ED179 sub 1

UniSuper

15 September 2009

Mr Dean Ardern
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

Dear Dean

EXPOSURE DRAFT 179
SUPERANNUATION PLANS AND APPROVED DEPOSIT FUNDS

UniSuper makes the following submission in relation to Exposure Draft 179.

BACKGROUND

The Australian Accounting Standards Board (AASB) has issued an Exposure Draft – ED 179 Superannuation Plans and Approved Deposit Funds which details the proposed accounting standard that is designed to replace the existing standard AAS 25 – Financial Reporting by Superannuation Plans.

The AASB have requested feedback from the superannuation industry on the ED 179 and detailed below are series of comments and observations around the implications and practicality of some of the proposals from our perspective.

DISCUSSION

Comments have been linked to relevant paragraphs of the ED where possible. While the content refers to aspects of the UniSuper fund, there are other hybrid funds with similar operational characteristics and challenges if ED 179 goes ahead in its existing state.

BC 10 – Primary Users of General Purpose Financial Statements

The primary users of superannuation fund financial statements are employer sponsors and regulators. However, these parties are already provided significant information on the financial position of superannuation plans and can already request additional information as required.

Members and beneficiaries, while able to access the financial statements on request, are more interested in information provided in the annual report to members and their periodic member statement, both required under SIS regulations, including details of investment returns, asset allocations and account balances. Increasingly members are using fund websites to access more real time information.

The number of member requests for copies of the fund financial statements is miniscule relative to the number of members in our fund.

It is also arguable that parties employed to act on behalf of members would predominantly be accessing fund websites as well as fund product disclosure statements for the information they require to advise members rather than the fund annual financial statements.

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AG 77 to AG 88 – Arrangement and Management of Assets

This section deals with segregation of the different groups of members and the requirement for separate information on each group based on financial position and profit and loss. In our case there are probably four segregated groups from a liability perspective – accumulation, defined benefit, allocated pension and indexed pension. In practice for this hybrid fund there is segregation for the liability side but pooling for the asset and profit and loss components due to the use of a common 'balanced' asset allocation across the defined benefit, indexed pension and balanced investment choice components of the fund as well as pooled assets used for the different asset sectors supporting the remaining investment choice portfolios within the remaining accumulation and allocated pension liabilities.

The level of detail required for the assets and profit and loss components for the segregated groups is problematic in relation to the ability to accurately calculate in our case. Is the possibility of a liability only measurement of segregation contemplated under ED 179?

AG 57 to AG 59 – Fair Value

The second and third levels of measurement are not that clear and maybe the final document needs to provide examples. My perception of the sources of prices used in the industry as they relate to the levels are:

listed markets and unlisted markets - presume level 1;
independent valuations – market prices as input - presume level 2? and
independent valuations – using valuation models – presume level 3?

My view would be that sometimes valuations are a combination of level 2 and 3 depending on the asset involved.

Assuming the assumptions are correct, the level of detail suggested in AG 59 paragraphs (b) and (c) for level 3 is quite onerous and of questionable value. Point of time summarised detail as suggested under paragraph (a) is probably the most useful information for users of accounts.

Request for Comment – paragraph (o)

The Standard should provide example financial statements for a superannuation plan comprising both defined contribution and defined benefit members. This will provide more information for hybrid funds and ensure that requirements for such funds are communicated more fully and reduce the potential for misinterpretation.

Example Cash Flow Statement – Cash flows from investing activities

The level of detail shown in the illustrative example of both purchases and proceeds at an asset type level is onerous and of questionable value.

Valuation of Defined Benefit Accrued Liabilities

ED 179 adds a third, and for many superannuation funds fourth, option for measuring defined benefit members accrued benefits – measurement using a risk free discount rate. This area of measurement is currently one that has the potential to be confusing for many members and users of the financial statements.

Currently UniSuper liabilities are measured using:

- 'vested benefits' – the benefit paid out by the superannuation fund if all members voluntarily left service.

For lump sum superannuation funds vested benefits can usually be calculated without the use of assumptions. However, UniSuper has significant life-time pensions where it is necessary to use assumptions to calculate the vested benefits. Actuarial professional standards set out how these assumptions are set and the calculation done.

- 'accrued benefits' – calculated consistently with the AAS25.

This calculation requires "best estimate" actuarial assumptions, with a discount rate based on the expected return on the superannuation fund's assets. This calculation is consistent with the actuarial assessment of the adequacy of contributions.

The 'vested' and 'accrued' benefit measures are already well entrenched, derived from the actuarial standards and linked in with the triennial review and regular measurement processes used by APRA. They are also the measures used by trustees to assess the health of a defined benefit fund.

Because it is a multi-employer fund and employers do not have an obligation to fund a deficit in the defined benefit plan, UniSuper does not currently calculate accrued liabilities for the purpose of sponsoring employer's financial statements in accordance with AASB 119. For many defined benefit superannuation funds this is already a third accrued benefit measurement.

The addition of a further option into the field has the potential to increase confusion as distinct from adding value for users.

Insurance Contracts – Measurement in accordance with AASB 1038

The ED requires obligations and assets arising from insurance contracts issued by superannuation funds to be measured in accordance with AASB 1038 – Life Insurance Contracts.

There are significant practical difficulties that would inhibit this from being done reliably and at a reasonable cost. Doing so would not add significantly to the usefulness of the financial statements.

The requirement for increased information on insurance contracts poses some interesting challenges for UniSuper as we have four types of insurance as detailed below:

1. Compulsory Insurance for Defined Benefit Members which is self insured;
2. Compulsory Insurance for certain categories of Accumulation members which is also self insured;
3. Optional Insurance for Accumulation members which is externally provided by Hannover; and
4. Indexed pensions for retired members

In relation to the first option, it is noted that:

- Currently contributions paid by Defined Benefit Members do not include an explicit portion to pay for the death and Total and Permanent Disablement (TPD) benefits being offered, although the actuary provides an estimate of this amount for a superannuation fund's tax calculation;

- On death or TPD, the insured portion of the benefit is not separately calculated by the administrator – nor is the amount of the self insured death and TPD benefit always clear (i.e. is it the excess of the benefit above the vested benefit, accrued retirement benefit or accrued benefit). As the amounts are not currently calculated by the administration system, it may be necessary to engage the actuary to do the calculations for claims incurred during the period in order to determine amounts for the income statement;

- Under AASB 1038 the amount of the accrued liability for death and TPD would usually be close to zero (Refer section 8.1(b) of AASB 1038). This is because outstanding claims at the reporting date are normally excluded from both assets and liabilities (except possibly claims that have been incurred but not yet reported) and future claims would be expected to be met from future contributions (the notional annual premium being an estimate of the claims expected in each future year).

  However, the way the notional annual insurance premium is calculated is not consistent with the way insured benefits are reflected in the accrued benefit figure (largely due to the death and TPD benefit being fully accrued irrespective of when it becomes payable, so the accrued death and TPD only reflects the probability of payment in all future years), which will lead to inconsistency in the reconciliation of the accrued benefit liability from year to year.

- For UniSuper Defined Benefits, the death and TPD experience gains and loses would be expected to be a very small part of the total experience gains and loses. In particular, experience from investment returns, salary increases and price inflation will typically be much larger. Therefore, financial statements providing additional information on death and TPD separately will be a little value.

In relation to the second option, the insurance is again provided by the fund and the information can primarily be provided by the fund administrator on the expense side but again if the separate components are to be disaggregated there will be reliance on actuarial input. Also the availability of section 8 information described above for his component of the insurance is questionable.

We assume section 8.1(b) of AASB 1038 would apply and the liability for the accumulation members would be their account balances, possibly with an additional amount added for incurred but not reported claims. It would be much easier to achieve this outcome by reporting liabilities calculated in accordance with ED 179 including an allowance for incurred but not reported claims.

As the optional insurance (option 3) is outsourced to Hannover, it is presumed that minimal disclosure would be required apart from the premium paid to Hannover. There is no real insurance risk being assumed by UniSuper.

In respect of option four, it was not clear whether indexed life-time pensions would be included within the requirements of paragraph 21 of ED 179. It would be preferable for this not to be the case so that the calculation methodology and assumptions used for ED 179 also apply for pensions. Employed UniSuper members have an entitlement to a pension, at their election, upon retirement and it is not practical to separate out this part of the liability from the defined benefit liability in respect of benefits.

Is there an expectation that the death, disability (income protection) and pension components of the insurance provided need to be disaggregated in relation to the requisite information components? All insured liabilities can be properly reflected in the financial statements through ED 179 without having to segregate the insurance liabilities in accordance with AASB 1038.

The high level disclosures around the risk that the fund is exposed to through self insuring and how these are managed are clearly warranted as well as the high level period movements and period end positions. The most appropriate way to disclose this may be in note disclosures. I query the need for the minute level of detail required under AASB 1038, particularly in sections 8 and 14, for a superannuation fund and indeed which users need it. Some of these requirements when applied to a superannuation fund appear to be excessive.

Information around the health of a defined benefit fund and related insurance arrangements similar to that detailed under sections 8 and 14 of AASB 1038 is traditionally derived as part of the triennial actuarial review and is more appropriately circulated to employers periodically as a separate exercise rather than as a component of the annual financial statements. For self insured funds, actuarial oversight and review of self insured arrangements is in any case required regularly under Actuarial Guidance.

CONCLUSION

The issues detailed above are some of the recommendations from ED 179 that require further review and or clarification.

Should you wish to discuss any of the issues raised please contact me 9910 6106 or via email on john.mitchell@unisuper.com.au.

Yours sincerely

John Mitchell

John Mitchell
Financial Controller