ED179 sub 11

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KR/PAC: Finance and Compliance

30 September 2009

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007

Dear Kevin

Exposure Draft AASB 179 – Superannuation Plans and Approved Deposit Funds

Vision Super Pty Ltd is the trustee of the Local Authorities Superannuation Fund (LASF), the Vision Superannuation Fund (VSF) and the Vision Pooled Superannuation Trust (VPST).

The purpose of this submission is to highlight our concerns and suggest possible changes, which will help deliver meaningful disclosure of financial, and member related data to users of superannuation fund financial statements.

Background

LASF is a standard employer-sponsored fund with both a defined benefit section and accumulation section. The assets for LASF and VSF are approximately $3.5 million and are pooled and invested in VPST. We prepare consolidated financial reports for LASF which comprises of the Fund and its subsidiary VPST. The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Since AAS 25 is the principal standard that applies to the financial statements, other standards, including AIFRS, are also applied where necessary except to the extent that they differ from AAS 25. The majority of Fund members' benefits are self insured with extra cover contracted with a life insurance company. In this submission we highlight a number of areas of concerns and proposed potential amendments.

Self Insurance

For funds of a size that can reasonably self-insure, the death, TPD and income protection experience (gains and losses) would be expected to be a very small part of the total experience. Therefore providing additional information on insurance experience separately will be of little value and our preferred approach would be to instead simply disclose the nature of the insurance risk in the notes to the accounts.

Nonetheless, ED 179 (as currently drafted) requires that funds report obligations/assets (and movements in those items) in relation to insurance contracts, as measured in accordance with AASB 1038 – Life Insurance Contracts. We note that this presents difficulties, each potentially incurring substantial cost to comply with the ED.

For self-insured Defined Benefit funds we believe that the following issues cause significant differences to other types of entities and that the proposal does not add any real value to the readers of superannuation fund accounts:

- There is often no explicit insurance premium (for death, TPD or income protection benefits).

- Funding simply being a part of the general contribution recommendations. The actuary may provide an estimate of the "notional" insurance premium for the fund's tax calculation, however some assumptions (such as discount rates for valuing income benefits) may be inconsistent with ED 179 requirements.

- Often, on death or TPD, the insured portion of the benefit is not calculated separately by the administrator (only the total amount is calculated) – nor is it always clear which portion is self-insured (e.g. is it the excess of the benefit over the vested benefit, the accrued retirement benefit or accrued benefit?). If 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 the amounts for the income statement.

- Experience gains and losses from investment returns, salary increases and price inflation will typically be much larger than from self-insured claims, therefore providing additional information on insurance experience separately will be of little value.

For self-insured funds generally:

- Under AASB 1038, it appears that the value of the insurance obligation for death, TPD and income protection benefits in respect of current members would usually be nil (or close to nil), as (over the long term) future claims would be expected to be met from future contributions. Whilst there may be variation in particular years (with claims higher or lower than expected, relative to the notional premiums), this is part of the overall funding mechanism which smooths out such experience over the long term (and for accumulation funds is reflected in the change in the self insurance reserve). Any change in the long term expected claim experience would result in changes to premiums such that the present value of future claims continued to equal to the present value of future premiums;

- It would be possible to include an IBNR (Incurred But Not Reported) amount in the benefit liability at the start and end of the period, determined based on suitable assumptions as part of the ED 179 liability. This amount effectively reflects claims expected to arise in future as a result of premiums previously paid and therefore does relate to a part of the existing assets. This could be done without the complexity and cost of AASB 1038 requirements.

- Generally, as the retirement/resignation benefit accrues the self-insurance risk reduces because sums insured reduce with age. The reconciliation of the annual notional insurance premium with the change in the value of the self-insurance obligation therefore reflects a reduction in the self-insurance obligation from year to year, which is inconsistent with the focus of the ED 179 accounting basis (which reflects the accrual of benefit entitlements). Reconciling the self-insurance arrangements in the ED 179 format may therefore be problematic.

- 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 (including reserve requirements) is required regularly under Actuarial Standards.

- Paragraph 15 of the Appendix to AASB 1038 provides examples of Life Insurance Contracts that includes "life-contingent annuities and pensions". It would be inappropriate to include these separately to other defined benefit liabilities and clarification is required. It is preferable that the calculation methodology and assumptions used for ED 179 also apply for pensions. It is also impractical to have to separate out the future liability in respect of members entitled to elect a pension benefit on retirement from the future liability for other benefits.

Measurement of Liabilities – use of Vested Benefits

APRA, Trustees, employer sponsors and fund members already receive a lot of financial information measuring benefit liabilities. Adding another measure may conflict with the existing information. It will also add cost and, unless appropriate approximations and/or use of pre-balance date data are permitted, may be difficult to provide within the statutory reporting deadlines.

We agree that members' benefits should be recognised as liabilities under IFRS. However, a vested benefits approach would be a more desirable measure of liabilities to include on the balance sheet (given the users of the financial statements) than the accrued liability, as:

- A summary of the financial statements are included in the annual report to members and the use of any new liability figure needs to be considered in that context. The use of the vested benefit figure is most often consistent with the members' understanding of their fund entitlements (as shown in their benefit statements) and is already provided annually via the AAS25 reporting. Members are unlikely to understand the relevance or correctly interpret the result if another benefit liability measure is used.

- The vested benefit figure is also more readily available at or shortly after balance date. An accrued benefit liability measure would need actuarial involvement to be calculated as at balance date and would also be reliant on getting timely membership data at the balance date. Although it may be calculated consistently with AASB119 work, it is often the case that AASB119 disclosure is based on data at a date earlier than the balance date and so those results could not be used.

- As currently proposed, the change in discount rate from a risk-adjusted to a risk free rate will result in a lower discount rate and therefore a higher liability being recognised under the ED. The assumptions adopted for funding (which would allow for the expected return on the fund's actual asset allocation) will produce higher liability values. This results in the liabilities for funding being lower than the liabilities being disclosed in fund accounts and may lead to confusion amongst members and regulators when a fund (which has sound actuarial oversight and is adequately funded on the funding basis) then appears poorly funded using the accounting liability result. Use of the vested benefit overcomes this problem and is consistent with APRA's monitoring of VBI levels.

- In practice many funds like us are hybrid funds. Consequently there are issues associated with this that need attention. One issue is the fact that the liability for member entitlements is being measured differently for defined benefit versus defined contribution funds. Combining these may give an inappropriate result/summary of financial position and has the potential to mislead the users of financial statements.

However, we note one area of caution in relation to the use of vested benefits:

- Where a fund provides lifetime pensions, the vested benefit calculation involves future earning rate and pension indexation assumption to value the pension liability. Currently, the assumptions used are as per the triennial actuarial investigation - consistent with Institute Guidelines. It would not be desirable to have vested benefits for pensions being calculated with one discount rate for actuarial purposes and another (generally lower) discount rate for funds' accounting disclosures. Not only does this result in two different vested benefit amounts, but also the liability using the lower discount rate would be higher. For funds with a significant pension liability, this can be a significant issue.

Consolidation

Although we do accept the principle of consolidation as a necessary outcome of complying with IFRS, we do not believe that consolidation should be treated exactly the same in the superannuation industry, as it does not add value and in fact detracts from a clear and concise set of financial statements. Users of the financial statements are more interested in the fair value of their investments rather than the operations of the underlying business.

The ED should contain detailed guidance clarifying industry specific issues to assist in determining when consolidation is required e.g. what does constitute control in the superannuation industry? Much of the debate in practice often centres on whether an investment meets the definition of control.

The resulting consolidated four column statements detract from users being able to assess a superannuation fund's condition and performance.

Statements under the proposed requirements

We believe that the proposal for a Statement of Changes in Equity does not add any value. Four statements seem ample and the 'unallocated' portion of the Equity Statement could merely be included as a line item within another statement.

Consistent with our comments above we believe that the Statement of Changes in Accrued Benefits should be changed to reflect vested benefits.

Thank you for your consideration of this matter and please do not hesitate to contact me on 03 9911 3141 if you wish to discuss.

Yours sincerely

Paul Curtin
General Manager Finance and Compliance