NATIONAL REPORT FOR AUSTRALIA

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1. THE ACTUARIAL PROFESSION

1.1 The Institute of Actuaries of Australia

The Institute of Actuaries of Australia has professional responsibility for the conduct of the actuarial profession throughout the country and has its origins dating back to 1897 with The Actuarial Society of New South Wales. The term "Actuary" is defined in life insurance, general insurance and pension fund legislation as a "Fellow or Accredited Member (of the Institute)". An Accredited Member is effectively a fellow of an overseas actuarial body who has practised in Australia for at least 6 months and has attended a professionalism course run by the Institute. After 3 years as an Accredited Member, a person becomes a Fellow.

1.2 Actuaries Practising in Australia

The membership of The Institute of Actuaries of Australia over the last two years is set out in the table below.

Class	Number at 1 Oct 1991	Additions	Reductions	Number at 1 Oct 1993
Fellow	647	122	10	759
Accredited	40	13	23	30
Associate	340	115	124	331
Student	332	257	153	436
Total	**1,359**	**507**	**310**	**1,556**

The number of actuaries practising in Australia continues to grow at an increasing rate. The main reason for this growth has been the number of graduates coming from Macquarie and Melbourne universities which conduct under-graduate courses up to the equivalent of the UK Institute's Associate level and post-graduate courses covering two of the remaining four subjects required for Fellowship.

1.3 Consulting Firms in Australia

The large international consulting firms continued to grow over the last two years as the financial environment seemed to require an increasing need for consulting actuarial services. The superannuation area continues to grow with the further developments in government legislation and the asset consulting side of the actuarial practices has arguably shown the greatest growth over the last two years.

Extensive restructuring of the life and general insurance legislation and changes to the operational environments in general have generated considerable demand for advice from consulting firms.

The continuing short-comings in the design of the benefits provided by health funds means that more funds are coming under solvency pressures and this has resulted in increased work for consulting actuaries. A number of friendly societies have progressed to being large financial institutions in their own right, with a consequent need for more professional advice.

There has also been an increase in the number of number of consulting actuarial firms operating in Australia. This growth has come largely from individuals seeking to establish firms ab initio, and endeavouring to use any advantages of size and flexibility to serve particular consulting needs.

The Association of Consulting Actuaries is no longer an active organisation in Australia, as consulting actuaries find the Institute itself and the various industry bodies to be suitable forums for the expression of views and opinions to government and the public in general.

2. THE ECONOMY

2.1 General

Australia has recovered from its most severe recession since the nineteen-thirties and the economy has now posted a few quarters of positive growth, with corporate earnings on the increase and business confidence at high levels. However, this relatively optimistic outlook has come at the very high cost of unemployment, which is still in excess of 10% of the adult work-force.

2.2 Inflation and Wage Increases

The rate of inflation in Australia is measured by the Consumer Price Index and wage increases are reflected in the Average Weekly Earnings Index. The results over the last five calendar years are set out in the table below.

Period	Consumer Price Index	Average Weekly Earnings
1993	1.9%	3.0%
1992	0.3%	1.4%
1991	1.4%	4.0%
1991-93	1.2% p.a.	2.8% p.a.
1989-93	3.6% p.a.	4.5% p.a.

These are very low rates and indicate the recessionary environment of recent times. The average rates for the last fifteen years have been 6.9% p.a. for the Consumer Price Index and 7.6% p.a. for Average Weekly Earnings. Average Weekly Earnings (Ordinary Time) are now just over A$590 per week or around UKPND 280 and US$425.

2.3 Interest Rates

Interest rates have continued to fall and are now at levels not seen for 20 years. The movement in interest rates over the last four years or so has been quite spectacular. Short term rates represented by 90-day bank bills fell from 18.3% p.a. in June 1989 to 4.8% p.a. in December 1993. Longer term interest rates in the form of 10-year government bonds fell from 13.5% p.a. in June 1989 to 6.7% p.a. in December 1993. This significant decline in nominal and real interest rates produced very high returns for the bond market and also helped fuel a strong recovery in the sharemarket.

3. AUSTRALIAN SOCIAL SECURITY

3.1 Social Security Pensions

(a) Age Pension

The age pension is payable to any person who has 10 years' qualifying residence in Australia and is at least 65 years of age (men) or 60 years (women). The Australian Government has set down a timetable for increasing the qualifying age for women to age 65 within the next 20 years. The pension for a single person is currently $159.05 per week and $265.30 per week for a pensioner couple.

The payment of the pension is subject to an income test. The full pension would be payable if income is less than $44 per week (single pensioner) or $76 per week (pensioner couple). The pension is reduced with income earned in excess of these amounts by $1 for each $2 of income. The age pension is not payable where income exceeds $368 per week (single pensioner) and $612 per week (pensioner couple). There is also an assets test which varies depending on whether or not the pensioner is

a homeowner and operates in a similar manner to the income test. The pensioner is paid the lower pension determined after applying both tests.

(b) Other Pensions

The other Social Security pensions payable are a disability support pension, a widow's pension and a sole parent's pension. The rates of pension are the same as the age pension. There are also allowances payable under the social security system to supplement pensions.

3.2 The Social Security System

There has been a lot of criticism over a number of years regarding the complexity of the social security system and the fact that it does not readily integrate with the benefits coming from private occupational superannuation funds. The most obvious source of disparity is that social security benefits are all payable as pensions while Australians universally receive lump sum benefits on retirement from their superannuation funds.

3.3 Submission by the Institute

The Institute of Actuaries of Australia made a submission to a Senate Select Committee on Superannuation earlier this year which sought to rectify some of these short-comings. The submission proposed the following:

(1) **A Universal Age Pension** commencing at age 65 for all Australian residents regardless of assets and other income. The pension would be of the order of 25% of Average Weekly Earnings and would be fully taxable in the hands of recipients.

(2) **Superannuation Benefits** that are still provided through the current occupational system, which has compulsory and voluntary components. Income benefits are to be encouraged by limiting lump sum benefits through taxation measures to no more than 25% of entitlements. Superannuation Guarantee contributions, which are the compulsory part of the current arrangements, are to be limited to 6% of wages, with possibly a further 3% of wages coming from employees. Non-earning individuals would also be able to make contributions under the system on a voluntary basis.

(3) **Other Savings** would form the third leg of retirement provision.

The current taxation arrangements for superannuation are very complicated as tax is presently levied on all inputs and outputs of funds. Tax is levied on contributions as they are paid and investment income as it is earned, while benefits are also taxed as they are received. The Institute's submission recommended taxation only on

investment income of funds and on benefits as they are received leaving contribution inputs non-taxable. This item of the proposal is unlikely to be welcomed by Government unless some extensive transitional arrangements are put into place to ensure that taxation revenue is not reduced in the short term.

The proposal has also been criticised as being so much at variance with many of the developments in superannuation over the last ten years and, for this reason, is not likely to be adopted by the present Government. In particular, the current arrangements involve an eventual funding of all or most of a person's retirement entitlements through the private sector. The Institute's proposals involve a significant amount of redirection of retirement provision through the public sector on a pay-as-you-go universal pension.

4. OCCUPATIONAL SUPERANNUATION

4.1 Introduction

The superannuation industry has been subject to a great amount of change over the last ten years, but no-one could have possibly anticipated the change that has occurred over the last two years.

4.2 Superannuation Guarantee Charge

The 1992 National Report for Australia made mention of the Superannuation Guarantee Charge legislation which came into effect in July 1992. This legislation made it mandatory for all employers to provide a minimum level of superannuation for all employees, including most part-time employees and casual employees. Any employers not voluntarily meeting this obligation from occupational superannuation funds are charged a non-tax deductible Superannuation Guarantee Charge which is distributed back to the respective employees by the taxation office. The level of contributions, or employer support in the case of defined benefit funds, is now 5% of salaries for large employers and this will increase to 9% of salaries by 2002.

All of these benefits are to be provided from the existing occupational superannuation system and criticism had been mounted that there appeared to be inadequate protection for these Government-mandated benefits. The Maxwell incident has been very much in the minds of the Government and they took a series of positive steps to protect employees' entitlements through the Superannuation Industry (Supervision) legislation, which is discussed further in section 5 of this report.

4.3 Maximum Benefits

The Australian Government has once more changed the amounts of maximum benefits that may be paid from complying superannuation funds and be taxed in the hands of beneficiaries on a concessional basis (commonly referred to as "Reasonable Benefit Limits"). In keeping with other countries practice, the Australian Government has set absolute monetary amounts on the Reasonable Benefit Limits:

* $400,000 for lump sum benefits.
* $800,000 in assets for pensions.

In order to receive the higher pension asset limit, persons must receive at least one-half of their benefits in qualifying pension form. Some transitional arrangements apply for persons over age 45 so that they will not be unduly disadvantaged by the new limits.

4.4 Compulsory Preservation of Benefits

Following a Government statement made in June 1992, benefits from superannuation funds will be subject to even greater preservation requirements from 1 July 1996. The amount in excess of a person's cash resignation benefit as at 1 July 1996 must be preserved until genuine retirement from the work-force.

4.5 Allocated Pensions

The last few years have seen an increase in interest in income streams known as allocated pensions. A benefit is paid into an account and an income is drawn as determined by the recipient. The income must be within a range set down in legislation and there are some taxation advantages. Allocated pensions give retired persons a great deal of flexibility and they are not locked into the current low levels of interest rates.

4.6 Other Developments

During the last two years, changes were made to the taxation of pensions and annuities, redundancy and early retirement benefits and death benefits. Previous regulations required all funds to provide extensive reporting to members, including annual reports on the progress of the fund and an annual statement of benefits. The maximum amount of deductible contributions that employers may make to a superannuation fund will be set as monetary amounts from 1 July 1994, instead of the more complicated salary-related limits applying up to June 1994.

5. Superannuation Industry Legislation

5.1 Superannuation Industry (Supervision) Act

The Australian Government introduced the Superannuation Industry (Supervision) Act ("SIS Act") in November 1993 which will take the place of the existing Occupational Superannuation Standards Act. The SIS Act depends upon superannuation funds becoming "regulated funds" through one of two avenues:

(1) Having a corporate trustee and being controlled by the Australian Government through its constitutional power to control corporations.

(2) Adopting the concept that the primary purpose of the fund is to pay pensions and being controlled by the Australian Government through its constitutional power to control the provision of old age pensions.

If a fund does not become a regulated fund then it loses favourable tax treatment.

5.2 Trustees and their Responsibilities

The SIS Act makes fund trustees and investment managers subject to legislative requirements relating to the performance of their duties. In particular, trustees have the prime responsibility for the operation of funds. Persons who have been found guilty of an offence relating to dishonesty or who are bankrupt are prohibited from acting as trustees. Funds of at least 50 members are required to have equal member representation by 1 July 1995.

Trustees are required directly under the SIS Act to exercise the same degree of care, skill and diligence as an ordinary prudent person. The trustees, subject to some exceptions, are not to be subject to the direction of another person and must be free to manage the fund for the best interests of beneficiaries. Trustees are also required to establish a mechanism to deal with enquiry and complaints relating to the fund.

Trustees are expected to take professional advice from time to time and are to be protected from victimisation or any pressure that might lead them to do things contrary to beneficiaries' interests. Trustees have a statutory defence in relation to investments if they have invested the assets in accordance with a properly considered investment strategy.

5.3 Return of Surplus

Surplus may only be returned to a sponsoring employer if:

* The trust deed allows for such a payment.
* There is equal member representation on trustees.
* An actuary has certified that the fund would remain in a satisfactory financial position if the payment was made.
* Trustees are satisfied of the payment and any changes that might have been made to the trust deed to accomplish the transfer are reasonable having regard to the interests of beneficiaries.
* The trustees give the members three months' notice of the proposed transfer.

5.4 Duty of Actuaries under SIS Legislation

Actuaries are required if, during the performance of their normal actuarial functions, they discover a breach of the law or are concerned about the financial position of the fund in general, they must inform the trustees of the position. If the trustees do not take appropriate action, then actuaries must inform the ISC Commissioner.

Actuaries are required to provide a funding and solvency certificate for defined benefit funds certifying the current solvency of the fund and setting out the minimum contributions required to secure the solvency of the fund at the end of the currency of the certificate, which can be up to five years.

5.5 Penalties

The SIS Act contains a series of penalties on trustees whose conduct is found not to be in accordance with the legislation. The most severe penalties are the civil penalties, where significant monetary or prison sentences may be imposed. However, prison sentences are only imposed in cases where a trustee knowingly or reckless contravenes a civil penalty provision with the intention of defrauding or deceiving someone or gaining some advantage. There are lesser penalties for other contraventions as set out under the Act.

5.6 Superannuation Complaints Tribunal

The Government has established a Superannuation Complaints Tribunal to conciliate or make a determination on complaints made by fund members against the actions taken by trustees. One important situation excluded for the Tribunal is the determination of whether or not a member qualifies for invalidity benefits.

5.7 Financial Assistance Funding Levy

The Financial Assistance Funding Levy Act allows the government to levy funds to provide financial assistance to a fund following a loss arising from fraudulent conduct or theft. This Act was undoubtedly created following the Maxwell incident in the UK and is intended to make good a Maxwell-type shortfall. The maximum amount of the levy is 0.05% of fund assets in any one year.

6. LIFE INSURANCE

6.1 The Industry Over the Last Two Years

The life insurance industry has experienced a period of considerable change over the last two years. In 1992 and 1993 sales of annual premium business declined significantly and by the end of 1993 were approximately one third lower than three years earlier. Sales of single premium investment policies, however, continued to expand. Traditional salesforces have contracted sharply over the last 2 years with some of the major offices experiencing a reduction in sales representatives in excess of 50%.

Bank owned life offices have become a major force in the industry capturing as much as one third of the single premium investment market. The merger and acquisition activity comprised the sale of a number of medium size offices (mainly overseas owned) to other life insurance groups. Several small boutique life offices also exited the market due to the increase in statutory capital requirements. Generally, companies saw an opportunity to improve their balance sheets by not passing on capital appreciation in the form of improved policy returns.

6.2 Life Office Financial Reporting

In late 1992 the industry regulator held a conference to announce that it endorsed a new financial reporting structure proposed by The Institute of Actuaries of Australia and was proceeding with a review of the life insurance legislation. During 1993, the Government announced its intention to proceed with these changes and new legislation is imminent. This is expected to lead to a fundamental change in the financial reporting of life insurance business and the role of appointed actuaries and is likely to have a major impact on the overall conduct of the business. In early 1994, the Australian Accounting Research Foundation produced a discussion paper on financial reporting for life companies, which may lead to even greater change in the overall financial reporting framework.

6.3 Life Insurance Agents

In 1992, the Trade Practices Commission carried out an extensive study of consumers' experience with life insurance and superannuation agents. Their report was released in December 1992. The report criticised a number of the current practices in the industry and made a number of recommendations. As a result of this report and other factors, the regulator has embarked on a series of initiatives aimed at improving the position of consumers. During 1993, new requirements were announced for the disclosure of information at the point of sale and through the life of a policy. In particular, policy fees and charges, the commissions paid to the agents making the sales and withdrawal values must be disclosed.

There is also to be a code of conduct for the sale of life insurance which will have statutory backing. The details have not yet been announced.

7. GENERAL INSURANCE

7.1 Accounting Standards

The introduction of Accounting Standards AASB1023 and AAS26 for private and public sector insurers respectively has undoubtedly increased the level of claim reserving work performed by general insurance actuaries. The Standards are aimed at the reporting of market-related balance sheet values for both assets and liabilities.

7.2 Actuarial Assessments

The Australian Tax Office, through taxation ruling IT2663 (issued in 1992) which relates to assessment of general insurance activities, accepts that an insurer's provision for long tailed outstanding claims is reasonable and soundly based if estimated by a qualified actuary The latest Insurance and Superannuation Commission guide-lines for the completion of Statutory Forms include a requirement for an actuarial statement on any claims-related liabilities for which an actuary's services have been used. Although it is clear that the actuary's role is not a statutory one, this does represent a significant increase in the actuary's function for financial reporting in the general insurance industry.

A majority of the top ten general insurance companies now employ actuaries who concentrate specifically on general insurance operations. This trend has continued to expand the role of the consulting actuary into areas beyond financial reporting and statutory returns, such as premium rating, strategic planning and general management of the business.

7.3 General Insurance Companies Over the Last Two Years

The last two years have seen a continuation of the capital raising, privatisation and takeover/merger activity within the industry. Consulting actuaries have played a part in this process by advising on claim liabilities and future profit projections. Examples are CE Heath and MMI flotations and the privatisation of the SGIO in Western Australia.