Local Authorities Superannuation Fund

Report on the Actuarial Investigation as at 30 June 2023 - Parks Plan

12 October 2023

Towers Watson Australia Pty Ltd
ABN 45 002 415349 AFSL 229921

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Section 1: Executive Summary

1.1 We are pleased to present our report on the triennial actuarial investigation of the Parks 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 19 October 2020.

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

a. A contribution rate of 12% of salaries for Division E members and the current accruing cost contribution rates for Division F 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. Parks Victoria also needed to contribute the amount of members' salary sacrifice contributions.

d. Under the valuation assumptions these contributions were expected to be more than required to meet funding requirements, and following discussion with Vision Super, we recommended Vision Super consider whether a lower risk investment strategy was appropriate at that time. Subsequently, the growth assets have reduced over the three years to 30 June 2023.

e. We recommended that current and projected liquidity should continue to be regularly reviewed, and stress tested by Vision Super given the maturity of the plan and the possibility of large benefit payments.

f. We also recommended that Vision Super review the insurance policies, and update where necessary, to ensure it was satisfied that any self-insurance was not material. No changes were made to the insurance policies.

1.4 Except where otherwise noted above, these recommendations have been implemented. In regards to insurance, upon reviewing the most recent policy, there is still an element of self-insurance exposure within the Parks plan (estimated as $2m in respect of death benefits not externally insured at 30 June 2023). The self-insurance is not material from a funding perspective however, we recommend Vision Super consider whether it is appropriate to update insurance policies to remove self-insurance.

Assumptions for this actuarial investigation

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

a.	Net investment return:	3.8% p.a. (gross: 4.5% p.a.)
	Salary Inflation:	3.84% p.a. to 30 June 2025, 5.35% p.a. to 30 June 2026 and 3.5% p.a. thereafter
b.	Price Inflation:	2.8% p.a.

1.6 Following a review of the demographic experience, we have retained the demographic assumptions used in the 2020 actuarial investigation for active members. Pensioner mortality assumptions are used in respect of the one lifetime pensioner in the Parks Plan have been set consistent with the main Defined Benefit plan. This does not have a material impact on the results of this investigation.

1.7 We have updated the administration expense assumption from 10.0% of active members' salaries to a fixed dollar amount of $2.2m to reflect our best estimate of the present value of future administration expenses.

Results of this actuarial investigation

1.8 The number of Parks plan members has reduced to 35 from 50 at the previous investigation date. The total includes one Ports member who has commenced a lifetime pension, which is the first lifetime pensioner in the plan. The average age of members as at 30 June 2023 was 59 and the market value of assets was $26.7 million.

Funding Status Measure

1.9 This actuarial investigation has shown that the Parks plan's financial position has improved from the last review as at 30 June 2020.

	30 June 2023 Funding Indices %	30 June 2020 Funding Indices %
Vested Benefit Index[1]	112.4	108.7
Discounted Accrued Benefit Index[2]	112.9	112.7
Minimum Requisite Benefit Index[3]	163.3	156.7

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

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

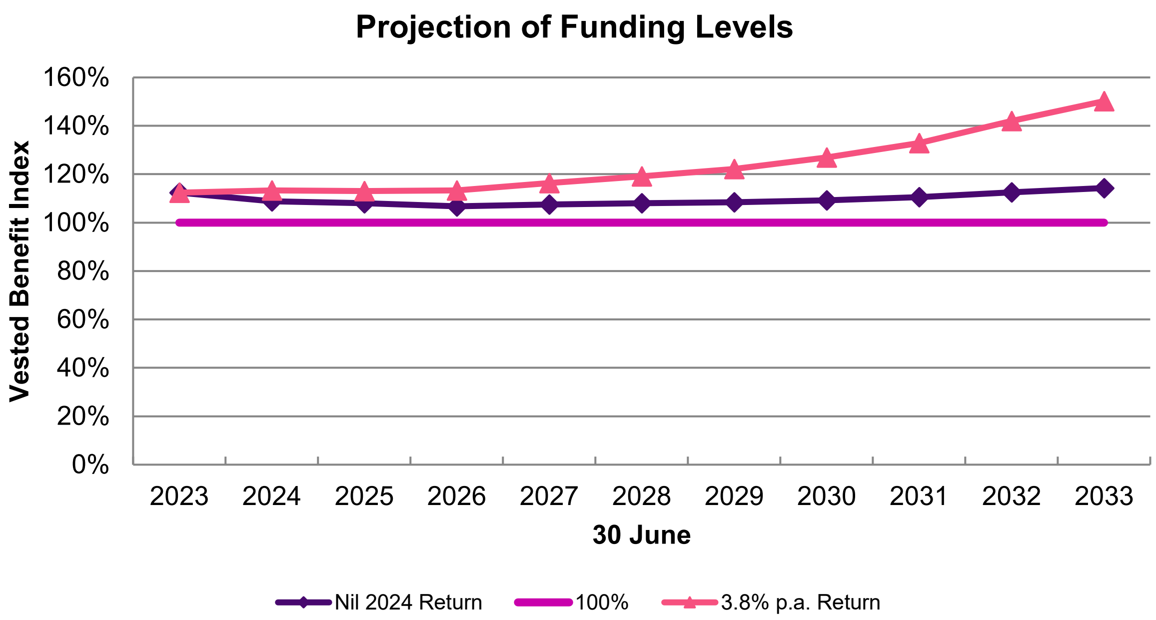
1.11 The neutral change in asset coverage of the present value of past benefits is primarily due to financial experience (excess of investment return above salary increase) being higher than assumed being offset by changes in the financial assumptions.

1.12 Our projection below shows that, on the basis of the assumptions made in this actuarial investigation and assuming that Parks Victoria makes contributions in line with the recommendations set out below, the Parks plan is expected to remain in a satisfactory financial position.

1.13 If experience is as expected one option for Parks Victoria is to reduce its contributions. However, we have been previously advised that the preference of Parks Victoria and the Trustee is to use surplus to reduce investment risk over time to manage the potential for additional lump sum contributions to be required from Parks Victoria in the event that actual experience is worse than expected. We have assumed this remains the case. Hence, we have recommended that contribution rates be retained and that the Trustee continue to consider whether de-risking the investment strategy is appropriate.

1.14 If the investment strategy was set to target a net investment return of 2.8% p.a. (rather than the 3.8% p.a. we have assumed), at 30 June 2023 the current contribution rates were expected to be sufficient. Because the investment return since 30 June 2023 has been lower than expected and therefore an investment return a little higher than this is now required.

1.15 The future funding position, and the potential for additional contributions to be required from Parks Victoria, is dependent upon future experience and particularly future investment returns. 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). It should be noted that a nil return is not the worst outcome that could occur.



1.16 If the 2024 investment return is zero before reverting to 3.8% p.a., no top-up contributions would be expected to be required.

The results stated above are prepared as at 30 June 2023 and do not reflect subsequent investment experience. We have reviewed and commented in our report on the lower than expected investment returns since 30 June 2023 and confirm they do not materially impact the recommendations of this investigation.

Recommendations

1.17 We recommend that Parks Victoria continues to adopt the following funding plan:

a. A contribution rate of 12% of salaries for Division E members and the current accruing cost contribution rates for Division F members;

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 are 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.

b. Parks Victoria also needs to contribute the amount of members' salary sacrifice contributions.

1.18 Under the current assumptions these contributions are expected to be more than required to meet funding requirements, and based on our understanding of the preferences of Parks Victoria and Vision Super, we recommend that Vision Super considers whether a lower risk investment strategy is appropriate at this time.

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

1.20 We also recommend that Vision Super consider whether it is appropriate to update the insurance policy to remove remaining self-insurance.

1.21 As required under SPS 160, the Trustee has set the Shortfall Limit for the Parks plan at 99%. We consider that this Shortfall Limit is appropriate, but recommend it be reviewed together with any future consideration of a materially lower risk investment strategy.

1.22 The next actuarial review should be carried out as at a date no later than 30 June 2024, unless APRA approve otherwise or the one lifetime pensioner ceases to be paid from the Parks plan, in which case the next actuarial review is due as at 30 June 2026.

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12 October 2023

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DO: CR, PP TR: TH CR: SF ER: MB

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 treated as 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 Parks plan as at 30 June 2020 and our report was dated 19 October 2020. The previous report was signed by Matthew Burgess and Surath Fernando.

2.5 This actuarial investigation report covers the Parks 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 City of Melbourne 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 Parks plan is expected to maintain a satisfactory financial position;
- provide actuarial certification in respect of the funding of pension entitlements if appropriate;
- 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
- Professional Standard 410.

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 Parks plan over the three years to 30 June 2020 had improved the Vested Benefit Index slightly as a result of higher than expected contributions and continued defined benefit member exits spreading the surplus across a smaller group of people, which largely offset the lower than expected real investment returns. The Parks plan was in a satisfactory financial position.

2.9 We understand that Parks Victoria has contributed in accordance with our recommendations (refer Section 7).

2.10 Under the assumptions adopted in the last actuarial investigation the employer contributions were expected to be more than required to meet funding requirements, and following discussions with Parks Victoria and Vision Super, we recommended that Vision Super consider whether a lower risk investment strategy was appropriate. Subsequent to the actuarial investigation a lower risk investment strategy was adopted (refer Section 4). Consistently the Shortfall Limit was increased from 98% to 99%.

2.11 We also recommended that the Board consider a plan to reduce the exposure to illiquid assets in the Parks plan to zero over time given the maturity of the plan and the possibility of large benefit payments. It is very important that other assets within the Fund continue to act as liquidity provider for the Parks plan. This continues to remain a recommendation of this actuarial investigation.

2.12 We also recommended that Vision Super review the insurance policies to ensure it is satisfied that any self-insurance is not material. There is still a small element of self-insurance within the Parks plan and the same recommendation is made in this report. Please refer to Section 8.

2.13 As at 30 June 2020 there was one former Revised Scheme member. Subsequent to the actuarial investigation this member has retired and elected to receive a lifetime pension, which is the first and only pension within the Parks plan. A consequence of having a lifetime pension within the Parks plan is that an annual actuarial investigation is necessary, unless APRA approve otherwise, and actuarial investigations must include a statement as to whether, in the actuary's opinion, at the valuation date, there is a high degree of probability that the Parks plan will be able to pay the pension as required by the Trust Deed. We understand that at this time Vision Super has not obtained an exemption from annual actuarial investigations. Vision Super has advised that it is expecting to transfer the lifetime pensioner from the Parks plan to the main Defined Benefit plan, in which case the annual actuarial investigations would not be required.

2.14 There have been no amendments to the Parks plan benefits since 30 June 2020.

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

2.16 Experience has been broadly favourable since 30 June 2020 as shown by improved Vested Benefit Index (refer to Section 6).

Reliance Statement and Data

2.14 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.

2.15 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.

2.16 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.

2.17 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.

2.18 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

2.19 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 Parks plan at 30 June 2023.
- Section 7 considers the adequacy of funding of the Parks 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 Parks plan.

Membership

3.2 For the purposes of this investigation, we were supplied with information on members of the Parks 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 membership of the Parks plan has decreased by 15 (or 30%) from 50 at 30 June 2020 to 35 at 30 June 2023.

Summary of Parks Plan Membership as at 30 June 2023				
Former fund	**Number**	**Average Age (years)**	**Average Service (years)**	**Average Salaries**
WISF	32	59.1	37.7	117,700
Transport Scheme	2	60.4	38.9	*
Lifetime pensioner	1^^	*	*	*
Total	**35**	**59**	**38**	**116,800**

* We have not included all details pertaining to the two Transport Scheme members and one Revised Scheme lifetime pensioner for privacy purposes. Similarly, we have rounded totals for the entire Parks plan.

^^ One Revised Scheme Ports member has elected a lifetime pension over the year ending 30 June 2023.

3.4 A detailed summary of the movement in active membership is set out in Appendix B.

Salaries

3.5 We have examined the salary experience of Parks plan members over the three year period ending 30 June 2023. The data showed that the full time equivalent salary of Parks plan members who remained members as at 30 June 2023 grew by 2.2% p.a. over the period. This compares to growth of 3.9% p.a. over the three year period to 30 June 2020 in the last actuarial investigation.

3.6 The actual increase over the three years ending 30 June 2023 were broadly comparable to the assumed rate of 2% p.a. to 30 June 2022 and 2.75% p.a. thereafter in the 30 June 2020 actuarial investigation. The broadly comparable salary increases, in isolation, would have resulted in neutral effect on the Parks plan financial position.

3.7 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 slightly lower than those of the wider community.

Demographic Experience of Active Members

3.8 Given the small size in membership, it is difficult to develop statistically reliable decrement assumptions based on plan experience. Also, given the average age is approaching age 60 the average future length of membership is relatively short.

3.9 We have decided to continue to apply the same resignation and retirement rates for the former WISF members as are used for the main Defined Benefit plan. These are the same rates that were adopted in the last triennial actuarial investigation as at 30 June 2020.

3.10 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.

Mortality Experience of Pensioners

3.11 Over the year ending 30 June 2023 the single Ports Revised Scheme member has retired and elected a lifetime pension. We have relied on the mortality study for pensioners within the main Defined Benefit plan to inform the mortality assumption to adopt in respect of this single member. Further information on this study is contained in the main Defined Benefit plan Actuarial Investigation Report dated 6 September 2023. We have no reason to believe this single member would exhibit a materially different mortality pattern to the broader main Defined Benefit plan pensioner group.

3.12 We have valued the single Parks plan pensioner as follows:

a. Males and Females: 50% of Australian Life Tables 2015-2017 mortality under 75, gradually increasing to 92.5% of mortality after age 90.

b. Mortality improvement based on the 125 year experience from the Australian Life Tables 2015-2017 (applied from 2018).

Administration Expenses

3.13 In the 30 June 2020 investigation, the administration expense was assumed to be set as 10.0% of salaries for active members.

3.14 Actual expenses over the three years ending 30 June 2023 have remained stable. However, due to reducing active members and therefore salaries, these have increased as a percentage of salaries. This is not surprising, and we expect the declining number of members and the fixed costs involved in administering a defined benefit plan, to result in an expense assumption expressed as a percentage of salary increasing substantially over time. 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 $2.2m.

Investment Returns

3.16 Vision Super has advised that the rate of return (net of tax and investment expenses) earned by the Parks plan for the three years ending 30 June 2023 was 4.2% p.a.

Investment Return	
Year ended	**% p.a.**
30 June 2021	9.3
30 June 2022	-1.4
30 June 2023	5.1
Average	4.2

3.17 Comparison of the 4.2% p.a. return for the intervaluation period with the average salary increase rate (from paragraph 3.5) of 2.2% p.a. shows a real return of approximately 2.0% p.a. which is higher than both the 1.4% p.a. short-term real return to 30 June 2022 and the 0.65% p.a. long-term real return assumed thereafter in the 2020 investigation.

3.18 The real returns over the valuation period have had a positive effect on the Parks 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 lower than expected salary increases. This favourable investment return has been achieved despite the reduction in growth assets in the investment strategy over the intervaluation period. In the previous actuarial investigation, I recommended that the Trustee consider reducing investment risk and following a review 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 a breakdown of the market value of assets by sub-plan.

4.2 The fair value of the Parks assets as at 30 June 2023 used in the valuation was $26.7 million. No amounts are included in respect of accumulation accounts of members, except certain defined benefit offset accounts. The audited financial statements include the fair value of assets consistent with that amount.

4.3 Vision Super has excluded the Operational Risk Financial Requirement from the Parks 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 Parks plan is expected to be ongoing. The funding position of the Parks plan may be variable because of the current high volatility in asset valuations.

4.5 Vision Super has advised us that the assets supporting the one lifetime pensioner are not physically segregated with the other Parks plan assets. Vision Super should continue to satisfy itself that this does not result in any cross subsidy between the Parks plan assets and other Fund assets. Vision Super has advised that it intends at a future date to transfer the Parks plan lifetime pensioner from the Parks plan to the main Defined Benefit plan.

Asset Allocation

4.6 The Parks plan invests in a wide range of asset classes such as equity, property and fixed interest investments. Appendix D shows the Actual Asset Allocation and Strategic Asset Allocation as at 30 June 2023.

4.7 The Strategic Allocation to Growth Assets as at 30 June 2023 was 31.3% (which is a reduction from 36.2% as at 30 June 2020), while the actual growth allocation was lower at 30.5%. Since 30 June 2020, there has been a decrease in the actual growth allocation consistently with our recommendation.

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

4.9 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.

4.10 The Parks plan has been closed to new members for many years. Therefore, its liabilities will reduce significantly within the next five years in real terms. If future investment returns are higher or lower than expected it is possible that a significant "actuarial surplus" or "actuarial shortfall" will again result. Therefore, it is recommended that the funding position of the Parks plan continues to be considered when setting investment policy. Later in this report we recommend that the funding position continue to be considered in setting investment strategy.

Liquidity

4.11 As at 30 June 2023, Vision Super advised that 21.5% of the actual investments are in illiquid asset classes. Since 30 June 2020, this has increased.

4.12 Vision Super has advised they have changed its 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 three months ago these assets 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 Parks plan has continued to increase.

4.13 In the long term, the defined benefit plans will require full liquidity. Therefore, we believe that Vision Super should continue to consider the time frame over which they will reduce the exposure to illiquid assets in the defined benefit plans to zero. We suggest that consideration of the liability run off under various scenarios should continue to form part of this consideration.

4.14 Vision Super has advised that illiquid assets held by the Parks plan are able to be transferred to other defined benefit or accumulation members within the Fund. Given the small relative size of the Parks 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 Parks 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 99% from 19 February 2021 for the Parks plan. This means that between actuarial investigations, a restoration plan to restore the VBI to 100% is required if the Parks plan's VBI reduces to below 99%.

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 believe that the current Shortfall Limit remains appropriate. We have considered that:

a. The actual asset allocation retains an allocation to growth assets of about 31%. The growth asset allocation is consistent with a Shortfall Limit of 99% based on the Actuaries Institute's guidance;

b. The defined benefits do not have material accumulation components;

c. Vested benefits are higher than Minimum Requisite Benefits; and

d. The employer has a contractual obligation to pay contributions determined by the Trustee.

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 Parks 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 Parks 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 C 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 Parks 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' Parks plan's future benefit liabilities - hence, the difference between the rates is important, rather than their absolute values.)

5.8 For valuing the single Parks plan pensioner, the differential between investment earnings and the rate of price inflation is relevant because pensioners are indexed to change in the Consumer Price Index (CPI).

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

- 2.0% p.a. for two years and 2.75% p.a. thereafter salary inflation.
- 3.4% p.a. investment return (net of tax).

Investment Return

5.10 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 consultant, Frontier. A net investment return of 3.8% p.a. has been adopted for this investigation. The slight increase since 2020 reflects higher asset class return expectations partially offset by the reduction in growth assets in the asset allocation.

5.11 The assumed gross of tax investment return used in this investigation is 4.5% p.a. The additional 0.7% p.a. investment return takes into account the fact that no investment tax is paid on assets backing pensioner liabilities. This assumption is only relevant for the Parks plan lifetime pensioner. This assumption assumes the assets supporting the lifetime pensions receive the gross of tax investment return of the Parks plan assets, although Vision Super has advised the assets supporting the lifetime pensioner are not currently segregated within the Parks plan assets. If the lifetime pension is transferred from the Parks plan to the main Defined Benefit plan, as proposed, that asset transferred is calculated consistently with the asset held in respect of the lifetime pensioner and advised to us for inclusion in the Parks plan assets for this actuarial investigation.

5.12 The assumptions are net of investment management fees.

CPI Increases

5.13 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 Fund's asset consultant and the need to be consistent with the assumed investment return. This assumption is only relevant for the Parks plan lifetime pensioner.

Salary Inflation

5.14 The actual salary increases of the Parks plan members have been slightly lower than AWOTE (refer 3.7). As the average age of Parks plan members is now over 59 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 3.84% p.a. for the two years to 30 June 2025 and then 5.35% p.a. for the year to 30 June 2026 and 3.5% p.a. thereafter has been adopted in this investigation and is considered best estimate. The short term assumptions have been set to reflect the input from Parks Victoria.

5.15 The long term salary increase assumption of 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 Parks plan, we believe that this is appropriate. No promotional salary increases are being assumed.

5.16 Therefore, the "best estimate" financial assumptions adopted for the 30 June 2023 investigation are:

- -0.04% p.a. real investment return over two years, -1.55% p.a. for one year to 30 June 2026 and thereafter a 0.30% p.a. long term real investment return over salary inflation. This comprises a 3.8% p.a. net of tax investment return assumption and a 3.84% p.a. over two years, then 5.35% over one year and long term 3.5% p.a. salary inflation assumption. This is lower than assumed as at 30 June 2020 and will mean a deterioration in the expected long term funding position.

- 1.7% p.a. real investment return over price inflation. This comprised a 4.5% p.a. gross of tax investment return and a 2.8% p.a. CPI assumption. This is 0.3% p.a. lower than assumed as at 30 June 2020 and will slightly reduce the long term expected funding.

Demographic Assumptions

5.17 The demographic assumptions that affect the Parks plan have been discussed in Section 3. The pension mortality assumption that is relevant for the Parks plan lifetime pensioner was updated consistently with changes made for the main Defined Benefit plan. Appendix C summarises the demographic assumptions adopted for this investigation.

Benefits

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

Actuarial Funding Method

5.19 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 Parks plan into the future, using the actuarial assumptions set out above.

5.20 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 and the single Parks pensioner. 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.

5.21 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.

5.22 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 if the VBI reduces to below the shortfall limit, currently 99%, between actuarial investigations.

5.23 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 5.20. It is possible that the recommended funding amount under this funding method may not be sufficient to be expected to maintain the Park plan's Vested Benefits Index (VBI) to 100% within the timeframe required by APRA if it is below 100%. In this situation additional contributions would be recommended as required by APRA.

5.24 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. Vision Super may also be able to manage any such shortfalls or surpluses through a combination of changes to funding and investment strategy.

5.25 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 Parks Plan

6.1 The financial position of the Parks 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 Parks 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).

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	
Parks plan assets ($m)	26.7
Vested Benefits ($m)	23.8
Vested Benefit Index	112.4%

6.6 The calculated VBI for the Parks plan at 30 June 2023 is 112.4%. This compares with a VBI of 108.7% at the 30 June 2020 investigation. The Parks plan was not in an unsatisfactory financial position as at 30 June 2023.

6.7 The VBI for the Parks plan has increased since 30 June 2020 mainly due to higher than expected real investment returns during the three year period and continued defined benefit member exits spreading surplus across a smaller group of people.

Discounted Accrued Benefits Index

6.8 Discounted Accrued Benefits means 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 Parks 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.

6.9 The entire lifetime pension is accrued. The Discounted Accrued Benefits are not subject to a minimum of the Vested Benefits.

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

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

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

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

DABI as at 30 June 2023	
Parks plan assets ($m)	26.7
Discounted Accrued Benefits ($m)	23.6
Discounted Accrued Benefit Index	112.9%

6.13 The calculated DABI for the Parks plan at 30 June 2023, based on the "best estimate" assumptions, used in this investigation, is 112.9%. The DABI was estimated to be 112.7% at the 30 June 2020 investigation. The slight increase in DABI was due the higher than expected real investment return over the period, which was partially offset by changes in the financial assumptions.

6.14 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

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

6.16 The Minimum Requisite Benefits (MRBs) are the minimum amount of benefit that must be provided to enable Parks Victoria 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.

6.17 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.

6.18 The Minimum Requisite Benefit Index is calculated as follows:

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

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

MRBI as at 30 June 2023	
Parks plan assets ($m)	26.7
Minimum Requisite Benefits ($m)	16.4
Minimum Requisite Benefit Index	163.3%

6.20 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 163.3%. This compares with a MRBI of 156.7% at the 30 June 2020 investigation. The increase in MRBI was due to similar reasons to the increase in VBI described above.

6.21 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

6.22 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 Parks plan. We assume this approval would not be provided unless any future funding risk is adequately managed.

6.23 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"*

6.24 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."*

6.25 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.

6.26 On retrenchment, members' are entitled to an accrued retirement benefit. For active members, retrenchments benefits as at 30 June 2023 were the same as the Vested Benefits and this is expected to remain the same.

6.27 An additional contribution is required from Parks Victoria in respect of each retrenchment, and each exit if the VBI is below 100%, so that there is no additional financial strain on the Parks plan.

6.28 In Appendix D the Parks plan's asset allocation is shown and there is currently a 21.5% allocation to illiquid assets. 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). In the unlikely event that these assets had to be quickly liquidated it is possible that this could occur at discounted values resulting in lower funding ratios. For example, a 20% discount on forced sale of illiquid assets would reduce the funding indices by approximately 5%.

6.29 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.

Probability of making Pension Payments

6.30 SPS 160 requires an actuarial investigation, for a defined benefit fund with at least one lifetime pensioner to include a statement of my opinion on whether, at the valuation date, there is a high degree of probability that the fund will be able to pay the pension as required under the governing rules.

6.31 The Actuaries Institute has issued Professional Standard 410 (PS 410) entitled "Statements of Opinion Relating to Defined Benefit Pensions June 2023". In considering whether I can provide a positive opinion in respect of there being a high degree of probability that the Parks plan will be able to pay the pension to the one lifetime pensioner, relevant points from PS 410 include:

a. A higher degree of probability is considered at least 70%;

b. It is not generally permissible to consider future employer contributions; and

c. It is appropriate to consider what would occur on the wind up of the Parks plan and whether the lifetime pension payments have precedence over other benefit payments.

6.32 For the Parks plan, in my opinion it is very likely all benefit payments will be made. This is because the employer sponsor Parks Victoria is part of the Victorian public sector and is very likely to have the ability to make required future contributions. Under the Trust Deed Vision Super determines the amount of contributions and Parks Victoria cannot cease contributions without the approval of Vision Super. However, PS410 does not generally allow future employer contributions to be considered in providing my opinion. I am not able to provide legal advice and note that it is possible that Parks Victoria is legally obligated to make any contributions requested by Vision Super, in which case it would be reasonable to take future contributions into account.

6.33 On termination lifetime pension payments do not rank ahead of other Parks plan benefit payments.

6.34 The future financial position of the Parks plan has been modelled allowing for variation in investment experience. No future employer contributions or benefit accrual were assumed to occur. Based on this modelling I confirm that at 30 June 2023 there was a high degree of probability that the Parks Plan will be able to pay pensions required under the Trust Deed.

6.35 Because all other Parks plan members are expected to receive lump sum benefit payments it is likely there will only ever be one pensioner. Based on the age of members it is reasonably likely that this pension will still be in payment when there are few or no other members. If this occurs, because the lifetime of a single pensioner is uncertain, to continue to provide a high degree of probability of being able to pay the pension at future dates would require assets well above those expected to be required to be held. This would require a funding surplus to be targeted by the Parks plan. We have been advised that Vision Super intends to transfer the pensioner from the Parks plan to the main Defined Benefit plan, which would avoid this issue. We have not considered the consequences should the certification not be able to be made.

Section 7: Assessing the adequacy of the Funding Arrangements

The Present Funding Arrangements

7.1 The funding arrangements for the Parks plan currently comprise the following components:

a. Contributions equal to 12% of salaries for Division E members and the current accruing cost contribution rates for Division F members;

b. Funding the 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 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.

Parks Victoria also needs to contribute the amount of members' salary sacrifice contributions.

Total Service Liability Surplus/ Deficit as at 30 June 2023

7.2 As at 30 June 2023 there was a total service liability surplus of $1.2 million. This means that the current value of assets plus expected future contributions is more than the value of expected future benefits and expenses by $1.2 million, assuming that Parks Victoria continues to contribute at current rates. Full details of these calculations are set out in Appendix F.

7.3 The total service liability surplus as at 30 June 2020 was $1.7 million. The actuarial surplus has reduced over the intervaluation period due to the changes in financial assumptions and the expense assumption. This effect has been somewhat offset by positive financial experience (excess of investment return above salary increase) being higher than assumed.

7.4 The existing funding arrangements are expected to be adequate if the current assumptions are borne out in practice. The total service liability surplus of $1.2 million is lower than the expected value of all future Parks Victoria contributions (gross of tax) of $1.7 million (refer to Appendix E). This means that if experience is as expected from 30 June 2023, Parks Victoria could reduce its future contributions to the Parks plan. The long term Parks Victoria contribution rate implied by the aggregate funding method would be just over one third of the current contribution rates (eg. around 5% of salary for Division E).

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

7.6 If experience is as expected in future, to avoid being left with a surplus in the long term, the Trustee will need to either:

a. reduce Parks Victoria contributions; or

b. reduce the expected investment return by reducing investment risk.

Sensitivity of Funding Arrangements to Future Assumptions

7.7 As outlined in Section 5, factors that affect the future experience of the Parks 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 as there is only one lifetime pensioner in the Parks plan. Therefore 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	1.2
Higher gap (+1% pa)	2.1
Lower gap (-1% pa)	0.2

7.9 The table shows that a variation in the financial assumptions has a significant impact on the actuarial surplus or shortfall. It is possible that the actual gap may vary from our best estimate assumption by significantly more than 1% and the impact would be greater than what is shown in this sensitivity analysis.

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

7.10 There is also a risk that the demographic experience may differ from our assumption which would lead to a lower or higher funding cost.

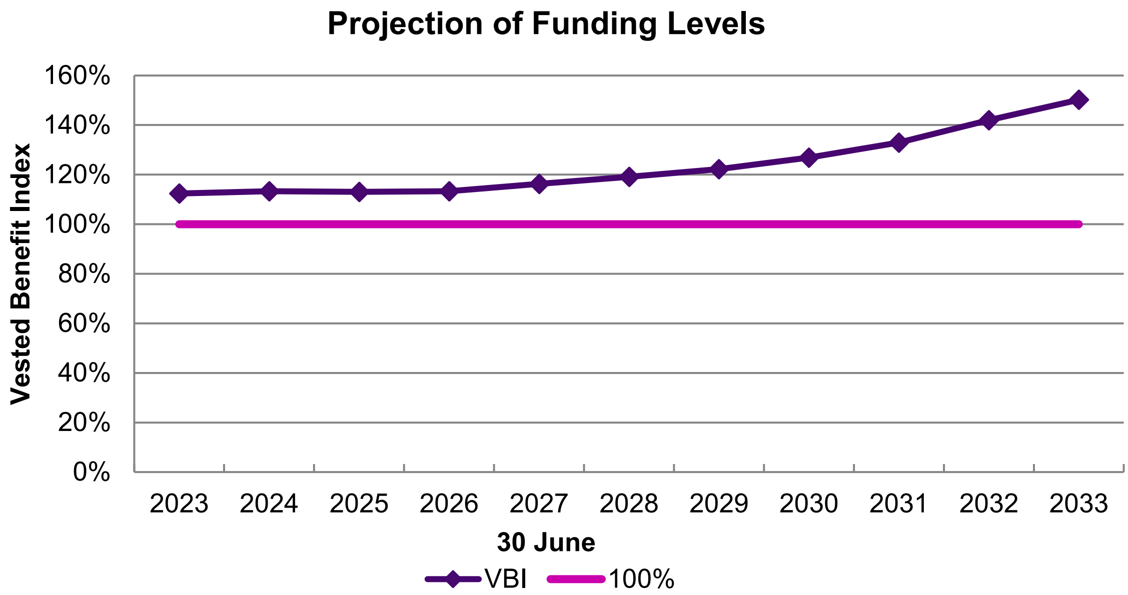
7.11 This table also shows that with the $1.2 million total service liability surplus as at 30 June 2023, a net of tax investment return of 3.8% p.a. was expected to be sufficient to fund all liabilities. If the investment strategy was changed so that the expected investment return was 2.8% p.a. rather than 3.8% p.a. there is expected to be an actuarial surplus of $0.2 million. This means that there is an opportunity to de-risk the investment strategy further and target a lower expected investment return. This assumes Parks Victoria continues to contribute at current rates and other experience is as assumed.

7.12 If the investment strategy was changed so that the expected net return reduced to 2.8% p.a., the VBI as at 30 June 2023 would have reduced from 112.4% to about 111.6%. This is because the one lifetime pensioner's vested benefit is dependent on the discount rate, and the vested benefit increases if the discount rate reduces, because it is equal to the present value of future pension payments.

Projection of Funding Levels

7.13 This section considers the adequacy of the funding by projecting the Parks 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 Parks plan for the next ten years.



7.15 The chart shows the VBI is expected to stay above 100% over the next ten years and hence no additional contribution is expected to be required from Parks Victoria 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.

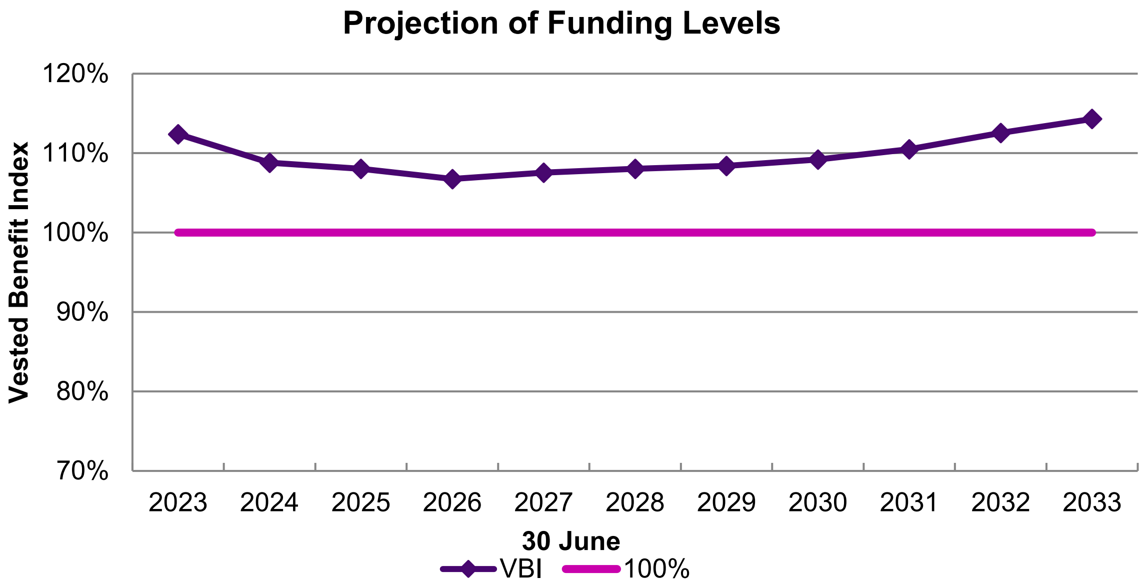
7.16 The above chart shows that the VBI is expected to slowly increase over time. This is consistent with the total service liability surplus of $1.2 million at 30 June 2023.

7.17 If the future investment return was 2.8% p.a. the VBI would expected to gradually deteriorate over time, but still be above 100% over the three years ending 30 June 2026.

Other Funding Issues

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

7.19 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. A best estimate return of 3.8% p.a. is assumed from 1 July 2024.



7.20 If the return is 0% in 2023/24, the VBI is expected to reduce slightly but still remain above 100%.

7.21 On the other hand, if experience is favourable an even larger "actuarial surplus" could result. Vision Super would need to consider how to treat such an "actuarial surplus". Vision Super may also wish to consider adopting a more defensive investment strategy in order to reduce the investment risk.

Events since 30 June 2023

7.22 Vision Super has advised that the investment return for the three months ending 30 September 2023 for the Parks plan was -0.21% (equivalent to -0.84% p.a.). This is lower than the expected return of 3.8% p.a. and therefore will have had a negative impact on the financial position. We expect that the VBI of the Parks plan will have reduced a little but remained well above 100%. This does not impact our recommendations.

7.23 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 Parks plan.

Funding Recommendation

7.24 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…."*

7.25 The analysis conducted has concluded that if experience is as expected the Trustee will need to either:

a. Reduce Parks Victoria's contributions;

b. Reduce investment risk to target a lower expected investment return; or

c. Some combination of approach a and b.

7.26 With the current VBI of 112.4% being not materially impacted immediately by changes in investment strategy, a reduction in investment risk could be done in the short term. For example, a total service liability surplus of $0.2 million would remain and the VBI would be 111.6% if the expected net of tax investment return reduced from 3.8% p.a. to 2.8% p.a. Parks Victoria has indicated in the past that it is its preference to retain current contribution rates and reduce investment risk. Vision Super has also indicated that this is its preference. Assuming this remains the case, we recommend that Vision Super reviews the Parks plan's asset allocation to determine if reducing investment risk further is appropriate. This review should reflect the experience since 1 July 2023 being a little worse than expected.

7.27 In summary, we recommend that Parks Victoria continues to adopt the following funding plan:

a. A contribution rate of 12% of salaries for Division E members and the current accruing cost contribution rates for Division F members;

   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 are 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.

b. Parks Victoria also needs to contribute the amount of members' salary sacrifice contributions.

7.28 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 Parks 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.

7.29 SPS160 paragraph 14(d) requires a fund paying defined benefit pensions to have annual actuarial investigations, unless APRA provide an exemption. Vision Super has advised that it is planning to transfer the one lifetime pensioners in the Parks plan to the main Defined Benefit plan. If this occurs prior to 30 June 2024, the next actuarial investigation is due as at 30 June 2026, otherwise it is due as at 30 June 2024 (unless transfer is completed prior to 30 June 2024).

Section 8: Insurance

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

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

8.3 Given the small number of Parks 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, Parks Victoria 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, Parks Victoria would retain the ongoing risk in respect of the pension.

8.5 The insurance policy has been updated over time to better reflect the members 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 Life 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 $2 million in respect of death. Self-insurance is negligible for TPD. There is also an exclusion in the insurance policy in the example of claims related to war. These differences are not material for funding. However, we recommend Vision Super consider updating insurance policies to remove self-insurance.

Section 9: Material Risks

9.1 The funding of the Parks plan is dependent upon future experience. We have briefly considered below the material risks in respect of funding. If experience is materially adverse Parks Victoria will be required to make additional contributions.

Investment Risk

9.2 The most significant risk facing the Parks plans is that investment returns will not be as high as expected, resulting in a material funding shortfall and additional contributions being required. There is also a risk that a surplus could arise that could be difficult to utilize if not managed carefully. These risks occur because the income generated from the existing assets are not matched to the expected future benefit payments.

9.3 A change to the assumed investment return could also have a material impact on Parks Victoria contribution requirements in the short term, but would not be expected to impact the ultimate cost of funding benefits unless the change in assumption was because of a change in investment strategy. This also applies for other assumptions.

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

Salary and Price Inflation Risk

9.5 Salary increases or price inflation exceeding expectations will have a negative impact on funding.

9.6 It is the excess of the investment return above the rates of salary increases that is most important because the assets increase with the investment return and the liabilities with salary.

Legislation Risk

9.7 There is a risk that legislation changes could impact on funding. For example:

a. Changes to legislation may impact investment returns or other aspects of experience; and

b. Changes to tax may impact funding.

Other

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

9.9 There are many other risks in respect of the funding of the Parks 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.

The benefits and conditions for Division E members (who were members of the Water Industry Superannuation Fund employed by Parks Victoria who transferred in to the Fund effective from 1 November 1995) are those which applied as at 31 October 1995, as set out in By-Law No. 235 of the Melbourne and Metropolitan Board of Works Act 1958, as amended, and now incorporated in Division E of the Fund's Trust Deed.

Division F of the Deed makes provision for miscellaneous members of the Fund. In particular, it covers members who were former members of the Transport Superannuation Fund (now the Transport Superannuation Scheme in the Emergency Services Superannuation Scheme) and the Revised Scheme in the Emergency Services Superannuation Scheme. In accordance with the current Deed, the benefit accruals and benefit entitlements for Division F Members continue to have the same status, operation and effect as they would have had under the State Superannuation Act 1988 pursuant to section 120 of the Port Services Act 1995 (Vic). The only remaining Revised Scheme members is now in receipt of a lifetime pension.

Division E members

Membership

The Parks Victoria Plan was established within Vision Super, during 1996, following the transfer of the employees of Parks Victoria who were members of the former Water Industry Superannuation Fund. These benefits are set out in the Parks Victoria Fund Trust Deed, and are now incorporated in Division E of the Fund's Deed.

Contribution rates and accrual rates

Members are allows to contribute at a rate between 0% to 7.5% of salary. The accrual of the member's benefit multiple is dependent on the member contribution rate, as follows:

Contribution Rate (%)	Accrual Rate Post 30 June 1993 (%)	Accrual Rate Pre 30 June 1993 (%)
0	7.00	8.00
2.5	12.25	14.00
5.0	17.50	20.00
7.5*	22.75	26.00

** for members of the Fund before 1 September 1987*

Accrued Benefit Multiple (ABM)

The sum of accrual rate for each year of membership, calculated in months and dependent upon the member's contribution rate, in accordance with the table above.

There are also various additional multiplies that may apply for particular members and are added to the ABM.

Final Salary (FS)

The member's annual salary at the date on which the member ceases to be an employee.

Retirement Benefit

The retirement benefit is calculated as ABM at retirement date x FS at retirement date.

A maximum benefit applies.

Partial Disablement benefits

The retirement benefit is calculated as ABM at disablement date x FS at disablement date.

The member's annual salary at the date on which the member ceases to be an employee.

Retrenchment Benefit

The lump sum retrenchment benefit calculated as ABM at retrenchment date x FS at retrenchment date.

A maximum benefit applies.

Resignation benefit

The lump sum benefit of either:

- If service is at least 5 years and less than 20 years:

  FS x (ABM5 + MCR5)
  where:

  ABM5 - ABM as at the date 5 years prior to resignation

  MCR5 - 5 x average member contribution rate (%) in the 5 year period prior to resignation

- If member is aged between 50 – 55 years or has between 20-25 years of service, a retirement benefit calculated on a phasing –in basis will apply upon termination of employment.

All members have at least 5 years membership.

Death benefit

The lump sum benefit is calculated as sum of:

(i) ABM at date of death (calculated on the pre-1993 rates) x FS; and

(ii) FS x F x PFM

Where:

F - 0.20 (or 0.26 for members contributing at 7.5%)
PFM (Prospective Future Membership) – the period between the date of death of the Member and the date on which the Member would have attained the age of 60 years (measured in years and fractions of a year based on complete months).

Total and Permanent Disablement benefit

The lump sum benefit is calculated as sum of:

(i) ABM at date of disablement x FS; and

(ii) FS x F x PFM

Where:

F - 0.20 (or 0.26 for members contributing at 7.5%)
PFM (Prospective Future Membership) – the period between the date of disablement of the Member and the date on which the Member would have attained the age of 60 years (measured in years and fractions of a year based on complete months).

Other Benefits

Various other benefits, and minimum benefits, apply for particular members based on previous funds.

Pension options may apply.

All benefits are subject to a minimum of the Minimum Requisite Benefit set out in the Benefit Certificate.

Division F - Revised Scheme

This is a summary of Revised Scheme benefits only. Only benefits in respect of a lifetime pensioner are described.

Definitions

Maximum Reduction Factor:	17.6% of the portion of the benefit which has accrued after 1 July 1988 (the ratio of membership after 1 July 1988 to total membership).
Pension Reduction Factor:	This is calculated at the date the pension commences and is nil if the pension is \$6,250 or less and 17% if the annual pension is \$30,000 or greater. When the annual pension is between \$6,250 and \$30,000 the Pension Reduction Factor is determined by interpolation. The Pension Reduction Factor is taken to be the lesser of this amount and the Maximum Reduction Factor.

Death of a Pensioner

A pension is payable to any surviving spouse of a pensioner equal to 66 2/3% of the deceased pensioners Unreduced Pension. The spouse's pension is then reduced by the Pension Reduction Factor. In Practice this is expected to mean that the spouse pension is equal to 66% 2/3% of the pension the deceased member is receiving.

In addition, children's pensions may be payable.

If the spouse is under age 60 at the time of the member's death, the spouse has the option to commute the pension into a lump sum (of seven times the amount of the spouse's annual Unreduced Pension).

If the spouse is aged 60 or over, they may commute 100% or up to 50% of the pension into a lump sum within 12 months after the death of the member.

The Lump Sum Reduction Factor is applied to the lump sum benefit.

Indexation of Pensions

All pensions, including deferred pensions are indexed to the Consumer Price Index (Capital Cities).

Division F - Transport Superannuation Scheme

Accrued Retirement Benefit

The accrual rate (as set out below) times membership times final average salary.

Contribution Rate (%)	Accrual Rate Post 30 June 1993 (%)	Accrual Rate Pre 30 June 1993 (%)
0	10.00	8.50
2.5	15.00	13.00
5.0	20.00	17.50
7.5	25.00	22.00

Additional benefits are payable to members who transferred to the Transport Superannuation Scheme (TSS) from other plans or members who were not entitled to a benefit from a prescribed fund prior to 1987.

Notes:

- a maximum multiple of salary applies;
- membership includes completed days; and
- final average salary is the average of the annual salaries in the last two years.

Prospective Retirement Benefit

20% of final average salary for each year of potential membership from date of calculation to age 60.

Retirement Benefit

A member is entitled to a retirement benefit on or after age 55, equal to the accrued retirement benefit.

Death Benefit

Death before age 60, the benefit provided to the dependants is the sum of:

- the accrued retirement benefit at date of death (based on the pre July 1993 accrual rates); and
- the prospective retirement benefit from date of death to age 60, using final average salary at date of death.

Death after age 60 is a lump sum equal to accrued retirement benefit.

If on the death of a member before retirement the member has no dependants the benefit payable is a lump sum of the member's contributions with interest.

Total and Permanent Disability Benefit

Before age 60:

- a pension for life at the rate of 1/12th of the sum of the accrued retirement benefit and the prospective retirement benefit per annum;
- if a member continues to receive a pension to age 65 he may elect to receive a lump sum equal to his accrued retirement benefit calculated at the date of disablement instead of receiving a pension from the Fund; and
- the Board may decide that instead of the pension the member may receive:

  (a) a lump sum = part of the accrued retirement benefit; and

  (b) pension = 1/12th of the balance of the accrued retirement benefit.
- If the former member dies before age 65, a lump sum equal to the following amount is payable to the dependants:

$$\frac{D \times (312 - N)}{312}$$

Where:

D is the accrued retirement benefit that would have been payable if the member had died on the date of their disablement and;

N is the number of instalments already paid (fortnightly).

After age 60:

- a lump sum equal to the accrued retirement benefit.

Ill health benefit

The benefit payable is the accrued retirement benefit at the time of retirement.

Resignation Benefit

On resignation prior to age 55, a member is entitled to:

(a) a cash benefit equal to member contributions and interest; and

(b) a deferred benefit equal to:

(i) 3% of final average salary for each year of service after 1/9/87; and

(ii) for each year in excess of 5 years, 5% of the balance of the accrued retirement benefit up to a maximum of 100% after 25 years of service.

Where:

the balance of the accrued retirement benefit is the accrued retirement benefit at the time of resignation less the total of (a) and (b)(i) above.

Note that the deferred benefit is payable at any time between age 55 and age 65, or earlier upon the death or disablement of the member.

A member is able to elect an immediate lump sum benefit instead of a deferred lump sum.

Superannuation Guarantee

All benefits are subject to the Minimum Requisite Benefit set out in the Benefit Certificate.

Appendix B: Membership Movements

Parks plan

Membership as at 1 July 2020	50
Exits	15
Membership as at 30 June 2023*	35

*Include one Ports member who has elected a lifetime pension over the year ending 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) 3.8% p.a.
  - salary inflation growth 3.84% p.a. to 30 June 2025, 5.35% p.a. to 30 June 2026 and 3.5% p.a. thereafter
- Pensioners:
  - investment returns (gross of tax; expenses) 4.5% p.a.
  - CPI increases 2.8% p.a.
- Administration expenses: Present value of Future Expenses is set to $2.2m for active members

Demographic Assumptions

Active Members (excluding former Ports 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

Former Ports members (Transport Scheme)

We assume that all members retire at age 60 (or current age if over age 60). No other decrement applies.

Pensioners

The table below illustrates the rates of mortality assumed for pensioners. The figures represent the percentages dying in the years of age shown.

Year of Age	Retirement /Spouse Male %	Disability Male %	Retirement /Spouse Female %	Disability Female %
60	0.33	1.26	0.19	0.58
65	0.48	1.95	0.28	0.99
70	0.77	3.00	0.48	1.68
75	1.39	4.56	0.88	2.84
80	3.10	6.84	2.08	4.74
85	6.87	10.06	4.97	7.73
90	14.05	14.39	11.29	12.18

Mortality improvement based on the 125-year experience from the Australian life tables 2015-2017, applied from 30 June 2018.

Other Pension Assumptions

Males (pensioners or reversionary spouses) are assumed to be 3 years older than their female spouses. The age based proportion married assumptions are applied at the date of commencement of a pension.

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	9.1	9.0
International Equity	10.0	9.8
Private Equity	0.6	0.6
Infrastructure	4.4	4.4
Property	3.7*	3.7
Opportunistic Investments	0.8#	0.8
Alternative Debt	10.4	10.4
Fixed Interest	23.9	24.0
Cash	37.1	37.3
Total	**100.0**	**100.0**
Allocation to Illiquid Assets	21.5%	25.0%
Allocation to Growth Assets	30.5%	31.3%

* 1.7% of actual property investments are listed and liquid.

Includes a Currency and Innovation and Disruption Asset Class

Appendix E: Total Service Liability Surplus/(Deficit)

		($million)
Present Value of Active Member Liabilities		25.9
Retirement (including lifetime pensioner)	25.0	
Death	0.3	
Disablement	0.5	
Resignation	0.1	
less Family Offset and Surcharge Account balances		0.0
plus Present Value of Future Expenses		2.2
plus Allowance for tax on Contributions		0.0
Total Benefit Liability		**28.1**
Compared to:		
Assets		26.7
plus Value of ongoing member contributions		0.9
plus Value of ongoing Authority contributions		1.7
Total Assets		**29.3**
Surplus of Total Assets over Total Benefit Liability as at 30 June 2023		1.2

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

Parks plan

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

Background

The effective date of the most recent actuarial review of the Parks 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 Parks plan assets at 30 June 2023 was $26.7 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 future financial position of the Parks 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	112.4%
30 June 2024	113%
30 June 2025	113%
30 June 2026	113%

The projected financial position is shown only for the defined benefit 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 assumptions adopted were:

- a -0.04% p.a. real investment return over salary inflation for two years, followed by a -1.55% p.a. real investment return over salary inflation for one year, and 0.30% p.a. real investment return over salary inflation thereafter. This comprised a 3.8% p.a. net of tax investment return assumption and a 3.84% p.a. salary inflation assumption for two years, followed by 5.35% p.a. for one year and 3.50% p.a. thereafter.

- a 1.70% p.a. real investment return over price inflation. This comprised a 4.50% p.a. gross of tax investment return and a 2.8% p.a. CPI assumption.

The future rate of investment return used to determine the accrued benefits is the anticipated rate of return on the Parks 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 Parks 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 Parks plan assets at 30 June 2023 were:

Value of accrued benefits:	$23.6 million
Fair Value of Assets:	$26.7 million. The ratio of the actuarial value of the assets to the value of the total accrued benefits was 112.9% 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 Parks plan at 30 June 2023 was adequate to meet the liabilities of the Parks plan in respect of accrued benefits in the Parks 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 Parks plan total assets were:

Total Vested Benefits:	$23.8 million
Fair Value of Assets:	$26.7 million

The ratio of the net market value of the Parks plan assets to total vested benefits was 112.4%, which indicates a satisfactory coverage of Vested Benefits as at the date of the actuarial investigation.

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

The Trustee has determined the short fall limit to be 99%. In my opinion this is sufficient.

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 Parks plan assets. At 30 June 2023, the ratio of assets to MRBs is 163.3%. The total Minimum Requisite Benefits as at 30 June 2023 was $16.4 million.

Recommended Contributions (SPS160 23(g))

We recommend that Parks Victoria contribute the following amounts from 1 July 2023:

- 12% of salaries for Division E members and the following contribution rates for Division F members as follows:

Former Fund	Current Member Contribution Rate (%) of Salary	Employer Accruing Cost Contribution Rate (%) of salaries
Transport Scheme	0.0	9.5
	2.5	9.5
	5.0	13.5
	7.5	18.0

- Fund the 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. 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; 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 actuarial review of the Parks plan to be conducted with an effective date no later than 30 June 2024 (unless APRA approve otherwise or the one lifetime pensioner ceases to be paid from the Parks plan, in which case the next actuarial review is due as at 30 June 2026).

Pensions (SPS160 23(h))

In my opinion there is a high degree of probability that the Parks plan will be able to pay the pensions defined under the Parks plan's Trust Deed. Please refer to Section 6 for more information.

These statements can only be expressed as an expectation and not as a certainty because the future position of the Parks plan depends on unknown factors such as future investment returns, future membership etc.

In our opinion, there is a high degree of probability that the Parks plan will be able to pay the pensions are required under the Trust Deed. We expect that this position will continue to be able to be certified during the three year period to 30 June 2026.

These statements can only be expressed as an expectation and not as a certainty because the future financial position of the Parks plan depends on unknown factors such as future investment returns.

Matthew Burgess

Matthew Burgess
Fellow of the Institute of Actuaries of Australia

Surath Fernando
Fellow of the Institute of Actuaries of Australia

12 October 2023

https://wtwonlineau.sharepoint.com/sites/tctclient_682844_Vision_23/Documents/04.01_Actl_Valn/5_Deliverables/Parks Plan - Report on the Actuarial Investigation as at 30 June 2023 wtw draft_sent_ 202309XX.docx