Actuarial Investigation as at 30 June 2024

TWE Superannuation Plan in the MLC Super Fund

PREPARED BY: The Heron Partnership Pty Limited

29 November 2024

The Heron Partnership Pty Limited
ABN 79 100 196 272 AFSL 252538
Level 9, 412 St Kilda Road
Melbourne Vic 3004
T: +61 3 9254 4900
www.heronpartners.com.au

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Executive Summary

Outlined below is a summary of the results of the actuarial valuation of the TWE Superannuation Plan (the Plan), within the MLC Super Fund as at 30 June 2024.

Purpose

This report is provided to the Trustee of the MLC Super Fund by the actuary for the TWE 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 and SPS 160.

Background

As at 30 June 2024 there were 4 pensioners in the Plan. All other members receive accumulation style benefits.

We understand the Trustee is seeking to arrange annuity purchases in respect of the remaining pensions. Based on the financial position at 30 June 2024 and annuity prices in mid October 2024, we confirm that there are sufficient Plan assets to finance annuity purchases. In view of these impending changes the Plan's assets are currently invested in cash.

Key Financial Assumptions

This valuation focuses on the longer term funding requirements, in the event that annuities are not purchased in respect of the pensioners. For this purpose, we have set the investment return assumption on the basis that the assets supporting pensioners would be invested in a 50% "growth"/50% "defensive" type investment option similar to the MLC Conservative Balanced option strategy.

The pensioner liabilities are primarily valued on a 'Solvency Basis' with key assumptions of 4.5% per annum future investment earnings and pension increases of 2.75% per annum, i.e. a 1.75% per annum "real return" assumption. The 'Best Estimate Basis' utilises an investment return assumption of 5.0% per annum. These assumptions are the same as those adopted for the 2023 investigation.

TWE Superannuation Plan Financial Position

We have summarised in the table below the TWE Superannuation Plan's financial position as at 30 June 2024 and as shown in the last actuarial review at 30 June 2023:

	At 30 June 2024		At 30 June 2023	
	$	Asset Coverage	$	Asset Coverage
Assets	1,100,000		1,121,000	
Vested Benefits/Accrued Liabilities (Best Estimate Basis)	709,000	155.1%	744,000	150.7%
Accrued Liabilities (Solvency Basis)	849,000	129.6%	891,000	125.8%

The Plan is in a strong financial position as at 30 June 2024. The level of surplus in the Plan has increased since 30 June 2023 due to:

- The death of one of the remaining pensioners; and
- The $30,000 per month top-up contributions being slightly more than actual employer paid fees, premiums and expenses over the 12 months.

Recommendations

1. Investment Policy

The Plan's assets are currently entirely invested in cash. A cash investment strategy remains appropriate in view of the pending changes to the arrangements for pensioners.

If at any stage it appears that the Plan will continue to bear the risk for lifetime pensions over the long term (i.e. annuity purchases do not proceed), it would be appropriate to consider a change in the cash investment strategy for assets supporting pensions to an investment option with a higher growth allocation, such as the MLC Conservative Balanced option.

2. Recommended Level of Contributions

Given the Plan's strong financial position, we recommend:

- The employer contribute $27,000 per month in respect of administration and insurance costs;
- If, and when, the liabilities for lifetime pensions are removed or backed by annuities then the remaining surplus could be utilised via a contribution holiday in respect of the above contributions and/or employer contributions for accumulation members; and
- Otherwise, contributions in respect of accumulation members should be made as required under the Plan's Rules.

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

3. Shortfall Limit

In accordance with the Trustee's DB Funding Policy, we recommend the Shortfall Limit be maintained at 100%.

4. Next Actuarial Valuation

If required, 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 a full actuarial investigation of the TWE Superannuation Plan (the Plan), a sub-plan in the MLC Super Fund, as at 30 June 2024. This report is provided to the Trustee of the MLC Super Fund by the actuary for the TWE Superannuation Plan, Nerida Seccombe, on behalf of The Heron Partnership Pty Limited ("Heron").

The previous annual investigation of the Plan was carried out by me on behalf of Heron as at 30 June 2023 and the results were presented in a report dated 19 December 2023.

This report was commissioned by the Trustee of the Plan, NULIS Nominees (Australia) Limited.

1.2 Requirement

As a pension plan, actuarial reviews of this Plan are currently required every year. If required, the next actuarial review is due to be conducted as at 30 June 2025, to be completed by 31 December 2025.

This report has been prepared in accordance with the Institute of Actuaries of Australia Professional Standards 400 and 410, and contains the information required by Superannuation Prudential Standard 160 (SPS160).

1.3 Purpose

The main purpose of this valuation is to:

- Examine the financial position of the TWE Superannuation Plan;
- Recommend a Company contribution level;
- 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.

Membership information is based on the details held by Plum, the Plan's administrator, as at 30 June 2024. Allowance has been made for known 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.

1.5 Fund Structure

The membership of the TWE Superannuation Plan was transferred effective 20 January 2014 from the AusBev Superannuation Fund to the Plum Superannuation Fund. On 1 July 2016, the Plum Superannuation Fund was transferred into the MLC Super Fund.

The Plan is governed by the Trust Deed for the MLC Super Fund and Employer Application.

The Plan has been closed to new defined benefit members since commencing in the Plum Superannuation Fund.

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

Accumulation only members are excluded from this investigation as their balances are matched by the assets supporting them.

2. Plan Experience

2.1 Investments

As at 30 June 2024 the assets of the Plan available to meet pension liabilities were $1,100,000.

Assets supporting the pensions are currently invested in the MLC Cash option.

Over the year to 30 June 2024 the Plan is estimated to have returned approximately 4.4%. This return is close to the long term assumed annual return net of investment taxes and asset-based fees of 4.5% per annum (Solvency Basis) for pensioners, as used in the 2023 investigation.

2.2 Pension Increases

This year, pensions were increased by 3.6%, which was above the assumed rate of 2.75% per annum used in the 2023 investigation.

2.3 Differential between Investment Return and Pension Increases

The key determinant of the cost of providing lifetime pensions is the margin between investment returns and pension increases. This margin is effectively the "real earning rate" of the Plan.

Over the last year, the actual differential between investment returns and pension increases has been approximately 0.8%. This compares to the assumed real earning rate of 1.75% on the Solvency Basis. The lower than assumed real earning rate has had a negative impact on the Plan's financial position.

For the Solvency Basis applied for this investigation we have adopted a future long term investment earning rate of 4.5% per annum and a long term pension increase rate of 2.75% per annum. Therefore, we have maintained the "real return" assumption of 1.75% per annum that was adopted in 2023.

This valuation focuses on the longer term funding requirements, in the event that the annuity purchases do not proceed. For the purposes of setting the investment return assumption we have assumed that the assets supporting pensioners are invested in a 50% "growth"/50% "defensive" type investment option similar to the MLC Conservative Balanced option (which has an approximate exposure to growth assets of 56%).

If the annuity purchases don't proceed, we would expect the assets supporting pensioners to be switched back to an investment option similar to the former investment strategy (i.e. an investment option with an approximate exposure to growth assets of around 50%).

2.4 Employer Contributions

Over the 1 year period to 30 June 2024, the Employer has been contributing in line with our recommendations as follows:

- $30,000 per month in respect of administration and insurance costs; plus
- Contributions in respect of accumulation members as provided for in the Plan's Rules.

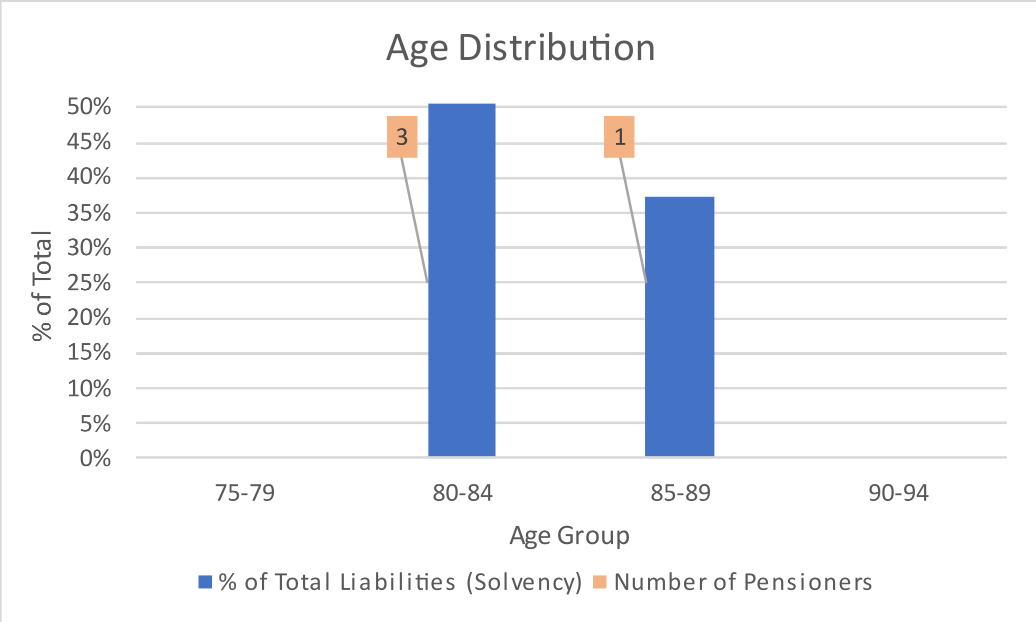
2.5 Membership

Since 30 June 2023 one of the lifetime pensioners has died.

Date	Number of Pensioners	Average Pensioner Age	Total Pensions p.a.
30 June 2024	4	85	$103,000
30 June 2023	5	87	$105,000
30 June 2022	5	86	$100,000
30 June 2021	10	87	$136,000
30 June 2020*	11	86	$147,000

*There were also 2 active defined benefit members at 30 June 2020.

As seen in the chart below, all pensioners are over age 80.



The weighted average duration of the liabilities is 4.7 years on the Best Estimate Basis and 5.6 years on the Solvency Basis.

2.6 Assumptions and Financing Approach

The financing approach adopted is to target coverage of Accrued Liabilities (Solvency Basis). This is the same approach adopted at the previous investigation and it is appropriate given that the defined benefit section of the Plan now consists of lifetime pensioners only.

Investment Returns and Pension Increases

The key financial assumptions used for the 30 June 2024 and 30 June 2023 valuation are shown below:

Key Assumption	30 June 2024 valuation	30 June 2023 valuation
Long term future investment returns (net of tax for pensioners)	5.0% p.a. (Best Estimate Basis) 4.5% p.a. (Solvency Basis)	5.0% p.a. (Best Estimate Basis) 4.5% p.a. (Solvency Basis)
Long term rate of future pension indexation	2.75% p.a.	2.75% p.a.

The financial assumptions adopted are the same as those adopted in the 2023 valuation.

Pension Indexation

All of the lifetime pensioners are in respect of a group transferred from the Southcorp Superannuation Plan (former members of the BHP Fund). We understand that there are no specific Trust Deed provisions in respect of their pension increases. Currently, the pensions are indexed each year at 1 July in line with the Consumer Price Index (CPI), subject to a minimum 2% increase and a maximum 5% increase each year. Consistent with the current indexation policy, an allowance has been made for pension increases equal to the expected CPI increase of 2.75% per annum.

Pensioner Mortality

Given the small size of the pension membership, there is insufficient data to conduct any meaningful Plan specific analysis. On this basis, we have determined the current mortality rates used for the previous actuarial investigation remain appropriate and thus they have been retained for the 30 June 2024 actuarial investigation.

The pensioner mortality experience is assumed to be in line with the Australian Life Tables 2010-12. An allowance has been made for future mortality improvements based on the mortality trend over the last 25 years. For the Solvency Basis, the tables are rated down accordingly to target a 70% adequacy level.

Expenses

An allowance is made for administration expenses and insurance premiums in respect of accumulation members which are not deducted from members' accounts and consulting/actuarial costs. Based on recent experience of the Plan, we have assumed an ongoing level of Plan expenses of $27,000 per month. This includes a $23,000 per month allowance for administration and insurance costs for accumulation members which are not deducted from their accounts.

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 value of net assets available to support pensions at 30 June 2024 was $1,100,000. This net asset value excludes the value of all accumulation balances for accumulation members and any amount held to meet the Fund's Operational Risk Financial Requirement. The asset valuation has not been audited. The valuations are based on unit holdings and prices at 30 June 2024 provided by Plum.

Value of Pensions

The Best Estimate valuation of current pensioners at 30 June 2024 was $709,000. 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 $849,000. These amounts are used to determine the benefit ratios below.

Summary

We have summarised the Plan's financial position as at 30 June 2024 and 30 June 2023 in the table below:

	At 30 June 2024		At 30 June 2023	
	$	Asset Coverage	$	Asset Coverage
Assets	1,100,000		1,121,000	
Vested Benefits/Accrued Liabilities (Best Estimate Basis)	709,000	155.1%	744,000	150.7%
Accrued Liabilities (Solvency Basis)	849,000	129.6%	891,000	125.8%

Note that Vested Benefits can be taken to be equal to the Best Estimate value of Accrued Liabilities. Therefore, the Plan is in a satisfactory financial position as assets are greater than Vested Benefits. Assets are also significantly higher than the Solvency valuation of the liabilities, which adopts more conservative assumptions.

The cost in mid October 2024 to purchase equivalent annuities from a third party is estimated to be below the Solvency liability. Refer to Section 3.5 for further details.

The level of surplus in the Plan has increased since 30 June 2023 due to:

- The death of one of the remaining pensioners; and
- The $30,000 per month top-up contributions being slightly more than actual employer paid fees, premiums and expenses over the 12 months.

The above items offset the negative impact of pensions being indexed at 30 June 2024 by 3.6% which is greater than the long term indexation rate assumed in the 2023 actuarial investigation of 2.75% per annum.

The method of calculating liabilities in this report is not consistent with AASB 119 and should not be used for purposes of disclosures in Company accounts.

3.2 Long Term Adequacy of Employer Contributions

Projection of Indices

It should be emphasised that the funding indices shown in Section 3.1 relate to the current position at 30 June 2024 only. A projection of the Plan's financial position over time is required to assess the adequacy of Company contribution rates in the future.

Taking into account the size and expected duration of the Plan, a margin of the order of 5% - 10% over Accrued Liabilities (Solvency Basis) would provide a reasonable margin for security of members' benefits while also assisting in stabilising employer contribution obligations.

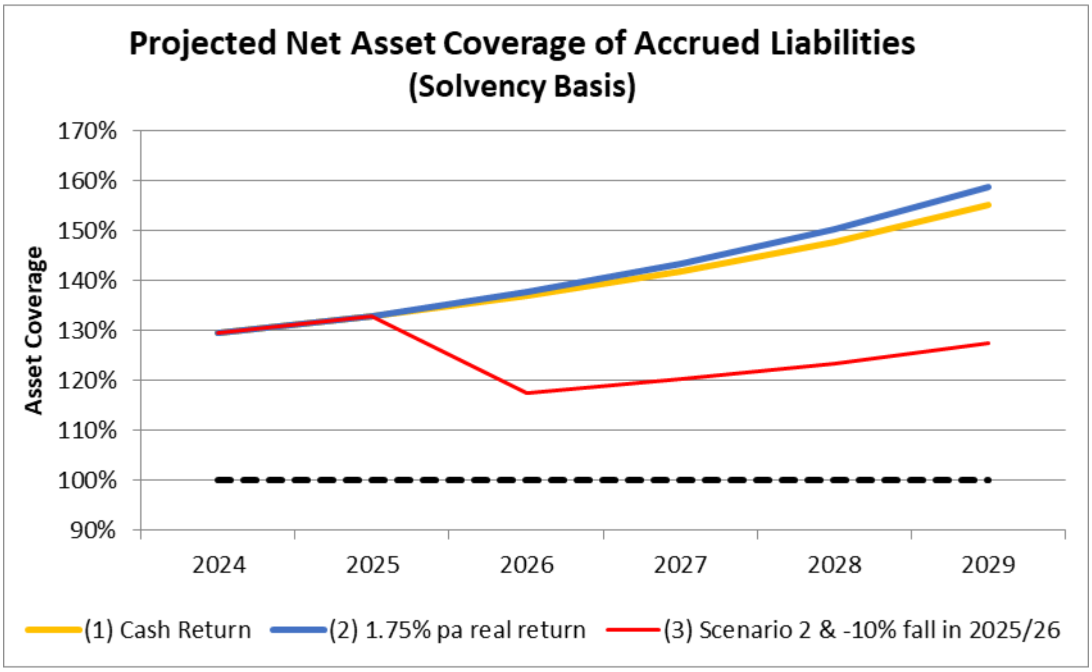
The following chart shows the projected financial position over the next 5 years with regards to Accrued Liabilities (Solvency Basis).

Three scenarios are shown, which all assume the Employer continues to contribute as recommended:

(1) Assuming the Plan's assets remain invested in cash, with investment returns each year equal to a cash return assumption of 4.0% p.a., i.e. a "real return" of 1.25%;

(2) Assuming the Trustee does not proceed with the planned annuity purchases, that the Plan's assets supporting pensions are transferred into the MLC Conservative Balanced option at 30 June 2025 and the "real return" each year from that point is equal to the solvency assumption i.e. 1.75% p.a.;

(3) The same as scenario 2 except the Plan experiences a 'market crash' investment return of -10% in the year beginning 1 July 2025. Given the MLC Conservative Balanced option's exposure to growth assets, this would be equivalent to a fall in equity markets of around 30% (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, the Plan's coverage of Accrued Liabilities on the Solvency Basis is projected to increase above 130% over the next three years even if the Plan's assets remain invested in cash.

Note the projection scenarios shown above do not represent the full range of potential outcomes.

Conclusion

The Plan's financial position is subject to the impact of the key assumptions used such as future investment returns and pension increases.

Scenario's 1 and 2 above show the Plan's coverage of Accrued Liabilities (Solvency Basis) is projected to increase above 140% over the next three years.

While the Plan's financial position would allow a contribution holiday for a period of time in respect of accumulation members, given the Trustee is seeking to purchase annuities in respect of the remaining pensioners and that annuity purchase prices can be volatile, we believe it is better to have this holiday once the pension liabilities have been removed or are backed by annuities, and the remaining surplus (if any) is known.

The cost in mid October 2024 required to purchase equivalent annuities in respect of the existing pension obligations is estimated to be approximately 9% lower than the Solvency Basis liability (assuming all pensioners are still alive).

3.3 Investment Policy

We understand the Trustee is seeking to arrange annuity purchases in respect of the remaining pensioners. As a result, and in line with the recommendations made in the 2019 actuarial investigation report, the Plan's assets remain invested in cash. This investment strategy remains appropriate while the purchase of annuities is being considered/implemented.

If at any stage it appears that the Plan will continue to bear the risk for lifetime pensions over the long term (i.e. an annuity purchase does not proceed), it would be appropriate to consider a change in the cash investment strategy to an investment option with a higher growth allocation, such as the MLC Conservative Balanced option.

Refer to Section 4 on material risks for further commentary.

3.4 Shortfall Limit

We understand that a Shortfall Limit of 100% is currently adopted by the Trustee. We confirm that a 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.

3.5 Estimated Cost of Annuities

We have estimated the current cost of purchasing annuities for the 4 remaining pensions in payment would be around $775,000 (as at mid October 2024, assuming CPI indexation). This compares favourably with the $1,100,000 asset value of the Plan as at 30 June 2024. The annuity purchase cost as at mid October 2024 is also estimated to be around 9% or $75,000 lower than the Solvency valuation of the pensions at the same date. We note that the annuity purchase price may change every week.

4. Material Risks

4.1 Investment Returns

As a pension fund that is closed to new entrants, maintaining solvency of the pensions relies on investment returns rather than on future contributions. Worse than expected investment returns over an extended period may see a requirement for employer contributions to cover any funding deficit.

If it was ultimately decided not to proceed with the annuity purchases, there is the risk that maintaining the assets in cash over the long term would see the Plan surplus disappear due to the need to assume a significantly lower discount rate. In this scenario the Trustee should consider moving the assets back to a more growth orientated portfolio.

4.2 Pension Indexation

Currently, the lifetime pension payments are assumed to be indexed each year at 2.75% per annum. However, there is a risk that pension increases may be higher than assumed, which will increase the future cost of funding the pensioners.

We note that this risk is somewhat mitigated due to the current indexation policy limiting the annual pension increase to 5.0%.

4.3 Longevity

If the Plan's current pensioners live longer than expected, this will be a strain on the Plan's reserves and may require additional contributions to fund the benefits. This risk will be removed by the purchase of annuities to back the pension liabilities.

4.4 Third Party Annuity Cost

There is a risk that the cost for a third party to provide annuities in respect of the pensions is higher than the Solvency pension liability value used for funding purposes, reducing any remaining surplus or potentially leading to additional funding being required if it is desired to remove the pension liabilities.

Although market rates in mid October 2024 were around 9% or $75,000 lower than the Solvency valuation of the pensions, it should be noted that they can be volatile and market rates can be above the actuarial valuation. For example, as part of the 30 June 2020 investigation, the estimated cost as at December 2020 was around 7% above the 2020 Solvency valuation.

5. Recommendations

5.1 Annuity Purchases in Respect of Pensions in Payment

As at 30 June 2024 there were 4 pensioners left in the Plan. To avoid maintaining a defined benefit plan for many years for a small group of lifetime pensioners, we understand the Trustee, in conjunction with the Employer, is seeking to arrange annuity purchases in respect of the remaining pensioners.

5.2 Investment Policy

Currently the Plan's assets are entirely invested in cash. A cash investment strategy remains appropriate in view of the pending changes to the arrangements for pensioners.

If at any stage it appears that the Plan will continue to bear the risk for lifetime pensions over the long term (i.e. annuity purchases do not proceed), it would be appropriate to consider a change in the cash investment strategy for assets supporting pensions to an investment option with a higher growth allocation, such as the MLC Conservative Balanced option.

5.3 Recommended Level of Contributions

Noting the changes anticipated for the Plan's pensioners, we recommend:

- The Employer contribute $27,000 per month in respect of administration and insurance costs;
- If, and when, the liabilities for lifetime pensions are removed or backed by annuities then the remaining surplus could be utilised via a contribution holiday in respect of the above contributions and/or employer contributions for accumulation members; and
- Otherwise, contributions in respect of accumulation members should be made as required under the Plan's Rules.

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

5.4 Shortfall Limit

In accordance with the Trustee's DB Funding Policy, we recommend the Shortfall Limit be maintained at 100%.

5.5 Next Actuarial Valuation

As a pension plan, if required 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).

Nerida Seccombe
Fellow of the Institute of Actuaries of Australia

29 November 2024

Appendix A – Financing Method and Assumptions

Financing Method

The financing approach adopted is to target coverage of Accrued Liabilities (Solvency Basis).

Actuarial Assumptions

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

Investment Returns and Pension increases

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

This valuation focuses on the longer term funding requirements, in the event that the annuity purchases do not proceed. For this purpose, a pension increase rate of 2.75% per annum has been used in conjunction with either a Best Estimate Basis investment return of 5.0% per annum or an investment return of 4.5% per annum on a Solvency Basis (net of investment taxes and asset-based fees).

Taxation

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

New Members

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

Expenses

Administration and insurance expenses are as applied by Plum. An allowance is made for these costs, in addition to actuarial and consulting costs, resulting in an assumed total ongoing level of expenses of $27,000 per month. This includes an allowance of $23,000 per month for costs on behalf of accumulation members.

Pensioner Valuation Assumptions

Pensioner Mortality	In accordance with the Australian Life Tables 2010-2012 (rated down to target a 70% adequacy level under the Solvency valuation basis)
Allowance for Future Improvements in Mortality Rates	In accordance with the trend in mortality improvements over the last 25 years

Appendix B – Prudential Requirements

ACTUARIAL STATEMENT REQUIRED BY SUPERANNUATION PRUDENTIAL STANDARD SPS 160

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

(i) At 30 June 2024, the value of the assets of the Plan in respect of defined benefit liabilities was $1,100,000.

(ii) In my opinion, the value of the assets of the Plan at 30 June 2024 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 this report along with the assumptions adopted 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 2027.

(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 2024, 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 2024 was adequate to meet the liabilities of the Plan in respect of the minimum benefits in the Plan, taken to be $709,000.

(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 and Professional Standard 410 issued by the Institute of Actuaries of Australia.

(viii) I have recommended that the Employer contribute from 1 July 2024 as follows:

- $27,000 per month in respect of administration and insurance costs;
- If, and when, the liabilities for lifetime pensions have been removed or are backed by annuities then the remaining surplus be utilised via a contribution holiday in respect of the above contributions and or employer contributions in respect of accumulation members; and
- Contributions in respect to accumulation members should otherwise be made as required under the Plan's Rules.

Nerida Seccombe
Fellow of the Institute of Actuaries of Australia

29 November 2024