Actuarial Investigation as at 30 June 2022

Tabcorp Group Superannuation Plan

In the MLC Super Fund

with NULIS Nominees (Australia) Limited as Trustee

PREPARED BY: The Heron Partnership Pty Limited

December 2022

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Executive Summary

Outlined below is a summary of the results of the actuarial investigation of the Tabcorp Group Superannuation Plan (the Plan), within the MLC Super Fund as at 30 June 2022.

Purpose

This report is provided to the Trustee of the MLC Super Fund by the actuary for the Tabcorp Group Superannuation Plan, Nerida Seccombe on behalf of The Heron Partnership Pty Limited.

The main purpose of the actuarial review is to evaluate the financial position of the Plan, recommend an appropriate employer contribution program to finance the benefits arising and provide the various reporting statements required under SIS, SPS 160 and AASB 1056.

Key Financial Assumptions

For this investigation, for active members, we have assumed a future long term investment earning rate of 6.0% per annum in conjunction with an assumed long term future salary increase rate of 3.0% per annum i.e. a 3.0% real return assumption.

In respect of pensioners, the majority of the pension liabilities shown in this report are provided on a 'solvency basis', which provides a more conservative estimate of the pension liabilities than on a best estimate basis. For this investigation, on a solvency basis we have assumed a 2.5% per annum real return assumption (using an assumed pension increase rate of 2.5% per annum leads to an implied long term investment return of 5.0% per annum).

All key assumptions are unchanged from the 2019 investigation.

Tabcorp Group Superannuation Plan Financial Position

There are currently 2 remaining active defined benefit members and 13 pensioners in the Plan. All other members receive accumulation style benefits and are not included as part of this investigation.

We have summarised in the table below the Tabcorp Group Superannuation Plan's financial position at 30 June 2022 and compared it with the previous valuation of the Plan at 30 June 2019 (including pensioners).

	At 30 June 2022		At 30 June 2019	
	($'000s)	Asset Coverage	($'000s)	Asset Coverage
Assets	**11,342**		**13,962**	
Vested Benefits	Actives: 2,203 Pensioners: 5,711 **Total: 7,914**	143%	Actives: 5,039 Pensioners: 5,967 **Total: 11,006**	127%
Present Value of Accrued Benefits	Actives: 2,204 Pensioners: 5,711 **Total: 7,915**	143%	Actives: 5,058 Pensioners: 5,967 **Total: 11,025**	127%

The Plan is in a strong financial position as at 30 June 2022. Indeed, it is expected that even if the two remaining members were to elect to take a pension then the surplus is still expected to remain above 135% of Vested Benefits (i.e. a surplus of over $3.0m). However, if it is decided to close the plan at some point in the future and purchase annuities from an external insurer then the surplus would likely reduce.

Annuity Buy-Out of Pensions in Payment

As at 30 June 2022 there were 13 pensioners and 2 active defined benefit members, both around age 60 at 30 June 2022.

Given the Plan's strong financial position, to avoid maintaining a defined benefit plan for many years for a small group of lifetime pensioners, we recommend the Trustee consider, in conjunction with the

Employer, purchasing annuities in respect of the pensions in payment (potentially as individual contracts). Prior to purchasing annuities, the Trustee could also consider making a lump sum offer to these pensioners. In late November 2022, the cost to purchase lifetime annuities was around 7% lower ($0.394m lower) than the solvency valuation pension liability included in the tables above. However, we note that on a best estimate basis (where the assumed investment return is 6.0% per annum rather than 5.0% per annum) the actuarial value of the pension liabilities is around 17% lower ($0.755m lower) than the cost of purchasing annuities.

Recommended Level of Contributions

We recommend the Employer continue to contribute to the Plan at 0% of defined benefit member salaries until the completion of the next actuarial investigation effective 30 June 2025 due by 31 December 2025. The Employer should continue to pay the deemed/salary sacrifice member contributions for these members.

Given the strong financial position, we also recommend the employer contribution holiday be extended across accumulation members for a short period to absorb up to $2.0m of surplus (i.e. $2.4m of gross of tax contributions). Based on estimated total salaries in respect of Tabcorp members of approximately $62m and contributions in line with the SG rate, this equates to a period of around 4 months.

In view of this we would suggest that the contribution holiday with respect to Tabcorp members' SG contributions could commence from 1 April 2023 and finish on 31 July 2023. At the end of this period, we would expect that the VBI would be above 120% (which based on current annuity costs would still be sufficient to support an annuity buy-out of the pension liabilities). For simplicity, we have suggested accumulation member contributions at the SG rate to minimise administrative complexities.

Alternative contribution programs are possible and we would be happy to discuss these with the Trustee and the Employer.

Monitoring

We will continue to monitor the financial position of the Plan and the ongoing appropriateness of the employer contribution holiday as part of the Trustee's quarterly Financial Position Update reporting process. We note that while the VBI is projected to be in excess of 120% following the end of the recommended 4 month contribution holiday with respect to accumulation members, if it appears that the contribution holiday needs to finish early, we will advise the Trustee and employer contributions will need to resume.

Investment Policy

The Employer with the approval of the Trustee has adopted an investment policy of investing the assets supporting the defined benefit liabilities in the Plum Pre-mixed Moderate portfolio (76% growth assets and 24% defensive assets). The pension assets are currently invested in the Active – Moderate (untaxed) option (65% growth assets and 35% defensive assets). Approximately 65% of the Plan assets were invested in the Plum Pre-mixed Moderate portfolio at 30 June 2022. In total the overall growth exposure of the plan assets was around 72%.

With an average duration of the active and pensioner liabilities of 8.0 years, we confirm the Plan's current investment policy remains appropriate provided that the Trustee and the Employer are comfortable with the volatility of the funding position and the resulting impact on the potential range of required company contributions.

Insurance

Given the funding surplus, there is some scope to simplify the insurance formula and reduce premium costs if the Trustee and the Employer wish. However, as total premiums for Death, TPD and SCI for defined benefit members were around $4,000 for the 2022 financial year, any adjustments to the insurance formula are likely to be immaterial to the Plan's financial position. Therefore, we confirm that the current insurance arrangements are acceptable unless the Employer or the Trustee would like to have this reviewed further.

Shortfall Limit

In accordance with the Trustee's DB Funding Policy, as the Employer is on a contribution holiday in respect of DB members we recommend the Shortfall Limit be maintained at 100%.

Next Actuarial Valuation

We understand that in 2016 APRA approved an exemption from annual valuations for the Plan. The next actuarial valuation will be carried out with an effective date no later than 30 June 2025 (to be completed by 31 December 2025).

1 Introduction

1.1 General

This report contains the results of an actuarial investigation of the Tabcorp Group Superannuation Plan (the Plan). This report was commissioned by the Trustee of the Plan, NULIS Nominees (Australia) Limited.

1.2 Requirement

An investigation is required annually under current Superannuation legislation for plans paying defined benefit pensions unless an exemption is granted. In 2016 APRA approved an exemption from annual valuations for the Plan and therefore an investigation is now only required every three years.

The previous triennial investigation was conducted by Nerida Seccombe, FIAA, on behalf of The Heron Partnership Pty Limited as at 30 June 2019 and the results were presented in a report issued on 22 December 2019.

This report has been prepared in accordance with the Institute of Actuaries of Australia Professional Standard 400 and Superannuation Prudential Standard 160.

1.3 Purpose

The main purpose of the actuarial review is to:

- Examine the financial position of the Plan;
- Recommend a Company contribution level;
- Enable a new Funding and Solvency Certificate to be signed;
- Satisfy the requirements of the Trust Deed; and
- Meet the relevant legislative requirements.

1.4 Source of Information

This review has been based on the latest Employer Participation Agreement and Trust Deed incorporating this Plan.

Accumulation only members and additional accumulation accounts for defined benefit members are not specifically included in this investigation as their balances are matched by the assets supporting them.

Membership and investment balance information is based on the details held by Plum, the Plan's administrator, as at 30 June 2022 for these defined benefit members. Allowance has been made for relevant events after the effective date of the investigation. We have not verified or audited any of the data provided. However, we have reviewed the data for consistency and have no reason to doubt that it is suitable for the purpose of this report.

The Trustee is ultimately responsible for the validity, accuracy and comprehensiveness of the documents and data provided. If the data or Plan provisions are not accurate and complete, the valuation results may differ from results obtained with accurate and complete information, and may require a revision of this report.

We believe the information provided is suitable for the purposes of this investigation.

1.5 Fund Structure

The Plan is a sub-plan within the MLC Super Fund and is governed by the Trust Deed for the MLC Super Fund and Employer Application.

The Plan is closed to new defined benefit members.

The Plan is a "regulated fund" under SIS and is treated as a "complying superannuation fund" for taxation purposes.

Further details on benefit design are set out in Appendix A.

1.6 SG Certificates

A Benefit Certificate was prepared effective 1 January 2020 in accordance with the Superannuation Guarantee and Superannuation Industry (Supervision) legislation.

A replacement Funding and Solvency Certificate with an effective date of 1 December 2022 was prepared in accordance with the Superannuation Guarantee and Superannuation Industry (Supervision) legislation.

2 Plan Experience

2.1 Plan Assets

Assets supporting the active defined benefit liabilities of the Plan are currently invested in the Plum Pre-Mixed Moderate portfolio with a 76%/24% growth defensive split. The pension assets are currently invested in the Active - Moderate (untaxed) option with a 65%/35% growth defensive split.

At 30 June 2022, the Plan's assets were invested as follows:

- $7.35m in the Pre-Mixed Moderate option in respect of active liabilities
- $3.99m in the Active - Moderate (untaxed) option in respect of pension liabilities.

The strategic asset allocation at 30 June 2022 is:

Asset allocation at 30 June 2022	Plum Pre-Mixed Moderate	Active – Moderate (untaxed)
Australian shares	25%	26%
International shares	28%	18%
Private Equity	5%	5%
Property	6%	10%
Infrastructure	6%	5%
Alternative Assets and Other	4%	18%
Fixed Income - Diversified	8%	18%
Fixed Income - Credit	11%	
Cash	7%	0%
Total	**100%**	**100%**

2.2 Investment Return and Crediting Rates

The investment performance since the previous investigation (based on unit price movements which are net of tax and fees) for the two investment options and annual declared crediting rates through to this valuation date are shown in the table below:

Period	Plum Pre-Mixed Moderate	Active – Moderate (untaxed)	Crediting Rate
1/7/19 to 30/6/20	-1.7%	-2.6%	-1.37%
1/7/20 to 30/6/21	19.2%	18.9%	19.32%
1/7/21 to 30/6/22	-2.0%	-3.0%	-1.99%
Average increase (p.a.)	**4.7%**	**4.0%**	**4.87%**

The average annual investment returns from 30 June 2019 to 30 June 2022 (based on unit prices which are net of tax and fees) were 4.7% per annum for actives and 4.0% per annum for pensioners. These 3 year returns were below the long term best estimate assumed return (net of investment taxes and investment expenses) of 6.0% per annum for active defined benefit members and 6.0% per annum for pensioners, as used in the 2019 investigation.

Allowance has been made for an actual investment return of 3.3% from 1 July 2022 to 28 November 2022 in our projections of the Plan's financial position and in setting our contribution recommendations.

2.3 Salary and Pension Increases

The 2019 investigation assumed salary increases of 3.0% per annum long term.

Pensionable Salary is the salary earned over the 12 months prior to leaving service. For the current members, salary increases since the 2019 investigation averaged 2.5% per annum. This is lower than the long term assumption of 3.0% per annum used in the 2019 investigation.

To the extent that the defined benefits are salary-related, the isolated net effect of a lower rate of increase will reduce the need for further employer contributions to finance these benefits and vice versa.

Pension increases are applied at 30 June each year at the rate of 85% of the rate of increase in the annual March CPI index in keeping with the provisions of the Trust Deed. The average annual pension increase granted for the period from 1 July 2019 to 30 June 2022 was 2.4% per annum. This is slightly below the long term assumption of 2.5% per annum.

2.4 Differential between Investment Return and Salary Increases

The key determinant of the cost of providing defined benefits relating to salary is the margin between investment returns and salary increases. This margin is effectively the "real investment return" of the Plan.

Over the 3 year period to 30 June 2022, the actual differential between investment returns and salary increases was 2.2% per annum for the active membership compared to 3.0% assumed at the 2019 investigation. This has had a negative impact on the Plan's financial position.

For this investigation, we maintained the long term investment earning rate at 6.0% per annum. We have also maintained the assumed long term future salary increase at 3.0% per annum. That is, a 3.0% per annum real return assumption.

2.5 Differential between Investment Return and Pension Increases

The key determinant of the cost of providing the pensions whilst in payment is the margin between investment returns and pension increases. Over the 3 year period to 30 June 2022, the actual differential between investment returns and pension increases was 1.6% per annum compared to 3.5% per annum assumed on the best estimate basis at the 2019 investigation. This has had a negative impact on the Plan's financial position.

For this investigation, we have maintained most of the key assumptions from the 2019 investigation, including the long term future pension increase rate of 2.5% p.a. and the long term investment earning rate at 6.0% per annum on the best estimate basis. The investment earning rate on a solvency basis has been maintained at 5.0% per annum for this investigation. That is, a best estimate gap of 3.5% p.a. and a solvency gap of 2.5% p.a.

2.6 Employer Contributions

The recommendation in the previous 2019 investigation was that the Employer contribute at 0% of defined benefit salaries until the completion of the next valuation effective 30 June 2022, with the Employer continuing to pay deemed/salary sacrifice member contributions. We understand that actual contributions to the Plan over the 3 year period were in line with our recommendations.

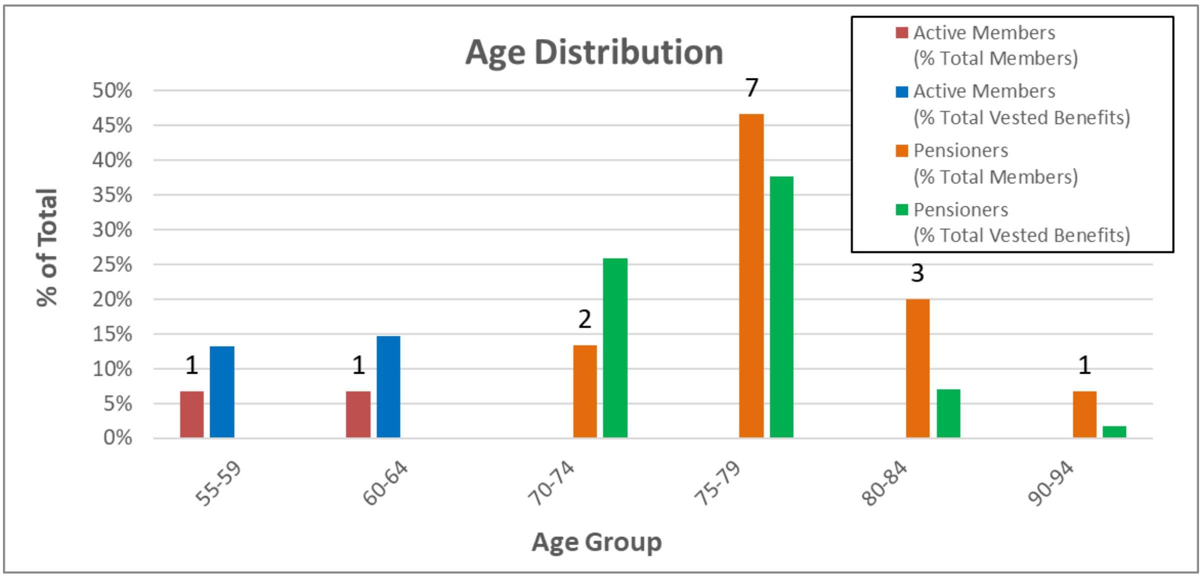
2.7 Membership – Active and Pensioners

Since 30 June 2019, the active defined benefit membership has reduced from 6 to 2 and the number of lifetime pensioners has decreased from 16 to 13.

Defined Benefit Category	Number of Members / Pensioners	
	30 June 2022	30 June 2019
Actives	2	6
Pensioners	13	16 *

* The number of pensioners shown includes 1 member that exited the fund prior to 30 June 2019 but had not elected to receive a pension benefit until after the 30 June 2019 actuarial investigation report was finalised. In that report, this member was assumed to have taken a lump sum benefit.

As at 30 June 2022, the total annual pensions were around $0.397m.



As can be seen from the chart above, the majority of the Plan liabilities are in pension form.

The weighted average duration of the liabilities, including pensioners, is 8.0 years.

2.8 Assumptions and Financing Approach

The financing approach adopted is to target coverage of Vested Benefits, which is the same as that used for the previous investigation.

No changes have been made to the financial assumptions or the demographic assumptions since the 30 June 2019 actuarial investigation.

Investment Returns and Salary Increases/Pension Increases

The key financial assumptions used for the 30 June 2022 valuation are shown below:

Key Assumption	30 June 2022 valuation	30 June 2019 valuation
Long term future investment returns:	6.0% p.a. net for actives 6.0% p.a. net for pensioners (best estimate basis) 5.0% p.a. net for pensioners (solvency basis)	6.0% p.a. net for actives 6.0% p.a. net for pensioners (best estimate basis) 5.0% p.a. net for pensioners (solvency basis)
Long term rate of future salary growth for active members	3.0% p.a.	3.0% p.a.
Long term rate of future pension indexation	2.5% p.a.	2.5% p.a.

Leaving service rates

We have adopted resignation, retirement, death and disability rates that are consistent with assumptions used in the previous actuarial investigations.

Pensioner mortality

The assumed pensioner mortality rates are based on the Australian Life Tables 2010-2012. An allowance has been made for future mortality improvements based on the mortality trend over the last 25 years. The tables are rated down under the Solvency valuation basis to provide a high level of adequacy for solvency purposes.

Pension election

Over the period from 1 July 2019 to 30 June 2022, four active defined benefit members exited the scheme, with all members electing to receive a lump sum benefit. In addition to these exits, 1 member that exited prior to 30 June 2019 was assumed to have taken a lump sum in the 30 June 2019 actuarial investigation, however ultimately elected to receive a pension benefit.

We note that historically the pension take up has been low for this plan. For this review, we have continued to assume that all exiting members will take the lump sum option but will continue to monitor the experience.

The impact of a higher pension take up rate is considered in Section 4.4.

Expenses

In the 2019 investigation, an allowance of 3.5% of defined benefit salaries plus $20,000 per annum was made for administration, insurance, and actuarial and consulting costs.

Due to the small number of active members remaining in the Plan as at 30 June 2022, this allowance has been increased to 5.0% of defined benefit salaries and $30,000 per annum.

Accumulation Accounts

Accumulation accounts arise under the Plan in a number of areas. Where they form a minimum benefit, this has been taken into account in the future projections. Those payable in addition to the defined benefits have been consistently deducted from both the assets and liabilities.

3 Financial Position

3.1 Coverage of Benefit Liabilities

In recommending the Company contribution rate to apply in future, consideration must be given to the current and projected financial strength of the Plan.

Net Assets

The net assets as at 30 June 2022 available to support pension and active defined benefit member liabilities were $11.342m. This amount excludes $0.180m of additional accumulation accounts for defined benefit members at 30 June 2022. This asset valuation has not been audited. The valuation is based on unit holdings and prices at 30 June 2022 provided by Plum.

Value of Pensions

The best estimate valuation of current pensioners was $4.562m. APRA requires that for solvency purposes a higher probability reserve be held. On this solvency basis, the value of these pension benefits is determined as $5.711m. These amounts are included in the benefit ratios below.

The value of current lifetime pensioners in this report may differ from the amount ('market value') a third party (e.g. Life insurer) would charge to take on the liability. This can be due to annuity providers using different discount rates and mortality assumptions, as well as including allowance for operating expenses, risk margins and profit loadings.

The 'market value' of annuities can fluctuate from week to week in line with changes to economic factors. Market rates in late November 2022 suggests that the cost of current lifetime pension liabilities would be approximately $5.317m for existing pension benefits, or around 7% lower than the valuation pension liability (on a solvency basis) of $5.711m.

Minimum Requisite Benefits

Minimum Requisite Benefits (MRB's) which are the minimum Superannuation Guarantee (SG) benefits set out in the Plan Benefit Certificate are used to determine the solvency of the Plan under SIS. For this purpose, "Solvency" is defined in a limited sense by considering only whether minimum SG benefits are covered by the Plan assets. Where employer contributions are made above SG levels or where defined benefits exceed these SG accumulations, these extra benefits are not counted in the determination of this measure.

Ratio of Net Assets to Minimum Requisite Benefits = $11.342m/$6.594m = 172.0%

The Minimum Benefit Index is calculated as the Plan assets divided by Minimum Requisite Benefits. For this purpose, current pensioners have been included using the 'best estimate' valuation basis of $4.562m.

The Minimum Benefit Index for the Plan at the current investigation was above 100% confirming the Plan is technically solvent.

Vested Benefits

"Vested Benefits" are the benefits which would have been payable had all members voluntarily resigned on the review date. I have calculated Vested Benefits as the total of all standard resignation benefits, or, for eligible members, early or late retirement benefits. For those eligible for retirement benefits, the lump sum value has been taken for this measure. For this purpose, current pensioners have been included using the 'solvency' valuation basis of $5.711m.

The Vested Benefits Index is calculated as the total assets divided by Vested Benefits and represents the extent to which the Plan asset value covers Vested Benefits.

Ratio of Net Assets to Vested Benefits = $11.342m/$7.914m = 143.3%

The Assets exceeded Vested Benefits by $3.428m at 30 June 2022.

Total Vested Benefits are normally regarded as the minimum which should be covered by assets in the Plan. A Plan is considered to be in an unsatisfactory financial position if its Vested Benefits Index falls below 100% (i.e. net assets are less than Vested Benefits).

The retrenchment benefits are equal to the Vested Benefits for all members, so this ratio also applies to retrenchment benefits.

Accrued Benefit Reserve

The Accrued Benefits Reserve represents the value in today's dollars of members' accrued benefits allowing for future salary increases, investment earnings and expected incidence and type of payment (subject to a minimum of the total Vested Benefit). No allowance is made for future administration expenses. It is assumed that active members who leave take a lump sum benefit rather than a pension.

Ratio of Net Assets to Accrued Benefits Reserve = $11.342m/$7.915m = 143.3%

For this purpose, current pensioners have been included using the 'solvency' valuation basis of $5.711m.

The Accrued Benefits Reserve Index is calculated as the total assets divided by the Accrued Benefits Reserves and represents the extent to which the Fund Value covers the Accrued Benefits Reserves.

A fully secured position is represented by an Accrued Benefits Reserve Index of 100%. At this level, if no further benefits were allowed to accrue to current members, assets would be sufficient to meet all future benefit payments if the actuarial assumptions are borne out in practice. The Assets exceeded the Accrued Benefits Reserve by $3.427m at 30 June 2022.

The method of calculating "Accrued Benefit Reserve" above is subject to a minimum of the total Vested Benefits, which is not consistent with AASB 1056 and should not be used for purposes of disclosures in company or fund accounts.

As at 30 June 2022, the Accrued Benefits on a basis consistent with AASB 1056 (using best estimate assumptions and not subject to a minimum of the total Vested Benefits) are equal to $7.915m.

Assets/Termination Benefits = 100%

If the Plan is terminated, each member is entitled to his/her actuarial share of the Plan assets. Hence, the termination benefits are automatically covered by the Plan assets.

Comments

The Plan has a material surplus of assets relative to vested and accrued liabilities, and so is in a strong financial position.

Summary

We have summarised the Plan's financial position as at 30 June 2022 in the table below:

	At 30 June 2022	
	($'000s)	Asset Coverage
Assets	**11,342**	
Minimum Requisite Benefits	Actives: 2,032 Pensioners: 4,562 **Total: 6,594**	172.0%
Vested Benefits	Actives: 2,203 Pensioners: 5,711 **Total: 7,914**	143.3%
Present Value of Accrued Benefits	Actives: 2,204 Pensioners: 5,711 **Total: 7,915**	143.3%

3.2 Projected Financial Position

Projection of Indices

It should be emphasised that the funding indices shown in Section 3.1 relate to the current position at 30 June 2022 only. A projection of the Plan is required to assess the adequacy of Company contribution rates in the future.

Employer Contribution Rates

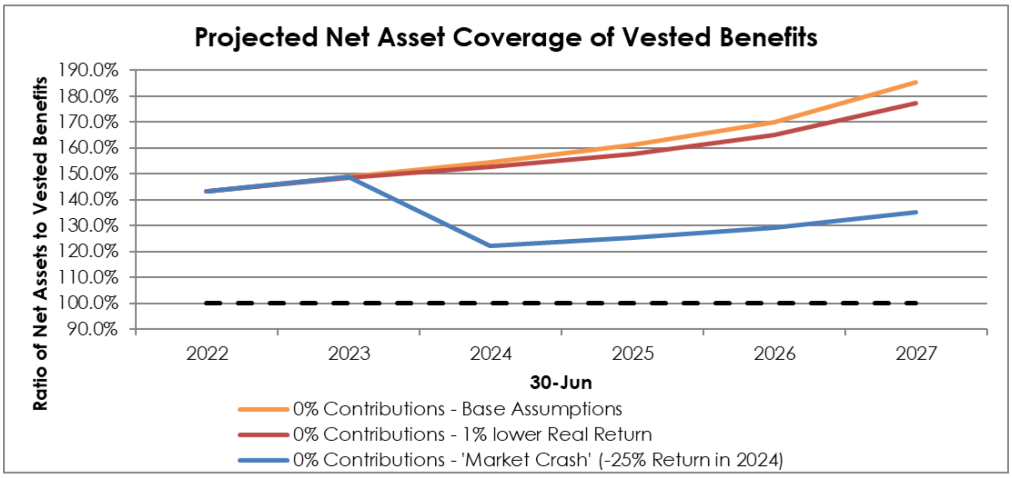
Taking into account the investment strategy adopted, the size of the Plan and the level of pension liabilities, a margin of the order of 5-10% over Vested Benefits assessed on a lump sum basis would provide a reasonable margin for both security of members benefits while also assisting in stabilising future employer contribution obligations. This buffer of assets over Vested Benefits would allow for the potential that some exiting members may elect to take their benefits in pension form along with other potential variations in experience. Being a small mature plan, experience will be more volatile. As the number of members in the Plan falls the margin of assets over Vested Benefits is expected to increase as the remaining surplus assets are shared across a smaller number of remaining members. As the Plan decreases in size the pension liability becomes more relevant in terms of experience.

The chart below shows the projected financial position over the next 5 years with regard to Vested Benefits assuming pensions are valued on a solvency basis, the current employer contribution holiday continues and the actuarial assumptions are borne out in practice. Three scenarios are shown:

(1) Assuming the current DB employer contribution holiday continues and the real return each year is equal to the current assumption of 3.0% p.a. for actives and 2.5% p.a. (on the solvency basis) for pensioners. We have allowed for the actual investment return for the period to 28 November 2022 of 3.3%;

(2) The same as scenario 1 except that the investment return is 1% p.a. lower, i.e. a real return of 2.0% p.a. for actives and 1.5% p.a. pensioners (and allowing for the actual investment return for the period to 28 November 2022 of 3.3%). This sensitivity does not represent the lower bound of possible outcomes.

(3) The same as scenario 1 except the Plan experiences a 'market crash' investment return of -25% in 2024 (and allowing for the actual investment return for the period to 28 November 2022 of 3.3%). Given the Plan's current exposure to growth assets, this would be equivalent to a fall in equity markets of around 33% (the approximate magnitude that equity markets fell during the start of the COVID-19 pandemic in March 2020). This sensitivity does not represent the lower bound of possible outcomes.



As shown in the projection above, if the contribution holiday continues, the VBI surplus is expected to increase significantly over time. Even on the more conservative 1% p.a. lower real return basis, the VBI is expected to increase.

Clearly the financial position is subject to the impact of the key assumptions used such as future investment returns and salary escalation. Variations in these outcomes will impact the contribution requirements, potentially materially. For example, if all members who are eligible, elect to take a pension then the surplus would reduce by around $0.3 million. Also, if it is decided to close the plan at some point in the future and purchase annuities from an external insurer then the surplus may reduce further.

Conclusion

The projections above confirm that the current employer contribution holiday is more than required to support the security of members' benefits even assuming adverse short term experience.

As a result, this supports the continuation of the Employer contribution holiday until completion of the next actuarial review. Given the strong financial position, there is also scope for the employer contribution holiday to be extended across accumulation members for a short period to absorb up to $2.0m of surplus (i.e. $2.4m of gross of tax contributions). Based on estimated total salaries in respect of Tabcorp members of approximately $62m and contributions in line with the SG rate, this equates to a period of around 4 months.

In view of this we would suggest that the contribution holiday with respect to Tabcorp members' SG contributions could commence from 1 April 2023 and finish on 31 July 2023. At the end of this period, we would expect that the VBI would be above 120% (which based on current annuity costs would still be sufficient to support an annuity buy-out of the pension liabilities). For simplicity, we have suggested accumulation member contributions at the SG rate to minimise administrative complexities.

3.3 Insurance Coverage

We understand that insurance cover is calculated as the greater of the commuted value of the Death and TPD pension benefits less the value of the accrued retirement pension benefit, comparing several complicated benefit formulas. The resulting insurance coverage is less than the difference between the Death and TPD benefit and the Vested Benefits (a common approach to insurance for defined benefit plans).

The table below shows a comparison of insurance coverage of lump sum death and disablement risks and assets in respect of active defined benefits. These amounts exclude additional accumulation accounts and current pensioners.

Present Value of Total Death & TPD Benefits (A)	Net Active DB Assets (B)	Total amount insured (C)	"Excess" Insurance (B + C – A)
$2.319m	$5.631m	$0.151m	$3.463m

Given the funding surplus and the resulting excess insurance shown in the table above, there is some scope to simplify the insurance formula and reduce premium costs if the Trustee and the Employer wish. However, as total premiums for Death, TPD and SCI for defined benefit members were around $4,000 for the 2022 financial year, any adjustments to the insurance formula are likely to be immaterial to the Plan's financial position. Therefore, we confirm that the current insurance arrangements are acceptable unless the Employer or the Trustee would like to have this reviewed further.

3.4 Investment Policy

The Employer with the approval of the Trustee has adopted an investment policy of investing the assets supporting the defined benefit liabilities in the Plum Pre-mixed Moderate investment option (76% growth /24% defensive) and the assets supporting pension liabilities in the Active - Moderate (untaxed) option (65% growth/ 35% defensive).

These portfolios are suitable as a longer term investment supporting defined benefit liabilities. The Plan is maturing leading to a shortening investment horizon in respect of active members but there is also an increasing influence of the pension liabilities (which are inflation driven rather than salary driven and may also increase if any exiting active member elects to take a pension option) as the active membership declines.

The Employer could consider requesting the Trustee reduce the risk/return profile of the Plan's Investment Policy having regard to these factors as it is the Employer that bears much of the investment risk through the potential impact on future employer contributions. Such a change would be expected to reduce the longer term return but would also be expected to help stabilise the financial position of the plan and the employer contribution program. If the Employer or the Trustee wishes to consider this further, we would be happy to provide the necessary supporting considerations.

3.5 Shortfall Limit

We understand that a Shortfall Limit was set by the Trustee effective from 1 July 2013 at 100%. We confirm that we are not aware of any change to benefits, membership or to investments since 1 July 2013 that would suggest that, in our opinion, that the Shortfall Limit should be changed.

We confirm that 100% Shortfall Limit remains appropriate and does not compromise our likelihood of being able to certify the solvency of the Plan under paragraph 9.10(1)(e) of the SIS Regulations.

4 Material Risks

4.1 Investment Returns

As a mature fund that is closed to new entrants, the funding of benefits relies more on the investment returns on fund assets than on future contributions. Worse than expected investment returns over an extended period will increase future contributions required to fund the benefits.

4.2 Salary Inflation and Pension Indexation

Some components of the defined benefit are calculated based on salary. Salary increases in excess of investment returns will increase the value of these components relative to the assets supporting them and so the future contributions required to fund the benefits will increase.

The lifetime pension payments are expected to be indexed each year with 85% of CPI. Therefore, there is a risk that inflation is higher than expected which will increase the future cost of funding the pensioners.

As the Plan reduces in size, the experience of individuals can have a greater effect on the overall financial position of the Plan.

4.3 Longevity

If the fund's current pensioners (and any active members or their beneficiaries who elect to take a pension on exit) live longer than expected, this will be a strain on the Plan's reserves and may require additional contributions to fund the benefits.

4.4 Pension Election

Based on the experience of the Plan, we have assumed that all active members of the fund take a lump sum on exit instead of a pension. The assets required to fund a pension benefit are expected to be greater than the value of the lump sum, so if active members elect to take pensions on exit, this will be a strain on the fund assets and may require additional funding.

The Accrued Benefit Reserve at 30 June 2022 is expected to increase by $0.3m if all eligible members are assumed to take a pension.

4.5 Third Party Buy-Out Cost

There is a risk that the cost for a third party to buy out the pensioners is significantly higher than the pension liability value used for funding purposes, leading to additional funding being required if it is desired to remove the pension liabilities.

The 'market value' of annuities can fluctuate from week to week in line with changes to economic factors. Market rates in late November 2022 suggests that the cost of current lifetime pension liabilities would be approximately $5.317m for existing pension benefits, or around 7% lower ($0.394m lower) than the solvency valuation basis of $5.711m or around 17% higher ($0.755m) than the best estimate basis of $4.561m.

Although the cost of purchasing equivalent annuities in late November 2022 was less than the 'solvency' valuation basis at 30 June 2022, we note that annuity prices have varied significantly in recent years due to ongoing market volatility and the increases in the Australian Cash Rate over 2022. Consequently, there is the risk that third party buy-out costs may increase significantly in the future.

5 Recommendations

5.1 Annuity Buy-Out of Pensions in Payment

As at 30 June 2022 there were 13 pensioners and 2 active defined benefit members, both around age 60 at 30 June 2022.

Given the Plan's strong financial position, to avoid maintaining a defined benefit plan for many years for a small group of lifetime pensioners, we recommend the Trustee consider, in conjunction with the Employer, purchasing annuities in respect of the pensions in payment (potentially as individual contracts). Prior to purchasing annuities, the Trustee could also consider making a lump sum offer to these pensioners. In late November 2022, the cost to purchase lifetime annuities was around 7% lower ($0.394m lower) than the solvency valuation pension liability. However, we note that on a best estimate basis (where the assumed investment return is 6.0% per annum rather than 5.0% per annum) the actuarial value of the pension liabilities is around 17% lower ($0.755m lower) than the cost of purchasing annuities.

5.2 Recommended Contribution Rates

We recommend the Employer continue to contribute at 0% of defined benefit salaries until the completion of the next actuarial investigation effective 30 June 2025 due by 31 December 2025. The Employer should continue to pay the deemed/salary sacrifice member contributions for these members.

Given the strong financial position, we also recommend the employer contribution holiday be extended across accumulation members for a short period to absorb up to $2.0m of surplus (i.e. $2.4m of gross of tax contributions). Based on estimated total salaries in respect of Tabcorp members of approximately $62m and contributions in line with the SG rate, this equates to a period of around 4 months.

In view of this we would suggest that the contribution holiday with respect to Tabcorp members' SG contributions could commence from 1 April 2023 and finish on 31 July 2023. At the end of this period, we would expect that the VBI would be above 120% (which based on current annuity costs would still be sufficient to support an annuity buy-out of the pension liabilities). For simplicity, we have suggested accumulation member contributions at the SG rate to minimise administrative complexities.

Our analysis confirms that the Plan will maintain satisfactory asset coverage of Vested Benefits on this basis. Alternative contribution programs are possible and we would be happy to discuss these with the Trustee and the Employer.

5.3 Monitoring

We will continue to monitor the financial position of the Plan and the ongoing appropriateness of the employer contribution holiday as part of the Trustee's quarterly Financial Position Update reporting process. We note that while the VBI is projected to be in excess of 120% following the end of the recommended 4 month contribution holiday with respect to accumulation members, if it appears that the contribution holiday needs to finish early, we will advise the Trustee and employer contributions will need to resume.

5.4 Investment Policy

We confirm the Plan's current investment policy remains appropriate provided that the Trustee and Employer are comfortable with the volatility of the funding position and the resulting impact on the potential range of required company contributions.

5.5 Shortfall Limit

In accordance with the Trustee's DB Funding Policy, as the Employer is on a contribution holiday in respect of DB members, we recommend the Shortfall Limit be maintained at 100%.

5.6 Insurance Coverage

Whilst there is some scope to simplify the insurance formula and reduce premium costs if the Trustee and the Employer wish, based on the foregoing analysis any adjustments to the insurance formula are likely to be immaterial to the Plan's financial position, and therefore it would not be unreasonable for the insurance coverage to remain unchanged.

5.7 Next Actuarial Investigation

We understand that in 2016 APRA approved an exemption from annual valuations for the Plan. The next actuarial investigation of the Plan is scheduled with an effective date no later than 30 June 2025 (to be completed by 31 December 2025).

Nerida Seccombe

Fellow of the Institute of Actuaries of Australia

20 December 2022

Appendix A – Summary of Benefit Design

The following summary does not include benefits for accumulation members.

Membership Contributions	Defined benefit members are required to contribute 5% of their salary.
Pensionable Salary	Base salary earned over the 12 months prior to exit.
Pensionable Service	Total period as a member of the Tabcorp funds in years and days with a maximum of 30 years.
Normal Retirement Benefit	A member retiring between age 60 and 65 receives the greater of the Resignation Benefit and: (1) A basic pension calculated as $1^2/_3$% of Pensionable Salary for each year of Pensionable Service; plus (2) A lump sum of the member's contributions with interest: plus (3) Any amount transferred into the Fund, or a prior fund, that was not applied to provide an additional pension benefit, with interest. Members may choose to receive an additional pension benefit in place of the lump sum in (2) above. The total pension may not exceed 70% of Pensionable Salary.
Early Retirement Benefit	A member retiring between age 55 and 60 receives the normal retirement benefit with the basic pension reduced by one-twelfth of 4% for each full month between the date of exit and the member's 60th birthday.
Death Benefits	If a member dies while an active member of the fund, the benefit depends on the personal circumstances of the member. If the member has a surviving spouse, the benefit is equal to the normal retirement benefit, with the pension in (1) calculated as $1^1/_9$% of Pensionable Salary at date of death for each year of membership assuming the member had remained in employment until their 65th birthday. If the member has a surviving spouse and one or more children under age 18 (or under 23 and full time students), in addition a benefit is paid to each child equal to the lesser of: (1) 20% of the spouse pension above; or (2) 50% of the spouse pension divided equally between the children. If the member has no surviving spouse but has one or more children under age 18 (or under 23 and full time students), the benefit is: (1) A pension shared equally between the eligible children calculated as a proportion of the pension in (1) of the normal retirement benefit. The proportion is equal to 45% for 1 eligible child, 80% for 2 eligible children, 90% for 3 eligible children and 100% for 4 or more eligible children; plus (2) A lump sum of any contributions made by the member in excess of 5%, i.e. supplementary contributions, with interest; plus (3) Any amount transferred into the Fund, or a prior fund, that was not applied to provide an additional pension benefit, with interest. If the member has no surviving spouse and no children under age 18 (or under 23 and full time students), the benefit is: (1) A lump sum of the member's contributions with interest: plus (2) Any amount transferred into the Fund, or a prior fund, that was not applied to provide an additional pension benefit, with interest.

Invalidity Benefit

Members over age 60 who leave due to invalidity receive the normal retirement benefit except that Pensionable Membership in component (1) includes Pensionable Service as if the member had remained in employment until their 65th birthday.

Members under age 60 who leave due to invalidity receive:

(1) A pension calculated as $2^{1}/_{3}\%$ of Pensionable Salary for each year of Pensionable Membership (limited to 70% of Pensionable Salary); plus

(2) A lump sum of any contributions made by the member in excess of 5%, i.e. supplementary contributions, with interest; plus

(3) Any amount transferred into the Fund, or a prior fund, that was not applied to provide an additional pension benefit, with interest.

Invalidity benefits may be reduced by worker's compensation or similar compensatory payments.

Resignation Benefit

If a member voluntarily leaves service aged less than 55 years, the benefit is

(1) 300% of contributions paid by the member at 5% of salary with interest; plus

(2) Any supplementary contributions, with interest; plus

(3) Any amount transferred into the Fund, or a prior fund, that was not applied to provide an additional pension benefit, with interest.

Retrenchment Benefit

The retrenchment benefit is equal to the applicable retirement or resignation benefit.

Superannuation Guarantee Benefits

A calculation of the compulsory minimum benefit is performed at the time of leaving the Fund. A member's benefit will be compared against this and increased to the minimum amount should that be necessary. This is in accordance with Federal Government legislation requirements.

Additional Accumulation Accounts and Surcharge

Under all forms of exit, members also receive a benefit equal to the sum of their additional accumulation accounts, less any surcharge account.

Company Contributions

The company contributes the balance of the cost to provide member benefits and to meet administration expenses.

Conversion of Pension Benefits to a Lump Sum

Members may elect to receive their full benefit as a lump sum. The rates of conversion of pension to lump sums are set out in the table below:

Age at Retirement	$ Lump Sum for each $ pa of pension
55	13.6
56	13.4
57	13.2
58	13.0
59	12.8
60	12.6
61	12.4
62	12.3
63	12.2
64	12.1
65	12.0

Appendix B – Financing Methods and Assumptions

Financing Method

The financing approach adopted is to target coverage of Vested Benefits.

Actuarial Assumptions

We have adopted the following actuarial assumptions in projecting the Plan's financial position and evaluating the employer contribution program.

Investment Returns and Salary Increases

The most critical factor affecting the cost of benefits is the "gap" between the investment earnings and salary increases i.e. the real rate of return.

At this investigation, we have assumed that the future level of investment returns (net of tax on investment income and investment charges) would average 6.0% per annum. Salary increases are assumed to average 3.0% per annum long term. In the long term the combined effect of these assumptions equates to a "real investment return" of 3.0% per annum.

For pension valuation purposes, a pension increase rate of 2.5% per annum has been used in conjunction with either a best estimate basis investment return of 6.0% per annum and a solvency basis investment return of 5.0% per annum.

New Members

No new members are assumed to join the defined benefit section of the Plan.

Leaving Service Rates

The following are a sample of the leaving service/retirement rates assumed in the assessment of the Company contribution rate.

Age	Rate of exit per annum
40	3.8%
45	2.9%
50	1.7%
55	20.0%
56-59	5.0%
60	20.0%
61-62	15.0%
63	20.0%
64	50.0%
65	100.0%

Pensioner valuation assumptions

Pensioner mortality	In accordance with the Australian Life Tables 2010-2012 (rated down under Solvency valuation basis)
Allowance for future improvements in mortality rates	In accordance with the trend in mortality improvements over the last 25 years
Adjustment for invalidity pensioners	Age of pensioner increased by 10 years
Spouse ages	Where information as to the actual age of a pensioner's spouse was not available or for active members, a female (male) spouse is assumed to be 3 years younger (older) than the pensioner.

Expenses

An allowance is made for administration expenses and Salary Continuance Insurance premiums in respect of defined benefit members equal to 5.0% of members' salaries. In addition, an allowance is made for costs relating to actuarial and consulting costs of $30,000 per annum.

Taxation

A tax of 15% on Company contributions (net of administration and insurance expenses) has been assumed.

Appendix C – Prudential Requirements

ACTUARIAL STATEMENT REQUIRED UNDER SUPERANNUATION PRUDENTIAL STANDARD SPS 160

As the Actuary to the Fund, I hereby certify that:

(i) At 30 June 2022, the value of the assets of the Plan in respect of defined benefit liabilities (pensioners and active members) was $11.342m.

(ii) In my opinion, the value of the assets of the Plan at 30 June 2022 was adequate to meet the liabilities of the Plan in respect of accrued benefits in the Plan (measured as the present value of members' accrued entitlements using the valuation assumptions).

(iii) This report contains a projection of the likely future position of the Plan during the three years following the valuation date, based on assumptions as to future experience, which I consider reasonable.

(iv) Based on Employer contributions as recommended in the report and the assumptions as to future experience, which I consider as reasonable, I consider that the value of assets of the Plan together with the contributions recommended will be adequate to meet the accrued liabilities of the Plan throughout the period to 30 June 2025.

(v) In my opinion, the Plan's financial position was not unsatisfactory nor about to become unsatisfactory under SIS Regulation 9.04 at 30 June 2022, nor does the current Shortfall Limit of 100% need to be reviewed.

(vi) In my opinion, the value of the assets of the Plan at 30 June 2022 was adequate to meet the liabilities of the Plan in respect of the minimum requisite benefits in the Plan, estimated to be $6.594m.

(vii) There is a high degree of probability that the current pensions in payment will be able to be paid as required under the Plan's governing rules. This statement is made in accordance with SIS Regulation 9.31(1) and Professional Standard 400 issued by the Institute of Actuaries of Australia.

(viii) A Funding and Solvency Certificate for the Plan covering the period to 30 June 2025 required by the Superannuation Industry (Supervision) Act has been provided. In my opinion, the solvency of the Plan will be able to be certified in the Funding and Solvency Certificate required under the Superannuation Industry (Supervision) Regulations during the period to 30 June 2025.

(ix) I have recommended that the Employer continue to contribute at 0% of defined benefit members' salaries until the completion of the next actuarial investigation effective 30 June 2025. The Employer should continue to pay the deemed/salary sacrifice member contributions for these members.

We also recommend the employer contribution holiday be extended across accumulation members for a short period to absorb up to $2.0m of surplus (i.e. $2.4m of gross of tax contributions). Based on estimated total salaries in respect of Tabcorp members of approximately $62m, a contribution holiday for accumulation member SG contributions could commence from 1 April 2023 and finish on 31 July 2023.

Nerida Seccombe
Fellow of the Institute of Actuaries of Australia

20 December 2022

Appendix D – Additional Information for AASB 1056

This information has been prepared at the request of the Trustee of the Plan and sets out the value of Accrued Benefits and other actuarial information required under AASB 1056 in respect of the defined benefit Plan.

Defined Benefit Liabilities at 30 June 2022

For the disclosure purposes of AASB 1056, the Accrued Benefits and Vested benefits for the defined benefit members are summarised in the table below:

($'000)	Actives	Pensioners	Total
Accrued Benefits[1]	2,204	4,562	6,766
Vested Benefits[2]	2,203	5,711	7,914

[1] *Based on best estimate assumptions; not subject to minimum Vested Benefits.*

[2] *Pension valuation is based on solvency basis.*

The weighted average duration of the liabilities (including pensioners) is 8.0 years.

The method of determining Accrued Benefits has been applied in a manner consistent with Professional Standard 402 issued by The Institute of Actuaries of Australia.

Data and Assumptions

The assumptions and data used to calculate Accrued Benefits and Vested Benefit were summarised as follows:

Discount Rate – Actives:	6.0% p.a.
Discount Rate – Pensioners (best estimate):	6.0% p.a.
Discount Rate – Pensioners (solvency):	5.0% p.a.
Future Salary Increases:	3.0% p.a.
Future Pension Increases:	2.5% p.a.

All other assumptions are the same as those adopted in the 30 June 2022 Actuarial Investigation.

The discount rates are considered to be a reasonable expectation of actual future Plan returns over the average expected term of the benefit liabilities, in the light of the Plan's present investment strategy and taxation position.

Sensitivities

The table below shows the sensitivity of the Accrued Benefits to changes in key assumptions on a univariate basis:

Financial assumptions	1% increase	1% decrease
Discount rate (Base: active & pensioner 6.0%p.a.)	-4.6%	5.2%
Salary increase (Base 3.0%p.a.)	0.0%	0.0%
Pension increase (Base 2.5%p.a.)	5.2%	-4.7%
Other assumptions		
Pension election rate +20%	0.1%	
Pensioner mortality -20%	4.8%	

This information has been prepared in accordance with Practice Guideline 499.06 issued by the Institute of Actuaries of Australia.