THE INSTITUTE OF ACTUARIES OF AUSTRALIA
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GUIDANCE NOTE 451 - UNSEGREGATED SUPERANNUATION LIABILITIES - CERTIFICATES BY ACTUARIES UNDER SUB-SECTIONS 283(3) AND 283(4) OF THE INCOME TAX ASSESSMENT ACT

APPLICATION

Actuaries providing certificates under Sub -sections 283(3) and 283(4) of the Income Tax Assessment Act.

LEGISLATION

This Guidance Note deals with determination of unsegregated superannuation liabilities for purposes of Section 283 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

1.1 The purpose of this Guidance Note is to provide guidance to members on the operation of Section 283 of the Income Tax Assessment Act ("the Act"), particularly the determination of "unsegregated superannuation liabilities". Taxation Ruling IT2617 requires that an actuarial certificate under Sub-section 283(3) must include "confirmation that the valuation is consistent with any Guidance Notes issued by the Institute".

2. ACT PROVISIONS

2.1 Section 283 provides exemption from tax of the proportion of income attributable to current pension liabilities. The ratio

$$\frac{\text{Unsegregated current pension liabilities}}{\text{Unsegregated superannuation liabilities}}$$

is applied to normal assessable income, excluding income from segregated current pension assets and segregated non-current pension assets, to determine the exempt amount.

2.2 The terms "unsegregated current pension liabilities" and "unsegregated superannuation liabilities" are defined in Section 283 of the Act. The terms "current pension liability" and "superannuation liability" are defined in Section 267 of the Act.

2.3 The Act requires the valuation of unsegregated current pension liabilities each year for purposes of claiming an exemption under Section 283. For a fund with no segregated assets, it is possible to determine the value of unsegregated superannuation liabilities (but not current pension liabilities) from the previous actuarial certificate by the use of Sub-section 283(4) for a period of up to two years after an actuarial certificate has been provided under Sub-section 283(3).

3. INTERPRETATION

3.1 By definition, for a defined benefit plan funded on the basis of a projected benefit funding method, at the valuation date:

Superannuation Liability	=	Present Value of All Future Benefit Payments	-	Present Value of Future Contributions	+	Present Value of Future Expenses and Taxes

These terms cover all existing members, their beneficiaries, current pensioners and reversionary pensioners.

3.2 Similarly for a defined benefit plan funded on the basis of a projected benefit funding method, at the valuation date the required contributions are determined from the following relationship.

Present Value of Future Contributions	=	Present Value of all Future Benefit Payments	-	Actuarially determined Value of Assets	+	Present Value of Future Expenses and Taxes

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Actuarially determined Value of Assets	=	Present Value of All Future Benefit Payments	-	Present Value of Future Contributions	+	Present Value of Future Expenses and Taxes

3.3 In the case of a plan funded using an accrued benefit funding method the contribution element in the above formulae represents the amortisation of any difference between assets and the present value of accrued benefits. The present value of benefit payments would represent accrued benefits only.

3.4 Accordingly for a defined benefit plan using a projected or accrued benefit funding method, the value of the plan's superannuation liabilities is equivalent to the actuarially determined value of assets, because the rate of contribution is determined as the balancing item. Thus the value of the plan's unsegregated superannuation liabilities for actuarial certification purposes (i.e. the denominator in the Section 283 formula above) will be equivalent to the actuarially determined value of unsegregated assets used for valuation purposes.

3.5 The conclusion in paragraph 3.4 will apply irrespective of the fundin g position of the plan. However, the ratio in paragraph 2.1 cannot exceed 1 as unsegregated current pension liabilities cannot exceed unsegregated superannuation liabilities because the valuation of unsegregated current pension liabilities needs to allow for any future contributions in respect of those liabilities.

3.6 This Guidance Note will apply to the exemption from tax of all unsegregated current pension liabilities irrespective of the nature of those liabilities. In particular, unsegregated current pensions which are associated with individual pensioner accounts, commonly referred to as allocated pensions, should be dealt with in accordance with the provisions of this Guidance Note 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.

4. ASSUMPTIONS

4.1 In the determination of assumptions to be used in valuing the 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 reasons suggest a change.

4.2 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 death 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.

4.3 The method of calculating the actuarially determined value of assets for purposes of this Guidance Note should be consistent with the method adopted for calculating the actuarially determined value of assets used in the calculation of contribution rates.

5. ACTUARIAL CERTIFICATE

5.1 Whilst it is not necessary for an actuarial certificate required under Sub-sections 283(3) or 283(4) to accompany the plan's tax return it is still necessary for the actuary to provide such a certificate to the Trustees. The certificate is required to be in a form approved by the Taxation Commissioner as detailed in Taxation Ruling IT2617. In addition to the items specified in IT2617, where an exemption from tax is being claimed under Sub-sections 283(3) or 283(4) the actuarial certificate should provide the following information:

(a) data on which the certificate is based;

(b) a statement of the pension 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) a statement of the exempt proportion of normal assessable income (excluding income from segregated current pension assets and segregated non-current pension assets).

6. MISCELLANEOUS

6.1 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

6.2 This Guidance Note was first issued in December 1991 and replaces a previous note from the Superannuation Committee dated December 1989.

END OF GUIDANCE NOTE 451