



# NZSA Investment and Capital Management Policy

## Background

This policy is an update on the Investment and Capital Management policy introduced in June 2017

The Society of Actuaries is a not-for-profit organization. It provides a range of services to members and also governs the actuarial profession in New Zealand.

Its reputation and the quality of services and support are thus of paramount importance to the profession, and so its financial viability over the short, medium and long term must be highly certain.

This document sets out the Society's policy for the management of capital and investments in this context.

## Revenue

The Society's major source of revenue is from annual subscriptions. These have been increasing slowly but consistently over recent years. Revenues have generally been set with the aim of achieving a balanced budget or a small profit. The Society has the right to raise subscriptions in the event of a revenue shortfall.

Advertising revenue provides an additional smaller source of revenue. It is generally around 5% of total revenue, but tends to be variable reflecting movements of the actuarial employment market.

Between 1% and 5% of the society's revenue comes from interest. This reflects the level of funds and interest rates, which are currently relatively low.

The Society also charges for individual events such as conferences and other events. These are priced with the aim of directly offsetting costs, but historically have typically resulted in a net profit. Indemnity insurance is held against the risk of a liability arising from an accident related to conferences.

## Expenses

The society has few fixed expenses.

The biggest single expense is conference costs, which is offset by conference revenue. Conferences and seminars are priced to break even, or make a small profit, but there is the risk that an individual conference could make a big loss due to lower than expected registrations, or unexpectedly large costs. We have liability insurance against deaths or accidents at the conference.

The next biggest expense is for the secretariat, and is approximately half the annual subscriptions. This proportion has been growing over recent years reflecting the growing calls on volunteers' time, and the desire to ensure that support is available to enable that time to be used as effectively as possible. This is comprised of a base cost, and an hourly rate for additional services.



## Assets

The Society has around 80% of its assets in cash and term deposits. The remainder of the assets are accounts receivable, and software.

## Risks

The Society has recently completed a regular review of risks it is exposed to. The most significant risks identified were related to loss of relevance of the profession, rather than to a specific financial loss. These risks are best managed by proactive actions to ensure the ongoing relevance of the profession, rather than by holding significant financial reserves.

The biggest risk we identified was that of a professional complaint, or other legal action. Whilst the Society has Insurance against legal action being taken against it, it is uninsured against the costs involved if we were to initiate legal action, for example in the case of professional misconduct by a member. It is difficult to quantify this risk as the costs vary significantly with individual circumstances. \$150,000 has been adopted as a reasonable maximum cost.

## Policy and Practices

### Minimum Reserve

The minimum reserve should be sufficient to fund the Society through one bad year in the event of a realistic worst case scenario. It is assumed that if the situation were to become longer term it could be managed through adjustments to subscription levels, or expenditure as necessary in the following years' budget. This is calculated as 50% of the average operating expenses over the past 2 years. The 2 year average has been selected to include both a conference and a non-conference year. The expense figure should exclude extraordinary legal costs, to avoid over reserving.

In addition, a reserve of \$150,000 should be held against the need for possible legal expenses.

The reserve is calculated as

Net current assets less (50% average operating expenses + \$150 k)

Net current assets are used to ensure funds are available to meet expenses.

### Tolerance Reserve

The tolerance range for the reserve is between 100% and 150% of the minimum reserve.

### Desired Surplus/ Deficit when funds are within the tolerance Reserve Band

When within the tolerated range of reserve the budget should be set so that

1. The Society is expected to remain within the tolerance reserve at the end of the financial year
2. Each year's income should be sufficient to cover that year's operating expenses
3. Reserves may be used to fund once off initiatives that would give a lasting benefit to the society where this would not take the Society below the target level of surplus.



### Desired Surplus/ Deficit when funds are above the tolerance Reserve Band

The budget should be set so that the Society expects to return to the desired band within 5 years.

Council should consider using these funds to enable additional initiatives that would advance the Society's strategic objectives.

Should no suitable projects are identified then council could consider a reduction of membership fees.

### Desired Surplus/ Deficit when funds are below the tolerance Reserve Band

Where funds are below the target level the goal is to return them to the target level as quickly as possible, but at worst over a 2 year period. Council would consider recommending an increase in membership fees, and / or a reduction in non-essential services.

### Ongoing Review

As part of the recommendations to each AGM the treasurer would advise on the level of surplus relative to the tolerance band, and if it is outside it the plans to return it to that band.

Every three years the treasurer will recommend to council whether the parameters contained in this document remain appropriate.

### Investment Principles

- At any point of time cash or other highly liquid assets should be held of at least 150% of the current liabilities
- Other assets should be held to maximise return subject to a low level of risk. The Society has a low tolerance for market risk as any losses must be funded by members vis subscriptions. Therefore, investments will typically be in the form of Term Deposits.
- All assets should be able to be liquidated within 90 days

### Liquidity Management

A forecast of future cashflows shall be prepared each quarter, with investments managed to ensure that the Society has sufficient cash on hand to meet normal operating expenditure with a buffer.



## Capital Position as at Sept 2021

### Surplus Calculation @ 30/9/21

#### **Minimum Reserve**

##### Expenses

20/21 Operating expenses	299,730
21/22 Forecast expenses	177,100
Average Op Ex	238,415
50% of Average	119,208

Legal Expenses 150,000

Minimum Reserve 269,208

#### **Tolerance reserve**

Min	269,208
Max	403,811

#### **Assets (30/9/21)**

Current Assets	373,523
Current Liabilities	20,263
Total	353,260

**Current Net Assets as a % of min 131%**

**Conclusion: Surplus is within policy range**

This policy was approved by Council on 20 December 2022

*Scott Lewis*

Secretary

*Mat Jensen*

Secretary