

## NEWSLETTER NO. 56 : JULY 2003

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### 1. New Government Actuary

With effect from 19<sup>th</sup> May 2003 I have taken up the position of Government Actuary. Usually I will be in the office on Tuesdays, Wednesdays and Fridays and on other days by prior appointment.

By way of background I am a Fellow of the New Zealand Society of Actuaries, having initially qualified as an actuary in England. I began my actuarial career in the life insurance industry with exposure to both life insurance and superannuation in the United Kingdom, France and New Zealand. From 1984 I have been resident in New Zealand, working both in the life insurance industry and as a consultant.

I look forward to continuing and building on the work of my predecessors. In particular I would like to acknowledge formally the work of John Melville who has managed to carry out the role of Government Actuary with consummate professionalism whilst maintaining his role as a Principal of an actuarial consultancy.

### 2. Staffing

To assist communication I outline below the coordinates of the key staff, all based on the 9<sup>th</sup> floor of 86-90 Lambton Quay, Wellington

**David Benison** : Decisions and directions of the Government Actuary, matters involving actuarial valuations and related technical issues.

**Direct line (04) 470 2269**

**Email [david.benison@companies.govt.nz](mailto:david.benison@companies.govt.nz)**

**Gavin Quigan** : Manager of the Unit with responsibility for registration of new schemes, providing comment on and processing deed amendments and membership transfer documentation. Dealing with member complaints and providing a help desk facility.

**Direct line (04) 470 2265**

**Email [gavin.quigan@companies.govt.nz](mailto:gavin.quigan@companies.govt.nz)**

**Lesley Carrig** : Auditing of superannuation scheme trustee annual reports to ensure compliance with the Act, processing classification requests under section GD8 of the Income Tax Act 1994 and dealing with scheme wind ups.

**Direct Line (04) 470 2254**

**Email [lesley.carrig@companies.govt.nz](mailto:lesley.carrig@companies.govt.nz)**

### **3. Society of Actuaries – Revised Actuarial Standard**

The New Zealand Society of Actuaries has produced a revision to their Professional Standard No. 2, which took effect from 31 March 2003. This is welcomed as it is part of an on-going process of improving the content of the actuarial reporting.

I note that the Standard carries in section 2.12 the suggestion that *"An actuary who believes that full compliance with the Standard would be inappropriate is recommended to discuss the reasons for non-compliance with the Government Actuary prior to completing the report."* All such discussions will be welcomed.

### **4. Statistics for Registered Superannuation Schemes**

Tables 1 and 2 attached provide an update of appendices C and E.1 in last years Annual Report to the Minister.

Comparing the figures in the attached Tables with the relative figures in the appendices to the 30 June 2002 Report:

- Table 1 shows that the number of registered superannuation schemes continues to fall (from 808 down to 695). The fall can in part be attributed to the continuing movement of employer schemes to multi-employer schemes to reduce compliance costs, and in part to a continuing trend of terminations.
- Table 2 identifies that there is also a continuing decline in membership within private sector employer sponsored schemes. Membership now stands at 246,921, compared with 247,125 in the 2002 report, and 310,741 in 1990.
- Figures in Table 2 for Employer (1) include data from the multi-employer superannuation schemes operated by various institutions.

## **5. Electronic Newsletters**

This is the first newsletter to be issued in electronic form. Whilst we received a very pleasing response from the market in being willing to receive future Newsletters electronically, we have continued to send a hard copy to those persons who did not respond.

If you have received a hard copy and wish to receive Newsletters electronically in the future, please forward an email to [isu@isu.govt.nz](mailto:isu@isu.govt.nz) specifying the email address to be used.

## **6. Human Rights Issues for Valuation Assumptions**

I would like to flag a potential issue for actuaries. For transfer values it is of course important that the assumptions are Human Rights Act compliant. This means that the standard valuation assumptions may not be appropriate.

## **7. Solvency of Defined Benefit Superannuation Schemes**

The impact of the downturn in investment markets has implications for actuaries, auditors and trustees with respect to reporting the current financial position and solvency of defined benefit superannuation schemes.

I have noted with concern that some trustees and actuaries may have confused members by making statements such as "the liabilities exceed the assets by x dollars", which enables the dollar figure to be expressed as a positive amount. In my opinion this is not an acceptable way to show that a deficiency exists. In all such instances I have suggested that the Act allows, and I prefer, the statement to be expressed as "the assets fall short of the liabilities by x dollars".

In a similar vein, where a trustee has certified that "vested benefits exceed assets", I have suggested to the trustees that they should:

- provide a certificate pursuant to the 2nd Schedule paragraph (f), to the effect that the net assets of the scheme are less than the vested benefits, and
- advise members what steps are being taken to bring the scheme back to a solvent position.

The Superannuation Schemes Act 1989 section 20 requires me to consider the adequacy of a scheme's "financial position, and the "security of benefits" and provides me with the discretion to take action if I consider it necessary. I would expect prompt action to be taken if the financial position of the scheme is in question especially where a company has been on a contribution holiday and/or has previously received a reversion of assets from the scheme.

I draw administration managers', investment managers', actuaries' and auditors' attention to the whistle blowing provisions contained in section 18A of the Act.

## 8. Lodgement of Actuarial Reports

It has recently been suggested (in correspondence to me) that the 7 month filing time for actuarial reports under section 15 of the Act does not fit well with most trustees' meeting schedules, and that there are timing difficulties caused by the shortened time between filing annual accounts and actuarial reports.

However the Act is quite specific as to responsibilities and timings. The trustees of a scheme are responsible and are required to ensure that the actuarial report is received no later than 7 months after the valuation date and also to send a copy of the report to the Government Actuary within 28 days of receipt.

Trustees need to be aware of possible consequences of inaction.

## 9. Trustee Annual Reporting Matters

The Superannuation Schemes Act 1989 requires trustees to provide an annual report to scheme members, and to forward a copy of that annual report to the Government Actuary.

Section 14 states

*Annual reports –*

*(1) The trustees of a registered superannuation scheme shall, within 5 months after the end of each financial year, prepare a report on the scheme for that year.*

*(2) The annual report shall include the matters specified in the Second Schedule to this Act.*

*(3) The trustees must send a copy of the completed report to the Government Actuary within 28 days after its completion.*

Section 17 states

*Members' rights to information –*

*(1) Each member of a registered superannuation scheme shall –*

*(a) Be given, within 6 months of the close of each financial year of the scheme, a copy of the annual report of the trustees in respect of that year...*

Some trustees interpret section 14 of the Act to mean that a report is to be prepared for the Government Actuary in addition to that which is given to the members. That interpretation is incorrect. There should only be one annual report, which is sent to members and also sent to the Government Actuary.

Where an annual report includes summarised accounts and an abridged audit report, with a statement to members that the full financial accounts are available on request, the Government Actuary is to be provided with a copy of the full financial accounts at the same time as the report is lodged.

The Second Schedule of the Superannuation Schemes Act 1989 states:

*(Matters to be specified in annual report)*

*(a) A statement of numerical changes in the membership of the scheme during the financial year.*

Some trustees continue to advise only the total membership at year end. The Government Actuary expects to see a detailed summary of changes, including members at start of period, number of new entrants, number of exits and number at end of period, in the report.

The Government Actuary also expects;

- the new entrants to be broken down further into (i) new members and (ii) transfers from other superannuation schemes, and
- the exits to be broken down into (i) Retirements, (ii) Deaths/Disablements, (iii) Redundancies/ Retrenchments, (iv) Withdrawals and (v) Transfers to other superannuation schemes.

As this information is purely for statistical purposes, if the trustees do not wish such a detailed summary to be included in the trustees report (because it could identify a specific individual) then they may supply this information in the covering letter sent to me with the trustees report.

A handwritten signature in black ink, appearing to read 'D Benison', with a horizontal line extending to the right.

David Benison  
Government Actuary

TABLE 1

**REGISTERED SUPERANNUATION SCHEMES:  
ACCOUNTS SUMMARY AND MEMBERSHIP ANALYSIS**

	In force on scheme balance dates in the		Included in (b):	
	to 31 Dec 1990 (a)	12 months: to 30 April 2003 (b)	Prior period reports (c)	Terminating schemes (d)
Number of Schemes	2,863	695	483	13
<b>ACCOUNTS SUMMARY (\$millions)</b>				
Opening Balance	11,044	17,988	12,540	32
Add: Contributions	908	2,119	1,349	2
Investment Accrual	578	-130	78	1
Transfers In	0	347	166	0
Other Income	330	3	2	0
Less: Pension Payments	227	196	164	0
Retirement Lump Sums	481	759	635	2
Deaths/Disablements	49	88	71	0
Redundancies	0	128	95	0
Transfers Out	0	225	210	4
Other Exits	764	1,411	721	3
Administration Expenses	112	161	105	0
Insurance Premiums	106	47	41	0
Taxation	90	-2	5	0
Closing Balance	11,032	17,314	12,087	25
<b>CURRENT MEMBERS</b>				
At start of year	511,940	657,254	444,237	1,264
Add: New members	62,406	62,241	40,024	35
Transfers In	6,765	5,207	1,234	0
Less: Retirements	13,684	16,636	12,213	139
Deaths/Disablements	2,132	2,128	1,598	1
Transfers Out	14,171	4,807	4,485	116
Redundancies	0	2,832	2,077	1
Other Exits	42,929	45,478	24,448	57
At end of year	508,195	652,821	440,674	985
OTHER MEMBERS with preserved benefits	3,411	1,902	1,696	0
CURRENT PENSIONERS	35,747	29,208	26,950	4
<b>TOTAL MEMBERS AND PENSIONERS</b>	<b>547,353</b>	<b>683,931</b>	<b>469,320</b>	<b>989</b>

**Notes:**

- The data in column (b) includes data for schemes which are presumed current but which have not forwarded their annual reports for the balance date falling in the 12 months ending 30/4/2003; refer column (c).
- The data in column (b) includes the latest data for schemes which we have been informed will terminate after the balance date falling in the 12 months ending 30/4/2003; refer column (d), which may include some cases in column (c).
- The data has been obtained from annual reports made by the trustees of superannuation schemes "registered" under the Superannuation Schemes Act 1989 to the members and pensioners of those schemes. Data in respect of the Government Superannuation Fund is not included.
- Some registered superannuation schemes are "master" schemes, whose members are trustees of other registered superannuation schemes. To avoid double counting, master schemes are excluded from this data.
- Some registered superannuation schemes are "multiple class" schemes, whose members may be trustees of other registered superannuation schemes. Some double counting may therefore exist.
- ACCOUNTS SUMMARY**  
The figures for Investment Accrual, Administration Expenses and Taxation are understated: for many schemes the investment figure has been reported net of some expense charge and/or taxation.  
Beginning in November 1994, amounts transferred in or out from other superannuation schemes, and amounts paid out on redundancy, have been recorded by the Office separately from the amounts paid on resignation, to the extent that reporting by scheme trustees makes the distinction. The figure of "Other Exits" comprises amounts paid on resignation, and in respect of reports filed before November 1994, amounts paid on redundancy and amounts transferred to other superannuation schemes. Similarly, the figure for "Other Income" includes amounts transferred in from other superannuation schemes in respect of reports filed before November 1994.
- MEMBERSHIP**  
Some double counting may exist in the figures for numbers of members and pensioners: some persons may contribute to, and draw pensions from, different schemes.  
"Transfers In" and "Transfers Out" refer to persons transferring membership between schemes. These figures do not seem to have been reported correctly. "Other Exits" includes resignation and, in respect of reports filed before November 1994, redundancy.

TABLE 2

**REGISTERED SUPERANNUATION SCHEMES  
ANALYSIS BY NATURE OF SCHEME**

Nature of scheme	Number of Schemes		Total Assets		Total Membership	
	<u>2003</u>	<u>1990</u>	<u>2003</u> \$m	<u>1990</u> \$m	<u>2003</u>	<u>1990</u>
Private	49	508	29	58	70	550
Employer (1)	514	2,242	9,572	9,508	246,946	310,741
Employer (2)	7	0	364	0	16,710	0
Retail	<u>125</u>	<u>113</u>	<u>7,350</u>	<u>1,466</u>	<u>420,205</u>	<u>236,062</u>
TOTAL	695	2,863	17,314	11,032	683,931	547,353
<b>Investment Only Schemes</b>	26	2	10,266	55	638	100

- “Private” schemes are schemes set up by individuals for themselves and their immediate family.  
 “Employer (1)” schemes are schemes sponsored by private sector employers and all NPF employer sponsored schemes.  
 “Employer (2)” schemes provide superannuation arrangements as alternatives to the Government Superannuation Fund, which are sponsored by public sector employers and approved under section 84C of the State Sector Act 1988.  
 “Retail” schemes are schemes where membership is made available to the general public.  
 “Investment Only schemes” (referred to as Master Schemes in previous years) are schemes whose members are trustees of other registered superannuation schemes.
- The data has been obtained from annual reports made by the trustees of superannuation schemes “registered” under the Superannuation Schemes Act 1989 to the members and beneficiaries of those schemes.
- Some totals may not add exactly, due to rounding.