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Superannuation Data Transformation – Topic Paper 3: Member Accounts

The Actuaries Institute welcomes the opportunity to comment on the Superannuation Data Transformation – Topic Paper 3: Member Accounts. The Actuaries Institute is the sole professional body for actuaries in Australia. Our members have had significant involvement in the development of superannuation regulation, financial reporting, risk management and related practices in Australia, particularly in relation to defined benefit matters.

The Institute supports the broad intent of the increased data collection and reporting for superannuation products. The key to our submission is the observation that SRS 611's provision is written with defined contribution schemes in mind. For example, its intention is to improve the assessment of members outcomes, however, for defined benefit funds, the outcome for members is already defined in the trust deed and benefit rules.

At a practical level, the requirement for quarterly member outcome reporting at a member level is expensive and impractical for DB funds, under existing processes in place for many funds. Effectively it will require a process similar to an annual review to be undertaken every quarter. We are also saying that estimates are not accurate.

Our detailed comments are set out in the Attachment to this letter. Given these issues, we recommend that defined benefit members should be excluded from the scope of the reporting requirements of SPS 611.0.

We would appreciate the opportunity to discuss any particular aspect of our submission.

Yours sincerely,

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Attachment – Reporting Standard SRS 611.0 Member Accounts

1. Definitions not applicable to certain members

There are three columns that are not applicable to certain groups of members however the form only includes "yes" and "no" options and does not say how they should be reported:

- **16 month inactive (Column 5)** – this has the meaning in subsection 68AAA(3) of the SIS Act. However, 68AAA does not apply in a number of circumstances, including for defined benefit members and other members where the employer-sponsor contribution exception applies under 68AAE.
- **Elected to receive insurance benefits (Column 6)** – this means the member holding the account has made an election that a benefit is to be provided to, or in respect of, the member under subsections 68AAA(2), 68AAB(2) or 68AAC(2) of the SIS Act. Again, 68AAA does not apply in some circumstances as noted above. In addition, subsections 68AAB and 68AAC do not apply in certain circumstances, including for defined benefit members and other members where the employer-sponsor contribution exception applies under 68AAE, as well as members to whom the dangerous occupation exemption applies under subsection 68AAF.
- **Recent member interaction (Column 7)** – Means one or more of the events under paragraph 20QA(1A)(b) of the Superannuation (Unclaimed Money and Lost Members) Act 1999 occurred in relation to the member holding the account in the 16 months preceding the last day of the reporting period to which the information relates. However, certain members are excluded from becoming inactive low balance account members under subsection 20QA(1), for example, defined benefit members are excluded under subsection 20QA(1)(vii).

We suggest that either an "excluded" or "not applicable" option should be available. Alternatively, these excluded members (particularly defined benefit members) could be excluded from the scope of the form given there are other difficulties with the reporting for defined benefit members (as discussed below).

2. Defined benefit members' benefits

Members' benefits (Column 9) is defined as the sum of defined contribution members' benefits and defined benefit members' benefits.

Defined benefit members' benefits in turn is defined as:

The present value of expected future benefit payments to defined benefit members and beneficiaries arising from membership, measured using actuarial assumptions and valuations where appropriate. The concept of defined benefit members' benefits aligns with the concept of "defined benefit member liabilities" as defined in Australian Accounting Standards.

An actuarial calculation is therefore required to determine the defined benefit members' benefits, or put more simply, the value of accrued benefits.



For RSEs which pay defined benefits, an actuarial calculation of accrued benefits is an expensive and time-consuming process. In our members' experience, having this actuarial calculation performed accurately, using up-to-date membership information, can take several months as it involves a number of steps with multiple parties, for example:

- If required, actuarial review of valuation assumptions to be used in the calculations followed by trustee approval before calculations start;
- Several weeks or up to a month for membership data at the effective date of reporting to be provided by the administrator to the actuary;
- Several weeks for the data to be processed and reviewed by the actuary (and any queries resolved) then the calculations performed;
- The actuary then provides the results back to the administrator or the trustee office for consolidation with other reporting information and preparation of the various reporting forms required by APRA.

This is the current process typically followed for many RSEs for their annual reporting.

For quarterly reporting, defined benefit accrued benefits and vested benefits are currently required to be reported only at an aggregate level. Current practice for preparing this information varies depending on the RSE defined benefit complexity, for example:

- In some cases, the RSE actuary prepares an estimate of the defined benefit members' benefits (for SRF 320.0 Item 23.2) with a rollforward approach using the most recent full set of membership data and updated cash flow between the effective date of the data and the effective date of the reporting. The RSE actuary also prepares an estimate of the Vested Benefits which is reported in Item 1.1(1) under SRF 160.1. In our view, a roll-forward estimation approach is suitable for measures of members' vested or accrued benefits at an aggregate level given the time frames involved.
- In other cases, RSEs may report approximations (at an aggregate level) based on information that is held or could be calculated by the member administration system.

However, under the proposed SRS 611.0, it would be necessary to calculate the accrued benefits at an individual member record level so that segregation and reporting by factors such as age, account balance, sex can be completed on a quarterly basis. Under this proposal, there are a number of challenges to report in this way:

- There is insufficient time to prepare these calculations in the quarterly reporting timeframes given the parties and steps involved (as set out above);
- Even if approximations were to be done, for example, simply taking the most recent full detailed calculation without adjustment (say at the previous 30 June) there would be potential concerns around the reasonableness of that approach, as the calculation could not take into account such factors as:
 - Benefit accrual and other adjustments (for example due to salary changes or earnings on underlying components) since the last valuation
 - Members retiring and transferring between the pre-retirement and retired phases, particularly those who have the option to take their benefit partly in lump sum and partly in pension form;



- Death benefits which result in a pension payable to dependents and creation of new pension records.

For some funds, it may be possible to use a vested benefit to estimate the accrued benefit, because in these funds the value of the vested benefits is readily available from the administration system – although in many cases salaries and vested benefits may only be updated once a year at the annual review date. However, for an RSE with defined benefit pensions, the calculation of vested benefits cannot be completed by the administrator because the calculations largely follow the same methodology as the calculation of accrued benefits which requires actuarial calculations for the majority of defined benefit members. Thus, reporting an estimate of accrued benefits based on vested benefits will also not give a workable solution for pension funds.

Given these factors, we ask that APRA consider removing defined benefit members from the scope of SRS 611.0, so that defined benefit members' benefits do not have to be segregated by age, sex and the benefit reporting bracket on a quarterly basis.

We also note that excluding defined benefit members from SRS 611.0 is not inconsistent with the stated objectives of SRS 611.0, which is to support the assessment of outcomes to members across different member cohorts and to focus APRA's supervisory intensity upon areas that are underperforming or where improvements in practices are needed.

As APRA would be aware, defined benefit member outcomes are specified in the terms of the trust deed and benefit rules. The outcomes to defined benefit members are then largely determined by whether the benefits are fully funded. Funding is monitored by APRA on an aggregate basis and this is covered under annual reporting via SRS 160.0 and quarterly reporting under SRS 160.1 and SRS 320.0. Issues such as active/inactive status, election to receive an insurance benefit and recent member inaction are not relevant to those measures. Consistently, defined benefit members are also excluded from the member outcomes assessment required by Section 52(9)-(13) of the SIS Act.