The New Zealand Society of Actuaries (Inc) has had another eventful year. The Society now has formal recognition in both the Superannuation Schemes Act 1989 and the Income Tax Act where "actuary" means a Fellow of the New Zealand Society of Actuaries.

During the year the members of the New Zealand Society adopted a Code of Professional Conduct, and Disciplinary Procedures.

The Society continues to work closely with its international counterparts. The President of the Institute of Actuaries, Hugh Scurfield, addressed the Society in Wellington this year. In November of 1990 the biennial meeting of the New Zealand Society of Actuaries was attended by the presidents of the New Zealand Society, the Australian Institute and the North American Society of Actuaries.

The Society membership now stands at 239, consisting of 97 Fellows, 115 students and 27 Ordinary (mostly overseas) members.

For three years now, Victoria University has offered a post-graduate diploma in Financial Mathematics which has the strong and active support of the New Zealand Society. The purpose of the Diploma is to encourage students to enter the actuarial profession and to assist them in obtaining a professional designation. There were 13 students enrolled in the diploma programme in 1991.
In 1992 Auckland University will offer one actuarial subject option in its Financial Mathematics undergraduate course.

The New Zealand Society has a Life Insurance Sub-committee and a Pension Sub-committee. In 1991 the Life Insurance Sub-committee's efforts were concentrated in two areas, namely solvency + supervision of life insurance companies, and realistic reporting of life insurance companies.

The Pension Sub-committee has been busy preparing submissions for Government and participating in a working party consisting of representatives from the accounting and actuarial professions which has been formed with the aim of setting an accounting standard for the reporting of superannuation schemes' accounts.

**Economic Overview**

New Zealand's rates of inflation and wage growth have continued to drop as shown by the table below.

<table>
<thead>
<tr>
<th>Year Ending 30 September</th>
<th>CPI Increase</th>
<th>Wage Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987</td>
<td>16.9%</td>
<td>7.5%</td>
</tr>
<tr>
<td>1988</td>
<td>5.6</td>
<td>7.3</td>
</tr>
<tr>
<td>1989</td>
<td>7.2</td>
<td>3.3</td>
</tr>
<tr>
<td>1990</td>
<td>5.0</td>
<td>4.5</td>
</tr>
<tr>
<td>1991</td>
<td>2.2</td>
<td>2.0</td>
</tr>
</tbody>
</table>
The National Average Ordinary Time Wage as of August 1991 is $27,970 per year.

Interest rates on term deposits have continued to drop and are presently (late 1991) running between 7% and 8%. The rate on housing mortgages is about 10.5% per annum. The yield on five year Government stock has dropped to about 8.5% compared to 12.5% a year ago. The sharemarket index is 1,500 which is about the same as one year ago but down from 2,200 two years ago. The commercial property market continues to be depressed and companies are still going into receivership.

The New Zealand dollar will presently (mid-December 1991) buy US$0.55, Aus $0.71, £0.30, Cdn $0.63 and DM 0.86.

The graphs on the attached pages indicate the trends which have emerged over the last few years.

**State Benefits**

Late in 1990, the Labour Government was ousted and the National Party was elected by a very strong majority. Ruth Richardson, the Finance Minister, delivered her first budget midway through 1991. Her message was very clear.

New Zealand was to head away from being a welfare state, at a very rapid rate. The state pension was to be income tested so severely that it would be reduced by 90 cents for every dollar of other income earned in excess of $80 per week. The age of entitlement would be increased from age 60 to age 61 on 1 April 1992 and then would rise gradually to reach age 65 at 1 April 2001.
Much to its dismay, the Government discovered that "grey power" is alive and well in New Zealand. In November 1991, bowing to public pressure the Government backtracked on its proposed income test of the state pension and will now apply a surtax of 25% to other income above a specified exemption. The exemption is $80 weekly for a single person and $120 for a married couple. 50% of the pension payable from a registered superannuation scheme is exempt from the surtax.

A "user pays" approach to health services is to be implemented. While fees for medical services will increase, the cost to users will depend on their ability to pay. Low income families in possession of a special card will pay less for medical services.

Benefits for non work-related accidental injuries are no longer to be funded by employers, but rather by an employee premium of between 50 cents and 70 cents per $100 of earnings, to be collected by the employer.

**Fiscal Policy**

The maximum marginal rate of personal income tax remains at 33%. Goods and Services Tax remains at 12.5%. The taxation of superannuation continues to be unique in New Zealand in that employee contributions are not tax deductible, investment income is generally taxable at 33%, and benefits are not taxable when paid. Employer contributions are income tax deductible but have a withholding tax of 33% applied. The net effect is that they, too, are made from after-tax income.
Superannuation

This topic continues to dominate the financial news. Government policy is inconsistent. Although long sought, no bi-partisan agreement yet exists. Following the tax changes introduced in 1989, many schemes have offered pensioners an opportunity to commute their pensions for a lump sum and many defined benefit schemes have converted to defined contribution schemes.

The ownership of surplus is also a major bone of contention. The landmark case on this subject in New Zealand is the UEB case, the result of which is that trustees must now review not only the present provisions of a Trust Deed if they wish to amend it but also the scheme’s previous amendments to ensure that the original intent of the Deed will not be subverted by the proposed amendment.

If members are being transferred from one superannuation scheme to another, advice must be given to them setting out the advantages and disadvantages of transfer including the matter of what would happen to any surplus, not only on transfer but in the future e.g. on scheme wind-up.

Other areas of interest in the superannuation arena include the restructuring of the National Provident Fund and the future of the Government Superannuation Fund, which together with the National Provident Fund, covers most civil servants in the country.

Life Insurance

The major change affecting life insurers is the revision in the tax basis. Formerly life insurers were taxed on their investment income and could deduct investment-related expenses. Now they will pay tax on total income including premiums but with a deduction for all expenses, claims and the increase in reserves. It is
expected that this will reduce the tax rate for life offices rather than increase it. However, actuarial input is now required to calculate the tax.

Superannuation schemes may apply for exemption from the life insurance tax regime. Ironically, some superannuation schemes may still be caught by the life insurance tax net, depending on their surplus position.

**Other Fields**

Consulting actuaries in New Zealand are also involved in the valuation of superannuation benefits in matrimonial property disputes. Also, just as New Zealand is looking off-shore for growth, superannuation funds are investing off-shore. The replacement of the schedule of approved investments by the prudent trustee concept has forced trustees to adopt a disciplined approach to fund management. The growth in the number of defined contribution schemes has made investment performance more visible and more important to members. Monitoring of investment performance has therefore grown as a practice area, and actuaries are now involved in establishing investment policy and guidelines, and then monitoring the performance against a benchmark.
NZ & WORLD SHARE PRICE INDICES
MONTHLY AVERAGES

JANUARY 1984 - OCTOBER 1991

--- NZSE40 --- WORLD INDEX