Willis Towers Watson

Australia Post Superannuation Scheme

Report on the Actuarial Investigation as at 30 June 2021

17 December 2021

Towers Watson Australia Pty Ltd
ABN 45 002 415 349 AFSL 229921

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Section 1: Executive Summary

1.1 The Australia Post Superannuation Scheme's Trust Deed and APRA Superannuation Prudential Standard 160 (SPS 160) require the Scheme to be the subject of an actuarial investigation at intervals of no more than 3 years. SPS 160 and the Actuaries Institute's Professional Standards also prescribe certain information to be included in an actuarial investigation. This report is to satisfy the formal requirements of the Trust Deed, SPS 160 and the Actuaries Institute Professional Standards.

1.2 The purpose of this actuarial investigation is to:

a Assess the current financial position of the APSS;

b Assess the adequacy of future Australia Post (the Corporation) contributions and make a recommendation on the level of future contributions;

c Review the self-insurance arrangements and recommend an amount of assets to be held for pending and Incurred But Not Reported (IBNR) claims; and

d Meet other legislative requirements.

Membership

1.3 The total number of members of the APSS has decreased from 32,037 as at 30 June 2018 to 27,584 as at 30 June 2021.

	30 June 2021	30 June 2018
Permanent Employees		
■ Full Members	17,676	21,321
■ CSS Members	99	185
■ Opt-out Members	102	123
	17,877	21,629
Non-Permanent Employees	129#	207#
APSS Rollover Members	6,817*	7,684*
APSS Pension Members	2,489*	2,075*
Spouse Accounts	272	442
Total	**27,584**	**32,037**

* At 30 June 2018 and 30 June 2021 there were members who hold multiple memberships across APSS – for example, a member may hold both a permanent employee membership and an APSS Rollover membership, or a member may hold multiple APSS Pension memberships. The membership summary has been adjusted to reflect that such duplicated members are only counted as one member. In aggregate, including duplicated accounts, there are 7,005 Rollover Members and 3,116 Pension Members as at 30 June 2021.

Non-Permanent Employees are Class A Statutory Benefit members who receive the SG accrual rates. It includes some permanent employees of StarTrack.

Experience and Assumptions

1.4 During the three years to 30 June 2021, the investment return on Employer-financed assets was better than expected and in isolation, has resulted in the improvement in the VBI. Salary increases have been lower than expected when both inflationary and promotional salary increases are considered. Overall the financial experience has been favourable. The actual investment returns and salary increases over the inter-valuation period are shown in the following table.

	Investment Return % p.a.	Average Superannuation Salary Increase % p.a.
3 years to 30 June 2021	6.7%	1.8%

1.5 The financial assumptions adopted in this investigation and the previous investigation are set out below:

	Actuarial investigation at 30 June 2018	Actuarial investigation at 30 June 2021
Investment return	5.25% p.a.	3.5% p.a.
Short-term salary inflation	2.0% p.a. for 2 years to 30 June 2020	3.0% p.a. for 3 years to 30 June 2024
Long-term salary inflation	2.75% p.a.	2.5% p.a.
Long term real return	2.5% p.a.	1.0% p.a.

1.6 The most financially significant assumption change since the previous investigation is the reduction in the expected investment return from 5.25% p.a. to 3.5% p.a.. The proportion of growth assets in the investment strategy applied for the Employer Financed assets has reduced from in the order of 70% to in the order of 45% (by the date of this report). This has materially reduced both the investment risk and expected investment return of those assets.

1.7 We have also reduced the long-term salary inflation from 2.75% p.a. to 2.5% p.a. and have adopted a short-term salary inflation assumption by increasing the salary increases for the three years to 30 June 2024 from 2.75% p.a. to 3.0% p.a. These assumptions are based on our expectations of inflationary superannuation salary increases and are derived consistently with the expected investment return. The short-term assumption reflects the expected Enterprise Bargaining Agreement which has a higher short-term salary increase rate. Separate promotional salary increases are applied.

1.8 After reviewing the demographic experience, we have also revised the rates of mortality and retirement in this investigation. These changes have had a small favourable impact on the expected future funding. A detailed summary of the analysis can be found in Section 4.

Assets

1.9 The fair value for the APSS assets from the audited financial statements at 30 June 2021 is $8,304.9 million. The amount of the Employer-financed assets used for calculating the APSS's defined benefit financial position at 30 June 2021 is $4,414.3 million.

Solvency

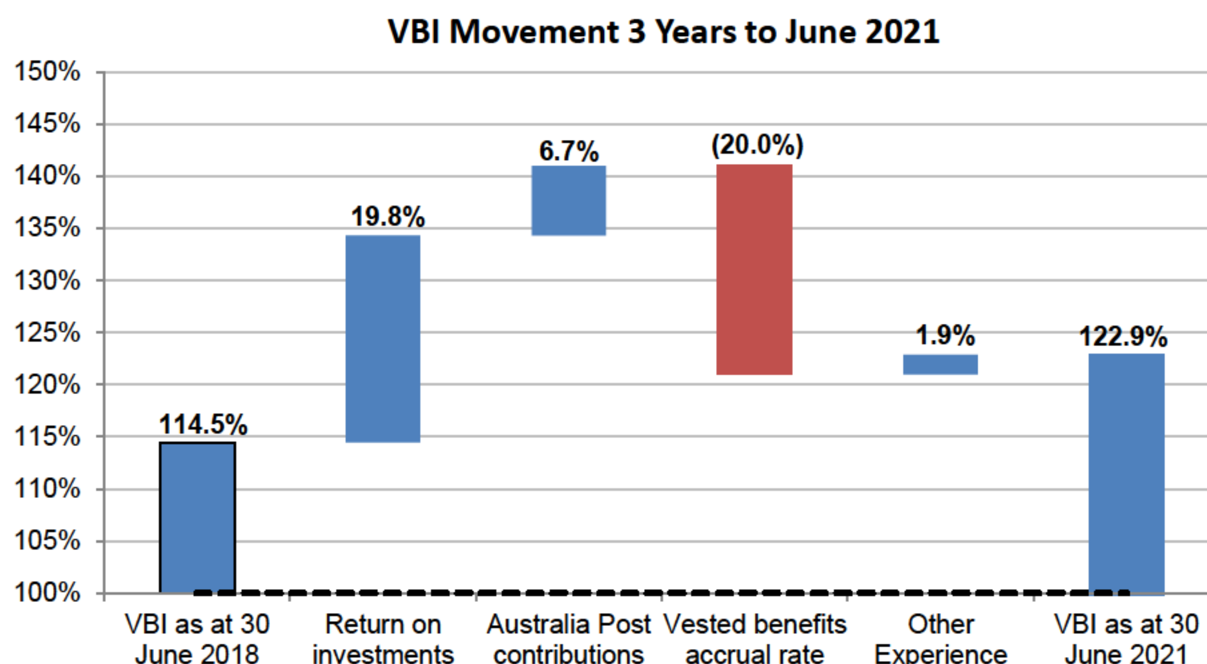
1.10 The VBI measures the adequacy of assets to cover the benefits that would be due and payable if all members had received withdrawal benefits or (if eligible) the retirement benefits at the calculation date.

1.11 The long-term measure of the APSS's financial position at 30 June 2021 is the adequacy of its assets to provide members' Accrued Benefits (benefits payable in future years which have accrued as a result of membership up to 30 June 2021). This measure assumes the APSS continues as an ongoing entity.

1.12 The following table sets out these two solvency measures of defined benefits in the APSS as at the valuation date, as well as that as at the previous valuation date.

Employer Financed Assets	Vested Benefit Index (VBI)	Accrued Benefit Index (ABI)
30 June 2021	122.9%	127.7%
30 June 2018	114.5%	130.8%

1.13 The VBI has improved over the period since the previous actuarial investigation largely because the actual real return above salary increases achieved over the three-year period has been higher than expected. However, the ABI has reduced slightly over the period because of the reduction in the discount rate (i.e. expected future investment return) used to discount benefits payable in future years. The following chart reconciles the movement in the VBI from 30 June 2018 to 30 June 2021. The "Vested Benefit accrual rate" item includes both the impact of superannuation salary increases as well as the accrual of members' benefits with additional service.



Long Term Funding

1.14 In Section 9, we assess the level of recommended contributions for the Corporation.

1.15 We recommend that the Corporation contributes at 5% of superannuation salaries, effective from 1 July 2021 or such later date the Corporate determines, or a reasonable estimate thereof. Because the Corporation had been contributing 7.5% of superannuation salaries since 1 July 2021 to date, this could involve an adjusted contribution rate (reduced to lower than 5%) for the remainder of the year to 30 June 2022.

1.16 We recommend that the Corporation review its contribution arrangements and investment strategy, based on actuarial advice, should the VBI reduce to 110% or below, or if it increases to 130% or above.

1.17 This contribution rate is expected to be sufficient to meet the future administration expenses of the Trustee that are required to be funded by the Corporation. To the extent Australia Post directly meets expenses of the Trustee, it is reasonable for the Corporate to contribute an amount net of these expenses to the APSS.

1.18 This approach reflects the preferences of Australia Post and is expected to be sufficient to fully fund the APSS benefits. Based on the data, assumptions and method adopted in this report, the minimum required long term contribution rate is 4.9% of superannuation salary. This contribution rate spreads the surplus assets as at 30 June 2021 over the future working life time of members if experience is as expected. If the VBI were 100% the required long term contribution rate would increase to 14.6%.

1.19 In recommending a contribution rate of 5% of superannuation salaries, we have also recommended that the Corporation agree to review the contribution arrangements and investment strategy if the VBI were to reduce to 110% or below. At this funding level, the required long-term contribution rate would be expected to be 10.4% under the current investment strategy and assumptions.

1.20 We also recommend that the contribution arrangements and investment strategy should be reviewed should the VBI increase to 130% or above. Based on the current investment strategy and assumptions, the required contribution rate would be 2.0% of salaries.

Sensitivities

1.21 Actual future contribution requirements are very dependent on future experience and in particular the investment returns. The sensitivity of contributions to key drivers is considered in Section 10.

1.22 Because the assets are currently in excess of Vested Benefits, if Australia Post contributes at 5% of superannuation salaries effective from 1 July 2021, then an investment return of 3.5% p.a. would be expected to be sufficient to provide members' benefits. This assumes all other experience is as expected.

1.23 It is possible for significant and sharp negative investment returns to occur. The following table shows what the implications of an immediate, one-off significant negative investment return during the year to 30 June 2022 would have been on the VBI and the top-up contributions required from Australia Post. These are not intended to be the worst case scenarios. This outcome is relevant irrespective of the cause of the negative returns. The investment return is assumed to return to 3.5% p.a. after the first year and Australia Post is assumed to contribute at 5.0% of superannuation salary plus the amount of required top-up contributions shown in the table.

Sensitivity to Actual investment returns						
Date	Base case		One-off -10% return on assets		One-off -25% return on assets	
	Top-up contributions ($m)	VBI (%)	Top-up contributions ($m)	VBI (%) #	Top-up contributions ($m)	VBI (%) #
30 June 2021	n/a	122.9%	n/a	122.9%	n/a	122.9%
30 June 2022	0.0	124.2%	0.0	107.4%	148.7	92.6%*
30 June 2023	0.0	123.4%	0.0	105.6%	198.5	94.9%
30 June 2024	0.0	121.8%	0.0	103.0%	317.2	100.0%
30 June 2025	0.0	120.3%	0.0	100.3%	35.9	98.1%
30 June 2026	0.0	119.1%	27.6	98.5%	84.3	97.7%
30 June 2027	0.0	118.3%	69.5	98.0%*	168.6	100.0%

* These are the VBIs after the top-up contributions have been made. The VBIs would reduce to 96.0% (as at 30 June 2027; one-off -10% return) and 88.9% (as at 30 June 2022; one-off -25% return) in the two scenarios without the top-up contributions.

Because the Normal Contribution Rate based on expected investment returns is greater than 5.0% of salaries, the ongoing contribution rate under the two scenarios above involving one-off significant negative investment returns would need to be increased in order to maintain the VBI above 100%. For ease of comparison the projections above do not take this increase in contributions into account. In practice we recommend a VBI trigger of 110% be adopted at which point the contribution rate would be reviewed.

1.24 As shown in the above table, the VBI and top-up contributions could be very significantly different due to large negative investment returns. The risk of very large negative investment returns has reduced since the previous actuarial investigation because the investment risk in the Employer Financed asset investment strategy has significantly reduced. The top-up contributions are calculated to return the VBI to 100% within three years of the shortfall limit being breached in accordance with the requirements of SPS 160. To extend a restoration plan longer than three years requires APRA approval.

1.25 This analysis demonstrates the importance of considering the funding risk when the Trustee sets the investment strategy for the Employer Financed assets.

Death and TPD Benefits

1.26 Our analysis concluded that the death and Total and Permanent Disablement ('TPD') benefits self-insured by the APSS in respect of employee members are well diversified amongst a large group of members. Whilst the self-insurance risk is low, the Trustee and Corporation need to be comfortable with this risk, particularly in the case of a catastrophe. SPS 160 requires the Trustee to attest annually that self-insurance is in members' best interests. In summary:

- Random annual variation in death and TPD payments is unlikely to have more than a 0.1% impact on the VBI; however
- A large catastrophe could have a several percentage point impact on the VBI (and potentially tens of million or even more impact on Australia Post's contributions).

1.27 We believe that it would be reasonable for the defined benefit members to continue to be self-insured, but the Trustee should make this decision after reviewing the risks set out in Section 11. We recommend that the self-insurance experience continue to be monitored annually in accordance with APRA's request.

1.28 In our 30 June 2018 actuarial investigation we determined that it was appropriate to include a $15 million allowance for pending and incurred but not reported claims in the vested benefits and other liability calculations. This is to particularly allow for TPD benefits incurred in the past that are yet to be paid. Based on analysis conducted for this investigation we have retained this amount at $15 million.

Material Risks

1.29 The key actuarial risks relating to the APSS funding are discussed in Section 12.

1.30 Based on our knowledge of the Scheme and analysis of the risks we do not recommend any changes in the Trustee's approach.

Experience since 30 June 2021

1.31 Since 30 June 2021, the Trustee has agreed to further reduce the allocation to growth assets in its Strategic Asset Allocation to 45%. In determining the results of this valuation and in formulating the recommendations, this change in the strategic asset allocation has been taken into account.

1.32 The shortfall limit is the VBI trigger at which top-up contributions are likely to be required from the Corporation between actuarial investigations. As a consequence of the significant reduction in investment risk that has occurred it is appropriate to increase the short fall limit from 97% to 98%. The shortfall limit depends on the volatility of the investment return, because with a lower risk investment strategy the VBI is less likely to temporarily dip further below 100% and then quickly recover.

1.33 Since 30 June 2021, investment markets have produced positive returns. At the time of writing, the investment return for the Employer Financed Assets for the financial year to date has been higher than expected, and the estimated VBI as at the date of writing was around 125%. While this is slightly higher than the expected VBI of around 123% at this point in time, we do not expect the experience or any other event post the valuation date would have a material effect on the recommendations contained in this report. The projections shown above in Section 1.23 do not allow for post 30 June 2021 experience.

Possible Successor fund transfer to Sunsuper

1.34 In early 2021, the Trustee signed a non-binding agreement with Sunsuper to consider a successor fund transfer into that fund. No final decision has yet been made in respect of that possible transfer. Based on the information currently known to me I do not expect the transfer to materially alter the defined benefits of transferring Scheme members or their funding.

Summary of Recommendations

1.35 Based on the results of this investigation, we recommend:

- The Corporation contribute monthly at 5% of superannuation salary per annum, or a reasonable estimate thereof, effective from 1 July 2021. Because the Corporation had been contributing 7.5% of superannuation salaries since 1 July 2021 to date, this could involve an adjusted contribution rate (reduced to lower than 5%) for the remainder of the year to 30 June 2022;

- The Corporation agree to review its contribution rate and investment strategy, based on actuarial advice, should the VBI reduce to 110% or below or if the VBI increases to 130% or above;

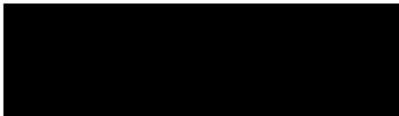
- The Trustee considers the self-insurance risks as documented in Section 11 of our report and use this as input into considering whether to continue to self-insure. We consider self-insurance to be reasonable for the Scheme;

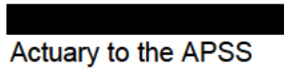
- The death and TPD experience continues to be monitored annually;

- The Trustee adopt a short fall limit of 98%;

- The Trustee continues to regularly consider the appropriate investment strategy for the Employer-financed assets, taking into account the defined benefit liabilities and funding.

1.36 The next full actuarial investigation of the APSS is required to be undertaken no later than as at 30 June 2024, or earlier if required by superannuation law.





Actuary to the APSS

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Section 2: Introduction

Purpose

2.1 This actuarial investigation has been carried out for the Trustee (PostSuper Pty Ltd) of the Australia Post Superannuation Scheme ("APSS" and the "Scheme") in order to meet the requirements of the Trust Deed and superannuation law. The report is also relevant to the Australian Postal Corporation (Australia Post or the Corporation) and other Associated Employers.

2.2 The purpose of this actuarial investigation is to:

a Assess the current financial position of the APSS;

b Assess the adequacy of future contributions and make a recommendation on the level of future Corporation contributions;

c Review the self-insurance and recommend an amount of assets to be held for pending and Incurred But Not Reported (IBNR) claims; and

d Meet any other legislative requirements.

2.3 APSS is a "regulated fund" under the provisions of the Superannuation Industry (Supervision) Act 1993 ("SIS"). The Scheme is treated as a complying defined benefit superannuation fund for taxation purposes.

2.4 This actuarial investigation has been prepared in accordance with Professional Standards 400, 402 and 404 issued by the Actuaries Institute.

Trust Deed

2.5 The governing rules of the APSS are set out in the APSS Trust Deed plus the various Deeds of Modification. The current Trust Deed (including amendments contained in Deed of Modifications 1 to 19) is consolidated in a document dated 3 March 2020.

Requirements of Superannuation Law

2.6 Clause 6.11 of the APSS Trust Deed states that "The Trustee shall cause the Actuary to make an actuarial investigation of the Scheme and valuation of the Fund at such intervals as may from time to time be required by Superannuation Law, or at such shorter intervals as the Trustee may require...". Clause 6.11 also states that the actuarial investigation of the Scheme "shall be in such form and shall include such matters as required by Superannuation Law." Superannuation Law covering actuarial investigations of defined benefit superannuation schemes is contained in Superannuation Prudential Standard 160 (SPS 160).

2.7 Paragraph 14(a) of SPS 160 requires that the trustee of a defined benefit superannuation fund must cause actuarial investigations of the fund to be conducted at intervals of not more than 3 years. Paragraph 21 requires that the trustee receive a report on each actuarial investigation conducted, and that this report be issued within six months of the date of the actuarial investigation. As the last actuarial investigation of the Scheme was conducted as at 30 June 2018, the law requires that another investigation be carried out as at 30 June 2021 and the report be provided to the Trustee by 31 December 2021.

Previous Reports

2.8 Matthew Burgess completed the previous actuarial investigation as at 30 June 2018 (the 2018 actuarial report) and the results are in a report dated 14 December 2018.

2.9 The main conclusions in the previous two actuarial investigations were as follows:

	2018 Actuarial Report	2015 Actuarial Report
Employer Contribution Rate	7.5% of Salary	9.5% of salary
Vested Benefit Index	114.5%	108.4%
Solvency position of the APSS	Satisfactory	Satisfactory

2.10 All employer contributions have been made in accordance with the recommendations.

2.11 The other recommendations from the actuarial investigation and the action taken in respect of the recommendations are:

a Recommendation: Australia Post review its contribution rate, based on actuarial advice, should the Vested Benefit Index (VBI) reduce to 105% or below. The VBI has not reduced to this level so no review has been necessary.

b Recommendation: The Trustee considers the self-insurance risks as documented in Section 11 of our report and use this as input into considering whether to continue to self-insure. Also, to include an allowance of $15 million allowance for pending and incurred but not reported claims in the vested benefits and other liability calculations.

Response: The Trustee has considered our report and has determined annually to continue to self-insure and that it is in members' best interest. The amount of $15 million continues to be added to all aggregate defined benefit liability calculations.

c Recommendation: The death and TPD experience continues to be monitored annually.

Response: As well as being reviewed in this report, the Trustee requested reviews of the self-insurance experience be completed as at 30 June 2019 and 30 June 2020.

d Recommendation: The Trustee continues to regularly consider the appropriate investment strategy for the Employer-financed assets. In particular, the Trustee consider the viability of "de-risking" the Employer Financed Assets and whether this is its preference.

Response: the Trustee continues to regularly consider the appropriate investment strategy for the Employer-financed assets. The Trustee, after consultation with Australia Post, has reduced the investment risk materially since 30 June 2018. As at 30 June 2021 the Employer-financed assets had 55% growth Strategic Asset Allocation, which had reduced further to 45% by the date this report was completed.

Events since the previous actuarial investigation

Real investment returns

2.12 The investment returns achieved over the three years to 30 June 2021 were higher than were assumed in the previous actuarial investigation (refer Section 4). Also, salary increases were lower than expected and both these factors have led to an improvement in the Scheme's financial position.

Solvency Triggers

2.13 The VBI has remained above 100% over the three year period since 30 June 2018. It has also remained above the 105% trigger for review of Australia Post's contribution rate.

Liquidity

2.14 The actual allocation to illiquid assets remains within the Trustee's preferred range as specified in its Liquidity Management Plan.

Changes to APSS Benefits

2.15 No material changes that are relevant to the scope or purpose of this investigation have been made to the APSS defined benefits since the previous actuarial investigation at 30 June 2018.

2.16 From 1 July 2021 the Superannuation Guarantee was increased to 10.0% of Ordinary Time Earnings and this is reflected in the Scheme's Benefit Certificate.

2.17 There have been minor changes to the accumulation arrangements for Member Savings:

a On 3 March 2020 the Trust Deed was amended to allow non-lapsing binding death benefit nominations;

b From early 2019, defined benefit members who ceased employment with Australia Post or an Associated Employer are defaulted to the APSS Rollover rather than being transferred to an Eligible Rollover Fund.

c External insurance for APSS Rollover and Spouse members have been updated, including as a result of legislative changes.

Possible Successor fund transfer to Sunsuper

2.18 In early 2021, the Trustee signed a non-binding agreement with Sunsuper to consider a successor fund transfer into that fund. No final decision has yet been made in respect of that possible transfer. Based on the information currently known to me I do not expect the transfer to materially alter the defined benefits of transferring Scheme members or their funding.

Section 3: Membership Data

3.1 Membership data was provided by the Scheme's benefits administrator. Data provided included both the members of the Scheme as at 30 June 2021 and all exits from the Scheme over the three years immediately preceding that date. We also received membership data at each 30 June during the inter-valuation period.

3.2 We have relied on the data provided in our calculations, and the findings in this report are limited to the accuracy of the data provided. However, we have performed reasonableness data checks to satisfy ourselves that the data is suitable for the purposes of this investigation.

3.3 The number of members in the Scheme decreased from 32,037 as at 30 June 2018 to 27,584 as at 30 June 2021. At 30 June 2021 there were members who were permanent employee members and also APSS Rollover and/or APSS Pension members. The number of members has been adjusted to reflect that each duplicated member is only counted as one member. In aggregate, including duplicated accounts, there are 7,005 Rollover Members and 3,116 Pension Members. The Scheme has been closed to new employed members since 1 July 2012.

3.4 Employed members are currently employed by the Corporation or an Associated Employer and have defined benefits. They can be divided into the following categories (as notified by the Corporation or Associated Employer):

- Permanent employees who can be further sub-divided into:
  - Full members, the majority of permanent employees who accrue benefits of 14.3% of final average salary for each year of membership;
  - Permanent employees with less than three months service (also called probationary members). These members accrue benefits at the same accrual rate as the SG percentage during their probationary period applied to final average salary until the three month period of probationary employment is completed and they become Full members. The Scheme has no probationary members as at 30 June 2021 because it is closed to new members;
  - CSS Members who continue to contribute to the CSS and only accrue benefits of 3% of final average salary in the APSS. No new employees have joined this category of members since 1 July 1990; and
  - Opt-out members who no longer accrue a benefit in the APSS in respect of future employment because they have elected that their Superannuation Guarantee contributions be paid to another superannuation fund, in accordance with the Commonwealth Government choice of fund legislation; and
- Non-permanent employees who accrue benefits at the same accrual rate as the SG percentage applied to final average salary for each year of membership. This actuarial investigation allows for the increase in the accrual rate from the current SG percentage of 10% to 12% as the SG percentage increases according to the latest legislation.

3.5 The table below shows that the total number of members of the APSS has decreased from 32,037 as at 30 June 2018 to 27,584 as at 30 June 2021.

	30 June 2021	30 June 2018
Permanent Employees		
■ Full Members	17,676	21,321
■ CSS Members	99	185
■ Opt-out Members	102	123
	17,877	21,629
Non-Permanent Employees	129#	207#
APSS Rollover Members	6,817*	7,684*
APSS Pension Members	2,489*	2,075*
Spouse Accounts	272	442
Total	**27,584**	**32,037**

* At 30 June 2018 and 30 June 2021 there were members who hold multiple memberships across APSS – for example, a member may hold both a permanent employee membership and an APSS Rollover membership, or a member may hold multiple APSS Pension memberships. The membership summary has been adjusted to reflect that such duplicated members are only counted as one member. In aggregate, including duplicated accounts, there are 7,005 Rollover Members and 3,116 Pension Members as at 30 June 2021.

\# Non-Permanent Employees are Class A Statutory Benefit members who receive the SG accrual rates. It includes some permanent employees of StarTrack.

The membership data summarised in this Section includes all APSS members.

Employed Members

3.6 The number of employed members in the Scheme as at 30 June 2021 was 18,006. The corresponding number of employed members at each 30 June since the previous investigation is summarised in the following table:

As at 30 June	Number of Employed Members
2018	21,836
2019	20,383
2020	19,212
2021	18,006

3.7 Over the inter-valuation period the total employed membership has decreased by 3,830 members. Appendix B contains a full reconciliation of the employed membership of the Scheme over the three year inter-valuation period.

3.8 The most financially significant group of members are permanent employees excluding the CSS members and opt-out members. This is because they comprise the largest group of members and have the largest benefit accrual rates. Once they have completed any three month probationary period these members accrue benefits annually at 14.3% of final average salary which is higher than for CSS members, and non-permanent employees who currently accrue benefits at the lower rates of 3% and 10.0% (or other SG rate) of final average salary respectively. Non-permanent employees also often have only a short period of membership. A summary of the key statistics of this financially significant membership group is set out in the following table:

	Number		Average Age		Average Membership	
	30 June 2018	30 June 2021	30 June 2018	30 June 2021	30 June 2018	30 June 2021
Males	13,028	10,786	52	54	18.0	20.7
Females	8,293	6,890	51	53	16.6	19.4
All	21,321	17,676	51	53	17.5	20.2

3.9 It can be seen from the above table that over the inter-valuation period the number of the permanent employees (excluding CSS members and opt-out members) has decreased by 3,645.

3.10 The proportion of males and females has only changed slightly with the proportion of males reducing from 61.1% as at 30 June 2018 to 61.0% as at 30 June 2021.

3.11 The average ages have increased over the inter-valuation period because of the closure of the Scheme to new members. The average period of membership has also increased. These trends would be expected to continue.

3.12 As at 30 June 2021, 57.9% of permanent employees (excluding CSS members and opt-out members) were making regular before or after tax contributions to their Member Savings in the APSS either as a percentage of their salary or as a regular dollar contribution. This percentage has increased from 53.7% as at 30 June 2018. Since 1 July 2000, member contributions have been voluntary.

3.13 The average member contribution rate, for those contributing, has increased from 3.8% of salary at 30 June 2018 to 4.3% of salary on 30 June 2021, including both after-tax and salary sacrifice contributions.

APSS Rollover

3.14 The APSS Rollover facility was established effective 1 January 1997. As at 30 June 2021 there were 7,005 members with an APSS Rollover account. The corresponding number of rollover accounts at each 30 June since the previous investigation is summarised in the following table.

As at 30 June	Number of APSS Rollover Members
2018	8,022
2019	7,579
2020	7,292
2021	7,005

3.15 Over the inter-valuation period the total membership with an APSS Rollover has decreased by 1,017 members.

APSS Pensions

3.16 APSS Pensions were established effective 1 January 1997. As at 30 June 2021 there were 3,116 members with an APSS Pension. The corresponding number of APSS Pensioners at each 30 June since the previous investigation is summarised in the following table:

As at 30 June	Number of APSS Pension Members
2018	2,766
2019	2,953
2020	3,047
2021	3,116

3.17 Over the inter-valuation period the total membership with an APSS Pension has increased by 350 members. There were 1,031 APSS Pensions that were fully commuted during the period.

Spouse Account

3.18 The Spouse Account facility was established effective 1 May 1998. As at 30 June 2021 there were 272 members with a Spouse Account. The corresponding number of Spouse Accounts at each 30 June since the previous investigation is summarised in the following table:

As at 30 June	Number of Spouse Accounts
2018	442
2019	402
2020	327
2021	272

3.19 Over the three year period the total membership in the Spouse Account facility has decreased by 170 members.

Section 4: Financial and demographic experience

General

4.1 We have examined the experience of the APSS membership and have compared the actual experience to that expected on the basis of the long-term actuarial assumptions used in the previous investigation.

4.2 This section investigates the continued appropriateness of those long-term actuarial assumptions.

4.3 Demographic assumptions and financial assumptions have the greatest importance for employed members with an Employer-financed defined benefit because the assets and liabilities are not matched. This is not the case for Member Savings, including APSS Rollovers, APSS Pensions and Spouse Accounts, where account balances (liabilities) increase or decrease in line with investment returns. Hence the analysis of the Scheme's experience considers only the Employer-financed defined benefits. In addition, the Employer-financed assets also meet the administration expenses of the Scheme. An analysis of the entire Scheme's expenses has also been undertaken.

4.4 The experience can be divided into two components:

- Financial (salary increases, discount rates, investment returns and expenses); and
- Demographic (rates of withdrawal, retrenchment, death, total and permanent disablement, and retirement).

4.5 This section summarises the results of the analysis of the Scheme's experience. Appendix D contains a detailed summary of the assumptions used.

Financial Experience and Assumptions

Investment return

4.6 The investment returns for the Employer-financed assets are relevant to actuarial investigations because increases or decreases in returns impact on the assets available to meet the Employer-financed liabilities.

4.7 Willis Towers Watson is the APSS investment consultant. As at 30 June 2021 the Employer-financed assets were invested in accordance to a 55% growth asset investment strategy. This was subsequently reduced to 50% growth and then 45% growth. The results of this actuarial investigation have been prepared assuming this 45% growth investment strategy is retained.

4.8 The median net of tax and investment fees return is 3.5% p.a. based on the Willis Towers Watson model. Overall we consider it reasonable to assume a 3.5% p.a. return for the future. A higher return was assumed for the Scheme's 30 June 2021 financial statements (3.7% p.a.) because it was based on a 50% growth asset allocation which was the applicable strategy at the time those statements were prepared.

4.9 The return assumption of 3.5% p.a. compares to a "best estimate" expected return of 5.25% p.a. assumed in the previous investigation. The reduction in expected investment return is largely attributable to changes in the strategic asset allocation of the Employer-Financed assets for which the growth asset allocation has reduced from 70% to 45%, as well as the financial outlook at 30 June 2021.

4.10 The following table sets out the actual investment return of the Employer-financed assets for each of the three years over the inter-valuation period.

Year ending	Net of tax and indirect investment costs rate of investment return on Employer-financed assets (% p.a.)
30 June 2019	7.3
30 June 2020	-0.5
30 June 2021	13.7
Average for the 3 year period	**6.7**

4.11 Over the three-year period, the net return on the Employer-financed assets was 6.7% p.a., which was higher than the best estimate investment return assumption of 5.25% p.a. from the previous investigation at 30 June 2018.

Inflationary salary increases

4.12 The two factors which influence superannuation salary increases are inflationary salary increases and promotional salary increases. All references to salary are to superannuation salary as defined in the Scheme's Trust Deed, which can differ from salary for other purposes.

4.13 For inflationary salary increases, we have considered the next three years separately to the long term because increases in the short term will be influenced by agreements that Australia Post has committed to, as well as changes that Australia Post has made to the calculation of superannuation salary. Only 14.3% defined benefit members are considered because the vast majority of the benefit liability relates to these members.

Short term salary inflation

4.14 Prior to 30 June 2014, when an award employee's superannuation salary decreased, or remained constant, from one year to the next Australia Post's policy was to index superannuation salary to Average Weekly Ordinary Time Earnings (AWOTE). Over time a significant number of APSS members were simply receiving an indexed superannuation salary that was higher than their salary for other purposes.

4.15 From 1 July 2014, Australia Post ceased to apply the AWOTE indexation to superannuation salary. No member's superannuation salary was reduced as part of this change, but those members whose actual salary is less than their superannuation salary will not receive an increase in superannuation salary until the actual salary increases to superannuation salary.

4.16 Members receive increases in superannuation salaries on their birthdays. We have examined the superannuation salary increases of those members who had birthdays between 1 July 2018 (four years after the indexation change was introduced) and 30 June 2021. The following table includes only 14.3% defined benefit members who remained members of the APSS as at 30 June 2021.

All employees	Number	Average Salary 30 June 2018 ($)	Average Salary 30 June 2021 ($)	Average increase % p.a.
No salary increase	4,101	68,572	68,572	0.0%
Salary increase	13,575	67,676	72,480	2.3%
All relevant members	17,676	67,883	71,575	1.8%

Superannuation salaries are shown. Salaries have not been adjusted for part-time hours.

4.17 Approximately 77% of all relevant employees received a superannuation salary increase over the three year period to 30 June 2021, with an average increase of 2.3%. The average increase including both members who received an increase and those that did not receive an increase was 1.8%. These increases include both inflationary and promotional increases.

4.18 Overall, we believe that the inflationary component of superannuation salary increases for all employees will have been approximately 1% p.a. for the three years to 30 June 2021. This is lower than the assumed increases in the previous actuarial investigation and will have led to an improvement in the financial position.

4.19 A new Enterprise Bargaining Agreement (EBA) is currently being finalised, which is expected to include a slightly higher short-term salary increase for the next three years, at 3% p.a.. This largely reflects that the low inflationary salary increases over recent years were mainly brought about because of unique social and economic circumstances during the COVID-19 pandemic, and reflect a deferral of pay increases, rather than its sustained reduction. For this reason we have decided to assume higher salary increases in the next three years than in the long term, at the expected rate set out in the EBA.

Long term salary inflation

4.20 Beyond 30 June 2024, a long term salary inflation assumption is required.

4.21 Salary inflation tends to be higher than price inflation because employees generally share in productivity increases. In the 2018 Actuarial Investigation a long term salary inflation assumption of 2.75% p.a. was assumed, which was calculated to be about 0.65% p.a. higher than our long term price inflation forecast at the time and was 0.25% higher than the mid-point of the Reserve Bank's target for price inflation.

4.22 Based on the 31 March 2021 Willis Towers Watson model, the best estimate of long-term future price inflation is 2.1% p.a., which is lower than the mid-point of the RBA target range of 2% to 3%. Given the current level of salary increases, the need to be consistent with the assumed investment return and Australia Post's and Australia's business environment we consider it reasonable to reduce the long term salary inflation assumption to 2.5% p.a. from the 2.75% p.a. used in the previous actuarial investigation. The proposed long-term rate of 2.5% p.a. is 0.4% p.a. higher than the long-term price inflation assumed in the derivation of the expected investment return.

Promotional salary increases

4.23 We considered the individual rates of salary increase for each 14.3% defined benefit member who was active at both 30 June 2018 and 30 June 2020. This removes the effect of exits over the period. We have also only considered members who have had an increase in superannuation salaries over the two years to 30 June 2020 to account for the cessation of AWOTE indexation from 1 July 2014.

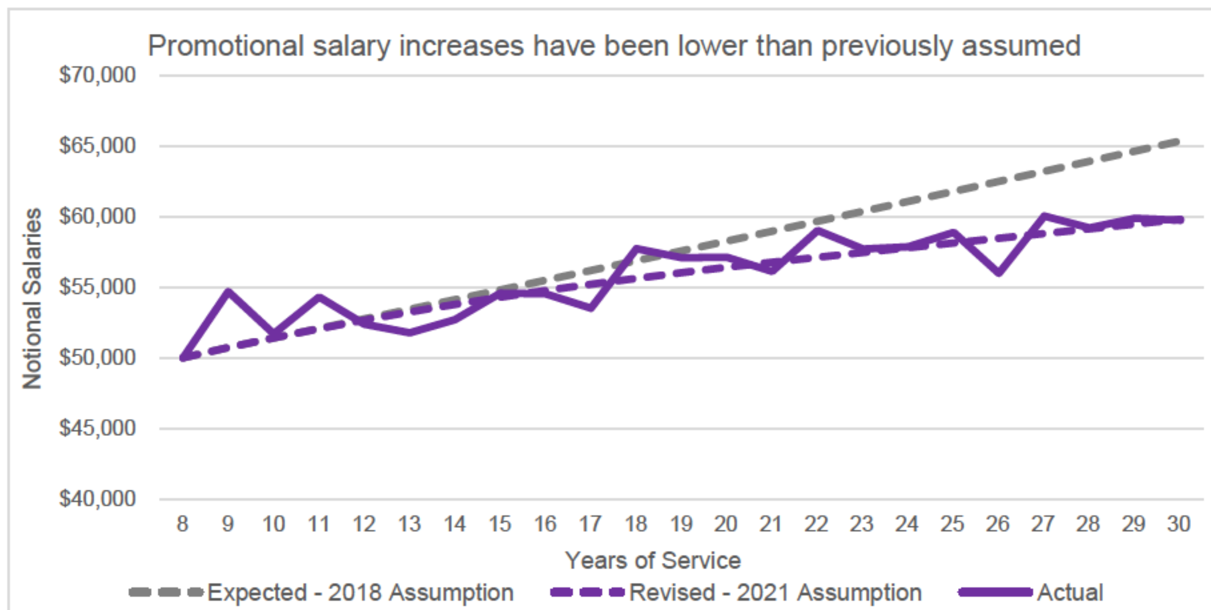
4.24 The table below shows the same analysis, as performed in 4.16 but considers only members with increases in superannuation salaries during the two years to 30 June 2020:

	Average Salary 30-Jun-18 ($)	Average Salary 30-Jun-20 ($)	Average increase % p.a.
Male Employees	69,091	72,849	2.7%
Female Employees	65,982	69,957	3.0%
All Employees	67,821	71,668	2.8%

4.25 To determine the appropriate promotional salary increase scale across all employees, we derived expected notional salaries by years of service using a $50,000 notional salary amount and applying the current promotional salary scale as at 30 June 2020. As shown in the chart below, this is then compared against the actual salaries as at 30 June 2020.

4.26 As the APSS has been closed to new members for over eight years, the comparison focuses on members with more than 8 years of service.

4.27 The current promotional salary scale exceeds the actual salary amounts with the difference increasing at higher levels of service. Therefore, the current scale has been reduced for all members with 10 or more years of service to more closely align with actual experience, as demonstrated in the chart below. This reduction is expected to have a favourable impact on the contribution expected to be required from Australia Post.



Real Return

4.28 In calculating the present value of the Scheme's liability the two most important assumptions are the discount rate and the rate of salary growth due to inflation. The difference between these two rates, known as the assumed real discount rate or 'gap' has a major impact on the financial performance of the Scheme. With investment returns averaging 6.7% p.a. and the total of promotional and inflationary salary growth averaging 1.8% p.a. during the investigation period, the resulting gap of 4.9% p.a. was higher than both the short and long term assumed gaps in the last actuarial investigation.

4.29 The long-term "best estimate" real returns represent the "best estimate" return less the assumed rate of long-term salary inflation excluding salary promotions. This measure is useful for considering the average rate of employer contributions needed in the future. The long term "best estimate" real returns are:

	Actuarial investigation at 30 June 2021 ("Best Estimate")	Actuarial investigation at 30 June 2018 ("Best Estimate")
Investment Return	3.5% p.a.	5.25% p.a.
Salary Growth due to inflation	2.5% p.a.	2.75% p.a.
Real Return	1.0% p.a.	2.50% p.a.

4.30 The decrease in the real return assumed in this actuarial investigation will have a detrimental impact on long term funding of the APSS and increase the contributions that would be expected to be required by Australia Post if no other assumptions were changed, although its impact will have been partly offset by the reduction of assumed promotional salary increases. However, because the reduction is associated with the lower investment allocation to growth assets and reduced investment risk, the risk of extreme poor outcomes has been reduced. We have investigated the impact of the assumption change and the sensitivity of the valuation results to variations in the assumed real rates of return. The results of these investigations are set out in Sections 9 and 10 of this report respectively.

Expenses

4.31 The assumption for the expected rate of return includes an allowance for investment related costs (i.e. the 3.5% p.a. is net of investment related expenses). Therefore, in the following analysis, we only consider administration expenses and have not included the investment related expenses.

4.32 The previous administration expense assumption was 0.75% of salaries. The actual level of administrative expenses has been slightly higher than that assumed. These administration expenses have not been reduced for the amount that will be recouped from non-employee members because Australia Post deducts the amount paid by these members from its contributions.

4.33 In developing the assumptions to be used in the actuarial investigation and calculation of defined benefit member liabilities for incorporation in the Scheme's financial statements as at 30 June 2021, we have assumed that the proposed merger of APSS and Sunsuper will proceed. It is therefore appropriate to assume that the long-term administration expenses will be based on the fees that Sunsuper has proposed to charge (net of tax deductions), that are met by Australia Post. We have also allowed for estimated administration costs for the period prior to the merger in to Sunsuper. In total, the present value of these expenses was calculated to be $32.4m, which has been taken into account in determining the results and formulating the recommendations in this valuation.

Demographic Experience and Assumptions

4.34 The demographic assumptions are required to estimate the number of members that leave the Scheme by withdrawal, retrenchment, death, total and permanent disability and retirement.

4.35 We have examined the experience of the APSS membership over the period from 1 July 2018 to 31 December 2020 and have compared the actual experience to that expected on the basis of the long-term actuarial assumptions used in the previous investigation. We have provided a separate report entitled "Review of Actuarial Assumptions" dated 7 July 2021 setting out the results of our analysis. We have also reconciled the movement in membership over the six months to 30 June 2021 and considered the experience over this period.

4.36 A summary of the withdrawal actual to expected (A/E) ratios compared to the assumptions used in the previous investigation for defined benefit members over the two and half years to 31 December 2020 is set out in the following table:

	Actual	Expected	A/E
Males	412	401	103%
Females	295	291	101%
Total	707	692	102%

4.37 A summary of the retirement A/E ratios for all defined benefit members over the two and half years to 31 December 2020 is set out in the following table:

	Actual	Expected	A/E
Males	1,307	1,630	80%
Females	724	914	79%
Total	2,031^	2,544	80%

^ Analysis excludes 121 members who were aged over 70 at exit date

4.38 The following table sets out the A/E ratio for the number of deaths for defined benefit members over the period 1 July 2018 to 31 December 2020:

	Actual	Expected	A/E
Males	38	65	58%
Females	19	22	87%
Total	57	87	65%

4.39 We have calculated the expected number of Total and Permanent Disablements (TPDs) in the Scheme who were paid over the two and a half years ending 31 December 2020. The following table sets out, for all defined benefit members the A/E ratios for TPDs:

	Actual	Expected	A/E
Males	32	110	29%
Females	29	59	49%
Total	61	169	36%

4.40 The experience was generally within a reasonable margin or what was expected. An examination of the retirement experience at each age suggests that the actual rate of retirements for both males and females follow a very similar pattern at all ages. Also, for ages above 64, retirements were lower than expected for both males and females. The number of deaths and disablements was lower than expected, but particularly for disablement benefits the lags between the date of disablement and date of making a claim made it hard to draw any firm conclusion.

4.41 After reviewing the demographic experience we have made the following changes to the assumptions:

a Updated the mortality rates for all APSS members to be consistent with premium rates charged under the Australian Super Select for Australia Post employees within that fund; and

b Adopted a single set of retirement rates for both males and females, which is based on the current male retirement rates, and also reduce the rates from ages 65 to 69 to a flat 25% each year from a flat 35% each year, to more closely align with actual experience.

4.42 The revised A/E ratios for retirement are shown below. Considering the longer term experience we consider the rates appropriate.

	Actual	Expected	A/E
Males	1,307	1,563	84%
Females	724	890	81%
Total	2,031^	2,453	83%

^Analysis excludes 121 members who were aged over 70 at exit date

4.43 The revised A/E ratios for deaths are shown below. Considering the longer term experience we consider the rates appropriate.

	Actual	Expected	A/E
Males	38	48	79%
Females	19	19	100%
Total	57	67	85%

Summary of Assumptions

4.44 A detailed summary of the assumptions used for this actuarial investigation is contained in Appendix D.

Section 5: Assets

Background

5.1 In this section we consider both the appropriate value of assets to use for the actuarial investigation, and the apportionment of the Scheme's assets between the Employer-financed assets and Member Investment Choice options. The Member Investment Choice options consist of Balanced, Cash, Conservative and High Growth investment options.

5.2 We have used the Scheme's audited accounts for our analysis.

Value of Assets

5.3 We have used the fair value of assets in this valuation. The fair value is universally accepted by the business community as being a relatively objective measurement of value, particularly where the value of underlying investments can be (or has been) subject to independent audit. For this reason, it is an appropriate value to place on the assets for the purposes of this investigation and for considering funding by the Employer. Costs of sale are not deducted from the fair value of assets, but we understand that these are not material. The fair value is appropriate in an ongoing scheme context and its use is consistent with actuarial Professional Standard 404.

5.4 For the actuarial investigation, we have used the fair value for the APSS assets at 30 June 2021 of $8,304.856 million, which is the value of assets in the audited financial statements. We have relied on the fact that this value has been professionally audited as meeting the Australian Accounting Standard requirements.

Split of Assets

5.5 As at 30 June 2021, for administrative purposes the assets of the Scheme are divided into the Employer-financed assets, assets supporting Accumulation Liabilities (including offset accounts), and the Operational Risk Financial Requirement (ORFR). This section of the report apportions the fair value of APSS assets into these three parts. The defined benefit liabilities are all funded from the Employer-financed assets.

APSS - Total Assets

5.6 Consistent with the audited financial statements, the fair value of assets in the APSS, and the fair value of assets supporting liabilities in respect of the Corporation (including StarTrack Express and other Associated Employers) are shown below:

Balances for the Total Scheme as at 30 June 2021	$ (m)	$ (m)
Employer-financed assets		4,414.3
APSS Employee, Rollover, Pre-Retirement Pensions and Allocated Pensions Member Savings		3,952.4
Operational Risk Financial Requirement		19.7
Offset accounts		(81.5)
Total		**8,304.9**

Member Savings

5.7 It is appropriate to adopt the fair value of assets when considering the financial position of Member Savings. All these members can choose between Cash, Balanced, Conservative and High Growth investment options.

5.8 By using fair values to calculate Crediting Rates, the account balances (liabilities) of these sub-funds should be equal to the fair value of the supporting assets, and over time, the assets and the liabilities will move in line with each other. However, small differences between the assets and liabilities may occur due to timing of cash flows, accruals and approximations in crediting rates. These small differences are expected to be minor. A full comparison of the assets and liabilities is undertaken approximately each four months and if necessary action taken to ensure assets and liabilities remain aligned.

5.9 Therefore, there are no funding requirements for these accumulation sub-funds except for the coverage of administration costs which are met from the Employer-funded assets, or from deductions from non-employee member accounts.

Employer-Financed Assets

5.10 The amount of the Employer-financed assets is taken as the balance of the Scheme's assets adjusted for the assets held in respect of accumulation accounts, offset accounts, and the amounts held in respect of the Operational Risk Financial Requirement. For the purpose of this report, the value of Employer-financed assets is $4.414.3 billion as at 30 June 2021.

Section 6: Investments

Investment Policy

Defined Benefit Portfolio

6.1 In this report we are primarily concerned with the investment policy of the Employer-financed assets because these are for the funding of members' defined benefits. Variability in investment returns will result in variability of the Vested Benefit Index (VBI) and potentially Australia Post's contributions.

6.2 The following table illustrates the actual allocation as at 30 June 2021 compared to the long-term target asset allocation as at that date. We have also included the long-term asset allocation at the date this report was finalised because it has changed materially since the valuation date:

Asset Class	Actual Allocation as at 30 June 2021	Long Term Target Asset Allocation as at 30 June 2021	Long Term Target Asset Allocation as at 30 Nov 2021
Bonds	39%	40%	40%
Cash	5%	5%	15%
Alternative Credit	7%	8%	4%
Real assets	15%	15%	10%
Private Markets	12%	12%	9%
Public Market Shares	22%	20%	22%
Total	**100%**	**100%**	**100%**

6.3 The long term target asset allocation as at 30 June 2021 had 55% allocated to growth assets. By 30 November 2021 this had reduced to 45%. This is a material reduction in the growth asset allocation since 30 June 2018.

6.4 The appropriate investment policy for the Employer-financed assets is a balance between a high allocation to growth assets that are expected to provide higher investment returns, resulting in a lower employer contribution being required by Australia Post, and a high defensive allocation that would be expected to reduce the variability of Australia Post's contributions. The Trustee continues to engage with Australia Post in respect of this balance and the current investment policy has been determined considering Australia Post preferences.

6.5 There is a range of investment policies that would be reasonable, depending on the preferences of the Trustee and Australia Post and we consider the policy to be within this reasonable range.

Liquidity

6.6 As at 30 June 2021 the illiquid assets were 17% of the Employer-financed assets, and a similar percentage of the non-Cash investment choice Member Savings. Our stress testing as at 30 June 2021 confirms that the Scheme would be expected to maintain liquidity in the case of a Global Financial Crisis like shock. Our results have been separately provided to the Trustee.

6.7 The Trustee's investment policy targets a continuing gradual reduction in low liquidity assets and this is set out in the Trustee's Liquidity Management Plan. Such a reduction is considered appropriate given that the Scheme is closed to new members. We recommend that the Liquidity Management Plan continue to be reviewed periodically.

Crediting Rate Policy

6.8 The APSS's Crediting Rate Policy and Crediting Rate Operational Procedures relate to the crediting of investment earnings to Member Savings accumulation accounts and are not expected to have a material impact on the defined benefit Employer-financed liabilities.

6.9 Crediting Rates are declared on a fortnightly basis, and are applied to all transactions except some payments, which are processed on daily Interim Crediting Rates.

6.10 The Employer-financed assets are derived by subtracting the accumulation Member Savings assets from total Scheme assets (subject to any adjustments for offset accounts and the ORFR). Therefore, any approximations in the calculation of the accumulation assets and liabilities will have an impact on the Employer-financed assets and funding.

6.11 The APSS's Crediting Rate process seeks to minimise approximation in the calculation of accumulation assets and liabilities, and therefore Employer-financed assets, by:

- a Processing benefit payments from the Scheme using daily Interim Crediting Rates so that exiting members receive an updated estimate of the actual investment return on their transactions in the portion of the fortnight before their benefit is paid;

- b Processing most transactions (e.g. switches) except benefit payments on a fortnightly basis, so that these transactions are processed using declared fortnightly Crediting Rates that are based on up to date asset valuations;

- c Comparing accumulation assets with account balances on approximately a four monthly basis to ensure they are broadly aligned. If a material discrepancy is identified, the Crediting Rates that apply to member accounts can be adjusted to reduce any difference; and

- d The actual tax and tax accruals used to calculate Crediting Rates are reconciled annually.

6.12 Relatively minor approximations remain that could result in cross-subsidies between the Employer-financed and Member Savings assets. While we have not further analysed other potential cross-subsidies, we are not aware of any material cross-subsidies.

6.13 The impact of any approximations in calculating the amount of Employer-financed assets would increase if the Employer-financed assets significantly reduce as a proportion of total APSS assets. If this occurs, the Crediting Rate process should be reviewed.

6.14 Investment reserves are not held as there is no smoothing of investment earnings in the setting of Crediting Rates.

6.15 Australia Post currently provides a Capital Guarantee in respect of Cash Member Savings. Please refer to Section 12 for further discussion on the Capital Guarantee.

6.16 Overall, this crediting rate policy adopted by the Trustee is considered reasonable.

Potential Transfer to Sunsuper

6.17 The APSS may be transferred by successor fund transfer to Sunsuper in 2022. If this occurs it may be that the investment strategy is revised again in consultation with Australia Post. Such a transfer may significantly alter the liquidity risk in respect of the Employer-financed assets and my recommendations above about continuing a gradual reduction in illiquid assets are likely not to apply. However, liquidity should continue to consider liquidity in setting the investment strategy.

Shortfall Limit

6.18 The Trustee has approved a shortfall limit of 97%, however given the current investment strategy and long-term target asset allocation, we consider this should be revised to 98%. If the APSS VBI falls below this limit between actuarial investigations the Trustee is required, in consultation with Australia Post, to implement a restoration plan that is expected in usual circumstances to restore solvency within three years.

6.19 The shortfall limit is a requirement of SPS 160 and is defined to be:

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

6.20 The shortfall limit will depend upon the investment policy adopted for the Employer-financed assets, with a higher short fall limit (i.e. closer to 100%) for more defensive asset allocations. This is because more variability is expected in investment returns with higher growth asset allocations so there is a higher probability of the VBI returning to 100% within a year. Because the investment strategy of the Employer-financed assets has recently changed and the proportion of growth assets significantly reduced it is appropriate to change the Short fall limit.

6.21 The Actuaries Institute has issued an Information Note entitled "Shortfall Limit in Superannuation Prudential Standard 160". This suggests that a shortfall limit of 98% is usually reasonable for a defined benefit fund like the APSS with:

a No material accumulation components within the defined benefit design;

b Minimum Requisite Benefits that are well below the Vested Benefits; and

c A 45% allocation to growth assets.

6.22 We recommend that the Trustee adopt a shortfall limit of 98%, which in our opinion would be reasonable for the APSS.

Section 7: Funding Methodology

Background

7.1 The APSS includes Employer-financed benefits and Member Savings. This Section considers the funding approach for the Employer-financed benefits.

7.2 Upon leaving employment, Employer-financed defined benefits are provided to Employee members. Because the timing or cause of exit cannot be predicted in advance with any certainty, the cost of providing these benefits is unknown, and will remain unknown until the last defined benefit member of the Scheme has left employment.

7.3 The Corporation and Associated Employers make contributions to the Employer-financed assets to fund benefits. The rate of contributions is not fixed, and is determined from time to time by the Corporation after obtaining the advice of the Actuary and after consultation with the Trustee.

7.4 One purpose of the actuarial investigation is to make recommendations as to the future rates that the Corporation and Associated Employers should contribute.

7.5 Actuaries have developed a range of projection and discounting techniques to enable the determination of contribution rates that are appropriate for the funding of benefits of this nature. Most employers prefer contribution rates that are relatively constant (relative to remuneration costs) over time. To achieve this, "best estimates" for long term financial and demographic outcomes are used.

7.6 Prudential Standard SPS 160 requires:

- the actuary to recommend top-up contributions if the VBI is found to be below 100% at an actuarial investigation (or below a pre-determined shortfall limit at other times – recommended to become 98% for the APSS);
- the contributions recommended in an actuarial investigation when the VBI is less than 100% to be expected to be sufficient to restore the VBI to 100% in no more than three years;
- that if experience is worse than expected during the period of the funding plan, that the actuary recommends additional contributions required to restore the VBI to 100% within the original three years (the Trustee can only extend the three year period with APRA approval); and
- an Operational Risk Reserve to be excluded from the assets used for the VBI and funding calculations and provision to be made for pending and incurred but not reported self-insurance death and disablement benefits (APRA has approved the approach used by the APSS).

7.7 In Section 9, we consider the Corporation's funding of the Employer-financed benefit in terms of:

- 'Normal contributions' to fund Employer-financed benefits based on a VBI of 100%;
- 'Adjusted contributions' that allow for the current funding position of the APSS, which would include additional 'top-up contributions' if the VBI were below 100%, in order to meet the requirements in APRA's Prudential Standard SPS 160.

7.8 This Section sets out the method used to determine the Corporation's 'Normal contributions' and 'adjusted contributions' respectively.

Method for determining the Corporation's normal contributions

7.9 In this investigation, the aggregate funding method is used to determine the Corporation's normal contributions based on a VBI of 100%. Because the VBI was above 100% as at 30 June 2021 and the date of completing this report, top-up contributions have not been recommended in this report. However, there are alternative contribution options open to the Corporation based on the excess of assets above Vested Benefits. The Corporation may also consider contributing more than the normal contributions in order of reduce the risk of having to make top-up contributions in future.

7.10 The aggregate funding method is a method that projects the membership of the Scheme into the future to derive expected future cash flows (typically benefit payments and contributions that take into account both past and future service). These projected cash flows are then discounted to present value terms and are used to assess an average future contribution rate. The aggregate funding method aims to have the last dollar of Scheme assets used to pay the last dollar of member benefits.

7.11 The process used to determine a present value involves:

- Projecting the Employer-financed benefits expected to be paid in the future for today's members, allowing for future salary growth and other relevant factors;
- Projecting the expenses expected to be paid in the future;
- Discounting these projected benefits and expenses to a present value using the expected future net investment earning rate; and
- Similarly discounting to calculate the expected present value of 1% of members' future salary.

7.12 The difference between:

a The present value of future benefits and expenses; and

b The fair value of assets.

represents the present value of the liability that is required to be financed by the Corporation. The net of tax Corporation contribution rate can be set as this liability divided by the present value of 1% of members' future salary. The Corporation contribution rate is then calculated by increasing this rate to allow for contribution tax.

7.13 The aggregate funding method determines contribution rates that are expected to be adequate to provide all future benefit payments made to current members, and which are expected to remain constant as a percentage of future expected total salaries over time. As described above, to determine the normal contributions this assumes the VBI is 100%.

Method for determining aggregate contributions

7.14 Because the VBI is over 100%, the Corporation has some flexibility in respect of both the contributions it pays and the investment strategy.

7.15 In Sections 9 we consider the contribution rate that would be required, if the excess of assets over the Vested Benefits was spread over the expected future life-time of the APSS. This is done by calculating an 'aggregate contribution rate' (using the aggregate funding method as described above) based on the actual Employer-financed assets of the APSS, rather than assuming a VBI of 100%.

Section 8: Financial Position as at 30 June 2021

8.1 This Section considers the financial position of the Scheme as at 30 June 2021. In order for the Trustee to ensure that the benefits of the members are adequately secured, a number of measures are normally considered. These are:

- The financial position if all members were to voluntarily leave the Scheme at the valuation date (the Vested Benefit Index);
- The Actuarial Value of Accrued Benefit Index, which means the adequacy of existing assets to pay accrued benefits assuming benefits are paid in future in accordance with the actuarial assumptions;
- The level of assets relative to members' Minimum Requisite Benefits (technical solvency); and
- The financial position if the Scheme were to be terminated at the valuation date.

8.2 This section sets out the calculations of these measures as at 30 June 2021 for the Employer-financed assets and liabilities.

8.3 Because Member Savings are accumulation benefits, actuarial oversight with respect to the funding of these benefits is generally not required as the assets and account liabilities are expected to be materially similar. As such, they have not been included in the measures of the financial position. Defined benefit members may also have offset accounts that are deducted from their benefit when their benefit is paid, and these accounts have also been included in the accumulation benefits so are excluded from these measures of financial position.

8.4 In this report, all measures of financial position and funding position are shown in aggregate for all defined benefit members.

8.5 We believe the assumptions and methodology used to calculate the funding indices and the actuarial value of accrued benefits are appropriate.

Vested Benefit Index (VBI)

8.6 Vested benefits are defined as the benefits that would be due and payable if all members had received withdrawal benefits or (if eligible) their retirement benefits. It does not include any discounting or allowance for future death or TPD benefits. It includes an estimate of the amount of death and TPD benefits already incurred.

8.7 The VBI for the Employer-financed assets and liabilities is defined as follows:

$$\text{VBI} = \frac{\text{Fair Value of Assets backing the Employer-financed benefits}}{\text{Total of all Vested Benefits (Employer-financed)}}$$

8.8 The VBI is an indicator of the short-term solvency of the Employer-financed benefits and for the Scheme as a whole. The VBI is an important measure to consider because it is the measure used by SPS 160 to measure the Scheme's financial position.

8.9 For the purpose of assessing the adequacy of funding, the focus of this report is on VBI.

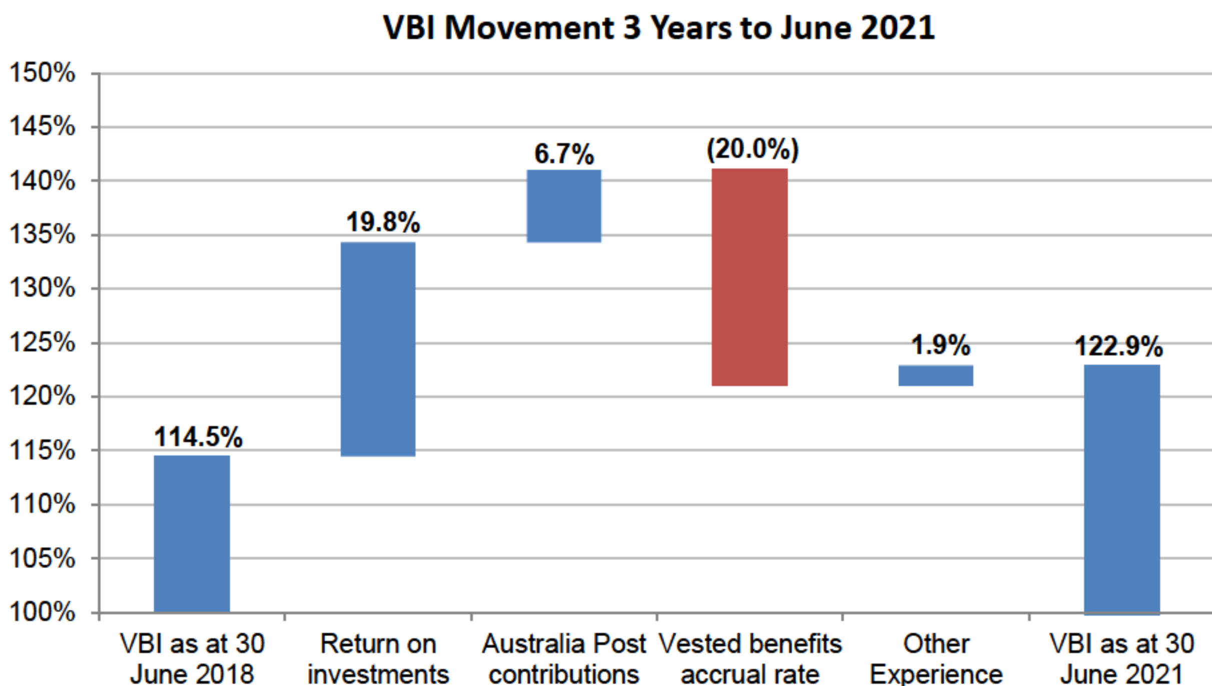
8.10 With the Scheme's VBI above 100%, the APSS was in a satisfactory financial position as at 30 June 2021 under the meaning given in SPS 160.

8.11 We have calculated the VBI as shown in the following table:

Vested Benefit Index as at 30 June 2021	
Employer-Financed Benefits	
Fair Value of Assets	$4,414.3m
Vested Benefits	$3,590.9m
VBI	122.9%

8.12 The VBI for the Employer-financed benefits increased from 114.5% as at 30 June 2018 to 122.9% as at 30 June 2021. The increase in the VBI is mainly attributable to the higher than expected excess of investment return above salary increases.

8.13 The following chart shows the reasons for the change in VBI over the three year period ended 30 June 2021, based on analysis conducted each month on the Scheme's financial position. The Vested Benefit accrual rate includes both the impact of superannuation salary increases as well as the accrual of members' benefits with additional service.



Actuarial Value of Accrued Benefits

8.14 The long term measure of the APSS's financial position at 30 June 2021 is the adequacy of its assets to provide members' Accrued Benefits (benefits payable in future years which have

accrued as a result of membership up to 30 June 2021). This measure assumes the APSS continues as an ongoing entity, which could be as part of another fund after a successor fund transfer.

8.15 In this investigation, the ratio of APSS assets to the actuarial value of accrued benefits is known as the Accrued Benefits Index (ABI). The actuarial value of members' Accrued Benefits is the proportion of future benefit payments in respect of service to 30 June 2021 discounted to 30 June 2021. The proportion of benefits arising due to past service as at 30 June 2021 is:

a Retirement and Resignation – the past membership benefit as at 30 June 2021, with allowance for future salary increases to the assumed exit date;

b Death and TPD benefits – the total projected benefit multiplied by service to 30 June 2021 divided by service to the assumed date of death or TPD.

8.16 The funding surplus or deficit is defined as the fair value of Employer-financed assets less the present value of the future expected benefit payments in respect of service already completed by current members. As at 30 June 2021, there was a funding surplus of $957.9 million in the Scheme, which confirms the Scheme's assets were sufficient to cover accrued benefits as at 30 June 2021.

Funding Surplus or Deficit as at 30 June 2021	
Employer-Financed Benefits	
Fair Value of Assets	$4,414.3m
Liability for Accrued Benefits	$3,456.4m
Ratio of Fair Value of Assets to Accrued Benefits (ABI)	127.7%

8.17 This funding surplus (deficit) is different from the amount included in the Scheme's financial statements. This is mainly because of the revision of the expected investment return because the investment strategy has been revised subsequently to the financial statements being prepared.

8.18 The ABI decreased from 130.8% as at 30 June 2018 to 127.7% as at 30 June 2021. The following factors have contributed most significantly to the movement in the ABI to 30 June 2021:

a The real investment return above salary increases over the three years to 30 June 2021 has been higher than expected, increasing the ABI; and

b The reduction in the real return assumption (taking into account changes in the assumed promotional salary increases) has caused a reduction in the ABI by reducing the discounting applied to future payment of accrued benefits.

8.19 The other changes to assumptions have also acted to increase the ABI. This includes changes in demographic assumptions that mean that on average members are expected to remain in the APSS for longer on average.

Minimum Requisite Benefits

8.20 Minimum Requisite Benefits (MRBs) are the minimum benefits required to satisfy Superannuation Guarantee legislation. Regulation 9.06(3) of the Superannuation Industry

(Supervision) Regulations defines a superannuation fund to be technically insolvent if its fair value of assets is not larger than its accrued MRBs.

8.21 If, while carrying out an actuarial function, an actuary determines that a superannuation fund is technically insolvent he or she must declare in writing that this is the case and provide the declaration to the Trustee.

8.22 When a defined benefit fund has been declared technically insolvent it must either:

- Initiate a program designed by an actuary to return the fund to technical solvency within five years; or
- Wind-up the fund.

8.23 The MRB is configured on the administration system. At exit, the member's benefit is actually compared to the MRB to ensure the minimum benefits are paid. The Minimum Requisite Benefits Index (MRBI) is defined as:

$$\text{MRBI} = \frac{\text{Fair Value of Assets backing the Employer-financed benefits}}{\text{Total of all Minimum Requisite Benefits (Employer-financed)}}$$

8.24 For most Permanent Employees, the MRB is expected to be significantly lower than their leaving service benefit, due to the accrual rate of 14.3% on their leaving service benefit being higher than the current Superannuation Guarantee rate, which increased to 10.0% from 1 July 2021. As the majority of the members in the Scheme are Permanent Employees, in aggregate, the Scheme's MRB is expected to be much less than the Scheme's leaving service benefits.

Minimum Requisite Benefit Index as at 30 June 2021	
Employer-Financed Benefits	
Fair Value of Assets	$4,414.3m
Minimum Requisite Benefits	$2,277.8m
Ratio of Fair Value of Assets to Minimum Requisite Benefits (MRBI)	193.8%

8.25 The ratio of assets to MRBs for the Employer-financed benefits was 193.8% as at 30 June 2021. It has increased from 190.3% as at 30 June 2018. The main reasons for the increase in the MRBI were the same as for the VBI.

Termination State

8.26 Although an infinite number of exit patterns could possibly occur, there is only one that can be made to occur, namely the termination of the Scheme by the Trustee. In this circumstance, the liability required to be met is that set out in Clause 15 of the Trust Deed.

8.27 On termination, the benefits required to be paid are amounts determined by the Trustee on the advice of the Actuary making allowance for the costs and expenses likely to be incurred. These amounts are not to exceed the benefits payable to any former members or beneficiaries at the termination date, or the Accrued Retirement Benefits of members at the date of termination.

8.28 In the event of termination the Trustee would need to decide on how the assets are to be distributed but the benefits could not exceed the available assets.

8.29 A practical measure of the termination position is therefore the asset coverage of the maximum level of benefits that would be payable to members and beneficiaries at the date of termination.

8.30 The maximum liabilities for members and beneficiaries on termination is equal to the Vested Benefits. Therefore, the ratio of fair value of assets to the maximum termination state liabilities may be measured by the VBI, if the Scheme assets were fully available to pay benefit liabilities upon termination. Because the VBI is over 100%, the Employer-financed assets are currently sufficient to meet the maximum benefits payable if the Scheme was terminated.

8.31 Upon termination it could become necessary to liquidate the existing assets. Given the current allocation to private market investments it may be necessary to sell some at a discount to quickly realise funds to meet termination liability payments. While it is not possible to predict accurately what discount might apply, the ratio of realised liquid assets to termination liabilities would likely reduce significantly further if all private market investments were liquidated immediately. Any discount to private market valuations would be dependent upon a range of factors, including the economic circumstances that existed at the time of such a sale. As an example, if the private market assets were liquidated at 20% below current value, the VBI would have become approximately 119% at 30 June 2021.

8.32 The APSS assets, including the Employer-financed assets, has an income tax liability as at 30 June 2021, which has been deducted from the value of assets in the APSS balance sheet. In the event of the wind up of the APSS at that date, this amount would be expected to be paid to the Tax Office and have no impact on the funding of members' benefits.

Section 9: Long Term Funding

9.1 This Section considers the Corporation's funding of the Employer-financed defined benefits. The Trust Deed requires the Corporation to determine the contribution rate after obtaining the advice of the actuary and in consultation with the Trustee.

9.2 All analysis includes the small number of members employed by other Associated Employers where the Corporation is responsible for their funding, and the required contributions recommended are the same for the Corporation and all subsidiaries, including StarTrack Express. We have been advised that Australia Post would prefer a single contribution rate for all employed members.

9.3 This funding plan has been prepared following detailed discussions between representatives of the Trustee and the Corporation. A large number of funding approaches were discussed and several alternatives modelled.

Normal contributions and aggregate contributions

9.4 To determine the Normal Contribution Rate and Aggregate Contribution Rate, we have performed an aggregate valuation on the membership as at 30 June 2021, using the methodology outlined in Section 7 and the assumptions described in Appendix D.

9.5 In Section 8 the VBI was calculated to be 122.9% as at 30 June 2021. This means that the fair value of assets was more than enough to pay the benefits of all members if they ceased service at that date (assuming all assets were liquid). The aggregate valuation method spreads the excess assets over the future expected membership period of the defined benefit members. Hence, the Aggregate Contribution rate calculated using this approach is lower than the Normal Contribution rate calculated assuming a VBI to 100%. For comparison we have calculated both the Aggregate Contribution Rate, based on the fair value of assets, as well as what the Normal Contribution Rate would have been if the VBI was 100%.

9.6 The following table sets out the results as at 30 June 2021:

Employer-Financed Assets and Liabilities Position as at 30 June 2021	Assuming VBI is 100%	Based on actual value of assets
Fair Value of Assets	$3,590.9m	$4,414.3m
Less Present Value of Total Service Liabilities	($4,803.2m)	($4,803.2m)
Less Present Value of Future Expenses	($32.4m)	($32.4m)
Equals Present Value of benefits (yet to be funded by employer contributions)	($1,244.7m)	($421.3m)
Less Present Value of contributions tax on future contributions	($213.9m)	($68.6m)
Equals Present Value of future employer contributions	($1,458.6m)	($489.9m)
Present Value of 1% of members' future Salaries	$100.5m	$100.5m
Required Contribution Rate (% of Salaries)	**14.6%**	**4.9%**

9.7 The Aggregate Contribution Rate calculated using the aggregate funding method is 4.9% of superannuation salaries. Implicit in this calculation is the assumption that the surplus as at 30 June 2021 would be spread over the future life time of the APSS, and if the Corporation were to contribute at this rate, there would not be any opportunity to further "de-risk" the Employer-financed assets by reducing the proportion of growth assets in the Employer

Financed Assets from the current 45% growth investment strategy if experience was as expected.

9.8 If Australia Post were to contribute at the Aggregate Contribution Rate of 4.9%, and experience was as expected, then the contributions would be expected to be sufficient to pay benefits and expenses as they fall due. However, in practice experience will be different from expected. It is likely that at some time experience will be worse than expected and Australia Post could need to increase its contribution rate, potentially materially. In a closed superannuation fund, contribution rates as a percentage of salary can become more variable over time because the present value of future contributions becomes smaller relative to members' vested benefits and the assets.

9.9 Australia Post has advised that it prefers to contribute at 5% of superannuation salary, in line with the Aggregate Contribution Rate of 4.9% of superannuation salary under the current investment strategy.

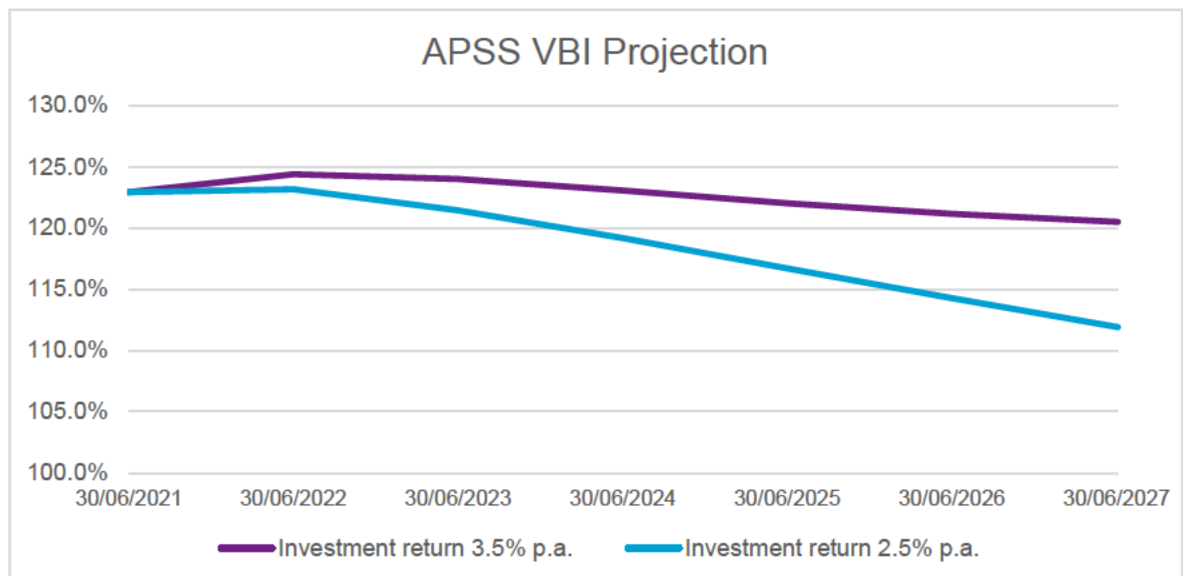
9.10 For comparison, assuming a VBI of 100% at 30 June 2021, the Normal Contribution Rate would have been 14.6% of superannuation salary. This is the contribution rate expected to be sustainable if the VBI is 100% and all experience is as expected. This provides an indication of what the recommended Normal Contribution Rate may be if the VBI were to reduce to 100% over the next few years. This is higher than Australia Post's preferred contribution rate of 5% of superannuation salary because the current surplus enables it to contribute at a lower rate.

9.11 The Normal Contribution Rate assuming a VBI of 100% has increased from 10.5% at the previous actuarial investigation to 14.6% in this investigation. The primary driver of this increase is the reduced expected investment return resulting primarily from the reduction in investment risk in the Employer Financed assets. The increase is also attributable to changes in membership and the increased maturity of the closed APSS, as well as changes to the salary increase and demographic assumptions. The net impact of the changes to the financial assumptions, including the promotional salary scale, was to increase the contribution rate by approximately 4.9% (i.e. materially all of the increase from 10.5% to 14.6%) of superannuation salary. The changes to demographic assumptions resulted in a small increase to the contribution rate.

Strategy

9.12 Based on the current investment strategy with a 45% allocation to growth assets, we expect that Australia Post's preference to contribute at 5% of superannuation salary to be sustainable in the long-term, as it is higher than the Aggregate Contribution Rate of 4.9% of salaries as calculated in Section 9.6.

9.13 The following graph also shows that the Corporation's preferred contribution rate of 5% of superannuation salary to be appropriate in the short to medium term, as it shows the Scheme is expected to remain in a satisfactory financial position when the Corporation is contributing at this level. It also shows that, even if investment returns is 1% p.a. lower than at the assumed rate, the VBI is expected to remain above 100% over the next six years (although if investment returns persist at this level, contributions higher than 5% of salaries is likely to be required at some point in time).



9.14 We note however, other than illustrating the VBI when investment return is 1% p.a. lower than expected, that the above analysis does not allow for any variability of experience:

- If experience is more favourable than expected, the VBI may increase. This may result in significant surplus being accrued in the Scheme, which may not be easily returned to the Corporation;
- If experience is less favourable than expected, the VBI may reduce and the Scheme could be in an unsatisfactory financial position. In such a situation, the Corporation would very likely be required to make additional top-up contributions, as well as making long-term contributions at a rate higher than 5% of salaries based on the current investment strategy.

9.15 To assist in managing the risk of these outcomes emerging, it would be desirable to put in place VBI triggers so that the contribution program, along with the investment policy, could be reviewed to increase the likelihood that the VBI would remain in an appropriate range.

9.16 Given the current financial position, as well as the maturity of the Scheme, I consider a range of 110% to 130% to be a reasonably appropriate range. Should the VBI exceed 130% or fall below 110%, the Trustee should engage with the Corporation for a review of its contribution arrangements, along with the investment strategy.

9.17 We note that, at a VBI of 110% the required long-term contribution rate would be expected to be 10.4% under the current investment strategy and assumptions. Conversely, if the VBI increases to 130%, the required contribution rate would be 2.0% of salaries under the same basis.

Additional Top-up contributions

9.18 With the VBI above 100%, additional top-up contributions are not currently required. If the VBI falls below 100% while an actuarial investigation is being completed, or below the shortfall limit that is currently recommended to become 98% at any other time we will recommend that the Corporation make any required additional-top up contributions in accordance with prudential and legislative requirements.

Experience since 30 June 2021

9.19 Since 30 June 2021, investment markets have produced positive returns. At the time of writing, the investment return for the Employer Financed Assets for the financial year to date has been higher than expected, and the estimated VBI as at the date of writing was around 125%. While this is higher than the expected VBI of around 123% at this point in time, we do not expect this investment experience, or any other experience, post the valuation date would have a material effect on the recommendations contained in this report.

Recommendation

9.20 Based on the analysis set out in this section and also taking into account the Corporation's preferences, we recommend that the Corporation contribute at 5% of superannuation salaries effective from 1 July 2021, or a reasonable estimate thereof.

9.21 Because the Corporation had been contributing 7.5% of superannuation salaries from 1 July 2021 to date, this could involve the contribution rate for the remainder of the financial year to 30 June 2022 to be reduced to below 5% so that the overall contributions made during the year is a reasonable estimate of 5% of superannuation salaries for the year.

9.22 This contribution rate is expected to be sufficient to meet the future administration expenses of the Trustee that are required to be funded by the Corporation. To the extent Australia Post directly meets expenses of the Trustee, it is reasonable for the Corporate to contribute an amount net of these expenses to the APSS.

9.23 We recommend that the Corporation agree to review its contribution arrangement and investment strategy should the VBI reduce to 110% or below, as the contribution rate of 5% of salaries and future investment earnings would not be expected to be able to fund all expected expenses and benefits payable by the Employer Financed Assets at this surplus level.

9.24 We further recommend that the Corporation agree to review its contribution rate and investment strategy should the VBI increase to 130% or above, to manage the risk of significant surplus being accrued in the Scheme.

9.25 This approach reflects the preferences of Australia Post and is expected to be sufficient to fully fund the APSS benefits. Because of the strong funding position there is flexibility in respect of the contribution rate at which the Corporation contributes.

Section 10: Sensitivity to Long Term Assumptions and Short Term Investment Experience

10.1 In this Section we investigate the impact of changes to:

a the long term financial assumptions, principally investment returns, as the results are most sensitive to these assumptions;

b a large reduction in the number of Post's employees; and

c a catastrophic event.

10.2 The sensitivities included are provided as examples. They do not represent the best or worst cases that could occur. More extreme outcomes are possible.

Sensitivity to expected long-term investment return

10.3 Of most significance in the long-term funding position is the assumed real return which is the assumed long-term rate of net investment return less the assumed long-term rate of salary inflation. This rate is used to determine the expected present value of the Scheme's benefit liabilities. The impact of higher or lower investment returns or salary increases is similar. The long-term expected investment return can increase or decrease because of changes in the Scheme's asset allocation, or because of changes in the Scheme's investment consultant's long-term outlook of investment markets.

10.4 The following table shows the impact of a higher and lower investment return on Australia Post's contribution rates.

Required Aggregate Total Service Contribution Rates (% of Super Salary)	Base case: 3.5% p.a. Return and Long-term Real return of 1.0% p.a.	Scenario 1: Return and Real return 1% p.a. higher	Scenario 2: Return and Real return 1% p.a. lower
Based on financial position as at 30 June 2021	4.9%	0.2%	9.7%
Assuming VBI was 100% as at 30 June 2021	14.6%	10.6%	18.7%

10.5 This table shows that the required contribution rate is very sensitive to the long term investment return. Because the proportion of benefit liabilities to be funded by future contributions will reduce over time because the APSS is closed, the contribution rates will become even more sensitive to the investment return.

10.6 The table below shows the expected movement in the Scheme's VBI if there is a 1% p.a. change in the real return, if the Corporation contributes at a rate of 5.0% of superannuation salaries from 1 July 2021:

Date	Base case: Real return of 1.0% p.a.	Scenario 1: Real return 1% p.a. higher	Scenario 2: Real return 1% p.a. lower
30 June 2021	122.9%	122.9%	122.9%
30 June 2022	124.2%	125.4%	123.0%
30 June 2023	123.4%	125.9%	120.8%
30 June 2024	121.8%	125.8%	117.9%
30 June 2025	120.3%	125.8%	115.0%
30 June 2026	119.1%	126.2%	112.3%

Investment Returns Volatility

10.7 It is possible for significant and sharp negative investment returns to occur. The following table shows what the implications of an immediate, one-off significant negative investment return during the first year would have been on the VBI and top-up contributions. Top-up contributions are expected to be recommended as fixed dollar amounts rather than an increase in the contribution rates as a percentage of salary.

10.8 Again, these are not the worst case scenarios and the analysis does not indicate the upper or lower bounds of possible outcomes. This outcome is relevant irrespective of the cause of the negative returns. The investment return is assumed to return to 3.5% p.a. after the first year. For ease of comparison Australia Post is assumed to contribute at 5% of superannuation salary plus the amount of required top-up contributions shown in the table, although in practice the long-term contribution rate is likely to increase as a contribution rate of 5% of salaries is not expected to be sufficient to fund the Scheme benefits and expenses under the current investment strategy but without the current surplus.

Sensitivity to Actual investment returns						
	Base case		One-off -10% return on assets		One-off -25% return on assets	
Date	Top-up contributions ($m)	VBI (%)	Top-up contributions ($m)	VBI (%)	Top-up contributions ($m)	VBI (%)
30 June 2021	n/a	122.9%	n/a	122.9%	n/a	122.9%
30 June 2022	0.0	124.4%	0.0	107.4%	148.7	92.6%*
30 June 2023	0.0	124.0%	0.0	105.6%	198.5	94.9%
30 June 2024	0.0	123.1%	0.0	103.0%	317.2	100.0%
30 June 2025	0.0	122.0%	0.0	100.3%	35.9	98.1%
30 June 2026	0.0	121.2%	27.6	98.5%	84.3	97.7%
30 June 2027	0.0	120.5%	69.5	98.0%*	168.6	100.0%

* These are the VBIs after the top-up contributions have been made. The VBIs would reduce to 96.0% (on 30 June 2027; one-off -10% return) and 88.9% (on 30 June 2022; one-off -25% return) in the two scenarios without the top-up contributions.

Because the Normal Contribution Rate based on expected investment returns is greater than 5.0% of salaries, the ongoing contribution rate under the two scenarios above involving one-off significant negative investment returns would need to be increased in order to maintain the VBI above 100%. For ease of comparison the projections above do not take this increase in contributions into account.

10.9 As shown in the above table, the VBI and top-up contributions can vary very significantly due to large negative investment returns. The top-up contributions are calculated to return the VBI to 100% within three years after the shortfall limit is breached in accordance with the requirements of SPS 160. To extend a restoration plan longer than three years requires APRA approval. Also, in severe scenarios the APSS could become Technically Insolvent and it would be necessary to comply with the relevant legislation. The risk of extremely negative investment experience has been reduced as a result of the reduction in investment risk in the Employer-Financed assets since the previous actuarial investigation.

Reduction in the number of Australia Post's Employees

10.10 The benefit payable on retrenchment is equal to either a resignation or retirement benefit, so the retrenchment of an employee does not create an additional strain on funding in addition to any strain that would be otherwise created if they left voluntarily (i.e., resigned or retired).

10.11 A large number of retrenchments would worsen the VBI and the funding for remaining members where the VBI is below 100%, as the remaining deficit would be spread across fewer remaining members. On the contrary, where the VBI is above 100%, a large number of retrenchments would have the opposite effect.

Catastrophic Event

10.12 In the last actuarial investigation we investigated the funding implications a flu pandemic might have on the Scheme, which was more severe than COVID-19 has been to date. COVID-19 has resulted in a relatively small number of death or disability payments to employed Australians and the investment shock has so far been temporary. The future impact of COVID-19 is uncertain, but there is also the possibility of some other pandemic or catastrophe occurring. We have considered a similar scenario to the one considered in the last actuarial investigation in this investigation.

10.13 A flu pandemic or similar event has the potential to cause significant disruption to the operation of the Scheme, and this analysis considers the funding aspects of such an event if a large number of death and/or TPD benefits may need to be paid. In practice, investment returns would also be significantly impacted in this scenario and we refer to the scenarios above.

10.14 As set out in Section 11.6, the APSS had 13,349 members with death benefits in excess of their resignation or retirement benefit as at 30 June 2021. If 30% of these members were assumed to contract a pandemic flu and 5% of these were assumed to die then approximately 200 death payments would need to be met. These are indicative figures only, as a range of assumptions can be adopted to reflect the nature and degree of specific events. The impact would be in the order of $21 million, or 0.5% of the VBI.

10.15 The financial impact of a catastrophe or pandemic is considered further in Section 11.

Section 11: Death and TPD Benefits

Background

11.1 The Employer-financed benefits are defined benefits which become payable on the occurrence of specific events such as resignation, retirement, death or Total and Permanent Disablement (TPD). The benefits payable on death or TPD benefits are in most cases higher than members' resignation benefits.

11.2 On death or TPD a permanent or non-permanent employee in the APSS is entitled to:

a Their resignation or retirement benefit; plus

b An additional "future service" lump sum benefit based on his or her potential future service to age 60 for permanent employees. For non-permanent employees, an additional benefit is payable on death only and is equal to a fixed amount based on the members' age as prescribed under legislation.

11.3 Because the APSS self-insures these death and TPD benefits, there is a risk that the cost of death and TPD benefits for employee members may be higher than expected, either due to higher levels of superannuation salary than expected, or greater numbers of payments than expected.

11.4 If the amount of death and TPD benefits is higher than expected then the Corporation's future superannuation contributions will be higher than they otherwise would have been to take the additional benefit payments into account. Similarly, if the amount of death and TPD benefits is lower than expected then Australia Post's future contributions will be lower than they otherwise would have been to take the reduced benefit payments into account.

11.5 Only death and TPD benefits in respect of employee members have been considered in this section. Death and TPD benefits provided for spouse and rollover members are not self-insured by the APSS or paid for by the Corporation, and therefore do not affect Australia Post's future contributions and hence not included in this analysis.

Position at 30 June 2021

11.6 The following table summarises the APSS exposure to death and TPD risk as at 30 June 2021.

Statistics as at 30 June 2021	
Net Assets Available (Employer-financed assets available to meet benefits)	$4,414.3 million
Employer-financed Vested Benefits	$3,590.9 million
Total death and TPD benefits above the resignation or retirement benefits across all members	$1,423.7 million
Expected payment of death and TPD benefits above the resignation or retirement benefits for the year to 30 June 2022	$3.4 million
Total number of permanent and non-permanent Members	18,006
Number of Members with death and TPD benefits which exceed the resignation or retirement benefit	13,349

11.7 The amount of expected "future service" benefits paid (death and TPD benefits which exceed the resignation or retirement benefit) for the year to 30 June 2022 is expected to be around $3.4 million and represents only 0.08% of the net available assets. This is lower than the expected claims of $4.8 million for the year to 30 June 2019 based on membership as at 30 June 2018 and the reduction reflects that the APSS is closed to new members. The recommended normal contributions include amounts for the funding of expected death and TPD benefits, including the "future service" component of the benefit.

11.8 Whilst the expected annual amount of claims represent only a small proportion of total APSS assets, the actual amount of claims will vary around the expected level from year to year, as discussed below.

Experience

11.9 Section 4 of this report noted:

a Over the two and half years to 31 December 2020 the assumed rates of death were higher than the actual number of deaths; and

b Over the two and half years to 31 December 2020 the assumed rates of TPD were higher than the actual number of TPDs.

11.10 As discussed in Section 4, we have reduced the death assumptions and retained the TPD assumptions.

11.11 We have also analysed the death and TPD benefit data for the period 1 July 2001 to 30 June 2021. A summary is shown in the following table.

Death and TPD Statistics				
Financial Year	**Number of Benefits**	**"Rate" of Death and TPD**	**Average Future Service Benefit ($)**	**Total Future Service Benefits ($)**
2001/2002	94	0.283%	67,056	6,303,280
2002/2003	122	0.360%	69,662	8,498,784
2003/2004	86	0.258%	74,618	6,417,140
2004/2005	92	0.279%	94,215	8,667,735
2005/2006	102	0.309%	77,548	7,909,920
2006/2007	97	0.296%	81,461	7,901,694
2007/2008	78	0.236%	63,345	4,940,910
2008/2009	79	0.214%	58,115	4,591,070
2009/2010	63	0.172%	64,382	4,056,072
2010/2011	90	0.255%	60,526	5,447,360
2011/2012	61	0.175%	74,203	4,526,359
2012/2013	70	0.208%	66,182	4,632,729
2013/2014	67	0.217%	68,822	4,611,095
2014/2015	90	0.316%	76,475	6,882,737
2015/2016	74	0.281%	66,576	4,926,609
2016/2017	62	0.246%	70,242	4,354,978
2017/2018	70	0.303%	81,324	5,692,703
2018/2019	50	0.232%	68,791	3,439,571
2019/2020	59	0.294%	65,531	3,866,310
2020/2021	73	0.385%	52,843	3,857,517
Average	**79**	**0.266%**	**70,136**	**5,575,436**

Notes:

1. The number of TPD claims for years prior to 2008/2009 and earlier years, and hence the "rate" of death and TPD and total future service benefits, may increase as incurred but not reported TPD claims emerge. From 2009/10 onwards, claims are based on claims paid so the estimates assume constant membership and underlying risk.

11.12 This table shows that:

a Both the number of benefits and the amount of future service benefit payments shows some fluctuation from year to year;

b The "rate" of death and TPD (i.e. the number of benefits each year as a percentage of total membership at the start of that year) is generally within the range of 0.17% to 0.39%; and

c The annual future service death and TPD benefit payments have averaged approximately $5.6 million and that they have not exceeded $8.7 million over the period examined. The maximum excess of benefit payments above the average over the period was $3.1 million ($8.7 million less $5.6 million) that represents 0.07% of the Employer financed assets.

11.13 Although the benefit experience fluctuates from year to year, the level of fluctuation is small relative to the size of the APSS assets. For this reason fluctuation in the death and TPD experience is not expected to significantly affect the APSS's overall solvency position. Extreme experience would be required to impact the VBI materially.

Incurred But Not Reported (IBNR) claims reserve

11.14 The number of death and TPD claims for 2020/2021 and earlier years, and hence the ultimate "rate" of death and TPD and total future service benefits in respect of exits from those years, may increase as IBNR death and TPD claims emerge.

11.15 In estimating a provision in respect of IBNR claims, we have considered the lag period ('IBNR lag') between when a death and TPD claim was incurred ('Date Incurred') and when the claim commences payment. The provision for IBNR claims is also estimated to be sufficient to cover pending claims.

11.16 The data that we have been provided does not identify the Date Incurred with respect to disability benefits. Consistent with previous analysis, we have assumed that the Date Incurred was 12 months before the member's date of exit from employment recorded in their TPD claims records. We are satisfied that the adoption of this assumption is unlikely to result in an understatement of our estimate of the provision required. Pending claims were also considered.

11.17 The derived provision for pending and IBNR TPD claims is $9.9 million. However, this provision is sensitive to the IBNR data and the derived lag distribution, which is based on an industry standard lag distribution table. The lag distribution used is shown in the table below:

IBNR lag (years)	Proportion of claims (based on claim amounts)
0	0%
1	14%
2	31%
3	22%
4	13%
5	8%
6	5%
7	3%
8 or greater	4%
Total	**100%**

11.18 A provision for pending and IBNR death claims has been estimated separately to be $1.5m, which includes known pending death claims at 30 June 2021 of $0.7m. It is reasonable to expect death claims to be settled within a significantly shorter period, but experience has shown some claims to experience potential delays until payment. The provision was derived based on the lag distribution observed from claims over the three years to 30 June 2021 shown in the table below from the assumed Date Incurred (which is the date of exit from employment for death claims). The amount of known pending death claims at 30 June 2021 of $0.7 million is also included in the provision.

IBNR lag (years)	Proportion of claims (based on claim amounts)
0	20%
1	46%
2	21%
3	7%
4	6%
5 or greater	0%
Total	**100%**

11.19 In determining the final IBNR reserve that should be adopted, we have also considered whether it is reasonable to incorporate a risk margin to reflect uncertainties in the data and assumptions used in determining the derived provisions.

11.20 Based on the above analysis, we have therefore retained the IBNR reserve of $15.0 million, which we consider a reasonable estimate. Ultimately, the amount of IBNR claims at any point in time could fluctuate widely from this estimate, and will only be known as those claims emerge.

11.21 The estimated IBNR reserve of $15.0 million is included in the vested benefits and funding calculations, which is the same provision that was adopted prior to this investigation.

Insurance Reserve Requirements of SPS 160

11.22 SPS 160 requires the Scheme to either maintain a segregated self-insurance reserve or other arrangements approved by APRA from 1 July 2013.

11.23 The Trustee has received approval from APRA to apply other arrangements in accordance with paragraph 36(a) of SPS 160. The alternative arrangements (in lieu of maintaining a self-insurance reserve) approved by APRA are that:

a When determining the normal employer contributions to the APSS, an amount for the cost of providing self-insurance benefits is included; and

b When calculating the vested benefits index of the Scheme, an estimate of pending and Incurred But Not Reported (IBNR) death and disablement benefit claims is included as an additional liability.

11.24 These requirements have been met in the methodologies used in this actuarial investigation.

11.25 In approving the alternative arrangements for the APSS, APRA also requested that an actuarial review of the self-insurance arrangement be made annually. SPS 160 also requires ongoing actuarial oversight of the self-insurance arrangements and for the Trustee to attest annually that self-insurance is in members' best interests. To assist the Trustee in making this attestation, we discuss below the appropriateness of the APSS's self-insurance. In our opinion, self-insurance is reasonable for the APSS.

Appropriateness of Self-Insurance

11.26 As demonstrated above, the risk of deviations in payment of death and TPD benefits from those expected is not likely to have a significant impact on the solvency position of the APSS except in the case of a catastrophe. Thus, self-insurance is reasonable.

11.27 However, it would be possible to remove this risk from the Scheme if the death and TPD benefits were insured by an external insurer. This approach has not been adopted in the past because:

a Insurance is expected to be more costly than the current arrangements due to the inclusion of expenses, contingency and profit margins embedded in the insurer's premium rates;

b The current arrangements allow the APSS to fully control its level of benefit, TPD definition, underwriting and claim assessment; and

c There is a large number of members involved with a broad spread of future service cost risk, the potential impact for solvency and employer contributions materially is low.

11.28 In summary, the death and TPD benefits provided by the APSS are well diversified amongst a large group of members, and the self-insurance risk remains low. However, the risk exists, particularly in the case of a catastrophe, and the Trustee and employers need to be comfortable with this risk.

11.29 We recommend that the self-insurance experience continues to be monitored annually in accordance with APRA's request.

Self-insurance risks

11.30 We consider below the key risks that may affect future insurance experience and the management of those risks.

Poor claims experience

11.31 There are two causes of poor claims experience – the number of claims is higher than expected and the amount of claims is higher than expected. Short term increases in claims may be expected as a result of normal fluctuation in claims experience. Where poor claims experience persists over longer periods it may be indicative of a change in claim trends, however this usually occurs gradually.

11.32 Because of the large number of members with future service death and TPD benefits, it is unlikely that the numbers of death and TPD will vary materially from year to year due to individual (independent) events. This is also illustrated by the past history of claims from 2001 to 2021 shown above.

11.33 Although unlikely, if the annual future service benefits were to be twice the expected levels, the impact would be additional payments of 0.08% of the Employer-financed assets available (i.e. $3.4 million). This means that the impact of the defined benefit Vested Benefit Index would also be in the order of 0.08%. The impact of non-independent events, such as a pandemic, is considered under 'Catastrophe Risk' below.

11.34 It is reasonable to expect that, in the event of extremely poor experience in terms of the number of claims and amount of claims caused by normal volatility, even though remedial action may be required through increased funding, such experience would not significantly affect the Scheme's long term financial position.

Distribution and skewness

11.35 The following table shows the distribution of the future service benefits for employee members:

Distribution of Future Service Benefits as at 30 June 2021				
	Total Future Service Benefits $ million	**% of Total Future Service Benefits**	**Number of Members**	**% of Total Defined Benefit Membership**
Nil	-	0.0%	4,657	25.9%
$1 - $99,999	361	25.3%	7,699	42.8%
$100,000 – $249,999	738	51.8%	4,681	26.0%
$250,000 - $499,999	293	20.6%	913	5.1%
$500,000 - $999,999	32	2.2%	55	0.3%
$1,000,000+	1	0.1%	1	0.0%
TOTAL – all Full members	**1,424**	**100.0%**	**18,006**	**100.0%**
TOTAL – excluding members with nil future service benefit	**1,424**	**100.0%**	**13,349**	**74.1%**
Oldest 10% of members	-	0.0%	1,801	10.0%
Youngest 10% of members	444	31.2%	1,802	10.0%
Highest (part-time adjusted) salaried 10% of members	306	21.5%	1,801	10.0%

11.36 We find that:

a 94.6% of members have future service death and TPD benefits of less than $250,000 and that the aggregate for these members is 77.1% of the total amount; and

b the average future service benefit (excluding those with no future service benefit) is approximately $107,000; and

c As at 30 June 2021, there were no members with future service benefits over $2.0 million.

11.37 The distributions show that there are only a very small number of members with relatively large sums insured and so a small probability that there is skewing to these large sums insured (and an extremely low risk that all claims are from the highest sums insured).

11.38 Overall, normal volatility of claims experience is unlikely to materially impact the funding of the APSS.

Higher than expected IBNR

11.39 The IBNR provision is sensitive to the assumed lag in claim reporting.

11.40 There are inherent difficulties in determining the appropriate size of an IBNR provision (which by its nature cannot be known precisely), including the limitations of the available data and the sensitivity of the results to the assumptions. Ultimately, the IBNR provision cannot be known until all claims emerge over time. This risk is similar to there being higher than expected claim amounts or higher than expected claim rates (albeit in relation to past periods).

11.41 It is also possible that the IBNR provision we have calculated above is inadequate because claim reporting for those past periods were anomalous over a short period – for example, if claims are emerging slower than observed from past experience, or that there are more claims than expected based on past experience, even if past experience were accurately known.

11.42 Although future changes to the IBNR provision may require remedial action by way of increased funding, it is not expected to significantly affect the APSS's long term financial position.

Catastrophe Risk

11.43 The APSS membership is spread over many locations in each State, reflecting the distribution of Post office locations. The highest concentration of risk in respect of employees is in the Melbourne head office.

11.44 Thus, should a catastrophe occur at the location of the Melbourne head office there might be a considerable number of death or TPD claims. For example, in the unlikely event that a catastrophe were to occur, leading to the payment of 500 death or TPD benefits:

a the total future service payments could be approximately $53m, if each member that died or became disabled were entitled to the average future service death or TPD benefit of $107,000. Extra payments of this magnitude would require 1.2% of Employer-financed assets and cause a similar reduction to the VBI; and

b the total future service payments could be approximately $160m or higher, if each member that died or became disabled were entitled to a payment approximately three times the average future service death or TPD benefit or more (head office employees are typically higher paid, and therefore may have larger sums insured). Extra payments of this magnitude would require 3.6% of Employer-financed assets and cause a similar reduction to the VBI.

11.45 The Corporation would need to fund the amount of additional future service components paid because of a catastrophe.

11.46 Another example of catastrophe risk that the APSS is exposed to is that of a pandemic, where an infection spreads through the Australian population and might therefore also be expected to have a proportional impact on the APSS membership. The probabilities of such an event are difficult to estimate and the implications of a pandemic on the Australian economy and life insurance providers would also be significant.

11.47 At the time of completing this report the world is in the midst of a COVID-19 pandemic. The number of deaths in Australia since the start of the pandemic as a result of COVID-19 is approximately 1,800, but there have been a relatively small number of deaths of people under age 60 (the maximum APSS self-insured age). Further, a majority of the Australian population over age 16 has received a vaccination along with mandates being imposed across various industries. Given all this, it is unlikely that the COVID-19 pandemic has had, or will have a

material impact on APSS funding through excess self-insurance claims. As shown in paragraph 11.11, COVID-19 has not resulted in a significant increase in the claim “rate” of death and TPD benefits.

11.48 While the impact of COVID-19, as a result of additional deaths or disability, on the APSS’s funding arrangement is expected to be very small, it illustrates the ongoing risk that a pandemic could emerge in the future that could have a larger impact on mortality and morbidity. COVID-19 could also evolve in an unexpected manner (e.g., the virus could further mutate) and become a material issue in the future.

11.49 As an example, suppose hypothetically that 30% of members contract a pandemic flu, and 5% of these are assumed to die, there would be in the order of 200 deaths and additional payments of approximately $21 million. This would lead to a 0.5% reduction in the VBI. In the case of a pandemic flu the proportion of members who die is very uncertain. In an extreme scenario where 50% of those members who contracted the pandemic flu were assumed to die or become eligible for TPD the reduction in VBI would be in the order of 5%. This would significantly increase the required employer contributions at a time when the whole Australian society would be devastated by such an event. There is also likely to be an impact on investment returns that is not considered in this analysis.

11.50 In the case of certain catastrophes, such as a pandemic, there is likely to be a material economic impact, which may cause lower than expected returns. As the COVID-19 experience has demonstrated, the economic impact on APSS funding can be very significantly larger than the self-insurance impact and occur at the same time.

Stop-Loss and Catastrophe Insurance

11.51 To help manage the financial impact of a catastrophe or extremely poor experience, the APSS may consider either stop-loss or catastrophe insurance cover:

- Stop-loss cover insures the Scheme against claims that exceed a pre-determined annual limit and so provides financial protection against extremely poor claims experience;
- Catastrophe cover insures the Scheme against claims arising from a single catastrophic event.

11.52 In the past, these types of cover have not always been easily available to superannuation funds or have been expensively priced. While catastrophe insurance is usually expensive for the amount of cover provided, the premium is small relative to employer-financed assets.

11.53 We have been advised that several years ago Australia Post and the Trustee completed a review of the catastrophe risk and decided not to purchase external insurance in respect of a catastrophe. The review took place in around the financial year ended 30 June 2018. The catastrophe risk has not materially changed and we do not consider that another review is required.

Selection risk

11.54 There is virtually no risk that unhealthy members could select against the APSS defined benefit, because the death and disablement benefits for Employee members are compulsory and there are no new members.

11.55 Until 30 June 2012, members who opted out of the Scheme posed a potential selection risk as those members had the option to opt back into the Scheme and recommence eligibility for death and TPD benefits, subject to any restrictions against pre-existing conditions. From 1 July 2012, opt out members generally cannot opt back into the Scheme at a future date, so this risk is removed. If Australia Post allows a material number of members to opt back into the Scheme then the selection risk should be considered.

Conclusion

11.56 In our opinion, self-insurance with respect to its employee members is reasonable for the APSS. We recommend that the Trustee consider this analysis set out in this section of the report as part of its determination of whether it continues to self-insure.

Section 12: Material Risks

12.1 In this section, we consider the material risks relating to the funding of the APSS.

Ongoing funding to maintain financial position

12.2 At 30 June 2021, the APSS's Scheme VBI was estimated to be 122.9%, and the Scheme was in a satisfactory financial position.

12.3 If in future the Scheme's VBI is determined to be below 100% at an actuarial investigation (or below a pre-determined "shortfall limit" at other times, which is recommended to become 98%), SPS 160 requires the Trustee to consult with the Corporation and set out a plan to return the Scheme VBI to 100% within a period no longer than 3 years. The restoration plan would need to be approved by the Trustee Board and provided to APRA.

12.4 There may be occasions where the Corporation is unwilling to (perhaps because they are unable to) make recommended top-up contributions within the required time-frame of SPS 160. In this situation the Trustee may need to apply to APRA for an extension of the three year funding program. APRA's view on providing such extensions is not yet known.

12.5 Whilst SPS 160 binds the APSS Trustee and the Actuary to take certain actions, it does not bind Australia Post. The future viability of the APSS is dependent on Australia Post agreeing and being able to make contributions sufficient to fund all future benefits. If Australia Post does not make required contributions then the APSS is unlikely to be able to provide members' resignation and retirement benefits.

Risk of poor experience

12.6 There is a risk that the Scheme's financial position could deteriorate in the future. The Scheme's VBI is closely monitored.

12.7 A significant factor that could lead to deterioration of the Scheme's financial position is poorer than expected investment returns on the Scheme's assets. There is a material risk that lower than expected investment returns could create a funding shortfall of hundreds of millions of dollars. Section 10 considered sensitivity of the funding to certain elements of experience. This risk has been significantly reduced because of the reduction in growth assets in the investment strategy since the previous investigation.

12.8 The value of the Scheme's liabilities could also increase as a result of a change in assumptions, although any changes to assumptions will impact the Scheme's accrued benefit liabilities rather than vested benefits. Financial assumptions are reviewed on an ongoing basis to reflect changes in the economic environment or any relevant changes in the Scheme's structure. Demographic assumptions are reviewed at each actuarial investigation.

12.9 On the upside, there is also a possibility that investment returns could be stronger than expected. Given the current surplus and the potential for it to increase, there may be opportunity to manage the Scheme's future funding risk by further de-risking the investment strategy (i.e. by moving to a more defensive asset allocation with higher allocation to defensive assets). Doing so, however, would likely cause a reduction in the Scheme's coverage of accrued benefit liabilities. If favourable experience is not managed there is the risk of a large surplus emerging.

12.10 The Corporation and the Trustee have been jointly considering the trade-off between investment risk and expected investment return. This process should continue to ensure that the investment strategy is set based on an understanding of this trade off, which is appropriate.

12.11 The Scheme's financial position may also be worsened by higher than expected salary growth.

12.12 Apart from poor financial experience, the Scheme's funding could also deteriorate due to poor demographic experience. In particular, a large number of exits (e.g., a redundancy program) when the VBI is below 100% would further erode the VBI (this is not the case as at 30 June 2021, when the VBI was well over 100%).

Managing change resulting from APSS closure to new members

12.13 With the closure of the APSS at 30 June 2012 to new members, the Scheme's membership profile will change in future. Instead of a stable membership profile, the number of members will decline over time and the average age and membership of the membership will increase. With higher average member benefits, this means that the normal contributions being made will become a smaller proportion of the Scheme assets. If the Scheme is invested in a high growth investment strategy this would be expected to lead to more variability in the required employer contributions over time.

12.14 The Scheme's contribution strategy must be appropriate given the expected changes to the Scheme's future membership profile. We are aware that the Trustee does consider the membership profile in setting investment strategy.

Liquidity risk

12.15 With the Scheme's closure to new members, net cashflows (i.e. contributions less benefit payments) into and out of the APSS will become increasingly negative over time, and the level of available liquid assets held to meet those negative cashflows will therefore also need to increase.

12.16 Any material retrenchment programs and structural changes (i.e. transfer offers, fund merger or sales) would also have liquidity implications. Such changes should only be made after a satisfactory assessment of the associated liquidity risks.

12.17 The Scheme's current exposure to illiquid assets is within its target range. Please refer to Section 6 for more information, including that the liquidity risk is likely to be reduced should APSS transfer into Sunsuper.

Risk of higher than expected death and disability benefits

12.18 The death and disability benefits for the Scheme's employee members are not externally insured. If death and disability benefits are higher than expected, this would put a strain on the Scheme's funding. The risk of a catastrophic event is reduced due to the geographic spread of APSS members, but the risk of a pandemic or other catastrophe still exists and the impact could be significant.

12.19 The Scheme's self-insurance risk is considered in Section 11. We believe self-insurance with respect to its employee members continues to be suitable for the APSS but the Trustee should review the analysis in Section 11 in forming its view. One option for the Trustee would be to retain self-insurance but take out catastrophe insurance. We have previously recommended that the Trustee consider whether catastrophe insurance is appropriate and the Trustee has determined not to purchase such insurance.

Operational risk

12.20 Under APRA's Prudential Standard SPS 114, operational risk is defined as the risk of loss resulting from "inadequate or failed internal processes, people and systems, or from external events".

12.21 The Scheme maintains an operational risk reserve to meet the prescribed Operational Risk Financial Requirements.

12.22 The Scheme's losses from operational risk have historically been immaterial from a funding perspective. However, a large operational risk event could exhaust the operational risk reserve held and impact on the funding of the APSS defined benefits. In our opinion the probability of such an event materially impacting funding is very low.

Capital guarantee on Cash Crediting Rates

12.23 Cash Member Savings in the APSS are subject to a capital guarantee. There is a risk that the investment return on assets invested in respect of Cash Member Savings could be negative, e.g. further reduction in cash rate by Reserve Bank, due to bank default, counter party risk, etc. The return also needs to be sufficient to cover items such as:

a Investment related expenses in managing the Cash Member Savings; and

b The impact of approximations in the crediting rate process.

12.24 Some of the risks associated with the capital guarantee have increased with the reduction in the Australian cash rate to 0.1% p.a. because there is a low margin above zero. If the cash rate were to reduce to zero, then maintenance of the capital guarantee would be expected to require support from the Corporation.

12.25 We understand the Corporation has agreed to bear the investment risk associated with the Capital Guarantee. We recommend that the Trustee seek regular confirmation from the Corporation that this remains appropriate. We understand that the Trustee has received legal advice that the Corporation is able to discontinue the Capital Guarantee.

Legislation Risk

12.26 There is the risk that future legislative changes may impact on the Corporation's funding and the APSS.

Section 13: Reliance Statement and Data

This report is provided subject to the terms set out herein and in our contract for actuarial services dated 4 June 2014, as novated, and the accompanying Terms and Conditions of Engagement. This report is provided solely for the Trustee and Australia Post's use and for the specific purposes indicated in this report. It may not be suitable for use in any other context or for any other purpose.

Except where we expressly agree in writing, this report should not be disclosed or provided to any third party, other than as provided below. In the absence of such consent and an express assumption of responsibility, no responsibility whatsoever is accepted by us for any consequences arising from any third party relying on this report or any advice relating to its contents.

We consent to the Trustee making a copy of this report available on the Scheme’s website where required in accordance with the relevant legislation.

The Trustee may make a copy of this report available to its auditors, the Corporation and to any person to whom the Trustee may be required to provide a copy under relevant legislation, but we make no representation as to the suitability of this report for any purpose other than that for which it was originally provided and accept no responsibility or liability to the Trustee’s auditors, the Corporation, or any third party in this regard. The Trustee should draw the provisions to this paragraph to the attention of its auditors, the Corporation, or any person when passing this report to them.

In preparing this report we have relied upon information and data provided to us orally and in writing by the Trustee and other persons or organisations designated by the Trustee. We have relied on all the data and information provided, including Scheme provisions, membership data and asset information, as being complete and accurate. We have not independently verified the accuracy or completeness of the data or information provided, but we have performed limited checks for consistency.

The results presented in this report are directly dependent upon the accuracy and completeness of the underlying data and information. Any material inaccuracy in the data, assets, plan provisions or other information provided to us may have produced results that are not suitable for the purposes of this report and such inaccuracies may produce materially different results that could require that a revised report be issued.

In our opinion, all calculations are in accordance with applicable legislative requirements, and the procedures followed and the results presented conform with applicable actuarial standards of practice.

Appendix A: Benefits and Conditions

The benefits and conditions considered in this report and summarised below are set out in the Scheme's Trust Deed dated 19 June 1990, including the Deeds of Modification Nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18 and 19.

Categories of Membership

Full Members

All permanent and probationary full or part time employees who have completed three (post 30 June 2000) or six (pre 1 July 2000) months service with the Corporation must become Full Members. Other employees may apply to become Full Members.

Contributory Members

From 1 July 2000, former Contributory Members are classed as Full Members.

Prior to 1 July 2000, employees who were not eligible to become Full Members, but who had elected to contribute to the APSS were Contributory Members.

Class A Statutory Benefit Members (Statutory Benefit Members)

All non-permanent employees and permanent employees during any probationary period of membership. This group excludes Full Members and Contributory Members and employees who elected to remain in the Commonwealth Superannuation Scheme ("CSS"). It therefore includes all other employees for whom a statutory benefit is provided. This group has previously been referred to as Class A Productivity Members and Class A Non-Contributory Members.

Class B Statutory Benefit Members (CSS Members)

All of those employees who elected to remain in the CSS, and for whom a productivity benefit is provided from the APSS. This group has previously been known as Class B Productivity Members and Class B Non-Contributory Members.

Definitions

APSS Multiple

The APSS multiple is determined as the sum of the multiples in Column A or C below, for each year of membership (in complete days) as a Full Member or Contributory Member at the percentage of salary set out in Column B or D below. This includes contributions to the CSS from 1 July 1990 to date of transfer to the Scheme as well as contributions to the Scheme.

APSS Multiple			
Pre 1 July 2000		Post 1 July 2000	
Column A APSS Multiple (%)	Column B After Tax Contribution Rate (%)	Column C APSS Multiple (%)	Column D After Tax Contribution Rate (%)
11.3	2	14.3	0
12.3	3	15.3	1
13.3	4	16.3	2
14.3	5	17.3	3
15.3	6	18.3	4
16.3	7	19.3	5 or more
17.3	8		
18.3	9		
19.3	10 or more		

The APSS multiple may not exceed an average of 14.3% (adjusted for periods of part-time service) based on membership as a Full Member or Contributory Member of the APSS.

Only members classified as Full Members or Contributory Members will accrue an APSS multiple. Other members, however, may have an APSS multiple if they were previously a Full Member or Contributory Member of the Scheme.

The Corporation has a right to increase benefits in prescribed circumstances but does not have a history of exercising the discretion.

CSS Multiple

The multiple is calculated as 14.6% for years (counting complete days) of membership in the CSS prior to the inception of the APSS.

Accrued Retirement Multiple

The multiple determined as the CSS multiple plus the APSS multiple.

Accrued Retirement Benefit

The accrued retirement benefit is the Accrued Retirement Multiple multiplied by Final Average Salary, plus the Member Financed Benefit, plus the Accrued Statutory Benefit.

Member Financed Benefit

The accumulation of member contributions with interest, including accumulated contributions transferred to the Scheme from the CSS.

Accrued Statutory Benefit

- 1.5% of Final Average Salary for each year of membership (counting complete days) from 1.1.88 to 30.6.90, plus
- 1.5% of Final Average Salary for each year of membership (counting complete days) from 1.1.89 to 30.6.90, plus
- 3% of Final Average Salary for each year of membership as a Class A or Class B Statutory Benefit Member (counting complete days) from 1.7.90; plus
- 1% of Final Average Salary for each year of membership as a Statutory Benefit Member (counting complete days) from 1.7.92; plus
- 1% of Final Average Salary for each year of membership as a Statutory Benefit Member (counting complete days) from 1.1.1993; plus
- 1% of Final Average Salary for each year of membership as a Statutory Benefit Member (counting complete days) from 1.7.1995; plus
- 1% of Final Average Salary for each year of membership as a Statutory Benefit Member (counting complete days) from 1.7.1998; plus
- 1% of Final Average Salary for each year of membership as a Statutory Benefit Member (counting complete days) from 1.7.2000; plus
- 1% of Final Average Salary for each year of membership as a Statutory Benefit Member (counting complete days) from 1.7.2002; plus
- 0.25% of Final Average Salary for each year of membership as a Statutory Benefit Member (counting complete days) from 1.7.2013; plus
- 0.25% of Final Average Salary for each year of membership as a Statutory Benefit Member (counting complete days) from 1.7.2014; plus
- 0.5% of Final Average Salary for each year of membership as a Statutory Benefit Member (counting complete days) from 1.7.2021.

This means that the Accrued Statutory Benefit for Statutory Benefit members has been assumed to accrue at 10.0% of Final Average Salary from 1.7.2021. The accrual is assumed to continue to increase to 12% in line with the legislative timeframe for increases in the Superannuation Guarantee.

Minimum Requisite Benefit (MRB)

For all Members of the APSS employed by the Principal Employer or an Associated Employer other than those Members admitted to the APSS as:

- Class B Statutory Benefit Members (as defined in Clause 2 of the APSS Trust Deed and Rules);
- those who have withdrawn from Membership; and
- Choice of Fund Members (as defined in Rule 11 of the APSS Trust Deed and Rules).

The Minimum Requisite Benefit is equal to:

- Any Member-Financed Benefit; plus
- Any Additional Pre-92 Vested Benefit (as defined in the Benefit Certificate), plus
- the Pre-2008 Statutory Benefit (as defined in the Benefit Certificate), plus
- The SG Charge Percentage multiplied by OTEFAS for each year of membership from 1 July 2008, multiplied by 1.11 times DF where:
  - OTEFAS is the average of a Member's Equivalent Full-Time Ordinary Times Earnings over the year to each of the member's three birthdays occurring immediately prior to the date of calculation; and
  - DF is 1.0 at age 65 reducing by a simple discount of 1.5% for each complete year and month by which the date of calculation precedes age 65, with a minimum discount factor of 0.7 at ages 45 and below

The MRB has not been projected in this valuation because its financial impact is not expected to be material.

Salary

Salary as certified by the Corporation with the approval of the Trustee, having regard to the relevant provisions of the *Superannuation Act 1976* applicable for determining the salary of a Member for the purposes of the CSS.

Final Average Salary (FAS)

FAS is determined as the average of the Member's Equivalent Full-Time Salaries on the three birthdays immediately prior to the date of calculation. If the member retires on the day prior to his/her 65th birthday, then the date of exit shall count as the current birthday for FAS purposes (i.e. salaries at exit and as at the two prior birthdays shall be used).

For the Accrued Retirement Benefit payable after age 55, and the Accrued Statutory Benefit the FAS is subject to a minimum of $20,000 (indexed from 1 July 1990).

The minimum FAS at 1 July 2021 was $52,582.

Total and Permanent Disablement

In respect of members who joined the APSS before 30 June 2014, Total and Permanent Disablement is defined as an illness or injury as a result of which a member either:

a has suffered the loss of two limbs or the sight of both eyes or the loss of one limb and the sight of one eye (where “limb” is defined as the whole hand or the whole foot), or

b

i. has been continuously absent from work for a period of not less than 6 months or such lesser period (if any) as may be agreed between the Corporation and Trustee from time to time, either generally or in any particular case; and

ii. the Trustee receives a certificate signed on behalf of the Claims Assessor to the effect that (in the opinion of the Claims Assessor) the member is incapacitated to such an extent as to render the member unlikely ever to engage in regular employment that the member is, for the time being, reasonably qualified by reason of education, training or experience.

Benefits

All benefits are subject to a minimum of the Minimum Requisite Benefit. In addition, all benefits are to be reduced by the value of the member’s total offset accounts.

Benefit on Retirement

A lump sum is payable on retirement equal to the Accrued Retirement Benefit.

Benefit on Death in Service

In the event of death for Full Members in service a lump sum benefit equal to that payable on retirement (as described above) is payable consisting of:

- The employer-financed part of the member’s retirement benefit. This part of the benefit is projected until age 60 at an accrual rate of 14.3%, regardless of the contribution rate the member was actually paying at the date of death.
- The member’s own accumulated contributions and interest (if applicable).

For Full Members, FAS is determined at age 60 assuming that the member's salary at date of death would have continued to be paid to age 60.

For Statutory Benefit Members in the event of death in service a lump sum is paid equal to:

- The employer-financed part of the member's retirement benefit.
- An additional lump sum equal to the minimum amount of death cover required to be offered by legislation; and
- The member's own accumulated contributions and interest (if applicable).

For CSS Members the death benefit is equal to the employer-financed part of the member's retirement benefit plus the member's own contributions and interest (if applicable).

Benefit on Total and Permanent Disablement

For Full Members the benefit payable in the event of total and permanent disablement is equal to the death benefit as described above. For other members it is equal to their Accrued Retirement Benefit.

Benefit on Withdrawal

A lump sum is payable on withdrawal equal to the Accrued Retirement Benefit.

Member Contributions

Prior to 1 July 2000, Full Members were required to contribute at a rate expressed as a simple percentage of salary but subject to a minimum of 2% (adjusted for periods of part-time service). This contribution rate was at the discretion of the member, and could be varied at any time.

From 1 July 2000, Full Members are no longer required to contribute and contributions will only accrue an additional employer-financed benefit if the average percentage of final average salary accrued in the APSS multiple is less than 14.3% (adjusted for periods of part-time service). Contributions to accrue an additional employer-financed benefit must be made as a percentage of salary from after-tax salary.

Prior to 1 July 2000, all member contributions were made from after-tax salary except for any voluntary contributions made by members that could be made from pre-tax salary by salary sacrifice, or from after-tax salary.

From 1 July 2000, any member (including CSS Members) of the APSS can contribute to the Scheme from pre-tax salary by salary sacrifice, or from after-tax salary.

Part Time Service

For individuals with part time service, the accumulation of Accrued Retirement Multiples and Accrued Statutory Benefit Multiples, excluding CSS multiple, is based on periods while employed on a part time basis, multiplied by the Service Fraction (i.e. proportion of normal full time hours worked).

APSS Rollover

The APSS Rollover was established effective 1 January 1997 to provide a retained benefit facility for exiting members of the Scheme. Members can transfer their benefit from the Scheme upon ceasing employment into the APSS Rollover, and can then make full or partial withdrawals from the non-preserved portion of their “rollover account” into the future as they require. Members have the option of rolling amounts from other superannuation funds into Member Savings or of rolling amounts directly into the APSS Rollover.

Until 30 June 2008, the APSS Rollover accounts are unitised (unit prices are calculated daily) and earnings are reflected in unit price changes. From 1 July 2008, investment earnings on APSS Pension assets are distributed via a fortnightly crediting rate mechanism. From 1 July 2017 APSS Rollover Members were able to invest their assets in any combination of four investment options.

APSS Pension – Allocated Pension

The APSS Pension facility was established effective 1 January 1997 to provide retiring members of the Scheme with the ability to opt for an allocated pension benefit during retirement. The APSS pension benefit has been constructed according to the legislated requirements on such benefits and hence attracts favourable taxation treatment.

The APSS pension facility enables members to exchange some or all of the lump sum retirement benefit received from the Scheme for a series of regular income payments. APSS Pension members can also transfer in amounts from other complying superannuation funds or make contributions directly prior to the commencement of the pension. Members can vary the level of income payments each year (within Government limits) and the net investment earnings of the assets (that may be positive or negative) are credited to each member’s APSS Pension account.

Until 30 June 2008, the APSS Pension accounts are unitised (unit prices are calculated daily) and earnings are reflected in unit price changes. From 1 July 2008, investment earnings on APSS Pension assets are distributed via a fortnightly crediting rate mechanism. From 1 July 2017 APSS Pension Members were able to invest their assets in any combination of four investment options.

APSS Pension – Pre-Retirement Pension

Members who have reached preservation age and have not ceased employment can use their Member Savings and up to 50% of their Employer financed benefit to commence a Pre-Retirement Pension. The APSS Pre-Retirement Pension benefit has been constructed according to the legislated requirements on such benefits (including maximum and minimum drawdown limits).

Investment earnings on the APSS Pre-Retirement Pension are distributed through the same fortnightly crediting rates as for Member Savings for employee, spouse and rollover members. From 1 July 2017 APSS Pension Members were able to invest their assets in any combination of four investment options.

Spouse Account

The Spouse Account was established effective 1 May 1998 and provides an opportunity to save for the spouse's retirement. The contributions made to the Spouse Account will be invested in one of four investment options. A tax rebate may be available on member contributions paid into the Spouse Account.

From 1 July 2000, both the Member and the spouse are eligible to contribute to the Spouse Account. The spouse can also roll money into the Spouse Account.

Opt Out Members

Post's employees can elect for Post not to provide their Post financed benefit in the APSS. When this occurs the member's multiples in the APSS cease to accrue, but they remain as members of the APSS. Future contributions are redirected to a superannuation arrangement of their choice.

From 1 July 2012 members who have opted out of the APSS can only opt back in to the Scheme with the approval of the Corporation.

Appendix B: Reconciliation of Membership

The following table sets out a full reconciliation of the employed membership of the Scheme from 1 July 2018 to 30 June 2021.

	Permanent employees (e xcluding CSS members)	Non-permanent employees	CSS Members	Opt-Out Members	All Employed Members
Members at 1 July 2018	21,321	207	185	123	21,836
Plus					
New entrants[1]	3	-	-	-	3
Less Exits					
■ Retirement[2]	(2,455)	(41)	(59)	(13)	(2,568)
■ Withdrawal	(787)	(27)	(22)	(10)	(846)
■ Death	(83)	-	(1)	-	(84)
■ Disablement	(69)	-	-	-	(69)
■ Retrenchment	(253)	(6)	(4)	(3)	(266)
■ Internal transfers	(1)	(4)	-	5	-
Members at 30 June 2021	17,676	129	99	102	18,006

[1] New Entrant relates to 3 members who the fund administrator advised had ceased employment as at 30 June 2018, and then subsequently they advised that their employment was re-instated.

[2] Includes retrenchments over age 55.

Appendix C: Summary of Financial Statements

The following tables provide a summary of the assets at 30 June 2021 and the cash flows to/from the APSS over the inter-valuation period. The balances shown are consistent with the Scheme's financial statements.

The following table shows the balances contained in the Scheme's accounts as at 30 June 2021.

Summary of Scheme Assets at 30 June 2021 ($'million)	
Assets	
■ Cash assets	81.8
■ Investments	8,223.1
■ Property, plant and equipment	-
■ Other assets	219.4
Total Assets	8,524.3
Less Liabilities	219.4
Total Net Assets	8,304.9

Summary of Cash Flows for the Three Years to 30 June 2021 ($000)	
Assets at 1 July 2018	7,781,094
Revenue	
■ Net Investment Revenue	1,627,414
■ Contribution Revenue	
■ Members	122,764
■ Employer	394,805
■ Roll-ins from other funds	136,287
Outgoings	
■ Benefit Payments	1,478,757
■ Expenses	75,489
■ Income Tax Expense	203,262
Assets at 30 June 2021	**8,304,856**

Appendix D: Summary of Assumptions

This Appendix sets out the long-term assumptions expected to be used in the actuarial investigation as at 30 June 2021.

Financial Assumptions - Long-term Investigation

The long-term average future rates are assumed to be:

- Best estimate investment returns (net of tax) — 3.5% p.a.

Salary Growth:

- due to inflation — 3.0% p.a. to 30 June 2024
  2.5% p.a. thereafter
- due to promotion — as illustrated in the scale below

Present Value of Administration fees: $32.4 million

Promotional Salary Increases

The assumed rates of salary progression (in excess of the general increases due to inflation) are referred to in this report as promotional salary increases. An extract from the assumed rates of promotional salary increase is set out below. All references to salary are to superannuation salary as defined in the Scheme's Trust Deed, which may differ from salary for other purposes.

The factors in the table are solely intended to indicate relativities between salary levels for different duration of service and are not intended to indicate assumed salary levels in dollar terms. Promotional salary increases are assumed to depend on duration of service only. Identical promotional salary increase assumptions apply to males and females.

Contract & Non-Contract Employees		
Years of Membership	**Salary Scale**	**% growth in coming year**
8	14,764	1.46%
10	15,181	1.24%
15	16,028	0.88%
20	16,652	0.66%
25	17,161	0.58%

Demographic Assumptions

Death

The table below illustrates the decrement rates assumed for deaths. The figures represent the number of deaths in the years of age shown per 10,000 members at each age:

Year of Age	Deaths - Male	Deaths- Female
20	6	2
30	4	2
40	5	4
50	12	8
60	29	17

The average mortality rates assumed for males are higher than those of females. This is observed from the general Australian population as well as within the APSS.

Individuals who are gainfully employed tend to exhibit lower mortality than the general population. The above rates derived from past APSS membership is consistent with this.

Total and Permanent Disablement

The table below illustrates the decrement rates assumed for total and permanent disablements. The figures represent the number of total and permanent disabilities in the years of age shown per 10,000 members at each age:

Year of Age	TPD - Male	TPD- Female
20	2	2
30	2	2
40	4	4
50	18	16
60	81	71

As with mortality rates, disablement rates within the working community tend to be lower than rates experienced by the general population.

The rates of disablement assumed for males and females are the best estimate rates. The above assumptions are indicative of the experience of the Scheme over prior inter-valuation periods and are generally comparable to private sector rates.

Retirement

The table below illustrates the decrement rates assumed for retirement.

The figures are expressed per 10,000 members at each age shown.

Year of Age	Retirement
55	400
56	400
57	400
58	400
59	400
60	1,400
61	1,100
62	1,300
63	1,300
64	2,500
65	2,500
66	2,500
67	2,500
68	2,500
69	2,500
70	10,000

These rates are indicative of the experience of the Scheme over the inter-valuation period.

Resignations

The table below illustrates the decrement rates assumed for withdrawal per 10,000 members at each age. These decrement rates do not include retrenchments.

Year of Age	Resignation - Male	Resignation – Female
20	940	694
25	783	634
30	538	504
35	304	369
40	243	268
45	215	234
50	194	207

Retrenchment

The table below illustrates the decrement rates assumed for retrenchment. Again the figures are expressed per 10,000 members at each age shown.

Year of Age	Retrenchment
20	91
25	91
30	91
35	91
40	130
45	130
50	130

Appendix E: Requirements under Prudential Standards SPS 160

AUSTRALIA POST SUPERANNUATION SCHEME
30 June 2021

As the Actuary to the Scheme, I hereby certify that:

a The market value of the assets of the Scheme, excluding the amount held to meet the Operational Risk Financial Requirement (ORFR) disclosed in its audited accounts as at the investigation date, 30 June 2021, was $8,285.2 million. Of this amount, $4,414.3 million are assets in respect of Employer Financed defined benefits and the remainder is in respect of accumulation liabilities.

b The projected likely future financial position of the Australia Post Superannuation Scheme during the three years following the valuation date and based on my best estimate assumptions is as follows.

Date	Vested Benefits Index (%)
30 June 2021	122.9%
30 June 2022	124.2%
30 June 2023	123.4%
30 June 2024	121.8%

The projected financial position is shown only for the Employer-Financed defined benefit asset and liabilities. The account balances for Balanced Option (formerly Market Return Member Savings), Conservative Option, High Growth Option and Cash Option (formerly Cash Return Member Savings) Member Savings are fully funded and expected to remain fully funded during the three year projection period.

c In my opinion, the value of the assets of the Australia Post Superannuation Scheme at 30 June 2021, excluding the amount held to meet the ORFR, was adequate to meet the liabilities in respect of the accrued benefits of members of the Scheme (measured as the actuarial value of members' accrued entitlements using the valuation assumptions). I consider that the assumptions and valuation methods used are appropriate for determining the accrued benefit liability.

d At 30 June 2021 the Australia Post Superannuation Scheme was in a satisfactory financial position, as defined in SPS 160. In my opinion the financial position is likely to have remained in a satisfactory financial position at the date of signing this report. In my opinion the Australia Post Superannuation Scheme does not need to be treated as being in an unsatisfactory financial position. Given the current investment strategy, we recommend that the shortfall limit be revised from 97% to 98%.

e At 30 June 2021 the value of the liabilities of the Australia Post Superannuation Scheme in respect of minimum benefits of the members with Employer Financed defined benefits is $2,277.8 million. Minimum benefits are as defined in Regulation 5.04 of the Superannuation Industry (Supervision) Regulations. The minimum benefits of Member Savings are the members' account balances that total $3,870.9 million.

f Funding and Solvency Certificates for the Fund covering the period from 1 July 2018 to 30 June 2021 have been obtained. The Scheme was solvent, as defined in the Superannuation Industry (Supervision) Regulations, at 30 June 2021. In my opinion, I expect that the solvency of the Fund will be able to be certified in any other Funding and Solvency Certificate required under the Regulations during the three year period to 30 June 2024 if contributions are made in accordance with the recommendations in this report.

g It is recommended that the employer contributes at 5% of superannuation salaries, or a reasonable estimate of the amount, effective from 1 July 2021. The contributions are made in monthly instalments. Because the Corporation had been contributing 7.5% of superannuation salaries since 1 July 2021 to date, this could involve an adjusted contribution rate (reduced to lower than 5%) for the remainder of the year to 30 June 2022 to reflect the overall contribution rate of 5.0% of superannuation salaries for that year. Australia Post should also contribute members' salary sacrifice contributions and it is reasonable for its contributions to be reduced for administration expenses collected from members.

Actuary to the APSS

17 December 2021