The Profession

The New Zealand Society of Actuaries (Inc) has continued its development into a more formal body providing a regular forum for members of the profession in New Zealand. The Society has continued to operate working parties concerned with financial reporting, and a New Zealand assured lives mortality investigation. In 1981 a working party made recommendations on accreditation of the profession in this country, especially as to the definition of "actuary" in legislation, and this matter is still under discussion.

The Society has 123 members, comprising 58 Fellows (all of whom are fellows of the United Kingdom or United States professional bodies) 16 Associates and 49 other members. All but 9 of the Fellows reside in New Zealand. The growth of the profession is indicated by the fact that there were 25 Fellows in 1974, 36 in 1976, 40 in 1978 and 48 in 1980.

Consulting Actuaries

As at 31 December 1981 the Association of Consulting Actuaries of New Zealand had 11 members, the same as in 1976, 1978 and 1980, although there have been some changes in membership.

The Association has had a relatively quiet period over the last 2 years, reflecting the absence of legislative change in the areas of members' activities.

Private superannuation schemes have continued to provide most of the work done by consulting actuaries, as the schemes adapt to the changes in legislation and the social welfare framework which occurred in 1976 and 1977. Consulting actuaries continue to be almost the sole source of independent advice on superannuation matters in New Zealand, but are generally not deeply involved in other employee benefit areas.

The consulting actuaries also provide advice to life insurance companies, building societies, voluntary health insurance funds, finance companies and merchant banks. Friendly societies are almost all advised by the Government Actuary (who makes no charge for his services), and general insurers have not transacted long-term liability business since 1974.

Economic Background

The following table of annual increases in the (all groups) Consumer Price Index and the National Average Wage gives an indication of recent inflation rates:

Year to 30 June	CPI %	NAW %
1976	17.7	12.3
1977	14.0	14.9
1978	12.3	11.9
1979	12.4	16.1
1980	17.9	18.8
1981	15.0	22.6

Although these rates are historically high for New Zealand, no immediate reduction in the inflation rate is anticipated.

Interest rates are also high, but generally continue not to provide a before-tax real return relative to inflation. Government stock currently available to financial institutions carried a term of 5 years and a coupon of 13%. The Government has been aggressively marketing inflation-proof bonds to individuals recently as it attempts to fund a deficit estimated to exceed $2 billion. Good quality secured debenture stock is currently being issued by industrial and financial institutions at 16–17% for 5 year terms.

The tax rate for resident companies is 45%, for life offices 30% of "distributed surplus" and for approved superannuation schemes nil. Personal income tax is 14.5% on income under $5,500, 35% on the excess up to $12,600, 48% up to $17,600, 55% up to $22,000 and 60% over $22,000: at November 1981 the National Average Wage was $12,579 p.a. There is no capital gains tax.

Social Security

In the last 4 years there have been no structural changes of significance in social security benefits payable, but benefits have continued to be adjusted to more-or-less current value terms.

The main social security benefit is unfunded National Superannuation payable at the rate of about 70% of the pre-tax average wage to a married couple, and about 42% to a single person. National Superannuation is payable without means or income test to all residents over age 60, subject to a 10 year residence qualification. Doubts have been raised recently about the ability of the country to afford this benefit.

The Accident Compensation Corporation established in 1974 provides benefits to virtually every member of the community who is injured by accident. The main benefit to income earners is 80% of the earnings lost consequent upon the accident, payable for the duration of lost earnings or until age 65. In special circumstances compensation for loss of potential earnings may be awarded (for instance to apprentices and students). Provision exists for lump sum payments for permanent loss or impairment of bodily function (maximum $7,000) and for loss of ability to enjoy life, etc. (maximum $10,000). Benefits are funded by levies on employers and motor registrations.

Fixed-dollar widows, unemployment and illness benefits are also payable from general revenue under the social security legislation, subject to an income (but not a means) test.

Superannuation

The main development in recent years has been the requirement that private occupational schemes obtain the formal approval of the Government Actuary under the Superannuation Schemes Act 1976 by 31 March 1980. The consequences of failing to do so were that employers' contributions would not attract tax relief, employees' contributions would not be exempt from tax, and the scheme's income would not be tax-free. The requirements for formal approval were not onerous, but did require amendments to most trust deeds in the areas of investments and communications to members.

In addition, the Human Rights Commission Act 1977 outlawed discrimination in superannuation schemes on the grounds of sex or marital status.

Almost all private schemes have now been amended to comply with these major pieces of legislation.

The trend noted in the last annual report for private superannuation schemes to provide retirement benefits in pension (rather than lump-sum) form has continued due to increasing pressures on the tax deductibility of employers' contributions to lump sum schemes, caused by inflation.

Some large private schemes integrate their retirement benefits with National Superannuation, generally by deduction of a (variable) fixed amount from each member's salary. However many schemes are not integrated, and the rate of change from non-integrated to integrated appears to have slowed over the last few years, no doubt partly because the Government Superannuation Fund for public servants is not integrated.

The Government Actuary, who is responsible for approving private superannuation schemes, recently provided the following estimate of the volume of superannuation business in New Zealand:

	Annual Contributions $ millions	Total Funds $ millions
Self administered schemes	114	732
Life Offices and other managers	130	732
National Provident Fund	95	782
Government Superannuation Fund	224*	704
	563	2,950

*includes government subsidy

These figures generally relate to scheme years ending during 1980; the method of valuing funds varies. It is estimated that up to $500 million is not included in the total funds from schemes which have not made returns.

The Government Actuary concludes that superannuation fund investments currently total $3.5 – 4 billion and that the contribution income is about $700 million per annum.

Over the last few years, there have been a number of corporate takeovers and mergers with consequent rationalisation of the private superannuation schemes involved.

In the past the main managers of superannuation scheme funds have been the life offices, but in the last few years banks and merchant banks have been actively promoting their services and there is competition and greater awareness of the importance of investment returns on employer contribution rates.

Superannuation schemes are required to meet a 40% reserve asset ratio requirement in Government stock, although this may be satisfied in part by Local Authority, housing or farming investments.

Life Insurance

There has continued to be little change in the products being offered and marketing methods being used. most of the non-superannuation new business is conventional whole-life and endowment assurance policies and is sold through the sole agency system. An increasing (but still small) proportion of investment-linked business is now being sold, and there is increasing activity in the direct selling of term assurance. Life offices also underwrite considerable volumes of superannuation business, mainly in the form of deposit-administration or investment-linked group policies, but separate industry statistics on the two classes of business are not available.

Life offices have a reserve asset ratio of 50% similar to that for private superannuation schemes, imposed by the Reserve Bank. Otherwise they have a considerable degree of freedom to operate as they choose. There is no minimum surrender or paid-up policy value basis, nor any controls over the types of policy and premium rates which may be offered or over the marketing methods used or commission levels paid, and only an indirect and ill-defined minimum valuation basis. Despite this freedom it is difficult to establish a new local life office because a statutory deposit of $500,000 is required. Overseas investment controls have recently been relaxed, and it is now possible for an overseas life office to commence business in New Zealand; one has already done so, and others have done or are in the course of doing so.

There are currently 35 Life offices and 4 professional reinsurers operating in New Zealand. However many of the direct offices are small, and almost certainly a number will amalgamate, be taken over, or otherwise cease business in the next few years.

A limited amount of long-term disability income business is written, and this market will probably expand.

Non-Life Insurance

Because long-term liability business is no longer transacted in New Zealand by private insurers, actuaries have little involvement in general insurance. Actuaries do however do some work for voluntary health insurance funds which have grown rapidly in recent years, and in the short-term general insurance area.

Finance

In recent years some consulting actuaries have done a considerable amount of work for banks, finance companies and merchant banks in technical areas of their work, such as leveraged leasing.