



Actuarial certificates: more red tape or a vital process?

Actuarial certificates are an important component in the tax status of self-managed super funds. But are they still necessary, specialised tools of taxation compliance, or headed for obsolescence? Glenn Freeman reports.

Self-managed super funds (SMSFs) have enjoyed impressive growth in Australia over recent years. They now represent around \$531 billion of the country's total \$1.7 trillion held in retirement savings, according to a report issued by Credit Suisse in early 2014.

Since 2008, the number of SMSF funds has grown by 27 per cent to 509,000, with at least 27,000 new funds being set up each year and more than a million Australians investing via an SMSF, according to data from the Australian Taxation Office (ATO).

Servicing SMSFs has also become a big business. Andy O'Meagher, director of Act2 Solutions, a large provider of actuarial services, says that SMSF trustees require actuarial certificates when funds start paying super income stream benefits (pensions) to their members.

"They are needed if SMSF trustees are claiming income tax exemption from unsegregated assets," he says.

He points to a few main pressures that are impacting players in the actuarial certificate space, including growing levels of "systemisation". This is leading to "very strong downward pressure on prices", O'Meagher says, adding that these pricing pressures are then passed on to those who provide services to SMSF administrators.

Another challenge he highlights is the increasing push for faster processing times. O'Meagher says that when he first started out in the industry around a decade ago, a team of four people he was part of would often process around 10 certificates per day.

"Now, an individual can get through around 100 certificates in a day," he says, pointing to much higher levels of automation as the major driver of this. Indeed, it was his recognition of a need for greater efficiencies in this area that led to O'Meagher establishing Act2.

"When Brian Bendzulla created a unitised model for pricing [of actuarial certificates] early last decade, this was very smart for trustees and for the industry. I saw this as a process that could do with even greater levels of systemisation," O'Meagher says.

O'MEAGHER SEES LEGISLATIVE DEVELOPMENTS IN THE FORM OF CHANGES TO TAX LAW AS A SIGNIFICANT POTENTIAL CHALLENGE



Andy O'Meagher

Bendzulla Actuarial holds around 50 per cent of Australia's market for actuarial certificates, through its relationships with around 5500 accounting firms. Having been acquired by the Challenger group at the end of 2013, its service offering to its clients – predominantly accountants and SMSF administrators – is expected to grow further still in the near future.

"We're quite excited about it," says Doug McBirnie, consulting actuary, Bendzulla Actuarial. "This will provide us with more resources to get on with some of the things we've been planning."

"We want to position ourselves as pension specialists in the SMSF sector," he says, referring to its extensive experience on the technical side. "We think we can use that with our actuarial skills to help our clients deal with SMSF trustees and to help them understand and deal with the risks of retirement, such as increasing longevity, market risk and sequencing risk."

In terms of the industry landscape for businesses that provide actuarial certificates, he concurs with O'Meagher's view that pricing pressures are one of the most significant challenges.

"It's the same as with a lot of services around SMSFs: as we get more and more price pressure, there's more of a push to commoditise what essentially are professional services," McBirnie says. "So there might be some pressure to compromise on quality or on the detail of the processes you go through in doing these types of calculations."

For this reason, he believes that keeping the actuaries and the auditors involved and making sure all parties are doing their jobs properly is very important.

McBirnie highlights the tax-exempt status of SMSFs in the pension phase as one of their most crucial components. "The biggest single deduction is the exempt current pension income," he says. "This is essentially what you need the actuarial certificate to calculate; the certificate provides the percentage."

McBirnie sees growing systemisation within the space as both a challenge and an opportunity. "We have to invest in IT systems

and other technology to keep up with this. Everyone's racing to make their processes as efficient and as easy as possible," he says.

However, he says that as this happens, the downward pressure on costs is in turn making SMSFs more accessible to a broader market.

"There has been a move to make applying for certificates a lot more efficient. We've invested heavily in technology to make the process as easy and efficient as possible for accountants," he says.

FAST AND FASTER

Despite the huge inroads already made in boosting efficiencies, O'Meagher says that "the funny thing is that the quicker we got, the more pressure [our clients] put on us to get the certificates to them even faster".

Despite the plethora of data already available about the SMSF market, O'Meagher believes that obtaining accurate information indicating the number of funds that require actuarial certificates is a significant challenge.

"This is one of the hardest parts: getting a handle on the proportion of SMSFs that need actuarial certificates versus those that don't," he says.

O'Meagher also sees legislative developments in the form of changes to tax law as a significant potential challenge for companies that specialise in providing actuarial services to SMSF funds.

CHANGES ON THE HORIZON?

Graeme Colley, director of technical and professional standards at the SMSF Professionals' Association of Australia (SPAA), says that substantial changes in this space may be on the way.

SPAA has been conducting a campaign to unwind some of the systemic red-tape issues impacting SMSFs and the broader superannuation sector. Colley suggests the industry body may recommend a shift away from actuarial certificates toward other measures, such as a statutory formula.



Doug McBirnie



Graeme Colley

WE'RE LOOKING AT WHETHER THERE ARE SIMPLER WAYS. WE'RE EXAMINING A LOT OF RED TAPE AREAS AND THINK THAT IN MANY CASES, A STATUTORY FORMULA MAY BE JUST AS USEFUL

“We’re looking at whether there are simpler ways. We’re examining a lot of red-tape areas and think that in many cases, a statutory formula may be just as useful [as a certificate],” he says.

Colley refers to SPAA’s current budget submission on this matter, which covers a range of areas it perceives as systemic and red-tape compliance issues.

Specifically, SPAA’s submission addresses the increase to the concessional contribution cap; accurate costing of superannuation tax concessions; policies on broken work patterns for super contributions; and a number of areas specific to SMSFs.

“The Australian Tax Office and Department of Treasury are looking to create several million dollars in tax savings for small businesses, with a very long list of proposals to be considered,” Colley says.

Any recommendations specific to actuarial certificates are not currently on SPAA’s agenda, with the government already having a “full program” until at least the middle of 2015.

“This will give us time to rationally consider some of these proposals,” Colley says.



Meg Heffron

VALUE-ADDING

Meg Heffron, head of customer at Heffron SMSF Solutions, says she can see why SPAA may be looking at other options beyond actuarial certificates.

However, she believes the Australian Taxation Office would be in favour of retaining actuarial certificates: “This is because the involvement of other firms means there is a greater level of checking...we do add value by imposing another level of checking. It’s a great

opportunity to spot things that may have been done incorrectly by other parties,” she says.

However, Heffron also believes that “it is not unreasonable for SPAA to look at this. Actuarial certificates are overkill for a lot of funds. It costs money, slows down the process and [in some cases] doesn’t add a lot of value.”

But speaking from the perspective of Heffron SMSF Solutions, she says: “If we’ve got to spend people’s money [in generating actuarial certificates] we feel we should incorporate something useful in that process as well.” As examples, she refers to ensuring clients have appropriate pension levels and that all contributions are compliant.

“I’m sure there’s a better way [of ensuring compliance], but there must be a reason why we haven’t removed the need for actuarial certificates in the past,” Heffron says. She refers to previous reviews into the need for such measures, where the ATO’s response has been that retaining the certificates increases the level of checking and boosts the compliance of SMSFs.

On the question of whether actuarial certificates should still be required going forward, McBirnie agrees that they provide an important additional checkpoint for many SMSF administrators.

“I see actuaries as one of the key gatekeepers in ensuring people are doing the right thing in claiming their deductions and paying the right amount of tax [within the SMSF environment],” he says.

“There are cases where it may be fairly straightforward, but equally there are cases where it isn’t, and professional judgment is needed. I think it’s an important check on the system to have another independent gatekeeper.”

McBirnie also believes there are some calculations that accountants aren’t equipped to perform, such as for SMSFs with defined or hybrid benefits. “These would often require actuarial skills to calculate the tax exemption percentage,” he says. “In Australia, the number of defined benefit funds around is dwindling, but substantial numbers do still exist.” ■