



Crediting Rate Policy

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1. PURPOSE

The purpose of this policy is to provide a framework for the NSL Board when determining the Interim and Annual Crediting Rate.

2. LEGISLATIVE REQUIREMENTS

The primary legislative document governing the superannuation industry is the *Superannuation (General Provisions) Act 2000*.

The NSL Board is also required to adhere to various Prudential Standards and in relation to Crediting Rates, the *Superannuation Prudential Standard 1/2014* Authorised Superannuation Fund Investments (PS 1/2014) paragraph 17 (a – d), paragraph 18 (a – c) and paragraph 19 (a – f) refers.

3. CREDITING RATE

At NSL, the members' superannuation investment return is determined by a Crediting Rate.

A Crediting Rate is defined as the investment earnings applied to member account balances after a particular period. Ideally the members' earning rate is equal to the gross investment earnings of the Fund for that period (expressed as a percentage) less the investment management expenses, administration expenses, taxes and after allowing for any reserves (if applicable) applicable during the same period. This is hereafter referred to as *Net Surplus Available to Members*. If reserves are funded by NSL, they represent reductions in the Annual Crediting Rate.

NSL determines an Annual Crediting Rate early each calendar year which is applied to the member account balances retrospectively for the period from 1st January to 31st December of the previous year.

NSL also determines and applies an Interim Crediting Rate in the event that a member exits the Fund, such that the member's final entitlement includes an earnings rate for the period from the most recent Annual Crediting Rate till the date of exit.

Crediting Rates can be either positive or negative (as stipulated in the current Trust Deed), as they primarily depend on investment performance.

4. INTERIM CREDITING RATE POLICY

The NSL Board recognizes that some members join or leave the Fund during the year, and also recognize that Fund earnings accrue at varying rates through the year.

Consultation: The NSL Board (through the Investment Committee and in consultation with the Licensed Investment Manager) regularly reviews (at least quarterly) current period investment returns of the Fund, and estimates the likely full year investment return. The NSL Board realizes this is a "best estimate" only and is subject to material changes.

On the basis of estimated full year Net Surplus Available to Members, and applying some conservatism, the NSL Board or appropriate Board Committee will determine and regularly (at least quarterly) review the Interim Crediting Rate to ensure exiting members' final entitlements reflect as closely as possible, the Net Surplus Available to Members in order to be fair to current, exiting and prospective members.

In time of significant market volatility or where a material error has been determined, a Management Committee comprising of CEO, CIO and CFO are authorised to take action to protect the Funds' position, by;

- (a) Suspending the payments of withdrawals, and/or
- (b) Varying the Interim Crediting Rate;

until such time the Investment Committee can review the rates and adjust, if necessary.

Interim Crediting Rates are notional, and only apply when a member exits the Fund.

Interim Crediting Rates can be either negative or positive, as they primarily depend on investment performance.

The Licensed Fund Administrator is advised of the Interim Crediting Rate to be applied to exiting member entitlements. In line with international practice, the Licensed Fund Administrator applies the Interim Crediting Rate using a time weighted rate of return basis (see **Appendix 1** for a worked example).

5. ANNUAL CREDITING RATE

Net Surplus Available: The NSL Board, in consultation with the Licensed Investment Manager, determines an Annual Crediting Rate once per annum. Only after Net Surplus Available to Members has been calculated can the Annual Crediting Rate be determined and returns credited to member accounts. Determining *Net Surplus Available to Members* usually occurs early each calendar year, with draft financial accounts for the Financial Year ending the previous 31st December.

In determining the Annual Crediting Rate, the assets of the Fund are valued in line with international standards, using a hierarchy of valuation methods.

The overall net investment performance of the fund plus general reserves are used to determine *Gross Surplus Available to Members*. A deduction will be made for an amount required to be held for any future reserves arriving at the Net Surplus Available to Members. The Annual Crediting Rate reflects the distribution of the net surplus available to members as a percentage rate over the value of the members' account.

Once the crediting rate has been applied to members' accounts, the financial records maintained by the Fund are reconciled to the member records maintained by the Licensed Fund Administrator.

In line with international practice, the Licensed Fund Administrator applies the Annual Crediting Rate using a time weighted rate of return basis (See **Appendix 1** for a worked example).

6. WHAT HAPPENS IF AN ERROR HAS BEEN MADE IN DETERMINING A CREDITING RATE?

Every effort is made to ensure accuracy in the Crediting Rates.

In the event a minor error is discovered after the Crediting Rate has been applied, then the relevant reserve account is adjusted to correct for the minor error.

If an error has been made of a more than minor nature, the NSL Board reserves the right to retrospectively adjust member balances.

If such a retrospective action is contemplated, the NSL Board applies a materiality threshold (below which any error to the Crediting Rate is not adjusted retrospectively), and/or a minimum threshold amount (below which no adjustment would be made to a member's account).

Materiality Threshold: If the Annual Crediting Rate is determined to have been incorrectly calculated by 0.30% or more, the NSL Board will adjust member balances. If an error has been made which is less than the Materiality Threshold then any required adjustment is made to the relevant reserves account may be reflected in the Crediting Rate for the following period.

Minimum Threshold: Should the Annual Crediting Rate need to be adjusted, NSL Board will consider adjustments to members who have left the Fund considering the amount payable to the member and any associated cost on a case by case basis.

7. MEMBER EQUITY AND FAIRNESS

Fairness to all members: The NSL Board recognizes that any Crediting Rate must be fair to all members of the Fund, including current, exiting and prospective members.

Estimations: The NSL Board believes that estimating current period *Net Surplus Available to Members* as the basis for that period's Crediting Rate is the best way to ensure member equity and fairness.

Frequency of Valuation: The NSL Board seeks to value the assets of the Fund as often as practical, in order to estimate current period *Net Surplus Available to Members* in the timeliest manner.

The NSL Board recognizes more frequent calculation of Crediting Rates improves member equity and fairness but may also impose unnecessary costs. The NSL Board seeks to balance the costs of more frequent valuations against the benefits of more accurate Interim Crediting Rates.

The NSL Board is conscious that exiting members might be unfairly advantaged if the Interim Crediting Rate applied to the exiting member's account turns out to be higher than the Annual Crediting Rate applied for the full year. Accordingly, the Interim Crediting Rate will be estimated conservatively to avoid exiting members gaining an unfair advantage.

The NSL Board recognizes that due to this conservative estimate that it will be generally in the interests of members that they bear in mind that changes may take place in relation to Interest Crediting Rates so that they are able to make an informed decision on the timing of their exit from the Fund.

8. REFERENCE

This policy is to be read in conjunction with NSL's *Reserving Management Policy*.

9. ANNUAL REVIEW

The NSL Board will review its Crediting Rate Policy frequently to ensure it reflects best practice in determining member returns.

This Policy will be reviewed on a regular basis, at least annually.

Chief Executive Officer is the owner of this policy and is responsible for all reviews of this policy.

10. APPENDIX 1: EXAMPLE OF TIME WEIGHTED RATE OF RETURN CALCULATION

A. INTEREST ON OPENING BALANCE (Balance * Interest Rate)

Interest Rate	9%
Opening Balance	7,083.33
Interest on Opening Balance	637.50

This is the closing balance for 2016.

ADD

B. CONTRIBUTIONS RECEIVED DURING THE YEAR

Individual Contributions * No. of days Left/365 * Interest Rate

These are the monthly contributions for 2017, assuming payments were received at the end of each month. (You have to work out each month's contribution)

	Month	Days Left	Member	Employer	Total	Interest Earned Per Month
1	January	334	142.26	218.54	360.80	29.71
2	February	305	142.26	218.54	360.80	27.13
3	March	274	142.26	218.54	360.80	24.38
4	April	244	142.26	218.54	360.80	21.71
5	May	213	142.26	218.54	360.80	18.95
6	June	183	142.26	218.54	360.80	16.28
7	July	152	142.26	218.54	360.80	13.52
8	August	122	142.26	218.54	360.80	10.85
9	September	91	142.26	218.54	360.80	8.10
10	October	61	142.26	218.54	360.80	5.43
11	November	30	142.26	218.54	360.80	2.67
12	December	0	142.26	218.54	360.80	0.00
Total Interest Earned on Monthly Contributions over 2017					4,329.60	178.73

A + B

Overall Interest Earned from the 9%	A = K637.50 + B = K178.73	816.23	<i>New (2017 year-end) Balance after crediting of interest:</i>	12,229.16
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11. DOCUMENT CONTROL

Document owner	Chief Executive Officer
File name	Crediting Rate Policy

Document version /change control

Version	Issue date	Author
Version 1	5 July 2014	Arthur Hubbard
Version 2	9 May 2018	Leo Kamara

Document Approvals

Approved by (name)	Title	Signature	Date
Anthony Smare	Chairman - NSL Board		