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New Zealand Ambassador's Report

by Richard Geisler

There are three industry-related issues included in this report: taxation, compulsory superannuation, and insurance disclosure.

Taxation

The taxation of life insurance and superannuation fund savings is being examined with the objective of taxing earnings on savings at a rate appropriate to each individual saver, rather than the current flat, top marginal rate of 33%.

Three methods were offered by a working group to the Treasury having different levels of complexity and different degrees of parity between low- and high-tax-rate individuals. The Treasury prefers the "tax credit" option over a reduced, flat "proxy rate" option and the more familiar "imputation credit" option.

The tax credit option gives low-tax-rate payers a credit on their policy equivalent to the tax credit returned to the company by the IRD for that taxpayer. The regulation would be written to give companies the option of adopting "tax credits" for none, some or all blocks of business. Competition will force companies to offer it as broadly as possible.

To adopt "tax credits" for a block of business, the company would require those policyholders to specify the tax rate applicable to them. This would be used by the insurer to file for a tax credit and also to apply the tax credit to the individual's policy. The individual would settle any differences in final tax in the annual return.

The industry has been invited to comment on the proposal. Important issues are how credits would be administered, in particular, how credits are attached to conventional policies as cash refunds are not permitted. Defined-benefit superannuation plans have the further problem of how to use the tax credit arising from some but not all members.

The government is looking for a workable solution for the year commencing April 1, 1998.

Compulsory Superannuation

The national superannuation scheme is targeted to provide about 33% of the average wage at retirement. In 1994, a political accord was reached to support a campaign to increase voluntary savings to supplement the tax-funded retirement scheme. In July of this year, a review by a select committee concluded that although the current tax-funded retirement scheme is not sustainable in its present form, it is not in danger until 2015 and can become sustainable with some adjustments to retirement ages and or benefits.

The new government this year initiated debate on sustainability of benefits under the accord of 1994 and proposed a compulsory savings scheme.

Highlights of the compulsory scheme were that individuals, not companies, were required to contribute to their personal superannuation account. An individual could choose any of a number of qualified investment funds and would own their account balances. Although tax cuts were planned to offset mandatory contributions, there would continue to be no other tax incentives for contributing to retirement plans.

Once the minimum savings target was reached the individual could stop contributing. If a retiree did not reach the minimum savings, the government would top up to the minimum. Lump sums at retirement would be converted to annuities and women's sums would be topped up to provide the same benefit as for men.

The main issues were:

- Had the current voluntary scheme been given enough time to take effect?
- Would the cost of administering small, frequent contributions outstrip any investment income for several years?
- Could the tax cuts offered to help offset the mandatory contributions be affordable long term?

The compulsory scheme proposal was overwhelmingly defeated in a national referendum in September. The issue will remain unsettled, and we can expect more attempts to deal with the future escalating costs of retirement benefits and health care for the aging population.

Insurance Disclosure

The Investment Advisers (Disclosure) Act of 1996 has an impact on the financial services industry and ancillary services. The definition of an investment adviser is broad and includes anyone who gives investment advice to the public in relation to buying or selling a security. Life insurance policies (other than term) are included as a security along with superannuation schemes, unit trusts and group investment funds.

There are two types of disclosure for advisers. *Mandatory* relates to convictions or bankruptcy of advisers and their money-handling procedures. *Mandatory* disclosure must be made before money is received. *Request* is at the option of the client, covering qualifications, experience and compensation of the adviser. The request disclosure, which must be fulfilled in five working days, must specify whether the adviser has any direct or indirect pecuniary interest in giving the advice and provide details of amounts or rates of remuneration.

Four other acts also have been amended to coincide with the above act. These relate primarily to product disclosure, requiring prospectus-like documents and investment statements for life insurance, unit trusts, superannuation schemes, and GIFs.

Companies and advisers have six months to comply starting October 1, 1997.

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