

- AUSTRALIA -

1. Association of Consulting Actuaries

There continue to be three firms of consulting actuaries in Australia. The growth in the number of full members of the Association of Consulting Actuaries of Australia (partners of the firms) and in the percentage they represent of the total number of actuaries in Australia, is clear from the following table:

Date	ACAA Full Members	% of Australian Actuaries
30 September 1973	25	11
30 September 1974	29	12
30 September 1975	34	13

The firms are advising on a wider range of problems but their traditional activities in the superannuation field have not been significantly eroded by the recruitment of more actuaries (mainly junior in age and experience) by insurance brokers and other superannuation consultants.

2. Professional Conduct

At the time of writing (August 1976) the local Institute of Actuaries is about to adopt, with the concurrence of the Institute of London and the Faculty in Scotland, a new Code of Professional Conduct for its members in Australia.

There has been lengthy debate over the form of this new Code and in particular its failure to specify that an actuary should report to a "principal".

Another key point in the Code is that firms will be permitted to incorporate provided that all shareholders in the company are actuaries employed by it.

3. The Australian Scene

Since the last IACA Conference, the Australian scene has been dominated by politics and inflation.

The Labor Party, elected to Government in 1972 after 23 years in opposition, survived a premature election in 1974 but did not gain control of both Houses of Parliament. The eventual outcome, which has polarised Australian political opinion, was its dismissal in controversial circumstances late in 1975. At the following election a Liberal/National Party coalition was returned.

As may have been expected, the Labor Government introduced changes in social security (see later sections) and, at least for its first two years, its actions exacerbated already rising inflation. Changes in official indices have been:

Quarter	Consumer Price Index(a)		Average Weekly Earnings(b)	
	Index	Increase for year %	Weekly Earnings	Increase over year %
June 1973	134.7		106.60	
June 1974	154.1	14.4	127.10	19.2
June 1975	180.2	16.9	154.70	21.7
June 1976	202.4	12.3	179.50	16.0

(a) Weighted average, six State capitals.

(b) Seasonally adjusted, Australia.

The new Government's professed first objective is a reduction in the rate of inflation.

Changes in social security and high inflation have, of course, had direct effect on fields of consulting actuarial work.

4. Life Insurance

High inflation has caused the more informed sections of the community, encouraged by the financial press, to question the investment merits of long-term life insurance contracts expressed in fixed monetary terms.

These problems of the life insurance industry have been compounded by reductions in some of the tax concessions previously granted to life insurance companies, and by changes to the basis of personal taxation which have diminished the taxation deductions available for life insurance premium payments for all taxpayers, and effectively eliminated those deductions for many.

The net result has been greatly increased rates of surrender of life policies plus a trend towards term assurance. Policies forming part of tax exempt "superannuation" funds of life offices have gained in popularity.

Apart from either contractual or optional increases in cover under some new policies, the industry cannot claim to have responded innovatively to these problems. Changes may, however, be hastened by a current enquiry into the predominant "sole agency" sales method by the Trade Practices Commission.

Despite continual submissions by ACAA and other interested bodies, the stringent statutory minimum valuation basis for life offices has yet to be changed.

5. National Superannuation

The "Hancock Committee", which included two actuaries (not ACAA members), submitted the first part of its report on a National Superannuation scheme to the new Government in June 1976.

The majority report suggested a two-tier government age pension consisting of a basic flat rate pension of 25% of average earnings (in line with its terms of reference) plus a pension purchased by the accumulation of contributions of 5% of income in excess of about 30% of average earnings. The purchased pension is proposed to be subject to certain minimum or supplementation rules.

Other features of the scheme put forward by the majority of the Committee are the absence of discrimination by sex or marital status or by source of income used as a base for contributions. Contributions paid would be accumulated by increasing them annually by the increase in the Consumer Price Index plus a 1% "betterment factor"; pensions would also be indexed.

The minority report advocates development of the existing flat rate pension system by continuing the pro-

cess of Means Test removal; at present the Means Test applies to pensions before age 70 and more particularly to pensioner "fringe benefits".

The Hancock Committee is now proceeding with the second part of its report, devoted to the regulation of private sector superannuation. It has asked interested parties for submissions on subjects such as integration of National Superannuation contributions and benefits, provisions for vesting, preservation and portability, tax treatment of contributions and benefits and the terms upon which lump sum benefits can be converted into annuities. ACAA has made such a submission.

It seems unlikely that legislation for either introduction of a national scheme or regulation of private funds will be introduced in the next twelve months and it is quite possible that there will be no real developments before the next election, due late in 1978.

6. Superannuation for Public Servants

During the term of the Labor Government, proposals to restructure the superannuation plan for Australian public servants were introduced. A primary reason was to overcome difficulties caused by the "unit" system which, due to inflation, was placing intolerable contribution burdens on members nearing retirement. Other benefit improvements were also proposed. All the changes were important because the scheme had always been about the most generous in Australia and its revision was put forward by the responsible Minister as a pace-setter for private industry.

After much public debate, involving some members of ACAA, a restructured plan has been introduced by the present Government from 1 July, 1976. Under this scheme the Government provides retired employees with a pension of the order of 50% of final salary, indexed by reference to the Consumer Price Index. Employee contributions plus earned interest are available either as a cash benefit or to purchase additional unindexed pension.

The major changes from the original proposals are less generous early retirement provisions and removal of indexation from employee purchased pensions. Indexation of such purchased pensions was argued to be unfair in that it gave retired public servants an option of Government guaranteed inflation proofing not available to others in the community.

Significantly, the revised scheme makes no attempt at integration with social security entitlements and in particular does not prevent "stacking" of the pensions with the standard age pension.

Several plans for State Government employees have also been modified, some to bases arguably more generous than the new Commonwealth plan.

7. Superannuation in the Private Sector

The major change in private sector superannuation plans has been a trend towards non-contributory arrangements, due mainly to reduced (or eliminated) taxation concessions for employee contributions, but not for employer contributions.

A report on the Australian taxation system has suggested changes to the present favourable method of taxation of lump sum retirement benefits. If the proposals are adopted the changes could encourage a trend from lump sum to pension plans.

High inflation has caused many trustees and employers to worry about the adequacy of funding arrangements, but there seem to have been very few cases of benefit reductions or plan modifications due to increased contributions. Many pensions in course of payment have been increased but few funds have been able to grant increases sufficient to keep pace with inflation.

Increased attention has been given to investment performance and results of surveys and comparisons by consulting actuaries have achieved prominence in the financial press.

The local Institute of Actuaries is planning to issue widely a booklet entitled "Reporting for Superannuation Plans", to publicise the respective roles of actuaries and accountants in this area, and with a view to initiating more consistent terminology and practices. Exposure drafts have been discussed at Institute meetings and have received a measure of approval from the professional accounting bodies.

8. National Health

Medibank, a universal medical and hospital benefit scheme, was introduced by the Labor Government on 1 July, 1975 but is to be reorganised by the new Government from 1 October, 1976. Under the new scheme most higher income earners will contract out of Medibank by purchasing private medical and hospital insurance, and a section of the Medibank organisation will compete with private insurers for this part of the market. Consulting actuaries have been involved in pricing the new insurance scheme for both Medibank and the private insurers.

9. National Compensation

Proposals for a comprehensive National Compensation Scheme providing generous benefits for all persons disabled by either accident or sickness, and subsequent to their deaths for their dependants, have been slowed by the change of Government. Should proposals similar to the original concepts eventually proceed, they will have a far reaching effect on life insurance, superannuation plans and general insurance.

10. General Insurance

The ravages of inflation, and the more detailed Government control under 1973 legislation, have caused more insurers to seek advice from consulting actuaries. This advice has concentrated on statistical estimation of provisions for outstanding liability claims but there are signs that actuarial involvement is broadening.

A "General Insurance Bulletin" compiled by a group of actuaries is now regularly distributed by the Insurance Council of Australia.