Mercer

Report to the Trustee on the Actuarial Investigation as at 30 September 2021

IAG Superannuation Plan

29 March 2022

welcome to brighter

Contents

1. Key Results and Recommendations ... 1

2. Introduction ... 5

3. Experience since the last review ... 7

4. Actuarial assumptions ... 10

5. Assets ... 15

6. The Actuarial Approach ... 19

7. Financial Position of the Plan ... 21

8. Key Risks ... 26

9. Insurance and Related Risks ... 29

10. Pension Liabilities and Related Risks ... 32

11. Prudential Standards ... 34

12. Actuarial Certification ... 38

Appendix A: Plan Design ... 41

Appendix B: Data and Decrement Assumptions ... 54

Appendix C: Calculation of the Actuarial Value of Accrued Benefits ... 56

1

Key Results and Recommendations

This report on the actuarial investigation of the IAG Superannuation Plan (the Plan) as at 30 September 2021 has been prepared to meet the requirements of the Plan's governing rules and the SIS legislation. The Plan is a sub-plan of Australian Retirement Trust (the Fund).

The Australian Retirement Trust (the Fund) was formed effective 28 February 2022 through the merger of Sunsuper Superannuation Fund and QSuper. All Sunsuper Superannuation Fund and QSuper members have become a part of Australian Retirement Trust. There was no change to the underlying benefits of Plan members.

This report should not be relied upon for any other purpose or by any party other than Australian Retirement Trust Pty Ltd (the Trustee) of the Plan. Mercer is not responsible for the consequences of any other use. This report should be considered in its entirety and not distributed in parts. The Trustee should share this report with Insurance Australia Group Services Pty Ltd (IAG, the Employer) and any associated employers who contribute to the Plan. The Employer may consider obtaining separate actuarial advice on the recommendations contained in the report.

Change in Financial Position

The following table summarises the Plan's financial position, at both this and the previous actuarial investigation.

Defined Benefits Only*	Position at 30 September 2021 $000	Asset Coverage	Coverage at 14 November 2020
Assets	200,278		
Vested Benefits (Lump Sum only)	159,200	125.8%	113.8%
Vested Benefits (Lump Sum or Pension)	167,544	119.5%	111.3%
Liability for Actuarial Value of Accrued Benefits	171,272	116.9%	110.2%
Liability for SG Minimum Benefits	137,563	145.6%	132.7%

The benefit totals include the actuarial value of the current lifetime pension liability of $80,496,000 and deferred pension liability of $7,626,000 at 30 September 2021.

The above totals exclude accumulation liabilities of $1,024,566,000, additional accumulation balances for defined benefit members of $7,058,000, and the self-insurance reserve of $250,000 as at 30 September 2021. Assets are also net of a provision for estimated expense allowance, additional assets and work in progress of $10,950,000 as at 30 September 2021.

The coverage levels at 30 September 2021 were higher than the levels at the previous actuarial investigation, due to the following items of positive experience:

- The investment return on assets was 15.5% over the period, which is higher than assumed (weighted average) return of 6.2% p.a. ;
- Salary growth of 0.3% over the period which was lower than expected (3.0% p.a. plus promotional increases); and
- Pension indexation of 1.2% over the period which was lower than expected (2.5% p.a.).

This has been partially offset by higher than expected pension take-up rate.

The change in actuarial assumptions also increased the Actuarial Value of Accrued Benefits by $6.0 million and Vested Benefits (Lump Sum or Pension) by $3.9 million.

It should be noted that the Vested Benefit measures shown above assume the Plan continues to operate ‘as is’ until the last pensioner dies. In the event of a Plan wind up, or termination of pension payments, prior to the natural cessation of the pensions, different measures of benefit liabilities may apply, and further financing from the Employer may be required to meet the resulting benefit liabilities. Please refer to the discussion in Section 10 for more detail.

Recommended Contribution Rates and Projections

At 30 September 2021, the Plan was in a satisfactory financial position. The 119.5% coverage of the Defined Benefit Vested Benefits (Lump Sum or Pension) was within the financing objective of between 115% and 120% coverage adopted for this investigation.

Based on the financial position at 30 September 2021 and taking into account the actual investment return of 0.5% for the 5 months immediately after 30 September 2021, I recommend that the Employers contribute to the Plan in accordance with the following contribution program (which is unchanged from the last actuarial investigation):

- **Accumulation members:** 13.0% of salary (or such other rate applicable to a member’s category)

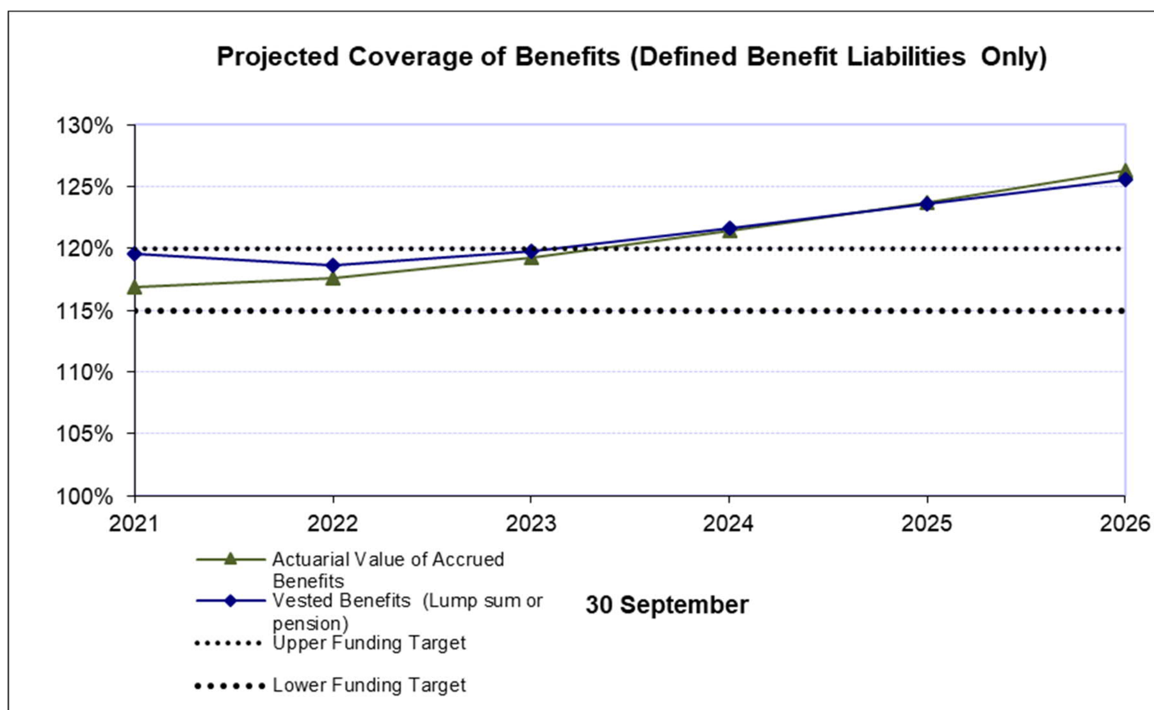
- **Defined Benefit members:** 17.5% of salary

In addition, the Employer should contribute to the Plan:

- Any additional amounts required (of an accumulation nature) in order to meet the minimum SG requirement of Ordinary Time Earnings Base; and

- The full amount of member salary sacrifice contributions.

Based on the assumptions adopted for this investigation and the recommended contribution rates, and allowing for any material experience after the investigation date as detailed in this report, I have prepared the following projection of Plan assets and benefit liabilities:



The graph above shows that the recommended contributions are anticipated to result in assets of at least 120% of Defined Benefit Vested Benefits (Lump Sum or Pension) by 30 September 2023

Risks

The Trustee should note that the above projection is based on the assumptions adopted, which represent a single scenario from a range of possibilities. The future is uncertain and the Plan's actual experience will differ from these assumptions; these differences may be minor in their overall effect, or they may be significant and material. In addition, different sets of assumptions or scenarios may also be within the reasonable range and results based on those alternative assumptions would be different. However the coverage ratios will be reviewed by the Trustee on a quarterly basis and by the Plan actuary at each subsequent actuarial investigation. The Trustee's monitoring of the experience specified in the Notifiable Events section of the Funding and Solvency Certificate will provide a further means of identifying adverse experience which warrants an immediate review of the Plan's financial position.

Sections 7 and 8 provide illustrations of the impact of investment volatility on the projected coverage of Vested Benefits and shows that a 1% pa reduction in the assumed future investment return would result in a 9% increase in the assessed value of liabilities.

Sections 8 and 9 discuss other risks associated with the liabilities, including inflation risk, longevity risk, and the risks associated with the Net Earning Rate.

I note in Section 10 that if the pension liabilities were to be valued at the amount which would be required to be paid to a third party (for example, a life office) to take on the liability, a much higher pension liability value would be obtained (possibly in the order of 200%).

Hence a wind-up of the Plan would likely require substantial additional Employer financing in order to enable provision to be made for continuation of the pension entitlements as well as the active members' accumulated benefits.

Other Findings and Recommendations

Suitability of Policies

I am satisfied that the following current policies for the defined benefit section of the Plan are suitable:

- The investment policy
- The crediting rate policy
- The insurance arrangements
- The Shortfall Limit (for the purposes of SPS 160)
- The Trustee's process for monitoring the Plan's financial position

Actions Required by the Trustee

The Trustee should consider this report and confirm its agreement (or otherwise) to the contribution and other recommendations.

2

Introduction

Background of the Plan

The Plan is operated for the benefit of employees of Insurance Australia Group Services Pty Ltd (and associated employers) and is a sub-plan of Australian Retirement Trust. The Trustee of the Fund, Australian Retirement Trust Pty Ltd, holds a Registrable Superannuation Entity Licence under the SIS legislation and operates the Plan as required under the Trust Deed.

Plan members receive lump sum defined benefits or pensions on retirement, death or disablement. Appendix A provides a high level summary of the benefits provided.

The Fund is a resident regulated fund and a complying superannuation fund for the purposes of the SIS legislation. The Fund is taxed as a complying superannuation fund.

The advice contained in this report is given in the context of Australian law and practice. No allowance has been made for taxation, accountancy or other requirements in any other country.

The governing rules of the Plan are set out in the Fund Trust Deed dated 1 October 1987 (as amended), the Participation Deed and the Benefit Deed both dated 2 November 2020.

Purpose

I have prepared this report exclusively for the Trustee of the Plan for the following purposes:

- To present the results of an actuarial investigation of the Plan as at 30 September 2021;
- To review Plan experience for the period since the previous actuarial investigation as at 14 November 2020;
- To recommend contributions to be made by the Employer intended to allow the Plan to meet its benefit obligations in an orderly manner, and to reach and maintain an appropriate level of security for members' accrued benefit entitlements; and
- To meet legislative requirements under relevant Commonwealth superannuation legislation.

It has been prepared in accordance with the requirements of the Trust Deed, the Superannuation Industry (Supervision) Act 1993 and associated regulations (SIS legislation), Prudential Standard SPS 160 issued by APRA and Professional Standard 400 issued by the Actuaries Institute setting out requirements for actuarial investigations of defined benefit superannuation funds under SIS legislation.

The previous actuarial investigation was conducted as at 14 November 2020 by Guy Holley, on behalf of Mercer, and the results are contained in a report dated 14 May 2021.

Significant events since the investigation date

The recommendations in the report take into account the actual investment return of 0.5% for the 5 months immediately after 30 September 2021. I am not aware of any other significant events that have occurred since 30 September 2021 which would have had a material impact on the findings or recommendations in this report.

3

Experience since the last review

Membership

The membership of the defined benefit section has changed since 14 November 2020 as follows:

Defined Benefit Section	Active	Deferred Pensioner	Lifetime Pensioner	Total
Members at 14 November 2020	149	15	170	334
Exits	-11	-1	-4	-16
New Entrants	-	-	8	8
Members at 30 September 2021	138	14	174	326

The membership split by category as at 30 September 2021 is as follows:

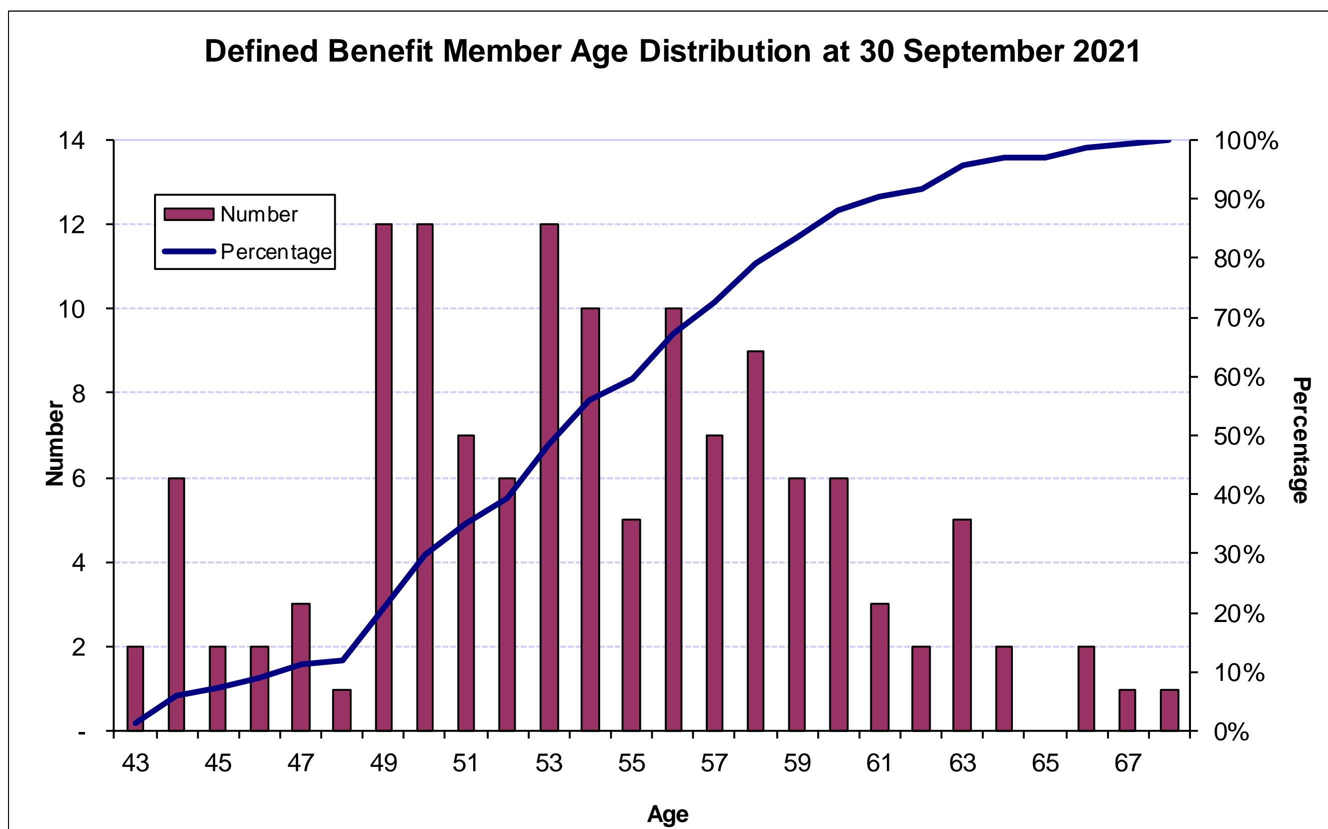
Defined Benefit Active Section	Number	Salaries ($m)
Ex-NRMA (5% Contributors)	31	3.1
Ex-NRMA (3% Contributors)	7	0.6
Ex-NRMA (Non-Contributory)	20	1.5
Ex-RACV	7	0.7
Ex-CGU	68	8.2
Ex-VACC	1	*
Ex-SGIO (Active)	1	*
Ex-SGIO (Retained)	3	-
Total	**138**	**14.4**

* Not disclosed for privacy reasons

Lifetime and Deferred Pensioners	Number	Annual Pension ($000)
Ex-SGIC	52	1,903
Ex-RACV	8	332
Ex-CGU	103	3,538
Ex-CGUVACC	11	456
Deferred Pensioners	14	-
Total	**188**	**6,229**

In addition, there were 5,857 members at 30 September 2021 with total benefits of $1,024,566,000 whose benefits are determined wholly on a defined contributions (or 'accumulation') basis. All new members join the accumulation section of the Plan.

The active defined benefit membership split by age as at 30 September 2021 is shown in the following graph:



Investment Return and Net Earning Rates

The rate of investment earnings (after tax, investment fees and asset based administration fees) for the assets supporting the defined benefits from 14 November 2020 to 30 September 2021 is estimated to be 15.5%. This was significantly higher than our long term assumption of approximately 6.2% p.a. for the same period, based on the assumptions at the last actuarial assessment of 6.0% p.a. for pre-retirement assets and 6.5% p.a. for post-retirement assets. The higher than assumed investment return had a positive impact on the Plan's financial position.

The Net Earning Rate (refer to section 5) from 14 November 2020 to 30 September 2021 was estimated to be 7.5% compared to our assumption of approximately 4.6% for the same period. This is a function of the three year average in the calculation of the Net Earning Rate.

Salary Increases

Salaries for the current defined benefit members increased by 0.3% over the period compared to our longer term assumption at the last actuarial investigation of 3.0% pa plus promotional increases. The lower salary increases than assumed had a positive impact on the Plan's financial position.

Pension Indexation

It was assumed that eligible pensions would be indexed at 2.5% pa, the actual rate of indexation over the period from 14 November 2020 to 30 September 2021 was 1.2%. The lower rate of indexation than assumed had a positive impact on the Plan's financial position.

Pension Take-Up Rate

The average pension take-up rates over the period from 14 November 2020 to 30 September 2021 have been as follows:

Category	Assumption	Actual over period
Ex-CGU	30%	100%
Ex-RACV	30%	67%

This had a negative impact on the Plan's financial position.

Contributions

The Employer contributions rates for the defined benefit members were in line with the last actuarial assessment and subsequent contribution recommendations. This had a neutral effect on the Plan's financial position.

Impact of the experience on the financial position

The main experience items affecting the Plan's financial position during the period from 14 November 2020 to 30 September 2021 were as follows:

Item	Comment on effect
Investment return	Positive effect - the return on assets was 15.5% over the period, which is higher than assumed return of 6.2% p.a.
Salary increases	Positive effect - the rate of salary increases was lower than assumed
Pension indexation	Positive effect - pension liabilities grew at a lower rate than assumed
Pension take-up	Negative effect – more eligible members elected the pension option than assumed; the pension option is generally more valuable than the lump sum option

4

Actuarial assumptions

The ultimate cost to the Employer of providing the benefits to members is:

- the amount of benefits paid out; and
- the expenses of running the Plan, including tax;

Less

- members' contributions; and
- the return on investments.

The ultimate cost to the Employer will not depend on the actuarial assumptions or the methods used to determine the recommended Employer contribution, but on the actual experience of the Plan. The financing method and actuarial assumptions adopted will however affect the timing of the contribution requirements from the Employer.

The actuarial process includes projections of possible future Plan assets and benefit liabilities on the basis of actuarial assumptions about future experience.

These assumptions include investment returns, salary/wage increases, rate of pension indexation crediting rates, the rates at which members leave the Plan for various reasons, and other factors affecting the financial position of the Plan.

It is not expected that these assumptions will be precisely borne out in practice, but rather that in combination they will produce a model of possible future experience that is considered a suitable basis for setting contribution rates.

Economic assumptions

The most significant assumption made in estimating the cost of defined benefits is the difference between:

- the assumed rate of investment earnings; and
- the rate of salary increases or the rate of pension indexation (as appropriate) used in the projections of future benefit payments.

The key economic long term assumptions adopted for this investigation are:

	Assumption
Investment returns (after tax, investment and asset based administration fees)	
- Pre-retirement	6.0% p.a.
- Post-retirement	6.5% p.a.
Net Earning Rate (after tax and investment fees)^	Year 1: 7.7% p.a. Year 2: 10.1% p.a. Year 3: 5.6% p.a. Year 4 onwards: 6.0% p.a.
General salary increases	3.0% p.a. *plus* age-based promotional scale
Pension increase rate	Adult pensioners: 2.5% p.a. Child pensioners: Nil

^ includes allowance for actual return from 30 September 2021 to 28 February 2022 of 0.5% (as measured by the change in the Balanced Option unit price) and 6.0% p.a. for the balance of the year, taking into account the current three-year smoothing policy.

The assumption for investment returns is based on the expected long-term investment return for the Plan's current benchmark investment mix provided by the Trustee. These assumptions are unchanged from the last actuarial investigation.

The salary increase assumption is based on long term economic forecasts for future increases in average weekly earnings (AWOTE) together with past experience and the Employer's expectations for future salary increases. The salary increase assumption is unchanged from the last actuarial investigation.

Specimen values of the assumed rates of promotional salary increases are shown below:

Age	Promotional Salary Increases %
40	2.1
45	1.5
50	0.9
55	0.5
60	0
54	0

Demographic assumptions

Retirement, resignation, and death and disablement

The rates at which members are assumed to leave the Plan on account of retirement, resignation, death and disablement are set out in Appendix B. These are unchanged from the last actuarial investigation.

Retrenchment

No specific allowance is made for the possibility of future retrenchments.

Pensioner mortality

The Pensioner mortality is based on a study of Australian public sector pensioner experience. An allowance for future mortality improvements has been included based on ALT 2015-17 25 year improvement factors. Examples of the assumed pensioner mortality rates are set out in Appendix B. These are unchanged from the last actuarial investigation.

Other assumptions

New members

The Plan's defined benefit section is closed to new entrants. No allowance has been made for new members.

Expenses

Administration and consulting expenses are deducted from Plan assets. These are assumed to average 0.5% of defined benefit members' salaries.

Tax

It is assumed that the current tax rate of 15% continues to apply to the Plan's assessable income, along with current tax credits and deductions.

All future Employer contributions are assumed to be subject to 15% contribution tax, after deduction of any insurance premiums and administration and management costs. All contribution recommendations quoted in this report are gross of contributions tax.

No allowance has been made for:

- Excess contributions tax, as this is payable by the member.
- Additional tax on contributions (including defined benefit notional contributions) for those with incomes above the threshold (currently $250,000), which is also payable by the member.

Pension Take-Up Rate

Where there is an option between an immediate lump sum and a pension benefit (or deferred pension benefit), we have assumed the percentage of members who will take a pension benefit as following:

Category	New Assumption	Old Assumption
Former CGU	60%	30%
Former RACV	80%	30%

The change in pension take-up rate assumptions is a result of the following experience over the past five years:

Category	Number of New Pensions	Number of Eligible Pensions	Actual Pension Take-Up Rate
Former CGU	23	36	64%
Former RACV	4	5	80%

Lump Sum Commutation Factors

For Former CGU Defined Benefit Members the factors used to commute retirement and resignation pensions are as follows:

	Former CGU Defined Benefit Members – Lump Sum Received for Commuting $1 of Pension	
Age	Males ($)	Females ($)
40	5.337	6.078
45	6.682	7.502
50	8.380	9.387
55	10.545	11.776
60	13.360	14.835
65	11.854	13.386

These commutation factors should be reviewed periodically, although it is assumed for the purposes of this valuation that they will remain unchanged.

For Former CGU-VACC Defined Benefit Members the factor 11.5 has been used for all ages to commute retirement and resignation pensions, i.e. a lump sum of $11.5 is received for each $1 of pension commuted.

Ex-NRMA Benefits

For the ex-NRMA category, on resignation we assume the member will receive the greater of the available benefits.

Impact of the changes in assumptions

The assumptions adopted in this investigation are the same as those used in the previous investigation, with the exception of the pension take-up rate and Net Earning Rate assumptions.

The change in assumptions have increased the Actuarial Value of Accrued Benefits by $6.0 million and Vested Benefits (Lump Sum or Pension) by $3.9 million. The Employer future service cost has also increased by 0.8% of salaries.

5

Assets

Market value

The net market value of the Plan's assets as at 30 September 2021 has been determined as follows from the information provided to us:

Calculation of Defined Benefits Assets at 30 September 2021		
(1)	Defined Benefit Corporate Assets as at 30 September 2021	$129,639,000
(2)	Plus Defined Benefit Lifetime Pension Assets as at 30 September 2021	$81,839,000
(3)	Less estimated expense allowance & Additional Assets & WIP	$10,950,000
(4)	Less estimated self-insurance reserve	$250,000
(5)	**Total net assets to support the defined benefit liabilities of the Plan (1) + (2) - (3) – (4)**	**$200,278,000**

Operational Risk Reserves

The assets to meet the Operational Risk Financial Requirement (ORFR) are held directly by the Fund and are not directly attributable to the Plan. The scope of this Investigation does not include a review of the adequacy of assets held to meet the Trustee's ORFR or the Trustee's ORFR strategy.

Self-Insurance Reserve

The assets set aside to cover insurance claims incurred and not settled (including incurred but not yet reported) as at the valuation date in respect of claims not covered by the current insurance policy, are included in the overall Plan assets and estimated to be $250,000 as at 30 September 2021.

The self-insurance reserve was excluded from the total defined benefit assets at the valuation date. Detailed advice concerning the establishment of the self-insurance review was contained in our report dated 30 April 2021.

Investment Policy

Assets backing defined benefit liabilities

The Plan's assets supporting defined benefit liabilities including pensioner liabilities are invested in the Fund's Balanced investment option, which currently involves a benchmark exposure of 70% to 'growth' assets such as shares and property and a benchmark exposure of 30% to 'defensive' assets such as cash and fixed interest. Please refer to the table below for the actual and benchmark investment allocations of these assets. 'Growth' assets are expected to earn higher returns over the long term compared to 'defensive' assets, but at the same time to exhibit more variation in returns from year to year.

The actual asset allocation and Strategic Asset Allocation for the assets supporting the defined benefit liabilities are as follows:

Asset Class	Actual Allocation	Strategic Asset Allocation
Australian equities	26.9%	26.5%
Overseas equities	27.4%	27.0%
Property	9.5%	9.5%
Fixed interest	13.0%	12.5%
Alternatives	19.5%	20.5%
Cash	3.7%	4.0%
Total	**100%**	**100%**

Source: Sunsuper September quarterly investment report

Given that it is not known when members will take their benefit with certainty, the exact term of the Plan's liabilities is unknown. The duration is estimated to be around 9 years for the Plan. The expected term of the Plan's liabilities is still such that the Plan is expected to benefit from the higher returns expected from 'growth' assets over the long term.

The Plan's investments are expected to provide a high level of liquidity in normal circumstances.

I have reviewed the Plan's defined benefit investment policy taking into account the Plan's financial position and the nature and term of the Plan's defined benefit liabilities and I confirm that I consider that the policy adopted is a suitable investment policy.

I note that the current policy has the potential for substantial variability in investment returns and that this variability may impact on the Employer contribution programs. I understand that the Employers recognise and accept the potential variability in returns and contribution requirements. Should the Employers' risk tolerance change, it would be appropriate to review the current investment policy.

Assets backing accumulation benefit liabilities

The Plan provides members with a range of investment options for their accumulation benefits (including the additional account balances of defined benefit members). The assets supporting the Plan's accumulation benefit liabilities are invested according to members' selected investment options and the actual returns on those investments (whether positive or negative) are passed on to members via changes in the unit prices by which member account balances are determined. Thus the Plan's accumulation liabilities and related assets are fully matched.

The Plan's investments are expected to provide a high level of liquidity in normal circumstances.

I consider that the Plan's investment policy for assets relating to accumulation liabilities is suitable, having regard to the nature and term of these liabilities.

Crediting Rate Policy

Defined Benefits

The main features of the crediting rate approach in relation to defined benefits (the Net Earning Rate) are summarised briefly below:

For certain membership categories, resignation benefits, as well as the Superannuation Guarantee minimum benefit, are based on the accumulation of member and notional employer contributions with investment earnings at the Net Earning Rate. In some cases, the resignation benefit also applies as a minimum on retirement.

The Net Earning Rate is determined as the average of the annual earning rates (after allowance for tax and investment costs) of the defined benefit assets over the prior three years, subject to it being non-negative. The Net Earning Rate is updated daily.

No specific reserves are maintained to support the averaging process. However the valuation assumptions for future Net Earning Rates (and hence projected benefit liabilities) take into account the operation of the averaging formula.

There can be significant differences between the actual earning rate and the Net Earning Rate in a single year, with the result that the liabilities linked to the Net Earning Rate often may not move in alignment with related defined benefit assets in the short term. Furthermore, the impact on benefit costs may not average out over time due to changes in the amount of liabilities linked to the Net Earning Rate, with the result that averaging may not be cost-neutral to the employer sponsor.

Accumulation Benefits

The main features of the unit pricing and crediting rate policy in relation to accumulation member accounts and to the additional accumulation accounts of defined benefit members are summarised briefly below:

- Earnings credited to the accounts are based on the actual net earning rates (i.e. earnings net of investment costs, asset-based administration fees and provisions for tax) of the members' selected investment options. Net earnings are allocated via changes in unit prices. Unit prices are determined on a daily basis. Rules relating to the prices at which units are bought and sold are designed to prevent selection against the Plan by members.

- Termination of service does not result in any automatic change in a member's investment options. Member accounts remain invested in their selected investment options until paid.

- No investment reserves are held. Net investment earnings are fully passed on to member accounts via unit prices.

Documentation

The approach for determining the crediting rate is set out in a document dated 29 March 2019 and entitled "IAG and NRMA declared rate in the Sunsuper environment".

Conclusion

A detailed review of the unit pricing policy and crediting rate methodology is outside the scope of this valuation.

Based on a review of the main features, I consider that the unit pricing and crediting rate policy adopted for these benefits is generally suitable taking into consideration the principles of equity between different generations of members and any material risks which may have a significant impact on the Plan (i.e. a market shock or sudden downturn in investment markets).

6

The Actuarial Approach

Financing Objective

The financing objective adopted for this investigation is to maintain the value of the Plan's assets at least equal to:

- 100% of accumulation account balances plus
- Between 115% and 120% of Defined Benefit Vested Benefits (Lump Sum or Pension), to ensure that, with a reasonable probability, the coverage will remain above 100%.

Accumulation account balances are matched by specific assets and do not require any additional margins. However most of the defined benefit liabilities are linked to salaries and not to the returns on the underlying assets. A margin in excess of 100% coverage of vested defined benefits is therefore desirable to provide some security against adverse experience such as poor investment returns. It may also support, in the short term, any difference between the actual investment return and the Net Earning Rate (i.e. the 3 year average return applied to defined benefit member accounts).

Based on the assumptions adopted for this investigation, achieving the financing objective of 115% to 120% of Defined Benefit Vested Benefits (Lump Sum or Pension) would also result in at least 100% coverage of the Actuarial Value of Accrued Benefits and a satisfactory margin of coverage over 100% of SG Minimum Benefits. Hence, it is not considered necessary to adopt specific financing objectives in relation to these benefit liability measures.

I have taken into consideration the provisions of the Trust Deed and any professional requirements as set out below.

Professional Requirements

Under Professional Standard 400 issued by the Actuaries Institute, the funding method selected by the actuary *"must aim to provide that:*

(a) *members' benefit entitlements (including any pension increases provided by the Trust Deed or in accordance with either precedent or the intentions of the Trustee and/or Fund Sponsor) are fully funded before the members retire; and*

(b) *the Assets of the Fund from time to time, after making full provision for the entitlements of any beneficiaries or members who have ceased to be employed, exceed the aggregate of benefits which employed members would reasonably expect to be payable to them on termination of membership, including the expenses of paying those benefits, and having regard to the provisions of the Trust Deed and the likely exercise of any Options or Discretions." (Paragraph 5.5.4 of PS400).*

Accordingly the actuary needs to be satisfied that any funding program is expected to provide a level of assets which meets or exceeds immediate benefit entitlements based on members' reasonable expectations. Should assets fall below that level, the funding program needs to aim to lift assets to at least the required level over a reasonable time period and to maintain assets at or above the required level thereafter.

The financing objective has been set on the basis that members' reasonable expectations on termination would be to receive their vested benefit entitlement (including the lump sum value of their pension, on the actuarial assumptions adopted for this investigation, in the case of current pensioners).

Financing Method

There are various financing methods that could be followed in setting the Employer contribution level. In this investigation we have projected the likely future experience of the Plan using the assumptions set out in this report, and then examined the expected relationship between the assets and liabilities of the Plan. The same method was used in the last actuarial investigation.

Under this method of financing, Employer contribution programs may vary from time to time to ensure that the Plan remains on course towards its funding targets.

I consider that the financing method is suitable in the Plan's current circumstances as it allows the recommended contribution programs to be determined specifically to meet the funding targets for the Plan.

7

Financial Position of the Plan

Funding status

Defined Benefit Vested Benefits (Lump Sum only, and Lump Sum or Pension)

Defined Benefit Vested Benefits (Lump Sum only) are determined by the administration system and assume that all active members take lump sum benefits. The higher figure for Defined Benefit Vested Benefits (Lump Sum or Pension) allows for the prospect of some active members electing to take a lifetime pension benefit, since all pension benefits are of higher value than the corresponding lump sum.

The value of Defined Benefit Vested Benefits for deferred and current pensioners are assumed to be the actuarial value of the future pension payments.

At 30 September 2021, the Plan assets attributable to defined benefits represented 119.5% of the Defined Benefit Vested Benefits (Lump Sum or Pension) and hence the Plan was considered to be in a “satisfactory financial position” under SIS legislation.

The 119.5% coverage was within the target range of 115% to 120% coverage adopted for this investigation.

SG Minimum Benefits

SG Minimum Benefits are the minimum benefits required under SG legislation, as defined in the Benefit Certificate (also referred to as Minimum Requisite Benefits or MRBs).

The Plan assets attributable to defined benefits at 30 September 2021 were 145.6% of MRBs and hence the Plan was considered to be “solvent” under SIS legislation.

Actuarial Value of Accrued Benefits

The Actuarial Value of Accrued Benefits is the expected value (as at the investigation date) of all future expected benefit payments, based on membership to date, discounted to the investigation date, taking into account the probability of payment. This value is calculated using the actuarial assumptions and method outlined in the previous sections. In determining the value, I have not applied a minimum of the vested benefits. Further details concerning the calculation of the Actuarial Value of Accrued Benefits are set out in Appendix C.

The Plan assets attributable to defined benefits as at 30 September 2021 represented 116.9% of the Actuarial Value of Accrued Defined Benefits.

The following table shows these funding measures at both the previous and current valuation dates.

Defined Benefits Only*	Position at 30 September 2021 $000	Asset Coverage	Coverage at 14 November 2020
Assets	200,278		
Vested Benefits (Lump Sum only)	159,200	125.8%	113.8%
Vested Benefits (Lump Sum or Pension)	167,544	119.5%	111.3%
Liability for Actuarial Value of Accrued Benefits	171,272	116.9%	110.2%
Liability for SG Minimum Benefits	137,563	145.6%	132.7%

Note that the benefit totals also include the actuarial value of the current lifetime pension liability of $80,496,000 and deferred pension liability of $7,626,000 at 30 September 2021.

The above totals exclude accumulation liabilities of $1,024,566,000, additional accumulation balances for defined benefit members of $7,058,000, and the self-insurance reserve of $250,000 as at 30 September 2021. Assets are also net of a provision for estimated expense allowance, additional assets and work in progress of $10,950,000 as at 30 September 2021.

The coverage levels at 30 September 2021 were higher than the levels at the previous actuarial investigation, due to the following items of positive experience:

- The investment return on assets was 15.5% over the period, which is higher than assumed return of 6.2% p.a.;
- Salary growth of 0.3% over the period which was lower than expected (3.0% p.a. plus promotional increases); and
- Pension indexation of 1.2% over the period which was lower than expected (2.5% p.a.).

This has been partially offset by higher than expected pension take-up rate.

The change in actuarial assumptions also increased the Actuarial Value of Accrued Benefits by $6.0 million and Vested Benefits (Lump Sum or Pension) by $3.9 million.

It should be noted that the Vested Benefit measures shown above assume the Plan continues to operate ‘as is’ until the last pensioner dies. In the event of a Plan wind up, or termination of pension payments, prior to the natural cessation of the pensions, different measures of benefit liabilities may apply, and further financing from the Employer may be required to meet the resulting benefit liabilities. Please refer to the discussion in Section 10 for more detail.

Employer Future Service Cost

Based on the assumptions adopted for this investigation, I estimate that the Employer's long-term funding cost (i.e. the normal cost of funding the future service defined benefit accruals ignoring any surplus or deficit) is 18.8% of defined benefit members' salaries.

The Employer's long-term funding cost above includes the expected expenses (of 0.5% of defined benefit members' salaries), excludes any award contributions and includes allowance for the contributions tax.

The assessed long-term costs for future service have increased by 0.8% of salaries since the last investigation mainly due to the change in actuarial assumptions.

We have maintained the basic employer contribution recommendation at 17.5% of defined benefit members' salaries given that it is not materially different to the long-term funding cost, and the current and projected financial positions are satisfactory.

Previous recommendations

In the report on the previous actuarial investigation it was recommended that the Employers contribute to the Plan as follows:

- **Accumulation members**: 13.0% of salary (or such other rate applicable to a member's category).
- **Defined Benefit members**: 17.5% of salary.

In addition, it was recommended that the Employers contribute to the Plan:

- Any additional amounts required (of an accumulation nature) in order to meet the minimum SG requirement of Ordinary Time Earnings Base; and
- The full amount of member salary sacrifice contributions.

Recommended Contributions

Based on the financial position at 30 September 2021 and taking into account the actual investment return of 0.5% for the 5 months immediately after 30 September 2021, I recommend that the Employers contribute to the Plan in accordance with the following contribution program (which is unchanged from the last actuarial investigation):

- **Accumulation members:** 13.0% of salary (or such other rate applicable to a member's category)
- **Defined Benefit members:** 17.5% of salary

In addition, the Employer should contribute to the Plan:

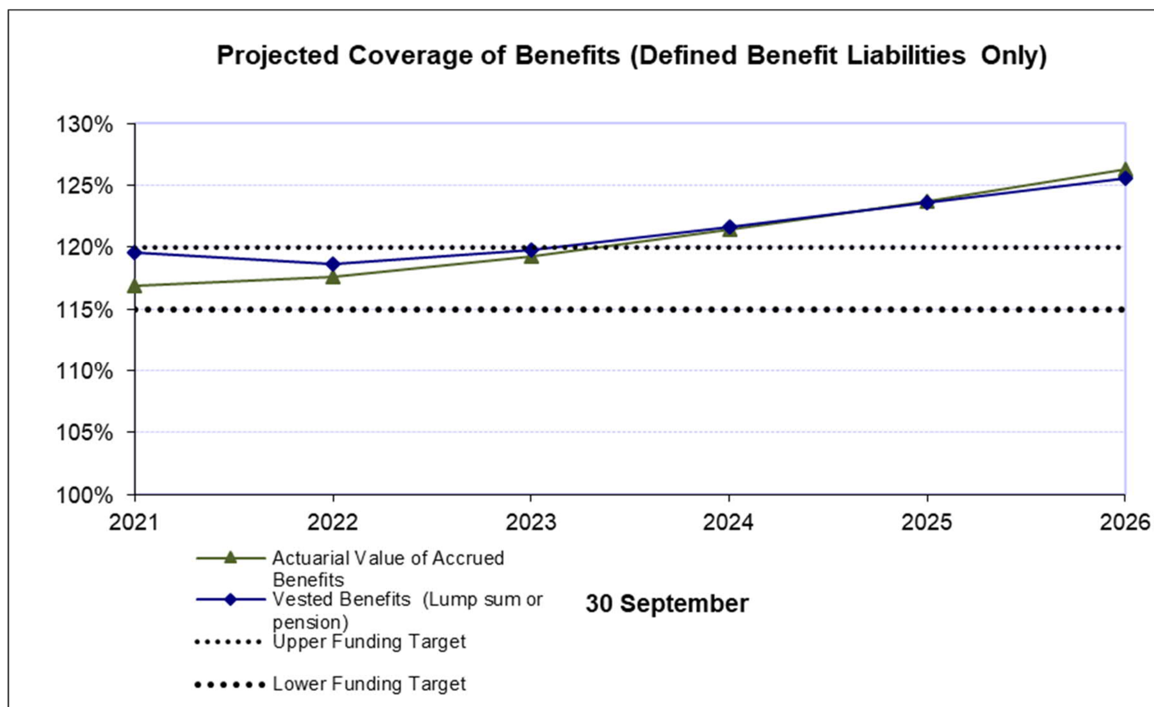
- Any additional amounts required (of an accumulation nature) in order to meet the minimum SG requirement of Ordinary Time Earnings Base; and
- The full amount of member salary sacrifice contributions.

Projected Financial Position

I have prepared a projection of Plan assets and benefit liabilities based on:

- the actuarial assumptions adopted for this investigation;
- allowing for actual investment returns of 0.5% from 30 September 2021 to 28 February 2022; and
- assuming the recommended Employer contributions will be paid.

The results of the projection are as follows:



The Trustee should note that this projection is based on the assumptions adopted, which represent a single scenario from the range of possibilities. The future is uncertain and the Plan's actual experience will differ from those assumptions; these differences may be minor in their overall effect, or they may be significant and material. In addition, different sets of assumptions or scenarios may also be within the reasonable range and results based on those alternative assumptions would be different, as discussed below.

The projection above shows that the recommended contributions are anticipated to result in assets of at least 120% of Defined Benefit Vested Benefits (Lump Sum or Pension) by 30 September 2023. Coverage of the Actuarial Value of Accrued Benefits is expected to be similar.

Sensitivity Analysis

The Plan's net financial position is defined as the difference between the Plan's net assets and the Actuarial Value of Accrued Benefits.

We have tested the effect of changes to the key assumptions on the value of liabilities and the Plan's net financial position.

The liabilities shown in this report have been calculated using our best estimate assumptions for investment return (6.0% p.a. pre-retirement, 6.5% p.a. post-retirement), salary growth (3.0% p.a. plus age-based promotional scale) and pension indexation (2.5% p.a.). As future investment returns, salary and pension indexation increases are unknown, it is almost certain that actual experience will differ from these assumptions.

To quantify the sensitivity of the net financial position to our assumptions, we have calculated the change in liability based on the following scenarios:

- Decrease the long term investment return assumption by 1% pa;
- Increase the salary growth assumption by 1% pa;
- Increase the pension indexation assumption by 1% pa;
- Longevity risk of lifetime pensioners, whereby pensioners are assumed to live one year longer;
- A shock scenario, where the value of net assets suddenly reduces by 10%;
- Decrease in the long term investment return assumption by 1% AND the value of net assets suddenly reduces by 10% (known as the "Adverse assumptions").

All other assumptions, including the Employer contribution rates, are assumed to remaining the same.

The effects of these changes are shown below:

	Net financial position	**Change in net financial position**	**Net financial position as % of all defined benefit liabilities**
Scenario	**$M**	**$M**	**%**
Base assumptions as shown previously	29.006		
Decrease investment return by 1% pa	11.684	(17.322)	6.2%
Increase salary increase by 1% pa	26.630	(2.376)	15.3%
Increase pension indexation by 1% p.a.	15.804	(13.202)	8.6%
Longevity risk of lifetime pensioners (live one year longer)	25.878	(3.128)	14.8%
Shock scenario - immediate 10% reduction in net value of assets	10.684	(18.322)	6.3%
Adverse assumptions	(6.457)	(35.463)	-3.5%

8

Key Risks

Investment Volatility

73% of the current vested benefits for active defined benefit members are linked to salaries and not linked to investment returns. Lifetime pensions are not linked at all to investment returns. Therefore the Plan's vested benefits coverage is highly sensitive to changes in the investment returns.

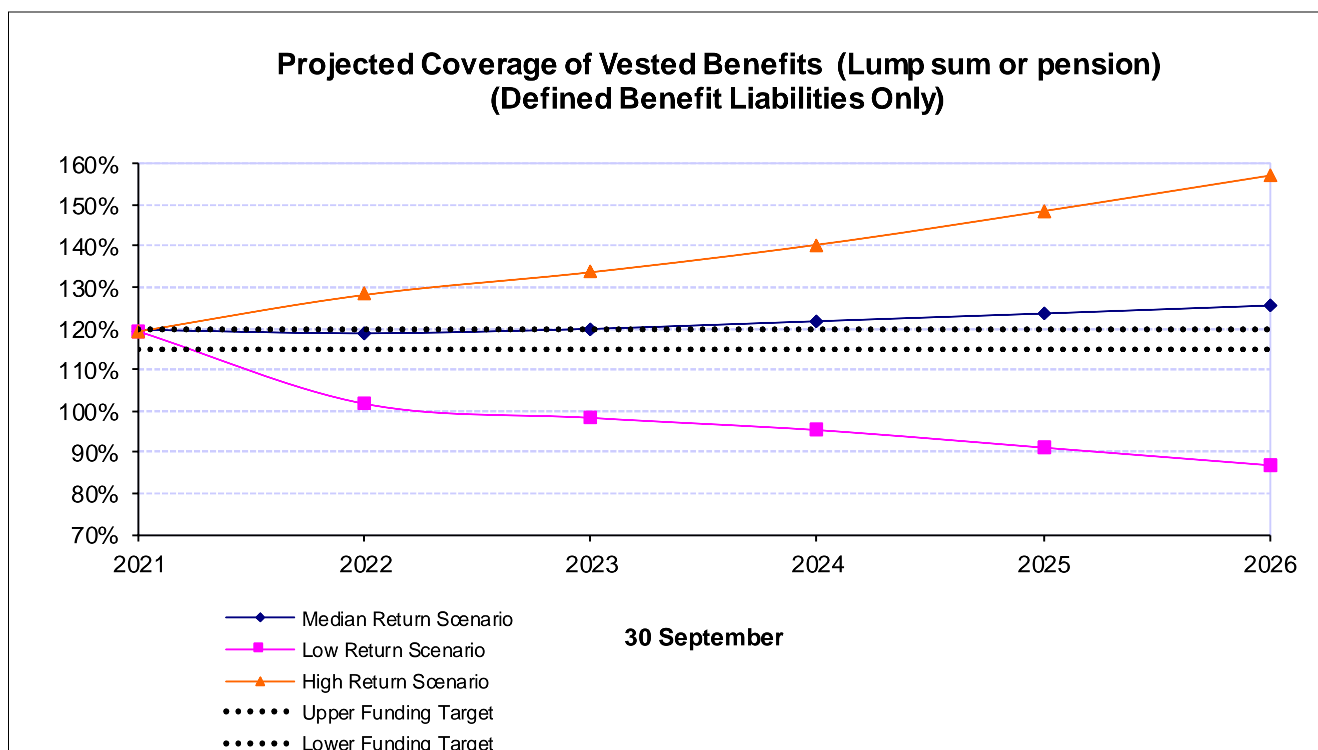
I have considered the impact of investment volatility on the Plan's financial position over the next few years using a "High return" and a "Low return" scenario. The returns under both scenarios have been derived from assumptions about the likely risk attached to the Plan's defined benefit investment strategy.

Using the investment return model and assumptions adopted, there is approximately a 10% chance of the Plan's cumulative investment return being less than the "Low return" scenario over the next 5 years. Similarly, there is approximately only a 10% chance of the Plan's cumulative investment return being greater than the "High return" scenario over the next 5 years. Allowance has been included for the actual return on assets of 0.5% during the 5 month period immediately following 30 September 2021.

1 October 2021 to 30 September	Assumed Cumulative Investment Return (%)		
	"Low Return"	Valuation	"High Return"
2022	4.0%	5.1%	6.1%
2023	7.0%	11.6%	16.0%
2024	10.1%	18.5%	26.8%
2025	13.4%	25.9%	38.6%
2026	16.7%	33.7%	51.4%

The cumulative investment return is the total return from 1 October 2021 up to 30 September in the year shown. The extent of variation allowed for in these projections reflects the Plan's asset mix and Mercer's views on potential variability in investment results in various investment sectors.

The graph below shows the effect on the projected ratio of assets to Vested Benefits for defined benefit members under the "High return" and "Low return" scenarios, with all other investigation assumptions remaining unchanged.



Based on fluctuations in investment returns only, and assuming other experience is in line with the assumptions adopted for this investigation, there is approximately an 80% chance that the coverage of assets over Defined Benefit Vested Benefits (Lump Sum or Pension) at 30 September 2024 will fall in the range from 96% to 140%.

Please note that the “low return” scenario and the “high return” scenario shown above are illustrations only, and show what may occur under assumed future experiences that differ from our baseline assumptions. These scenarios do not constitute upper or lower bounds and the actual future coverage of Vested Benefits may differ significantly from the range shown above, depending on actual future experience. In fact, there is a 1 in 20 chance that the investment return could be less than minus 14% in any year based on the current Plan asset allocation.

In my view, the Trustee should be satisfied with the expected level of security over the next few years if the Employer contributes at the recommended levels.

Salary growth risk

The risk is that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing benefit amounts and thereby requiring additional employer contributions. This risk is borne by the Employer.

For example, if the assumed future salary increase rate was increased by 1% pa with no change in other assumptions, then the Plan’s net financial position would deteriorate by $2.376 million from an excess of $29.006 million to an excess of $26.630 million as shown in the table in Section 7.

The estimated cost of future service benefits would also increase from 18.8% to 19.5% of salaries under this scenario.

The actual rate of future salary increases may vary (positively or negatively) from the rate assumed at this investigation by much more than the (positive) 1% pa illustrated in the example above.

Legislative risk

This risk is that the Commonwealth Government could make legislative changes that increase the cost of providing the defined benefits – for example, an increase in the rate of tax on superannuation funds.

Net Earning Rate

While over time the cumulative Net Earning Rate might be expected to broadly equal the cumulative actual investment return, the operation of the smoothing policy coupled with the requirement for a non-negative Net Earning Rate means that in the short term there can be a sizeable difference between what the Plan actually earns and what is credited to members. This exacerbates the movement in surplus and deficit.

9

Insurance and Related Risks

Insurance

The Plan has an insurance policy in place with MLC Limited. The purpose of the insurance policy is to protect the Plan against unexpectedly large payouts on the death or disablement of members.

For accumulation members, death and lump sum total and permanent disablement benefits (TPD) in excess of total account balances are fully insured, as are salary continuance benefits.

The group life sum insured formula currently in use for the death and total and permanent disablement benefits of defined benefit members is:

Sum Insured = Death Benefit - Vested Benefit

The total amount insured should cover the excess of the death/TPD benefits over the Plan's assets, unless there is a funding shortfall. Based on the formula in use at the investigation date, the coverage of death/TPD risk as at 30 September 2021 for the Plan was as follows.

	Defined Benefit members	$000
	Death/Disablement Benefits	98,380
less	Sum Insured	21,815
less	Assets^	119,782
	Uncovered Death/Disablement Benefits	(43,217)

^ This excludes $80.5 million of assets in respect of lifetime pensioners.

The sum insured formula provides adequate protection for the Plan. There is a reasonable degree of over-insurance for the Plan but that is largely because the funding objective is to target a level of assets greater than vested benefits (i.e. the amount of over-insurance broadly corresponds to the surplus over vested benefits). I do not consider that a change to the current insurance formula is necessary.

The definition of TPD in the policy is either used to establish a member's eligibility for the benefit under the Plan's governing rules, or is broadly equivalent, thus minimising any definition mis-match risk.

Documentation

The death and TPD insurance arrangements are underwritten by MLC limited (the insurer) and outlined in a policy dated 13 November 2020 between the Trustee and the insurer. The purpose of the insurance policy is to protect the Plan against unexpectedly large payouts on the death or disablement of members.

The disability income benefits insurance arrangements are also underwritten by MLC limited (the insurer) and outlined in a policy dated 13 November 2020 between the Trustee and the insurer.

I consider that the Plan's current insurance arrangements are suitable.

Self-Insurance

In 2003 a group of 111 accumulation members transferred to the Previous Plan (being the IAG & NRMA Superannuation Plan) from the RACV Superannuation Plan. This closed group of members continued to be entitled to a Disablement benefit carried across from the RACV Superannuation Plan that is payable when a member is incapable (due to injury or illness) of performing duties to the employer which causes the termination of employment prior to age 65, and where the member is not classified as Totally and Permanently Disabled (TPD). As at 30 June 2020 there were 9 remaining active members in this group and from 14 November 2020 this benefit has been insured.

A Self-Insurance Reserve of $250,000 has been set aside in the Plan to cover claims incurred but not reported (IBNR) that were incurred before 14 November 2020. The following considerations were made in determining the amount of the Reserve:

- It is possible for there to be a significant delay between the date that a former member of the Previous Plan left service and the date of lodgement of a claim for a (higher) disability benefit;
- The likelihood of a claim tends to reduce with the passage of time from when the individual left service;
- It is reasonable to expect that the likelihood of a claim from a former member who left service more than five years ago is very low, hence we consider it reasonable that an IBNR claim will only arise from a former member who left service in the five years prior to 14 November 2020;
- There have been no claims for this benefit from members in the five years prior to 14 November 2020;
- It is not necessary to consider catastrophe risk as there is no on-going self-insurance - any IBNR claims will relate to events that have already occurred.

According to data held as at 30 June 2015 (being approximately 5 years prior to 14 November 2020):

- There were 35 members for whom this benefit applied at that date;
- The total self-insured amount was $3.8 million;
- The average self-insured amount was $109,000, with the amounts ranging from zero to $479,000.

The recommendation for a Self-Insurance Reserve of $250,000 was based on the following:

- Assuming a (very conservative) probability of an IBNR claim to 5%, then the expected IBNR payments would be around $190,000;
- Allowing for two possible average IBNR claims would suggest a Reserve of $218,000;
- Making a broad allowance for the expenses of processing any claims, in addition to the above.

In our view, it is appropriate to maintain the Self-Insurance Reserve at $250,000. This will be reviewed at the next actuarial investigation of the Plan.

In the event that the Self-Insurance Reserve is not required before 31 December 2025 and there is no evidence of any IBNR claims arising (and if no such decision is made beforehand), we recommend that the Self-Insurance Reserve be “released” back into the defined benefit pool of assets at that time.

10

Pension Liabilities and Related Risks

As shown in the membership table in Section 3, the Plan currently has 174 lifetime pensioners, as well as 14 deferred pensioners. Lifetime pensioners present particular risks to the Plan as there is uncertainty relating to the level of future payments and the period for which they will be paid.

Future pension indexation

The risk is that pension increases will rise more rapidly than assumed, increasing benefits in payment and potentially requiring additional employer contributions. This risk is borne by the Employer.

For example, if the assumed future pension increase (or indexation) rate was increased by 1% pa with no change in other assumptions, then the actuarial value of accrued benefits would increase by $13.2 million (Employer funding cost impact $13.2 million / 0.85 = $15.5 million), with a resulting reduction in the coverage of the Actuarial Value of Accrued Benefits from 116.9% (as per the table in Section 7) to 108.6%.

The actual rate of future pensions increases may vary (positively or negatively) from the rate assumed at this investigation by much more than the (positive) 1% pa illustrated in the example above.

Longevity risk

The risk is that pensioners live longer than assumed, resulting in higher pension payment costs. This risk is borne by the Employer.

For example, if all current and potential lifetime pensioners lived one year longer than currently assumed, with no change in other assumptions, then the actuarial value of accrued benefits would increase by $3.1 million (Employer funding cost impact $3.1 million / 0.85 = $3.7 million), with a resulting reduction in the coverage of the actuarial value of accrued benefits from 116.9% (as per the table in Section 7) to 114.8%.

Impact of valuing pension liability at ‘market value’ for a possible wind up

The basis used to value defined benefit pension entitlements for the purposes of this investigation is considered suitable taking into account the Plan’s current circumstances, including the existing assets and assuming the ongoing support of the Employer.

Of course, conditions may change in the future and it is important to understand some of the implications should the Trustee decide to wind up the Plan in the future.

Let us initially consider the existing pensioners.

As noted in Section 6, the financing objective has been set on the basis that the pensioners’ reasonable expectations on termination of the Plan would be to receive a lump sum equal to the value of their pension as determined by the actuarial assumptions adopted for this investigation.

However, this approach may not be realistic or fair for pensioners. For example, if the pension liabilities were to be valued on a ‘market value’ basis – that is, the amount which would be required to be paid to a third party (for example, a life office) to take on the pension liability – a much higher pension liability value would be obtained.

To illustrate this we have downloaded Challenger annuity rates from their advisor portal. Based on this information (e.g. average price to provide the current pensions, based on their interest rate and mortality assumptions) the pension liability would be valued at $157 million (i.e. $77 million higher than in our valuation). Please note that this valuation is based on Challenger’s retail pricing for a comparable benefit and pensioner age profile. It is possible that a lower valuation is achievable on negotiation with the annuity provider.

There is also the risk that Challenger’s retail offering does not fully cater to the Plan’s pension benefits arrangement and annuities that are more generous than current lifetime pensions need to be purchased.

If these annuity purchases were to occur in a wind up situation and there was insufficient support from the Employer to make up the difference, then the priority order of assets, as set out in the Trust Deed, becomes important.

In addition, there are likely to be additional costs relating to any wind up which could represent approximately 0.25% of the Plan’s assets.

Hence a wind-up of the Plan may require substantial additional Employer financing in order to enable provision to be made for continuation of the pension entitlements as well as the active and deferred members’ accumulated benefits.

11

Prudential Standards

The prudential regulator (APRA) has issued a number of Prudential Standards for the superannuation industry, including Prudential Standard (SPS 160) relating to the financial management and funding of defined benefit plans. We have commented below on several requirements arising from SPS 160.

Shortfall Limit

The Trustee must determine a "Shortfall Limit" for each fund, being:

> "the extent to which the fund can be in an unsatisfactory financial position with the Trustee still being able to reasonably expect that, because of corrections to temporary negative market fluctuations in the value of the fund assets, the fund can be restored to a satisfactory financial position within a year".

We understand that the Plan's Shortfall Limit, determined by the Trustee on the basis of previous actuarial advice, is 97%.

The Shortfall Limit is expressed as the coverage level of the defined benefits vested benefits by the defined benefit assets. It is appropriate to consider the following factors when determining if the Shortfall Limit remains appropriate:

- The guidance provided in the relevant Actuaries Institute Information Note: Shortfall Limit in Prudential Standard 160 dated June 2013;
- The investment strategy for the Balanced Option (where defined benefit assets are invested), particularly the benchmark exposure of around 70% to "growth" assets;
- The results of this investigation regarding the extent to which the current and projected Vested Benefits are not linked to the investment return on defined benefit assets (i.e. the extent to which benefits are salary-based) and the current and projected relativity between Vested Benefits and Minimum Requisite Benefits.

The results of this investigation indicate that the level of Minimum Requisite Benefits is not expected to be a constraint in determining the Shortfall Limit.

Based on the above, we recommend maintaining the current Shortfall Limit.

We will reassess the suitability of the adopted Shortfall Limit as part of the next regular actuarial assessment. The Shortfall Limit should be reviewed earlier if there is a significant change to the investment strategy for defined benefit assets – in particular a change to a more defensive strategy which has a benchmark allocation to "growth" assets of less than 65% - or if the Trustee otherwise considers it appropriate to do so.

Monitoring Process

SPS 160 also requires the Trustee to determine and implement a process for monitoring the defined benefit Vested Benefits coverage against the Shortfall Limit for each plan. If this monitoring process indicates that the vested benefits coverage has (or may have) fallen below the Shortfall Limit, then under SPS 160:

- An "Interim Actuarial Investigation" may be required (depending on the timing of the next regular actuarial investigation).
- A Restoration Plan is required to be put in place if an Interim Actuarial Investigation finds the plan has breached its Shortfall Limit. The Restoration Plan must be designed to return the plan to a "satisfactory financial position", so that the Vested Benefits are fully covered, within a reasonable period that must not exceed 3 years and this must be submitted to APRA.

The Trustee should also continue to monitor the "Notifiable Events" specified in the Plan's Funding and Solvency Certificate and advise the Actuary should any actual or potential Notifiable Events occur.

Requirements due to Unsatisfactory Financial Position

Restoration Plan

Under SPS 160, a Restoration Plan is also required to be put in place if the actuary finds in a regular Actuarial Investigation that a plan:

- Is in an unsatisfactory financial position (whether or not the Shortfall Limit has been breached); or
- Is likely to fall into an unsatisfactory financial position.

The Restoration Plan must be designed to return the plan to a "satisfactory financial position", so that Vested Benefits are fully covered, within a reasonable period that must not exceed 3 years from the investigation date.

An SPS 160 Restoration Plan is not required if the plan is technically insolvent (in which case the insolvency rules must be followed). If an SPS 160 Restoration Plan is already in place then any changes to the contribution program (including its period) must be made within the framework of that Restoration Plan.

As indicated by the financial position and the projections, we consider that:

- The Plan is not in an unsatisfactory financial position; and
- The Plan is not likely to fall into an unsatisfactory financial position.

Hence the special requirements of SPS 160 for funds in an unsatisfactory financial position do not apply at this investigation.

Actuary's Reporting Requirements

Section 130 of the SIS Act requires that if an actuary forms the opinion that a plan's financial position may be unsatisfactory, or may be about to become unsatisfactory, and that opinion was formed in performing an actuarial function, the actuary must advise both the Trustee and the prudential regulator (APRA) in writing immediately. Note: an unsatisfactory financial position applies where assets are less than Vested Benefits.

These requirements do not currently apply as I am of the opinion that the Plan's financial position is not unsatisfactory (or about to become unsatisfactory).

The Plan's assets are sufficient to fully cover the SG Minimum Benefits at 30 September 2021. Therefore the Plan is not considered to be technically insolvent.

Statements Required by SPS 160

(a) The value of the Plan's assets as at 30 September 2021 was $1,231,902,000. This value excludes assets held to meet the Operational Risk Financial Requirement.

(b) In my opinion, the value of the liabilities of the Plan in respect of accrued benefits as at 30 September 2021 was $1,202,896,000. Hence, I consider that the value of the assets at 30 September 2021 is adequate to meet the value of the accrued benefit liabilities of the Plan as at 30 September 2021. Taking into account the circumstances of the Plan, the details of the membership and the assets, the benefit structure of the Plan and the industry within which the Employer operates, I consider that the assumptions and valuation methodology used are appropriate in relation to the determination of the accrued benefit liabilities for the purposes of this report. Further comments on the assumptions and valuation methodology are set out in Sections 4 and 6 of this report. Assuming that the Employer contributes in accordance with my recommendations based on the assumptions used for this actuarial investigation, I expect that assets will remain sufficient to cover the value of accrued benefit liabilities over the period to 30 September 2024.

(c) In my opinion, the value of the liabilities of the Plan in respect of Defined Benefit Vested Benefit (Lump Sum or Pension) as at 30 September 2021 was $1,199,168,000. Hence I consider that the value of the assets at 30 September 2021 is adequate to meet the value of the vested benefit liabilities of the Plan as at 30 September 2021. Assuming that the Employer contributes in accordance with my recommendations based on the assumptions made for this actuarial investigation, I expect that assets will remain sufficient to cover the value of vested benefit liabilities over the period to 30 September 2024. Hence I consider that the financial position of the Plan should not be treated as unsatisfactory as defined in SPS 160.

(d) In my opinion, the value of the liabilities of the Plan in respect of the minimum benefits of the members of the Plan as at 30 September 2021 was $1,169,187,000. Hence the Plan was not technically insolvent at 30 September 2021.

(e) A projection of the likely future financial position of the Plan over the 3-year period following 30 September 2021, based on what I consider to be reasonable expectations for the Plan for the purpose of this projection, is set out in Section 7 of this report,

(f) Based on the results of this investigation, I consider that the Shortfall Limit does not require review. Comments are set out earlier in this section.

(g) In respect of the 3-year period following 30 September 2021, I recommend that the Employers contribute to the Plan at least (which is unchanged from the last actuarial investigation):

- **Accumulation members**: 13.0% of salary (or such other rate applicable to a member's category).
- **Defined Benefit members**: 17.5% of salary.

In addition, the Employer should contribute to the Plan:

- Any additional amounts required (of an accumulation nature) in order to meet the minimum SG requirement of Ordinary Time Earnings Base; and
- The full amount of member salary sacrifice contributions.

(h) The Plan is used for Superannuation Guarantee purposes:

- all Funding and Solvency Certificates required under Division 9.3 of the SIS Regulations have been issued for the period from the date of the last investigation to 30 September 2021;
- I expect to be able to certify the solvency of the Plan in any Funding and Solvency Certificates that may be required in the three year period from 30 September 2021.

(i) In my opinion, there is a "high degree of probability", as at 30 September 2021, that the Plan will be able to meet the pension payments as required under the Plan's governing rules.

12

Actuarial Certification

Actuary's certifications

Professional standards and scope

This report has been prepared in accordance with generally accepted actuarial principles, Mercer's internal standards, and the relevant Professional Standards of the Actuaries Institute, in particular PS400 which applies to *"...actuarial investigations of the financial condition of wholly or partially funded defined benefit superannuation funds."*

Use of report

This investigation report should not be relied upon for any other purpose or by any party other than the Trustee of the Plan. Mercer is not responsible for the consequences of any other use. This report should be considered in its entirety and not distributed in parts. The Trustee should share this report with the Employers who contribute to the Plan. The Employers may consider obtaining separate actuarial advice on the recommendations contained in the report.

The advice contained in this report is given in the context of Australian law and practice. No allowance has been made for taxation, accountancy or other requirements in any other country.

Actuarial Uncertainty and Assumptions

An actuarial investigation report contains a snapshot of a Plan's financial condition at a particular point in time, and projections of the Plan's estimated future financial position based on certain assumptions. It does not provide certainty in relation to a Plan's future financial condition or its ability to pay benefits in the future.

Future funding and actual costs relating to the Plan are primarily driven by the Plan's benefit design, the actual investment returns, the actual rate of salary growth, the actual rate of pension indexation and any discretions exercised by the Trustee or the Employer. The Plan's actuary does not directly control or influence any of these factors in the context of an actuarial investigation.

The Plan's future financial position and the recommended Employer contributions depend on a number of factors, including the amount of benefits the Plan pays, the cause and timing of member withdrawals, plan expense, the level of taxation and the amount earned on any assets invested to pay the benefits. These amounts and others are uncertain and unknowable at the investigation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, assumptions are used to select a single scenario from the range of possibilities. The results of that single scenario are included in this report.

However, the future is uncertain and the Plan's actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may

also be within the reasonable range and results based on those assumptions would be different. For this reason, this report shows the impact on the Plan's financial position if alternative assumptions were to be adopted.

Actuarial assumptions may also be changed from one investigation to the next because of mandated requirements, Plan experience, changes in expectations about the future and other factors. We did not perform, and thus do not present, an analysis of the potential range of all future possibilities and scenarios.

Because actual Plan experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts and benefit related issues should only be made after careful consideration of possible future financial conditions and scenarios, and not solely on the basis of a set of investigation results.

Additional information

The next **actuarial investigation** is required at a date no later than 30 June 2024. We understand that APRA has granted an exemption from annual valuations, but requires the next investigation to be as at this date. At that time, the adequacy of the Employer contribution levels will be reassessed. Note that the monitoring process recommended may lead to an earlier reassessment ahead of the next full actuarial investigation.

The next **Funding and Solvency Certificate** is required at least 12 months before the expiry of the current Funding and Solvency Certificate (which expires on 30 June 2025). A new Funding and Solvency Certificate will be issued no later than 28 April 2022 as a result of Sunsuper's merger into Australian Retirement Trust.

The next **Benefit Certificate** is required following the expiry of the current Benefit Certificate (which expires 30 June 2025). The current Benefit Certificate is designed to accommodate changes to the legislated Superannuation Guarantee schedule. A new Benefit Certificate will be issued no later than 28 April 2022 as a result of Sunsuper's merger into Australian Retirement Trust.

Further Information

Please contact me to provide any supplementary information or explanations about this actuarial investigation as may be required.

....

Guy Holley

Fellow of the Institute of Actuaries of Australia

29 March 2022

I have reviewed this report under Mercer's professional Peer Review Policy. I am satisfied that it complies with the applicable professional standards and uses assumptions and methods that are suitable for the purpose.

....

Clement Cheung

Fellow of the Institute of Actuaries of Australia

Appendix A

Plan Design

Summary of benefits

A simplified summary of the main benefit provisions in respect of defined benefit members is set out below. Reference should be made to the formal governing documents for definitive statements.

Category A (ex-NRMA Defined Benefit Members)

Member Contributions

Contributory members may contribute at the rate of 0%, 3% or 5% of salary.

Employer Contributions

The Employers contribute the balance of the cost of providing benefits, including the operating expenses of the defined benefit category.

Accumulation Benefit

The accumulation with interest of:

a) contributory members: 3% of salary, or

b) non-contributory members: 10% of salary

less allowance for tax.

Final Average Salary (FAS)

Average of the highest three salaries over the last five years of membership.

Retirement Benefit (from age 55)

The retirement benefit is a lump sum benefit of:

a) 23% of FAS for each year of 5% contributory membership up to 31/12/98, and 21% of FAS for each year of 5% contributory membership from 1/1/99; plus
b) 16.5% of FAS for each year of 3% contributory membership up to 31/12/98, and 15% of FAS for each year of 3% contributory membership from 1/1/99; *plus*
c) R% of FAS for each year of non-contributory membership

where years of membership includes completed month fractions, and where R has been based on Superannuation Guarantee rates and currently (from 1 July 2002) is 9.5%.

Death Benefit

The Death Benefit is the greater of:

a) the Retirement Benefit payable if the member had been entitled to retire at the date of death; and

b) 4 *times* salary (5% contributory members), or 3 *times* salary (3% contributory members), or for non-contributory members, the Accumulation Benefit *plus* an age related dollar amount.

Total and Permanent Disablement Benefit

A contributory member's benefit on TPD is equal to the death benefit that would have been payable had the member died on the date they became totally and permanently disabled.

Dependent Children's Benefit

Additional salary related benefits including pension benefits are payable in respect of dependent children, in the event of a member's death or total and permanent disablement. Children's pensions are payable to age 16, or to age 21 if financially dependent.

Total but Temporary Disablement Benefit

For contributory members, during periods of total but temporary disablement, an income benefit of 75% of salary (*less* offsets) is payable for a maximum period of 2 years.

Ill-Health Retirement Benefit

If a member retires, with the consent of the organisation, due to incapacity or ill-health, and is not entitled to a TPD benefit, an ill-health retirement benefit is calculated in the same way as the Retirement Benefit.

Resignation Benefit

On resignation, a member is entitled to a lump sum benefit calculated as the sum of:

a) the Accumulation Benefit; *plus*

b) member contributions accumulated with interest; *plus*

c) vesting on (b) of 110% for 5% contributory members and 170% for 3% contributory members.

For contributory members who have completed 25 years or more Plan service, instead of the benefit above, the member can elect to "preserve" an amount in the Plan calculated in the same way as the Resignation Benefit, but with vesting of 150% for all contributory members.

The preserved benefit (*plus* interest) is then payable on retirement after age 55 or in other circumstances permitted by legislation.

Redundancy Benefit

On the redundancy of a Contributory member, a lump sum equal to the total of 2.5 *times* the member's contributions accumulated with interest, *plus* the balance of the Accumulation Benefit.

Additional Contributions

Members may make additional contributions to the Plan. These contributions are accumulated with interest and payable to the member on leaving the Plan for any reason, in addition to any other benefit payable to the member.

Category B (Ex-RACV Defined Benefit Category)

Member Contributions

Since mid-May 2009, members have been contributing at the rate of 5% of Salary by salary sacrifice. Prior to that date members were on a contribution holiday and before then member contributions were at the rate of 4.5% of salaries (and historically had been at the rate of 10%).

Final Average Salary (FAS)

The average of previous three years earnings.

Additional Accumulation Benefits

The accumulation with interest of:

- 3% employer contributions
- Additional member contributions
- Certain other contributions

Less tax.

Retirement Benefit (from age 55)

Two options:

a) Lump Sum: 23.33% of FAS for each year of Membership

b) Pension: 2.5% of FAS for each of year of Membership *times* Retirement Factor

Plus Additional Accumulation Benefits

Membership is limited to 30 years and is defined as pensionable service for benefit purposes – including service in predecessor funds.

Retirement Factor is a value between 80% and 100% depending on age, membership period and years to normal retirement date.

Death Benefit (Active Member)

The greater of:

a) Retirement Benefit based on prospective Service and current FAS

b) Total member contributions (including deemed members contributions) *less* tax *times* Multiple between 1 and 2 depending on years of service

Plus Additional Accumulation Benefits.

Alternatively there is a spouse's pension option available.

Total and Permanent Disability Pension

Calculated as the Retirement Benefit based on prospective Service and current FAS.

Dependent Children's Benefits

Additional salary related pension benefits are payable in respect of dependent children, in the event of a member's death or total and permanent disablement.

Resignation Benefit

Calculated as the Defined Benefit part of the Retirement Benefit (based on actual service and FAS) *times* Vesting Factor *plus* Additional Accumulation Benefits.

A deferred pension option is available after 10 years of service commencing from age 65 and this is not indexed.

Pensions in Payment

Pensions are not indexed.

On the death of a pensioner, a contingent spouse's pension is payable equal to 62.5% of the deceased's pension before death.

Children's pensions are payable to age 18.

Category C (Ex-CGU Defined Benefit Members)

Member Contributions

Member Contributions are voluntary and accrue as an additional accumulation benefit.

Top-Up Account

The accumulation with interest of member contributions and certain other contributions.

Normal Retirement Age (NRA)

Generally age 60.

Salary

The salary used for benefit calculation purposes is generally annual remuneration excluding overtime, bonuses, commission, allowances and directors fees.

Retirement Benefit

The Retirement Benefit payable on or after attaining age 55 is a pension benefit *plus* a lump sum benefit of the Top-Up Account.

The annual pension amount is calculated as the lesser of:

a) 1/60th of Salary for each year of Pre 31 July 1990 Membership
   plus 1/70th of Salary for each year of Post 30 July 1990 Membership

b) Two-thirds of Salary

Membership is defined as pensionable service for benefit purposes – including service in predecessor funds.

For retirement after NRA, an increased pension is paid based on the actuarial equivalent value of the Normal Retirement Pension *plus* a lump sum benefit of the Top-Up Account. Any contributions made in respect of the member after NRA are credited to the Top-up Account.

Death Benefit

The Death Benefit is a lump sum calculated as the greater of:

a) 7 *times* Salary

b) Commuted value of Normal Retirement Pension (based on current salary and actual Membership)

Plus Top-up Account.

Total and Permanent Disablement Benefit

The Total and Permanent Disablement Benefit is a pension benefit *plus* a lump sum benefit of the Top-Up Account.

The pension is calculated as:

> 1/60th of NPS for each year of Pre 1 July 1990 Membership
> *plus* 1/70th of NPS for each year of Post 30 June 1990 Membership

Total but Temporary Disablement Benefit

During periods of Total but Temporary Disablement, an income benefit of 80% of ordinary time earnings (*less* offsets) is payable for a maximum period of 2 years.

Resignation Benefit

On resignation, a member is entitled to a deferred pension (payable from age 60) *plus* a lump sum benefit of the Top-Up Account. The Deferred Pension Benefit is indexed by CPI each 1 January subject to a maximum increase of 5% per annum.

The pension is calculated as the Normal Retirement Pension but based on actual salary and Membership *times* an adjustment factor at the Employer's discretion.

The deferred pension may be commuted immediately to a lump sum.

Pensions in Payment

Pensions are indexed each year by the lesser of CPI and 5%. They are payable monthly for life and have a 7 year guarantee period.

Members can choose to commute part of their pension to either a lump sum or to a contingent spouse's or dependent's pension.

Category D (Ex-CGU VACC Defined Benefit Members)

Member Contributions

Member Contributions are voluntary and accrue as an additional accumulation benefit.

Top-Up Account

The accumulation with interest of member contributions and certain other contributions.

Normal Retirement Age (NRA)

Generally age 65.

Salary

Actual annual salary including director fees. Salary excludes entertainment allowances; bonuses; commissions; holiday pay loadings; and overtime.

Final Average Salary (FAS)

Generally the highest three year average of Salary during the last ten years.

Retirement Benefit

The Retirement Benefit payable within 5 years of NRA is a pension benefit *plus* a lump sum benefit of the Top-Up Account.

For Category D Members, the pension is calculated as the lesser of:

a) 1 2/3% of FAS for each year of Membership

b) 66 2/3% of FAS

Membership is defined as pensionable service for benefit purposes – including service in predecessor funds.

The Retirement Benefit may be payable within ten years of NRA at the Employer's discretion.

For retirement after NRA, an increased pension is paid based on the actuarial equivalent value of the Normal Retirement Pension as if it had been paid *plus* a lump sum benefit of the Top-Up Account. Any contributions made in respect of the member after NRA are credited to the Top-up Account.

Death Benefit

The Death Benefit is a lump sum calculated as 11.5 *times* the Normal Retirement Pension calculated based on current Salary and Membership to NRA *plus* Top-up Account.

Total and Permanent Disablement Benefit

The Total and Permanent Disablement Benefit is a pension benefit *plus* a lump sum benefit of the Top-Up Account.

The pension is calculated as the Normal Retirement Pension based on current FAS and Membership to NRA.

Resignation Benefit

On resignation, a member is entitled to a lump sum benefit of the commuted value of the Normal Retirement Pension based on current FAS and actual Membership *times* a Vesting Factor *plus* Top-up Account.

Vesting Factor = T / N

Where:
- T = Actual Membership
- N = Prospective Membership to five years before NRA

Pensions in Payment

Pensions are not indexed. They are payable monthly for life. On the death of a pensioner, a contingent spouse's pension is payable equal to two-thirds of the deceased's pension before death.

Members can choose to commute part of their pension to either a lump sum or to an index-linked pension.

Category E (Ex-SGIO Defined Benefit Section)

Contributory Member
The one remaining active member has elected to contribute 5% of salary.

Accrual Rate
For the remaining member, the current accrual rate is 20%. The accrual rate is dependent on the contribution rate elected by the member.

Final Average Salary
The average salary over the last two years preceding the date of calculation.

Basic Accumulation Account
This is the total of:

- The amount as advised by the Trustee of the Previous Plan as at 14 November 2020;
- Employer contributions at the rate of 13% of salary to the Plan in respect of the Member after 14 November 2020;
- Contributions to the Plan made by the Member after 14 November 2020; and
- Earnings (positive or negative) from investment in the same investment option that the Defined Benefit Assets are invested in (i.e. the Balanced Investment Option),

  less
- Tax, the cost of the Member's Insured Benefits for the period after 14 November 2020 and Plan administration fees.

Additional Accumulation Account
This is the total of:

- The amount as advised by the Trustee of the Previous Plan as at 14 November 2020;
- Voluntary contributions to the Plan made by the Member after 14 November 2020
- Rollovers to the Plan in respect of the Member after 14 November 2020; and
- Earnings (positive or negative) from investment in the same investment option that the Defined Benefit Assets are invested in (i.e. the Balanced Investment Option),

  less
- Tax.

T-Value Account
The account balance as advised by the Trustee of the Previous Plan as at 14 November 2020, indexed at 1 July each year by the CPI Indexation Factor plus 2%.

Former SGIO Guaranteed Benefit

For Contributory members:

- Whilst the member is continuing in service and under age 65, the Former SGIO Guaranteed Benefit is equal to the sum of:
  - FAS x Accrued Benefit Multiple
  - T-Value Account

For Retained members:

- If employment has ceased and the member is under age 65, the SGIO Guarantee Benefit is equal to the sum of:
  - FAS x Accrued Benefit Multiple at date of cessation of employment indexed at 1 July each year by CPI plus 2%
  - T-Value Account indexed at 1 July each year by CPI plus 2%
  - Additional Accumulation Account to the date of cessation of employment plus interest from the Net Earning Rate

On a Former SGIO Member reaching age 65 is the higher of:

- The sum of Basic Accumulation Account and Additional Accumulation Account, and
- The Former SGIO Member Guarantee.

Resignation Benefit

A Contributory Member who leaves service and withdraws from the Plan is entitled to:

- The Member's Additional Accumulation Account, plus
- The higher of the:
  - Basic Accumulation Account, and
  - Former SGIO Member Guarantee.

A member ceasing employment prior to age 65 may elect to remain in the Plan as a Retained Member.

Retained Benefit

A Retained Member who withdraws from the Plan is entitled to:

- The higher of the:
  - Sum of the Basic Accumulation Account and Additional Accumulation Account, and
  - Former SGIO Member Guarantee.

Category F (Ex-SGIC Defined Benefit Section)

There are no remaining active members in the Plan.

Pensions in Payment

Pensions are indexed each year by the lesser of CPI and 5%. Pensions are payable monthly for life and guaranteed for 5 years.

On the death of a pensioner, a reversionary pension can be paid to a surviving spouse and/or eligible children.

Children's pensions are payable to age 18, or to age 25 provided the child is in full-time attendance at a recognised educational institution.

Accumulation Categories

The following summary applies for all accumulation members of the Plan. This includes former CGU and RACV accumulation members.

The benefits provided to all accumulation members are generally the same – differing only by the level of Employer contributions payable and the level of basic insurance. The benefit payable on retirement or resignation is generally equal to the value of member's accounts. The benefit payable on death or total and permanent disablement is the value of the member's accounts *plus* an insured benefit when applicable.

Member Contributions

Member contributions are voluntary.

Deductions from Member Accounts

Deductions are made from member accounts for contribution tax, administration expenses and insurance cover.

Allocation of Investment Earnings to Member Accounts

Member accounts are credited with the actual investment earnings under each member's chosen investment option. There is no smoothing of investment returns.

Neither the Trustee nor the Employers have a right within the Trust Deed to review benefits or member contribution rates.

Benefits on leaving service for any reason are subject to a minimum Superannuation Guarantee benefit described in the Plan's Benefit Certificate.

The Superannuation Guarantee (Administration) Act 1992

This Act requires employers to provide minimum superannuation benefits that are fully vested in their employees within a complying superannuation fund.

The contribution rates recommended in this report and the projected financial positions allow for benefits being augmented as necessary to meet the minimum Superannuation Guarantee (SG) benefit described in the Plan's current Benefit Certificate.

Under current legislation the SG rate is currently 10% and will increase by 0.5% pa until it reaches 12% from 1 July 2025.

Appendix B

Data and Decrement Assumptions

Data provisions

To prepare this report, we have relied on financial and participant data provided by the Plan's administrator. The data used is summarised in this report. We have not independently verified or audited the data provided but have performed a range of broad "reasonableness" checks and tested for consistency with previous records. We are satisfied that the data is sufficiently accurate for the purposes of this actuarial investigation.

We have also relied upon the documents, including amendments, governing the Plan as provided by the Trustee. The Trustee is ultimately responsible for the validity, accuracy and comprehensiveness of this information. If the data or Plan provisions are not accurate and complete, the investigation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a revision of this report.

Decrement Assumptions

The following tables show the assumptions that have been made concerning the rates at which members will leave the Plan for a variety of reasons.

Retirement

Age	Percentage of members age x at beginning of year assumed to leave the Plan during the year on account of early retirement
x	%
55	7
56 to 59	15
60 to 64	20
65	100

Death and Disablement

Age	Percentage of members age x at beginning of year assumed to leave the Plan during the year on account of:	
	Death	**Ill Health/TPD**
x	**%**	**%**
40	0.049	0.042
45	0.074	0.069
50	0.111	0.131
55	0.171	0.257
60	0.264	0.447
65	0.372	0.677

Resignation

Age	Percentage of members age x at beginning of year assumed to leave the Plan during the year on account of resignation
x	**%**
40	5
45	5
50	7
55 onwards	-

Pensioner Mortality

Age	Rates of Mortality^ (deaths per 10,000 lives)		Rates of future improvement (% p.a.)	
x	**Male**	**Female**	**Male**	**Female**
60	26	18	2.6	2.2
65	41	28	3.0	2.4
70	79	55	3.0	2.4
75	153	107	2.8	2.3
80	327	226	2.3	2.0
85	703	491	1.6	1.4
90	1,358	1,082	0.9	0.8

^The rates of mortality are before application of mortality improvements.

Appendix C

Calculation of the Actuarial Value of Accrued Benefits

The calculation of the Actuarial Value of Accrued Benefits has been carried out using a method of apportionment of benefits between past and future membership that satisfies the requirements of Professional Standard No. 402 of the Actuaries Institute and is acceptable for Australian Accounting Standard AASB 1056 purposes.

Defined Benefits

The past membership components of all defined benefits payable in the future from the Plan in respect of current membership are projected forward allowing for assumed future salary increases and credited interest rates and are then discounted back to the investigation date at the investment return rate assumed for the investigation.

The past membership component for each type of benefit is:

Retirement:	based on the member's accrued benefit multiple or relevant account balances at the investigation date
Death and Disablement:	calculated by adjusting the total expected benefit in proportion to the accrued benefit multiple at the investigation date divided by the accrued benefit multiple at the projected date of death or disablement
Resignation:	based on the member's accrued benefit multiple or accumulated contributions at the investigation date, increased allowing for future vesting to the projected date of resignation

The entirety of pension and deferred pension liabilities are treated as attributable to past membership.

The weighted average term of the accrued benefit liabilities is 9 years.

Accumulation Benefits

The value of accumulation benefits has been taken as the sum of the balances held in accumulation accounts at the date of the investigation.

Methodology of Calculating the Actuarial Value of Accrued Benefits

The method used for the determination of Accrued Benefits is the same as that used at the last actuarial investigation.

Mercer Consulting (Australia) Pty Ltd
ABN 55 153 168 140
AFS Licence # 411770
One International Towers Sydney
100 Barangaroo Avenue, Sydney NSW 2000
GPO Box 9940 Sydney NSW 2001
+61 2 8864 6800