Local Authorities Superannuation Fund

Report on the Actuarial Investigation as at 30 June 2023

The City of Melbourne Plan

9 November 2023

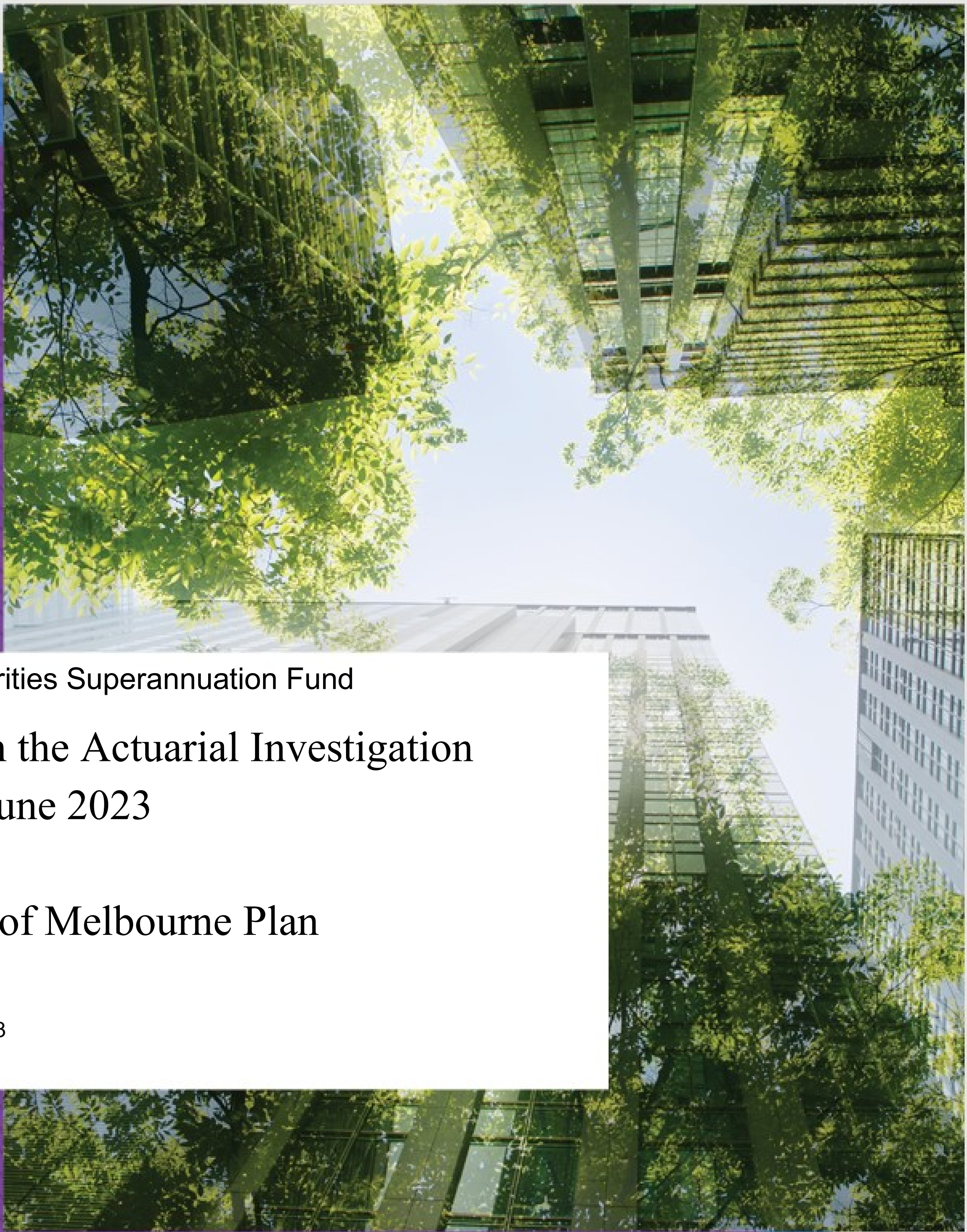

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Table of Contents

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Section 1: Executive Summary

1.1 We are pleased to present our report on the triennial actuarial investigation of the City of Melbourne plan (COM plan) of the Local Authorities Superannuation Fund (the Fund). This report has been prepared for Vision Super Pty Ltd, the Trustee of the Fund.

Results of previous actuarial investigation

1.2 The previous actuarial investigation was conducted by Matthew Burgess, FIAA, on behalf of WTW as at 30 June 2020. The results of that valuation were published in a report dated 18 December 2020.

1.3 In that review, the recommended funding arrangements comprised of the following:

a. From a convenient date agreed between Vision Super and City of Melbourne, but no later than 1 July 2021:
   - A nil contribution rate for Division D members.

b. If the VBI is below 100% and in any event upon retrenchment, top-up amounts for exiting members equal to the following amount increased for contribution tax:
   - Benefit Payment less (Vested Benefit x VBI)

   Top-up payments were to be calculated and invoiced quarterly in arrears. Top-up payments were required for all retrenchments (VBI capped at 100%), but for other exits only when the VBI is below 100%. Benefit payments exclude the amount of any insurance proceeds.

c. City of Melbourne also needed to contribute the amount of members' salary sacrifice contributions.

1.4 We recommended that if experience was as assumed then City of Melbourne would never need to contribute again. However, because experience could be worse than assumed we also recommended that if the VBI reduced to 125% further actuarial advice be obtained to review the contribution holiday and determine whether contributions should recommence.

1.5 We recommended that Vision Super consider reducing risk within the current investment strategy and that the current and projected liquidity should continue to be regularly reviewed, and stress tested. Subsequently, the growth assets have reduced over the three years to 30 June 2023 and liquidity levels continue to be reviewed and managed (noting the increase in illiquid asset percentage is due to Vision Super changes to illiquidity classifications rather than an actual increase in illiquid assets).

1.6 We also recommended that Vision Super update the insurance policy to remove remaining self-insurance as it considers appropriate. No changes were made to the insurance policies and there remains some elements of self-insurance.

1.7 Vision Super determined that City of Melbourne should cease contributions consistently with our recommendation. However, despite follow up from Vision Super, the City of Melbourne continued to contribute to 30 June 2023. Following our further written advice to Vision Super we understand they have again requested City of Melbourne cease contributions effective 1 July 2023.

Assumptions for this actuarial investigation

1.8 The financial assumptions used in this actuarial investigation are summarised below:

a. Net investment return: 3.0% p.a.

b. Salary Inflation: 3.5% p.a.

c. Price Inflation: 2.8% p.a.

1.9 We have updated the administration expense assumption from 6% of active members' salaries to a fixed dollar amount of $2.8m to reflect our best estimate of the present value of future administration expenses. Otherwise, all other assumptions remain unchanged.

Results of this actuarial investigation

Funding Status Measure

1.10 This actuarial investigation has shown that the COM plan's financial position has improved following the last review as at 30 June 2020, and remains satisfactory.

30 June 2023 Funding Indices	%
Vested Benefit Index	146.8[1]
Discounted Accrued Benefit Index	142.4[2]
Minimum Requisite Benefit Index	193.5[3]

1. Vested Benefits are the benefits payable if all members resign/retirement immediately
2. Discounted Accrued Benefits discount the future benefits expected to be paid in respect of completed membership to a present value.
3. Minimum Requisite Benefits are the minimum Superannuation Guarantee benefits

1.11 The improvement in the vested benefit index is primarily due to financial experience (excess of investment return above salary increase) being higher than assumed and also the continuation of City of Melbourne contributions.

1.12 The above indices were determined using the financial assumptions as summarised in Section 1.8.

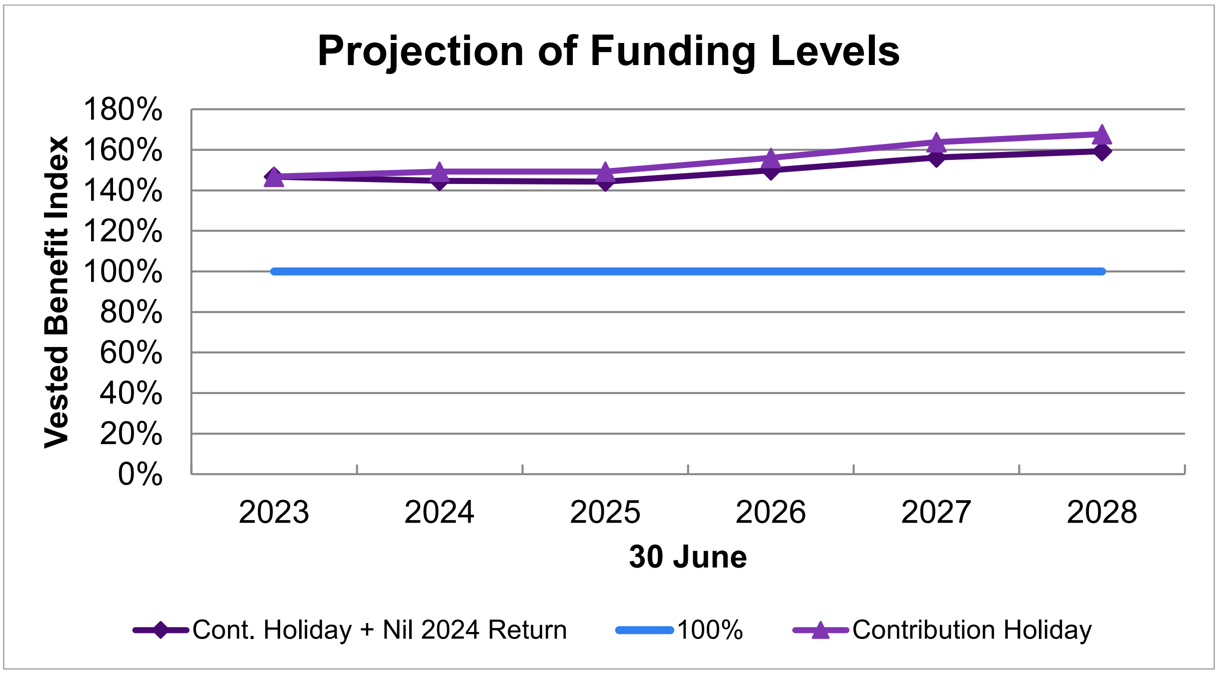
1.13 The COM plan's assets cover vested benefits at the review date and therefore the COM plan was in a satisfactory financial position at that date as defined in SPS 160.

1.14 Our projection below shows that, on the basis of the assumptions made in this actuarial investigation and assuming that City of Melbourne is on a contribution holiday, the COM plan is expected to remain in a satisfactory financial position.

1.15 If City of Melbourne ceased contributions from 1 July 2023 the actuarial surplus is $7.2 million. Even if the expected investment return reduced from 3.0% p.a. to 2.0% p.a., a surplus is expected to remain.

1.16 If experience is as expected, City of Melbourne is not expected to be required to make any further contributions because of the actuarial surplus that exists. We estimate that when the last COM plan member retires the present value of the surplus that will then remain is $7.2 million. We recommend a contribution holiday continue, or commence immediately if it has not yet commenced.

1.17 The future funding position, and the potential for additional contributions to be required from City of Melbourne, is dependent upon future experience and particularly future investment returns and salary increases. The following chart compares the expected Vested Benefit Index (VBI) in the best estimate “base case” and if there is a nil return in the year to 30 June 2024 (and expected returns thereafter). A nil investment return for the year to 30 June 2024 is unlikely given the defensive investment strategy. It is broadly equal to salary increases of 6.5% rather than the assumed 3.5% for the year to 30 June 2024. In both cases no City of Melbourne contributions are assumed from 1 July 2023. It should be noted that a nil return is not the worst outcome that could occur.



1.18 Even if the 2024 investment return is zero before reverting to 3.0% p.a., a contribution holiday is still appropriate as illustrated by the expected increase in VBI shown on the chart.

Self-Insurance

1.19 The City of Melbourne Plan retains a small amount of self-insurance in respect of death benefits, the total self-insured sum insured is in the order of $3 million if all members were to die.

1.20 We have previously recommended that the insurance policy be updated to remove this small about of self-insurance. This remains an option for Vision Super.

1.21 In our opinion the self-insurance is not material from a funding perspective, particularly given the large surplus. Also, given the surplus and maturity of the COM plan from an actuarial perspective external insurance is not required. However, Superannuation Prudential Standard 160 (SPS 160) applies to self-insurance and requires several actions from Trustees including an annual determination that it is in members best interests and maintenance of a reserve. In our opinion, from an actuarial perspective no reserve is currently needed, but if the reserve needs to be maintained we recommend $100,000. A legal view may also assist determining how to proceed.

Recommendations

1.22 We recommend that City of Melbourne adopt the following funding plan:

a. A nil contribution rate for Division D members.

b. If the VBI is below 100% (which is unlikely), top-up amounts for exiting members equal to the following amount increased for contribution tax:

- Benefit Payment less (Vested Benefit x VBI)

Top-up payments are to be calculated and invoiced quarterly in arrears. Benefit payments exclude the amount of any insurance proceeds.

c. City of Melbourne also needs to contribute the amount of members' salary sacrifice contributions.

1.23 If experience is as assumed, then City of Melbourne would never need to contribute again. However, because experience could be worse than assumed we also recommend that if the VBI reduces to 125% further actuarial advice be obtained to review the contribution holiday and determine whether contributions should recommence.

1.24 Because $7.2m is expected to remain in the COM plan, in present value terms, when the last member retires, we expect Vision Super will need to eventually decide how to use the surplus. We recommend Vision Super consider when is an appropriate time to do this.

1.25 The current and projected liquidity should continue to be regularly reviewed, and stress tested.

1.26 We also recommend that Vision Super determine how it is to treat the remaining self-insurance, which in our option is not material from a funding perspective. While from an actuarial perspective we do not believe an update to the insurance policy to remove the self-insurance is required, this is one option. Another option is to comply with the requirements of SPS 160 as set out above.

1.27 As required under SPS 160, the Trustee has set the Shortfall Limit for the COM plan at 100%. We consider this Shortfall Limit to be reasonable given the investment strategy and strong financial position of the COM plan.

The next triennial actuarial review should be carried out as at a date no later than 30 June 2026.

Matthew Burgess

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9 November 2023

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Section 2: Introduction

2.1 This report was commissioned by Vision Super Pty Ltd, the Trustee of the Local Authorities Superannuation Fund (the Fund).

2.2 The Local Authorities Superannuation Act (1988) (the Act) was proclaimed on 25 May 1988. The Act has been replaced and since 1 July 1998, the Fund has been governed by a Trust Deed.

2.3 The Fund is a “regulated fund” under the provisions of the Superannuation Industry (Supervision) Act 1993 (“SIS”). We understand that the Fund is a complying superannuation fund for taxation purposes and is a taxed superannuation fund.

2.4 In accordance with Superannuation Prudential Standard 160 (SPS 160), “triennial” actuarial investigations are required at intervals of not more than three years. The last triennial actuarial investigation was completed for the COM plan as at 30 June 2020 and our report was dated 18 December 2020. The previous report was signed by Matthew Burgess and Surath Fernando.

2.5 This actuarial investigation report covers the COM plan within the Fund, which is a sub-fund as defined in SPS 160. The divisions of the Fund that pay only accumulation benefits are not considered in this report. The actuarial investigations for the Parks Plan and the main Defined Benefit plan, which are also sub-funds as defined in SPS 160, are covered in separate reports.

2.6 The purpose of this report is to:

- examine the sufficiency of the assets in relation to members’ accrued benefit entitlements;
- determine the contribution rates required to so that the COM plan is expected to maintain a satisfactory financial position;
- satisfy requirements of the Trust Deed; and
- meet legislative requirements.

This actuarial review has been conducted in order to meet the Trustee’s obligations in accordance with SPS160 issued under section 34C of the Superannuation Industry (Supervision) Act (SIS Act) which came into effect from 1 July 2013.

2.7 This report satisfies the requirements of the following Professional Standards and Guidance of the Institute of Actuaries of Australia:

- Practice Guideline 1
- Practice Guideline 499.08
- Practice Guideline 499.09
- Professional Standard 400
- Professional Standard 402
- Professional Standard 404.

Actuarial Investigation as at 30 June 2020 and subsequent events

2.8 The report on the actuarial investigation as at 30 June 2020 concluded that the experience of the COM plan over the three years to 30 June 2020 had been favourable. During the three years to 30 June 2020 real investment returns above salary increases were higher than expected. The COM plan was in a satisfactory financial position.

2.9 Under the assumptions adopted in the last actuarial investigation the employer contributions were expected to be more than required to meet funding requirements, and while the investment risk was already low, following discussions with Vision Super we recommended they consider whether a lower risk investment strategy was appropriate. We also recommended a contribution holiday commence from no later than 1 July 2021. Subsequent to the actuarial investigation a lower risk investment strategy was adopted (refer Section 4).

2.10 Despite our recommendation that City of Melbourne cease contributing, and Vision Super determining that it should cease contributing, the City of Melbourne continued to make employer contributions to 30 June 2023. I have previously advised Vision Super in writing that this was occurring and Vision Super has advised City of Melbourne to cease contributions on several occasions. City of Melbourne's contribution requirements are discussed further in Section 7.

2.11 We also recommended that the Board continue to regularly review current and projected liquidity, including stress testing. This has occurred.

2.12 We also recommended that Vision Super consider whether it was appropriate to update the insurance policy to remove remaining self-insurance. The insurance policy has not been updated in this regard. Please refer to Section 8.

2.13 There have been no amendments to the COM plan benefits since 30 June 2020.

2.14 There have been no legislative changes or changes to benefits that have materially impacted on the funding of the COM plan.

2.15 Experience has been favourable since 30 June 2020 as shown by improved funding indices (refer to Section 6).

Reliance Statement and Data

2.16 This report is provided subject to our agreed Terms and Conditions of Engagement dated 3 March 2023. This report is provided solely for the Trustee's use and for the specific purposes indicated above. It may not be suitable for use in any other context or for any other purpose.

2.17 Except where we expressly agree in writing, this report should not be relied on by any third party. 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.

2.18 The Trustee may make a copy of this report available to its auditors, Authorities 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, Authorities or any third party in this regard. The Trustee should draw the provisions of this paragraph to the attention of its third parties when passing this report to them.

2.19 In conducting this review, 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 plan 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.

2.20 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 letter and such inaccuracies may produce materially different results that could require that a revised letter be issued.

Content of this Report

2.21 The remainder of this report is structured in the following manner:

- Sections 3 to 5 consider the data, assets, assumptions and methodology.
- Section 6 considers the financial position of the COM plan at 30 June 2023.
- Section 7 considers the adequacy of funding of the COM plan.
- Section 8 considers insurance.
- Section 9 considers material risks.
- Appendices A to E include supporting details of benefits, membership, accounts, actuarial assumptions, assets and actuarial surplus;
- Appendix F contains the statements required under SPS 160.

Section 3: Data and Experience

3.1 This section deals with the data used in the investigation and comments on the more significant factors bearing upon the experience of the COM plan.

Membership

3.2 For the purposes of this investigation, we were supplied with information on active members of the COM plan as at 30 June 2023 together with details of exits during the period from 1 July 2020 to 30 June 2023. While we have relied upon the data provided, from our checking processes we believe that the data is sufficiently accurate for the purposes of this investigation.

3.3 In summary, the active membership of the COM plan has decreased by 25 (or 32%) from 78 at 30 June 2020 to 53 at 30 June 2023. A summary of the movement in active membership is set out in Appendix B.

Summary of COM Plan Membership as at 30 June 2023				
	Number	Average Age (years)	Average Service (years)	Average Salaries
Active	53	58.2	35.0	$100,800

3.4 Retained members have accumulation benefits within the Fund but a defined benefit top-up may apply and any such amount must be paid from COM plan assets. As at 30 June 2023, there were 29 retained members with account balances totalling $10.2 million.

3.5 Because the COM plan is in surplus, with each exiting member the amount of surplus per remaining member increases.

Salaries

3.6 We have examined the salary experience of COM plan members over the three year period ending 30 June 2023. The data showed that the full time equivalent salary of COM plan members who remained members as at 30 June 2023 grew by 2.1% p.a. over the period. This compares to growth of 2.5% p.a. over the three year period to 30 June 2017 in the last actuarial investigation.

3.7 The actual increase over the three years ending 30 June 2023 was lower than the assumed rates of 2.0% p.a. for 2 years and then 2.75% p.a. thereafter in the 30 June 2020 actuarial investigation. The lower than expected salary increases would have resulted in an improvement in the COM plan financial position.

3.8 It is of interest to compare the average rate of salary increase with the increase in Australian Average Weekly Ordinary Time Earnings (AWOTE). Over the three years period ending 30 June 2023, AWOTE increased by 2.4% p.a. On average, members received salary increases which are lower than those of the wider community.

Demographic Experience of Active Members

3.9 Because of the average age of members is approaching 60, the resignation, death and disablement do not have a significant impact on the funding requirements of the COM plan. Also, because at age 65 members' defined benefits are crystalised, even the assumed rates of retirement do not have as big an impact as would be the case if members could continue to accrue defined benefits are this age.

3.10 Given the small size in membership, it is difficult to develop statistically reliable decrement assumptions based on plan experience.

3.11 We have decided to continue to apply the same resignation and retirement rates as are used for the main Defined Benefit plan, which were reviewed based on experience to 30 June 2023. No changes have been made and these are the same rates that were adopted in the last triennial actuarial investigation as at 30 June 2020.

3.12 For death and disablement we have decided to retain the same assumptions adopted for the 30 June 2020 actuarial investigation that were based on the external insurance premium rates at that time.

Administration Expenses

3.13 In the 30 June 2020 investigation, the administration expense was assumed to be set as 6.0% of salaries for active members.

3.14 While administration expenses have remained stable, as a percentage of salary they have increased because of the reduction in the number of members. This is expected because many of the fixed costs of administration do not reduce as membership reduces. We have decided to change the method adopted for this actuarial investigation to assume future expenses are expressed to be a fixed dollar amount calculated based on the recent amount of expenses and an estimate of the duration of benefit payments.

3.15 Accordingly, we have assumed that the present value of future administration expenses will be $2.8 million.

Investment Returns

3.16 Vision Super has advised that the rate of return (net of tax and investment expenses) earned by the COM plan for the three years ending 30 June 2023 was 2.2% p.a.

Investment Return	
Year ended	**% p.a.**
30 June 2021	3.1
30 June 2022	1.0
30 June 2023	2.4
Average	2.2%

3.17 Comparison of the 2.2% p.a. return for the intervaluation period with the average salary increase rate (from paragraph 3.6) of 2.1% p.a. shows a real return of approximately 0.1% p.a. which is higher than the negative 0.9% p.a. real return assumed for the two years to 30 June 2022 and the negative 1.65% p.a. real return assumed for the year to 30 June 2023 in the 2020 investigation.

3.18 The real returns over the valuation period have had a positive effect on the COM plan's financial position.

3.19 The higher than assumed real return is largely due to the higher than expected investment returns, as well as the slightly lower than expected salary increases. This favourable investment return has been achieved partially as a result of the temporary increase in growth assets in the investment strategy following the previous actuarial investigation. I recommended that the Trustee consider reducing investment risk and following subsequent reviews by the Trustee, this recommendation was implemented.

Section 4: Assets and Investments

Assets

4.1 Copies of the Fund's audited financial statements as at 30 June 2023 were supplied by Vision Super for the investigation together with details of the investment strategy at 30 June 2023. We were also provided with a breakdown of the market value of assets by sub-plan.

4.2 The fair value of the COM assets as at 30 June 2023 used in the valuation was $40.85 million. This asset value excludes $10.2 million in respect of retained benefits accounts. The financial statements include the fair value of assets for the three defined benefit sub-plans and this value is consistent with that amount.

4.3 Vision Super has excluded the Operational Risk Financial Requirement from the COM plan assets in the financial statements.

4.4 We believe that the most suitable approach for this investigation is to adopt the fair value of assets for all purposes. In our opinion the use of fair market value is reasonable as the COM plan is expected to be ongoing.

Asset Allocation

4.5 As at 30 June 2023 the COM plan is primarily invested in cash. Whilst there was a temporary increase in the allocation to equities since 30 June 2020, the investment strategy has been continued to transition towards cash. Appendix D shows the Actual Asset Allocation as at 30 June 2023.

4.6 The Strategic Allocation to Growth Assets as at 30 June 2023 was 0% (which is consistent with 30 June 2020), while the actual growth allocation is slightly higher at 0.6%. Since 30 June 2020 there has been a decrease in the actual growth allocation consistent with our recommendation.

4.7 In our opinion the allocation to growth assets is among a range of allocations that could reasonably be used by the COM plan.

4.8 Setting the Strategic Asset Allocation is a balance between:

a. A high allocation to growth assets, which is expected to produce relatively high but more variable investment returns and therefore lower but more variable employer contributions; and

b. A low allocation to growth assets, which is expected to produce relatively low but less variable investment returns and therefore higher but less variable employer contributions.

4.9 The COM plan has been closed to new members for many years. Therefore, its liabilities will reduce significantly over the next few years in real terms.

4.10 The investment risk has been reduced to be very low. Our analysis in Section 7 concludes that even with such low investment risk, the existing assets are larger than expected to be required. The implications of this are discussed further in that Section.

Liquidity

4.11 As at 30 June 2023, 19.5% of the investments are in illiquid asset classes and this is a notable increase since 30 June 2020 where 1.2% of investments are in illiquid asset classes.

4.12 Vision Super has advised they have changed the definition of illiquid assets to now include assets of varying degrees of illiquidity. For example, term deposits are now included although they can generally be fully liquidated in three to six months whereas previously these were not classified as illiquid assets. The outworking of this is that under a consistent classification, over the three year period Vision Super has advised the liquidity of the COM plan has continued to increase.

4.13 In the long term, the defined benefit plans will require full liquidity. Therefore, we believe the low exposure levels to illiquid assets (after noting the comment raised in section 4.12 above) are consistent with our previous recommendations. That said, we continue to strongly express our view that illiquid asset exposure in the defined benefit plans should trend to zero unless the rest of the Vision Super assets are used to support the liquidity.

4.14 Vision Super has advised that illiquid assets held by the COM plan are able to be transferred to other defined benefit or accumulation members within the Fund. Given the small relative size of the COM plan this should enable adverse liquidity experience to be managed.

Unit Pricing

4.15 Within the Fund there are defined contribution members as well as defined benefit members. The assets and liabilities of the defined contribution members are equal, subject to timing differences, with daily unit pricing being used. There is no investment reserving. We have been advised that the assets of the defined contribution members are segregated from the defined benefit assets and Vision Super has in place processes to limit cross subsidies between defined contribution and defined benefit members.

4.16 The Fund's Investment Governance Framework states that "Defined Benefit Investment options are considered separately from the Accumulation Investment options for rebalancing purposes". This means that the COM plan's asset allocation should not be materially impacted by the experience of the defined contribution plans.

Shortfall Limit

4.17 The Trustee has set a Shortfall Limit in accordance with SPS 160 of 100% for the COM plan. This means that between actuarial investigations, a restoration plan to restore the VBI to 100% is required if the COM plan's VBI reduces to below 100%.

4.18 A Shortfall Limit is defined in paragraph 10 of SPS 160 as:

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

4.19 We consider the current Shortfall Limit of 30 June 2023 is appropriate because the investment returns on the large cash investment returns are not expected to be variable. We recommend the Shortfall Limit remain at 100%.

Section 5: Valuation Assumptions and Funding Method

5.1 An appropriate set of both financial and demographic assumptions must be determined before values can be placed on the COM plan's liabilities and assets. The assumptions relating to benefit liabilities and assets are discussed under separate headings below.

Valuation of Benefit Liabilities

5.2 The assumptions for this actuarial investigation have been determined on a "best estimate" basis.

5.3 "Best estimate" describes assumptions which reflect "mean" estimates for the various factors, rather than choosing assumptions with explicit margins to cope with uncertainty about future experience. These "best estimate" assumptions might be described as being realistic. They are equally likely to prove to be conservative or to be optimistic and are less likely to be able to absorb fluctuations in future experience.

5.4 As the COM plan is closed to new members and as a result has declining membership, "best estimate" assumptions continue to be relevant because using conservative assumptions would be expected to eventually result in excess assets. Best estimate assumptions are also required by the Actuaries Institute's Professional Standards.

5.5 Appendix D contains a summary of the assumptions used.

Key Financial Assumptions

5.6 Financial assumptions for investment earnings, salary inflation and pension increases are required to value the liabilities.

5.7 The factor of major significance in the investigation of the COM plan's active member benefit liabilities is the differential between the assumed future rate of investment earnings and the assumed rate of salary growth due to inflation. (These factors are almost exactly compensating in their effect upon the present value of the employed members' COM plan's future benefit liabilities - hence, the difference between the rates is important, rather than their absolute values.)

5.8 The "best estimate" financial assumptions adopted at the 30 June 2020 actuarial investigation were:

- 2.0% p.a. salary inflation for two years, 2.75% p.a. thereafter .
- 1.1% p.a. investment return.

Investment Return

5.9 In order to determine the best estimate assumptions for this investigation, we have considered the capital market assumptions of WTW and the Fund's asset consultants, Frontier. A best estimate net investment return of 3.0% p.a. has been adopted for this investigation based on the asset allocation at 30 June 2023. This is lower than the net of tax cash rate 3.5% p.a. (85% of 4.1% p.a.) reflecting that not all the COM plan assets are in cash and that the cash rate may change.

5.10 The assumptions are net of investment management fees.

CPI Increases

5.11 The Reserve Bank's target CPI range is 2.0% p.a. to 3.0% p.a.. We have increased the assumption from 2.0% p.a. at 30 June 2020 to 2.8% p.a. at 30 June 2023 after considering the price inflation expectations of the asset consultants and the need to be consistent with the assumed investment return.

Salary Inflation

5.12 The actual salary increases of the COM plan members have been lower than AWOTE (refer 3.8). As the average age of COM plan members is now approaching age 60 years, significant benefit payments are expected in the next few years and the short term salary inflation assumption is important. A salary inflation assumption of 3.5% p.a. has been adopted in this investigation and is considered best estimate.

5.13 A salary increase assumption 3.5% p.a. is 0.7% p.a. above the assumed 2.8% p.a. CPI, which is within the historical long term 0% to 2% p.a. differential. Given recent experience and the maturity of the COM plan, we believe that this is appropriate. No promotional salary increases are being assumed.

5.14 Therefore, the "best estimate" financial assumptions adopted for the 30 June 2023 investigation is -0.5% p.a. real investment return over salary.

This comprised a 3.0% p.a. net of tax investment return assumption and a 3.5% p.a. salary inflation assumption. This is higher (less negative) than assumed as at 30 June 2020 and will mean a relative improvement in the expected long term funding position.

Demographic Assumptions

5.15 The demographic assumptions that affect the COM plan have been discussed in Section 3. Appendix D summarises the demographic assumptions adopted for this investigation.

Benefits

5.16 The benefits which have been valued are summarised in Appendix A.

Actuarial Funding Method

5.17 In recommending a funding plan which aims to be sufficient to fund the members' benefits in the long-term, it is necessary to project the operation of the COM plan into the future, using the actuarial assumptions set out above.

5.18 Briefly the projection operates in the following manner:

a. project total benefits and expenses expected to emerge in all future years in respect of current members. The projection is based on the long-term actuarial assumptions including allowance for the contingencies under which benefits can be paid (retirement, death, disablement and resignation), salary and pension increases;

b. discount these projected benefits to a present value at the assumed long-term investment return;

c. in a similar manner to (a) and (b), project the ongoing employer contribution and member contributions over all future years for current members, and discount them to present values; and

d. determine the additional funding required by the employer by comparing (b) with (c) plus the appropriate value of the assets at the investigation date.

5.19 This projection is known as the aggregate funding method, which is considered to be appropriate for a closed fund. The purpose of the calculation is to assess if the existing contribution rates and assets are sufficient to provide all future benefits on current assumptions.

5.20 Under SPS 160, APRA requires superannuation funds to put in place a plan that is expected to fully fund their vested benefits within three years if the fund's assets are less than the vested benefits at an actuarial investigation, also known as being in an "Unsatisfactory Financial Position". A funding plan is also required when the VBI reduces to below the shortfall limit, currently 100%, between actuarial investigations.

5.21 The shortfall or surplus relative to vested benefits is likely to vary from the actuarial shortfall or surplus calculated using the method set out in 5.18. It is possible that the recommended funding amount under this funding method may not be sufficient to be expected to maintain the COM plan's Vested Benefits Index (VBI) to 100% within the timeframe required by APRA if it is below 100%. While very unlikely because of the current COM plan surplus, in this situation additional contributions would be recommended as required by APRA.

5.22 Additional contributions can be made to target a VBI of 100% but where these contributions are higher than any actuarial shortfall calculated using the aggregate funding method described above a surplus would be expected to result in the long term if experience is as expected.

5.23 In the next section we review the financial position as at 30 June 2023 and in Section 7 we discuss the adequacy of the long term funding arrangements.

Section 6: Financial Position of the COM Plan

6.1 The financial position of the COM plan at the investigation date provides some insight into the progress towards fully funding members' benefits in the long-term.

6.2 A convenient means of assessing the financial position of the COM plan involves the calculation of various indices of benefits compared to assets.

Vested Benefits Index

6.3 The first of the indices is the "Vested Benefits Index" (VBI). Vested Benefits are defined as the benefits that would be due and payable if all the members voluntarily terminated their service with their employers at the investigation date. For active members, the Vested Benefits are the resignation benefit or the early retirement benefit (if aged 55 or more). For retained members, the vested benefit included in this index is the defined benefit top-up amount (i.e. the excess of the Accrued Retirement at the date of exit adjusted with CPI indexation over their account balance) which is also the amount included for these members in the other indices.

6.4 The Vested Benefits Index is calculated as follows:

$$\text{VBI} = \frac{\text{fair value of assets}}{\text{total of vested benefits}}$$

6.5 The Vested Benefit Index as at 30 June 2023 is:

VBI as at 30 June 2023	
COM plan assets ($m)	40.85
Vested Benefits ($m)	27.83
Vested Benefit Index	146.8%

6.6 The calculated VBI for the COM plan at 30 June 2023 is 146.8%. This compares with a VBI of 136.9% at the 30 June 2020 investigation. The COM plan was not in an unsatisfactory financial position as at 30 June 2023.

6.7 The VBI for the COM plan has increased since 30 June 2020 due to:

a. the higher than expected real investment returns during the year.

b. the 32% of COM plan members existing over the period resulting in the remaining surplus being spread over less members;

c. City of Melbourne has continued to contribute despite our recommendation, and Vision Super determination, that they cease contributions.

6.8 The VBI of the COM plan at 30 June 2023 is not materially affected by any changes to the assumed net investment return.

Discounted Accrued Benefits Index

6.9 Discounted Accrued Benefits mean the present value of the benefit payable in the future (based on the assumptions) accrued in respect of service to the investigation date. The method of apportioning active members' benefits to past service for the COM plan is as follows, effectively recognising the portion of future benefits arising due to service to date:

a. Retirement– the past service benefit (based on accrued lump sum multiples) at the calculation date, with allowance for future salary growth to the assumed exit date.

b. Death and Disablement benefits – the total projected death/disablement benefit at the assumed exit date multiplied by the ratio of service to the calculation date divided by service to the retirement date.

c. Immediate Resignation Benefit – the past service benefit at the calculation date (based on the multiples at the calculation date) with allowance for future salary growth up to the assumed resignation date.

6.10 The Discounted Accrued Benefits are not subject to a minimum of the Vested Benefits.

6.11 The index is a measure of the COM plan's on-going capacity to meet Accrued Benefits in the long run.

6.12 The "Discounted Accrued Benefits Index" (DABI) is calculated as follows:

$$\text{DABI} = \frac{\text{fair value of assets}}{\text{total of discounted accrued benefits}}$$

6.13 The Discounted Accrued Benefit Index as at 30 June 2023 is:

DABI as at 30 June 2023	
COM plan assets ($m)	40.85
Discounted Accrued Benefits ($m)	28.69
Discounted Accrued Benefit Index	142.4%

6.14 The calculated DABI for the COM plan at 30 June 2023, based on the "best estimate" assumptions, used in this investigation, is 142.4%. The DABI was estimated to be 125.4% at the 30 June 2020 investigation. The increase in DABI was due to the same factors that led to the increase in VBI (refer Section 6.7) as well as that the assumed real investment return assumed in future years is higher than assumed in the previous investigation.

6.15 Because the DABI is more than 100%, it means current assets are expected to be sufficient to provide the benefits of members' accrued benefits based on service to 30 June 2023.

Minimum Requisite Benefits Index

6.16 We have also considered the asset coverage of members' Minimum Requisite Benefits.

6.17 The Minimum Requisite Benefits (MRBs) are the minimum amount of benefit that must be provided to enable City of Melbourne to satisfy its Superannuation Guarantee obligations. The method to calculate the amount of MRBs for the active members is specified in my Benefit Certificate dated 29 August 2022.

6.18 The MRBs have been configured on the administration system. We have therefore used the MRB data provided by the administrator for the purposes of this valuation.

6.19 The Minimum Requisite Benefit Index is calculated as follows:

$$\text{MRBI} = \frac{\text{fair value of assets}}{\text{total of Minimum Requisite Benefits}}$$

6.20 The Minimum Requisite Benefit Index as at 30 June 2023 is:

MRBI as at 30 June 2023	
COM plan assets ($m)	40.85
Minimum Requisite Benefits ($m)	21.11
Minimum Requisite Benefit Index	193.5%

6.21 As at 30 June 2023 we estimate that the ratio of the market value of assets to the amount of Minimum Requisite Benefits was approximately 193.5%. This compares with a MRBI of 185.1% at the 30 June 2020 investigation. The increase in MRBI was mainly due to the same factors leading to the increase in VBI described in Section 6.7 above.

6.22 If this ratio for the entire Fund falls to below 100%, it becomes Technically Insolvent as defined in the SIS Regulations. If this occurs the Trustee must take certain steps to restore solvency. The Trustee needs to continue to monitor the “Notifiable Events” defined in the Funding and Solvency Certificate to identify if the Fund is at risk of becoming, or becomes, Technically Insolvent so appropriate action can be taken.

Other Measures of Financial Position

6.23 In accordance with Clause A.21.1(a) of the Trust Deed, an Employer requires the approval of the Board to terminate its contributions to the COM plan. We assume this approval would not be provided unless any future funding risk is adequately managed.

6.24 However, if an Authority does terminate its contributions, Clause A.21 of the Trust Deed states that:

> *“the Trustee, after obtaining the advice of the Actuary and subject to A.21.5, may adjust any benefit which is or may become payable to or in respect of any person whom the Trustee may consider is affected by that termination to the extent and in the manner the Trustee considers appropriate and equitable”*

6.25 Further it states in Clause A.21.5 that:

> *“…Unless otherwise agreed between the Trustee and the Employer, an adjustment made …must not increase the amount of any benefit which, in the opinion of the Trustee after obtaining the advice of the Actuary, has accrued in respect of a person immediately prior to the effective date of that adjustment in respect of the period up to that date or improve the basis upon which benefits accrue during or in respect of any period after that date.”*

6.26 Therefore, in the case of the termination of contributions the Trustee has some flexibility in respect of the benefits provided, subject to superannuation law, and there is no alternative measure of financial position that needs to be calculated in respect of this situation.

6.27 On retrenchment, members are entitled to an accrued retirement lump sum. This benefit may also be payable on partial disablement. For active members, the ratio of retrenchments benefits as at 30 June 2023 to assets was 145.7%. At the 30 June 2020 investigation, the retrenchment benefit index was 134.3%. The increase in the index is mainly due to the same factors leading to the increase in VBI described in Section 6.7 above. This index is not materially affected by any changes to the assumed net investment return.

6.28 At the date of this report, an additional contribution is required from City of Melbourne in respect of each retrenchment, and each exit if the VBI is below 100%, so that there is no additional financial strain on the COM plan.

6.29 In certain situations, some members can elect a pension, subject to the approval of Vision Super. While there are no current pensioners, a member electing a pension may cause a strain on funding.

6.30 In Appendix D the COM plan’s asset allocation is shown and there is currently a 19.5% allocation to illiquid assets, but we note as outlined in Section 4.12, this is due to a change in classification and the underlying assets remain heavily invested in cash and fixed interest and very liquid. The funding indices have been calculated based on the valuation of these assets at fair market value from the 30 June 2023 financial statements (excluding disposal costs). Given the highly liquid nature of the asset classes, we do not consider there to be a material risk of significant discounted asset values (and reduction to funding indices) occurring in the unlikely event that these assets had to be quickly liquidated.

6.31 There was no material deferred tax asset in the Fund as at 30 June 2023. Therefore, the funding is not significantly dependent upon being able to utilize such an amount.

Section 7: Assessing the adequacy of the Funding Arrangements

The Present Funding Arrangements

7.1 The funding arrangements for the COM plan comprise the following components:

a. Nil contribution rate for Division D members, from no later than 1 July 2021;

b. If the VBI is below 100% and in any event upon retrenchment, top-up amounts for exiting members equal to the following amount increased for contribution tax:

Benefit Payment less (Vested Benefit x VBI)

Top-up payments were to be calculated and invoiced quarterly in arrears. Top-up payments are required for all retrenchments (VBI capped at 100%), but for other exits only when the VBI is below 100%. Benefit payments exclude the amount of any insurance proceeds.

c. City of Melbourne also needs to contribute the amount of members' salary sacrifice contributions.

7.2 However, despite our recommendation that City of Melbourne cease contributing, and Vision Super determining that it should cease contributing, the City of Melbourne continued to make employer contributions to 30 June 2023. We have previously advised Vision Super that this was occurring, and Vision Super has advised City of Melbourne to cease contributions on several occasions.

Total Service Liability Surplus/ Deficit as at 30 June 2023

7.3 As at 30 June 2023 and adopting an assumed net investment return of 3.0% p.a. and a nil contribution rate, there was a total service liability surplus of $7.2 million. This means that the current value of assets, and future member contributions, is more than the value of expected future benefits and expenses by $7.2 million.

7.4 The total service liability surplus as at 30 June 2020 was assessed as $4.6 million, if City of Melbourne ceased contributions from 1 July 2020. The actuarial surplus has increased over the intervaluation period mainly due to favourable financial experience (excess of investment return above salary increase) coupled with a change in assumptions and the continuation of employer contributions despite our recommendation for a contribution holiday.

7.5 The existing funding arrangements are expected to be more than adequate if the current assumptions are borne out in practice. This means that if experience is as expected from 30 June 2023, under the current assumptions a surplus of $7.2 million is expected to remain if City of Melbourne ceased contributions and no further action is taken.

7.6 Nevertheless, it needs to be recognised that the ultimate cost of benefits for members of the COM plan will depend on the actual future experience of all the relevant factors (investment earnings, salary growth, mortality rates, turnover rates, etc.). Therefore, the contribution arrangements will need to be varied as the actual experience unfolds.

Sensitivity of Funding Arrangements to Future Assumptions

7.7 As outlined in Section 5, factors that affect the future experience of the COM plan are split into two broad categories. They are the financial assumptions and the demographic assumptions. The results are more sensitive to changes in the financial assumptions and the sensitivity of the "actuarial surplus" to the financial assumptions is considered below.

7.8 To quantify the potential impact of variations in financial experience the following table shows the impact of changing some of the assumptions on the "actuarial surplus" as at 30 June 2023.The "gap" is the excess of the assumed investment return above the assumed salary inflation, because it is the difference between the assumptions that is important as they offset each other.

Impact of Changes in Key Assumptions	
	Actuarial Surplus $ Million
Best estimate assumptions (i.e. 3.0% p.a. net investment return)	7.2
Higher gap (+1% pa)	8.5
Lower gap (-1% pa)	5.8

7.9 The table shows that a variation in the financial assumptions has a significant impact on the actuarial surplus or shortfall.

Note that the variations selected in the sensitivity analysis do not indicate upper or lower bounds of all possible outcomes.

7.10 There is a risk that the demographic experience may differ from our assumption which would lead to a lower or higher funding cost. In particular, if more members than assumed were to continue membership to age 65 it would be expected to reduce the surplus.

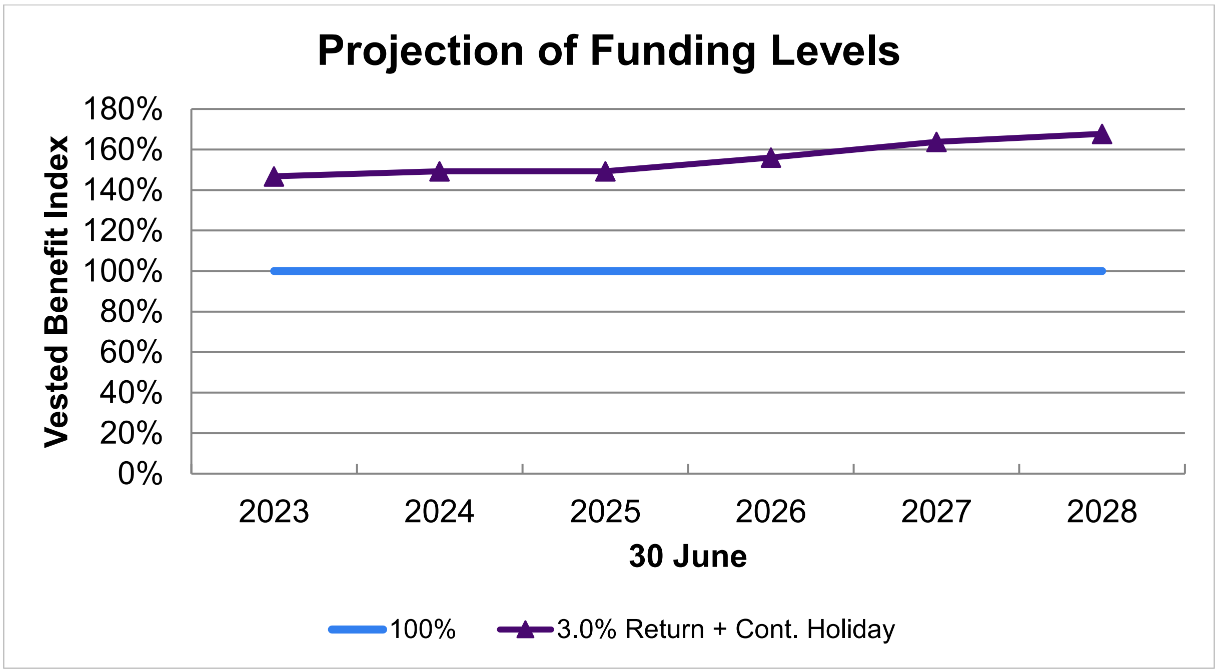
7.11 This table also shows that with the $7.2 million total service liability surplus as at 30 June 2023, an assumed net of tax investment return of 2.0% p.a. rather than 3.0% p.a. was expected to result in an actuarial surplus of $5.8 million and be more than sufficient to fund all liabilities. This further confirms the City of Melbourne should be on a contribution holiday.

7.12 Note that any change in the investment strategy so that the expected net return changed from the 3.0% p.a. is not expected to affect the VBI as at 30 June 2023 because currently all of the Vested Benefits are lump sums and independent of assumptions.

Projection of Funding Levels

7.13 This section considers the adequacy of the funding by projecting the COM plan's future funding level. This projection is based on the "best estimate" funding assumptions set out in Appendix C.

7.14 The graph below shows the projected Vested Benefits (VBI) of the COM plan for the next ten years. For clarity, we note an assumed net investment return of 3.0% p.a. is used in this projection and City of Melbourne is assumed to cease contributions from 1 July 2023.



7.15 The chart shows the VBI is expected to stay well above 100% over the next five years and no additional contribution is expected to be required from City of Melbourne to meet the funding requirement under SPS 160. However, in practice actual experience will be different to what is expected and the VBI may decrease or increase more quickly than expected.

7.16 The above chart shows that the VBI is expected to increase materially over time. This is consistent with a total service liability surplus of $7.2 million at 30 June 2023.

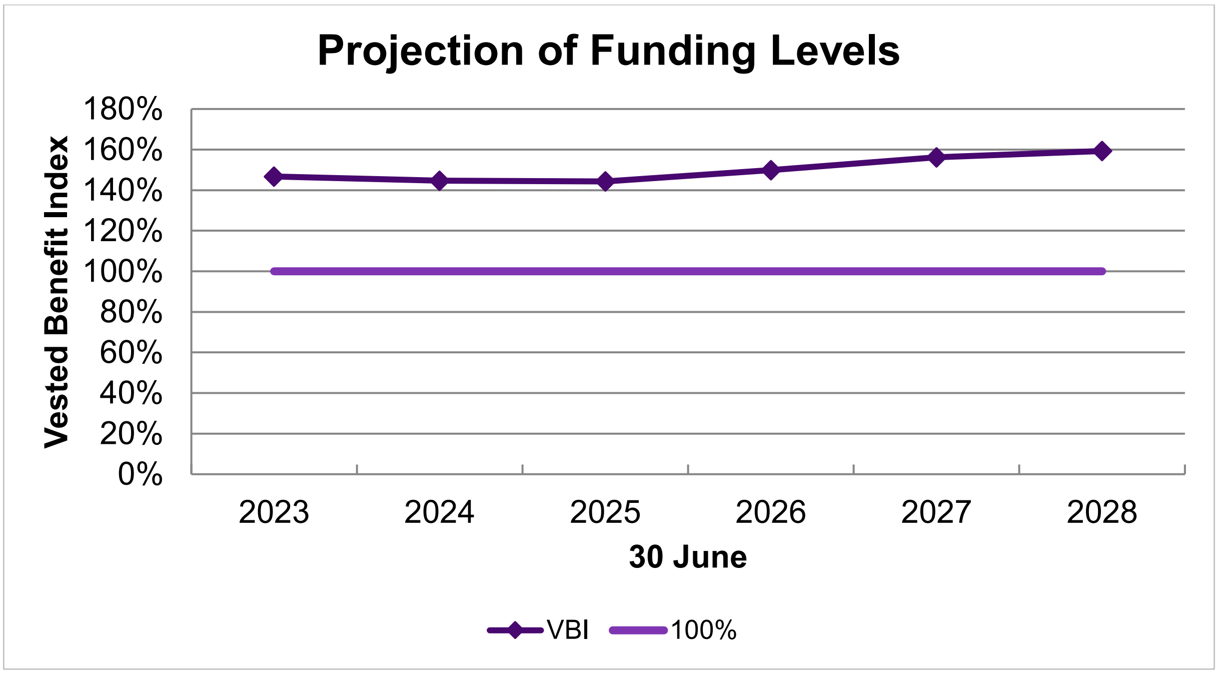
7.17 If the future investment return was lower at 2.0% p.a., or salary increases are 4.5% p.a. rather than the assumed 3.5% p.a., the VBI would still be expected to increase, but at a slower pace.

Other Funding Issues

7.18 The COM plan is mature and its funding is sensitive to future experience. As shown in Section 7.8 a lower than expected investment return would reduce the "actuarial surplus".

7.19 The COM plan assets are invested in defensive assets and the probability of a zero investment return in a financial year is currently low. The financial impact of a zero investment return would be similar to the impact of salary increases for one year being 3% higher than expected (i.e. 6.5% for the year rather than 3.5%).

7.20 The chart below shows the impact on the VBI in an adverse scenario where the return is 0% for the year to 30 June 2024 and all other experience is as expected. For clarity, a best estimate return of 3.0% p.a. is assumed from 1 July 2024 and it is assumed the COM plan is on a contribution holiday.



7.21 If the return is 0% in 2023/24, the VBI is expected to fall slightly, before increasing over time.

7.22 On the other hand, if experience is favourable an even larger “actuarial surplus” would result.

Events since 30 June 2023

7.23 Vision Super has advised that the investment return for the three months ending 30 September 2023 for the COM plan was 0.75% (equivalent to 3.0% p.a.). This is same as the best estimate expected return of 3.0% p.a. and therefore this does not change our recommendations.

7.24 City of Melbourne may have continued to provide contributions beyond 1 July 2023 despite our recommendation and Vision Super’s request that they commence a contribution holiday. If this has occurred the continued City of Melbourne contributions will further exacerbate the current surplus. We are not aware of any other events subsequent to 30 June 2023 that would materially impact upon the results of the actuarial investigation of the COM plan.

Recommendation

7.25 Section A.20.1 of the Trust Deed states:

"each Employer must contribute to the Fund in respect of a particular Employee at any particular time the amount or rate of contributions determined by the Trustee after obtaining the advice of the Actuary, including the Unfunded Liability Amount…."

7.26 Based on the results we recommend that the Trustee continue to request that City of Melbourne cease contributions.

7.27 If a contribution holiday is not initiated and City of Melbourne continues to contribute at the current rates, the already material surplus is expected to continue to grow. Even with our recommendation there is an expectation of remaining surplus. However, this is dependent upon future experience. While the City of Melbourne would never be expected to contribute again, there remains the possibility that contributions could be necessary.

7.28 We expect that at some time Vision Super will need to consider how to use the surplus. The investment strategy is already invested defensively so reducing investment risk is not a practical option. We recommend that Vision Super consider that time at which it will consider the use of the surplus.

7.29 In summary, we recommend that City of Melbourne adopt the following funding plan:

a. Make no employer contributions to the Plan;

b. If the VBI is below 100% (which is unlikely to occur), top-up amounts for exiting members equal to the following amount increased for contribution tax:

   Benefit Payment less (Vested Benefit x VBI)

   Top-up payments are to be calculated and invoiced quarterly in arrears Benefit payments exclude the amount of any insurance proceeds.

c. City of Melbourne also needs to contribute the amount of members' salary sacrifice contributions.

7.30 We also recommend that if the VBI reduces to 125% further actuarial advice be obtained to review the contribution holiday and determine whether contributions should recommence.

7.31 It is very important to understand that each of the components of the funding arrangements is very dependent on the actual future experience of the COM plan. Consequently all contribution components are subject to regular review by the Trustee using actuarial advice and could vary from the current recommendations at any time in the future. The next actuarial investigation is due as at 30 June 2026.

Section 8: Insurance

8.1 The COM plan provides death and disablement benefits that are significantly higher than the resignation/retirement benefits.

8.2 The COM plan is externally insured with MLC Life and has been externally insured since 30 September 2012.

8.3 Given the small number of COM plan members and the progression of time, the risk of a self-insured claim emerging from prior to 1 October 2012 is small. If this were to occur, City of Melbourne would currently be required to make top-up contributions in respect of the self-insured component of the benefit if the VBI was below 100%, on the basis that it makes top-up contributions for the unfunded element of all benefits on exit in this circumstance. Therefore, if the VBI was below 100% there would not be expected to be a financial strain on the funding if such a claim was made. If the VBI is above 100% then the self-insured component of the benefit is likely to be able to be funded from surplus.

8.4 Vision Super has externally insured lump sum amounts in some situations where pensions could be paid if a claim occurs. Actuarial advice has been provided on the appropriate amount of the lump sums. If such a claim occurs, City of Melbourne would retain the ongoing risk in respect of the pension.

8.5 The insurance policy has been updated over time to better reflect the underlying sum insured components. However, there is still a variance between the administered sum insured (determined as the difference between the administered death benefit and vested benefit) and the insured benefit as stated in the MLC policy. This difference is largely due to the death benefit being determined using pre 30 June 1993 accrual rates, whilst the vested benefit makes allowance for both pre and post 30 June 1993 accrual rates. Therefore, there is still some self-insurance totalling approximately $3 million in respect of death. This is the amount of excess death benefits that would need to be paid if all members were to die. Self-insurance is negligible for TPD.

8.6 Because of the surplus the remaining self-insurance is not material for funding. From an actuarial perspective it is not necessary to increase the amount of external insurance. Also, we understand that because this self-insurance was in place on 1 July 2013, in accordance with SIS Regulation 4.07E(8), Vision Super is able to self-insure the relatively small remaining risk, although we cannot provide legal advice.

8.7 Sections 36 and 37 of Superannuation Prudential Standard 160 requires a Trustee to take certain actions if there is self-insurance, including:

a. Maintaining reserves or have other arrangements approved by APRA in place to fund current and future self-insurance liabilities;

b. Attest annually that, in formulating and maintaining its policy in relation to self-insurance, Vision Super continues to act in the best interests of beneficiaries; and

c. Develop a contingency plan for an orderly transfer of insurance assets and obligations, for activation in the event that the Trustee has decided that, by self-insuring benefits, Vision Super is no longer acting in the best interest of beneficiaries as a whole.

d. Ensure ongoing actuarial oversight, at a minimum, via actuarial investigations.

8.8 In my opinion it is reasonable for Vision Super to attest that the small amount of self-insurance remaining is in members best interest, because of the small amount involved relative to the surplus and the costs involved in updating the insurance policy and insuring the risk. If Vision Super were to determine to externally insure the risk then the MLC policy could be updated. Also, in my opinion no reserve in necessary from an actuarial perspective but if a reserve is necessary we suggest a small amount such as $100,000 would be sufficient.

Section 9: Material Risks

9.1 The funding of the COM plan is dependent upon future experience. We have briefly considered below the material risks in respect of funding. If experience is materially adverse City of Melbourne may be required to recommence contributions.

Investment Risk

9.2 The investment risk is low because the assets are largely invested in cash.

9.3 As per current practice, the Trustee should continue to consider the liabilities and the funding position when determining the COM plans' investment strategy.

Salary Inflation Risk

9.4 Salary increases exceeding expectations will have a negative impact on funding. This is likely to be the largest funding risk for City of Melbourne because large salary increases, relative to the investment return, will erode the surplus.

Pensioner Longevity Risk

9.5 At 30 June 2023 there were no life time pensioners in the COM plan, but some members can elect pensions in prescribed circumstances. If this should occur, there is a risk that the liability will increase, particularly if pensioners live longer than expected. This would have a negative impact on the funding position.

Other

9.6 Operational risks (e.g. unit pricing and administration) are not considered in this report.

9.7 There are many other risks in respect of the funding of the COM plans but we have not included those that we do not consider to be currently material.

Appendix A: Summary of Benefits and Conditions

The benefits are set out in the Fund's Trust Deed. The Fund has been governed by the Trust Deed originally dated 26 June 1998 on and from 1 July 1998. The Trust Deed has subsequently been amended numerous times. This report is based on a copy of the Trust Deed including amendments up to 1 December 2022.

Membership

The City of Melbourne Plan was established in 1995 following the transfer of the City of Melbourne Superannuation Fund into Vision Super. The benefits are set out in the City of Melbourne Fund Trust Deed, and now incorporated in the Fund's Trust Deed in Division D. This plan is closed to new members.

Contributions and Accrual Rate

Members are allowed to contribute at a rate between 0% and 9% of salary. The accrual of member's benefit multiple is dependent on member contribution rate, as follows:

Contribution Rate (%)	Accrual Rate Post 30 June 1993 (%)	Accrual Rate Pre 30 June 1993 (%)
0	7.7	9.00
1	9.50	11.00
2	11.25	13.00
3	13.00	15.00
4	14.75	17.00
5	16.50	19.00
6	18.25	21.00
7	20.00	23.00
8	21.75	25.00
9	23.50	27.00
6.5%*	19.00	22.00

* Ex-officer only

Accrued Benefit Multiple (ABM)

The sum of accrual rate for each year of membership in accordance with the table above.

Retirement Benefit

The accrued retirement benefit calculated as Accrued Benefit Multiple x Final Average Pay (FAP).

Death Benefit

The lump sum benefit is calculated as the sum of:

i. ABM based on pre 30 June 1993 accrual rate x FAP; and

ii. 21% x Prospective Service to age 60 x FAP

Total and Permanent Disablement Benefit

The lump sum benefit is calculated as the sum of:

i. ABM x FAP; and

ii. 21% x Prospective Service to age 60 x FAP

Retrenchment Benefit

The accrued retirement benefit.

Resignation Benefit

The lump sum benefit of either:

a. **Immediate benefit equal to:**

- If member resigns before reaching age 50:

  ABM_5 x FAP + C_5

- If member resigns between age 50 and 55:

$$\frac{[\ (ABM_5 \times FAP + C_5\ ) \times (55 - age) + (ABM \times FAP) \times (Age - 50)\ ]}{5}$$

Where

ABM5 – Accrued Benefit Multiple five years ago
C5 – contributions over the last five years plus credited investment returns

b. **Retained Benefit**

Members can elect to retain their benefit within the fund and upon reaching age 55 members are entitled to the greater of the two benefits below:

- Resignation Benefit adjusted with investment earnings; or
- Accrued Retirement Benefit at the date of exit adjusted with CPI indexation

Salary Continuance Benefit

On temporary disablement or illness, members may receive 70% of salary payable up to two years after a 90-day waiting period.

Superannuation Guarantee

The benefits are subject to a superannuation guarantee minimum. Like all defined benefit members, the minimum is based on salary as defined in the Trust Deed. If Ordinary Time Earnings is higher than salary then top-up contributions are made to an accumulation account within the Fund and do not need to be considered from a funding perspective.

Other Benefits

Other benefit provisions exist, including the ability to request a pension in specified circumstances.

Appendix B: Membership Movements

COM plan

Membership as at 1 July 2020[1]	78
Exits	25
Membership as at 30 June 2023	53

[1] In addition there were 29 COM plan retained beneficiaries as at 30 June 2023.

Appendix C: Summary of Valuation Assumptions

Financial Assumptions

The most significant financial assumptions are:

- Active members:
  - investment returns (net of tax; expenses) 3.0% p.a.
  - salary inflation growth 3.5% p.a.
  - CPI increases 2.8% p.a.
- Present value of future administration expenses: $2.8m

Demographic Assumptions

Active Members

The table below illustrates the decrement rates assumed for active members. The decrement rates represent the percentage of members leaving the plan each year by each cause.

Year of Age	Deaths %	Disablements %	Resignations %	Retirements %
20	0.10	0.02	13.42	-
30	0.09	0.06	6.48	-
40	0.12	0.13	3.77	-
50	0.27	0.40	2.44	-
60	0.76	1.43	-	15.0
64	-	-	-	15.0

Appendix D: Asset Allocation

Asset Allocation at 30 June 2023

Asset Class	Actual Asset Allocation 30 June 2023 (%)	Strategic Asset Allocation 30 June 2023 (%)
Australian Equity	0.0	0.0
International Equity	0.0	0.0
Private Equity	0.6	0.6
Infrastructure	0.0	0.0
Absolute Return Multi Strategies	0.0	0.0
Property	0.0	0.0
Opportunistic Investments	0.0	0.0
Alternative Debt	0.0	0.0
Fixed Interest	9.4	9.4
Cash	90.0	90.0
Total	**100.0**	**100.0**
Allocation to Illiquid Assets#	19.5%	28.8%
Allocation to Growth Assets	0.6%	0.0%*

* Vision Super have advised a Nil strategic asset allocation to growth assets, as per the latest Investment Policy Statement.

\# The allocation to illiquid assets includes term deposits that provide high liquidity at maturity.

Appendix E: Total Service Liability Surplus/(Deficit)

Total Service Liability Surplus / (Deficit), using assumed net investment return of 3.0% p.a.

		($million)
Present Value of Active Member Liabilities		32.2
Retirement	30.5	
Death	0.2	
Disablement	0.6	
Resignation	0.9	
plus Present Value of Additional Retained Liability		0.1
less Family Offset and Surcharge Account balances		(0.6)
plus Value of Salary Continuance Cover		0.2
plus Present Value of Future Expenses		2.8
plus Allowance for tax on Contributions		0.0
Total Benefit Liability		**34.7**
Compared to:		
Assets		40.9
plus Value of ongoing member contributions		1.0
plus Value of ongoing Authority contributions (contribution holiday, i.e. nil)		0.0
Total Assets		**41.9**
Surplus of Total Assets over Total Benefit Liability as at 30 June 2023		7.2

Appendix F: Actuarial Statements required under SPS 160 Paragraph 23(a) – (h)

COM plan

The following statements are prepared for the purposes of actuarial statements and Paragraphs 23(a) to (h) of SPS160. It relates to the COM sub-plan within the benefits specified in Division D of the Vision Super Trust Deed.

Background

The effective date of the most recent actuarial review of the COM plan is 30 June 2023. The actuarial investigation was undertaken by Matthew Burgess, Fellow of The Institute of Actuaries of Australia, on behalf of Towers Watson Australia Pty Ltd (AFSL 229921, ABN 45 002 415 349).

This statement has been prepared for the Trustee of Vision Super as part of the actuarial investigation in accordance with the Professional Standards issued by The Institute of Actuaries of Australia.

Assets (SPS160 23(a))

The fair value of the COM plan assets at 30 June 2023 was $40.9 million.

This value of assets at 30 June 2023 excludes amounts held to meet the Operational Risk Financial Requirement (ORFR) and was used to determine the required contributions.

Financial Condition SPS160 23(b)

The projected likely future financial position of the COM plan during the three years following the valuation date and based on my best estimate assumptions is as follows.

Date	Vested Benefits Index (%)
30 June 2023	146.8%
30 June 2024	149%
30 June 2025	149%
30 June 2026	156%

The projected financial position is shown only for the defined benefit members and the additional liability for retained members.

Accrued Benefits (SPS160 23(c))

Accrued Benefits have been determined as the present value of expected future payments arising from membership completed as at the review date plus any additional accumulation benefits at face value. Accrued Benefits have not been subjected to a minimum of vested benefits.

In determining Accrued Benefits, the major assumption adopted was a -0.50% p.a. real investment return over salary inflation. This comprised a 3.0% p.a. net of tax investment return assumption and a 3.50% p.a. salary inflation assumption.

The future rate of investment return used to determine the accrued benefits is the anticipated rate of return on the COM plan assets.

Assumptions were also made about rates members would withdraw from service because of death, total and permanent disablement and resignation.

The past membership component of all benefits payable in future from the COM plan in respect of the current membership are projected forward allowing for future salary increases and then discounted back to the valuation date at the assumed rate of investment return.

Using the above method, the total value of accrued benefits and the actuarial value of the COM plan assets at 30 June 2023 were:

Value of accrued benefits:	$28.7 million
Fair Value of Assets:	$40.9 million. The ratio of the actuarial value of the assets to the value of the total accrued benefits was 142.4% which indicates an adequate coverage of the value of the accrued benefits as at the date of the actuarial investigation.

In our opinion, the value of the assets of the COM plan at 30 June 2023 was adequate to meet the liabilities of the COM plan in respect of accrued benefits in the COM plan. The assets are considered adequate in the longer term based on the contributions recommended below, and assumptions as to the future experience which we regard as appropriate.

Vested Benefits (SPS160 23(d))

Vested benefits are the benefits to which members would be entitled if they voluntarily left service.

At the date of the actuarial investigation, the total vested benefits and net market value of the COM plan total assets were:

Total Vested Benefits:	$27.8 million
Fair Value of Assets:	$40.9 million

The ratio of the net market value of the COM plan assets to total vested benefits was 146.8%, which indicates a satisfactory coverage of Vested Benefits as at the date of the actuarial investigation.

In our opinion, the Fund's financial position is satisfactory.

The Trustee has determined the short fall limit to be 100%. In my opinion this can reasonably be left unchanged.

Minimum Benefits and Funding and Solvency Certificates (SPS160 23(e) and (f))

Funding and Solvency Certificates (FSC) for the Fund covering the period from 1 July 2020 to 30 June 2023 as required by the Superannuation Industry (Supervision) Act have been provided.

In our opinion, the solvency of the Fund will be able to be certified in any Funding and Solvency Certificate required under the Superannuation Industry (Supervision) Regulations during the three year period to 30 June 2026 if experience is as assumed.

We note that for the purpose of issuing an FSC, the appropriate funding measure is in respect of coverage of minimum benefits (MRBs), which in this fund are considerably less than vested benefits, and are covered sufficiently by COM plan assets. At 30 June 2023, the ratio of assets to MRBs is 193.5%. The total Minimum Requisite Benefits as at 30 June 2023 was $21.1 million.

Recommended Contributions (SPS160 23(g))

We recommend that City of Melbourne contribute the following amounts:

- From 1 July 2023 make no contributions for Division D members;
- If the VBI is below 100% top-up payments for exiting members equal to the following amount increased for contribution tax:

  Benefit Payment less (Vested Benefit x VBI)

  Top-up payments are to be calculated and invoiced quarterly in arrears. Benefit payments exclude the amount of any insurance proceeds; plus

- Any salary sacrifice contributions should be made in respect of members in accordance with the Trust Deed.

The amounts of required contributions will be reviewed in the next triennial actuarial review of the COM plan to be conducted with an effective date no later than 30 June 2026. However, an earlier actuarial review should be undertaken if there are any significant changes in the COM plan.

Matthew Burgess

Matthew Burgess FIAA
RSE Actuary

Surath Fernando FIAA

9 November 2023

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https://wtwonlineau.sharepoint.com/sites/tctclient_682844_Vision_23/Documents/04.01_Actl_Valn/5_Deliverables/COM Plan - Report on the Actuarial Investigation as at 30 June 2023 final wtw_new.docx

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