note that it is the Trustee's responsibility to retain Benefit Certificates as long as they remain relevant. An expired Benefit Certificate will remain relevant unless a replacement Benefit Certificate incorporates the MRBs specified in the expired Benefit Certificate.

MRB design – reductions

5.16. The design of the MRB must be such that the amount of the accrued MRB will not reduce at any time except as a result of negative Indexation, negative Investment Earnings or as a result of circumstances set out in clauses 5.17, 10.4, 10.5 or 10.6 of this Professional Standard.

5.17. Other than the circumstances set out in clauses 10.4, 10.5 or 10.6 of this Professional Standard, the only exceptions to the requirement described in clause 5.16 are that:

a. a single reduction in MRB was permissible on or before 1 July 1993, in view of the timing of the Regulations and Guidance Note 456 which then applied;

b. a reduction in MRB for a Fund Member is permissible to take into account any:

i. insurance (or self-insurance) costs, expenses or tax payable by the Fund (or allowances for such) in respect of the Fund Member which are not already allowed for in the determination of the MRB (for example, the standard 15% tax has already been allowed for in the case of the standard defined benefit MRB formulae in Section 7 of this Professional Standard);

ii. transfer or payment resulting from a benefit split or similar where a part of a Fund Member's benefit is transferred in some manner to the Fund Member's spouse or former spouse under a Splitting Law, including any allowances for expenses applicable to the payment or transfer; or

iii. other amount that is paid to or in respect of the Fund Member or transferred or rolled over to another fund in respect of the Fund Member and any allowances for expenses applicable to the payment or transfer.

MRB Design – Application of SG maximum contribution base

5.18. The SG Act places an indexed "cap" (the "maximum contribution base") on the earnings base applicable for SG purposes (that is, OTE from 1 July 2008 and OTE Base from 1 January 2020, where applicable). Subject to clause 5.19, this "cap" can be used:

a. to limit the contribution base for an accumulation style MRB (see Section 6 of this Professional Standard);

b. in adjusting the amount used as "SAL" in the formulae in clause A1.4 for accruals prior to 1 July 2008;

c. in adjusting the amount used as "AOTEM" in the formulae in clause A1.6 for accruals after 30 June 2008; and

d. in determining the MRB where the approach described in Appendix 2 of this Professional Standard is used.

5.19. Note, however, that any part of the MRB which directly relates to some or all Member Contributions cannot make use of the "cap" unless the relevant Member Contributions were themselves subject to the "cap". This constraint must be applied by no later than the later of 1 July 1995 and the effective date of the first Benefit Certificate issued after that date.

5.20. Note also that, whilst section 15 of the SG Act refers to a quarterly (rather than an annual) maximum contribution base, for the purposes of this Professional Standard applicable to defined benefit style components of MRBs (that is, as determined under Section 7 of this Professional Standard), a Member may annualise the quarterly maximum.

MRB Design – Member Contributions

5.21. Note that, for the purposes of this Professional Standard, Member Contributions are defined to include any contributions paid to the Fund in respect of the Fund Member, other than Employer Contributions. This includes, for example, any Government Co-contributions or spouse contributions received by the Fund in respect of the Fund Member. Any such contributions must be treated in the same manner as contributions actually paid by the Fund Member or in any alternative manner that this Professional Standard would allow in respect of a Member Contribution. Under the Preferred Approach, this also applies to Sacrificed Contributions, which are excluded from Employer Contributions and must be treated as Member Contributions.

6. Determination of NECR for Fully Accumulation-Style MRBs

General

6.1. This section of this Professional Standard must be used to determine the NECR for an MRB that has no defined benefit elements – that is, a fully accumulation-style MRB.

6.2. The NECR must be determined as the employer contribution rate (before any deduction to allow for tax on contributions, Surcharge, expenses or death and disablement costs) which would be required to provide the MRB.

6.3. For an NECR of x% to apply from an effective date on or after 1 July 2008, the amount of the MRB must be at least:

$$a + b + c - d + e + f - g - h$$

where:

a is the amount of the MRB at the day prior to the effective date;

b is Member Contributions from the effective date;

c is notional or actual Employer Contributions of x% of OTEM from the effective date;

d is allowances for tax on contributions (including No-TFN Tax, if applicable), Surcharge payments, expenses and death and disablement costs;

e is the MRB component of any benefit transferred into the Fund for the Fund Member on or after the effective date;

f is any amounts paid or transferred to the Fund in respect of the Fund Member on or after the effective date, other than Member Contributions and Employer Contributions and amounts referred to in (e), less an allowance for any applicable tax and expenses;

g is amounts paid to or in respect of the Fund Member (including any amounts in respect of excess concessional contributions tax or excess non-concessional contributions tax) or transferred or rolled over to another Fund in respect of the Fund Member on or after the effective date, including any allowance for associated expenses;

h is amounts transferred from the Fund Member's benefit to the benefit of the Fund Member's spouse or former spouse under the terms of a Splitting Law on or after the effective date, including any associated fees,

with Investment Earnings added to all the above items.

MRB Employer Contributions - amount and timing

6.4. The Employer Contributions used in the MRB calculation, whether actual or notional, must be based on the actual OTEM received for the relevant period, not on the OTEM measured at a point of time or averaged. The principle is that there be consistency between fully accumulation-style MRBs and the legislated requirements for accumulation Funds. This principle can only be fully met if the Preferred Approach is used. Nevertheless, an approach that does not meet the requirements of the Preferred Approach may be used as set out in clause 5.8.

6.5. The principle in clause 6.4 extends to the timing of Employer Contributions for the purpose of the allocation of Investment Earnings. This requirement may be satisfied by either:

a. allocating Investment Earnings to the (actual or notional) Employer Contributions used in the MRB calculation for each SG quarter from a date not later than the date by which SG contributions for that quarter were required to be paid to an accumulation Fund; or

b. using another basis determined either by the Member or the Trustee, which the Member or the Trustee (as applicable) considers is fair to the Fund Member compared with that in paragraph (a) above.

6.6. Where the MRB is defined in terms of contributions received by the Fund and a specific NECR% is to be included in the Benefit Certificate (rather than the formula approach referred to in clause 6.7), the Benefit Certificate must specify that the actual or notional Employer Contributions used to determine the MRB are the relevant NECR% times OTEM or are subject to a minimum of the relevant NECR% times OTEM. This is to ensure that where contributions are underpaid, the MRB is still credited with at least NECR% times OTEM and applied as a minimum to the benefit. This requirement applies even if the Member is satisfied that the Trustee and the relevant employer(s) have agreed that the Employer Contributions to be used for the MRB (whether actual or notional) are in fact to be based on a minimum of OTEM.

NECR may be specified by a formula

6.7. Where the MRB is defined in terms of contributions received by the Fund and the Member is not satisfied that Employer Contributions are to be made on a minimum of a uniform NECR times OTEM for all Fund Members of a class covered by a Benefit Certificate (for example, in the case of a multi-employer public offer fund where there is not any particular agreed contribution basis with some employers), a Member using the Preferred Approach may specify the NECR in the following terms:

> NECR is "equal to the employer sponsor's Employer Contributions (defined to exclude salary sacrifice contributions) received by the fund for the quarter for a particular Fund Member divided by the Fund Member's OTE Base from that employer sponsor for that quarter, where 'quarter' is as defined in the SG Act",

or in other terms achieving the same effect.

6.8. In such cases it would be appropriate to specify that, in determining the NECR for a particular Fund Member for a quarter, the employer sponsor's contributions received by the fund for that Fund Member for the quarter be determined in the same manner as would have applied under the SG Act had the Fund been an accumulation fund (or other words achieving the same effect).

6.9. The wording described in clauses 6.7 and 6.8 would require some modification if the Preferred Approach is not adopted. This situation is not expected to arise in practice given the circumstances in which Members are expected to consider specifying the NECR in the manner described in clause 6.7.

Deductions for tax and costs

6.10. The Member must:

a. if he or she is determining the deductions from accumulation-style MRBs for tax, expenses and death and disablement costs:

   i. determine those deductions in a fair and reasonable manner, allowing for Fund Member protection requirements under SIS in respect of Fund Members with entirely accumulation-style benefits; and

   ii. specify in the Benefit Certificate the amount(s) of the deductions, or the method by which the amount(s) of the deductions are to be calculated; or

b. if the deductions from accumulation-style MRBs for tax, expenses and death and disablement costs are to be determined by the Fund Trustee, specify this in the Benefit Certificate.

Approach (a) may be used for some deductions and approach (b) for other deductions.

6.11. A deduction may be made to allow for tax on Employer Contributions credited for the purposes of clause 6.3(d) regardless of whether or not an employer is actually contributing.

NECR adjustment may be required where benchmark investment earnings apply

6.12. Where the Investment Earnings to be applied to positive components of the MRB are to be based on a benchmark rate or the earnings on a benchmark portfolio in lieu of the earnings on the Fund's assets, the Member must ensure that either:

a. the benchmark rate or the expected return on the benchmark portfolio (as applicable) is likely to be reasonably comparable with the expected return on the relevant Fund assets; or

b. where the benchmark rate or the return on the benchmark portfolio (as applicable) is expected to be significantly lower than the return on the relevant Fund assets in the long term, the NECR is reduced accordingly.

7. Determination of NECR for Defined Benefit and Mixed MRBs

General

7.1. For the Benefit Certificate to specify an NECR of x%:

a. the value of the employer-financed portion of the future service component of the MRB determined in accordance with this Section must be at least x% of OTEM; and

b. the past service component of the MRB must be determined: (i) by maintaining the formulae set out in the Prior Benefit Certificate; or (ii) as set out in clause 8.9 of this Professional Standard; or (iii) using a method which results in an amount not lower than would be obtained using either (i) or (ii). If there is no Prior Benefit Certificate, then method (ii) is to be applied, using the member's vested benefit on the day prior to the effective date of the Benefit Certificate in place of the MRB at that date.

7.2. The future service component of the MRB may be composed of any combination of defined benefit and accumulation components which together result in the employer-financed portion of the future service component of the MRB determined in accordance with this Section having a value of at least x% of OTEM. For the avoidance of doubt, it is acceptable for OTEM to be broken into a number of components (for example, base salary and bonuses) with the MRB relating to each of those components determined in a different manner.

Test for accumulation components

7.3. For an employer-financed fully accumulation-style future service component of the MRB to have a value of at least x% of an earnings base (for example, base salary or bonuses or OTEM), it must be at least equal to the accumulation benefit which, were that earnings base equal to OTEM, would

satisfy the requirements of Section 6 of this Professional Standard for certification of an NECR of x%.

Test for defined benefit components

7.4. For an employer-financed defined benefit future service component of the MRB to have a value of at least x% of an earnings base, the amount of this component must be at least equal to:

i. the amount obtained from a standard defined benefit formula of the form specified in clause A1.6(a) of Appendix 1 of this Professional Standard using NECR = x% and with AOTEM calculated using that earnings base in place of OTEM; or

ii. an alternative defined benefit component (including any component in the form of an immediate or deferred pension or a deferred lump sum) that meets the requirements of Appendix 2 of this Professional Standard when tested against one of the standard defined benefit formulae referred to in (i).

Further details

7.5. Appendices 1 and 2 set out further details as to how the requirements set out above are to be satisfied.

8. Miscellaneous Issues

Untaxed benefits

8.1. Where benefits are not funded or an election is made under section 295-180 of the Income Tax Assessment Act 1997 (Cth) (or section 274(7) of the Income Tax Assessment Act 1936 (Cth) prior to 1 July 2007), an appropriate adjustment to the standard formula in Section 7 of this Professional Standard must be made to allow for the differential tax treatment.

Member benefit options

8.2. Where there are multiple forms of benefit available to a Fund Member on exit, at the Fund Member's option, each form of benefit must be at least equal to the MRB where there is no immediate lump sum option.

8.3. Where one of the options is an immediate lump sum, it is sufficient that the immediate lump sum must be at least equal to the MRB.

All circumstances to be allowed for

8.4. When specifying the MRBs, the Member must consider all the possible circumstances in which benefits may be paid from the Fund in practice. Where relevant, the Member must allow for:

a. changes in Fund Membership status, such as leave of absence, changes to contribution or accrual rates, category transfers (including from defined benefit to accumulation, if applicable), changes between full and part-time status and so forth;

b. the treatment of MRBs beyond the Fund Member's normal retirement date; and

c. Choice of Fund considerations (refer clause 8.5).

Choice of Fund considerations

8.5. Any option under the Choice of Fund Legislation (or the fund's rules) for Fund Members to choose another fund in respect of future contributions must also be taken into account. In particular:

a. the Benefit Certificate must adequately cover the future treatment of the MRB that had accrued at the effective date at which the employer began contributing SG contributions to another fund. The treatment of a Fund Member's MRB on choosing another fund must be considered in conjunction with the treatment of the Fund Member's accrued defined benefits, in particular whether or not an accrued defined benefit is maintained;

b. the Benefit Certificate must also be designed to cater for the Fund Member changing their Choice back to the Fund covered by the Benefit Certificate, if this is allowed under the applicable Choice arrangements; and

c. in some cases, a Fund's Trust Deed might deem that new employees of an employer automatically become Fund Members from their first day of employment. However, if the employee chooses another fund under the Choice of Fund Legislation, the employer may never contribute to the Fund and all superannuation guarantee requirements might be met by the employer contributing to another fund. The Member may specify in the Benefit Certificate that, in these circumstances, the Fund MRB accruing for the employee is zero during any period where deemed membership does not eventually become actual membership.

Treatment of salary sacrifice and deemed member contributions

8.6. As set out in clause 5.3, changes were made to the SG Act in October 2019 'to improve the integrity of the superannuation system by ensuring that an individual's salary sacrifice contributions cannot be used to reduce an employer's minimum SG contributions'. The changes were applicable to SG obligations met via accumulation funds from 1 January 2020. No corresponding amendments were made to the SG obligations for defined benefit funds. Therefore, for a defined benefit fund, the legal position remains that all contributions which are made from pre-tax salary (whether by salary sacrifice or not) can be treated as employer contributions for the purposes of the SG Act.

8.7. However, with the change in legislation, it is even more likely that the employer and the Trustee will prefer to treat Sacrificed Contributions as if they were Member Contributions for MRB purposes. This must be done if the Preferred Approach is adopted (refer clauses 5.4 - 5.7). In such cases, the Member must treat the Sacrificed Contributions as if they were Member Contributions for the purposes of this Professional Standard, effective from the Preferred Approach Start Date where applicable, but must make suitable allowance for contribution tax. Accordingly where a defined benefit style approach as set out in clauses A1.5 or A1.6 of Appendix 1 of this Professional Standard is used for the relevant Sacrificed Contributions, MCR is determined net of allowance for 15% contributions tax in respect of any relevant Sacrificed Contributions (refer clause A1.4).

8.8. Where there are packaged or deemed member contributions that are not Sacrificed Contributions, the Member may treat the packaged or deemed member contributions in the same manner as Sacrificed Contributions or as Employer Contributions based on past practice or the instructions of the Instructing Party.

Change in MRB formula

8.9. At the point of change of an MRB formula, a Member may replace the accrued MRB, or a component of the accrued MRB, by the equivalent dollar amount, which may then be accumulated with Indexation or Investment Earnings.

Use of more than one Benefit Certificate

8.10. It is permissible for more than one Benefit Certificate to apply to a Fund and to a Fund Member – for example, one certificate (BC1) may apply to the principal employer sponsor of a Fund and specify an [x]% NECR (in respect of OTEM paid by that employer to a Fund Member) and another certificate (BC2) for the same Fund may apply to all other employers (in respect of OTEM paid by each of those employers to a Fund Member).

8.11. Where this approach is used, each Benefit Certificate must specify the total MRB for each Fund Member who is in a class of Fund Members covered by the certificate. It is not sufficient for a Benefit Certificate to specify only the component of the MRB sponsored by the employer/s covered by that certificate. However, as set out in clause 9.2, it is acceptable for the MRB to be defined by reference to the governing rules or another Benefit Certificate. To illustrate, using the example referred to clause 8.10, BC1 could fully specify the (total) MRB and BC2 could specify the (total) MRB wholly or partially by reference to the specification in BC1.

8.12. Whilst a Fund Member can have only one MRB in any Fund, a Fund Member may belong to more than one class of Fund Members. Thus a Fund Member may have more than one NECR in a Fund. Again using the example referred to in clause 8.10, a Fund Member may belong to a class of Fund Members (specified in BC1) who are employed by the principal employer sponsor (or its associates) of the Fund and also belong to another class, or other classes, of Fund Members (specified in BC2) who are employed by another (or other) employer(s).

9. Information to be Included in Benefit Certificates

9.1. The Benefit Certificate must include:

a. the name of the employer/s requesting the Benefit Certificate, or if the Trustee of the Fund has requested the Benefit Certificate on behalf of the employer/s, the name of the Trustee;

b. the name of each Fund to which the Benefit Certificate relates;

c. a description of each class of Fund Members covered by the Benefit Certificate;

d. the NECR for each class of Fund Members covered by the Benefit Certificate (refer Section 5 of this Professional Standard);

e. prominent statements relating to the treatment of Sacrificed Contributions, in accordance with clause 5.7 or 5.8, whichever applies a statement that each NECR has been calculated in accordance with the SG Regulations and this Professional Standard;

f. the certifications required by SG Regulation 8(2);

g. a description of the MRBs for each class of Fund Members covered by the Benefit Certificate, either directly or by reference to the governing rules or one or more other Benefit Certificates (which may relate to a prior period), including, where applicable, any provisions necessary to ensure that the requirements of clauses 6.4,

h. 6.5 and 6.8 of this Professional Standard are satisfied in respect of accumulation-style MRBs;

i. where the procedure in Appendix 2 of this Professional Standard is used and the result is dependent on the assumptions used, a description of the assumptions used, together with a description of the method of apportioning benefits between past and future Fund membership;

j. where the certificate relates to a Deemed Defined Benefit Fund, a statement to the effect that the use of the surplus is appropriate and in accordance with the requirements of this Professional Standard;

k. the date on which the Benefit Certificate takes effect;

l. the date beyond which the Benefit Certificate will cease to have effect in the opinion of the Member;

m. the name, address and qualifications of the Member; and

n. the date of signing the Benefit Certificate.

Specification of MRBs

9.2. As set out in clause 9.1(h), the Benefit Certificate must define the MRB, either by direct description in the Benefit Certificate, or by reference to one or more other Benefit Certificates or the governing rules. The description of the MRB must be such that the reader of the Benefit Certificate (and the governing rules and other Benefit Certificate/s where reference is made to these) is able to determine how to calculate the MRB for:

a. each Fund Member covered by the Benefit Certificate;

b. each Fund covered by the Benefit Certificate; and

c. any mode of exit from the Fund, or from a class of Fund Members covered by the Benefit Certificate, at any time during the currency of the Benefit Certificate.

Application to exited members

9.3. If a Fund Member whose service or Fund Membership ceased between the effective date of a Benefit Certificate and the date the Benefit Certificate is to be signed is not to be entitled to an MRB specified in the Benefit Certificate, the Benefit Certificate must clearly exclude such a Fund Member.

10. Replacement of Benefit Certificates

10.1. For the purposes of this Section 10, "Current SG Quarter" is taken to be the quarter commencing on 1 July, 1 October, 1 January or 1 April in the quarter in which the replacement Benefit Certificate is signed (or, if signed before 15 August, 15 November, 15 February or 15 May in a quarter or such later day in the quarter allowed by the Commissioner, the previous quarter).

Effective date

10.2. Section 10(4) of the SG Act essentially provides that, with effect from 1 July 2003, a Benefit Certificate may be expressed to have effect from a day that is no earlier than the first day of the Current SG Quarter and no later than the day on which the Benefit Certificate is issued.

Retrospective replacement of a Benefit Certificate

10.3. Subject to the SIS Regulations and the Fund's Trust Deed (refer clause 10.6), a retrospective change to a Benefit Certificate may be issued in the circumstances set out in clauses 10.4, 10.5 or 10.6.

10.4. Where a Benefit Certificate contains a typographical error, the Benefit Certificate may be replaced at any time with a corrected Benefit Certificate with the same effective date, even if this is before the start of the Current SG Quarter.

10.5. A Benefit Certificate may be retrospectively replaced with a new Benefit Certificate with a reduced MRB provided that the MRB at the effective date of the replacement Benefit Certificate does not reduce. The effective date of the replacement Benefit Certificate cannot be before the start of the Current SG Quarter.

10.6. SIS Regulations (in particular SIS Regulation 13.16) also impose restrictions on reductions in benefits. Where the MRB has been defined within the governing rules, the Trust Deed's amendment powers may also impose restrictions. Any retrospective reduction in MRB in these circumstances would generally require approval from the Australian Prudential Regulation Authority and/or all the Fund Members.

Appendix 1: Standard Defined Benefit and Mixed MRBS

A.1.1 Where Section 7 of this Professional Standard applies, the MRB on all modes of exit must be an amount at least equal to:

A + B + C + D + E – F

where:

- component A relates to pre 1 July 1992 Fund Membership;
- component B relates to Fund Membership from 1 July 1992 to 30 June 2008;
- component C relates to DB Member Contributions from 1 July 2008;
- component D relates to the employer-sponsored component of the MRB accruing from 1 July 2008;
- component E relates to any applicable additional benefits arising from items such as Voluntary Member Contributions and rollovers or transfers of benefits to the Fund in respect of the Fund Member;
- component F relates to: any tax payable by the Fund in respect of the Fund Member which was not already allowed for in the determination of the MRB; any payments or transfers relating to a Splitting Law; any adjustment relating to commencement and payment of an account-based pension for the member (for example, a transition to retirement pension); and any other benefit payments to or in respect of the Fund Member or transfers or rollovers of benefits to another Fund in respect of the Fund Member, including any allowances for expenses applicable to the payment or transfer

and each component must be determined as set out in this Appendix.

Each component may be further broken down into two or more separate components. Components may also be combined where doing so does not affect the amount of the MRB (refer example in clause A1.3(d)).

Pre-1 July 1992 component (A)

A.1.2 Component A of clause A1.1 must be in one of the following forms:

a. 30 June 1992 Minimum Benefit x $\frac{\text{Member's Salary at exit}}{\text{Member's Salary at 30 June 1992}}$;

b. 30 June 1992 Minimum Benefit x $\frac{\text{Final Average Salary at exit}}{\text{Final Average Salary at 30 June 1992}}$;

c. 30 June 1992 Minimum Benefit with Investment Earnings from 1 July 1992 to exit, where 30 June 1992 Minimum Benefit cannot be less than the lesser of:

d. vested benefit at 30 June 1992 determined in accordance with the Fund's governing rules at that date; or

e. accrued retirement benefit at 30 June 1992.

A.1.3 The choice of alternatives (a), (b) or (c) outlined in clause A1.2 is not constrained by how the 30 June 1992 Minimum Benefit is determined. Furthermore:

a. it is not necessary that one approach be applied to all Fund Members of a class;

b. a change of approach is permissible provided the accrued MRB is not reduced for any Fund Members (refer clause 5.16 of this Professional Standard);

c. any reasonable mixture of the alternatives in clauses A1.2(a), (b) and (c) is permissible for an individual Fund Member; and

d. component (a) of clause A1.2 may be combined with an MRB component relating to membership after 1 July 1992 provided that it would have met the requirements of clause A1.2 if it had continued to be expressed separately – for example, if the approaches set out in clause A1.2(c) and A1.4 (d) were adopted, it would be acceptable for MRB components (a) and (b) of clause A1.2 to be combined and expressed as the accumulation of the amount of the Fund Member's MRB at 30 June 2008 with Investment Earnings.

1 July 1992 – 30 June 2008 component (B)

A.1.4 Component B of clause A1.1 relating to Fund Membership from 1 July 1992 to 30 June 2008 must be in the form:

a. F1 x (MCR/0.85 + HNECR) x SAL x NM x DF, where the Benefit Certificate effective at 30 June 2008 expressed the MRB in this form; or

b. the non-standard defined benefit formula applicable during this period, where the Benefit Certificate effective at 30 June 2008 expressed the MRB in this form; or

c. Member Contributions from 1 July 1992 to 30 June 2008 with Investment Earnings plus F1 x HNECR x SAL x NM x DF, where the Benefit Certificate effective at 30 June 2008 expressed the MRB in this form; or

d. an accumulation of Member Contributions and Employer Contributions of at least HNECR times SAL as outlined in Section 6 of this Professional Standard, where the Benefit Certificate effective at 30 June 2008 expressed the MRB in this form; or

e. the accumulation of the amount of the Fund Member's MRB at 30 June 2008, excluding the amount included in component (a) of clause A.1.2, with Investment Earnings; or

f. the accumulation of the salary-related amount of the Fund Member's MRB at 30 June 2008, excluding any such amount included in component (a) of clause A.1.2, with Indexation plus the accumulation of the remaining amount of the Fund Member's MRB at 30 June 2008, excluding any such amount included in component (a) of A.1.2, with Investment Earnings; or

g. another combination of salary-related components and Investment Earnings related components which is consistent with those above.

For the purposes of clauses A1.4(a) and (b):

F1 is:

i. 0.0833, where SAL is annual salary at date of exit (or review date prior to exit);

ii. 0.09, where SAL is average salary over three years prior to exit (or three review dates prior to exit); or

iii. generally (0.0833 + 0.0022 x N), where SAL is average salary over the N years prior to exit.

MCR is the rate of DB Member Contributions (net of allowance for 15% contributions tax in respect of any relevant Sacrificed Contributions) expressed as a percentage of SAL.

HNECR is the NECR for 1 July 1992 to 30 June 2008 as a percentage of SAL, specified in the Benefit Certificate effective in respect of that period.

SAL is the Fund Member's annual Salary or final average Salary at the effective date of calculation on a basis consistent with F1 and consistent with the earnings base used for the determination of the Fund Member's MRB at 30 June 2008. The Member must note the requirements of clause 5.19 where SAL is limited to the "maximum contribution base" as defined in the SG Act, particularly where a formula of the type set out in clause A1.4(a) is used. In determining SAL, review date salaries may be used for administrative convenience.

NM is the number of complete months and fractions of a month of relevant Fund membership between 1 July 1992 and 30 June 2008.

DF is a discount factor, being 1.0 at an exit age of 65 or more, reducing by a simple discount of 1.5% for each complete year (and fractions of a year based on complete months) by which exit precedes age 65, with a minimum DF of 0.7 for age at exit of 45 or below. Age 65 applies regardless of the Fund's normal retirement date.

Post – 30 June 2008 DB Member Contributions component (C)

A.1.5 Component C of clause A1.1 relating to DB Member Contributions from 1 July 2008 must be in the form:

a. F1 x MCR/0.85 x SAL x NM2 x DF; or

b. an alternative defined benefit component that by definition is at least equal to the standard defined benefit component set out in clause A1.5(a) or that meets the requirements of Appendix B of this Professional Standard when tested against the standard defined benefit component set out in clause A1.5(a); or

c. an accumulation with Investment Earnings of DB Member Contributions from 1 July 2008 less allowances for any related tax, death and disablement costs and expenses (determined on a basis consistent with that set out in Section 6 of this Professional Standard); or

d. another combination of salary-related components and Investment Earnings related components which is consistent with those above,

where F1, MCR, SAL and DF are as defined in clause A1.4 and NM2 is as defined in clause A1.6.

Post – 30 June 2008 employer-financed component (D)

A.1.6 Component D of clause A1.1 relating to the employer-sponsored component of the MRB accruing from 1 July 2008 must be in the form:

a. F2 x NECR x AOTEM x NM2 x DF; or

b. an accumulation with Investment Earnings of notional Employer Contributions from 1 July 2008 of NECR x (OTEM – SAL) (where positive), less allowances for related tax, death and disablement costs and expenses (determined on a basis consistent with that set out in Section 6 of this Professional Standard), plus F1 x NECR x SAL x NM2 x DF; or

c. an accumulation with Investment Earnings of notional Employer Contributions from 1 July 2008 of y% x OTEM, less allowances for related tax, death and disablement costs and expenses (determined on a basis consistent with that set out in Section 6 of this Professional Standard), plus F2 x (NECR-y%) x AOTEM x NM2 x DF; or

d. an accumulation with Investment Earnings of notional Employer Contributions of NECR x OTEM, less allowances for related tax, death and disablement costs and expenses (determined on a consistent basis with that set out in Section 6 of this Professional Standard); or

e. as per clauses A1.6(a), (b) or (c), with the defined benefit component replaced by an alternative defined benefit component that by definition is at least equal to the standard defined benefit component set out in clause A1.6(a), (b) or (c), as applicable, or that meets the requirements of Appendix B of this Professional Standard when tested against the standard defined benefit component as set out in clause A1.6(a), (b) or (c), as applicable; or

f. an alternative combination of defined benefit and accumulation-style components which is consistent with those above.

For the purposes of clauses A1.6 (a)–(f) above:

F1, MCR, SAL and DF are as defined in clause A1.4.

AOTEM is the annual rate of OTEM or average OTEM (as applicable), determined on a basis consistent with F2.

F2 is:

i. 0.0833 where AOTEM is the annual rate of OTEM* at date of exit;

ii. 0.09 where AOTEM is average OTEM over three years priot to exit; or

iii. generally (0.0833 + 0.0022 x N) where AOTEM is average OTEM over the N years prior to exit. If AOTEM is average OTEM over a period to the review date (or birthday, for example) prior to the date of exit, F2 is (0.0856 + .0023 x N) where AOTEM is average OTEM over the N years to the review date (or birthday, for example) prior to the date of exit.

** AOTEM must not be defined as the annual rate of OTEM at the date of exit unless OTEM does not include variable or irregular items such as shift loadings or bonuses*

NECR is the NECR from 1 July 2008 as a percentage of OTEM.

NM2 is the number of complete months and fractions of a month of relevant Fund membership from 1 July 2008 to the date of calculation.

Post – 30 June 2008 employer-financed component - Use of average OTEM

A.1.7 Where OTEM includes irregular items (such as bonuses, commissions, shift loadings or other irregular allowances) and a defined benefit-style MRB based on OTEM (such as set out in clauses A1.6(a) or (c)) is to be used, it must be based on average OTEM. Issues which must be considered in determining a suitable averaging period include the frequency of payment and degree of fluctuation in variable OTEM items, as well as any administrative constraints (such as the ability of the employer to provide the necessary information).

A.1.8 Where a defined benefit-style MRB based on OTEM (such as set out in clause A1.6 (a) or (c)) is used, there is an argument that in order to avoid a possible retrospective increase in the MRB, the Preferred Approach should permit OTEM to be calculated based on:

a. OTE for this component of the MRB accrued for the period 1 July 2008 up to the Preferred Approach Start Date; and

b. OTEM for this component of the MRB accrued from the Preferred Approach Start Date.

A.1.9 However the approach in clause A1.8 could mean that Sacrificed Contributions made after the Preferred Approach Start Date would continue to reduce the MRB after that date – specifically the component of the MRB in respect of the period from 1 July 2008 up to the Preferred Approach Start Date would be reduced. Hence the approach in clause A1.8 does not meet the Preferred Approach requirement that Sacrificed Contributions made after the Preferred Approach Start Date must not reduce the employer's SG obligation.

A.1.10 Accordingly the approach in clause A1.8 is not permitted under the Preferred Approach.

A.1.11 Where a defined benefit-style MRB based on average OTEM (such as set out in clause A1.6 (a) or (c)) is used, consideration must also be given to the determination of average OTEM where the Fund Member has periods of part-time employment and/or where there are service gaps in the averaging period (for example, due to leave without pay or commencement of relevant membership in the averaging period).

Change in parameters

A.1.12 If MCR, NECR or the Salary averaging period changes, the benefit formula must be adjusted accordingly, with the relevant values of MCR, NECR, F1 and F2 being applied to the appropriate periods of Fund membership.

Determination of NECR

A.1.13 Where the approach outlined in this Appendix A is adopted, the NECR from 1 July 2008 is the NECR included in component D of clause A1.1 (refer clause A1.6).

Component relating to additional benefits (E)

A.1.14 Component E of clause A1.1 must be determined in accordance with the Fund's trust deed or, in cases such as a successor fund transfer, by transferring the former fund's MRB formula into the current fund, provided the Member is satisfied that such an approach is appropriate in the circumstances. For the avoidance of doubt, where the Preferred Approach is not used this component is not required to include benefits arising from member contributions made from pre-tax salary (whether by salary sacrifice or not), which may be excluded from the MRB as set out in clause 8.6.

Component relating to reductions due to transfers out, partial payments etc (F)

A.1.15 Component F of clause A1.1 must be in the form:

a. an accumulation of the relevant amounts with Investment Earnings; or

b. an accumulation of the relevant amounts with Indexation; or

c. a deduction in some other form which has a value no greater than that under paragraph (a), on the basis of actuarial assumptions determined as set out in Appendix 2 of this Professional Standard; or

d. in the case of an adjustment relating to commencement and payment of an account-based pension for the member (for example, a transition to retirement pension), the benefit amount utilised to commence the pension accumulated with Investment Earnings or Indexation (or a combination thereof), less the balance of the pension account.

A.1.16 Component F of clause A1.1 may utilise a combination of the formulae set out in clause A1.15 for a Fund Member (for example, an accumulation approach adopted in respect of the part of the Surcharge or No-TFN Tax relating to a Fund Member's pre-tax contributions and a defined benefit formula adopted for the balance).

Appendix 2: Non-Standard Defined Benefit MRBs

A2.1 This Appendix applies where MRBs are fully or partially in a defined benefit form which differs from – and is not by definition always equal to or greater than – any of the standard formulae set out in Appendix 1 of this Professional Standard.

Testing procedure

A2.2 If this Appendix is used, the NECR and the future service benefit component of the MRBs must satisfy the testing procedure set out below. The tests must be conducted by ignoring any Surcharge or adjustment to allow for the Surcharge or a Splitting Law in the MRB formulae.

a. The defined benefit component of the MRBs must never produce a future service benefit for any individual which is less than 80% of the benefit which one of the standard defined benefit formulae in clauses A1.5 or A1.6 would provide. This test must be satisfied for all existing Fund Members of the relevant class and, for a membership class which is open to new entrants, for all potential new entrants.

b.

i. Using actuarial assumptions determined in accordance with clause A2.3, determine PV, which equals the present value of the future service component of the defined benefit element of the MRBs, less the present value of future Member contributions for existing Members in the class. In determining PV, all future service defined benefit MRBs must be restricted to an upper limit of 125% of the amount which one of the standard defined benefit formulae in clauses A1.5 or A1.6 of this Professional Standard would provide.

ii. Using the same actuarial assumptions, determine PVF, which equals the present value of the future service component of the defined benefit element of the MRBs which would apply using one of the standard defined benefit formulae in clauses A1.5 or A1.6 of this Professional Standard, for existing Fund Members in the class less the present value of future Fund Member contributions.

c. For the Benefit Certificate to be valid, PV cannot be less than PVF.

Throughout this testing procedure, the choice of standard option from clauses A1.5 or A1.6 must be consistent for all Fund Members in a class, and must be consistently used in clauses A2.2(a) and (b) above.

Assumptions to be used

A2.3 In carrying out the test under clause A2.2(b), the Member must use assumptions consistent with those used for the last actuarial valuation, where one has been carried out, unless the Member considers that any of those assumptions are not reasonable having regard to expected experience for the class of Fund Members concerned, in which case the Member must determine appropriate assumptions and use those in place of the inappropriate assumptions. If there has been no previous actuarial valuation, the Member must determine appropriate assumptions. Death and disablement decrements must be ignored, or the benefit set equal to the resignation or retirement benefit. This is because such decrements have been implicitly allowed for when arriving at the standard formulae. Future new entrants must not be taken into account.

Other requirements

A2.4 In clause A2.2, the benefits to be tested must be payable of right and not subject to the exercise of a discretion or consent by the employer or Trustees.

A2.5 Accumulation style components of MRBs must not be included in the testing procedure set out above. Where the MRB is such that it is not possible to apply the testing procedure in this Section, or to apply one of the standard approaches in Appendix 1 of this Professional Standard, the form of the MRB must be changed if the Member is to provide a Benefit Certificate in accordance with this Professional Standard.

A2.6 The membership to be used in the testing procedure must be the membership at a date in the period from the date of the last actuarial review to the date of signing the Benefit Certificate. “Future service” must apply from the effective date of the Benefit Certificate.

A2.7 If an MRB based on Fund Salary is being tested against a standard formula MRB based on OTEM for a period after 30 June 2008, individual Fund Member OTEM data is required to be used (for example, an average ratio of salary to OTEM cannot be used for all the Fund Members of the relevant class).

Appendix 3: Deemed Defined Benefit Funds

A3.1 This Appendix applies where the Benefit Certificate relates to a Deemed Defined Benefit Fund.

A3.2 The Institute expects that the Preferred Approach will be used for a Benefit Certificate that relates to a Deemed Defined Benefit Fund. This is because the treatment of Sacrificed Contributions would be a relevant matter for the Trustee of a defined contribution fund to consider in deciding whether or not to give or revoke a conversion notice. In particular, if the Benefit Certificate was not to be prepared using the Preferred Approach, that would permit less favourable treatment of Sacrificed Contributions than would be required if the conversion notice was not in effect i.e. than if the fund was not a Deemed Defined Benefit Fund.

A3.3 The SG Act provisions in relation to Deemed Defined Benefit Funds were introduced as a means of enabling, in appropriate circumstances, defined contribution funds to utilise surplus assets in lieu of employer contributions to provide benefits which count as employer support for SG purposes. However, a Member must only sign a Benefit Certificate for a Deemed Defined Benefit Fund if he or she is satisfied that the surplus to be utilised is wholly or principally derived from:

a. surplus which arose in respect of actual Employer Contributions paid before 1 July 1992; or

b. surplus derived from actual Employer Contributions paid after 30 June 1992 in excess of SG obligations, and, in addition, that the surplus to be utilised was not derived to a significant degree from:

a. Member Contributions; or

b. SG contributions; or

c. investment fluctuation reserves, including those held at 30 June 1992; or

d. reserves which have arisen from deductions made from member account balances (for example, provisions for payment of death or disability benefits or insurance premiums), including those held at 30 June 1992.

A3.4 As part of determining whether the requirements of section A3.3 are met, a member must take reasonable steps to establish the source(s) of the Fund surplus to be utilised.

A3.5 In determining the surplus Fund assets available for this purpose, a Member must treat as a liability the full amount of any unvested portion of a member's account balance which is subject to vesting provisions that may be satisfied in future.

A3.6 The Member must ensure that the term of the Benefit Certificate does not exceed the period over which the available surplus will be fully utilised.

A3.7 The MRB for a Deemed Defined Benefit Fund must be a fully accumulation-style MRB.

A3.8 Section 6 of this Professional Standard must be used to determine the NECR.

A3.9 Where the Benefit Certificate relates to a sub-fund of a master trust, the Member must ensure that the requirements of Sections A3.3 and A3.4 are met in respect of the sub-fund and that there are no significant cross-subsidies between the sub-fund and other sub-funds of the master trust.

END OF PROFESSIONAL STANDARD 403