

The National Report For Australia

1. Professional Organisation

Since the previous National Report the Institute of Actuaries of Australia has established its own examinations in fellowship subjects. The first exams were held in October 1980.

Members who have passed or been exempted from these exams become Fellows of the Institute of Actuaries of Australia and are permitted to use the letters F.I.A.A. after their names.

As at 30 September 1981 there were 344 F.I.A.A.'s resident in Australia, of which 39 were members of ACAA.

2. The Economy

The following table gives the changes in prices and wages, and the investment return achieved, in the last two years.

Year to 30 June	Percentage Increase in		Percentage Investment Return (c)
	Prices (a)	Wages (b)	
1980	10.6	12.0	36.8
1981	8.8	14.1	17.1
Annual Average over 5 years	9.9	10.5	17.5

Notes: (a) *The Consumer Price Index, weighted average, 6 State capital cities.*

(b) *Average Weekly Earnings, seasonally adjusted, all Australia.*

(c) *Average returns achieved by investment managers of superannuation plans participating in an investment performance survey, based on changes in market values of assets.*

The last two years has seen the inflow of large amounts of capital from overseas, leading to a buoyant stock market. The inflow has lessened in the last half of 1981 and the stock market has subsequently declined.

Interest rates have increased to historically high levels and have become a major political issue because of the effect on the cost of mortgages for home buyers. Unemployment remains a significant feature of the economy, with approximately 6% of the workforce unemployed on average over the last two years.

3. Social Security and National Superannuation

There have been no significant changes in the provision of social security benefits since the previous National Report. Most benefits remain subject to an income test.

In recent years the percentage of the population in receipt of the Age Pension has remained stable at about 9%, representing some 21% of the employed workforce.

In the latter half of 1981 the subject of National Superannuation once again received some attention. A group of life offices submitted their proposals to the Government. The proposals were similar to those in the minority report of the National Committee of Inquiry into Superannuation which reported in 1977.

The Association of Superannuation Funds of Australia (ASFA) is also currently preparing a proposal on National Superannuation.

Despite this reawakening of interest there is no evidence to suggest that the Government will be disposed to introduce any changes in the near future.

4. Occupational Superannuation

The most recent survey, carried out in 1979, showed that some 42% of employees were members of occupational superannuation schemes. The corresponding percentage in 1974 was 31%.

In 1980 the total population of Australia was estimated to

be 14.6 million, with a workforce (excluding those looking for work) of 6.2 million.

Union interest in recent years has certainly led to increased superannuation coverage amongst wages employees, either through union-sponsored schemes or through negotiated employer-sponsored schemes. The Australian Council of Trade Unions, which represents the majority of unions in Australia, is currently establishing a scheme which will be available to all members of affiliated unions.

Because of the taxation concessions available, superannuation has been promoted in the last two years as a means of minimising income tax. This has led to attempts by the Taxation Office to distinguish between bona fide schemes and those which are used merely for tax avoidance.

In the case of bona fide schemes the Taxation Office will accept contributions calculated by actuaries, using generally accepted assumptions and methods. For other schemes, however, the Taxation Office requires contributions to be calculated using prescribed assumptions and methods. In general these produce significantly lower contributions.

The use of superannuation for tax avoidance may well hasten the introduction of changes in legislation with respect to long-standing issues such as,

- vesting and preservation
- restriction on investment in the employer
- taxation treatment of lump sums

5. Life Assurance

The trend noted in the last National Report away from traditional whole-of-life and endowment assurance has continued.

The amount of term insurance issued continues to increase, and unbundled individual policies with a separation of the savings and insurance features are being offered by more offices and are being widely accepted. Most of these policies accumulate the savings component at a declared rate of interest which is determined by the actuary of the company, but some companies are now offering unit-linked contracts in this area.

A further trend has been the increase in the number of superannuation policies issued to individuals, caused in part by tax rebates being available for premiums on such policies by individuals who are not otherwise superannuated. As no cash payments can be made from these policies before age 60, offices seem likely to be found with an increasing number of small paid-up policies to administer.

There have been no major legislative changes since the last report.

6. General Insurance

The general insurance industry in Australia continues to experience difficult times.

It is generally agreed that there are too many insurers competing for business in Australia. There are about 150 direct insurers. This has led to rate-cutting and large underwriting losses. The particular problem areas have been employers' liability and householders' insurance.

Several takeovers and mergers have occurred in recent years, and rationalisation is expected to continue.

The circumstances described have resulted in an increasing amount of work for consulting actuaries, in the area of underwriting as well as the more familiar area of estimation of outstanding claims.

7. Finance Industry

There has been considerable activity in the finance industry in the last two years. In particular leveraged leases have become increasingly popular as a means of financing large projects. Consulting actuaries have assisted in the required calculations.

8. National Health

Yet more changes were made to health insurance arrangements as from September 1981.

The major change was to restrict the Government-provided benefit to those insured with private health funds (although special arrangements apply to pensioners and disadvantaged people). Naturally, this has led to a large increase in private fund membership. Prior to September 1981 it was estimated that some 20% of the population was not insured and relied solely on Government-provided benefits.

9. Inquiry into Financial System

The report of a Committee of Inquiry into the Australian Financial System was released in November 1981. The report, which has taken over 2 years to prepare, recommends far-reaching changes to the existing system.

The basis underlying the Committee's recommendations is that the existing financial system is beset by anomalies and constrained by Government regulations. In general they suggest that the most efficient financial system will only be achieved through the operation of market forces.

The Committee's recommendations cover many areas of interest to consulting actuaries. In particular they conclude that the taxation advantages applying to superannuation plans are inequitable when compared to other savings mediums, and suggest means of removing these anomalies. If their recommendations are adopted there will be dramatic changes in the structure of superannuation provision in Australia.

As yet there has been no official response to the report from the Government. It is regarded as unlikely that all the recommendations will be adopted, but that at least some will be introduced in the future.