PANDEMIC BRIEFING

Check list and considerations

– Defined Benefit Funds

DATE: 30 April 2020

PREPARED BY: Superannuation Practice Committee

Objective and Scope

The following considerations/ check list has been issued to assist actuaries advising superannuation trustees. It is the first of a number of briefings, that will be issued over the coming weeks, designed to assist actuaries advising superannuation funds. These are working documents and may be updated over time, thus are not necessarily complete.

Defined Benefit – Funding

Issues the RSE actuary to a defined benefit fund should be considering:

1. Monitor VBI against shortfall limit, UFP, agreed target (if any)
2. Report unsatisfactory financial positions to APRA when required. Refer to PG 499.03.
3. As well as SPS 160 and SPG 160, refer to the discussion note on actuarial requirements of SPS 160. This discusses requirements for interim actuarial investigations, restoration plans and other requirements of SPS 160.
4. Consider any agreed funding plans, employer covenants
5. Deferred Tax Assets may also occur and need to be considered in calculating asset values. Refer to Information Note on Deferred Tax Assets.
6. Funding and Solvency Certificate Notifiable Events should be checked in case any have occurred.
7. Refer to SIS Regulations in the case of Technical Insolvency.

8. Check and consider any self-insurance risk including the amount of reserves. SPS 160 requires the Trustee to annually determine it is in members' best interests.
9. Conflict of interest - trustee, member and employer

Useful documents that should be referred to:

- SPS 160
- SPG 160
- SIS Act s. 130 "Obligations of actuaries and auditors—solvency"
- Part 9 of the SIS Regs
- Actuaries Institute guidance:
  - PG 499.07 Additional Conflict Of Interest Guidance For Actuaries Working In Superannuation - December 2018
  - DN on actuarial requirements of SPS 160
  - DN on Shortfall limit
  - PG 499.03 Prudential Reporting Under the SIS Act
  - DN on Deferred Tax Assets

Defined Benefit – Early Release

Key issues:

1. Should the Trustee allow early release? Is liquidity a concern? Are their accumulation accounts that can be used instead?
2. Are Trust Deed amendments required?
3. What admin system updates are required?
4. Should Offset account or multiple reduction be used to reduce benefits?
5. If offset account, what interest rate. DB earning rate is cost neutral to the employer sponsor. If multiple, likely to be more complex and a cost to employer.
6. Do the Benefit Certificate and MRB need updating to reflect the early release?
7. If relevant, does a trust deed amendment or updated Benefit Certificate trigger replacement of the FSC?

Defined Benefit – Change in Employment Status

- Many employees are being stood down or accepting salary reductions, and some will have employees eligible for JobKeeper Payment.
- While annual leave, part-time service and leave without pay are dealt with in Trust Deeds sometimes what occurs can be less clear when an employee is stood down or their salary reduces. This may have implications for the accrual of their defined benefits and the salary used to calculate them. It can also impact funding.
- Understand the circumstances of members who are no longer working. The treatment will be different depending on whether they have been terminated, stood down or on leave.
- Review the Trust Deed to determine treatment. Possible issues:
- If stood down, the treatment may not be dealt with and legal advice may be required. Sections 524/525 of the Fair Work Act are relevant. For some funds defined benefits may continue to accrue.
- If salary reduces, how does the Superannuation Salary change? Is there flexibility to retain current Superannuation Salary so benefits do not reduce?
- If there are member contributions funding part of the defined benefit, how will they be treated? This is particularly relevant if the member is no longer earning but still accruing a benefit after being stood down.
- Do employer contributions need to continue?
- How is JobKeeper Payment dealt with?
- What occurs to insured benefits, particularly any based on salary?
- Are there MRB issues to consider? This may be particularly relevant for defined benefit MRBs because OTE may have reduced (or become zero) but superannuation salary may not have reduced.
- Are there Notional Taxed Contribution or grandfathering implications?
- What are the accounting implications under AASB119/IAS 19/US GAAP?
- Consider Service Cost impact if accrual does not continue during stand down;

- Remeasurement and Curtailment probably don't apply, but need to consider
- If reduced salaries apply, what future salary increase assumptions are appropriate?
- Impact on company and compulsory member contributions
- Discuss treatment with client and their auditor

Next Steps

The Superannuation Practice Committee and the COVID-19 Working Group are looking for feedback on this document. Please forward any comments to Jeff Humphreys.