The background features a low-angle photograph of a modern building's glass and steel structure, looking up towards a bright blue sky. On the left side, there are two vertical decorative bars: a teal one with diagonal hatching and a purple one with a solid color. At the bottom, there are two horizontal decorative bars: a teal one with diagonal hatching and a purple one with a solid color.

Hostplus Superannuation Fund – Local Super  
Sub-Plan

# Actuarial Investigation as at 30 June 2023

31 October 2023

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## Reliance Statement and Data

This report is provided subject to the terms set out herein and in our Master Services Agreement dated 2 March 2022, signed 27 April 2022 and any accompanying or referenced terms and conditions. This report is provided solely for the Trustee's use and for the specific purposes indicated in the report. It may not be suitable for use in any other context or for any other purpose.

Except where we expressly agree in writing, this report should not be 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.

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.

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.

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.

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

# Section 1: Executive Summary

31 October 2023

Our ref: 3221112.04.01.05

The Directors, Host-Plus Pty Ltd  
Hostplus Superannuation Fund  
114 William Street  
Melbourne VIC 3000

Dear Directors

I am pleased to present my report to the Trustee on the actuarial investigation Of Division 4 – Local Super Sub-Plan ('the Plan'), which is a sub-plan of the Hostplus Superannuation Fund.

## Membership

As at 30 June 2023, the Plan membership comprised the following:

- 1,583 active members (known as Salarylink members);
- 435 CPI linked deferred members;
- 11 current lifetime pensioners;
- 12 current term pensioners; and
- 2 Old Benefit members.

## Value of Assets

As at the 30 June 2023 the value of the assets supporting the Plan liabilities was \$590.1 million.

## Financial Assumptions

The financial assumptions adopted for the long-term valuation of the Plan defined benefit liabilities were:

- Rate of Investment Return: 6.8% p.a. (net of tax) and 7.7% (gross of tax)
- Rate of Salary Increases: 4.5% p.a. in year 1, 3.5% p.a. in years 2 and 3, and 3.0% thereafter
- Rate of CPI increases: 3.0% p.a.
- Average rate of Promotional salary increases: 0.3% p.a.

It is the difference between the assumed levels of investment return and salary increases (i.e. 3.5% p.a. long-term), rather than their absolute values, which has a greater impact on the valuation of the liabilities. This gap is higher than the assumed gap of 2.0% used for the last actuarial valuation which, in isolation, has had the effect of decreasing the estimated Plan liabilities. We note only a small proportion of the liabilities are impacted by the rate of CPI increases and their duration is shorter than those liabilities which are salary related.

## Funding Position

The solvency position of the Plan was assessed by measuring three different funding standards at 30 June 2023: vested benefits, actuarial value of accrued benefits and Minimum Requisite Benefits. On these funding measurements, the assets are sufficient to meet the relevant standards as at 30 June 2023. Key measures are shown in the table below.

Item	Vested benefits	Actuarial Value of Accrued benefits	Minimum Requisite Benefits
Assets (\$M)	590.1	590.1	590.1
Benefits (\$M)	468.9	444.1	396.0
Index (Assets/Benefits)	125.8%	132.9%	149.0%

The value of the Vested Benefits Index (VBI) compares the market value of Plan assets to the value of Vested Benefits and is an indicator of the short term solvency of the Plan, i.e. the ability of the Plan to meet the benefits payable assuming the members ceased employment immediately. A ratio of 100% or above indicates the Plan is in a “satisfactory financial position” as defined in Prudential Standard SPS 160.

The value of the Actuarial Value of Accrued Benefits Index (AVABI) compares the market value of Plan assets to the actuarial value of accrued benefits and is a measure of a plan’s strength on a continuing or “going concern” basis. The AVABI shown for 2023 indicates that the Plan is in a sound financial position to meet the future benefits in respect of benefits accrued to the valuation date.

The market value of assets covered the Minimum Requisite Benefits for the Plan at 30 June 2023 by a ratio of 149.0%. This measure compares the market value of assets to the minimum benefits required to satisfy the requirements of the employers under the Superannuation Guarantee (Administration) Act. It is clear from this result that the minimum benefits of members of the Plan are comfortably covered by the Plan assets.

## Conclusions and recommendations

Under Rule 4 of Sub-Division A of the Plan Rules, the Actuary must investigate the state and sufficiency of the LS Plan and the Actuary’s report is required to state any variation necessary on contributions, given no change in benefits, and any variation necessary in benefits, given no change in contributions.

On the basis of the chosen actuarial assumptions, we have determined that the current employer contribution rate of 6.3% of salaries remains suitable until the completion of the next actuarial investigation, due with an effective date not later than 30 June 2026 and the report provided by 31 December 2026.

I therefore recommend that the employers contribute to the Plan at least at the following levels from 1 July 2023:

- 6.3% of contributing Salarylink members' salaries;
- any salary sacrifice contributions payable on behalf of Members that have elected to pay their contributions to the Plan via pre-tax contributions; and
- employer contributions of 3% of salary credited to the Member's Superannuation account of contributing Salarylink members.

This investigation has highlighted the sensitivity of the financial position and the employer contribution rate to investment returns and to changes in the value of the assets. While an employer contribution rate of 6.3% of salaries is shown to be more than sufficient on the chosen actuarial basis over the coming three years, there remains a risk that increased contributions may be required in the future should the experience of the Plan be worse than that assumed.

I also make the following recommendations:

- that the financial position of the Plan continues to be monitored regularly by reviewing the Vested Benefit Index;
- that the Shortfall Limit for the Plan remain at 97%;
- that the discount rate used for the determination of the Present Day Super Benefit should remain at 3.0% p.a..

I do not recommend that any changes be made to benefits, given the above contribution recommendations and the long term nature of the benefits provided by the Plan.

Appendix D contains the details required under Prudential Standard SPS 160, Defined Benefit Matters. This report has been prepared in accordance with Professional Standards 400, 402, 404 and 410 issued by the Institute of Actuaries of Australia.

Yours sincerely



Louise Campbell  
Fellow of the Institute of Actuaries of Australia

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D: CR | TR: AB | CR/ER: LC, VH | SPR: TD

# Section 2: Introduction

## Background

The Local Government Superannuation Scheme commenced on 15 May 1984 via the provisions of Section 157a of the Local Government Act 1934, as amended from time to time. With effect from 1 July 2012 the Local Government Superannuation Scheme merged with Statewide Superannuation Trust and the Local Government Superannuation Scheme continued in existence as the Local Super Sub-Plan of the Statewide Superannuation Trust.

On 29 April 2022, members and assets of the Statewide Superannuation Trust were transferred into the Hostplus Superannuation Fund (“Hostplus”), via a successor fund transfer (SFT), providing continuity of the Local Super Sub-Plan (the “Plan”) in Division 4 in Hostplus. A determination provided by the Australian Prudential Regulation Authority (APRA) on 26 April 2022 stated that the initial actuarial investigation for the Plan required after the SFT must be carried out by 1 July 2023. An actuarial is required at least every three years after the initial actuarial investigation.

This report is to be considered as the initial actuarial investigation of the Plan, however where relevant, results at the triennial investigation of the plan at 30 June 2020 (prior to the SFT) may be shown in the report for comparative purposes. We have also considered the experience of the Plan since 30 June 2020 in determining the actuarial assumptions in this report.

I have been provided with a consolidated version of the Deed incorporating amendments which were effective up to and including 1 September 2023. We understand there have been no amendments since that date. The Plan is governed by the terms and conditions set out in the Plan Rules.

Main features of the Plan are:

- members are generally current or former employees of councils in South Australia and the Northern Territory;
- the Plan is closed to new entrants. It is for employed Members and inactive Members with deferred benefits;
- lump sum defined benefits on all causes of exit;
- Death, TPD and salary continuance benefits as part of the benefit design; and
- there is a small, closed group of pensioners receiving indexed life or term pensions.

The Hostplus Superannuation Fund (the “Fund”) is an open fund with a closed defined benefit section for the Plan. It is a “regulated fund” under the provisions of the Superannuation Industry (Supervision) Act 1993 (“SIS”). The Hostplus Superannuation Fund is treated as a “complying superannuation fund” for taxation purposes.

A summary of the benefits valued for this investigation is included in Appendix A.

## Purpose of the Investigation

This investigation has been prepared for Host-Plus Pty Ltd, the Trustee of the Plan in accordance with Sub-Division A, Rule 4 of Division 4 of the Local Super Sub-Plan Rules. Under Rule 4, the Actuary must investigate the state and sufficiency of the Plan and the Actuary's report is required to state:

- any variation necessary on contributions, given no change in benefits, and any variation necessary in benefits, given no change in contributions, and
- any other matter required to be included in the Actuary's report under APRA's superannuation law.

Under Rule 23, the employers are to contribute at the rate determined by the Trustee on the advice of the Actuary (subject to a number of other provisions, as set out in the Rules). The Trustee can amend the Deed and the rules subject to certain provisions of the Deed.

This actuarial investigation meets the requirements of SPS 160 and APRA's determination (letter dated 26 April 2022) that an initial actuarial investigation be carried out after the SFT by 1 July 2023. The Trustee has also received an exemption from APRA (letter dated 26 April 2022) from the requirement that a fund paying a defined benefit pension must undertake annual actuarial investigations.

## Previous Investigation

The actuarial investigation of the predecessor Plan was carried out by me, Louise Campbell, FIAA, and was effective 30 June 2020. The results were set out in a report dated 10 November 2020. As discussed above, the Local Super Sub-Plan was transferred to the Hostplus Superannuation Fund in 2022.

The investigation found that the predecessor plan was in a satisfactory financial position at 30 June 2020. The report recommended that employers contributed 6.3% of members' salaries to the plan. In addition, employers make contributions of 3% of salaries to the Member's Superannuation Account in satisfaction of Superannuation Guarantee requirements for all members.

We understand the employers have been contributing in line with the recommended contribution strategy.

## Events subsequent to the Investigation

At the date of signing this report, I am not aware of any events subsequent to the Investigation which would have a material impact on the conclusions or recommendations in this report.



# Section 3: Membership

## Membership Data

For the purposes of this actuarial investigation, data has been supplied by Host-Plus Pty Ltd ('the Trustee') and Link Group, who assumed responsibility for administering the Plan from 29 April 2022. We were provided with details of all members who were in force effective 30 June 2023 or who ceased membership during the preceding three years.

Details of the current lifetime and term pensions being paid at 30 June 2023 and pensions ceasing during the three years ended 30 June 2023 were also provided by the Trustee.

Various checks have been applied to the data provided. I am satisfied that the data provided is reasonable and that there are no errors in the data which would have a material effect on the results of this actuarial investigation. We have relied on the data provided for the purposes of this investigation.

## Membership Summary

The following table shows the summary of active Plan members of the Plan:

	Number of members	Average Age	Total Full Time Salary (\$)	Average Salary (\$)
30 June 2023	1,583	54.0	153,283,366	96,831

In addition, there were 2 Old Benefit Members and 435 CPI deferred members.

A reconciliation of membership movements over the three years to 30 June 2023 is included in Appendix B.

## Pensions in Payment

At 30 June 2023, there were 11 lifetime pensioners and 12 term pensioners.

The annual pensions in payment at 30 June 2023 totalled \$167,337 for the term pensioners and \$52,125 for the life pensioners.

During the period under investigation the lifetime and term pensions in payment were increased annually by the lesser of 5% and the increase in the All Groups CPI Adelaide.

The following increases were granted to lifetime and term pensioners in respect of the period under investigation:

Effective From	Increase
1 July 2020	1.2%
1 July 2021	4.7%
1 July 2022	5.0% (CPI Increase was 7.9%)

# Section 4: Assets and Investments

## Assets

The Fund's administrator has provided data in relation to the value of the Net Assets held by the Fund in respect of the Local Super sub-plan at 30 June 2023. The Net Asset value represents the value of assets including any transaction costs that would be incurred on sale. We note that Professional Standard 404 requires that the "Fair Value" of assets be used which is defined as the value of assets before the deduction of transaction costs. Based on the type of assets held by the Plan we confirm that the transaction costs are not expected to be material. We have therefore used the Net Asset value provided by the administrator for the purposes of this investigation.

No detailed financial statements are prepared for the Plan as a stand-alone entity as at 30 June 2023, however as the only defined benefit sub-plan at that date, some separate defined benefit reporting is shown. We have been advised that the asset values provided to us by the administrator have been calculated on a consistent basis with the preparation of the Hostplus Superannuation Fund's audited financial statements as a whole.

The Net Asset value for the Plan at 30 June 2023 was \$590,054,000.

Under APRA's Prudential Standard 114, the Plan is required to hold a separate reserve to satisfy the Operational Risk Financial Requirement (ORFR). The amount held in this reserve must be excluded from the net value of assets when determining the Vested Benefit Index. We have been advised that the reserves held to meet the ORFR are held outside the Plan. Therefore, no further adjustment to the Plan asset value is required for the ORFR.

We are satisfied that there are no material data discrepancies and that the net asset data provided is suitable for the purpose of this investigation. We have relied on the information provided for the purposes of this investigation. Although we have no reason to doubt the quality of the asset information provided, the results of this investigation are dependent on the quality of the asset information. Any changes to the asset values above will have an impact on the outcome of the investigation and any resulting recommendations.

## Investment Objectives and Strategy

The Trustee has set clearly articulated, measurable (in relation to both risk and return) and formally documented investment objectives for each of the Fund's investment options which are available for the investment of the Plan's DB assets. The Trustee has developed the investment strategy in respect of assets supporting defined benefits having regard to the liability profile of the Plan and expected future payments from the Plan. The assets supporting defined benefits are invested in line with the asset allocation of Hostplus Superannuation Fund's Balanced Option. The investment objectives for the Balanced Option is to achieve a return of at least 4.0% p.a. above the change in CPI, over rolling 20 year periods.

The strategic asset allocation and strategic ranges at 30 June 2023 for the Balanced Option are detailed below.

<b>Asset class</b>	<b>Strategic Asset Allocation 30 June 2023 %</b>	<b>Strategic Range %</b>
Australian Equities	21	10-40
International Equities	29	10-55
Property	11	0-30
Growth Alternatives	10	0-25
Infrastructure	11	0-30
Alternative Debt	10	0-40
Diversified Bonds	3	0-20
Cash	5	0-15

The investment objectives and strategy adopted for the Plan assets are within the range of reasonable objectives and strategies which are used by funds with a profile of salary related liabilities similar to this Plan.

In addition, given the relatively small value of defined benefit lifetime pension liabilities compared to the Plan's total liabilities, I believe the Plan's assets have sufficient liquidity to provide for pension payments and the investment strategy is suitable for matching the expected income streams.

### **Crediting Rate Policy**

The Plan uses daily unit prices to credit investment earnings to members' accounts. I consider this crediting rate policy adopted by the Trustee to be appropriate as it limits cross subsidies between members invested in different options and between different sections of the Plan.

# Section 5: Valuation Method

## General

For the Plan, a pool of assets is built up over time that is available to meet benefit and expense payments as they arise. The pool of assets is built up by member and employer contributions and investment income on assets already accumulated. The pool is reduced by benefit payments, tax and expenses. The funding method is the method by which the actuary considers the long-term financial position of the Plan with a view to ensuring the assets will be sufficient over the long term to meet its liabilities as they arise.

The amount of benefits which the Plan will be liable to pay from the pool in future cannot be known in advance since benefits depend on members' salaries near their date of leaving, their completed membership at that date and their reason for leaving. The amount of future tax and expenses also cannot be known in advance. It is therefore necessary to estimate these future liabilities and hence the amount that will be required in the pool of assets. The estimate is made based on a set of assumptions about future experience. More details on the individual assumptions used are included in Sections 6 and 7 of this report.

The level of employer contributions and the investment income are key influences on the size of the pool of assets held for the Plan. The rate at which employers contribute to the Plan is generally the only variable inflow over which employers can exercise control and is the main determinant of the pace of funding of benefits. The actuarial funding method is the method of determining this contribution rate.

## Funding Method – Aggregate Method

In determining the long-term contribution rate required by the employers to provide the benefits to the existing members in the future, I have used the Aggregate Method. This method involves:

- calculating the amount of all benefits expected to be paid in the future in respect of the current and deferred members, based on both accrued and future service, and allowing for all the contingencies under which benefits can be paid (retirement, death, disablement, resignation or ill-health) and for future salary increases;
- calculating the amount of all pension payments expected to be paid in the future in respect of the current lifetime and term pensioners, including expected future pension indexation; and
- discounting the stream of expected future benefit and pension payments to determine the present value of future liabilities.

The difference between:

- the present value of future benefit liabilities (including the pension liabilities); and
- the total value of the assets available to meet future liabilities

represents the amount that must be funded by future member and employer contributions and can thus be used to determine the required employer contribution rate. Adjustments are made for tax on employer contributions and a suitable allowance for expenses is included.

The effect of this valuation method is to spread the expected future cost of the Plan's benefits over the average future working lifetime of the current members to produce a level of contribution as a percentage of these members' salaries. This method is particularly appropriate to funds, such as the Plan, which are closed to new defined benefit members.

In the event that there is a significant surplus or deficit in the Plan, it may be appropriate to spread the cost over a different period. In particular if the coverage of vested benefits was less than 100% then the contribution rate must be set at a level which returns coverage to at least 100% within three years in accordance with the requirements of Prudential Standard SPS 160.

The funding method does not affect the overall cost of the benefits – this will be determined by the experience of the Plan. The funding method is simply a systematic approach to meeting the ultimate cost of benefits.

## Section 6: Experience and Assumptions – Financial

Each of the assumptions used for the valuation is the actuary's best estimate of future experience, based on the experience of other similar funds and where appropriate allowing for actual Plan experience. It is nonetheless likely that the Plan's actual experience in any period will differ from the assumptions to some extent. However, it is intended that over longer periods, and when all of the assumptions are combined, they will provide a reasonable estimate of the likely future experience and financial position of the Plan.

### Investment Performance

The net investment returns (after allowing for expenses, tax and investment managers' fees) for the three years to 30 June 2023 are presented in the table below, along with the assumptions made for the previous investigation. The net investment returns have been determined by taking the change in unit prices of the relevant investment option over the corresponding period.

Year to 30 June	Actual return	Assumed at previous investigation (net)
2020/21	18.0%	4.3%
2021/22	0.1% (3.7% from 1 July 2021 to 29 April 2022 and -3.5% from 30 April 2022 to 30 June 2022)	4.3%
2022/23	8.1%	4.3%
3-Year return	8.5% p.a.	4.3% p.a.

The return between 29 April 2022 and 30 June 2023 (post-SFT) was 3.7%p.a..

The assets in relation to Plan benefits achieved a return of 8.5% p.a. over the three-year period from 1 July 2020 to 30 June 2023 (net of investment fees and taxes). This was greater than the return assumed at the prior investigation, meaning that the assets have grown more than expected in the three-year period to 30 June 2023.

### Assumed Future Investment Returns

For the purposes of valuing the liabilities in relation to Plan benefits which would become payable in the future, it is necessary to make assumptions regarding the net investment returns which could be earned on the assets backing the Plan liabilities over the long term and the rate of inflation of salary levels.

To determine the expected rate of return on assets, I have considered the expected future investment returns for each major asset class net of investment tax, based on internal research carried out by WTW's investment research team. The estimated returns for each asset class have been used as the basis for calculating the expected net rate of return on the assets supporting the defined benefits based on the Plan's asset allocation.

In view of the current long-term expectations for net investment returns and the investment strategy adopted for the Plan assets, the assumed rate of investment return of 6.8% p.a. has been adopted for funding purposes for this actuarial investigation. This rate of return is higher than the assumed long-term rate of 4.3% p.a. which was used to value the liabilities in the previous actuarial investigation. The increase in the assumed rate of return reflects an expectation, based on changed economic conditions since 2020, that future investment returns are likely to be higher than returns assumed in the recent past.

No investment tax is payable on the assets supporting pensions so to calculate the liabilities of the Pension Section a gross of tax investment return of 7.7% p.a. has been used. This is higher than the rate which was used in the previous actuarial investigation (4.9% p.a.).

## Salaries

The member contribution requirements and the benefits payable for Plan members are specified in terms of Members' salaries. Salary is defined as the member's regular wages or salary including any regular allowances but excluding commission, overtime, bonuses and non-regular allowances. However, for the purposes of determining an employers' obligations under the Superannuation Guarantee (Administration) Act, the salary is the superannuation salary capped at a maximum contribution base prescribed under the Superannuation Guarantee legislation.

With effect from 1 July 2008 Superannuation Guarantee legislation has required contributions to be based on Ordinary Time Earnings ('OTE'), however Salarylink benefits continue to be based on the Salary definition in the Trust Deed. A minimum benefit is also calculated to ensure Superannuation Guarantee requirements are met.

### Base Salary assumption

The actual salary increase for stayers since the previous triennial investigation was 3.6% p.a.. Our expected salary increase assumption was 2.0% p.a. with promotional increases in addition. The promotional scale is age-related and for example adds 0.9% p.a. at age 30, reducing to nil at age 60. The average age of members in the Plan is 54 and the average promotional scale from ages 51 to 54 is around 0.3% p.a., giving a total expected increase of around 2.3% in salaries over the period. Therefore, the actual salaries were 1.3% p.a. higher than expected.

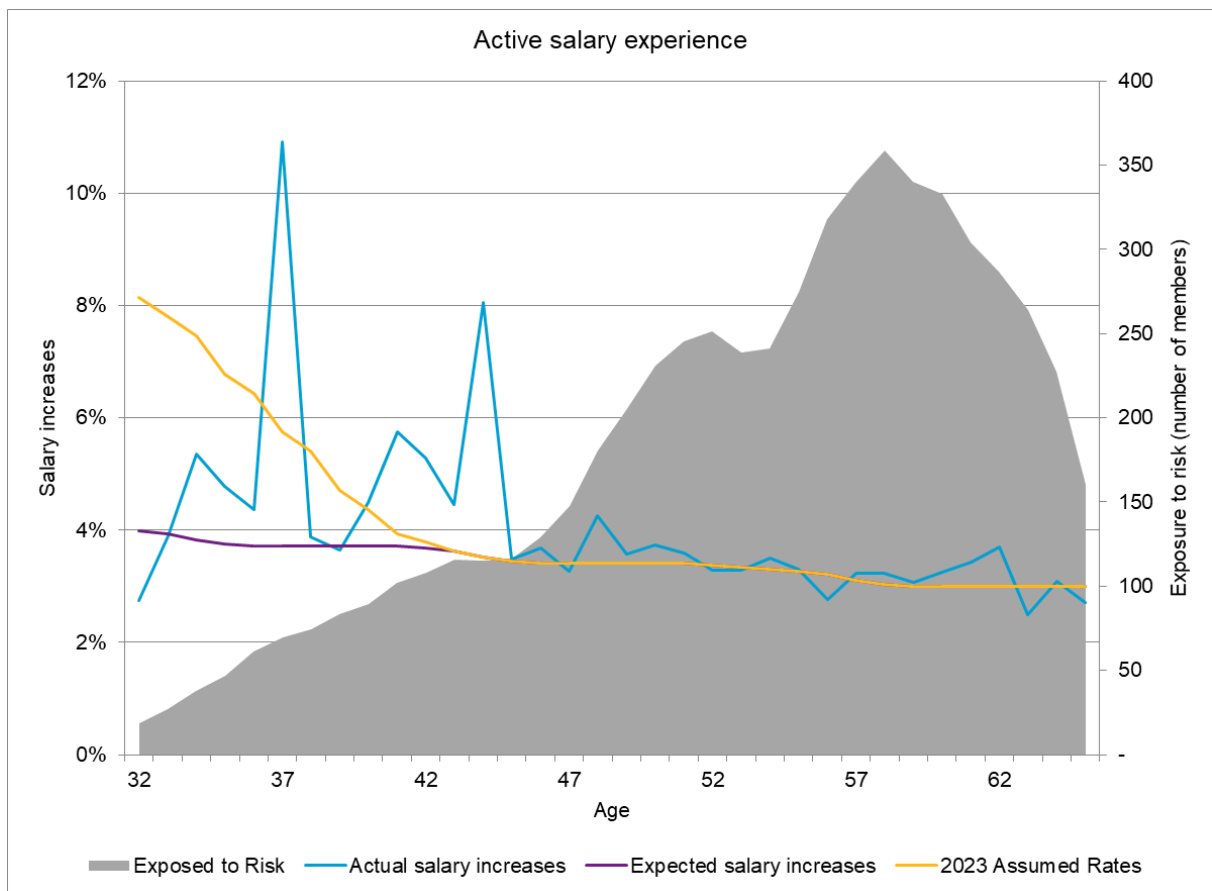
Taking into account current long-term expectations for wage inflation and expectations for the Plan members based on their type of employment and input from the employers on their expectations, I consider a base inflationary salary increase assumption of 4.5% p.a. for year 1, 3.5% p.a. for years 2 and 3, and 3.0% p.a. thereafter to be appropriate for this actuarial investigation. This is higher than the assumption of 2.0% p.a. adopted for the previous actuarial investigation.

### Promotional Salary scale assumption

The actuarial assumptions include an age-based promotional salary scale index where younger members tend to experience higher salary increase rates than older members. As the average age of the membership is now around age 54, the promotional scale does not tend to have a material effect.

The actual salary was greater than expected salary for members aged less than 40 years. We will therefore increase the promotional salary scale for members under age 40. We expect that the average overall promotional scale for the membership will remain around 0.3% pa given the age profile of the membership.

The graph below shows the expected salary under the old and updated promotional salary scale.



Note: The graph above assumes a base salary increase of 3% p.a. (in line with the new base salary assumption). "Exposed to risk" means the number of members at each age during the investigation period. A member who was age 55 at the time of the previous investigation and is currently still active in the fund would have an exposure of 1 at ages 55, 56 and 57 in the graph above.

We estimate the actuarial value of accrued benefits will increase by less than 0.5% due to the change in this assumption. This is due to the changes to the promotional scales occurring at the younger ages where there are fewer active members. The new promotional scales are detailed in Appendix C.

### Deferred Benefits and Pension Increases

On resignation prior to age 55, members have the option to defer part of their benefit until attaining age 55. The Rules provide that the benefit is indexed during deferral with movements in the Consumer Price Index (all Groups) for Adelaide plus 2%.

Lifetime and term pension payments are also indexed to movements in the Consumer Price All Groups CPI Adelaide (CPI), but limited to a maximum of 5% p.a.

For the actuarial investigation as at 30 June 2020, the CPI was assumed to increase by 2.0% p.a.. Over the three years to 30 June 2023, the average increase was 5.0% p.a.



For this actuarial investigation, I have assumed a rate of CPI indexation of 3.0% p.a. This is in line with WTW's expected short to medium term increases in the CPI, and within the Reserve Bank's target range of 2% to 3%. This is also considered reasonable given the average weighted term of the CPI-linked benefits (deferred and pension liabilities) is around 4 to 5 years. In conjunction with the assumed investment return of 6.8% p.a., this assumption implies an average differential of 3.80% p.a. between the rates of investment return and CPI inflation.

## Valuation Gap

The difference between the assumed levels of net investment return and salary inflation has a greater impact on the financing of the Plan than their absolute values. For the period under review the average gap has been 4.9% p.a. (8.5% less 3.6%), compared to an assumed gap of 2.0% p.a. (4.3% less 2.3%). This has had a positive effect on the financial position of the Plan.

As noted above, an expected net investment return of 6.8% p.a. has been adopted for this actuarial investigation, resulting in a long-term differential between investment returns and salary increases of 3.5% p.a. which I consider to be a reasonable long-term assumption. This is higher than the gap of 2.0% p.a. which was assumed previously and in isolation, will have the effect of decreasing the value of the Plan liabilities.

For the valuation of pensioner liabilities, the valuation gap has increased from 2.9% p.a. (4.9% less 2%) to 4.7% p.a. (7.7% less 3%) which, in isolation, will decrease the value of pension liabilities, noting **these are relatively small compared with the overall Plan.**

## Expenses

The assumed rate of administration expenses in the actuarial review as at 30 June 2020 was a salary based expense of 1.0% of salaries.

For this valuation I have been advised that the administration expense remains approximately equivalent to 1.0% of salaries.

We suggest that the Trustee monitors the level of fees charged on a triennial basis, given the continuing reduction in the membership and salary roll.

## Section 7: Experience and Assumptions – Demographic

As part of the actuarial valuation, an examination is undertaken of the demographic experience of the membership over the three years since the last actuarial investigation (i.e. resignations, deaths, disablements and retirements) compared to the assumptions adopted for the actuarial investigation. A summary of the results of our review is set out below:

A summary of the results of our review is set out below:

- Retirement rates – increase rates between ages 60 to 64 from 12.5% to 20%.
- Resignation rates – increase rates at all ages by 25% of the prior rates.
- Deaths and Disablements rates – no change.
- Ill-health rates – no change.
- Deferred resignation take-up assumption – lower the take-up assumption from 30% to 25%.
- Member contribution rate – no change.
- Lifetime Pensioner rates – no change.

Further detail is provided below.

### Retirements

During the three years to 30 June 2023 there were 536 retirements of Salarylink members, which was more than the expected number of 418 retirements, as shown below.

Salarylink Retirement Experience			
Age	Actual	Expected	Actual/Expected
55-60	176	123	143%
61-65	360	295	122%
<b>Total</b>	<b>536</b>	<b>418</b>	<b>128%</b>

The experience over the last three years has been higher than expected. The retirement experience was also greater than expected in the triennial investigation of the predecessor fund, therefore we will increase the retirement rates at all ages as there seems to be a clear trend emerging. The graph below shows the old and new retirement rates.



Note: “Exposed to risk” means the number of members that were eligible for retirement at a certain age during the investigation period. A member who was age 55 at the time of the previous investigation and is currently still active in the fund would have an exposure of 1 at ages 55, 56 and 57 in the graph above.

After making these changes, the actual/expected retirements for the investigation period decreases from 128% to 102%. This change is also estimated to increase the actuarial value of accrued benefits by less than 1.0%.

The updated retirement decrement rates are detailed in Appendix C.

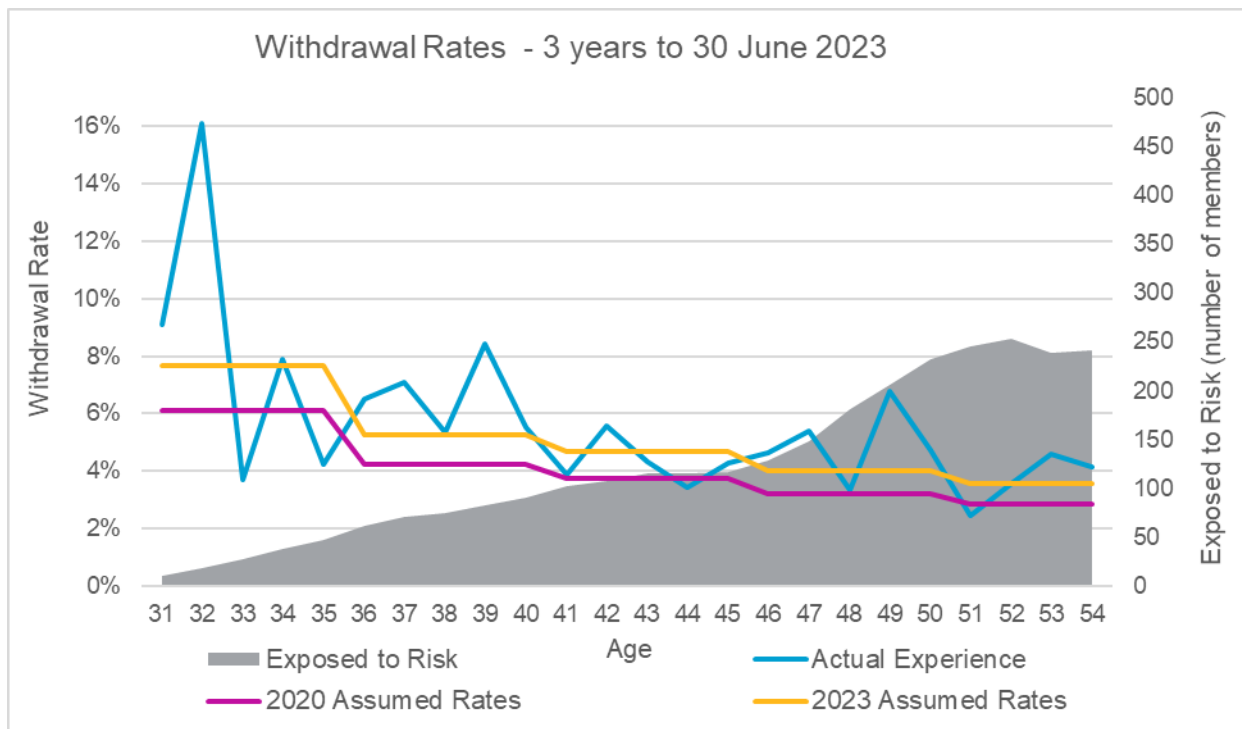
### Withdrawal

During the three years to 30 June 2023 the number of withdrawals of members was greater than previously assumed as shown in the following table:

Salarylink Withdrawal Experience			
Age	Actual	Expected	Actual/Expected
25-35	9	6	147%
36-40	22	15	146%
41-45	24	20	118%
46-50	39	26	153%
51-55	47	35	133%
<b>Total</b>	<b>141</b>	<b>102</b>	<b>138%</b>

The experience in the three years to 30 June 2023 is higher than expected for all age groups. The actual experience in the triennial investigation for the predecessor fund was slightly lower than expected, however we believe the actual experience over the recent years is high enough to warrant a higher withdrawal decrement assumption. Therefore, we have therefore decided to increase the withdrawal rates by 25% to better align the assumptions with experience.

The experience is also shown in the graph below.



After making these changes, the actual/expected withdrawals for the investigation period decreases from 138% to 110%. This change is also estimated to increase the actuarial value of accrued benefits by less than 0.5%.

The updated withdrawal decrement rates are detailed in Appendix C.

## Deaths and Disablements

During the three years to 30 June 2023 the number of Deaths and Disablements of members were less than previously assumed as shown in the following table:

	Actual	Expected	Actual/Expected
All ages	22	24	92%

Based on this analysis, and given the very small number of deaths and disablements involved, we have retained the existing assumptions.

### III-health retirements

During the three years to 30 June 2023 the number of III-health retirements of members were less than previously assumed as shown in the following table:

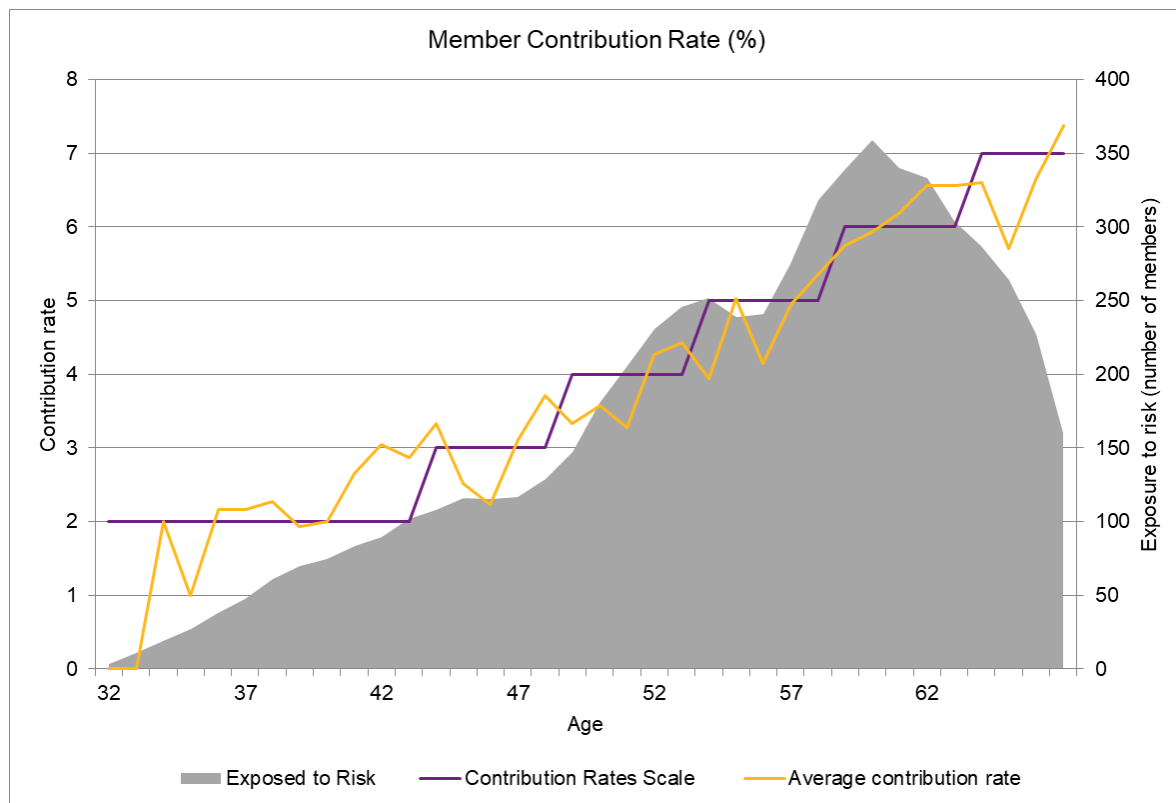
	Actual	Expected	Actual/Expected
All ages	0	3	0%

It is prudent to have a margin for ill-health retirements as the additional benefit due to ill-health is not externally insured. Therefore, we have decided to retain the existing assumptions.

### Member contribution rates

Salarylink members have the option to change their rate of contributions at any time. For the previous actuarial valuation, we made assumptions about the average rate at which members contribute at different ages.

The graph below shows the assumed rates of contribution and the actual rates of contribution.



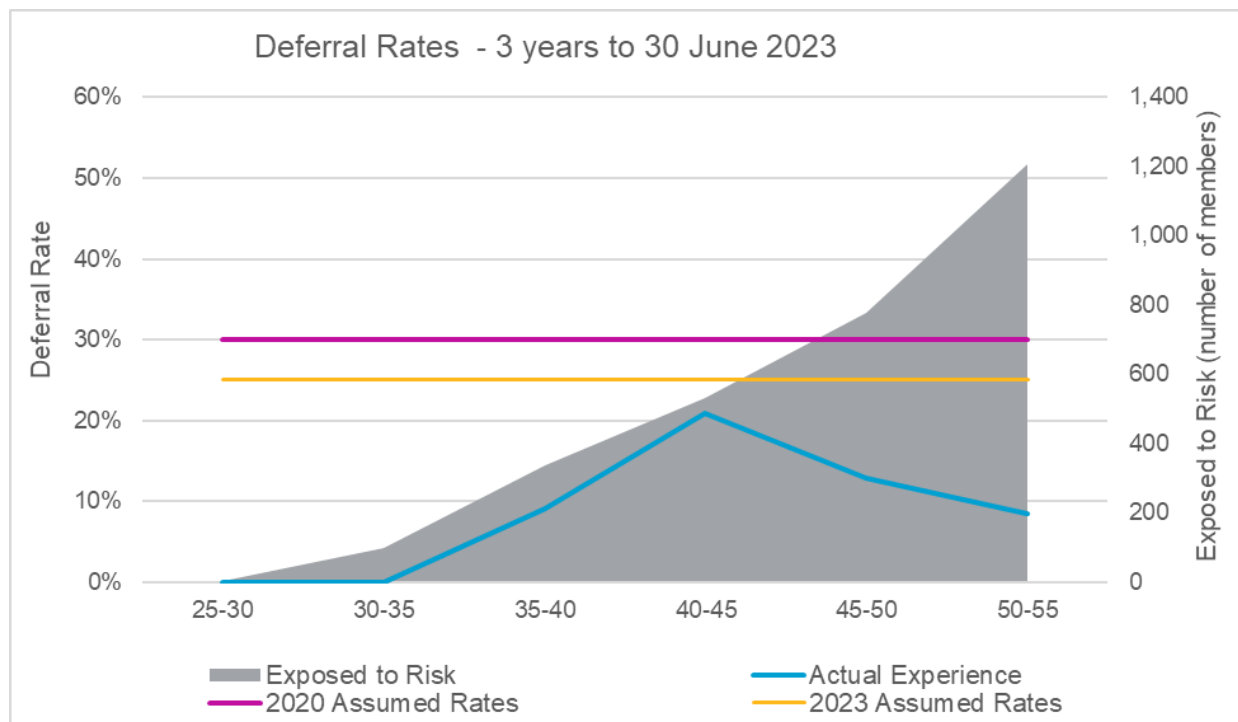
We have compared the assumptions against the actual member contribution rates at 30 June 2023 and found that the assumed rates of contribution were reasonably close to the actual rates. We have therefore retained these assumptions.

## Deferred resignation benefit option

Members who resign prior to age 55 have the option to defer part of their resignation benefit to age 55. The deferred benefit is indexed at a rate two percentage points higher than the increase in the All Groups CPI Adelaide. For the previous actuarial review in 2020, it was assumed that 30% of resigning members would elect this benefit, where it has a higher present value than the cash resignation benefit.

The experience over the valuation period shows that 16 out of the 141 (i.e. 11% of) members who were paid a resignation benefit during the period elected to take a partial deferred benefit. The actual election rate during the previous triennial investigation period was 20%.

The graph below summarises the experience by age groups.



There has been a downward shift in members opting to take the deferred option since the previous investigation. Based on this information, we have decided to lower the assumption of the proportion of resigning members electing the deferred benefit option from 30% to 25%. This is expected to slightly reduce the liabilities, all else being equal.

## Pensioner mortality

As the Plan has only a small number of pensioners, the experience is not statistically meaningful. We have therefore retained the same mortality decrements used to value the lifetime pension which are based on the most recently published Australian Life Table (ALT 2015-17).

A summary of assumptions is set out in Appendix C to this report.

## Section 8: Valuation Results

The following table summarises the results of the Plan valuation and shows the derivation of the required employer contribution rate using the current valuation basis. The results at 30 June 2020 are shown for comparison.

Valuation Results for the Plan	30 June 2023	30 June 2020
Salarylink – active members	\$501.2m	\$633.3m
Old benefit members	\$1.2m	\$1.4m
CPI-linked deferred members	\$32.2m	\$41.8m
Current lifetime and term pensioners	\$1.0m	\$1.5m
<i>less Family law offset accounts</i>	(\$1.1m)	(\$1.0m)
Total Actuarial Value of Liability for Benefit Payments	\$534.5m	\$676.8m
<b>Less</b>		
Market Value of Assets attributable to members	\$590.1m	\$622.7m
<b>Less</b>		
<b>Less</b> Present value of future member contributions	<u>\$40.0m</u>	<u>\$62.3m</u>
Net liability to be funded by future employer contributions	(\$95.6m)	(\$8.2m)
Present value of 1% of future salaries	\$9.6m	\$12.2m

As the net liability to be funded by future employer contributions is negative (expressed as contribution rate, it would be minus 8.8% of salaries after allowing for the costs of expenses and premiums), the table shows that no future employer contributions are required to finance the future defined benefits, assuming the actuarial assumptions are borne out in future. Overall, the net liability to be funded by employer contributions has reduced further compared to the previous triennial investigation, mainly due to strong investment returns earned on the Plan assets relative to underlying salary increases over the three years to 30 June 2023.

The Employer contribution rate for 2023 determined by the above analysis is lower than the employer current rate of 6.3% of salaries, however the employer contribution rate required to fund the defined benefits is highly sensitive to movements in investment returns (as shown in the next section).

### Sensitivity

As explained earlier, the assumption of major significance in the valuation of the Plan's future benefit liabilities and contributions is the difference (or 'gap') between the assumed future rate of investment earnings and the assumed rate of future growth in salaries or pension payments.

To illustrate the impact of a change to the gap, I have determined the required employer contribution rate under an alternative scenario, assuming that the investment return is 5.8% p.a. in all future years. The resultant Total Actuarial Value of liability for benefit payments increases to \$550.6m (compared to \$534.5m). However, under this sensitivity scenario, the net liability to be funded by future employer contributions remains negative and therefore no future employer contributions are expected to be required.

Note that the variations selected in the sensitivity analysis do not indicate upper or lower bounds of all possible outcomes. If requested, we can carry out further analysis however this is outside the scope of this investigation.



## Section 9: Solvency Measures

When assessing the adequacy of the assets and future contribution rates, both the long-term funding and short-term solvency positions should be considered. I have calculated three measures of the Plan’s financial position at the investigation date: the Vested Benefits Index, the Actuarial Value of Accrued Benefits Index and the Minimum Requisite Benefits Index.

### Vested Benefits Index

This index represents the ratio of the assets at market value to the “vested benefits”. The value of vested benefits represents the total amount which the Plan would be required to pay if all members were to voluntarily leave service on the valuation date.

The Vested Benefits Index (VBI) for the Plan is therefore defined as:

$$\frac{\text{(Net Market Value of Assets)}}{\text{(Vested Benefits of Plan Members, including lifetime and term pensioners)}}$$

“Vested Benefits” in this context means the total amount of Plan benefits that would be due and payable if all the members voluntarily left the employment of the employers on the valuation date. We have taken the vested benefits as being the member’s resignation benefit or their early retirement benefit (if eligible). It has been assumed that 25% of members would elect to take the deferred resignation option, where this has a greater value than the cash resignation benefit. For pensioners, the vested benefit is taken to be the actuarially determined value of future pension payments. The vested benefits for CPI-deferred members have been taken as the actuarial value of the benefit.

The VBI is an indicator of the short term solvency of the Plan, i.e. the ability of the Plan to meet immediate benefit entitlements. A ratio of 100% or above indicates the Plan is in a “satisfactory financial position” (as described in SPS 160), although most funds would aim for an index in excess of 100%, to provide a margin against fluctuations in asset values.

The VBI for the Plan is shown in the table below.

Date	Assets (\$M)	Vested benefits (\$M)	Vested Benefits Index
30 June 2023	590.1	468.9	125.8%
30 June 2020	622.7	556.7	111.9%

The current VBI of 125.8% is higher than the VBI reported at 30 June 2020 due primarily to the strong investment returns over the three years to 30 June 2023.

### Actuarial Value of Accrued Benefits Index

The Actuarial Value of Accrued Benefits Index (AVABI) is defined as follows:

$$\frac{\text{(Net Market Value of Assets)}}{\text{(Actuarial Value of Accrued Benefits)}}$$

The Actuarial Value of Accrued Benefits Index is a simple measure of a fund's strength on a continuing or "going concern" basis. The method of calculating the accrued benefits is the same as that used to determine the present value of accrued benefits for the purposes of AASB1056 disclosure. Accrued benefits represent the present value of expected future benefit payments arising in respect of membership of the Plan up to 30 June 2023. As required by AASB 1056, a minimum of the vested benefit has not been applied either on an individual member or overall basis.

The AVABI for the Plan is shown in the table below.

Date	Assets (\$M)	Actuarial Value of Accrued benefits (\$M)	Actuarial Value of Accrued Benefits Index
30 June 2023	590.1	444.1	132.9%
30 June 2020	622.7	525.9	118.4%

The value of the index has increased over the three years since the last actuarial investigation mainly due to investment returns being better than expected over the last three years.

### Minimum Requisite Benefits

Another test on the adequacy of the Plan assets relates to the benefits which the Plan provides to satisfy the Superannuation Guarantee requirements. These benefits are termed Minimum Requisite Benefits and are defined in the Plan Benefit Certificate. A Minimum Requisite Benefit Index of at least 100% indicates the Plan is technically solvent.

The total Minimum Requisite Benefits for the Plan at 30 June 2023 including CPI-deferred members, Old Benefit members and pensioners, was \$396.0 million. The Plan assets, which have a value at 30 June 2023 of \$590.1 million, therefore comfortably cover the Minimum Requisite Benefits, with an index of 149.0%. For comparison, the Minimum Requisite Benefits Index at 30 June 2020 was 142.2%.

### Funding projections

The impact on the Plan's solvency of the recommended contributions can be tested by projecting the cash flows and assets of the Plan and comparing the assets to the projected levels of the vested benefits and accrued benefits. The projections exclude the pensioners and Old Benefit members.

We have carried out projections under the following scenarios:

- Base: using the future investment return of 6.8% per annum, and the current contribution rate of 6.3% of salaries.
- Scenario 1: the future investment return is 5.8% per annum, i.e. expected return on a more conservative investment portfolio (note the starting VBI is revalued to reflect the lower returns). Contributions remain at 6.3% of salaries.
- Scenario 2: the investment return is -9% during the first year ending 30 June 2024 and the investment return is assumed to remain at 6.8% per annum thereafter. The rate of -9% is the 5<sup>th</sup> percentile return (1 in 20 year) adverse return in the first year using the WTW's investment model and the current asset allocation. Contributions remain at 6.3% of salaries.

All other assumptions remain unchanged from the Base scenario. The results are shown in the table below.

30 June	VBI Base Return: 6.8%p.a. Conts: 6.3%	VBI Scenario 1 (De-risking) Return: 5.8%p.a. Conts: 6.3%	VBI Scenario 2 Return: -9% in year 1, 6.8% later years Conts: 6.3%
2023	126%	125%	125%
2024	129%	127%	114%
2025	132%	130%	116%
2026	136%	133%	118%
2027	142%	137%	121%
2028	148%	142%	124%

Under the Base Scenario, the projections show that the financial position of the Plan is expected to improve over the projection period. However, the projections assume an investment return of 6.8% p.a.. The financial position of the Plan remains vulnerable to movements in investment returns as most of the liabilities are determined with reference to salaries and are not significantly affected by changes in returns.

In Scenario 1, these projections show that the financial position of the Plan would be expected to increase over the projection period with a lower investment return of 5.8% p.a..

In Scenario 2, the results demonstrate that the Plan's financial position is very sensitive and can be severely affected by poor returns. In this case, a year with a severe negative investment return significantly affects the funding levels in the short term and the Plan's financial position is not expected to return to its current level within the next five years. However, additional employer contributions would not be required unless there were consecutive periods with poor returns.

Note that the variations selected in the sensitivity analysis do not indicate upper or lower bounds of all possible outcomes. If requested, we can carry out further analysis however this is outside the scope of this investigation.

## Shortfall Limit

As required by SPS 160 the Trustee has set a shortfall limit for the Plan. The Trustee must monitor the funding position between actuarial valuations and if the VBI falls below 97% certain actions are required. In particular, after receiving actuarial advice, a plan is required to restore the VBI to 100%.

The shortfall limit is currently 97% which I believe remains a suitable value until such time as the investment strategy of the Plan is altered.

## Summary

On all criteria of solvency examined, the assets are sufficient to meet the relevant solvency standard as at 30 June 2023. The position in the future is however highly dependent on future investment returns and shows that the contribution rate of 6.3% is sufficient over the projection period whilst maintaining a reasonable buffer against adverse experience.

Given that stability in employer contribution rates is desirable, I therefore recommend that employer contributions for the defined benefits continue at the rate of at least 6.3% of Salarylink members' salaries.

I do not recommend that any changes be made to benefits, given the above contribution recommendations and the long term nature of the benefits provided by the Plan.

# Section 10: Insurance

## Death and TPD insurance

The Plan currently insures the future service portion of death and disablement benefits with MetLife Insurance Limited. This is appropriate to protect the Plan against adverse death or disability experience and to smooth out the inevitable fluctuations in such experience. The terms of the policy are the same as the provisions in the Plan Rules.

The formula being used for insurance purposes for Salarylink members is:

$$K\% \times \text{Final Salary} \times \text{Future Plan Membership to age 65 (in years and months)}$$

Where K is:

- 9% + 1.2 x member contribution rate, for members who, on 31 December 2004, had a contribution rate greater than 5% and have not changed contribution rate since that date;
- 15% for all other members.

The approximate impact on the formula of the Salarylink insurance cover can be summarised as follows:

	\$ million
A. Total Death and Disablement Benefits (active members)	737
B. Market Value of Assets (active members)	555
C. Death and Disablement Benefits at Risk {(A) – (B)}	182
D. Amount of Risk Insured	231
E. Amount of over insurance {(C) – (D)}	49

The table shows that the amount of assets and insured benefits is \$49 million more than the amount at risk should all members die or become disabled at the investigation date.

The use of external insurance and the formula for calculating the insured benefit are consistent with other funds of this size and appropriate for the Plan. On this basis, I recommend that the current death and TPD insurance formula be maintained.

I have valued the future cost of death and TPD insurance as 1.56% of salaries.

## Total and Temporary Disablement Insurance

The Plan currently insures Total and Temporary Disablement (TTD) benefits (75% of salary for a maximum period of 2 years) with MetLife Insurance Limited.

TTD insurance is automatically provided for all eligible Salarylink members and the cost is funded from the Employer contributions.

Some fund members have external income protection insurance through the Local Government Income Protection Fund (IPF). Where a member has insurance cover through the IPF that member is covered under the MetLife Policy only for those events which are not covered by the IPF. As a result, the MetLife premium rates for these members are lower than the rates for members who do not have the external cover (by close to 60%). We received data as at 30 June 2023 for the members who were covered by the IPF, this was used to value the future cost of the TTD insurance.

Overall, I have valued the future cost of TTD insurance as 0.31% of salaries.

### III Health Retirement Benefit

The Plan provides an increased benefit to members who leave the Plan due to ill health after age 50. Based on information provided, there have been no ill-health retirements during the previous investigation period.

As the additional benefits amounts for each member are low and the number of members who receive an ill health retirement benefit is extremely low, I do not consider it necessary to hold any specific reserve or insurance in respect of these benefits which may be funded as they arise from the general assets of the Plan.

Our valuation assumptions allow for a small number of members to be granted an ill health benefit each year. As such, the cost of funding these benefits is built into the employer contribution rate and we do not consider a separate reserve is needed. The position will be monitored as part of each triennial investigation.

# Section 11: Material risks

The funding of the Plan is dependent upon future experience. The purpose of this section of this report is to identify the material risks for the Plan, which are associated with the actuarial assumptions or actuarial management of the Plan, of which I am aware as Actuary. I also comment on the way in which the identified financial risks are being managed by the Trustee. The material risks are:

## Investment risk

As noted above a crucial risk affecting the financial position of the Plan relates to investment performance. One risk faced by the Plan is that the longer term investment returns earned on the assets will not be as high as expected. This means that the financial position of the Plan will deteriorate and employer contributions may need to increase. The Trustee should continue to consider the liabilities and the funding position when determining the investment strategy.

A second risk is that a downturn in markets could lead to the VBI falling below 100% or even further, below the shortfall limit. Either event is likely to create a situation in which it may be necessary to significantly increase employer contributions, at least in the short term.

The above position means that investment strategies which seek to maximise returns within acceptable volatility risk will help to manage this position. One means to reduce volatility is reduce the general level of investment risk in the portfolio through a reduction in exposure to growth assets. However this strategy also has the effect of reducing expected longer term investment returns which in turn may require increased employer contributions.

As noted earlier in this report, we have considered the position if the Plan assets earned a long term asset return of 5.8% p.a. as if the assets were invested in a more conservative investment option. The theoretical aggregate employer contribution rate required would increase, however it would remain lower than the 6.3% of salaries recommended.

If considering changes to the investment strategy it must also be recognised that members' resignation benefits and SG benefits are directly dependent on the investment return earned on the assets. A move to a more defensive investment option with a lower expected return, while reducing investment risk for members and the employers, also has the potential to result in lower benefit outcomes for some members and the potential for a higher long term contribution rate for employers.

## Inflation

The Salarylink liabilities are linked to salary and therefore a higher than expected rate of salary growth could have a negative impact on the financial position. Salary increases should continue to be monitored at each triennial investigation to determine if adjustments to the employer contribution levels are required.

The CPI-linked deferred benefits are indexed at the rate of All Groups CPI Adelaide + 2%, with no cap applying to the annual indexation. Therefore, there is a risk that a period of high inflation, if not accompanied by high investment returns, could have a negative impact on the financial position.

The lifetime and term pension liabilities are also linked to the consumer price index. However, increases are subject to a maximum of 5% in any year and the total value of these liabilities is low (relative to the whole Plan), so this risk is not significant.

## Increasing Life Expectancy

The Plan has a liability for pensions of approximately \$0.4 million in respect of 11 lifetime pensioners as at 30 June 2023.

The assumptions regarding pensioner mortality that I have used for this valuation do not allow for future improvements in mortality. It is possible that a future breakthrough in medical diagnosis or treatment could lead to a significant increase in life expectancy, which would increase liabilities. However the pension liability is very small relative to the total Plan and any such increase will not impact significantly on the financial position.

## Deferred Resignation Option

As members have the opportunity to elect a partially deferred resignation benefit option there is a risk that members will exercise this option in a way that will place a strain on the Plan. Our modelling shows that, under the current financial assumptions, an increase in the proportion of members electing the deferred option from 25% to 100% would increase the required Employer contribution rate, however it would remain below the 6.3% of salaries recommended.

It is possible that economic conditions could change in the future in a way that makes the deferred benefit more valuable, for example an increase in inflation or a long term reduction in overall investment returns. If this was to occur, then the impact of members electing the deferred option could be more significant.

## Other

The Plan faces a variety of operational and other risks which may in some circumstances lead to cost increases. I understand that the Trustee monitors and takes action on such risks as part of its risk management framework.



# Section 12: Other matters

## Present Day Super Benefit

The Present Day Super Benefit is defined in the rules as a Member's Accrued Salarylink benefit, discounted for the period from the Member's 55th birthday to the date of termination of service by an amount determined by the Actuary so that the resulting amount represents the present value of the benefit. At the previous actuarial investigation it was recommended that the discount rate used to determine this benefit be set at 3.0% p.a..

The method of setting the discount rate essentially represents a compromise between:

- a relatively stable rate over time designed to minimise fluctuations in member benefits,
- a potentially more volatile rate reflecting changing economic outlooks.

Historically, the discount rate has been set on a conservative basis, namely a rate that is 0.5% p.a. greater than the long term "valuation gap". The long term valuation gap for this valuation is 3.5%. However due to the strong financial position of the financial position of the Plan, I believe it is appropriate to have regard to the desire for stability of the calculation of members' benefits and maintain the discount rate at its present level. I therefore recommend that the discount rate remains at 3.0% p.a..

## Notional SG Account

A notional SG Account is maintained for each Salarylink member to calculate the Minimum Requisite Benefit. Based on the current SG rate for the year from 1 July 2023, of 11%, a notional contribution of 8.0% of Ordinary Time Earnings (OTE) is credited to the account, adjusted for insurance, salary related administration expenses and tax. (The balance of a member's SG entitlement is met by a contribution of 3% of OTE being made to the Member's Superannuation account.)

The net SG rate of contribution was set at 4.0% based on an SG rate of 9.5% and would be increased by 85% of the change in SG rate for all future legislated SG rate increases. This rate was calculated as 6.5% less allowances for expenses and death, TPD and TTD insurance premiums and contributions tax. Using this approach, the net SG rate of contribution based on the current SG rate of 11% is 5.275%. The rate of 5.275% should be increased by 85% of the change in SG rate for future legislated SG rate increases.

# Appendix A: Summary of Benefits and Conditions

Full details of the benefit provisions of the Local Super Sub-Plan (the Plan) are contained in the Trust Deed of the HOSTPLUS Superannuation Fund and the Local Super Sub-Plan Rules. A summary of these is set out below.

Active defined benefit member Salarylink benefits refer to benefits determined by the rate of and period for which the member has made Salarylink contributions. These benefits are defined in terms of salary and membership and the member's contribution rate.

Local Super Accumulation benefits refer to benefits of an accumulation nature, which are provided separately.

## Eligibility

Permanent employees of South Australian Councils, or of other Salarylink employers as listed in the Trust Deed, who have made a Salarylink contribution prior to 24 November 2009, may elect to make Salarylink contributions.

The following classes of Member are also described in the Rules:

**Transferred Member:** a member of this Plan who was a member of a previous local government authority superannuation scheme and who elected to transfer to the benefits provided by this Plan, including seven members of the Alice Springs Council whose past service benefits for service prior to 1 June 1990 are their defined benefits under the Previous Plan.

**Old Benefit Member** a member of this Plan who was a member of a previous local government authority superannuation scheme and who has not elected to transfer to the benefits provided by this Plan. This class of member retains entitlement to the benefits which applied under the member's previous scheme, and pays contributions in accordance with the rules of the member's previous scheme.

## Salarylink Benefits

The following summary describes the benefits of members who elect to make Salarylink contributions.

### Earning Rate

The earning rate for Salarylink is the rate of return (after tax and investment management fees) earned on money held in respect of the Plan.

### Final Average Salary

Final average salary is generally the average annual salary over the three years immediately preceding cessation of service. For Transferred Members in respect of service prior to the transfer date, the final average salary is specified by the Board based on the rules of the member's previous scheme.

## Contributions

Members may choose to make Salarylink contributions of 1%, 2%, 3%, 4%, 5%, 6%, 7%, 8%, 9% or 10% of their salaries. Members who joined prior to 1 April 2001 and were contributing at the rate of 2.5% of salaries may maintain that contribution rate.

The choice of the contribution can be varied at any time. However, a member electing not to make Salarylink contributions will receive accumulation benefits only.

## Normal Retirement Benefit

If a member retires from service between ages 55 and 65, a normal retirement benefit is payable which is a lump sum expressed as a percentage of the member's final average salary.

The percentage depends upon the levels at which the member contributes towards Salarylink benefits. The following table shows the percentage for each year of Membership resulting from a year's contributions to Salarylink benefits at the various levels:

Benefit accrual rate %			
Member's Salarylink Contribution Rate	Up to 1 July 1994	From 2 July 1994	From 1 April 2001
1.0	N/A	N/A	10.2
2.0	N/A	N/A	11.4
2.5	12.0	12.0	12.0
3.0	12.6	12.6	12.6
4.0	13.8	13.8	13.8
5.0	15.0	15.0	15.0
6.0	16.1	16.2	16.2
7.0	17.2	17.4	17.4
8.0	18.2	18.6	18.6
9.0	19.2	19.8	19.8
10.0	20.2	21.0	21.0

Percentages in respect of membership of previous plans are based on the rules of those plans.

## Bonus Multiples

Bonus multiples have been credited to all members of the Plan who were members at certain dates. The bonus multiples were 10% of the accrued benefit percentages at 2 July 1994, 16.25% of the accrued benefit percentage at 1 July 1997 and 22.2% of the accrued benefit percentage at 1 July 2000. These bonus multiples are included in any benefit described below which is calculated as a multiple of salary or final average salary.

## Late Retirement Benefit

If a member remains in the service after his 65th birthday, the member's normal retirement benefit is transferred to the accumulation section of the Plan and attracts investment earnings at the respective returns of the selected investment choice options.

### **III Health Benefit**

If a member retires before age 50, with the consent of the Board, on account of ill health the member will receive the accrued Salarylink benefit determined as if the member retired on the date of termination of service.

### **III Health Retirement Benefit**

If a member retires after age 50 and before age 65, with the consent of the Board, on account of ill-health, the benefit described above under III Health Benefit will be increased by 50% of the difference between that benefit and the benefit the member would have been entitled to had the member remained in service until age 65 on the same salary and continued to contribute at the same Salarylink contribution rate as the member was contributing at the date of cessation of service.

### **Death in Service Benefit**

The death in service benefit is equal to the benefit the member would have received at 65 had the member continued in service until that date on the same salary and made Salarylink contributions at 5% of salary until that date. That is, the future service scale is 15% p.a. for all members except those detailed below.

For members who had a Salarylink contribution rate at 1 January 2005 of greater than 5% and who do not alter their contribution rate, the benefit is the benefit the member would have received at age 65 had the member continued in service until that date on the same salary and the same Salarylink contribution rate as applied at the date of the member's death.

### **Total and Permanent Disablement Benefit**

On total and permanent disablement, the benefit payable is an amount equal to the member's death benefit.

### **Total and Temporary Disability Benefit**

On total and temporary disablement a disability income benefit is payable equal to 75% of salary to a member whilst totally disabled for up to a period of two years after an initial waiting period of three months.

### **Termination of Service Benefit - Cash Option**

The benefit payable on resignation is calculated as:  $2 \times (a) + (b) + (c)$

Where:

- a. is the accumulation with investment earnings of contributions paid by the member (excluding any contributions in excess of 5%),
- b. is the accumulation with investment earnings of any contributions paid by the member in excess of 5%,
- c. is any transferred amount which was used to purchase an additional benefit percentage. This amount is accumulated with investment earnings.

The benefit is subject to a minimum of the Present Day Super Benefit which is the present value of the Member's Accrued Retirement Benefit. The Accrued Retirement Benefit is calculated in a similar manner to the normal retirement benefit, with service counting up to the date of resignation. The present value is calculated by discounting the Accrued Retirement Benefit at the rate determined by the actuary for the period from the date of termination of service to the member's 55th birthday. The discount rate was 3.0% p.a. at 30 June 2023.

### **Termination of Service – Partial Deferred Option**

As an alternative to the cash option, the member may elect to receive a benefit which is partially deferred to retirement. The amount of this benefit is calculated as the sum of parts (a), (b) and (c), of the cash option resignation benefit described above, payable in cash, plus the difference between this benefit and the Members Accrued Retirement Benefit, described above. This differential is deferred and indexed according to movements in the Consumer Price Index (All Adelaide Group) + 2% (or, if the movement in the Consumer Price Index is negative, by such greater rate of indexation as the Trustee may determine). This indexation applies until the member's 55th birthday.

This deferred benefit is payable, subject to preservation rules, on retirement after age 55, death, disablement or on ill-health.

### **Retrenchment Benefit**

If a member is retrenched after age 55 the benefit payable is the retirement benefit. On retrenchment prior to age 55 the benefit payable is the Resignation Benefit, where the member may choose either of the options described under the Resignation Benefit above.

### **Superannuation Guarantee**

A minimum benefit to comply with the Superannuation Guarantee also applies. This benefit is described in the Benefit Certificate for the Plan. We have allowed for the legislated gradual increase in the Superannuation Guarantee rate from 9.5% to 12%, commencing from 1 July 2021.

### **Minimum Guaranteed Benefit**

A member with a Minimum Guaranteed Benefit (MGB member) may receive their Resignation Benefit (Cash Option) on leaving the Plan for any reason if such a benefit exceeds the benefit otherwise payable under the Rules. Members are MGB members where their Resignation Benefit Cash Option is greater than their retirement benefit when they reach age 55.

### **Family Law Offset Accounts**

Standard Salarylink benefits are reduced by the balance, if any, of a Member's Family Law Offset Account. The Family Law Offset Account is increased either by Average Weekly Ordinary Time Earnings plus 2.5% or in line with investment returns of the Local Super assets.

### **Superannuation Surcharge**

Any surcharge tax payable by the Plan in respect of an individual member is debited to a Surcharge Payment Account which accumulates with interest at the Declared Rate until 30 September 2001 and thereafter in line with movements in unit. Members' benefits will be reduced by the debit balance of the Surcharge Payment Account.

**Ceasing Service**

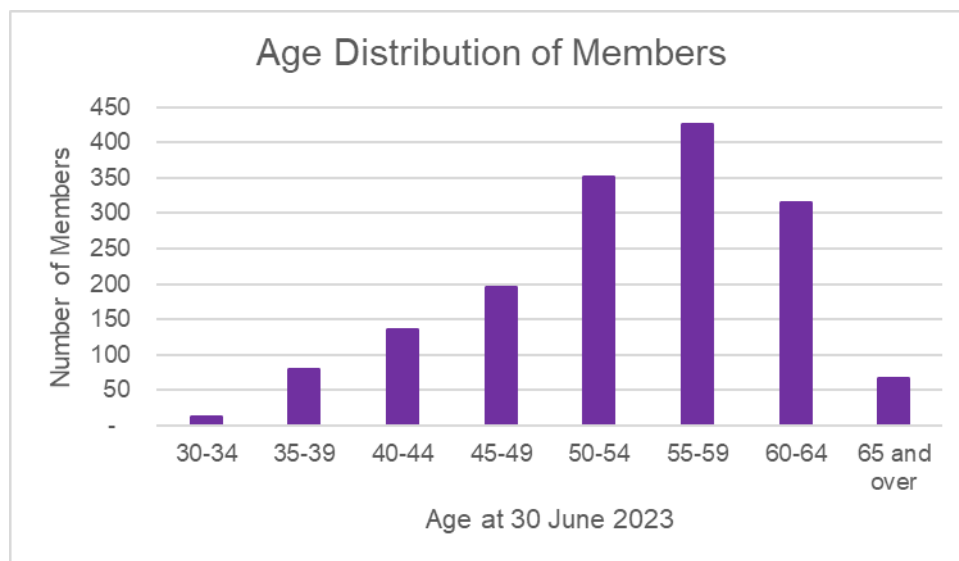
On termination from the Plan, all members receive their accumulation benefits (if any) in addition to their Salarylink benefits.

# Appendix B: Summary of Membership data

## Salarylink Membership

	Number of members
<b>Members as at 30 June 2020</b>	<b>2,974</b>
Pending exits*	(55)
Retirements	(472)
Withdrawals	(143)
Deaths	(11)
Disablements	(18)
<b>Members as at 30 June 2023</b>	<b>2,275</b>

## Age Distribution of Membership



## Pension Membership

	Lifetime pensions	Term pensions
Number of Pensioners at 30 June 2020	11	17
Number of Pensioners at 30 June 2023	11	12
Total annual pensions at 30 June 2023	\$52,125	\$167,337

## Other defined benefit members

At 30 June 2023 the following were also members of the defined benefit section of the Plan:

- 435 members with CPI linked deferred benefits, with balances totalling \$34.8 million (and with a present value of \$32.2m) at 30 June 2023, and
- Two Old Benefit members.



# Appendix C: Valuation Assumptions

## Rate of Investment Return, Salary Inflation and Pension Increases

The following assumptions were used for the long term projections of the liabilities.

	2020 Basis	2023 Basis
Rate of Investment Return (net of tax)	4.3% p.a.	6.8% p.a.
Rate of Investment Return (gross of tax)	4.9% p.a.	7.7% p.a.
Salary increase rate	2.0% p.a.	4.5% p.a. in year 1, 3.5% p.a. in years 2 and 3, and 3.0% p.a. thereafter
Indexation of Pensions and CPI deferred benefits	2.0% p.a.	3.0% p.a.

## Promotional Salary scales

The following scales give a sample of the promotional salary increase assumptions.

Age	Scale
20	8.0%
30	5.0%
40	0.6%
50	0.3%
60	nil

## Other assumptions

Salarylink members are assumed to contribute at the following rates, dependent on age.

Age	Contribution rate
41 or less	2%
42 to 46	3%
47 to 51	4%
52 to 56	5%
57 to 61	6%
62 to 65	7%

It is assumed that 25% of members who resign will elect to take the deferred resignation benefit, where this has a higher present value than the cash resignation benefit.

## Mortality in Service, Disablement, Withdrawal and Early Retirements

The tables below illustrate a sample of the decrement rates. The decrement rates represent the percentage of members leaving the Plan each year by each cause.

Age	Deaths and permanent disablement %	Ill Health %	Resignations %
25	0.027	0.027	10.7
30	0.031	0.017	8.4
35	0.047	0.017	7.7
40	0.076	0.017	5.3
45	0.127	0.017	4.7
50	0.233	0.042	4.0
55	0.420	0.042	-
60	0.941	0.067	-

Age	Retirements %
55	5
56	5
57	5
58	5
59	5
60	20
61	20
62	20
63	20
64	20

## Pensioner Mortality

The pensioner mortality rates have remained the same based on the latest Australian Life Table (ALT 2015-17). No adjustments have been made to the rates. Of every 10,000 pensioners of each type shown below, the following numbers were assumed to die each year:

Age	Males	Females
60	65	37
70	155	96
80	469	316
90	1,519	1,221
100	3,027	3,083

## Age of Pensioner's Spouses

Wives were assumed to be three years younger than their husbands.

## Expenses

The rate of investment return referred to above is assumed to be net of investment expenses.

Administration expenses are assumed to be 1.0% of Salarylink members' salaries.

## Taxation

It has been assumed that the current taxation regime will continue and that the Local Super Sub-Plan will remain a "complying superannuation fund" for taxation purposes. Hence, a concessional tax rate of 15% has been assumed to apply to net deductible contributions and investment earnings.

Any tax surcharge levied on the Plan would be deducted from the accounts of the Member concerned. Similarly, any excess contributions tax or tax levied on members who have not provided their TFN would be deducted from the accounts of the Member concerned. For the purposes of this actuarial investigation, further allowance for the imposition of these taxes was not required.

# Appendix D: Details required under Prudential Standard SPS160

## Hostplus Superannuation Fund – Local Super Sub-Plan Actuarial Investigation as at 30 June 2023

This summary provides the information which must be contained in the report of a regular actuarial investigation, in accordance with paragraph 23 of Prudential Standard SP 160.

- a. At 30 June 2023 the value of the assets of the Local Super Sub-Plan (“the Plan”) in the Hostplus Superannuation Fund for the purposes of the actuarial valuation were \$590.1 million.
- b. The projected likely future financial position of the Salarylink and CPI deferred members of the Plan during the three years following the valuation date, based on my best estimate assumptions is as follows.

Date	Vested Benefits Index (%)
30 June 2023	126%
30 June 2024	129%
30 June 2025	132%
30 June 2026	136%

Note this projection after 30 June 2023 excludes the term pensioners and Old Benefit members which do not have a material impact on the results.

- c. In my opinion, the value of the assets of the Plan as at 30 June 2023 was adequate to meet the liabilities in respect of the accrued benefits of members of the Plan (measured as the value of members’ accrued entitlements using the valuation assumptions). I consider that the assumptions and valuation methods set out in this report are appropriate for determining the accrued benefit liability.
- d. At 30 June 2023 the Plan was in a satisfactory financial position, as defined in SPS 160. In my opinion the Plan does not need to be treated as being in an unsatisfactory financial position. The shortfall limit (currently 97%) does not need to be reviewed.
- e. At 30 June 2023 the value of the liabilities of the Plan in respect of minimum benefits of the members was \$396 million. Minimum benefits are as defined in Regulation 5.04 of the Superannuation Industry (Supervision) Regulations.
- f. Funding and Solvency Certificates for the Plan covering the period from 30 April 2022 to 30 June 2023 have been obtained. The Plan was solvent, as defined in the Superannuation Industry (Supervision) Regulations, at 30 June 2023. In my opinion, the solvency of the Plan will be able to be certified in any other Funding and Solvency Certificate required under the Regulations during the three year period to 30 June 2026.

- g. It is recommended that the employers make contributions at the rates set out below for the period to 30 June 2023.
  - i. 6.3% of contributing Salarylink members' salary;
  - ii. any salary sacrifice contributions payable on behalf of Members that have elected to pay their contributions to the Plan via pre-tax contributions; and
  - iii. Employer contributions of 3% of salary to the Member's Superannuation account of contributing Salarylink members.
- h. In my opinion, as at 30 June 2023 there is a high degree of probability that the Plan will be able to pay the defined benefit pensions as required under the governing rules.

*Louise Campbell*

Louise Campbell  
Fellow of the Institute of Actuaries of Australia

## About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organisational resilience, motivate your workforce and maximise performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at [wtwco.com](https://www.wtwco.com).