PFSCONSULTING.COM.AU

20 December 2024

Vinidex Staff Superannuation Plan: Actuarial Investigation as at 30 June 2024

Foresight

Understand the implications of decisions and the likely outcomes.

Insight

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

Oversight

Foster a culture of strong governance to confidently manage uncertainty.

Table of Contents

Table of Contents

1 Executive summary and recommendations

1.1 Introduction

I have carried out an actuarial investigation of the Vinidex Staff Superannuation Plan (the Plan), a defined benefit plan within the ANZ Super Advantage 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, Vinidex Pty Ltd (Vinidex).

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 Vinidex 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).

Alea Actuarial Consulting carried out the previous actuarial investigation of the Plan, as at 30 June 2021. Their report was dated 31 August 2021.

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 five 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 111% 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	5.8%
Salary increases	3.0%

1.4 Valuation of Plan liabilities

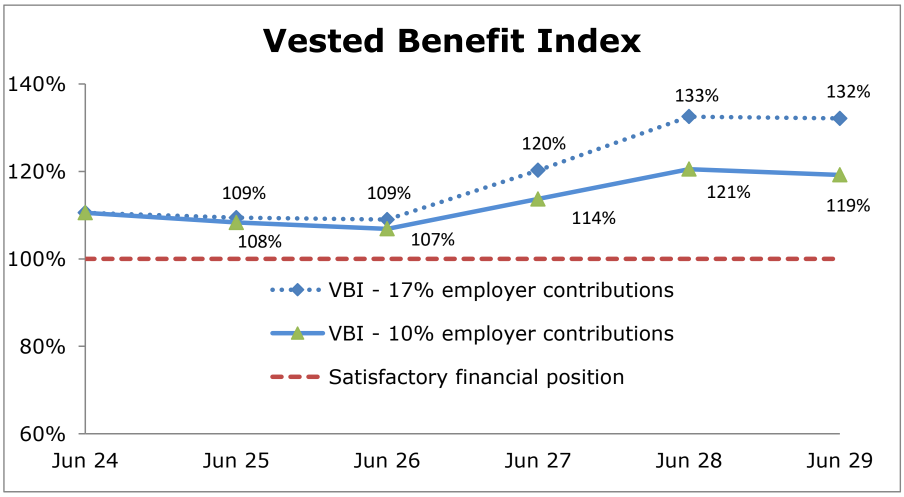
The results of the valuation as at 30 June 2024 can be summarised as follows:

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

On the assumptions adopted, the amount required to meet the Plan's future benefits is [redacted] requiring an employer contribution rate of 1.6% of defined benefit member salaries.

1.5 Vested benefit projections

The graph overleaf indicates that there is scope to reduce the employer contribution rate to 10% of salaries, with the vested benefit index expected to reduce only slightly on its 30 June 2024 level over the next two years. With allowance for expected retirements, the index improves (in percentage terms) after two years as the plan's remaining surplus is spread across fewer members.



1.6 Contribution recommendations

I recommend that Vinidex should:

- Contribute to the Plan at the rate of 10.0% of salaries to fund defined benefit section benefits, and
- Continue to meet the Plan's insurance premiums, and administration and consulting fees.

1.7 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 towards 100%.

John Newman
Fellow of the Institute of Actuaries of Australia
20 December 2024

Peer reviewed by
Stephen Crump, FIAA

2 The Plan

2.1 Overview

The Plan is a defined benefit sub-plan within the ANZ Super Advantage Superannuation Fund. OnePath Custodians Pty Limited is the ANZ Super Advantage Trustee. Insignia Financial Ltd (Insignia) provides administration services to the Plan.

The principal employer participating in the Plan is Vinidex Pty Ltd (Vinidex).

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 Vinidex, 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 ANZ Super Advantage'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.

Vinidex 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 ANZ Super Advantage Superannuation Fund Trust Deed, any Employer Application Form and Benefit Specification Schedule, and the benefit specifications codified in the Plan's 2002 Amending Deed.

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

2.3 Plan benefits

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

The Plan's retirement and resignation benefits are the greater of a defined benefit (i.e. salary-related) and an accumulation benefit (multiples of the pre and post-1 September 1992 member contribution accounts). For at least four of the five defined benefit members, the retirement benefit eventually payable is likely to be the accumulation benefit. Effectively then, the Plan has more of the characteristics of an accumulation plan than a defined benefit plan.

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 AASB 119 valuations 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 five active members, aged 57 to 62.

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 family law offset accounts.

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

3.3 Vested benefits

For the five 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 OnePath Balanced 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 111% 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 nine active defined benefit members. Four of these members have since terminated employment and been paid their benefits from the Plan.

4.3 Employer contributions

At the previous 30 June 2021 valuation date, the Plan's defined benefit section assets provided 104% coverage of members' vested benefits, i.e. a margin of [redacted]

The employer contribution rate required to meet future benefits was calculated as 6.5% of defined benefit salaries. However, the report recommended that Vinidex should maintain its contributions to the Plan at rate of 17% of defined benefit member salaries, as this was expected to maintain a 5% asset buffer over and above vested benefits.

The report also recommended that Vinidex should contribute the additional amounts required to meet the Plan's insurance expenses and administration fees.

I understand that Vinidex's contributions to the Plan have been in accordance with these recommendations.

Since PFS's appointment as Plan actuary in late-2022, Vinidex have also paid the Plan's actuarial consulting fees, and I understand it is Vinidex's preference to do this. However, the Plan did pay some actuarial consulting fees in 2021-22.

4.4 Investment returns and salary growth

The Plan's defined benefit section assets are invested in the OnePath Balanced fund.

Based on movements in unit prices, I estimate the Plan's investment return for the three-year period to 30 June 2024 as 2.7% p.a.

Year to 30 June	Return (% p.a)
2022	-3.9%
2023	5.9%
2024	6.3%
Average	**2.7%**

Over the same period, salary growth for the remaining five members has been higher. (I don't have 30 June 2021 salary data, but I estimate 4.6% p.a. for the two year period to 30 June 2024.)

The corresponding assumptions adopted for the previous investigation were 6.0% p.a. and 4.0% p.a. respectively, i.e. a real return of 2.0% p.a.

Normally for a defined benefit plan, the lower than assumed investment return, and to a lesser extent the higher than assumed salary increase rate, will both have had unfavourable financial impacts. However, as the Plan has the characteristics of an accumulation plan, the salary growth and investment experience has had relatively little impact on the Plan's financial position.

5 Investments

5.1 Plan investments

The Plan's defined benefit assets are currently invested wholly in the OnePath Balanced fund.

5.2 OnePath Balanced fund

The OnePath Balanced fund's investment objective is to achieve returns (before fees, charges and taxes) that on average exceed inflation by at least 4.0% p.a., over periods of ten years or more.

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 negative investment returns requiring additional employer contributions to rectify.

As the Plan effectively is providing accumulation benefits, the investment risk for Vinidex is asymmetric. If the Plan's exposure to growth assets were to be increased, the expected higher investment returns would be passed on to the members' accumulation benefits via higher crediting rates. However, the associated higher volatility of investment returns would increase the risk of assets not covering members' salary-related defined benefits, hence requiring additional employer contributions to rectify.

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

5.4 Crediting rate policy

The Trustee sets final crediting rates each year based on the Plan's investment return, net of investment tax and investment management fees, increased by an allowance of 0.84% per annum for the indirect fees deducted from the assets of the Plan.

I consider that the Trustee's crediting policy remains appropriate for the Plan.

However, I note that crediting members' accumulation benefits in this way, i.e. with crediting rates slightly in excess of the Plan's net investment return, will add an additional cost element to the employer contribution rate.

5.5 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, TPD and TTD benefits

For members of the defined benefit section, death, total and permanent disability (TPD) and total and temporary disability (TTD) 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	5.8%
Salary increases	3.0%

The assumptions used for the previous valuation were a 6.0% p.a. discount rate and a 4.0% p.a. salary growth rate, i.e. a 2.0% real rate of return assumption. I have retained the latter assumption, hence the impact of the two individual assumption changes is negligible.

In practice, any financial assumption changes will have little impact in any event, because on both the previous and new assumptions, members are expected to receive accumulation, rather than salary-related, benefits.

7.3 Demographic assumptions

I have adopted a nil decrement basis, and assumed that members will remain within the Plan until age 65.

7.4 Expenses and insurance costs

On the basis that Vinidex continues to pay the Plan's insurance premiums, administration and consulting fees, I have included no allowance for these items in the valuation.

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

8.1 Benefits

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

8.2 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:

	Amount	Asset coverage
Assets	[redacted]	
Benefits:		
SG minimum benefits	[redacted]	154%
Vested benefits	[redacted]	111%
Actuarial value of accrued benefits	[redacted]	107%

8.3 Benefits on termination of the Plan

In the event that Vinidex 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]
less: Future member contributions	[redacted]
Total employer liabilities	[redacted]
Surplus/(Deficit)	[redacted]

On the assumptions adopted, the valuation balance sheet shows a relatively small expected employer funding requirement of [redacted] requiring an employer contribution rate of 1.6% of defined benefit member salaries.

9.2 Progression since 30 June 2021

At 30 June 2021, the Plan's defined benefit section assets provided 104% coverage of members' vested benefits, i.e. a margin of [redacted] The employer contribution rate required to meet future benefits was calculated as 6.5% of defined benefit salaries.

At 30 June 2024, Plan assets provide 111% coverage of vested benefits, as the slightly larger margin of [redacted] now covers only five, rather than the previous nine, members.

The employer contribution rate required to meet future benefits is now calculated as 1.6% of defined benefit salaries. This improvement in the funding requirement is attributable mainly to employer contributions having been maintained at the higher rate of 17% of salaries over the three year period.

9.3 Impact of variation in assumptions

Normally with a defined benefit plan, the 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 2.0% 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.

However, because the Plan is expected to provide accumulation benefits on retirement, the employer contribution rate is relatively insensitive to small variations in these key financial assumptions:

Investment return	Surplus/(Deficit)	Employer contribution rate required
4% p.a.	[redacted]	2.7%
5% p.a.	[redacted]	1.6%
6% p.a.	[redacted]	1.4%

Salary growth	Surplus/(Deficit)	Employer contribution rate required
2% p.a.	[redacted]	1.5%
3% p.a.	[redacted]	1.6%
4% p.a.	[redacted]	2.5%

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

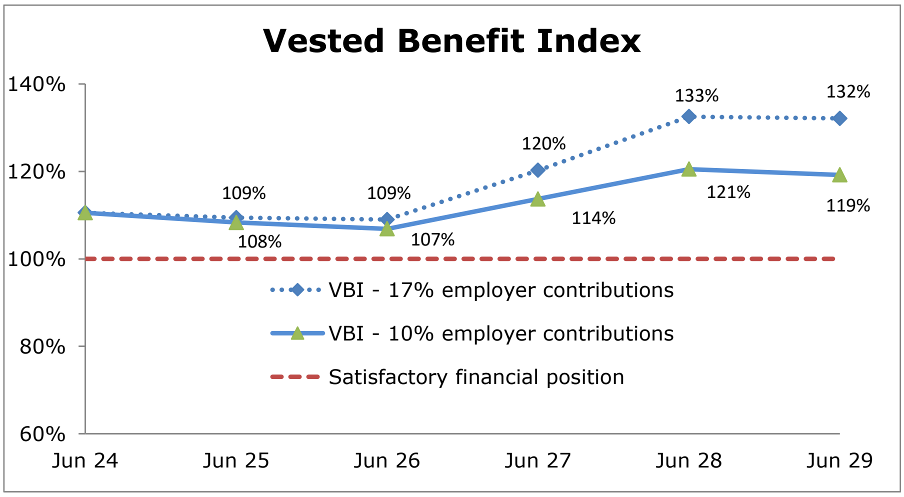
9.4 Events since the valuation date

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 4.7% (11.7% p.a. annualised).

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 current rate of 17% of defined benefit salaries, and at the lower rate of 10% of salaries.
- 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).



The graph indicates that there is scope to reduce the employer contribution rate to 10% of salaries, with the vested benefit index expected to reduce only slightly on its 30 June 2024 level over the next two years. With allowance for expected retirements, the index improves (in percentage terms) after two years as the plan's remaining surplus is spread across fewer members.

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, Vinidex may need to increase its contributions to the Plan to fund members' future benefits.

11 Recommendations

11.1 Contributions

I recommend that Vinidex should:

- Contribute to the Plan at the rate of 10.0% of salaries to fund defined benefit section benefits, and
- Continue to meet 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 towards 100%.

Appendix A. Benefit Summary

A.1 Retirement/Resignation benefit

The greater of:

a) 18% of FAS for each year of service, multiplied by an age-based discount factor which for the remaining members is:

Age at exit	Discount factor
57	90%
58	92%
59	94%
60	96%
61	98%
62+	100%

where Final Average Salary (FAS) is salary averaged over the three year period prior to retirement/resignation.

and

b) 2.5 times the member's accumulated contributions attributable to contributions made pre-1 September 1992, plus

3.75 times the member's accumulated contributions attributable to contributions made post-1 September 1992.

A.2 Death and total and permanent disability benefits

The member's prospective retirement benefit (at age 62, or capped after 40 years membership) assuming salary remains unchanged.

A.3 Total and temporary disability benefit

One-eighth of the death/TPD benefit.

A.4 Member contribution rate

4.0% of salary.

Appendix B. 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 Vinidex Staff Superannuation Plan, a sub-plan of the ANZ Super Advantage Superannuation Fund, 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 Vinidex should:

- Contribute to the Plan at the rate of 10.0% of salaries to fund defined benefit section benefits, and
- Continue to meet the Plan's insurance premiums, and administration and consulting fees.

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 Vinidex 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.

Service Offerings

Actuarial

Finance

Governance

Supervisory

Risk Management

Superannuation

Insurance

Executive Remuneration

PFS Consulting

LEVEL 3, 343 GEORGE ST, SYDNEY NSW 2000

P +612 9225 6100

PROFESSIONAL FINANCIAL SOLUTIONS PTY LTD ABN 84 096 646 178 AFSL 283650

PFSCONSULTING.COM.AU