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# Shop, Distributive and Allied Employees' Association (Victorian Branch) Superannuation Fund

A sub-plan of the Retail Employees Superannuation Trust

## Actuarial Valuation as at 1 July 2021

## Oversight

Foster a culture of strong governance to confidently manage uncertainty.

## Foresight

Understand the implications of decisions and the likely outcomes.

## Insight

Navigate the regulatory and business environment, and unlock the value of data.

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# 1 Executive Summary

## 1.1 Overview

This report provides the results of my actuarial investigation of the SDA (Victorian Branch) Superannuation Fund (the "Fund") as at 1 July 2021. The Fund is a sub-plan of the Retail Employees Superannuation Trust ("REST"). This report has been commissioned by the trustee of REST. The previous triennial actuarial valuation was conducted by me, Peter May of Professional Financial Solutions, as at 1 July 2018 and the report was dated 12 November 2018.

## 1.2 Current Contributions

The employers contributing to the Fund are the Shop, Distributive and Allied Employees' Association (Victorian Branch) and the Shop, Distributive and Allied Employees' Association (National Office) (collectively referred to as the "Association" in this report). The Association is currently on a contribution holiday. The contribution holiday commenced on 1 July 2017 and at the previous triennial valuation I recommended that the contribution holiday continue until I, as Actuary, recommend that contributions recommence. Prior to 1 July 2017, the employer was contributing at the rate of 10% of member salaries.

## 1.3 Current Financial Position

The Fund remains in a sound financial position although the actuarial surplus has reduced significantly since the last triennial actuarial review. The table below compares the position at this valuation with the position at the previous triennial valuation.:

| | CURRENT VALUATION 1 JULY 2021 | PREVIOUS TRIENNIAL VALUATION 1 JULY 2018 |
|---|---|---|
| Assets | $15,280,027 | $17,511,430 |
| Vested Benefits | $13,765,644 | $14,997,545 |
| Past Service Liabilities | $13,765,644 | $14,997,996 |
| Actuarial Surplus (assets less Past Service Liabilities) | $1,514,383 | $2,513,434 |

The Past Service Liability is subject to a minimum of the vested benefit and this minimum now applies for all members, hence the value of Past Service Liabilities equals the value of the vested benefits.

The surplus in the Fund has reduced since the last actuarial valuation in both dollars and as a percentage of the liabilities. This is principally because of the contribution holiday for the Association. An analysis of the change in surplus is provided in section 7.2.

## 1.4 Recommended Contributions

The financial position has been stable since the previous triennial valuation.

We understand that the Fund may wind up in the near future and members moved to alternative arrangements, and therefore we recommend that no employer contributions be payable until the surplus reduces from the current value of 15% to less than 5% of the value of defined benefit Past Service Liabilities, where the liability for each member is subject to a minimum of their vested benefit. Measurement of the surplus can be undertaken at each July, when calculations are done for the Association's annual accounts under Australian Accounting Standard 119 or the situation should be re-assessed at any time that the actuary advises that there is a possibility that the surplus may have reduced to below 5% of the value of defined benefit Past Service Liabilities.

The Fund is expected to remain in a satisfactory financial position at least until the date of the next actuarial review due as at 1 July 2024. Low or negative returns in investment markets, however, could result in the Association having to re-commence contributions.

## 1.5 Investments and Insurance

We have reviewed the investment and insurance arrangements of the Fund and, in our opinion, both arrangements are satisfactory.

## 1.6 Professional Standards

This report has been prepared in accordance with Professional Standard 400 of the Institute of Actuaries of Australia. It has been subject to peer review by Doug Drysdale, an experienced actuary who is familiar with the Fund.

## 1.7 Actuarial Certificates

A new Funding and Solvency Certificate for the Fund was issued on 30 June 2021 which allowed for the Fund's current contribution holiday. This certificate has an expiry date of 30 June 2022 and the Benefit Certificate on which the Minimum Requisite Benefit is based has an expiry date of 30 June 2022. A new Funding and Solvency certificate and a new Benefit Certificate will be issued as part of this investigation.

## 1.8 Significant Events Since the Valuation Date

We have received member information and an unaudited operating statement showing information as at 30 September 2021. This shows that the surplus in the Fund has reduced to $1,469,692. The fall in the surplus is not material and would not affect any of the conclusions and recommendations in this report.

## 1.9 Next Actuarial Investigation

The next actuarial investigation of the Fund must be conducted with an effective date no later than 1 July 2024.

P.W. May

Peter May BSc FIAA

16 November 2021

# 2 Background

## 2.1 Purposes of the Valuation

The Fund is a sub-plan of the Retail Employees Superannuation Trust ("REST"). This triennial investigation has been commissioned by the trustee of REST. The previous triennial actuarial valuation was conducted by me, Peter May of Professional Financial Solutions, as at 1 July 2018.

The main purposes of the investigation are:

- to assess the funding status of the Fund i.e. to assess whether or not the assets of the Fund are sufficient to cover the Past Service Liabilities of the Fund;
- to examine the experience of the Fund over the three years preceding the valuation date;
- to determine if any changes are needed to the Employer contributions; and
- to provide advice on any conditions that have changed that may affect the management of the Fund.

## 2.2 Information Provided

The information with which we were provided in order to conduct this actuarial valuation is as follows:

- relevant details of all members in force at 1 July 2021 from Australian Administration Services (AAS), the Fund's administrator. This includes personal, salary and benefit details. This information was provided to us in July 2021 so that we could perform the actuarial calculations required under Australian Accounting Standard AASB 119 for inclusion in the Associations annual financial statements;
- details of exits since 1 July 2018;
- unaudited operating statements for the years to 30 June 2019, 30 June 2020 and 30 June 2021; and
- a copy of the Fund's Deed of Application, with amendments up to the date of the valuation.

## 2.3 Overview of the Fund

As noted above, the Fund is a sub-plan of REST. REST is an Australian resident superannuation fund regulated by APRA and is a complying superannuation fund for the purposes of the Superannuation Industry (Supervision) Act 1993 and Australian taxation legislation. The Fund is eligible for concessional rates of tax on income and Association contributions are tax deductible to the Association.

The Fund provides benefits, defined in terms of the member's salary and period of service when the member ceases service with the Association either by resignation or retirement. A benefit is also payable should a member become totally and permanently disabled and on the death of a member, a benefit is payable to the member's beneficiaries. A description of the benefits provided by the Fund is given in Appendix A.

The Trustee of REST is Retail Employees Superannuation Pty Limited (ABN 39 001 987 739) and the administrator is Australian Administration Services Pty Limited. Part of the death and total and permanent disablement benefits are insured with TAL Life Limited.

The Fund last received new entrants in the year to 30 June 2016, and it is now closed to new entrants.

The investments of the Fund are managed by the Trustee after taking advice from the Association.

The Association uses the Fund to meet all of its obligations in respect of Fund members under the Superannuation Guarantee Administration Act 1992.

# 3 Assets and Investment Performance

## 3.1 Value of Assets

The value of assets as at 30 June 2021 provided on the operating statement for the year to 30 June 2021 is $15,280,027, including $3,520,038 for members' accumulation accounts.

Based on information provided by the administrator of the Fund there were no outstanding benefit or other payments as at 1 July 2021.

The figure that we have taken as the value of assets for this valuation is as follows:

| | $ |
|---|---|
| Value shown in Operating Statement | 15,280,027 |
| **Net Assets** | **15,280,027** |
| Less value of accumulation benefits | 3,520,038 |
| **Value of assets supporting defined benefits** | **11,759,989** |

In the previous triennial valuation as at 1 July 2018 the assets for defined benefits were valued at $12,888,672.

It is a requirement under the Superannuation Industry (Supervision) Act 1993 and APRA Prudential Standard SPS 114 – *Operational Risk Financial Requirement* (ORFR) - that a Registrable Superannuation Entity (RSE) maintain and manage an ORFR reserve. We have been supplied with a copy of the reserving policy for REST and such a reserve is maintained, at a level of 0.25% of assets, for REST in total and there is no reserve set aside for sub-funds and the reserve is kept separate from assets supporting member benefits. Consequently, the asset value quoted above will not be affected by the existence of the ORFR.

## 3.2 Investment performance and crediting rates

As was the case at the date of the previous triennial investigation, the assets supporting the defined benefits of the members are all invested in the REST Core Strategy. From the Fund's point of view, the return on the Core Strategy is the actual return of the Fund.

The annual returns provided to the Fund by the Core Strategy are shown in the table below:

| PERIOD | RATE OF RETURN |
|---|---|
| Year to 30 June 2019 | 5.96% |
| Year to 30 June 2020 | -1.05% |
| Year to 30 June 2021 | 17.43% |
| Average over 3 years to 30 June 2021 | 7.18% pa |

Members' accumulation accounts are eligible for member investment choice and the returns on those accounts are directly credited to the accounts and therefore do not affect the funding of the defined benefits.

The annualised crediting rate since the date of the previous triennial valuation of 7.18% is higher than the annual rate of 6.00% assumed in the previous triennial valuation. Therefore, the actual investment return over the period would have contributed to an increase in the level of surplus assets.

## 3.3 Investment Policy

The members have investment choice in respect of their accumulation accounts. The Fund assets supporting the defined benefits are fully invested in REST's Core strategy. The investment policy of the Core strategy is

- a balance of risk and return by investing in both growth assets (e.g. shares and property) and defensive assets (e.g. bonds and cash);
- a performance objective to outperform CPI + 3% pa over rolling 10 year periods; and
- a medium to high Standard Risk Measure i.e. a negative return is expected to arise between 4 and 6 years in any 20 year period.

The asset allocation strategy in order to support its objectives is 26.5% in defensive assets and 73.5% in growth assets. This is marginally more defensive that at the previous actuarial valuation (24% defensive and 76% growth).

The current Core strategy asset allocation ranges and benchmark asset allocations are set out as follows:

| ASSET CLASS | ALLOCATION RANGE | TARGET ALLOCATION |
|---|---|---|
| Australian Shares | 10%-45% | 23% |
| Overseas Shares | 10%-45% | 32% |
| Property | 0%-25% | 11% |
| Infrastructure | 0%-25% | 10% |
| Alternatives | 0%-15% | 4% |
| Debt | 5%-50% | 16% |
| Cash | 0%-25% | 4% |

There have been significant changes since the last valuation, with increases in the allocations to Australian (up 6%) and International (up 9%) Shares, Property (up 2%) and Infrastructure (up 2%) with Growth and Defensive Alternatives merging into Alternatives (with a total reduction from 29% to 4%) and Debt replacing Bonds with an increase from 6% to 16%. The allocation to Cash has reduced from 8% to 4%. We consider that the investment policy is satisfactory and consistent with the nature of the liabilities.

# 4 Membership and Salaries

The summarised membership details for members of the Fund as at 1 July 2021are set out in the following table.

| NUMBER OF MEMBERS | AVERAGE SALARY | AVERAGE AGE IN YEARS | AVERAGE MEMBERSHIP IN YEARS |
|---|---|---|---|
| 41 | $108,669 | 53.9 | 15.9 |

The average salary is based on grossed up annual salaries for members who are working part time.

The table below shows the movement in the numbers of members since 1 July 2018:

| | COUNT |
|---|---|
| Members at 1 July 2018 | 56 |
| Exits | 15 |
| New entrants | 0 |
| Members at 1 July 2021 | 41 |

For the defined benefit members, the increase in the average salaries over the inter-valuation period for members who were in the Fund over the whole period (41 members) was as follows:

| PERIOD | AVERAGE SALARY GROWTH RATE |
|---|---|
| 2018-2019 | 4.5% |
| 2019-2020 | 3.8% |
| 2020-2021 | 2.5% |
| Three years 2018-2021 | 3.6% pa |

The salaries used for this comparison are the annualised salaries. If we use the salaries actually paid i.e. after allowing for part time factors then the three year average rate reduces to 2.9%. However, this result is affected by one member, who reduced hours by 50% through the year to 30 June 2021.

The average salary increases for the defined benefit members was lower than the rate of increase of 4.0% pa assumed in the previous triennial valuation. Therefore, the actual salary experience would have contributed to an increase in the level of surplus assets.

# 5 Demographic experience since previous triennial valuation

As noted in earlier sections, the investment return has been a little higher than the assumptions used at the previous triennial valuation and salary increases have been a little lower than assumed.

With regard to exits, the following table compares the number expected under the valuation assumptions used at the 2018 valuation with actual exits over the three years to 30 June 2021:

| TYPE OF BENEFIT | ACTUAL | EXPECTED |
|---|---|---|
| Retirement/Resignations | 15 | 21.9 |
| Death | 0 | 0.6 |
| Total and Permanent Disablement | 0 | 0.6 |
| **Total Exits** | **15** | **23.1** |

This shows that, as in the 2015 and 2018 valuations, experience for all types of exit has been lighter than expected. However, it is noted that there are now 5 members aged 65 or more and 22 aged 55 or more. The average age of the membership is now almost 54 years, compared to 52 years at the previous triennial valuation.

# 6 Valuation Assumptions and Methodology

## 6.1 Investment Return

The assumed rate used in the previous triennial valuation for future investment returns was 6.0% pa after fees and taxes. Since the previous triennial valuation, the actual investment return has been above the assumed rate of 6.0% pa at 7.18% pa.

The table below shows the average returns over the 30 years to 30 June 2021 for each asset class and the overall rate that results from the current asset allocation strategy of the Fund:

| ASSET CLASS | AVERAGE ANNUAL RETURN OVER 30 YEARS TO 30 JUNE 2021 % PA | TARGET ALLOCATION % | CONTRIBUTION TO TOTAL FUND RETURN % PA |
|---|---|---|---|
| Australian Shares | 9.7 | 23% | 2.2 |
| Overseas Shares | 8.3 | 32% | 2.7 |
| Property | 8.6 | 11% | 0.9 |
| Infrastructure | 6. | 10% | 0.7 |
| Alternatives | 7.5 | 4% | 0.3 |
| Debt | 7.0 | 16% | 1.1 |
| Cash | 4.6 | 4% | 0.2 |
| **Total Fund Return** | | | **8.0** |

Where available, figures have been taken from the Vanguard 2021 Index Chart. The Infrastructure return is the Vanguard Global Infrastructure Index Fund since the inception of that fund (November 2007) to 30 September 2021. The alternatives return has been set as the average of other classes.

Clearly, in the current environment, the past returns on some of the asset classes are unlikely to be reproduced in the near to medium term future. Therefore, we adjusted the expected future returns as follows:

| ASSET CLASS | ESTIMATED RETURN % PA | TARGET ALLOCATION % | CONTRIBUTION TO TOTAL FUND RETURN % PA |
|---|---|---|---|
| Australian Shares | 8.5 | 23% | 2.0 |
| Overseas Shares | 7.5 | 32% | 2.4 |
| Property | 7.5 | 11% | 0.8 |
| Infrastructure | 6.6 | 10% | 0.7 |
| Alternatives | 6.0 | 4% | 0.2 |
| Debt | 3.0 | 16% | 0.5 |
| Cash | 0.0 | 4% | 0.0 |
| **Total Fund Return** | | | **6.6** |

The average investment return from this table is 6.6% pa is before any tax and investment fees and, at the current time, is similar to the generally expected returns for balanced funds in the near to medium term. Therefore, we have retained the assumed future rate of return to 6.0% pa for this valuation after an allowance for fees and taxes.

## 6.2 Salary Increases

As can be seen from section 4 above, the average rate of actual salary increases of 2.9% pa (using salaries adjusted for part time factors) is lower than the assumed rate of 4.0% pa over the three years since the previous actuarial valuation. In our recent valuation of the Fund for the Association's financial statements, the Association suggested that a rate of 3.0% pa was reasonable in the medium term. Based on the views of the Association, the recent experience and the current wage inflationary outlook, I have reduced the assumed future rate of salary increases to 3.0% pa.

## 6.3 Long Term Real Rate of Return

With future investment returns of 6.0% pa, net of tax and investment expenses, and future salary increases of 3.0% pa, there is a real rate of return of 2.9% pa. The real rate of return is approximately the difference between the assumed rate of investment return and the assumed rate of salary increases. At the 1 July 2018 valuation the real rate of return was 1.9% pa.

## 6.4 Decrements

As noted in section 5, the experience with regard to deaths, disablements, resignations and retirements has been lighter than that assumed using the decrements from the 2018 valuation. However, as in the past valuations, the Fund is too small to draw any firm conclusions from this experience and therefore it is reasonable to use the same decrements that were used in the 2018 valuation. Sample decrements are shown in Appendix B. Note that for resignations a factor is applied to the decrement based on the length of service. We have maintained the same factors that were used in the 2018 valuation.

## 6.5 Future Expenses

Since the previous triennial valuation, the expenses paid were as shown in the following table:

| FUND YEAR | EXPENSES (A) | MEMBERS' SALARIES AT START OF YEAR (B) | (A)/(B) |
|---|---|---|---|
| 2018-2019 | $101,595 | $5,444,779 | 1.9% |
| 2019-2020 | $93,130 | $5,214,504 | 1.8% |
| 2020-2021 | $99,172 | $4,447,351 | 2.2% |
| Average over 3 years | $97,965 | $5,035,545 | 1.9% |

The figure for the 2018-2019 year was $241,629 in the operating statement. However, this figure included unpaid administration fees of $140,034 from calendar years 2014 to 2016. The figure in the table above is after deducting this amount.

The expenses are the sum of administration expenses, other expenses, group life insurance premiums and taxes as shown the annual operating statements. The salaries shown are after allowance for part time factors.

In the previous triennial valuation, it was assumed that future expenses would be approximately 2.5% of members' salaries. Based on the results shown above, we have reduced this assumption to 2.2% for this valuation.

Over the three-year period to 30 June 2021 the expenses were lower than expected after allowance for the unpaid past years' administration fees.

## 6.6 Taxation

Association contributions are taxable in the Fund at the rate of 15%. However, tax deductions are allowable for most expenses and insurance premiums.

Contribution recommendations in this report include an allowance for any tax payable on those contributions.

## 6.7 New Entrants

The Fund is now closed to new entrants and there has been no new entrants over the period since the previous triennial valuation as at 1 July 2018.

## 6.8 General Comment on Assumptions and Covid19

The financial assumptions set out above are our best estimate assumptions and, in our view, do not allow for any material conservatism.

With regard to our demographic assumptions, we believe they are reasonable in the context of a small fund where the fund's own experience is insufficient to determine appropriate assumptions.

We have made no allowance in our assumptions for Covid19 as we have been informed by the Association through REST that there have been no exits due to Covid19, no early release payments and no members whose salary has been affected by Covid19 and this is likely to be the case for the foreseeable future.

## 6.9 Valuation Methodology

The method that we have used to value the Past Service Liabilities and to assess the required contribution rate is called the Aggregate Method. The method calculates Past Service Liabilities for existing members by:

- projecting the expected future benefit payments based on service up to the valuation date using the valuation assumptions; and
- then calculating the present value of these payments by taking into account the time value of money and the probability of the benefits being paid in each future year.

Benefits based on service up to the valuation date have been calculated as follows:

| | |
|---|---|
| Retirement: | the accrued multiple as at the valuation date times expected final average salary at each future date; |
| Death and Disablement: | the accrued benefit at the valuation date is calculated as the retirement multiple at age 65 times current salary. In |

| | |
|---|---|
| | each future year the amount of the death benefit accrued to that date is the retirement multiple at age 65 times projected salary times service to the valuation date divided by the service to the start of the particular projection year; |
| Resignation: | Same as for the retirement benefit. |

However, for Past Service Liabilities each member's liability is subject to a minimum of their vested benefit. At the current time and using the valuation assumptions noted earlier, the minimum of the vested benefit applies to all members. This would remain the case unless the assumed real rate of return reduced to something close to 0% (i.e. the expected rate of investment return and the expected rate of salary increases were equal).

Given the existence of APRA Standard SPS 160 and the fact that the Fund may have a limited future life, we believe it would be inappropriate not to impose the vested benefit minimum in the calculation of the Past Service Liabilities.

The contribution rate is determined by valuing all future benefits, based on service to the expected date of payment. From this value, the value of Past Service Liabilities is deducted, and this gives the value for benefits in respect of Future Service. The Future Service Liabilities are then compared to the present value of future salaries, using the same valuation assumptions. This provides a contribution rate as a percentage of members' salary before tax and expenses. The rate is then adjusted to allow for tax on employer contributions and for expenses and this is the rate required to fund benefits in respect of future service. For the purposes of this report this rate is referred to as the normal rate.

The normal rate may be adjusted depending on the funding status of the Fund. For example, if there is surplus then the normal rate could be reduced to allow for that surplus or it could be increased to fund a deficit.

The methods described above is the same as that used in the previous triennial valuation.

# 7 Valuation Results as at the Valuation Date

## 7.1 Value of Past Service Liabilities

The table below shows the result of our calculation of the Past Service Liabilities for defined benefit members using the assumptions shown in Appendix B.

| CATEGORY OF MEMBER | VALUE OF PAST SERVICE LIABILITIES |
|---|---|
| Defined Benefits | $10,245,606 |
| Accumulation Accounts | $3,520,038 |
| **Total** | **$13,765,644** |
| Total Assets | $**15,280,027** |
| **Actuarial Surplus** | **$1,514,383** |

This surplus is 15% of the defined benefit liabilities and the fund is in a strong financial position.

If the vested benefit minimum was not imposed then the value of Past Service Liabilities, including accumulation accounts, would reduce to $12,432,671 and the surplus would increase to $2,847,356 .

For funds where benefits, apart from voluntary contributions and rollovers, are totally defined in terms of length of service and salary, the level of surplus can vary significantly from time to time as any investment income earned in excess of, or less than, that assumed, goes directly to, or comes from, the surplus.

## 7.2 Analysis of change since the previous triennial valuation

The surplus at the previous actuarial valuation as at 1 July 2018 was $2,513,434.

As virtually no contributions have been paid to support the defined benefits since 1 July 2018 the matters that affect the surplus can be simplified into investment income, expenses, benefit payments and growth in in liabilities.

With regard to employer contributions, $31,000 was paid in error in 2019-2020.

In broad terms the following table reconciles the change in surplus since 1 July 2018:

| SOURCE OF SURPLUS | AMOUNT OF SURPLUS $'000 |
|---|---|
| As at 1 July 2018 | 2,513 |
| Benefits accrued since 1/7/18 | (3,165) |
| Investment income earned since 1/7/18 | 2,429 |
| Contributions paid | 31 |
| Expenses paid | (294) |
| **As at 1 July 2021** | **1,514** |

## 7.3 Employer Contribution Rate

In the previous actuarial valuation, we recommended that the Association continue the contribution holiday which had commenced from 1 July 2017.

In previous years we performed calculations using the value of Past Service Liabilities both without a minimum of the vested benefit and with such a minimum. Given, the current conditions i.e. a contribution holiday is in force and APRA Standard SPS 160 is in place, in this valuation we have only done calculations applying a minimum of the vested benefit to the Past Service Liability for each member.

The calculations below are done on the assumption that the Fund will continue for an indefinite period and are for the defined benefit section only.

The following table shows how the normal cost of accruing benefits is derived:

| | VALUE |
|---|---|
| Present Value for all Future Benefits (a) | $13,137,530 |
| Less Value for Past Service (b) | $10,245,606 |
| Value for Future Service (c) = (a) – (b) | $2,891,924 |
| Present Value of Future Salaries (d) | $24,164,253 |
| Unadjusted Rate for Future Service (e) = (c) / (d) | 12.0% |
| Rate after Adjusting for Tax and Expenses (f) = (e) / 0.85 +2.2% | 16.3% |

As shown in section 7.1 above, there was a surplus in the Fund of $1,514,383 and this surplus may be used to reduce the contribution payable by the employer. If the surplus is used in this way, the contribution rate could be reduced to 8.9% for the future lifetime of the Fund if our assumptions are borne out in practice. Alternatively, the surplus can be used to continue the contribution holiday of the Association for a period.

In the previous triennial valuation, the employer requested that the contribution rate be set to allow for a buffer of 5% of assets in excess of the value of Past Service Liabilities. Given the requirements of SPS 160, we accept that this request remains reasonable.

All of these considerations and our recommended employer contribution rate are discussed in section 7.5 below.

## 7.4 Sensitivity Analysis

We have valued the Past Service Liabilities (subject to a minimum of the vested benefits), excluding accumulation accounts, using discount rates of 7.0% and 5.0%. In either case there is no change to the Past Service Liabilities subject to a minimum of the vested benefit and consequently no change to the surplus or the calculated contribution rate.

It should be noted that our sensitivity variations are not the upper or lower limits of possible variations.

## 7.5 Events since the Valuation Date and Recommended Contribution Rate

We have received member data and an operating statement in respect of the Fund as at 30 September 2021.

The following table shows the values derived from these files:

| | VALUATION 30 SEPTEMBER 2021 |
|---|---|
| Assets | $15,564,784 |
| Vested Benefits | $14,095,092 |
| Past Service Liabilities | $14,095,092 |
| Actuarial Surplus (assets less Past Service Liabilities) | $1,469,692 |

This table shows that the surplus has reduced by $44,691, which is reasonable given there has been no employer contributions.

We understand that the Fund may wind up in the near future and members moved to alternative arrangements. Therefore, we recommend that no employer contributions be payable until the surplus reduces to less than 5% of the value of defined benefit Past

Service Liabilities, where the liability for each member is subject to a minimum of their vested benefit. The surplus was equivalent to 15% of the defined benefit liabilities as at 30 June 2021 so it is likely that the 5% limit will not be breached for some years.

Measurement of the surplus can be undertaken at each July, when calculations are done for the Association's annual accounts under Australian Accounting Standard 119 or the situation should be re-assessed at any time that the actuary advises that there is a possibility that the surplus may have reduced to below 5% of the value of defined benefit Past Service Liabilities.

# 8 Funding Status at the Valuation Date

The following section examines the Fund's ability to pay members' accrued benefits at the valuation date. Three measures have been examined:

- coverage of Vested Benefits;
- coverage of Minimum Requisite Benefits; and
- coverage of Past Service Liabilities.

The first two measures show that the Fund was not in an unsatisfactory financial position nor was it technically insolvent, as both terms are defined in the Superannuation Industry (Supervision) Regulations as at 1 July 2021.

Other funding measures that are sometimes considered are the coverage of retrenchment benefits and the coverage of benefits on Fund Termination. As the resignation benefit is the full accrued defined retirement multiple, these measures are equivalent to the vested benefits coverage. There does not appear to be any provisions covering Fund Termination but we would expect that a share of assets arrangement would apply and therefore full coverage would be automatic.

## 8.1 Coverage of Vested Benefits

This solvency measure examines whether the Fund would have been able to pay the vested benefits for all members at the valuation date.

The vested benefits are the benefits that are payable if all members voluntarily exited the Fund on the valuation date. These benefits are the resignation and retirement benefits (for those eligible to receive retirement benefits on voluntary exit) as set out in the Trust Deed. These benefits are greater than or equal to the Superannuation Guarantee benefits applicable for each member, so the total vested benefits for the Fund exceed the total Superannuation Guarantee benefits.

The Vested Benefits Index (VBI) is used as the measure of the Fund's ability to meet all members' total vested benefits from the Fund's assets. At the previous triennial valuation in 2018, the Fund's VBI was 117%. The following table shows the VBI at 1 July 2021.

| | |
|---|---|
| Vested Defined Benefits | $10.246 million |
| Accumulation Benefits | $3.520 million |
| Total Vested Benefits (a) | $13.766 million |
| Net Market Value of Assets (b) | $15.280 million |
| Vested Benefits Index (b)/(a) | 111% |

This table shows that the coverage of vested benefits has reduced since the previous triennial valuation, when the VBI was 117%, but benefits continue to be more than fully covered by Fund assets.

It should also be noted that the calculation of the VBI is affected by the proportion of accumulation liabilities, which by definition have 100% coverage of vested benefits. To remove this influence, the VBI has also been calculated for the defined benefits only. The results are shown in the table below:

| | |
|---|---|
| Total Vested Defined Benefits (a) | $10.246 million |
| Net Assets for Defined Benefits (b) | $11.760 million |
| Vested Benefits Index (b)/(a) | 115% |

The VBI for defined benefits should always be at least 100% and ideally, as discussed earlier, with a margin of 5%. If the contribution holiday continues then we would expect the VBI to reduce gradually if the experience matches that assumed.

## 8.2 Coverage of Minimum Requisite Benefits

The Minimum Requisite Benefit is that which must be paid in order to ensure that the Employer's obligations under the Superannuation Guarantee legislation are met. The Minimum Requisite Benefit for each member is defined in a Benefit Certificate dated 12 November 2018 issued by me. As at 1 July 2021 the relevant values for the Fund are as follows:

| | |
|---|---|
| Defined Benefits | $5.332 million |
| Accumulation Benefits | $3.520 million |
| Total MRBs for all members (a) | $8.852 million |
| Net Market Value of Assets (b) | $15.280 million |
| Ratio of Assets to MRBs (b)/(a) | 173% |

The values for defined benefits only are:

| | |
|---|---|
| Total MRBs for Defined Benefits (a) | $5.332 million |
| Net Assets for Defined Benefits (b) | $11.680 million |
| Ratio of Assets to MRBs (b)/(a) | 219% |

This shows that the Minimum Requisite Benefits are well covered by the available assets. At the previous actuarial valuation the value of this ratio for defined benefit was 219%.

## 8.3 Coverage of Past Service Liabilities

The Accrued Benefits Reserve Index (ABRI) is a measure commonly used to assess the longer term solvency of the Fund. It is similar to the VBI except that it compares total Fund assets with the value of Past Service Liabilities. At the previous triennial valuation, the Fund's ABRI for defined benefits was 124%. At this valuation, the value of Past Service Liabilities the same as the value for vested benefits and, therefore, the ABRI is 111% for the Fund in total and 115% for defined benefits only (as shown in section 8.1).

## 8.4 Comparison with Past Valuations

The table below compares the various indices, for defined benefits only, at the current valuation with the indices from the previous three valuations (at 1 July 2012, July 2015 and 1 July 2018):

| INDEX | 1 JULY 2012 % | 1 JULY 2015 % | 1 JULY 2018 % | 1 JULY 2021 % |
|---|---|---|---|---|
| Vested Benefit | 101 | 126 | 124 | 115 |
| Past Service Liabilities | 101 | 126 | 124 | 115 |
| Minimum Requisite Benefit | 193 | 216 | 219 | 219 |

# 9 Cash flows and projected vested benefits

## 9.1 Cash flows

We have projected cash flows over the next five years using the assumptions shown in Appendix B. The projections are for defined benefits only. The Superannuation Guarantee rate is currently expected to increase over the period of the projection according to the following table. However, this is unlikely to only affect the defined benefits and therefore, will not change the projected cash flows or benefits given that the Superannuation Guarantee accrual rate will still be less than the Fund's benefit accrual rate of 15%.

| PERIOD | RATE |
|---|---|
| 1/7/2021-30/6/2022 | 10.00% |
| 1/7/2022-30/6/2023 | 10.50% |
| 1/7/2023-30/6/2024 | 11.00% |
| 1/7/2024-30/6/2025 | 11.50% |
| 1/7/2025 and later | 12.00% |

We have projected cash flows assuming a contribution holiday for the Association for the five year whole period.

Decrements are those used in the valuation of Past Service Liabilities. Note that under these decrements any member aged 65 or over is assumed to take their benefit immediately. Projected figures are for defined benefits only given that for accumulation amounts and contributions the assets and liabilities are matched.

Projected cash flows for the defined benefit section of the Fund with no Association contributions are as follows:

| YEAR TO 30 JUNE | ASSETS AT START OF THE YEAR | CONTRIBUTIONS | INVESTMENT INCOME | BENEFITS PAID | TAX AND EXPENSES | NET INCREASE IN ASSETS |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 |
| 2022 | 11,760 | 0 | 620 | 2,748 | 76 | (2,204) |
| 2023 | 9,556 | 0 | 542 | 977 | 65 | (500) |
| 2024 | 9,056 | 0 | 511 | 1,027 | 60 | (576) |
| 2025 | 8,480 | 0 | 476 | 1,037 | 54 | (615) |
| 2026 | 7,865 | 0 | 438 | 1,069 | 49 | (680) |

The tax and expenses column assumes that expenses are fully tax deductible.

We have also projected cash flows assuming no members take their benefits over the period off the projections. Given that the Fund may have a limited future life and there is a significant surplus in the Fund, such a projection may be more realistic than the projection using decrements.

Projected cash flows using no decrements are as follows:

| YEAR TO 30 JUNE | ASSETS AT START OF THE YEAR | CONTRIBUTIONS | INVESTMENT INCOME | BENEFITS PAID | TAX AND EXPENSES | NET INCREASE IN ASSETS |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 |
| 2022 | 11,760 | 0 | 703 | 0 | 85 | 618 |
| 2023 | 12,378 | 0 | 740 | 0 | 87 | 653 |
| 2024 | 13,031 | 0 | 779 | 0 | 90 | 689 |
| 2025 | 13,720 | 0 | 820 | 0 | 93 | 727 |
| 2026 | 14,447 | 0 | 863 | 0 | 95 | 768 |

In the previous triennial valuation at 1 July 2018, we projected cash flows on the basis that 0% was earned in the first year to test the effect of an initial poor investment year.

The results of this projection are shown in the following table:

| YEAR TO 30 JUNE | ASSETS AT START OF THE YEAR | CONTRIBUTION S | INVESTMENT INCOME | BENEFITS PAID | TAX AND EXPENSES | NET INCREASE IN ASSETS |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 |
| 2022 | 11,760 | 0 | 0 | 2,748 | 76 | (2,824) |
| 2023 | 8,936 | 0 | 505 | 977 | 65 | (537) |
| 2024 | 8,399 | 0 | 471 | 1,027 | 60 | (616) |
| 2025 | 7,783 | 0 | 434 | 1,037 | 54 | (657) |
| 2026 | 7,126 | 0 | 394 | 1,069 | 49 | (724) |

## 9.2 Projected vested benefits

We have also projected the expected VBI for defined benefits over the next five years.

The table below shows the results of these projections:

| AS AT 30 JUNE | PROJECTED ASSETS WITH A 6% INVESTMENT RETURN | PROJECTED ASSETS WITH NO DECREMENTS | PROJECTED VESTED BENEFITS USING DECEREMENTS | PROJECTED VESTED BENEFITS NO DECEREMENTS | PROJECTED VBI USING DECREMENTS | PROJECTED VBI WITH NO DECREMENTS |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | % | % |
| 2021 | 11,760 | 11,760 | 10,246 | 10,246 | 115 | 115 |
| 2022 | 9,556 | 12,378 | 8,375 | 11,208 | 114 | 110 |
| 2023 | 9,056 | 13,031 | 8,162 | 12,218 | 110 | 107 |
| 2024 | 8,480 | 14,447 | 7,848 | 13,279 | 108 | 109 |
| 2025 | 7,865 | 15,215 | 7,471 | 14,393 | 105 | 106 |
| 2026 | 7,185 | 16,787 | 7,013 | 15,561 | 102 | 108 |

This shows that, using decrements, the Fund will have a defined benefit VBI at least equal to 105% until 30 June 2025 and then it will reduce to 102% at 30 June 2026. In the case of no decrements, the Fund will maintain a VBI of at least 105% for the whole period of the projections.

The results for the projection with a nil investment return in the first year of the projection are:

| AS AT 30 JUNE | PROJECTED ASSETS | PROJECTED VESTED BENEFITS | PROJECTED VBI |
|---|---|---|---|
| | $'000 | $'000 | % |
| 2021 | 11,760 | 10,246 | 115 |
| 2022 | 8,936 | 8,375 | 107 |
| 2023 | 8,399 | 8,162 | 103 |
| 2024 | 7,783 | 7,848 | 99 |
| 2025 | 7,126 | 7,471 | 95 |
| 2026 | 6,402 | 7,013 | 91 |

This table shows that a nil return in the 2021-2022 year will result in an insolvent position by 30 June 2024, assuming no Association contributions. Hence, the need to carefully monitor the investment returns on a regular basis and, if necessary, conduct an investigation into the funding status of the Fund.

# 10 Insurance

The Fund's death and TPD benefits are partially insured with TAL Life Limited.

Currently, the amount to be insured is the future service component of the death benefit. The calculation is

Sum Insured = Death Benefit * Future Service to age 65 / Service from Benefit Start Date to age 65

Service is measured in years and complete months. Our calculations showed a few discrepancies between our value and the sum insured shown in the schedule provided by AAS, but the differences were not significant.

The table below compares the total defined death benefits with amount insured plus the available assets as at 1 July 2021:

| | |
|---|---|
| Total death/TPD benefits payable | $19.8 million |
| Total assets | $15.3 million |
| Amount not covered by assets | $4.5 million |
| Total group life cover | $6.4 million |

As was the case at the previous triennial valuation, this table shows that there is a significant level of over-insurance ($1.9 million). However, as was also the case at the previous triennial valuation, the amount of over-insurance is close to the value of the surplus of $1.5 million in the Fund. Hence, if there were no surplus then the amount of insurance would be close to the same amount that would balance death benefits with assets plus amount of insurance.

The method for calculating the sum to be insured is satisfactory and we recommend that it be retained.

# 11 Material Risks

The Fund is subject to a number of risks that could have an impact on the funding status of the Fund and consequently the Fund's ability to secure accrued benefits. The particular risks are:

1. significant adverse variations in future experience of investment returns and salary increases; and
2. the inability (or refusal) of the Association to pay the contributions as recommended.

We believe that the choice of financial assumptions is reasonable and that, in the longer term, variations should not have a significant adverse effect. In the shorter term, however, this may not be the case and this would be managed by additional contributions made by the Association.

We do not believe that liquidity is a material risk given that all assets are held in units of a unit trust that are readily redeemable.

# Appendix A. Summary of Benefits

## A.1 Definition of Terms

| | |
|---|---|
| Final Average Salary | The average of the member's Salary over the three years prior to the date of exit. |
| Accrual Rate | 15% pa |
| Service | The most recent period of uninterrupted service (calculated in years with complete months counting proportionately) with the Association. |
| Normal Retirement Date | The member's 65th birthday. |
| Salary | The latest annual salary advised to Acumen by the Association. |
| Member Contributions | Members are not required to contribute. |
| Surcharge Account | An account to which is credited any amount to meet the liability of the Fund arising under the Superannuation Contributions Tax (Assessment and Collection) Act 1997 accrued with investment earnings. The surcharge account is NOT deducted from benefits payable. |
| Voluntary Account and Voluntary Salary Sacrifice Accounts | Accumulation with interest of member voluntary contributions, less tax in the salary sacrifice account. |
| Rollover Account | Accumulation with interest of member rollovers into the Fund. |

## A.2 Benefits Payable – Defined Benefit Members

| | |
|---|---|
| Retirement Benefit | The benefit payable on retirement on the Normal Retirement Date is a lump sum benefit equal:<br>(i) Final Average Salary times Accrual Rate times Service to date of exit; and<br>(ii) the sum of the Voluntary Account, Voluntary Salary Sacrifice Account and the Rollover Account.<br>The benefit is actually defined as a pension for life of 1/12 of 15% times Final Average Salary for each month of service but the Fund has only ever |

| | |
|---|---|
| | paid lump sums, which is an allowable option under the Deed of Application. |
| Late Retirement Benefit | Same as Retirement Benefit. The benefit accrual rate continues after age 65. |
| Death Benefit | The greater of<br>(i) the Retirement Benefit: and<br>(ii) the benefit that would have been payable had the member retired at age 65 but assuming the Salary at date of death had remained the same to age 65. This part of the benefit is subject to a maximum benefit of 4.5 times Salary plus any accumulation accounts. |
| Total and Permanent Disablement Benefit | The same as the Death Benefit. |
| Resignation Benefit | The same as the Retirement Benefit. |
| Superannuation Guarantee Minimum Benefit | All benefits are subject to a minimum of the Minimum Requisite Benefit (MRB) required to satisfy the Company's obligations under the Superannuation Guarantee legislation. |

# Appendix B. Assumptions

## B.1 Financial Assumptions

| | |
|---|---|
| Rate of Future Net Investment Returns | 6.0% pa |
| Rate of Future Salary Growth | 3.0% pa |
| Expenses and Insurance Premiums (% of salaries) | 2.2% pa |

## B.2 Decrement Assumptions

Sample Retirement, Resignation, Death and Disablement decrements are shown in the tables below:

| AGE | RETIREMENTS | RESIGNATIONS - MALES | RESIGNATIONS - FEMALES | DEATHS | DISABLEMENTS |
|---|---|---|---|---|---|
| | % | % | % | % | % |
| 20 | | 10.70 | 20.00 | 0.07 | 0.01 |
| 30 | | 7.10 | 16.00 | 0.05 | 0.02 |
| 40 | | 3.80 | 3.00 | 0.10 | 0.04 |
| 50 | | 1.70 | 0.00 | 0.30 | 0.21 |
| 55 | 20.00 | | | 0.53 | 0.48 |
| 60 | 20.00 | | | 0.89 | 1.06 |
| 65 and over | 100.00 | | | | |

The service adjustment factors for the resignation decrements are as follows:

| YEARS OF SERVICE | FACTOR |
|---|---|
| Less than 1 | 2.00 |
| 1 | 1.95 |
| 2 | 1.90 |
| 3 | 1.80 |
| 4 | 1.60 |
| 5 | 1.35 |
| 6 | 1.20 |
| 7 | 1.15 |
| 8 | 1.10 |
| 9 | 1.05 |
| 10 | 1.00 |

# Appendix C. Short Report for Members

The following statement has been prepared for the purposes of complying with Regulation 9.31 of the Superannuation Industry (Supervision) Act 1993.

I, Peter May, have carried out an actuarial valuation of the Shop, Distributive and Allied Employees' Association (Victorian Branch) Superannuation Fund (the Fund) as at 1 July 2021 and hereby certify the following:

a. The value of Fund assets as at 1 July 2021 was $15.3m with $3.5m attributable to accumulation benefits. Therefore, as at 1 July 2021, there was $11.8m in net assets to meet the liabilities for defined benefits.

b. The value of Fund assets was adequate to meet the value of liabilities in respect of accrued benefits.

c. I recommend that the Association remain on a contribution holiday until I, as actuary, advise otherwise.

d. All required Funding and Solvency Certificates have been issued for the Fund since the previous actuarial review. A new Funding and Solvency Certificate will be issued as part of this valuation.

e. The financial position of the Fund is not unsatisfactory (as defined in SIS Regulation 9.04) at 1 July 2021 and for the three years following the valuation date:

   - If the Association contributes at the recommended level or at any level recommended by me over the next three years, I do not expect the financial position to become unsatisfactory;
   - I believe it is likely that an actuary would be able to certify the solvency of the Fund in any Funding and Solvency Certificate that may be required during the three year period following the valuation date; and
   - I expect the Fund to remain able to meet members' vested benefits over the period from 1 July 2021 to 30 June 2024.

P.W. May

Peter May BSc FIAA

16 November 2021

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