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16 December 2024

Cigweld Employees' Superannuation Plan: Actuarial Investigation as at 30 June 2024

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1 Executive summary and recommendations

1.1 Introduction

I have carried out an actuarial investigation of the Cigweld Employees' Superannuation Plan (the Plan), a defined benefit plan within the Retirement Portfolio Service superannuation fund, as at 30 June 2024. The investigation is required under the Superannuation Industry (Supervision) Act 1993 (SIS).

This report has been prepared for the Plan's Trustee, OnePath Custodians Pty Ltd, and will also be provided to the principal employer participating in the Plan, Cigweld Group Limited (Cigweld).

The main purposes of the investigation are to:

- Examine the financial condition of the Plan at the valuation date.
- Recommend the employer contributions required by Cigweld to meet its continuing benefit obligations, and to maintain the Plan in a sound financial condition.
- Consider the appropriateness of the Plan's investment and insurance arrangements.
- Satisfy the actuarial investigation requirements of the Superannuation Industry (Supervision) Act 1993 (SIS).

I carried out the previous actuarial investigation of the Plan, as at 30 June 2021. My report was dated 23 December 2021. At Cigweld's request, I also carried out a funding update effective 29 February 2024. My report was dated 4 April 2024.

This report complies with the Actuaries Institute's *Professional Standard 400 Investigations of the financial condition of defined benefit superannuation funds.*

1.2 Financial position at 30 June 2024

At the valuation date, there were 23 defined benefit members. Total vested benefits (i.e. the benefits immediately available to members on resignation or retirement) were [redacted] backed by Plan assets of [redacted]

The Plan was in a satisfactory financial position (as defined under SIS) at the valuation date, with the Plan's defined benefit section assets providing 112% coverage of members' vested benefits.

1.3 Valuation assumptions

The key financial assumptions adopted for the 30 June 2024 valuation are as follows:

Assumption	Return (% p.a.)
Discount rate / return on assets (net of investment expenses and tax)	5.0%
Crediting rate	6.0%
Salary increases	3.0%

These assumptions are identical to those used at the 30 June 2021 valuation.

1.4 Valuation of Plan liabilities

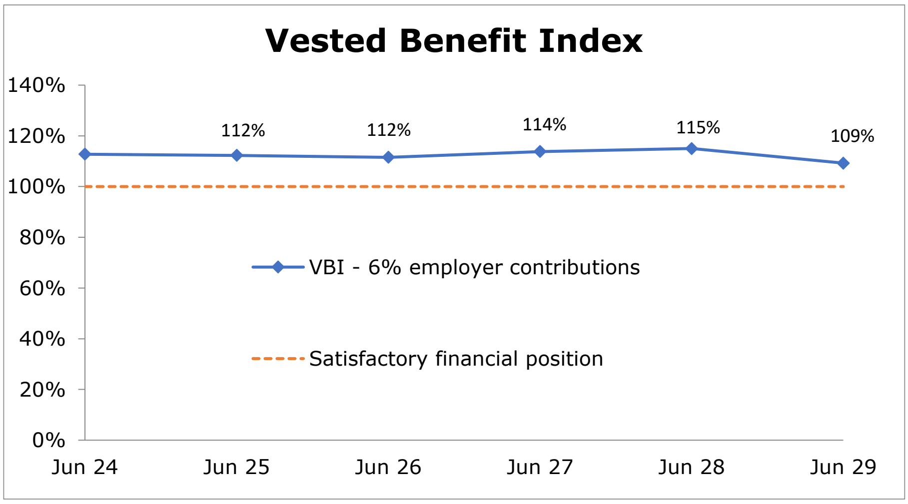
The results of the valuation as at 30 June 2024 can be summarised as follows:

Valuation balance sheet 30 June 2024	
Plan assets	[redacted]
Employer liabilities:	
Past service liabilities	[redacted]
Future service liabilities	[redacted]
Future expenses at 1.1% of salaries	[redacted]
less: Future member contributions	[redacted]
Total employer liabilities	[redacted]
Surplus/(Deficit)	[redacted]

On the assumptions adopted, the additional amount required to meet the Plan's future benefits and expenses is [redacted] requiring an employer contribution rate of 4.7% of defined benefit member salaries.

1.5 Vested benefit projections

The graph below indicates that with a continuation of the current employer contribution rate of 6% of salaries, the vested benefit index is expected to remain above 110% for nearly five years.



1.6 Contribution recommendations

I recommend that Cigweld maintain its contributions to the Plan at the following rates:

- 6.0% of salaries to fund defined benefit section benefits, plus
- 5.9% of salaries where 5% member contributions are paid by the employer, or being paid pre-tax by the member, plus
- 3% of salaries towards relevant members' 3% Award accounts in the accumulation section of the Plan, plus
- Top-up contributions as recommended by the actuary, i.e. consistent with previous practice, for the payment of retrenchment benefits.

These contribution rates include allowance for the Plan's insurance premiums and administration and consulting fees.

1.7 Possible investment review

The Plan's assets are invested with the Optimix Moderate fund.

I am satisfied that the Plan's investment objectives are appropriate.

However, in my view, it would also be reasonable for the Plan's exposure to growth assets to be increased, should Cigweld wish to do so.

1.8 Next actuarial review

The next actuarial investigation of the Plan for SIS purposes will be due as at 30 June 2027.

I understand that the Trustee monitors the Plan's defined benefit asset coverage of vested benefits on a monthly basis, and will notify me if this measure falls below 110%.

John Newman	Peer reviewed by
Fellow of the Institute of Actuaries of Australia	Stephen Crump, FIAA
16 December 2024	

2 The Plan

2.1 Description

The Plan is a defined benefit sub-plan within the Retirement Portfolio Service (RPS). OnePath Custodians Pty Limited is the RPS Trustee. Insignia Financial Ltd (Insignia) provides administration services to the Plan.

The principal employer participating in the Plan is Cigweld Group Limited (Cigweld).

The Plan is regulated by the Australian Prudential Regulation Authority (APRA) under the Superannuation Industry (Supervision) Act 1993 (SIS). As a regulated and complying plan, employer contributions are tax deductible to Cigweld, but subject to tax in the hands of the Trustee, and the Plan's investment income is subject to concessional rates of tax.

The Plan contains a closed defined benefit section, and an accumulation section open to new members. Although the Plan is administered as two separate sections, the Trustee has confirmed that the RPS's structure allows cross-subsidies between these sections so that employer costs, and shortfalls or surpluses, can be taken together across the Plan as a whole.

Cigweld uses the Plan to meet its Superannuation Guarantee (SG) obligations under the Superannuation Guarantee Administration Act 1992.

2.2 Trust Deed

The Plan is governed by the provisions of the RPS Trust Deed, and the Plan's Employer Application Form and Benefit Specification Schedule, and any subsequent deeds of amendment.

For ease of reference, the Plan's governing provisions are referred to collectively in this report as the Trust Deed.

The benefit provisions relating to the Plan's defined benefit members are summarised in Appendix 1 to this report.

3 Data

3.1 Data provided, and reliance on data

My investigation is based on 30 June 2024 Plan membership and investment data provided by the Plan's administrators, Insignia.

I have checked the data for reasonableness and consistency with the Trust Deed and the data provided for previous investigations of the Plan. However, I have not independently verified the data, hence my report necessarily relies on the completeness and accuracy of the data provided.

3.2 Defined benefit membership

At the valuation date, the closed defined benefit section of the Plan contained 23 active members, distributed by age as follows.

Age	No of members
45-49	6
50-54	5
55-59	7
60-64	5
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The valuation of the defined benefit section includes allowance for the accumulation accounts maintained within the defined benefit section, i.e. member contribution accounts, deemed (pre-tax) member contribution accounts, surcharge accounts, and the notional employer accounts forming part of the Plan's Minimum Requisite Benefits (i.e. Superannuation Guarantee minimum benefits).

The valuation makes no allowance in either the assets or the liabilities for the members' 3% Award accounts, or for any rollover or voluntary account balances that members may have in the accumulation section of the Plan.

3.3 Vested benefits

For the 23 defined benefit members in force at 30 June 2024, total vested benefits were [redacted]

3.4 Asset value

The defined benefit section asset value was [redacted] at the valuation date, based on the Plan's Statement of Account for the 2023-24 financial year.

This was the value of the Plan's holding in the Optimix Moderate investment option at the valuation date. Based on the information provide by the Plan's administrators, I am not aware of any amounts payable to or from the Plan that would require adjustment to this asset value.

At the valuation date, the Plan's defined benefit section assets provided 112% coverage of members' vested benefits, i.e. a margin of [redacted]

4 Plan's experience since previous investigation

4.1 Benefit changes

Since the previous actuarial valuation of the Plan, there have been no changes to the Trust Deed relating to the calculation of member benefit entitlements.

4.2 Membership changes

At the 30 June 2021 valuation date, the Plan had 28 active defined benefit members. Five of these members have since terminated employment, and have been paid their benefits from the Plan.

The valuation also allows for two known exits since 30 June 2024 – a benefit payment in September 2024 and a transfer to the accumulation section in October 2024 when the relevant member reached age 65.

The valuation therefore includes allowance for 21 defined benefit members.

4.3 Employer contributions

The previous valuation report recommended that Cigweld should contribute to the Plan at the rates of:

- 10.1% of salaries to fund defined benefit section benefits, plus
- 5.9% of salaries where 5% member contributions were being paid by the employer, or being paid pre-tax by the member,
- 3% of salaries towards relevant members' 3% Award accounts in the accumulation section of the Plan, plus
- The Plan's insurance premiums and expenses, plus
- Top-up contributions as recommended by the actuary for the payment of retrenchment benefits.

In my 29 February 2024 funding update report of dated 4 April 2024, I recommended that Cigweld could reduce its contribution rate from 10.1% to 6.0% of salaries to fund defined benefit section benefits.

I understand that Cigweld contributions have been paid to the Plan in accordance with these recommendations.

4.4 Investment returns and member salary growth

The Plan's defined benefit section assets are invested in the Optimix Moderate fund.

Based on movements in unit prices, I estimate that this investment option has returned approximately 2.4% p.a. over the three year period since the previous investigation. Over the same period, the remaining member's salary growth has averaged 4.6% p.a.

The corresponding assumptions adopted for the previous investigation were 5.0% p.a. and 3.0% p.a. respectively, i.e. a real return of 2.0% p.a.

The lower than assumed investment return and higher than assumed salary increase rate will both have had unfavourable financial impacts on the Plan.

4.5 Expenses

Over the past three years, the Plan's insurance premiums, administration and consulting fees have averaged [redacted], or around 1.1% of total 30 June 2024 defined benefit member salaries.

5 Investments

5.1 Plan investments

The Plan's defined benefit assets are currently invested wholly in the Optimix Moderate fund.

5.2 Optimix Moderate fund

The Optimix Moderate fund's investment objective to provide capital growth over the medium to long term by investing in a diversified portfolio with a balanced exposure to growth and defensive assets and to achieve total returns after fees in excess of the benchmark over a rolling five-year period.

At 30 June 2024, the fund had a 43% allocation to growth assets (equities and property) with alternative assets (10%) possibly providing some further exposure to growth.

5.3 Investment objectives

For an ongoing plan paying benefits linked to members' salary growth, it is appropriate to maintain some reasonable exposure to growth assets, as the plan's investment returns will then be expected to outperform measures such as AWOTE or CPI over reasonably long periods such as five years.

However, the inclusion of defensive assets should reduce the potential volatility of investment returns. This should better secure the Plan's asset coverage of members' accrued benefit entitlements, and reduce the possibility of materially negative investment returns requiring substantial employer contributions to rectify.

On balance, I am satisfied that the Plan's investment objectives are appropriate.

5.4 Possible investment review

However, in my view, it would also be reasonable for the Plan's exposure to growth assets to be increased, should Cigweld wish to do so.

The Chant West Super Fund Performance Survey at 30 June 2024 shows the following median fund annualised returns (after investment fees and tax):

Fund type	Growth assets (%)	3 year (% p.a.)	5 year (% p.a.)	7 year (% p.a.)
Growth	61-80	4.9	6.3	6.9
Balanced	41-60	3.9	4.8	5.4
Conservative	21-40	2.6	3.3	3.9

Two points to note are that:

1. The Optimix Moderate fund (with a growth asset allocation usually around 45%) has underperformed the median fund (I estimate Optimix Moderate's 3-year return as 2.4% p.a. and five-year return as 3.2% p.a.)
2. To match Cigweld's recent salary growth experience (4.6% p.a. over the three-year period) higher exposures to growth assets would have been required.

Before considering any change, Cigweld should be aware that other things being equal, higher exposures to growth assets generally increase the volatility of investment returns, and hence potentially the employer contribution rate. However, the Plan's investment time horizon remains relatively long, with approximately half the membership still more than ten years away from the Plan retirement age of 65.

5.5 Crediting Rate policy

I have been advised that the Trustee sets final and interim crediting rates based on the investment returns (gross of investment management and expense recovery fees) of the Plan's Optimix Moderate investment.

I consider that this crediting rate policy is appropriate for the Plan.

5.6 Shortfall limit

For the purpose of APRA's Superannuation Prudential Standard 160, the Trustee is required to set a shortfall limit. This is the extent to which the Trustee considers that a plan can be in an unsatisfactory financial position, with the Trustee still being able to reasonably expect that, because of corrections to temporary negative market fluctuations in the value of fund assets, the Plan can be restored to a satisfactory financial position within one year.

I have been advised that the Trustee has set a shortfall limit of 100% for the Plan i.e. for the Plan to not be in breach of this limit, Plan assets need to provide at least 100% coverage of defined benefit members' defined benefit interests. In my opinion, currently there is no need to review this shortfall limit.

6 Insurance

6.1 Death and TPD benefits

For members of the defined benefit section, death and TPD benefits are fully insured under a group life arrangement. The insured portion of each member’s death and TPD benefit is the excess above the member’s vested benefit.

In my view, this fully insured approach is appropriate, given the small size of the defined benefit section and the potential variability of claims experience.

7 Valuation methodology and assumptions

7.1 Methodology

For the purpose of this valuation, I have used the aggregate funding method, which I consider appropriate for a small defined benefit plan closed to new entrants.

This method calculates the employer contribution rate required to fund members' future benefit payments, in respect of both past and future service, taking into account the Plan assets held at the valuation date. If the Plan's future experience is in line with the assumptions adopted, this contribution rate is expected to remain unchanged until the last defined benefit section member leaves the Plan.

The liabilities for projected future benefit payments are split into a component in respect of service prior to the valuation date (the past service liability) and a component in respect of service after the valuation date (the future service liability). The past service liability for each member at the valuation date has been assessed subject to a minimum of that member's vested benefit, i.e. the benefit that member would have been entitled to had he or she left the Plan at that date.

7.2 Financial assumptions

The financial assumptions used in the valuation are:

Assumption	Return (% p.a.)
Discount rate / return on assets (net of investment expenses and tax)	5.0%
Crediting rate	6.0%
Salary increases	3.0%

These assumptions are identical to those used at the 30 June 2021 valuation.

7.3 Demographic assumptions

I have assumed the rates of resignation and retirement set out in Appendix 2. These decrement rates are identical to those used in the 30 June 2021 valuation.

7.4 Expenses and insurance costs

Based on the Plan's recent experience, I have assumed that the Plan's insurance premiums, and administration and consulting fees, will amount to 1.1% of defined benefit members' salaries.

7.5 Superannuation Guarantee

The valuation includes allowance for minimum Superannuation Guarantee benefits, based on the current SG rate of 11.5%, increasing to 12.0% from 1 July 2025.

8 Funding Status

This section examines the Plan's ability to meet defined benefit members' benefits at the valuation date. I have measured the Plan's asset coverage of the following benefits:

a) Superannuation Guarantee minimum benefits

b) Vested benefits

c) Actuarial value of accrued benefits

d) Retrenchment benefits, and

e) Benefits on termination of the Plan.

8.1 Asset coverage of member benefits

At the valuation date, defined benefit section assets amounted to [redacted] and provided the following coverage of member benefit entitlements:

Benefits	Amount	Asset coverage
Assets	[redacted]	
SG minimum benefits	[redacted]	134%
Vested benefits	[redacted]	112%

After allowance for the two known exits, the Plan's asset coverage of the actuarial value of accrued benefits is as follows:

Asset coverage of accrued benefits	
Plan assets	[redacted]
Accrued benefits	[redacted]
Asset coverage	**108%**

8.2 Retrenchment benefits

Cigweld's practice has been to make a top-up contribution to the Plan, as recommended by the actuary, where a member's retrenchment benefit is in excess of their vested benefit.

8.3 Termination of the Plan

In the event that Cigweld terminates its participation in the Plan, the Trust Deed requires any arrears of contributions to be paid into the Plan but does not impose any additional funding requirements.

9 Valuation Results

9.1 Valuation balance sheet

The results of the valuation as at 30 June 2024 can be summarised as follows:

Valuation balance sheet 30 June 2024	[redacted]
Plan assets	[redacted]
Employer liabilities:	
Past service liabilities	[redacted]
Future service liabilities	[redacted]
Future expenses at 1.1% of salaries	[redacted]
less: Future member contributions	[redacted]
Total employer liabilities	[redacted]
Surplus/(Deficit)	[redacted]

9.2 Progression since 30 June 2021

At 30 June 2021, there was expected to be a relatively small actuarial surplus of [redacted] (i.e. approximately 2.5% of then Plan assets) even if employer contributions to the Plan were suspended over the future lifetime of the defined benefit membership.

However, I recommended that Cigweld maintain its current contribution rate, noting that the defined benefit section had many years still to run, and that if the Plan's future experience was favourable, there would be several years available to run down the employer contribution rate and any Plan surplus.

On the same valuation assumptions at 30 June 2024, the valuation balance sheet shows an expected employer funding requirement of [redacted], requiring an employer contribution rate of 4.7% of defined benefit member salaries.

The change in funding requirement over the period is attributable largely to the Plan's unfavourable investment performance (2.4% p.a. actual vs 5.0% p.a. assumed) and salary growth experience (4.6% p.a. vs 3.0% p.a. assumed).

9.3 Impact of variation in assumptions

A key valuation assumption is the difference between the assumed Plan investment return of 5.0% p.a. net of tax and investment expenses, and the salary growth rate of 3.0% p.a., i.e. a real rate of return of 2.0% p.a.

Other things being equal, if the Plan's investment return exceeds defined benefit members' salary growth by more than 2% p.a., the Plan's actuarial deficit will be smaller than expected. Conversely, the actuarial deficit will be greater than expected if the Plan's real rate of investment return is lower than expected.

The tables below illustrates the sensitivity of the valuation results to these key financial assumptions:

Investment return	Surplus/(Deficit)	Employer contribution rate required
4% p.a.	[redacted]	11.1%
5% p.a.	[redacted]	4.7%
6% p.a.	[redacted]	-

The table above assumes that Plan crediting rates also move in line with variations in the Plan's investment returns.

Salary growth	Surplus/(Deficit)	Employer contribution rate required
2% p.a.	[redacted]	0.5%
3% p.a.	[redacted]	4.7%
4% p.a.	[redacted]	9.6%

These tables do not indicate the bounds of all possible outcomes. In practice, the Plan's experience may lie outside the ranges illustrated.

9.4 Events since the valuation date

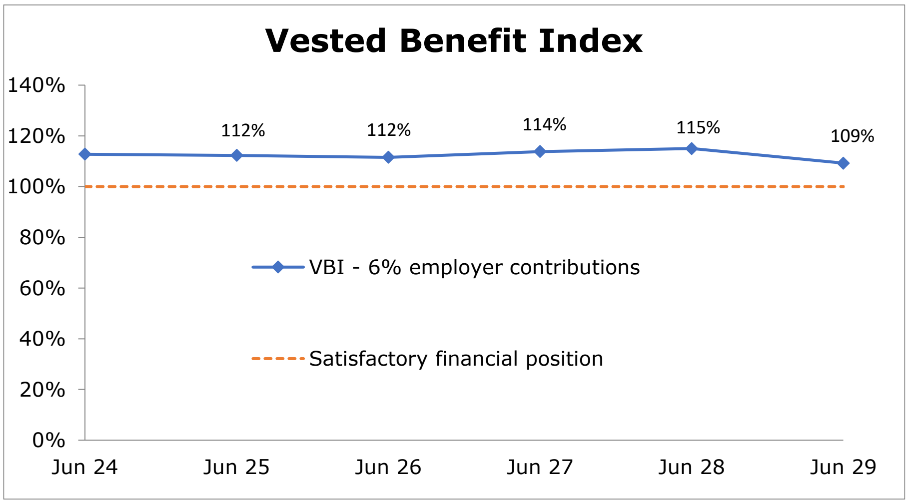
Based on the unit prices advised by Insignia, I estimate the Plan's investment return for the period 30 June to 30 November 2024 as 4.6% (11.3% p.a. annualised). This will have improved the Plan's financial position.

9.5 Vested benefit projections

The graph overleaf summarises the Plan's projected asset coverage of member vested benefits over the five-year period from the valuation date, allowing for:

- Employer contributions at the rate of 6.0% of defined benefit salaries, as recommended in my 4 April 2024 report based on the Plan's financial position at 29 February 2024.
- 5.0% p.a. investment returns and 3.0% p.a. salary increases (with no allowance for the higher than assumed investment return to 30 November 2024).
- Insurance premiums, administration and consulting fees at the rate of 1.1% of defined benefit member salaries.

The graph indicates that with an employer contribution rate of 6% of salaries, the vested benefit index is expected to remain above 110% for nearly five years.



10 Material risks

10.1 Introduction

Professional Standard PS 400 issued by the Institute of Actuaries of Australia requires the actuary to consider and document any material risks to the Plan associated with the actuarial assumptions, or related to the ongoing actuarial management.

10.2 Investment return

The key assumptions made in this report are the investment return assumption of 5.0% p.a., and the salary growth assumption of 3.0% p.a., i.e. an assumption that the Plan's real investment return will be 2.0% p.a.

If the Plan's investment returns are lower than expected, or salary growth higher than expected, Cigweld may need to increase its contributions to the Plan to fund members' future benefits.

11 Recommendations

11.1 Contributions

I recommend that Cigweld maintain its contributions to the Plan at the following rates:

- 6.0% of salaries to fund defined benefit section benefits, plus
- 5.9% of salaries where 5% member contributions are paid by the employer, or being paid pre-tax by the member, plus
- 3% of salaries towards relevant members' 3% Award accounts in the accumulation section of the Plan, plus
- Top-up contributions as recommended by the actuary, i.e. consistent with previous practice, for the payment of retrenchment benefits.

These contribution rates include allowance for the Plan's insurance premiums and administration and consulting fees.

11.2 Next actuarial review

The next actuarial review of the Plan will be due as at 30 June 2027.

I understand that the Trustee monitors the Plan's defined benefit asset coverage of vested benefits on a monthly basis, and will notify me if this measure falls below 110%.

Appendix A. Benefit Summary

Benefit Summary	
Normal Retirement Date (NRD)	65th birthday
Final Average Salary (FAS)	Average of salaries at three previous 30 June review dates.
Member contribution rate	5% of salary (may be paid by the employer or pre-tax).
Normal Retirement Benefit	A lump sum benefit of 18% of FAS for each year of service.
Early Retirement Benefit (from age 55)	Normal Retirement Benefit based on actual service.
Death Benefit	The greater of: a) 5 times salary, plus specified additional multiples in the event the member has dependent children, and b) The Early Retirement Benefit.
Total and Permanent Disablement (TPD) benefit	The greater of: a) The prospective Normal Retirement Benefit, subject to a maximum of 5.4 times FAS, and b) The Early Retirement Benefit.
Ill health benefit	Early Retirement Benefit.
Resignation	Twice the member's contribution account balance.
Retrenchment with 15 years' service	Early Retirement Benefit.
3% Award (maintained in accumulation section)	Eligible members receive the balance of their 3% Award account (based on accumulated employer contributions of 3% of salary, less allowance for tax) on leaving the Plan for any reason.
Voluntary Accounts (maintained in accumulation section)	Member voluntary contribution and rollover accounts (if any) are payable on exit from the Plan for any reason.
Surcharge Account	Negative accumulation account within the defined benefit section of the Plan.

Appendix B. Demographic assumptions

Resignation and retirement rates (per 10,000 members)

Age	Resignation / Retirement
40	610
45	400
50	190
55	2,000
56-59	1,000
60	4,000
61-64	2,000
65	10,000

Death and TPD rates

Nil.

Appendix C. Short Report

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

I have carried out an actuarial valuation of the Cigweld Employees’ Superannuation Plan, a sub-plan of the Retirement Portfolio Service, at 30 June 2024 and certify the following:

a) At the valuation date, the value of Plan assets available to meet the liabilities of the defined benefit section of the Plan was [redacted]

b) The value of the Plan assets was sufficient to meet the value of the liabilities in respect of accrued benefits at the valuation date. I expect the Plan’s assets to remain sufficient to cover the liabilities in respect of accrued benefits over the three-year period following the valuation date.

c) I recommend that Cigweld should contribute to the Plan at the following rates:

- 6.0% of salaries towards the defined benefit section of the Plan, plus
- 5.9% of salaries where 5% member contributions are paid by the employer, or being paid pre-tax by the member, plus
- 3% of salaries towards the relevant members’ 3% Award accounts in the accumulation section of the Plan, plus
- Top-up contributions as recommended by the actuary, for the payment of retrenchment benefits.

I also recommend that the Plan’s insurance premiums, and administration and consulting fees, can be met from Plan assets.

d) All required Funding and Solvency Certificates have been issued for the Plan. I believe it is likely that an actuary will be able to certify the solvency of the Plan in any Funding and Solvency Certificate that may be required during the three-year period following the valuation date.

e) At the valuation date the Plan was in a satisfactory financial position (as defined in SIS Regulation 9.04). Subject to Cigweld paying the contributions recommended above, I expect the Plan to remain in a satisfactory financial position during the three-year period following the valuation date.

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