

Report to the Trustee on the Actuarial Investigation as at 31 January 2022

VISSF DB Fund

Tintern Grammar

04 July 2022

Contents

1. Key Results and Recommendations	1
2. Introduction	6
3. Experience since the Last Review.....	8
4. Actuarial Assumptions	11
5. Assets.....	16
6. The Actuarial Approach.....	19
7. Financial Position of the School Account.....	21
8. Key Risks.....	26
9. Insurance and Related Risks	30
10. Prudential Standards.....	31
11. Actuarial Certification	35
Appendix A: Fund Design	38
Appendix B: Calculation of the Actuarial Value of Accrued Benefits.....	40

1

Key Results and Recommendations

This report on the actuarial investigation of the Tintern Grammar (the School) section (the School Account) of the VISSF DB Fund (the Fund) as at 31 January 2022 has been prepared to meet the requirements of the Fund's governing rules and the SIS legislation.

Under a successor fund transfer (SFT), all assets and liabilities of the Victorian Independent Schools Superannuation Fund were transferred to Aware Super on 30 November 2021. Defined benefit assets and liabilities were transferred to a new sub-fund within Aware Super, the VISSF DB Fund. Accumulation accounts (including additional accumulation accounts of defined benefit members) were transferred to the Accumulation Section of Aware Super and are not considered in this report.

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

Change in Financial Position

The following table summarises the School Account's financial position, at both this and the previous actuarial investigation¹.

Defined Benefits Only	Position at 31 January 2022		Coverage at 31 January 2019
	\$000	Asset Coverage	
Assets	1,338		
Liability for Vested Benefits	831	161.1%	167.7%
Liability for Actuarial Value of Accrued Benefits	831	161.1%	167.1%
Liability for SG Minimum Benefits	795	168.3%	176.2%

The actuarial investigation shows that, as at 31 January 2022, the assets of the School's Account were sufficient to meet members' Vested Benefits and the other measures of liabilities.

¹ All references to the previous actuarial investigation are to the actuarial investigation as at 31 January 2019 of the School's section of the Victorian Independent Schools Superannuation Fund.

Upon retirement, members receive the greatest of a salary based retirement benefit, an accumulation style resignation benefit or an accumulation style Superannuation Guarantee (SG) benefit. Under the assumptions adopted for this investigation, all members are expected to receive an accumulation style benefit on retirement. As a result, the vested benefits and actuarial value of accrued benefits liability measures are the same. However, this relationship could change if investment returns are lower and/or salary increases are higher than those assumed for this investigation

The coverage levels at 31 January 2022 are slightly lower than the levels at the previous actuarial investigation, due to the following items of negative experience:

- The crediting rates applied to members' accounts for the last three years (9.2% p.a.) were higher than the assumed crediting rates adopted at the previous investigation (5.9% pa); (although this should be considered in conjunction with the investment return experience below) and
- School contributions were less than the estimated cost of new benefit accruals.

This was partially offset by the following items of positive experience:

- Investment return of 9.2% p.a. for the last three years, which was higher than the long term assumed investment return of 5.9% pa;
- The School's membership had salary growth of 1.5% pa which was lower than the previously assumed 3.5% pa;

Recommended Contribution Rates and Projections

At 31 January 2022, the School Account was in a satisfactory financial position. The 161.1% coverage of the Defined Benefit Vested Benefits was significantly above the financing objective of 110% coverage adopted for this investigation.

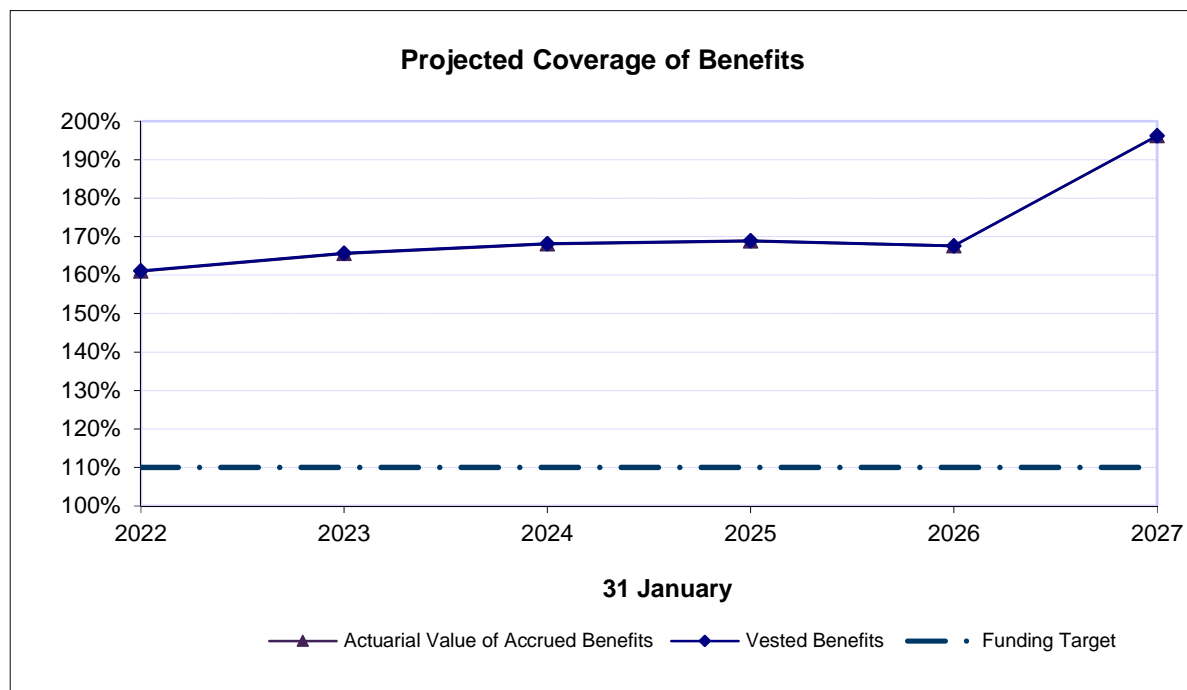
Based on the financial position at 31 January 2022, I recommend that the School contributes to the Fund in accordance with the following contribution program:

- Nil in respect of defined benefit accruals financed by the School (i.e. maintain the existing contribution holiday);
- Any salary sacrifice member contributions.

At the option of the School, the School can finance contributions to provide 3% award benefits for defined benefit members from the School Account.

The School contribution rate will be reviewed as part of the annual review of the financial position, to be undertaken as at 30 June each year.

Based on the assumptions adopted for this investigation and allowing for any material experience after the investigation date as detailed in this report, we have prepared the following projection of assets and liabilities of the School Account:



Note the projected coverage of the Actuarial Value of Accrued Benefits is equal to the Vested Benefits.

The graph above shows that the recommended contributions are anticipated to result in assets of at least 110% of Vested Benefits (which is the financing objective adopted in this investigation). The projected increase in coverage after 2026 relates to assumed retirement of one member (meaning that the surplus assets will be spread across a smaller number of members).

We recommend that the coverage of Vested Benefits continue to be monitored annually to ascertain whether an adjustment to the level of School contributions should be considered prior to the completion of the next actuarial investigation.

Risks

The Trustee should note that the above projection is based on the assumptions adopted, which represent a single scenario from a range of possibilities. The future is uncertain and the School Account's actual experience will differ from these assumptions; these differences may be minor in their overall effect, or they may be significant and material. In addition, different sets of assumptions or scenarios may also be within the reasonable range and results based on those alternative assumptions would be different. Consequently, the Trustee should review coverage of Vested Benefits at least once every year. The Trustee's monitoring of the experience specified in the Notifiable Events section of the Funding and Solvency Certificate will provide a further means of identifying adverse experience which could warrant an immediate review of the Fund's financial position.

Sections 8 and 9 discuss risks associated with the liabilities, including investment volatility, inflation risk, small plan and expense risk.

Other Findings and Recommendations

Suitability of Policies

I am satisfied that the following current policies for the Fund and/or School Account are suitable:

- The investment strategy;
- The insurance arrangements;
- The Shortfall Limit (for the purposes of SPS 160); and
- The Trustee's process for monitoring the financial position.

Recommendations

I recommend that the Trustee formally document the crediting rate, investment and expense allocation policies for the Fund.

I recommend that the Trustee engage with the School to ensure the School understands the risks associated with the current investment strategy.

I recommend that the Trustee engage with the School in order to better understand:

- The expected timing of the remaining members' retirement;
- The willingness of the School to continue its participation in the Fund until the last members' retirement; and
- The willingness of the School to increase contributions (if necessary) to meet increasing expenses as other schools cease their participation.

Based on these discussions the Trustee should estimate the expenses which are likely to be charged to the School over the next five years. If the estimated expenses are significantly greater than those assumed in this report, further advice should be sought to determine whether an adjustment to the recommended contribution rates (or other action) is required.

Actions Required by the Trustee

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

The Trustee should obtain the agreement of the School to make contributions in accordance with the recommendations in this report.

The Trustee should discuss the other matters raised in the recommendations with the School.

The next regular actuarial investigation of the Fund will be required at a date no later than 31 January 2025. As the Fund now has an administration review date of 30 June, we recommend that the next actuarial investigation be undertaken as at 30 June 2024. At that time, the adequacy of the recommended level of School contributions will be reassessed.

The progress of the coverage of Vested Benefits should be reviewed annually to ascertain whether an adjustment to the recommended School contributions should be considered prior to the next regular actuarial investigation.

2

Introduction

Background of the Fund

The Fund is operated for the benefit of employees of the School and other participating schools.

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

Under a successor fund transfer, all assets and liabilities of the Fund were transferred from Victorian Independent Schools Superannuation Fund (VISSF) to Aware Super as at 30 November 2021.

The Fund is now a sub-fund of Aware Super, which is a resident regulated fund and a complying superannuation fund for the purposes of the SIS legislation. The Fund is taxed as a complying superannuation fund. The governing rules of the Fund are set out in the Aware Super Trust Deed (as amended). We understand that the benefit provisions are the same as those which previously applied in VISSF.

The Trustee of Aware Super, Aware Super Pty Limited, holds a Registrable Superannuation Entity Licence under the SIS legislation and operates the Fund as required under the Aware Super Trust Deed.

Prudential Standard SPS 160 requires the Trustee to conduct an actuarial investigation of the Fund at least once every three years. Rule 2.8 of Division 3E of the Aware Super Rules requires the actuary to advise the recommended contribution rate in respect of each School at least once every three years.

Purpose

I have prepared this report exclusively for the Trustee of the VISSF DB Fund for the following purposes:

- To present the results of an actuarial investigation of the School Account as at 31 January 2022;
- To review School Account experience for the period since the previous actuarial investigation (effective at 31 January 2019);
- To recommend contributions to be made by the School intended to allow the School Account to meet its benefit obligations in an orderly manner, and to reach and maintain an appropriate level of security for members' accrued benefit entitlements;
- To satisfy the requirements of the Trustee's Defined Benefit Matters Policy; and
- To meet legislative requirements under relevant Commonwealth superannuation legislation.

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

The previous actuarial investigation was conducted as at 31 January 2019 by David A Scott, on behalf of Mercer, and the results are contained in a report dated 16 July 2019.

Significant events since the investigation date

For the period 31 January 2022 until 17 June 2022 the estimated investment return on School Account assets was -7.7%. This negative return will have caused the financial position to deteriorate slightly compared with the results in this report, and make it more likely that some members will receive salary based benefits rather than accumulation style benefits on retirement. However, it is not expected to have a material impact on the findings or recommendations in this report.

I am not aware of any other significant events that have occurred since 31 January 2022 that would have had a material impact on the findings or recommendations in this report.

3

Experience since the Last Review

Data

To prepare this report, we used participant data provided by the Fund's administrator as at 30 November 2021. That data was rolled forward to 31 January 2022 by firstly removing known exits to 31 January 2022 and then by making allowance for investment earnings, estimated contributions, latest salary data (as notified to the administrator by 8 April 2022) and benefit accrual up to 31 January 2022.

Membership

The membership of the School Account has changed since 31 January 2019 as follows:

Active members at 31 January 2019	3
Exits	0
New Entrants	0
Active members at 31 January 2022	3
Average age at 31 January 2022	60.2 years

Fund members receive lump sum defined benefits on retirement, death or disablement. No pension benefits are provided in the Fund.

The remaining 3 members are aged 48, 65 and 66.

Investment Returns

The table below shows the rates of investment earnings (after tax, investment fees and management costs) for the assets supporting the benefits, and crediting rates applied to the School Account, over the period since the previous investigation.

Year Ending	Investment Return (pa) [#]	Crediting Rate(pa) [#]
31 January 2020	14.78%	14.77%
31 January 2021	1.35%	1.20%
31 January 2022	12.06%	12.09%
Compound Average	9.2%	9.2%

[#]From 1 February 2019 to 30 November 2021, based on VISSF Balanced Option return. Thereafter, based on Aware Super Growth Option return.

The crediting rates shown are those applied to the School Account assets, including any adjustment for previous differences between investment returns and crediting rates. Prior to the SFT, the crediting rates applied to member accounts were 0.05% higher than the crediting rates for the School Account as no allowance is made for management costs. From 1 December 2021, we understand that there will be no difference in the rates applied to member accounts and the School Account, which is consistent with the assumption that all management costs will be recovered via a direct deduction to the School Account.

The average investment return for the three year period to 31 January 2022 was 9.2% p.a. compared to the long term assumption at the last actuarial investigation of 5.9% p.a. The higher than assumed investment return only had a small positive impact on the financial position of the School Account, given the accumulation nature of the benefits.

Salary Increases

Salaries for the current members increased by an average of 1.5% pa over the period compared to our assumption at the last actuarial investigation of 3.5% pa. The lower salary increases than assumed had a marginal impact on the School Account's financial position, given the accumulation style minimum benefits apply as at 31 January 2022.

Contributions

The report on the previous actuarial investigation as at 31 January 2019 recommended the School contribute nil from 1 February 2019. The School adopted this recommendation.

However, salary sacrifice member contributions and contributions to provide other accumulation benefits were required.

At the option of the School, it was recommended that contributions to provide 3% award benefits could be financed from the School Account. The School exercised this option.

As a result of the above contribution program, the contributions paid over the review period were lower than the long-term School contribution rate (i.e. the estimated School cost of future service benefits), which had a negative impact on the financial position.

Impact of the experience on the financial position

The main experience items affecting the School Account's financial position during the period from 31 January 2019 to 31 January 2022 were as follows:

Item	Assumption at previous review	School Account experience	Impact of experience
Investment returns	5.9% p.a.	9.2% p.a.	Small positive effect – investments grew at a higher rate than assumed
Salary increases	3.5% p.a.	1.5% p.a.	Marginal effect – benefit liabilities accumulation style
School Contributions	Contribution Holiday	Contribution Holiday	Negative effect – School contributions less than cost of benefit accrual

The overall impact of this experience was a 6.6% reduction in the School Account's asset coverage over the Vested Benefits as at 31 January 2022.

4

Actuarial Assumptions

The ultimate cost to the School of providing Fund benefits is:

- The amount of benefits paid out; and
- The School's share of the expenses of running the Fund, including tax;

less

- Members' contributions; and
- The return on investments.

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

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

These assumptions include investment returns, salary/wage increases, crediting rates, rates at which members cease service for different reasons, and various other factors affecting the financial position of the School Account.

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

Economic assumptions

In circumstances where the benefits are linked to salary increases rather than accumulation benefits, the most significant assumption made in estimating the cost of defined benefits is the difference between:

- The assumed rate of investment earnings; and
- The rate of salary increases used in the projections of future benefit payments.

This difference is commonly referred to as the "gap".

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

	Assumption
Investment returns (after tax and investment fees)	4.5% p.a.
Crediting rate (after tax and investment fees)	4.5% p.a.
General salary increases	3.5% p.a.

The assets of the School Account are currently invested in Aware Super's Growth investment option. The Growth option has a benchmark allocation of 75% to "growth" assets such as shares and property, and a benchmark allocation of 25% to "defensive" assets such as bonds and cash.

The assumption for investment returns is based on the expected investment return for Aware Super's Growth and Conservative Growth investment mix over the estimated term of the liabilities, calculated using Mercer's assumptions of the means and standard deviations of returns from the various underlying asset classes and the correlations of returns between those asset classes.

The general salary increase assumption is based on economic forecasts for future increases in average weekly earnings over the term of the liabilities. Considering the age profile and period of employment of the remaining members, no allowance for promotional salary increases has been assumed for the current investigation.

The gap assumed for the current investigation is 1.0% pa. This has decreased from 2.4% pa assumed for the previous investigation, reflecting the reduced term of the liabilities and a reduction in outlook for investment returns, particularly over the short to medium term.

Demographic assumptions

Retirement

The number of retirements for the Fund (including all schools) over the three years to 31 January 2022 was 33. Based on the assumptions adopted for the previous investigation, the expected number of retirements was 34.

The distribution by age of the actual retirements of all defined benefit members of the Fund over the last three years, compared with the expected number based on the assumptions, is as follows:

Age Last Birthday	Number of Retirements	
	Actual	Expected
50 - 54	3	1
55 - 59	3	6
60 - 64	13	13
Over 65	14	14
Total	33	34

The rates at which members are assumed to leave the Fund due to retirement are set out below. These rates are unchanged from those adopted at the previous valuation.

Percentage of members age x at beginning of year assumed to leave the Fund during the year on account of early retirement	
Age Last Birthday	
x	%
49-54	2.5
55-61	10
62-63	20
64	50
65-68	25
69	100

Under the Rules, a resignation benefit is payable to a member if no benefit is payable on retirement, death or disablement. Given strong investment returns relative to salary increases over an extended period, it is not unusual for the resignation benefit to exceed the retirement benefit.

The School has provided consent to subject the retirement benefit to a minimum of the resignation benefit. For this and previous investigations we have assumed that the retirement benefit is always subject to a minimum of the resignation benefit in projections of the financial position and calculation of the required School contributions.

Death and Disablement in Service

The number of deaths and total and permanent disablements of members for the Fund over the three years to 31 January 2022 was nil. Based on the assumptions adopted for the previous investigation, the expected number of deaths was one and the expected number of disablements was nil.

Examples of the assumed death and total and permanent disablement (TPD) rates for current employee members are set out below. These rates are unchanged from those adopted at the previous valuation.

Percentage of members age x at beginning of year assumed to leave the Fund during the year on account of:				
Age Last Birthday	Death		Disablement	
X	Male %	Female %	Male %	Female %
50	0.09	0.07	0.16	0.15
55	0.14	0.09	0.27	0.27
60	0.20	0.12	0.44	0.46

Resignation

No allowance is made for resignations given the age of the members.

Retrenchment

No specific allowance is made for the possibility of future retrenchments. The retrenchment benefit is the same as the benefit paid on resignation or retirement.

Other assumptions

New members

The Fund is closed to new entrants. No allowance has been made for new members.

Expenses

Administration costs and actuarial consulting fees for defined benefit members are deducted from the assets of the School Account. We have assumed that the expenses deducted from the School Account will average \$40,000 per annum (increasing in line with salary increases) over the future term of the liabilities. This is based on the Trustee's estimate of future administration expenses, Mercer's estimate of future actuarial expenses and the Trustee's current policy of allocating expenses equally between the schools. This also assumes that all schools cease participation at the same time.

In practice, expenses are expected to increase significantly for those schools which continue participation after other schools cease. For example, if there were 4 schools remaining the estimated expenses would be \$130,000 per annum. If there were only one school remaining the estimated expenses would be \$520,000 per annum.

We have also allowed for the cost of disability income insurance premiums, estimated to be 1.0% of salaries.

Tax

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

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

No allowance has been made for:

- Any surcharge liability as members' benefits will be reduced by a surcharge offset account equal to the surcharge payments made, accumulated at the Fund crediting rate. Surcharge was abolished with effect from 1 July 2005.
- Excess contributions tax, as this is payable by the member.
- Additional tax on contributions (including defined benefit notional contributions) for those with incomes above the threshold (currently \$250,000), which is also payable by the member.

Impact of the changes in assumptions

The following table sets out changes in assumptions from those used in the previous investigation and the reasons for the changes:

Assumption	Investigation at 31 January 2022	Investigation at 31 January 2019	Reason for change
Investment Returns and Crediting Rate (after tax and investment fees)	4.5% per annum	5.9% per annum	To reflect the current expected investment return for the Fund's current investment mix over the estimated term of the liabilities
Expenses	1.0% of salaries plus \$40,000 per annum	2.5% of salaries	To reflect increased administration fees and a change in the method of allocating these to participating Schools

Because all of the remaining members are expected to receive accumulation style benefits, the change in investment return assumption has no impact on the Actuarial Value of Accrued Benefits and minimal impact on the future cost of accruing benefits.

The change in expense assumption will however have a significant impact on the cost to the School of providing the benefits in the future.

5

Assets

Market value

For the purpose of this investigation, the net market value of the assets of the School Account as at 31 January 2022 has been estimated at \$1,338,000. Asset data at 30 November 2021, provided by the Fund's administrator, has been rolled forward to 31 January 2022 as follows:

Calculation of Assets at 31 January 2022	
Net market value of assets as at 30 November 2021	\$1,356,000
Net cashflows (as provided by administrator)	\$1,000
Estimated investment earnings*	(\$19,000)
Benefits payable at 31 January 2022 (as provided by administrator)	\$0
Net market value of assets as at 31 January 2022	\$1,338,000

* Based on the unit prices applicable to the Aware Super Growth option

The net market value of assets as at 30 November 2021 (for the Fund as a whole) has been verified by the audited financial statements of the Victorian Independent Schools Superannuation Fund as at that date.

Operational Risk Reserves

The assets to meet the Operational Risk Financial Requirement (ORFR) are held separately from the assets of the School Account.

The scope of this Investigation does not include a review of the adequacy of assets held to meet the Trustee's ORFR or the Trustee's ORFR strategy.

Investment Policy

Assets backing defined benefit liabilities

The assets of the School Account are currently invested in the Aware Super's Growth investment option. The Growth option has a benchmark allocation of 75% to "growth" assets such as shares and property, and a benchmark allocation of 25% to "defensive" assets such as bonds and cash.

The Strategic Asset Allocation for the assets is as follows:

Asset Class	Strategic Asset Allocation
Australian Equities	21.5%
International Equities	35.0%
Private Capital	6.0%
Infrastructure & Real Assets	9.0%
Liquid Alternatives Growth	1.0%
Liquid Alternatives Defensive	0.0%
Property	7.0%
Credit Income	5.0%
Fixed Income	10.0%
Cash	5.5%
Total	100.0%
Total Growth*	75.0%
Total Defensive	25.0%

*Based on APRA classification of growth assets

Source: Aware Super

“Growth” assets are expected to earn higher returns over the long term compared with “defensive” assets, but at the same time exhibit more variation in returns from year to year. Volatility in the School Account’s investment returns will impact on the financial position of the School Account and the required level of School contributions. Even though the majority of the liabilities are linked to investment returns, volatility in the School Account’s investment return will impact the amount of “surplus” assets available to meet the cost of ongoing benefit accruals and expenses. Additionally, the nature of the liabilities could change if investment returns were significantly lower (or salary growth significantly higher) than the assumptions adopted for this report.

Given that it is not known when members will take their benefit with certainty, the exact term of the School Account’s liabilities is unknown. However, with the Fund having been closed to new members for some time now and a significant amount of retirement benefits due to become payable in the next few years (refer age profile in section 3), the projections carried out as part of this actuarial investigation indicate that a substantial reduction of assets is expected over the next 3 years.

The School Account’s investments are expected to provide a high level of liquidity in normal circumstances. Hence we do not envisage any problem in being able to redeem assets to meet benefit payments as they arise. However the shorter-term liability profile reduces the ability of the School Account to ‘ride out’ the ups and downs in returns that are expected from investment strategies with substantial exposure to ‘growth’ assets.

We are satisfied that the current investment policy is suitable. However, given the number and age of the remaining defined benefit members, the Trustee should seek to engage with the School to ensure the School understands the risks associated with the current investment strategy. Any

review will need to take into account the fact that the majority of the liabilities are linked to the investment returns on the Aware Super Growth investment option. Adopting a different strategy in respect of those assets which are supporting accumulation style liabilities would create a mismatch between the investment return on assets compared with the crediting rate applied to the liabilities. However, consideration could be given to moving “surplus” assets to a lower risk strategy within the next 1-2 years in order to reduce volatility.

Crediting Rate Policy

We understand that Aware Super has continued to follow the crediting rate policy which applied in the Victorian Independent Schools Superannuation Fund. The main features of that policy are summarised briefly below:

- Members’ resignation benefits, where applicable, as well as their Superannuation Guarantee minimum benefits, are based on the accumulation of member and notional employer contributions with investment earnings at the Crediting Rate.
- The Crediting Rate will be determined based on the on the investment return (after tax and investment fees) for the Aware Super Growth² investment option, with no allowance for management costs, irrespective of the investment of the assets.

Documentation

The crediting rate policy applying prior to the SFT and related procedures are set out in a policy document dated August 2019. We understand that this policy has not been updated since the SFT, and that the Trustee has continued to apply the previous policy.

Conclusion

Based on the policy applying prior to the SFT, the crediting rate for will continue to be based on the investment return of the Growth investment option even if a more conservative investment option is adopted for part or all of the assets.

Assuming that this policy is continued, this will be an important consideration for any School considering a change in investment strategy.

We recommend that the Trustee review and document the crediting rate policy in relation to the Fund.

² Prior to the SFT crediting rates were based on the Victorian Independent Schools Superannuation Fund Balanced Option, being the default investment option for defined benefit assets. We have assumed that following the SFT crediting rates will be based on the Aware Super Growth investment option, being the new default investment option for Fund assets.

6

The Actuarial Approach

Financing Objective

The financing objective adopted for this investigation is to maintain the value of the assets of the School Account at least equal to 110% of Vested Benefits.

As outlined above the majority of liabilities are currently accumulation style liabilities which are linked to the returns on the Aware Super Growth investment option. However, this could change in the future, if investment returns are lower or salary increases are higher than those assumed for this investigation. A margin in excess of 100% coverage of Vested Benefits is therefore desirable to provide some security against adverse experience such as poor investment returns or higher than expected expenses.

I consider the target margin of 110% strikes a suitable balance between the Trustee's desire to provide security to members and the unreasonable build-up of surplus.

Based on the assumptions adopted for this investigation, achieving the financing objective of 110% of Vested Benefits would also result in at least 100% coverage of the Actuarial Value of Accrued Benefits and a satisfactory margin of coverage over 100% of SG Minimum Benefits. Hence it is not considered necessary to adopt specific financing objectives in relation to these benefit liability measures.

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

Professional Requirements

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

- (a) members' benefit entitlements (including any pension increases provided by the Trust Deed or in accordance with either precedent or the intentions of the Trustee and/or Fund Sponsor) are fully funded before the members retire; and*
- (b) the Net Assets of the Fund from time to time, after making full provision for the entitlements of any beneficiaries or members who have ceased to be employed, exceed the aggregate of benefits which employed members would reasonably expect to be payable to them on termination of membership, including the expenses of paying those benefits, and having regard to the provisions of the Trust Deed and the likely exercise of any Options or Discretions." (Paragraph 5.5.4 of PS400).*

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

The financing objective has been set on the basis that members' reasonable expectations on termination would be to receive their vested benefit entitlement.

Provisions of the Rules

Rule 2.9 of Division 3E of the Aware Super Rules requires the School to contribute at the rate advised by the actuary or such other rate agreed between the School, Trustee and the Actuary.

Rule 20.5 of Division 3E of the Aware Super Rules permits the School, subject to the approval of the Actuary, to use surplus assets from the School's Account to finance accumulation contributions due by the School in respect of Aware Super Accumulation members.

Financing Method

There are various financing methods that could be followed in setting the School contribution level. This investigation uses the "Attained Age Normal" funding method to determine the underlying long-term cost of providing benefits in respect of future service, with the recommended contributions arrived at after considering the current and projected ratio of assets to Vested Benefits.

Under this method, the "normal cost" is the estimated level rate of School contributions required to provide benefits in respect of future service (i.e. service after the investigation date) for existing members. The normal cost ignores any surplus or deficiency of assets over accrued liabilities.

The recommended School contribution rate may then be set above or below the normal cost for a suitable period of time to amortise any surplus/deficiency and to take into account the School Account's financing objectives.

Under this method of financing, the level of the School contributions may vary from time to time to ensure that the School Account remains on course towards its financing objectives.

It is noted that, as the School Account is closed to new members and (on the assumptions adopted) the cost of future service benefits increases with age, the normal cost is expected to gradually increase as the membership ages.

I consider that the Attained Age Normal method is suitable in the School Account's current circumstances as the normal cost reflects the expected (on the assumptions adopted) employer cost of future service benefits and the recommended contribution rate can be varied around the normal cost to take into account the projected financial position as compared with the financing objective.

Changes in Financing Method

The Attained Age Normal method was also used at the previous investigation.

7

Financial Position of the School Account

Funding status

Vested Benefits

Vested Benefits are the amounts payable as of right should all active members voluntarily resign or, if eligible, retire at the investigation date. For members eligible for a retirement benefit, the Vested Benefit is assumed to be the greater of the retirement benefit and the resignation benefit.

At 31 January 2022, the assets of the School Account represented 161.1% of the vested benefits and hence the School Account was considered to be in a “satisfactory financial position” under SIS legislation. The 161.1% coverage of Vested Benefits was also significantly above the financing objective of 110% coverage adopted for this investigation.

SG Minimum Benefits

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

The School Account assets at 31 January 2022 were greater than SG Minimum Benefits and hence the Fund was considered to be “solvent” under SIS legislation.

Actuarial Value of Accrued Benefits

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

The School Account Assets as 31 January 2022 represented 161.1% of the Actuarial Value of Accrued Benefits.

Position at 31 January 2022			Coverage at 31 January 2019
Defined Benefits Only	\$000	Asset Coverage	
Assets	1,338		
Liability for Vested Benefits	831	161.1%	167.7%
Liability for Actuarial Value of Accrued Benefits	831	161.1%	167.1%
Liability for SG Minimum Benefits	795	168.3%	176.2%

The coverage levels at 31 January 2022 were slightly lower than the levels at the previous actuarial investigation due to the overall positive experience discussed in Section 3.

Actuarial Balance Sheet

The actuarial projection of possible future experience produces the following results, where projected future payments have been converted to a present value by discounting at the assumed investment return.

Item	Actuarial Value \$000
Present Value of future payments in respect of membership accrued at the valuation date	831
Present Value of future payments in respect of membership after the valuation date	172
Present Value of future School Account operating costs and tax on contributions	397
Total Present Value of future payments out of School Account	1,400
Value of Fund Assets at 31 Jan 2022	1,338
Present Value of future School contributions (at rate recommended)	0 (0.0%)
Present Value of future Member contributions (at rate(s) specified in Trust Deed)	74
Total available Assets (in absence of other contributions)	1,412
Excess/(Deficit) of Assets to value of benefits	12

The School Account's net financial position is defined as the difference between the Total assets and the Total liabilities.

The overall position is a small surplus, indicating that School contributions are not expected to be required. However, if the School were to finance 3% award contributions from the School Account, this would increase the likelihood that the School would need to recommence contributions in the future.

In practice the recommended School contribution rate is designed so that the assets provide 110% coverage of Vested Benefits to provide some security against adverse experience.

School's Future Service Cost

Based on the assumptions adopted for this investigation, I estimate that the School's long-term funding cost (i.e. the normal cost of funding the future service accruals ignoring any surplus or deficit) is 8.9% of members' salaries, plus operating expenses.

Operating expenses have been estimated to be \$40,000 per annum (increasing in line with salaries) but this figure could increase significantly as the number of schools participating in the Fund reduces. For example, if there were 4 schools remaining the estimated expenses would be \$130,000 per annum. If there were only one school remaining the estimated expenses would be \$520,000 per annum.

The School's long-term funding cost includes the cost of insurance and allowance for the contributions tax. It does not include the cost of any salary sacrifice member contributions or contributions to provide 3% award benefits. These are payable in addition to the above rate.

At the previous investigation the assessed long-term cost was 9.1%, which included an allowance of 1.5% of members' salaries in relation to expenses. Excluding the expense allowance, the long-term cost has increased by 1.3% of salaries since the last investigation due to the ageing of the membership profile of the School Account and increases in the SG contribution rate.

Under the Target Funding method, it would be appropriate to maintain the employer contribution requirements below the long-term defined benefit funding costs based on the relatively strong financial position of the School Account. A continuation of the employer contribution requirements at 0% of members' salaries is anticipated to maintain the School Account's financial position above the adopted financing objective.

Whilst not explicitly allowed for in the projections below, the projected margin above the financing objective is estimated to be sufficient to allow for the continued financing of 3% award contributions for defined benefit members from the School Account for at least the next five years.

Any request from the School to use surplus assets from the School's Account to finance accumulation contributions due by the School in respect of Aware Super Accumulation members would need to be separately considered.

Previous recommendations

The previous actuarial investigation recommended the School contribute nil from 1 February 2019. However, salary sacrifice member contributions (if any) and contributions to provide other accumulation benefits were required.

Recommended Contributions

At 31 January 2022, the School Account was in a satisfactory financial position. The 161.1% coverage of the Defined Benefit Vested Benefits was significantly above the financing objective of 110% coverage adopted for this investigation.

Based on the financial position at 31 January 2022, I recommend that the School contributes to the Fund in accordance with the following contribution program:

- Nil in respect of defined benefit accruals financed by the School (i.e. maintain the existing contribution holiday);
- Any salary sacrifice member contributions.

At the option of the School, the School can finance contributions to provide 3% award benefits for defined benefit members from the School Account. However, this will increase the likelihood of the School needing to recommence contributions in the future.

This recommended program represents no change from the current contributions.

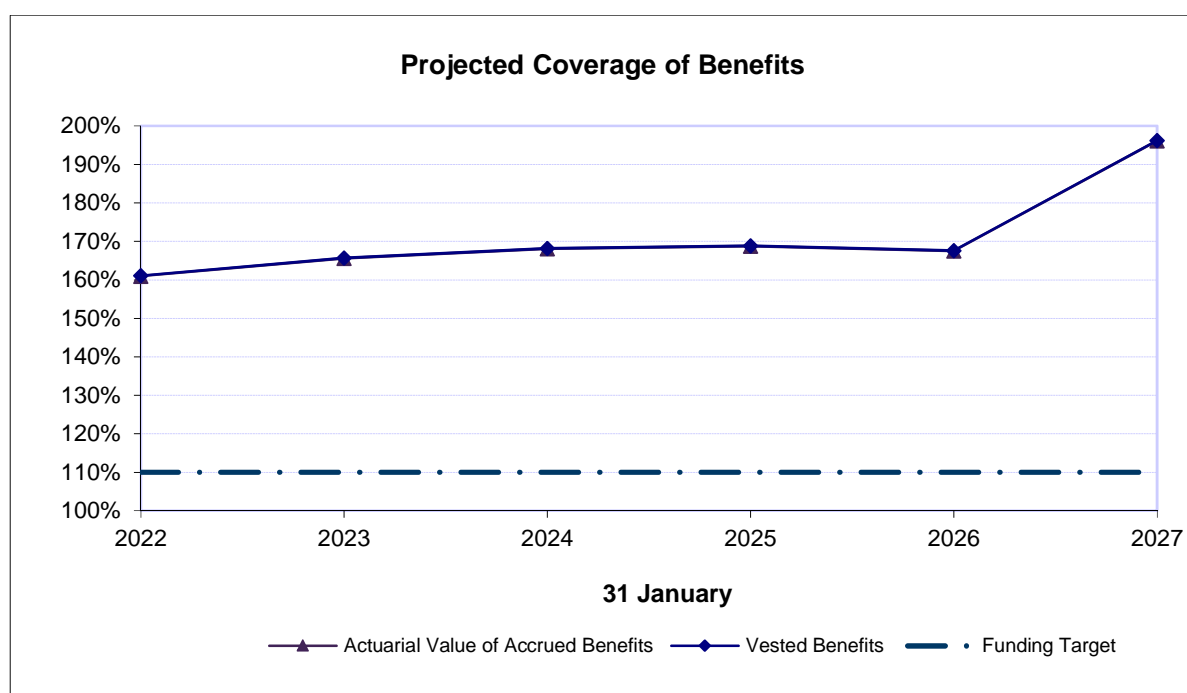
The School contribution rate will be reviewed as part of the annual review of the financial position.

Projected Financial Position

I have prepared a projection of the School Account assets and benefit liabilities based on:

- The actuarial assumptions adopted for this investigation; and
- Assuming School contributions in line with the recommended program.

The results of the projection are as follows:



Note the projected coverage of the Actuarial Value of Accrued Benefits is equal to the Vested Benefits.

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

The projection above shows that the recommended contributions are anticipated to result in assets of at least 110% of Vested Benefits (which represents the financing objective adopted in this investigation) at 31 January 2025.

The School Account is projected to be in a satisfactory financial position at 31 January 2025.

The graph also shows the coverage level of assets compared with the Actuarial Value of Accrued Benefits. The recommended contributions are projected to result in asset coverage of at least 100% of the Actuarial Value of Accrued Benefits (which represents the financing objective adopted in this investigation) at 31 January 2025.

8

Key Risks

Investment Volatility

As at 31 January 2022, 100% of the current Vested Benefits are based on accumulation balances (i.e. SG or member contributions) and 0% are based on a defined benefit formula (i.e. salary and service). Due to benefits being currently entirely linked to investment returns (i.e. are based on accumulation balances), the Vested Benefits coverage is not particularly sensitive to investment returns. However, this could change if salary growth and/or investment returns differed significantly from those assumed in this report.

The Actuarial Value of Accrued Benefits represents a forecast of the expected future benefit payments, based on membership to the investigation date. 100% of the Actuarial Value of Accrued Benefits is based on accumulation account balances and 0% is based on a defined benefit formula.

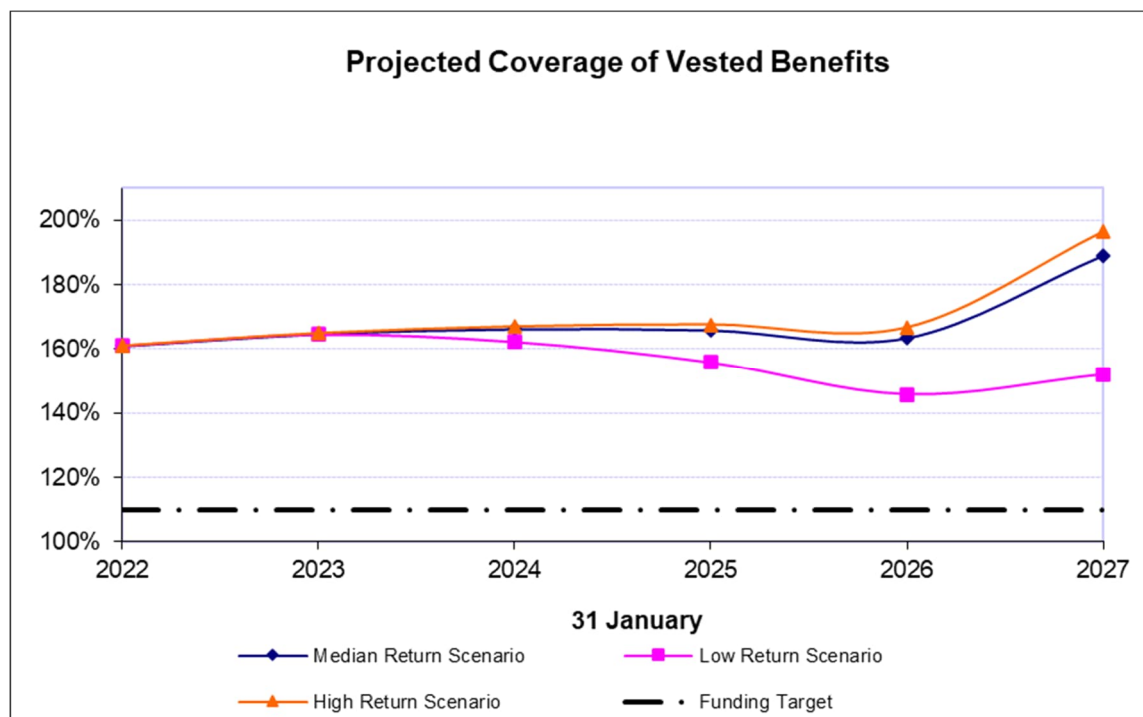
I have considered the impact of investment volatility on the financial position of the School Account over the next few years using a “High return” and a “Low return” scenario. The returns under both scenarios have been derived from assumptions about the likely risk attached to the School Account’s investment strategy.

Using the investment return model and assumptions adopted, there is approximately a 10% chance of the School Account’s cumulative investment return being less than the “Low return” scenario over the next 5 years. Similarly, there is approximately only a 10% chance of the School Account’s cumulative investment return being greater than the “High return” scenario over the next 5 years.

1 February 2022 to 31 January	Assumed Cumulative Investment Return (%)		
	"Low Return"	Valuation	"High Return"
2023	0.4%	4.5%	7.9%
2024	0.8%	9.2%	16.4%
2025	1.2%	14.1%	25.6%
2026	1.6%	19.3%	35.5%
2027	2.0%	24.6%	46.3%

The cumulative investment return is the total return from 1 February 2022 up to 31 January in the year shown. The extent of variation allowed for in these projections reflects the School Account’s asset mix and Mercer’s views on potential variability in investment results in various investment sectors.

The graph below shows the effect on the projected ratio of assets to Vested Benefits for the School Account under the “High return” and “Low return” scenarios, with all other investigation assumptions remaining unchanged and assuming the School contributes as recommended.



Based on fluctuations in investment returns only, and assuming other experience is in line with the assumptions adopted for this investigation, there is approximately an 80% chance that the coverage of assets over Vested Benefits at 31 January 2025 will fall in the range from 155.8% to 170.5%.

Note that the “Low return” scenario and the “High return” scenario shown above are illustrations only, and show what may occur under assumed future experiences that differ from our baseline assumptions. These scenarios do not constitute upper or lower bounds and the actual future coverage of Vested Benefits may differ significantly from the range shown above, depending on actual future experience.

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

Salary growth risk

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

As the members’ benefits are predominantly accumulation in nature, salary growth risk to the School is currently minimal, but this could change if salary growth or investment returns differed significantly from those assumed in this report.

Legislative risk

This risk is that legislative changes could be made which increase the cost of providing the defined benefits – for example, an increase in the rate of tax on superannuation funds. This risk is borne by the School and is a real risk in the post COVID-19 environment.

Small plan risk

This risk relates to supporting a defined benefit plan where there are few remaining defined benefit members meaning the law of averages no longer applies and the time horizon of the defined benefit liabilities may have become short. Issues that may require consideration include:

- (i) Funding may have previously been based on the Fund continuing in the longer-term, which may no longer hold. Greater focus may be required on the funding of benefits immediately payable to members (e.g. Vested Benefits);
- (ii) With few remaining members, the experience of a single member or event will have a proportionately larger impact on the financial position. More frequent monitoring of the financial position may be required;
- (iii) Contributions required to finance any shortfalls, specifically as a percentage of salary roll of defined benefit members, can become significant;
- (iv) The investment strategy may have been set based on the liabilities continuing in the longer-term, which may no longer hold. The strategy may need to be revised to reflect the shorter term of the liabilities;
Fees in respect of the Fund, particularly relative to the number of defined benefit members and salary roll, can become significant. As defined benefit Funds reduce in membership, the actuarial fees may, in fact, increase as a result of additional monitoring being required and that most actuarial tasks are essentially the same whether there are 1 or 100 defined benefit members. Industry changes such as the SG rate increase can also result in additional fees; and
- (v) The expected wind-down of the remaining defined benefit members.

For this School Account, fees represent a significant risk which will need to be carefully managed to ensure that the security of members' benefits is not eroded.

As outlined in Section 4, we have assumed that the expenses deducted from the School Account will average \$40,000 per annum (increasing in line with salary increases) over the future term of the liabilities. This is based on the Trustee's estimate of future administration expenses, Mercer's estimate of future actuarial expenses and the Trustee's current policy of allocating expenses equally between the schools. This also assumes that all schools cease participation at the same time.

In practice, expenses are expected to increase significantly for those schools which continue participation after other schools cease. For example, if there were 4 schools remaining the estimated expenses would be \$130,000 per annum. If there were only one school remaining the estimated expenses would be \$520,000 per annum. Charging fees at this level could have a significant impact on the security of members' benefits.

I recommend that the Trustee engage with the School in order to better understand:

- The expected timing of the remaining members' retirement;
- The willingness of the school to continue its participation in the Fund until the last members' retirement; and
- The willingness of each school to increase contributions (if necessary) to meet increasing expenses as other schools cease their participation.

Based on these discussions the Trustee should estimate the expenses which are likely to be charged to the School over the next five years. If the estimated expenses are significantly greater than those assumed in this report, further advice should be sought to determine whether an adjustment to the recommended contribution rates (or other action) is required.

Other

Prior to the SFT, the Trustee's crediting rate policy was for investment returns to be allocated based on the investment return of the default defined benefit investment option even if a more conservative investment option were adopted for part of all of the assets. Whilst the crediting rate policy has not yet been formalised, we assume that this policy will continue. In the event the investment strategy is changed away from the Growth investment option, a risk of crediting rate mismatch will arise. The risk is borne by the School.

9

Insurance and Related Risks

Insurance

The current group life insurance formula is 13.75% of salary for each future year to 31 January following the member's 60th birthday.

Ideally the total amount insured should be approximately equal to the excess of the death benefits over the assets of the School Account. Based on the current formula, the "amount at risk" as at 31 January 2022 was:

		\$000
	Death/Disablement Benefits	927
less	Sum Insured	107
less	Assets	1,338
	Uncovered Death/Disablement Benefits	(518)

The assets exceed the death/TPD benefits, suggesting there is no need for insurance. However, at this point we have not recommended a reduction or cessation of insurance as this may have other unintended consequences. For example, under-insurance should the financial position deteriorate, possible underwriting issues in re-instating cover, unavailability of a continuation option where a member terminates employment, and additional complexities from an administration and insurance viewpoint, etc. We note also that uncertainties regarding the interpretation of SPS 160 in relation to self-insurance make it unclear whether a reduction in the level of insurance is permitted.

The disability income benefit is fully insured.

In my opinion, the current group life insurance arrangements, including the sum insured formula for defined benefit members, are appropriate and provide adequate protection.

Documentation

The lump sum death and TPD benefits (policy GL0041) and the disability income benefits (policy GSC0023) are underwritten by TAL Life Limited ("the insurer") and outlined in two policies dated 31 January 2021 between the Trustee and the insurer. We understand that updated policies will be executed during 2022, but with no changes to the Group Life insurance formula, described above. The purpose of the insurance policy is to protect the School Account against unexpectedly large payouts on the death or disablement of members.

10

Prudential Standards

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

Shortfall Limit

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

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

We understand that the Shortfall Limit for the School Account, determined by the Trustee on the basis of previous actuarial advice, is 100%.

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

- The guidance provided in the relevant Actuaries Institute Information Note: Shortfall Limit in Prudential Standard 160 dated June 2013.
- The investment strategy for defined benefit assets, particularly the benchmark exposure of 75% to “growth” assets;
- The results of this investigation regarding the extent to which the current and projected Vested Benefits are not linked to the investment return on assets (i.e. salary-based benefits) and the current and projected relativity between Vested Benefits and Minimum Requisite Benefits.

Based on the above, we recommend maintaining the current Shortfall Limit at 100%.

We will reassess the suitability of the adopted Shortfall Limit as part of the next regular actuarial investigation.

Monitoring Process

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

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

We understand that the Trustee has adopted a monitoring process which includes the following:

- The Trustee will ensure that the Fund Actuary undertakes a review of the financial position as at 30 June each year.
- In addition, the Trustee will monitor investment returns and in the event that the year to date investment return is less than -5%, will obtain advice from the Fund Actuary on the approximate estimated financial position of each School Account, taking into account primarily the impact of investment returns, but also the impact of any differences between expected contributions and the long-term contribution rate and significant membership movements.
- Such an update of the estimated financial position is intended to be an approximate and timely calculation, as an “early warning” to the Trustee as to whether a more detailed review of the financial position is required.

We consider that the adopted monitoring process is appropriate.

The Trustee should also continue to monitor the “Notifiable Events” specified in the Fund’s Funding and Solvency Certificate and advise the Actuary should any actual or potential Notifiable Events occur.

Requirements due to Unsatisfactory Financial Position

Restoration Plan

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

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

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

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

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

- The School Account is not in an unsatisfactory financial position; and

- The School Account is not likely to fall into an unsatisfactory financial position.

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

Actuary's Reporting Requirements

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

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

Statements Required by SPS 160

This section provides statements required to be made under APRA Prudential Standard SPS 160. Values cited relate to the Tintern Grammar section of the VISSF DB Fund only.

- (a) The net realisable value of the assets of the School Account, based on information provided by the Trustee as at 31 January 2022, was \$1,338,000. This value excludes assets held to meet the Operational Risk Financial Requirement.
- (b) In my opinion, the Actuarial Value of Accrued Benefits in respect of the School Account's liabilities as at 31 January 2022 was \$831,000. Hence, I consider that the value of the assets at 31 January 2022 is adequate to meet the value of the accrued benefit liabilities of the as at 31 January 2022. Taking into account the circumstances of the School Account, the details of the School's membership and the assets, the benefit structure of the School Account and the industry within which the School operates, I consider that the assumptions and valuation methodology used are appropriate in relation to the determination of the accrued benefit liabilities for the purposes of this report. Further comments on the assumptions and valuation methodology are set out in Sections 4 and 6 of this report. Assuming that the School contributes in accordance with my recommendations, then, based on the assumptions made for this actuarial investigation which I consider to be reasonable expectations for the School Account, I expect that assets will remain sufficient to cover the value of accrued benefit liabilities over the period to 31 January 2025.
- (c) In my opinion, the Vested Benefits (i.e. voluntary resignation benefits, or early retirement benefits if eligible as of right) in respect of the School Account's liabilities as at 31 January 2022 was \$831,000. Hence I consider that the value of the assets at 31 January 2022 is adequate to meet the value of the vested benefit liabilities as at 31 January 2022. Assuming that the School contributes in accordance with my recommendations, then, based on the assumptions made for this actuarial investigation, I expect that assets will remain sufficient to cover the value of vested benefit liabilities over the period to 31 January 2025. Hence I consider that the financial position of the School Account should not be treated as unsatisfactory as defined in SPS 160.

- (d) In my opinion, the SG Minimum Benefits in respect of the School Account's defined benefit liabilities as at 31 January 2022 was \$795,000. Hence the School Account was not technically insolvent at 31 January 2022.
- (e) A projection of the likely future financial position of the School Account over the three-year period following 31 January 2022, based on what I consider to be reasonable expectations for the purpose of this projection, is set out in this report.
- (f) Based on the results of this investigation, I consider that the Shortfall Limit does not require review. Comments are set out earlier in this section.
- (g) In respect of the three-year period following 31 January 2022, I recommend that the School contribute to the School Account at the following rates:
 - Nil in respect of defined benefit accruals financed by the School;
 - Any salary sacrifice member contributions.

At the option of the School, the School can finance contributions to provide 3% award benefits for defined benefit members from the School Account.

- (h) The Fund is used for Superannuation Guarantee purposes:
 - All Funding and Solvency Certificates required for the Victorian Independent Schools Superannuation Fund under Division 9.3 of the SIS Regulations have been issued for the period from the date of the last investigation to 30 November 2021;
 - The Trustee will need to obtain a Funding and Solvency Certificate for the VISSF DB Fund no later than 29 November 2022;
 - I expect to be able to certify the solvency of the School Account in any Funding and Solvency Certificates that may be required in the three-year period from 31 January 2022.

12

Actuarial Certification

Actuary's certifications

Professional standards and scope

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

Use of report

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

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

Actuarial Uncertainty and Assumptions

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

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

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

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

However, the future is uncertain and the actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different.

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

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

Data provisions

To prepare this report, we have relied on financial and participant data provided by the Fund's administrator as at 30 November 2021, adjusted as described in the relevant sections. The data used is summarised in this report. We have reviewed the financial and participant data for internal consistency and general reasonableness and believe it is suitable for the purpose of this report. We have not verified or audited any of the data or information provided. We have also relied upon the documents, including amendments, governing the Fund as provided by the Trustee. The Trustee is ultimately responsible for the validity, accuracy and comprehensiveness of this information. If the data or Fund provisions are not accurate and complete, the investigation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a revision of this report.

Additional information

The next **actuarial investigation** is required at a date no later than 31 January 2025. However, as the Fund administrator carries out a review each 30 June, we recommend the next valuation be brought forward to 30 June 2024. At that time, the adequacy of the School contribution levels will be reassessed. Note that the monitoring process recommended may lead to an earlier reassessment ahead of the next full actuarial investigation.

The Trustee will need to obtain a **Funding and Solvency Certificate** no later than 29 November 2022.

The next **Benefit Certificate** is required following the expiry of the current Benefit Certificate (which expires 31 March 2027). The current Benefit Certificate is designed to accommodate changes to the legislated Superannuation Guarantee schedule.

Further Information

If requested, the actuary is available to provide any supplementary information and explanation about the actuarial investigation.



Timothy Simon Jenkins
Fellow of the Institute of Actuaries of Australia

04 July 2022

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



Esther Conway
Fellow of the Institute of Actuaries of Australia

Appendix A

Fund Design

Summary of benefits

This summary outlines only the main benefit and contribution provisions relating to current membership of the School's section of the Fund. It does not cover provisions relating to earlier membership of other sections of the Fund or of other Funds, or provisions relating to some periods of past membership.

Retirement Benefit	<p>On retirement at any time after attaining age 50, or completing 25 years of continuous service with schools participating in the Fund, the benefit payable is a lump sum of 13.75% of Final Salary for each year for which contributions were paid to this section of the Fund.</p> <p>Final Salary is generally the annual salary on which member contributions were based in the final year of membership.</p> <p>The benefits is subject to a minimum of the resignation benefit.</p>
Death/Total and Permanent Disability Benefit	<p>The benefit payable on death or total and permanent disablement while in service prior to age 60 is a lump sum equal to the retirement benefit which would have been payable on retirement at the end of the School year in which age 60 is attained had the member continued in service to that time on the same salary as that on which contributions were based at the time of death or disablement.</p> <p>If, prior to age 60, a member is absent from work for at least 90 days due to total disablement, an income benefit of 75% of superannuation salary is paid and member contributions are waived. The income generally ceases two years after the date the member ceased work, and ceases in any event if a benefit becomes payable in respect of the member due to death or total and permanent disablement.</p> <p>Special Provisions may apply to members who joined prior to 1 February 1992.</p>
Resignation Benefit	<p>On leaving service before qualifying for any other benefit, the benefit payable is a lump sum of twice the member's own contributions with investment earnings. The benefit is subject to a minimum to ensure compliance with the Superannuation Guarantee legislation.</p>
Members' Contributions (% of salary)	<p>Members contribute 5% of superannuation salary.</p>

The Superannuation Guarantee (Administration) Act 1992

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

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

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

Appendix B

Calculation of the Actuarial Value of Accrued Benefits

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

Defined Benefits

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

The past membership component for each type of benefit is:

Retirement:	based on the member's accrued benefit multiple
Death and Disablement:	calculated by adjusting the total expected benefit in proportion to the accrued benefit multiple at the valuation date over the accrued multiple at the projected date of payment
Resignation:	based on the member's accumulation contributions at the valuation date, allowing for future investment earnings to the projected date of payment

The weighted average term of the accrued benefit liabilities is 5.4 years.

Methodology of Calculating the Actuarial Value of Accrued Benefits

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

Mercer Consulting (Australia) Pty Ltd
ABN 55 153 168 140
AFS Licence # 411770
One International Towers Sydney
100 Barangaroo Avenue Sydney NSW 2000
GPO Box 9946 Sydney NSW 2001