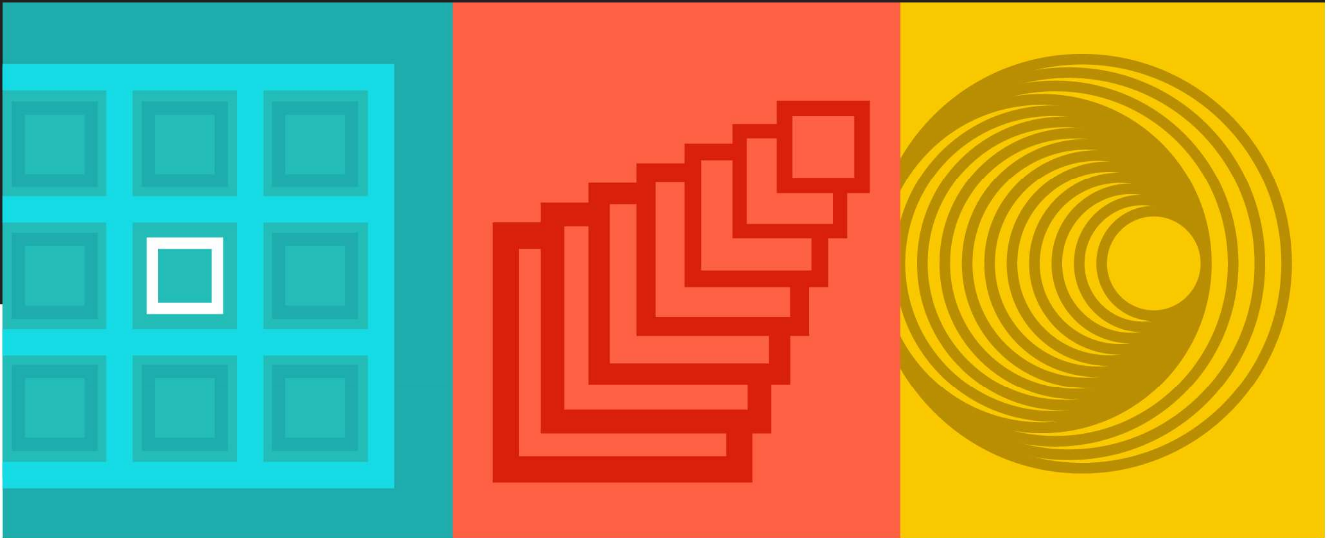
# MSA (Aust.) PTY LIMITED SUPERANNUATION PLAN

(A Sub-Plan within IOOF Employer Master Trust)

## Actuarial Valuation as at 1 July 2020

Prepared by David Lewis FIAA
29 September 2020



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# 1 Executive Summary and Recommendations

## 1.1 Introduction

The MSA (Aust.) Pty. Limited Superannuation Plan (the "Plan") is a sub-plan of the IOOF Employer Master Trust ("IOOF"). The Company, MSA (Aust.) Pty. Limited, is the Plan's sponsor. Death and disability benefits are provided partly from the Plan and partly through insured benefits with IOOF.

The Plan has a defined benefit section and an accumulation section. This report is concerned primarily with the defined benefit section.

The main conclusions and recommendations resulting from my valuation are set out below.

## 1.1 Investments and Insurances

The assets covering the defined benefits are invested in the IOOF MultiMix Conservative Trust. It is considered that these investments are broadly suitable given the Plan's liabilities (i.e. the Plan is closed to new members, has a small number of members and as a result has an increasing average age of members).

I have reviewed the Plan's insurance arrangements and I consider them to be appropriate.

## 1.2 Experience of the Plan

I received membership and asset data from IOOF as at 1 July 2020 to conduct this valuation. At the previous valuation as at 1 July 2017 the Plan had 12 defined benefit members. Over the inter-valuation period this decreased to 8 defined benefit members. The Plan has been closed to new entrants for some time.

Over the inter-valuation period salaries increased at an average rate of 3.4% p.a. compared to the rate assumed at the previous valuation of 4.0% p.a.

The average Plan Earning Rate achieved by the investments over the inter-valuation period was approximately 4.7% p.a. This is less than the rate of 6% p.a. assumed for the previous valuation. The average Plan Crediting Rate over the inter-valuation period was 2.7% and the apparent difference between the Crediting and Earning Rates should be investigated further by the Trustee.

## 1.3 Valuation Methodology and Assumptions

In valuing the Plan's liabilities, I have used the Aggregate Funding Method to determine the recommended Employer contribution rate. This method is explained in Section 5 and is the method used at the previous valuation.

The assumptions relating to the rates of death, disability, resignation and early retirement are based on tables I have developed from the decrement experience of other corporate plans.

Because of the effects of the current economic environment due to COVID-19, for this valuation I have elected to assume a reduced rate of salary increase, 2.5% p.a. (c.f. 4% p.a. at the previous valuation) and a rate of future investment return of 4.5% p.a. (c.f. 6% p.a. at the previous valuation).

## 1.4 Valuation Results

### Financial Status

As at the valuation date the Plan was in a satisfactory financial position with the Vested Benefits Index (VBI) at 107%, up from 102% at the 1 July 2017 valuation, (see Section 7. This is well above the "shortfall limit" set by the Trustee of 97%. Subsequent market movements have likely at least maintained the VBI as at the date of this report (see Section 11). If the VBI falls below the shortfall limit the Australian Prudential Regulation Authority (APRA) is required to be informed and a process put into place to rectify the position.

In my opinion the current shortfall limit of 97% remains appropriate for this Plan.

The VBI is an indication of the financial health of this Plan. To provide further insight into the effect of possible future experience I show projections in Section 7.2 of future values of the VBI assuming three different assumption combinations for investment returns and salary increase rates.

The Accrued Benefits Index increased to 106% from 101% at the previous valuation. Hence, both indices show a satisfactory financial position of the Plan.

### Contribution Rates

Given the financial position as set out in this report I recommend that the Company reduces its contribution rate to 17% of the salaries of DB members (currently 20%). In addition, the Company should contribute at the Superannuation Guarantee legislation required rate for Accumulation members (currently 9.5%) and DB members should

continue to pay their compulsory 5% contributions (or 5.9% if paid by salary sacrifice by the Company).

In addition to the above contributions and to protect the benefits for remaining members, in the event of a benefit (other than a retrenchment benefit) becoming payable at a time where the VBI is less than 100%, I also recommend that an additional payment be paid by the Company calculated as:

(100% – VBI)/0.85 x Amount of benefit payable from the Plan.

Where that benefit is a retrenchment benefit then the additional payment should be calculated as follows:

(100% – VBI)/0.85 x Amount of the leaving service/retirement benefit payable from the Plan; plus

(Retrenchment benefit – Leaving service/retirement benefit)/0.85

While ensuring ongoing solvency, in a closed Plan with a small group of defined benefit members (average age approximately 53) it is necessary to avoid excessive surpluses or deficits being generated. It is appropriate that the vested benefits index should be regularly monitored. I recommend monitoring of the VBI on at least a quarterly basis. Any required adjustments can then be made to the contribution rate as considered appropriate after discussions between the actuary, Trustee and sponsoring Company.

### Insurances

I recommend that the formula used to calculate a defined benefit member's sum assured remain as:

Death/TPD benefit – Vested Benefit (on resignation, or retirement if eligible).

I recommend that the Salary Continuance benefit continue to be fully insured.

## 1.5 Funding and Solvency Certificate

The current Funding and Solvency Certificate was issued on 20 October 2017and covered the period 1 October 2017 to x June 2022. A new Funding and Solvency Certificate has been issued as a result of this valuation.

## 1.6 Sensitivity of the Results

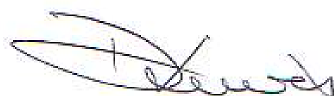
The financial position of the Plan and the contribution rates recommended are sensitive to the assumptions used in my calculations. While, in the long term, I believe that the assumptions are reasonable the future financial position of the Plan will depend on its actual experience in regard to demographic and economic factors, not on the assumptions

about these factors. Further discussion and illustrations of this issue is provided in Section 9.3.

## 1.7 Next Actuarial Valuation

Superannuation legislation requires a valuation every three years and the next full valuation should, therefore, be carried out based on the data as at 1 July 2023. A number of other actuarial documents are required to ensure the continued compliance of the Plan. These are described briefly in Appendix D.

This report, which has been peer reviewed by Richard Drysdale, FIAA, an experienced actuary who is familiar with the Plan, and has been prepared by:



David Lewis FIAA
29 September 2020

# 2 Background

## 2.1 Purposes of the Review

The main purposes of this actuarial review are:

- To examine the financial condition of the Plan as at 1 July 2020;
- To examine the experience of the Plan since the previous review as at 1 July 2017;
- To provide advice on the level of contributions required by the Company to meet the continuing benefit obligations of the Plan;
- To consider the appropriateness of the Plan's investment and insurance arrangements; and
- To comply with Regulation 9.29 of the Superannuation Industry (Supervision) Regulations 1994 and APRA Prudential Standard SPS 160 (Defined Benefits). The Regulation and the APRA Prudential Standard require an actuarial investigation of the Plan to be conducted at least every three years.

## 2.2 Plan history

The Plan is a "successor Plan" to the MSA (Aust.) Pty. Limited Superannuation Fund which was a single employer sponsored superannuation fund. The successor fund transfer occurred effective 21 March 2006. Under the Superannuation (Industry) Supervision Act 1993 ("SIS"), an actuarial valuation is required every three years. This valuation and report covers the period 1 July 2017 to 30 June 2020.

The Trustee is IOOF Investment Management Limited. The Company, MSA (Aust.) Pty. Limited, is the employer sponsor of the Plan.

The Plan is approved under the SIS legislation and hence employer contributions are tax deductible (but subject to tax in the hands of the Trustees) and investment income is subject to concessional rates of tax. The defined benefit section of the Plan is closed to new members.

## 2.3 Investments and Insurance

The assets of the defined benefit section of the Plan are invested in the IOOF MultiMix Conservative Trust option within IOOF. The default option for Accumulation members is the IOOF MultiMix Moderate Growth Trust. Since 2011, the assets covering the defined benefits have been invested in the IOOF MultiMix Conservative Trust. This conservative

investment strategy is consistent with a closed defined benefit section with a small, declining and aging number of members. While this strategy would be expected to reduce the returns achieved in the future, it should also reduce the volatility of those returns. Considerations of this strategy reflected the employer's own ability and desire to accept the implied level of risk and the significance of the liabilities of the defined benefit commitment relative to the risks of the business as a whole. It is considered that the current investment strategy continues to be suitable given the nature of the Plan's liabilities.

Death and total and permanent disability are provided within IOOF. TAL Life Limited is the underwriter of these benefits.

## 2.4 Current Contributions

At the last valuation (effective 1 July 2017) I recommended that the Company contribute at the rate of 20% of the salaries of DB members. Further, I recommended that this rate of contribution continued until the VBI reaches at least 103% at which time the Company contributions could reduce to 15% of total DB members' salaries. In addition, the Company should contribute at the required rate for Accumulation members (9.5%) and DB members should continue to pay their compulsory 5% contributions (or 5.9% if paid by salary sacrifice by the Company).

As I have for this valuation, in 2017 I recommended similar top-up contributions in the event of a benefit becoming payable at a time where the VBI is less than 100%.

## 2.5 Actuarial Certification

Under the SIS legislation an actuarial valuation and report is required to be carried out at least every three years. The report should be available within six months of the valuation date.

A replacement Funding and Solvency Certificate dated 29 September 2020 is attached to this report. It certified that Company contributions at the rates set out in that Certificate, subject to no "Notifiable Events" occurring, would be sufficient to secure the Superannuation Guarantee legislation benefits provided by the Plan until 30 June 2025. Under the Regulations, this Certificate should be replaced by 30 June 2024 or earlier in circumstances as described in the Certificate.

It is a requirement under the Funding and Solvency Certificate that the Trustee monitors "Notifiable Events" as set down in that Certificate and advises the actuary in the event of an occurrence of a Notifiable Event.

A replacement Benefits Certificate dated 29 September 2020 is attached to this report. For Superannuation Guarantee legislation purposes this certificate certified the Minimum

Requisite Benefit ("MRB") and the Notional Employer Contribution Rate to provide the MRB. This replacement Certificate is effective for the period 1 July 2020 to 30 June 2025 but may cease to have effect earlier in circumstances described in the Certificate. It confirmed, subject to certain conditions and to the extent set out in the certificate, that the Company was meeting its Superannuation Guarantee obligations for those employees who were members of this Plan.

# 3 Membership and Salaries

## 3.1 Membership Data

Data for this valuation is based on the membership and review data as at 1 July 2020 as provided by IOOF.

## 3.2 Membership and Salary Details

The details of the membership as at 1 July 2020 are set out in the table below and corresponding figures as at 1 July 2017 are also provided.

| | Category 1 |
|---|---|
| **1 July 2017** | |
| Number | 12 |
| Total Salaries ($'000) | 1,143 |
| Average Salary ($'000) | 95 |
| Average Age | 54.2 |
| Average Service for Benefits (years) | 19.9 |
| | |
| **1 July 2020** | |
| Number | 8 |
| Total Salaries ($'000) | 847 |
| Average Salary ($'000) | 106 |
| Average Age | 52.9 |
| Average Service for Benefits (years) | 19.4 |

In addition, as at 1 July 2020, there were 16 accumulation benefit members with an average account balance of approximately $[redacted].

## 3.3 Membership Reconciliation

The following table reconciles the defined benefit membership changes between 1 July 2017 and 1 July 2020:

| Category | 1 |
|---|---|
| **Active 1 July 2017** | **12** |
| *Exits* | |
| Death | - |
| Disablement | - |
| Retirement before 65 | 3 |
| Retirement after 65 | 1 |
| Withdrawal | - |
| Retrenchments | - |
| **TOTAL EXITS** | 4 |
| **Active 1 July 2020** | **8** |

## 3.4 Salary Inflation

All 8 current defined benefit members were members at the 1 July 2017 valuation of the Plan. The average increase in salary for those members over the three years was 3.4% per annum. This is lower than the rate of salary increase of 4% per annum assumed at the previous valuation.

## 3.5 Membership Movements

For a small group of members it is not possible to make reliable assumptions about future membership movements based on the past experience of this membership group. Hence for many years I have used the decrement experience of other corporate plans.

I have continued to use the assumptions regarding death, disability, resignation and retirement as in previous valuations and as set out in Appendix B to this report.

# 4 Assets and Investments

## 4.1 Plan Accounts

While accounts are required to be prepared and audited for the Master Trust as a whole, no formal accounts are prepared for the Plan by IOOF. Unaudited accounts were prepared by IOOF for the valuation period. Appendix C shows the reconciliation of the Reserve Account from 1 July 2017 to 30 June 2020 based on the IOOF figures. The Reserve Account is the net assets available to meet the benefits for defined benefit members excluding accumulation accounts held by accumulation and defined benefit members.

## 4.2 Plan Investments

The Reserve Account of the Plan was invested in the IOOF MultiMix Conservative Trust option. The assets backing accumulation benefits and additional accumulation accounts for defined benefit members are subject to member investment choice and would have been invested according to that choice or, if no choice was made, into the IOOF MultiMix Moderate Growth Trust.

## 4.3 Investment Objective and Strategy

The investment objective of the IOOF MultiMix Conservative Trust option is:

"To provide stable returns over the medium term by investing in a diversified portfolio of defensive assets with some growth asset exposure, and to achieve a total return after fees in excess of the Trust's benchmark over rolling three-year periods."

The investment strategy of the IOOF MultiMix Conservative Trust option is:

"The Trust generally gains its exposure to a diversified portfolio of investments through a mix of investment managers. The conservative nature of the Trust means it has a greater exposure to income bearing assets such as cash, fixed interest and alternative-defensive with some exposure to growth assets such as Australian and International property and shares.

The Trust is authorized to utilise approved derivative instruments for risk management purposes subject to the specific restriction that the derivative instruments cannot be used to gear portfolio exposure.

The underlying investment managers may utilise strategies for managing currency exposures. The level of currency hedging used for the Trust will vary from time to time.

The Trust has the capacity to apply a currency overlay to manage the Trust's currency risk."

As at 30 June 2020 the ranges, actual exposures and benchmarks for this option were:

| SECTOR | RANGE (%) | ACTUAL (%) | BENCHMARK (%) |
|---|---|---|---|
| Australian Shares | 0 to 20 | 7.7 | 9 |
| International Shares | 0 to 25 | 10.3 | 11 |
| Listed Property Securities | 0 to 20 | 9.9 | 8 |
| Alternative - growth | 0 to 15 | 2.1 | 2 |
| **TOTAL GROWTH ASSETS** | | **30.0** | **30** |
| Diversified Fixed Interest | 30 to 55 | 46.6 | 42 |
| Alternative - defensive | 0 to 20 | 8.8 | 6 |
| Cash | 10 to 35 | 14.6 | 22 |
| **TOTAL DEFENSIVE ASSETS** | | **70.0** | **70** |

The benchmark position is therefore 30% growth assets and 70% defensive assets.

I consider that this is a reasonable investment to back the defined benefit liabilities of the Plan.

## 4.4 Plan Crediting Rate

The crediting rates for the Plan and my estimates of the Plan Earning Rates are set out in the table below. The Plan Crediting Rates were provided by the administrator. The Plan Earning Rates have been calculated based on the investment return divided by the average value of the investments over the year.

| Period | Plan Crediting Rate | Plan Earning Rate |
|---|---|---|
| 1 July 2017 to 30 June 2018 | 3.15% | 6.1% |
| 1 July 2018 to 30 June 2019 | 3.98% | 6.1% |
| 1 July 2019 to 30 June 2020 | 1.01% | 2.2% |
| **Average Rate Per Annum** | 2.7% | 4.7% |

Over the three years the Plan Crediting Rates declared have been lower than my calculation of the Plan Earning Rates. My calculation of the Plan Earning Rate is based on the following formula:

$$\frac{2 \times \text{Investment Earnings}}{\text{Assets at Start of the Year} + \text{Assets at End of the Year} - \text{Investment Earnings}}$$

I was provided with the Trustee's Crediting Rate Policy but had insufficient data to check the calculation of the Plan Crediting Rates. I recommend that these figures are reviewed by the Trustee and considered against my approximate calculations.

The approximate earning rate per annum over the inter-valuation period was 4.7% as compared to the rate assumed at the previous valuation of 6%.

## 4.5 Actuarial Value of Assets

Market value is not necessarily an appropriate value of assets for the purposes of the actuarial valuation as market values can fluctuate widely according to the short-term outlook of the market. Often a "smoothed" or "actuarial" value is used which dampens swings in the Company contribution rate. However, for this valuation I consider it appropriate to use a market value, based on the redemption price of units.

# 5 Valuation Method and Assumptions

## 5.1 Method

The objective of the valuation process is to determine a contribution rate that will ensure that benefits are funded as they arise, and will meet the requirements of the Company and the Trustees with respect to predictability and stability.

For the purposes of this valuation an Aggregate Funding Method has been used. Under this method, both benefit payments and contributions for current members are projected into the future. Included in these projections are allowances for a wide range of factors including investment earnings, salary increases and the chances that members will die, become disabled or withdraw from the Plan at various times in the future.

In this valuation the present value of projected benefits is apportioned between liabilities relating to service already completed at the valuation date ("Past Service") and service to be completed after the valuation date ("Future Service"). The value of the Past Service Liability is then compared with actuarial value of the assets. Any "surplus" or "deficit" arising as a result may be used to offset the Company contributions required to support the Future Service Liability.

## 5.2 Valuation Assumptions

In order to determine the expected size of future benefits and the value of those future benefits, it is necessary to make assumptions about a wide range of factors. These assumptions include:

- The rate of salary growth - Given the recent economic environment and the history of salary increases over the last three years, for this valuation I have decided to reduce the salary increase assumption of 4% at the previous valuation to 2.5% per annum for the current valuation.
- The rate of investment return - In light of the recent economic environment and the returns achieved over the last 3 years, for this valuation I have decided to reduce the rate of investment return assumption of 6% used at the previous valuation to 4.5% per annum for the current valuation. See Appendix B for further details.
- The probabilities of members dying, becoming totally and permanently disabled, resigning or retiring from the Plan. I have used the same assumptions as in the previous valuation.

Further information about the assumptions adopted for the current valuation are set out in detail in Appendix B.

## 5.3 Real Return

Of particular importance to the ongoing position of the Plan is the degree to which investment returns (on the actuarial value of assets) exceed salary increases. This excess return is often referred to as the "real return" and measures whether the Plan's assets grow at a faster rate than its liabilities.

This valuation includes a "real return" of 1.9% per annum i.e. (1.045/1.025 - 1) x 100% and this was very close to that assumed in the previous valuation. The actual experience during the inter-valuation period was effectively 1.2% per annum i.e. (1.047/1.034 – 1) x 100% (compared with 1.2% per annum at the previous valuation). Overall, therefore, the inter-valuation experience has had a slightly negative effect on the financial position of the Plan.

# 6 Valuation Results

## 6.1 Summary of Results

The results of the calculations described in the previous Section of this report are set out in the following table.

| | 1 July 2020 ($,000) | 1 July 2017 ($'000) |
|---|---|---|
| **PAST SERVICE** | | |
| Retirement | | |
| Death | | |
| Permanent Disability | | |
| Resignation | | |
| Adjustment for minimum of LSB | | |
| **Defined Benefit members** | | |
| Additional DB Accounts | | |
| Accumulation Member Accounts | | |
| **Total Past Service Liability** | | |
| **LESS** | | |
| **Value of Assets** | | |
| **Surplus/(Deficit)** | | |
| **FUTURE SERVICE** | | |
| Retirement | | |
| Death | | |
| Permanent Disability | | |
| Withdrawal | | |
| **Total Future Service Liability** | | |
| Future Member Contributions | 301 | 368 |
| Residual | 710 | 866 |
| **NET COMPANY RATE** | 11.8% | 11.8% |
| SCI Insurance | 0.9% | 0.9% |
| Expenses | 5.0% | 0.6% |
| Tax | 1.5% | 1.5% |
| **GROSS COMPANY RATE** | 19.2% | 14.8% |
| **Gross Company Rate adjusted for Surplus/(Deficit)** | 17.1% | 14.7% |

The "Adjustment for minimum of LSB" is to set the past service reserve to a minimum of the leaving service benefit for all defined benefit members.

## 6.2 Past Service Funding Analysis

The first section of the table above headed "Past Service" shows that the actuarial value of the Plan's assets of $5.125m exceeds the present value of benefits arising from past service for existing members, $4.998m, by $0.127m. This shows that, on the assumptions used for this valuation, the Plan will meet all its future liabilities arising out of membership to 1 July 2020. This excess could be used to reduce future employer contributions to the Plan by 1.9% of total Defined Benefit members' salaries.

## 6.3 Future Service Costs

The second section of the table shows the Company contribution rates arising from the future service of existing members. The average Company contribution rate required to support future service benefits for defined benefit members is 19.2% of salaries (14.8% of salaries at the previous valuation), after allowances have been made for the flat tax of 15% payable on Company contributions. This increase is due to the inclusion of all expenses taken from the DB assets at this valuation. Previously I had only included the expenses excluding advice fees paid to your advisers.

## 6.4 Total Contribution Rate

Combining the effect of the past service excess of $0.127m (equivalent to a gross of tax contribution rate of 1.9%) with the future service cost of 19.2% gives a Company contribution rate of 17.3% of salaries (14.7% at the previous valuation). This is the calculated contribution rate given that there are no other considerations to take into account. Further discussion of this rate is provided in Section 9.

The increase in the calculated Company contribution rate is mainly due to the higher allowance made for future expenses. This additional allowance for expenses is not a result of an increase in the $ value of expenses but as a result of the expenses becoming more significant as a percentage of the salaries of active members as the membership declines. Hence, I have decided to recognise that directly in the calculation of the future contribution rate.

The improved financial position in regard to Past Service is the result of:

1. the additional Company contribution over the calculated rate paid over the last three years (i.e. 20% of Salaries as against a calculated rate of 14.7% of Salaries); and

2. the surplus arising from the Plan Crediting Rate applied over the last three years being on average 2% p.a. less than my calculation of the Plan Earning Rate.

These favourable matters have been offset to some extent by the slightly lower "real" rate of return (see Section 5.3) achieved by the Plan over that period.

Please note that member contributions would be payable in addition to the Company rate shown in the above table.

# 7 Coverage of Vested and Accrued Benefits

## 7.1 Background

The aim of the indices below is to examine the financial state of the Plan at the valuation date by comparing the total assets of the Plan with members' entitlements according to the Trust Deed.

## 7.2 First Measure - Vested Benefits Index (VBI)

The first measure tests the ability of the Plan's assets to meet members' immediate vested entitlements for only the defined benefits. Members' vested entitlements are the benefits payable on members leaving employment and becoming entitled to a resignation benefit, or an early retirement benefit if the member is 55 or older.

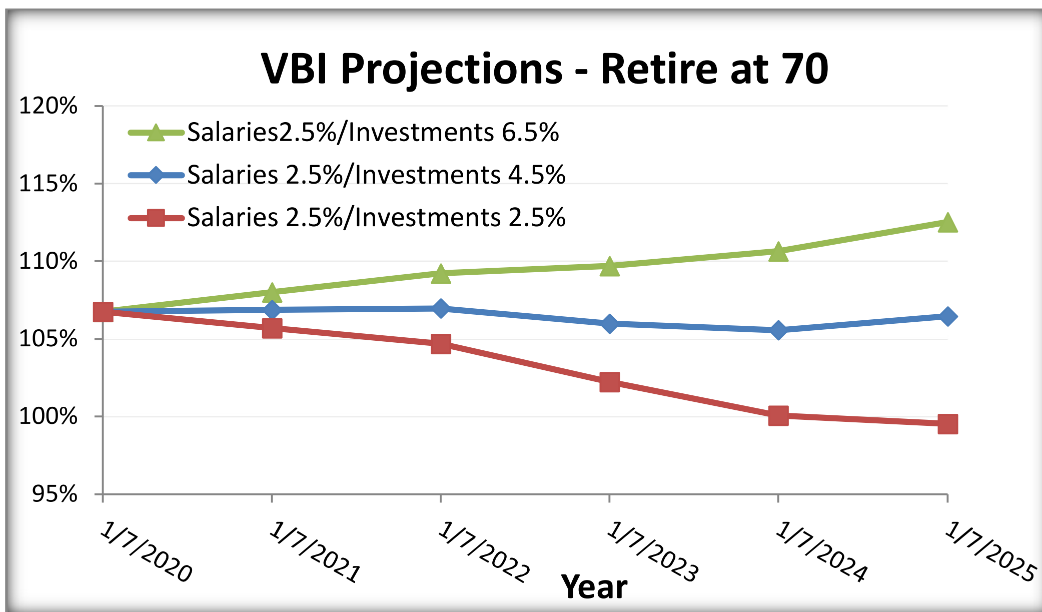
| | 1 July 2020 ($'000) | 1 July 2017 ($'000) |
|---|---|---|
| (i) Defined Benefit Members' Vested Benefits | [redacted] | [redacted] |
| (ii) Additional DB Accounts and Accumulation Members' Accounts | [redacted] | [redacted] |
| (iii) Market Value of Assets | [redacted] | [redacted] |
| **Vested Benefits Index i.e. ((iii)-(ii))/(i)** | 107% | 102% |

The VBI is a very important test of the immediate solvency of the Plan. The Plan's index value, 107% (102% at the previous valuation), is greater than 100% and shows that there are sufficient assets to meet all immediate benefits payable at the valuation date. This means that the Plan was in an "satisfactory financial position" in accordance with Section 130 of SIS.

### 7.2.1. Projection of the Vested Benefit Index

I consider that in the circumstances of this Plan (a small number of members, an aging membership group and closed to new members) the most important measure of the financial position is the VBI. I therefore provide projections of the VBI below based on various sets of assumptions concerning investment returns and salary increases. In these projections I assume that all existing members survive in the Plan and retire at age 70 and that contributions are paid at the rate recommended in this report (17% of DB members' salaries). I have used the financial assumptions as set out in this report (4.5% p.a. investment return/2.5% p.a. salary increases), a conservative set of assumptions (2.5%

p.a. investment returns and 2.5% p.a. salary increases) and a favourable set of assumptions (6.5% p.a. investment returns and 2.5% p. a. salary increases). It is the gap between the salary increase and investment return assumptions that is important rather than the absolute value of each. I plot the results below.




Of course, the actual experience of the Plan in terms of salary increases and investment return will not emerge as a consistent gap between salary increases and investment returns on a year by year basis. While the salary increase rate may well be reasonably stable around the 2.5% level over the period we are very aware from the experience of recent years that investment returns can vary from year to year very dramatically. In fact, it was to reduce this volatility of return that influenced the decision to change the investment strategy to the Conservative Trust. Hence it is likely that the results above will over or underestimate the position at a particular year end. However, I would have a reasonable expectation that the illustrations of the possible outcomes at the end of five years would represent the likely range of outcomes after that time. The exercise of projecting results over this period is to provide a "feel" for the possible volatility and range of likely outcomes.

### 7.2.2. Retrenchment Benefits

The benefit payable to a member on retrenchment is calculated in the same way as for early retirement but can be payable on retrenchment before age 55. Hence, the benefit paid to any member younger than age 55 who is retrenched will be greater than the vested benefit payable on resignation. I calculate that if all current defined benefit members had been retrenched on 1 July 2020 then the total amounts payable (excluding any voluntary accounts) would have been $2,286,000 (c.f. the total vested benefits for this group of

$2,175,000). As the assets available for the defined benefits are $2,322,000, there is still a small surplus if all Defined benefit members took their retrenchment benefit as at 1 July 2020.

## 7.3 Second Measure - Accrued Benefits Index

The second measure tests the progress of the Plan in setting aside assets to meet salary related retirement benefits. It is derived by comparing the assets to the "Accrued Benefits" of all defined benefit members. "Accrued Benefits" are the same as the "Past Service Liabilities" shown in Section 6.

| | | 1 July 2020 ($'000) | 1 July 2017 ($'000) |
|---|---|---|---|
| **A.** | **Value of members' accrued benefits** | | |
| **B.** | **Additional DB Accounts and Accumulation Members' Accounts** | | |
| **C.** | **Value of assets** | | |
| **Accrued Benefits Index ("ABI") (C-B)/A** | | 106% | 101% |

Under the Aggregate Funding Method, the ABI normally increases above 100% during the ear1y years of a Plan's life, falling back to 100% as the Plan matures. The value of 106% (101% at the previous valuation) shows an acceptable state of funding. If contributions are paid at the recommended rate and the actual experience of the Plan is in line with the assumptions made in this report then I would expect the Accrued Benefits Index to be above 100% at the time of the next triennial valuation.

# 8 Insurance

As part of the valuation the levels and appropriateness of the benefits payable under the Plan's insurance policies have been investigated. The Death & Total and Permanent Disablement Benefits are partly insured under an insurance policy through IOOF. The benefit payable on death or permanent disability of a member is normally considerably in excess of the amount of money then available in the Plan with respect to that member. In a Plan with relatively few members the amount payable in such an event could cause a significant strain on the assets. Hence it is prudent to insure some of the amount payable. The formula currently used to calculate a defined benefit member's sum assured is:

Death/TPD Benefit – Vested Benefit (on resignation, or retirement if eligible).

Ignoring underwriting restrictions insurance of the recommended component of benefits for defined benefit members results in the following aggregate Plan exposures:

| | **$'000** |
|---|---|
| Total Defined Benefit Death and TPD Benefits | 4,667 |
| Total Sums Insured | (1,812) |
| Residual Liability | 2,855 |
| Less DB Accumulation Accounts | 681 |
| Net Residual Liability | 2,174 |
| Total Defined Benefit Plan Assets | 2,321 |
| "Excess" | 147 |

Hence, on this basis, there is a small excess if all members were to die or become totally and permanently disabled. I therefore recommend that the formula for calculating the insured part of each member's benefit remain unchanged.

The Total and Temporary Disability (Salary Continuance) benefit is fully insured under an insurance policy with TAL Life Limited through IOOF. I recommend that this full insurance approach be continued for this benefit.

# 9 Recommended Company Contribution Rate

## 9.1 Matters to Consider

At the last valuation of the Plan (effective 1 July 2017) Company contributions were recommended to be paid at the rate of 20% of the salaries of DB members. Further, I recommended that the contribution rate could reduce to 15% of DB Salaries once the VBI reached at least 103%. In addition, the Company should contribute at the required rate for Accumulation members (9.5%) and DB members should continue to pay their compulsory 5% contributions (or 5.9% if paid by salary sacrifice by the Company).

I also recommended certain top-up contributions in the event of a benefit becoming payable at a time where the VBI is less than 100%.

Section 6 indicates that the Company cost of funding benefits in respect of defined benefit members is 17.3%. p.a. Member contributions are also required at 5.0% of salaries (5.9% if paid by salary sacrifice). In addition, the Company should contribute at the required rate for Accumulation members (at least 9.5% to meet Superannuation Guarantee requirements).

Since the defined benefit section of the Plan is closed to new entrants it is not necessary to consider the effect of new entrants in my recommendations.

In Section 7 we discuss the recent financial history of the Plan and the current Vested Benefit Index (107%) and Accrued Benefit Index (106%). As discussed, these indices now show an acceptable financial position.

## 9.2 Recommended Contributions

Given the financial position as set out above and the projections in Section 7.2, I recommend that the Company reduces its contribution rate to 17% of the salaries of DB members (currently 20%). In addition, the Company should contribute at the required rate for Accumulation members (9.5%) and DB members should continue to pay their compulsory 5% contributions (or 5.9% if paid by salary sacrifice by the Company).

In addition, and as in previous valuations, to protect the benefits for remaining members, in the event of a benefit (other than a retrenchment benefit) becoming payable at a time where the VBI is less than 100%, I also recommend that an additional payment be paid by the Company calculated as:

(100% – VBI)/0.85 x Amount of benefit payable from the Plan.

Where that benefit is a retrenchment benefit then the additional payment should be calculated as follows:

> (100% – VBI)/0.85 x Amount of the leaving service/retirement benefit payable from the Plan
> plus
> (Retrenchment benefit – Leaving service/retirement benefit)/0.85

As discussed in previous valuation reports, it is appropriate that the Vested Benefits Index should continue to be regularly monitored. Given the financial position I recommend monitoring of the VBI on a quarterly basis. Any required adjustments can then be made to the contribution rate as considered appropriate after discussions between the actuary, Trustee and sponsoring Company.

## 9.3 Sensitivity of the Results

The financial position of the Plan and the contribution rates recommended are sensitive to the assumptions used in my calculations. While, in the long term, I believe that the assumptions are reasonable the future financial position of the Plan will depend on its actual experience in regard to demographic and economic factors, not on the assumptions about these factors. Also, in the short term, the assumptions could vary very significantly to the actual experience of the Plan and therefore effect the future short-term financial position very significantly. It is to monitor these short-term variations that we should regularly consider the Vested Benefit Index and APRA requires at least triennial actuarial investigations.

To illustrate the sensitivity of the results to the assumptions used I have re-calculated figures using a 3.5% per annum assumption for future investment returns (rather than the 4.5% rate). My results on that basis show a reduction in the actuarial past service excess (from $127,000 to $98,000). In addition, the calculated contribution rate would be 18.0% of salaries rather than 17.3% calculated above.

# 10 Material Risks

Professional Standard PS 400 issued by the Institute of Actuaries of Australia for investigations of defined benefit superannuation funds, requires the actuary to consider and document any material risks to the fund.

The Plan is subject to a number of risks that could have an impact on the funding status or the liquidity of the Fund and consequently the Fund’s ability to secure accrued benefits and to meet benefit payments in a timely manner. The particular risks are:

1. Significant adverse variations in future experience of investment returns and salary increases for defined benefit members;
2. A number of benefits becoming payable when there are insufficient liquid assets to meet those payments; and
3. The inability (or refusal) of the Company to pay the contributions as recommended.

I believe that the chosen financial assumptions are reasonable and the Plan is currently in a reasonable financial position with a degree of surplus assets

I am satisfied that there is sufficient liquidity in the Plan to meet benefits and other payments as and when they arise.

Given the history of the Company in regard to meeting its contribution obligations, I do not see a material risk to the Plan in the Company not meeting its obligations in the future.

Given the small number of members it is possible that the Company may at some stage investigate termination of the defined benefit section of the Plan, but this issue has not been discussed with the Actuary by the Trustee or by the Company in recent years.

There are other risks associated with the Plan, such as the possibility of increasing expenses and insurance premiums, but I do not consider those risks to be material at this time.

# 11 Events Since the Valuation Date

Since 1 July 2020, investment markets generally have recovered somewhat. It is worth noting that the Conservative Trust has returned over 1% from 1 July 2020 to 17 September 2020 and hence it is likely that the VBI as at the current time remains above 100%.

Therefore, it is reasonable to assume that the financial position as at the date of this report will be in line with the levels shown as at 1 July 2020

# 12 APRA Prudential Standards

From 1 July 2013 APRA Prudential Standard SPS 160 Defined Benefit Matters came into effect. Under this Standard the Trustee is required to:

1. set a shortfall limit for each plan, and monitor coverage of vested benefits to that limit;
2. arrange regular actuarial valuations to monitor the standard set by that shortfall limit; and
3. review that shortfall limit each time the actuary prepares an actuarial investigation or valuation.

The Trustee must set a shortfall limit at a level where it reasonably expects the employer can rectify any funding shortfall within one year, without the need for immediate action to restore the fund to a satisfactory financial position (VBI of 100%). In correspondence with me on 6 August 2013 I confirmed with the Trustee that I considered a Shortfall Limit of 97% would be appropriate for the Defined Benefit section of the Plan. I confirm that, in my opinion, the shortfall limit of 97% remains appropriate for this Plan.

## 12.1 Actuarial Certification and Reporting

As set out in Section 2.5 above, various actuarial certifications are attached to this report.

## 12.2 Superannuation Guarantee Changes from 1 July 2008

Changes to the Superannuation Guarantee Administration Act came into effect on 1 July 2008. In order for employers to meet their Superannuation Guarantee (SG) obligation for an employee these changes required that minimum superannuation contributions would have to be paid at the prescribed rate (currently 9.5%) of Ordinary Time Earnings (OTE). The SG rules up to 30 June 2008 allowed the earnings base on which contributions could be paid to be less than OTE if, prior to August 1991, contributions to superannuation were paid on an earnings base of less than OTE.

It was agreed that the Minimum Requisite Benefit (as set down in the Benefit Certificate) from 1 July 2008 be calculated based on the prescribed rate of Ordinary Time Earnings and that this figure be reported to IOOF as part of the contribution schedules provided to it.

While the rate of 9.5% is legislated to rise to 12% over the next 4 years with the first increase to 10% from 1 July 2021, there is considerable debate as to whether this legislated requirement will in fact be changed.

## 12.3 Notional Taxed Contributions

In a letter dated 18 January 2008 I provided certification of the Notional Taxed Contributions ("NTC") for defined benefit members of the Plan as per the Income Tax Assessment Amendment Regulations 2007 (No. 3), as amended. NTCs are required so that the Trustee can calculate and report these notional amounts to the ATO. NTCs notionally paid in the year count towards the total Concessional Contributions paid by or on behalf of that member for the 2007/08 and subsequent tax years.

I provided a revised NTC certification in a letter dated 1 July 2013. This was required as a result of the increases to the prescribed rate of SG then legislated. I provided further revised certification in a letter dated 16 May 2016 following further changes in SG requirements.

## 12.4 Minimum Benefits

As was done at the previous valuation, for the purposes of this valuation I have set a minimum benefit for all lump sum benefits (death, total and permanent disability, resignation and retirement) equal to the minimum required under Superannuation Guarantee legislation.

## 12.5 APRA reporting

The following statements are required in regard to the Trustee's reporting requirements to APRA:

- A Shortfall Limit of 97% was set for this Plan as discussed with the Trustee during July 2013 and confirmed by me in an email dated 6 August 2013. I consider that this limit remains appropriate for the Plan;
- I provide a spreadsheet with this report showing the accrued benefits as at 1 July 2020 for defined benefit members (excluding any allowance for additional accumulation accounts but including deductions for any Surcharge Accounts);
- I confirm that the weighted average term of defined benefit liabilities is 3.5 years;
- I confirm that as at 1 July 2020 the net assets meeting the defined benefit liabilities cover the Minimum Requisite Benefits for defined benefit members.

# Appendix A. Summary of Benefits and Contributions

Full details of the benefit and contribution provisions of the Plan are contained in the Plan Summary issued by the Trustee of SignatureSuper. A summary of these provisions for defined benefit members is set out below.

## DEFINITIONS

**Annual Salary:**

The annual rate of salary as advised to the Trustees by the Company.

**Final Average Salary ("FAS"):**

The average of the member's salary in the 36 months immediately preceding the date of retirement.

**Normal Retirement Date:**

The member's 65th Birthday.

**Previous Fund**

The MSA (Aust.) Pty. Limited Superannuation Fund.

**Review Date:**

1st July each year.

**Supplementary Account:**

Voluntary contributions and rollovers from other funds accumulated with investment return.

**Years of Membership:**

Calculated in years and complete months as the period during which the member contributed to the Plan or Previous Fund.

## DESCRIPTION OF CATEGORIES

Benefit Categories:

| | |
|---|---|
| Category 1 | Defined Benefit member |
| Category 2 | Executive Staff Defined Benefit member (no members) |
| Category 3 | Accumulation Benefit member |

A member may be in a defined benefit category and if the member has additional voluntary accounts will be in the accumulation category for those additional voluntary accounts.

## ELIGIBILITY AND CONTRIBUTIONS

**Eligibility:**

Categories 1 & 2 are closed to new members.

Category 3 is open to new members.

**Contributions:**

Members:

| Category | Compulsory Contribution Rate (% of Salary) |
|---|---|
| 1 & 2<br>3 | 5<br>Nil |

In addition members can make voluntary contributions.

Company:

| Category | Contribution Rate (% of Salary) |
|---|---|
| 1 & 2<br>3 | balance of the cost of benefits<br>9.5%. |

## BENEFITS

### DEFINED BENEFIT CATEGORIES 1 & 2

**Normal Retirement:**

A lump sum benefit calculated as a multiple of FAS. The multiple is calculated as the sum of:

12.5% for each year of Category 1 membership prior to 1 December 1994, plus
15.0% for each year of Category 1 membership from 1 December 1994.

15.0% for each year of Category 2 membership prior to 1 December 1994, plus
17.5% for each year of Category 2 membership from 1 December 1994.

Plus

The balance of the member's supplementary account.

**Late Retirement:**

For members who remain in service after age 65 (to a maximum of age 70) the amount paid is the benefit at calculated as for Normal Retirement but based on Membership and Salary to the actual retirement date. (The benefit after age 70 is not defined).

**Early Retirement:**

Early retirement is available after age 55, or at any time as a result of ill health, retrenchment or re-organization of the employer. Some female members may retire from age 50 with Company consent.

The benefit payable is calculated in the same manner as the Normal Retirement Benefit, but is based on service and FAS at the date of early retirement.

**Death:**

*Before Normal Retirement Date:*

A lump sum benefit calculated as the benefit that would have been payable on normal retirement at age 65 calculated assuming an unaltered Salary to normal retirement date.

*After Normal Retirement Date:*

A lump sum benefit calculated as the benefit that would have been payable if the member had retired on the day prior to death.

**Total and Permanent Disablement:**

A lump sum benefit calculated as the death benefit.

**Total and Temporary Disablement (Salary Continuance):**

After three months disability, a monthly income benefit of 75% of salary payable until recovery, death or for a maximum of two years.

Withdrawal:

2 x member's accumulated compulsory (5%) contributions; plus

The balance of the member's supplementary account.

**Retrenchment/Ill Health Benefit**

Calculated as for the Early Retirement benefit.

**Additional Benefits**

The Surcharge Account is subtracted from all benefits.

### SGC Benefits

All lump sum benefits are subject to the application of a minimum benefit relating to the Superannuation Guarantee legislation.

## CATEGORY 3

The Company makes a contribution of 9.5% of salary. 1% of this is used to meet expenses and the cost of insurances and the balance invested on behalf of the member. Category 3 members receive a benefit equal to the sum of all accounts held in the accumulation section.

On death and TPD the value of the member's accounts is increased by an insured amount calculated as:

2 x Salary on death prior to age 65.

# Appendix B. Actuarial Assumptions

In order to carry out the valuation it is necessary to make certain assumptions about the size of the future cash flows into and out of the Plan and the likelihood of these cash flows occurring. The assumptions made in this valuation can be divided into two types, financial and demographic assumptions.

## B.1 Financial Assumptions

### B.1.1 Real Rate of Investment Return

The most significant assumption made in an actuarial valuation is the long term future real rate of investment return. This is the excess of the assumed future rate of investment return over the assumed rate of salary increase. The assumed future investment return, salary growth and also the real rate of return are as set out below

| | **%P.A. at 1 July 2020** | **% P.A. at 1 July 2017** |
|---|---|---|
| Investment Return (A) | 4.5 | 6.0 |
| Salary Inflation (B) | 2.5 | 4.0 |
| Real Rate of Return ((1+A)/(1+B) – 1) | 1.9 | 1.9 |

### B.1.2 Administration Expenses

In the previous valuation, the assumption on the level of future expenses, in excess of those deducted from members' accounts, was 1.5% pa of members' salaries. For this valuation I have assumed a rate of 5% to include adviser fees.

### B.1.3 Investment and Tax Expenses

The assumed investment return has been determined after allowance for investment expenses and tax on investment income and hence no specific allowance has been included for this item.

## B.2 Demographic Assumptions

In order to evaluate the cost of future benefits, I have used assumptions as to rates of mortality, withdrawals and early retirements. The rates used are the same as those used in the previous actuarial valuation of the Plan in 2017.

The table below provides a sample of the rates used.

## Appendix B

Exits per 100,000 Members

**Assumed number of members leaving at each age last birthday per 100,000 members at that age**

| | **Death** | **Disability** | **Retirement** | **Resignation** |
|---|---|---|---|---|
| 20 | 90 | 10 | - | 15,000 |
| 25 | 70 | 20 | - | 15,000 |
| 30 | 50 | 30 | - | 15,000 |
| 35 | 75 | 55 | - | 10,000 |
| 40 | 100 | 80 | - | 5,000 |
| 45 | 175 | 190 | - | 2,000 |
| 50 | 250 | 300 | - | - |
| 55 | 440 | 745 | 10,000 | - |
| 60 | 630 | 1,190 | 30,000 | - |
| 65 | 1,000 | 950 | 50,000 | - |
| 70 | - | - | 100,000 | - |

# Appendix C. Change in Net Asset Value

Based on figures supplied by IOOF I set out below a reconciliation of the movement in the Net Assets in respect of the defined benefit Reserve of the Plan for the period 1 July 2017 to 30 June 2020. I then add back the amount held by accumulation members and the additional accumulation accounts of defined benefit members.

| | $ | $ |
|---|---|---|
| **NET ASSETS AT 1 July 2017** | | |
| **Investment Revenue** | | |
| Change in Market Value | | |
| | | |
| **Contributions** | | |
| Member Contributions | | |
| Member Contributions by Salary Sacrifice | | |
| Employer Contributions | | |
| | | |
| **Expenses** | | |
| Membership Fees | | |
| Insurance Expense | | |
| Other Fees | | |
| Asset Fees | | |
| | | |
| **Income Tax Expense** | | |
| **Benefits Paid** | | |
| **Net Change in Position** | | |
| Adjustment | | |
| **NET ASSETS AT 30 June 2020** | | |
| Additional Accumulation Accounts for DB members | | |
| Accumulation member accounts | | |
| Total of Accumulation Accounts | | |
| **TOTAL PLAN NET ASSETS** | | |

The above summary excludes administration and investment expenses that are deducted from the assets before the unit price is struck.

# Appendix D. Other Actuarial Documents

There are a number of other documents that must be provided by the actuary of a defined benefit superannuation fund. Brief details are provided in this Appendix.

## D.1 AAS1056 "Superannuation Entities"

This standard governs preparation of financial statements for defined benefit superannuation funds. It includes specifications for the calculation and disclosure of the "accrued benefits" of the Plan.

The Actuaries Institute of Australia has issued Guidance Note 454 dealing with the provision of AAS 1056 advice by actuaries.

This statement is contained below.

## D.2 Benefit Certificate

This is a certificate provided by the actuary as evidence that the Plan benefits specified in the Trust Deed are adequate to meet the requirements of the Superannuation Guarantee Legislation.

This certificate is typically updated once every four or five years or when the Plan benefits are altered. The Institute of Actuaries of Australia has issued Professional Standard 403 dealing with the Benefit Certificates.

The current Benefit Certificate Benefit Certificate was issued on 20 October 2017 and expires on 30 June 2022. I have issued a new Certificate dated 29 September 2020 as part of this valuation

## D.3 Funding and Solvency Certificate

This is a certificate that the Trustee must, under the Superannuation Industry (Supervision) Act 1993, obtain from the Plan actuary. It serves three primary purposes:

- It certifies the immediate solvency of the Plan with respect to Superannuation Guarantee benefits,
- It sets minimum Company contribution rates necessary to ensure that the Plan continues to be able to provide Superannuation Guarantee benefits, and
- It sets limits for the Plan experience – any events outside these boundaries require a new certificate to be issued.

This certificate would typically be updated every three years as part of the actuarial valuation. However, it must be updated where the Plan experience falls outside certain boundaries. The Actuaries Institute of Australia has issued Guidance Note 461 dealing with the Funding and Solvency Certificates.

The current certificate covers the period 1 October 2017 to 30 June 2022. I have issued a replacement Funding & Certificate dated 29 September 2020 with this report.

## D.4 Short Report for Members

Regulation 2.41 of the Superannuation Industry (Supervision) Act 1993 requires that a copy of the most recent "actuarial report" be provided to a member on request. Regulation 9.31 specifies that this "actuarial report" must contain:

- A statement of the value of assets of the Plan at the Valuation Date,
- A statement of the actuary's opinion on whether, at the Valuation Date, the value of the assets of the Plan is adequate to meet the value of the liabilities of the Plan in respect of accrued benefits…",
- A statement recommending Company contribution rates,
- A statement about whether the financial position of the Plan is "unsatisfactory" – i.e. whether vested benefits are covered by assets, and
- A statement that:
    - all necessary Funding and Solvency Certificates have been obtained, and
    - a statement about the projected solvency of the Plan over the next three years.

This short report is set out below.

# Appendix E. AAS 1056

**AAS 1056 REPORTING OF "ACCRUED BENEFITS' AS AT 1 July 2020**

This statement has been prepared for the purposes of complying with AAS 1056 and has been completed at the request of the Trustee of the MSA (Aust.) Pty Ltd Superannuation Plan.

For the purposes of AAS 1056 the following amounts have been determined as at the Valuation Date, 1 July 2020

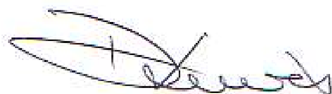
| | As at 1 July 2020 ($'000) |
|---|---|
| Value of Vested Benefits | |
| Value of Accrued Benefits | |
| Net Market Value of Assets | |

Accrued Benefits are the total present values of expected future benefits payments which have accrued prior to the Valuation Date. The assumptions used include a discount rate of 4.5% pa and salary growth of 2.5% pa. The discount rate has been determined using the "return on assets" approach described in Guidance Note 454 issued by the Actuaries Institute of Australia. The decrement assumptions for retirement, resignation, death and disability are based on overall experience of similar corporate funds.

The Accrued Benefits for each member have been calculated subject to a minimum of the member's vested benefit.

Vested Benefits are the total benefits payable on the Valuation Date if all members voluntarily exited the Plan.

The value of Accrued Benefits and the value of Vested Benefits do not include any value for accumulation member accounts nor for voluntary accumulation accounts of defined benefit members.



David Lewis FIAA
29 September 2020

# Appendix F. Short Report for Members

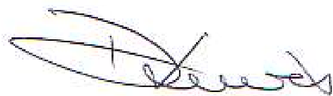
I, David Lewis, have carried out an actuarial valuation of the MSA (Aust.) Pty Ltd Superannuation Plan as at 1 July 2020 and hereby certify the following:

- The value of Plan assets, including assets meeting accumulation member benefits and all benefits of Defined Benefit members, as at I July 2020 was
- The value of Plan assets was adequate to meet the liabilities of the Plan in respect of members' vested benefits,
- The value of the Plan assets was adequate to meet the value of the liabilities in the Plan in respect of accrued benefits,

Given the financial position, I recommend that the Company contributes at the Rate of 20% of the Salaries of defined benefit members, subject to review at least quarterly. In addition, the Company should contribute at the required rate for Accumulation members (currently 9.5%) and DB members should continue to pay their compulsory 5% contributions (or 5.9% if paid by salary sacrifice by the Company).

A new Benefit Certificate and a new Funding and Solvency Certificate have been issued for the Plan.

I expect the Plan to remain able to meet members' vested benefits over the period from 1 July 2020 to 30 June 2023.



David Lewis FIAA
29 September 2020

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