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THE UNIVERSITY OF ADELAIDE SUPERANNUATION SCHEME A 1985

STATEMENT OF ADVICE

REPORT TO THE TRUSTEE ON THE ACTUARIAL INVESTIGATION AS AT 1 JULY 2015

31 MARCH 2016

MARSH & McLENNAN COMPANIES

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Key Results and Recommendations

This report on the actuarial investigation of the Scheme as at 1 July 2015 has been prepared to meet the requirements of the Scheme's governing rules and the SIS legislation. This report should not be relied upon for any other purpose or by any party other than the Trustee of the Scheme and the Employer who contributes to the Scheme. Mercer is not responsible for the consequences of any other use. This report should be considered in its entirety and not distributed in parts.

1.1. Change in Financial Position

	Position at 1 July 2015		Position from 1 July 2014 Investigation Report	
Defined Benefits Only*	**$000**	**Asset Coverage**	**Projected Coverage at 1 July 2015**	**Coverage at 1 July 2014**
Assets	13,532			
Liability for Vested Benefits**	13,824	97.9%	Not projected	101%
Liability for Vested Benefits (Lump Sum)	13,149	102.9%	107%	105%
Liability for Actuarial Value of Accrued Benefits^	14,500	93.3%	100%	97%
Liability for SG Minimum Benefits#	11,065	122.3%	Not projected	123%

*Note that the benefit totals above include the actuarial value of the current pension liabilities ($8,511,000) at the investigation date and has been adjusted for a significant event post 1 July 2015, see section 13.4 for details.

**Vested Benefits have been calculated assumed that 50% of members take a pension and 50% take a lump sum at retirement - referred to as "Vested Benefits (50:50)".

^Actuarial Value of Accrued Benefits have been calculated assuming 100% of members take a pension at retirement.

#SG Minimum Benefits has been estimated by rolling-forward data provided by the Administrator of the Scheme.

The coverage levels at 1 July 2015 were lower than the levels at the previous actuarial investigation. This is due to a material reduction in the gap between the assumed rate of investment earnings and the rate of salary increases/pension indexation increases (referred to as the "gap") from 3.5% p.a. to 3.0% p.a. for active members, and from 4.9% p.a. to 4.4% p.a. for pension members used to determine the Actuarial Value of Accrued Benefits. This has

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increased the Actuarial Value of Accrued Benefits and Vested Benefits (50:50) for both active members and pension members. Investment earnings experience since the previous actuarial investigation also contributed to the lower asset to liability coverage as the Scheme's actual investment earnings of 5.6% p.a. were lower than the long-term rate adopted at the previous investigation (6.5% p.a.)

These factors were offset by the following items of positive experience:

- Salary growth of 1.5% p.a. which was lower than the long-term rate adopted at the previous investigation (3.0% p.a.); and
- Pension indexation rate of 1.4% p.a. which was lower than the long-term rate adopted at the previous investigation (2.5% p.a.); and
- The payment of an additional contribution of $100,000.

The coverage levels at 1 July 2015 were also lower than the coverage levels projected at the previous actuarial investigation due the following items of negative experience:

- Investment earnings of 5.6% p.a., which were lower than the rate of 11.9% p.a. used to prepare the projections in the previous investigation; and
- Surplus assumed to be released on the exit of a late retiree did not eventuate as the member continued active service and benefit accrual.

1.2. Recommended Contribution Rates and Projections

At 1 July 2015, the Scheme was in an unsatisfactory financial position. The 97.9% coverage of Defined Benefit Vested Benefits (50:50) was below the shortfall limit adopted for this investigation (98%). The recommended contribution schedule set out below is expected, on the basis of the actuarial assumptions adopted for this valuation, to return the Scheme to a satisfactory financial position by 1 July 2018.

Additionally, the 102.9% coverage of Defined Benefit Vested Benefits (Lump Sum) was below the financing objective of 110% coverage adopted for this investigation.

Based on the financial position at 1 July 2015 and taking into account the actual investment return of -2.1% immediately after 1 July 2015 to 19 February 2016, I recommend that the Employer increases contributions to the Scheme as follows:

- 14.0% of employed members' salaries from 1 July 2015 to 30 June 2016, increasing to 17.3% of employed members' salaries from 1 July 2016; plus
- The following additional lump sum contributions for the respective financial years:

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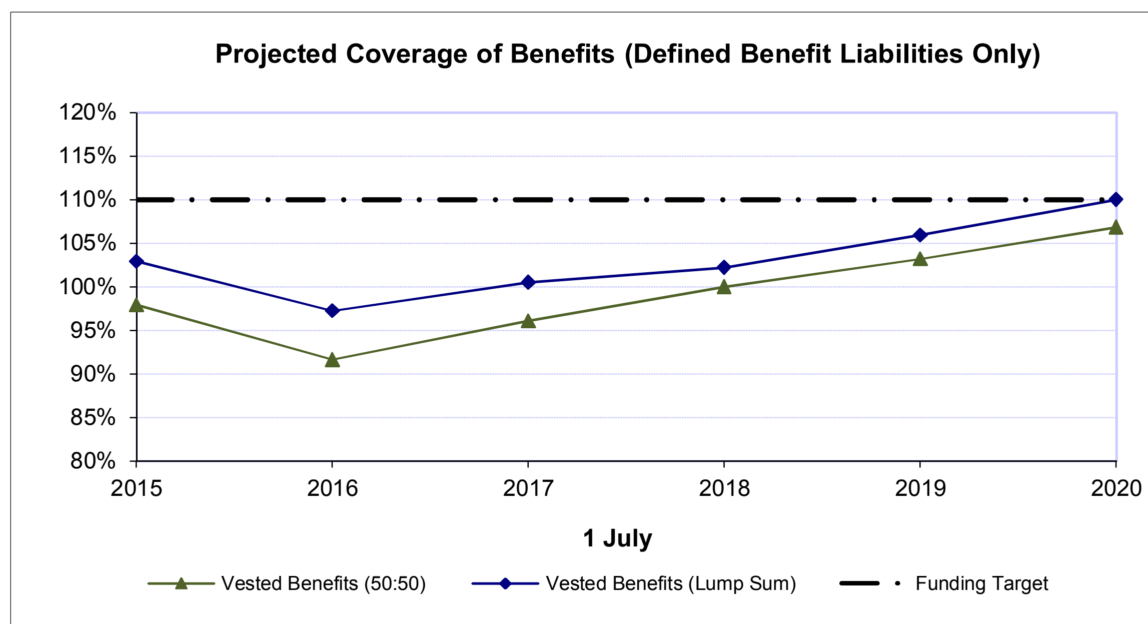
Financial Year	Lump sum contribution
2015/16	$100,000
2016/17 and 2017/18	$665,000 p.a.
2018/19 and 2019/20	$320,000 p.a.
2020/21 onwards	$100,000 p.a.

plus

- In the event that an employed member terminates employment and elects to take a pension, or a deferred pension, an additional contribution equal to *half of the difference* between their lump sum vested benefit and the capital value of the pension at the time of termination, grossed up for tax; plus
- In the event of an employed member being paid an invalidity pension, monthly payments equal to the value of the invalidity pension payments, grossed up for contributions tax; plus
- $20,000 per month to cover Scheme expenses (or such other amount as subsequently agreed); plus
- In the event that the Trustee purchases disability income insurance, an additional amount to cover the cost of these insurance premiums.

Based on the assumptions adopted for this investigation and allowing for any material experience after the investigation date as detailed in this report, we have prepared the following projection of Scheme assets and benefit liabilities:



The graph above shows that the recommended contributions are anticipated to result in assets of at least 110% of Defined Benefit Vested Benefits by 1 July 2020 (which is the financing objective adopted in this investigation).

The above graph also shows the Scheme is expected return to a satisfactory financial position – i.e. 100% funding coverage of Vested Benefit (50:50) by 1 July 2018.

1.3. Requirements of SPS 160: Restoration Plan

As we have determined that the Scheme is in an “unsatisfactory financial position”, a Restoration Scheme is required to be put in place. The recommendations in this report take into account the requirements of SPS160.

The Trustee will need to take various actions after receipt of this report, as required by SPS 160, including:

- providing a copy of this report to APRA within 15 business days of receipt;
- consulting with the Employer about implementing the recommended contribution program;
- appointing an actuary to be responsible for advice to the trustee during the restoration period;
- developing and approving a Restoration Plan within 3 months;
- providing a copy of the Restoration Plan to APRA within 15 business days of approval; and
- implementing the Restoration Plan.

1.4. Other Findings and Recommendations for the Trustee

Suitability of Policies

- The crediting policy for the defined benefit section of the Scheme is suitable.
- The insurance arrangements for the defined benefit section of the Scheme are suitable.
- The Shortfall Limit (for the purposes of SPS 160) is suitable.
- The Trustee’s process for monitoring the Scheme’s financial position is suitable.

Other Recommendations

- That the University and Trustee reaffirm and/or review the current defined benefit investment policy (section 6.1).
- That the Trustee note that an active contributor has reached age 65 and upon retirement may result in a top up contribution from the University of about $192,000 if the member elects a lifetime pension (section 3.1.3).
- That the Trustee should direct the Administrator to maintain a record of and calculate the Minimum Requisite Benefit for active members based on our advice issued in 2013.

- That a review of the quarterly financial position monitoring process be undertaken by the Trustee in light of the adoption of the Vested Benefits (50:50) calculation methodology.

1.5. Action Required

The Trustee should consider this report and confirm its agreement (or otherwise) to the contribution and other recommendations.

The Trustee should seek formal agreement from the Employer to contribute in line with the recommendations.

2

Liability Measures as at 1 July 2015

2.1. Vested Benefits

Vested Benefits are the amounts payable as of right should all active members voluntarily resign or, if eligible, retire at the investigation date, plus the estimated actuarial value of expected future payments in respect of deferred members and pensioners.

Two measures of Vested Benefits have been calculated. The first measure assumes that all members who resign elect to take a lump sum. The second measure assumes that 50% of members elect a lump sum and 50% elect a lifetime pension. This recognises that in the past some members have taken a full or partial lump sum. For the purpose of measuring the financial position under the SIS requirements, the “50:50” measure is used.

At 1 July 2015, Scheme assets were less than Vested Benefits (50:50). Accordingly the Scheme was considered to be in an “unsatisfactory financial position” under SIS legislation. The 102.9% coverage of Defined Benefit Vested Benefits (Lump Sum) was also below the financing objective of 110% coverage adopted for this investigation.

2.2. SG Minimum Benefits

SG Minimum Benefits are the minimum benefits required under SG legislation, as defined in the Benefit Certificate (also referred to as Minimum Requisite Benefits or MRBs).

At 1 July 2015, the coverage of the SG Minimum Benefits by Scheme assets was 122.3%, well in excess of the 100% required, hence the Scheme was considered to be “solvent” under SIS legislation.

2.3. Actuarial Value of Accrued Benefits

The Actuarial Value of Accrued Benefits is the expected value (as at the investigation date) of all future expected benefit payments, based on membership to date, discounted to the investigation date, taking into account the probability of payment. This value is calculated using actuarial methods and assumptions, including that all members will elect a lifetime pension on retirement. In determining the value, I have applied a minimum of the Vested Benefit (Lump Sum) at the individual member level.

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The coverage of the Actuarial Value of Accrued Defined Benefits by Scheme assets at 1 July 2015 was 93.3%.

The calculation of the Actuarial Value of Accrued Benefits has been carried out using a method of apportionment of benefits between past and future membership that satisfies the requirements of Professional Standard No. 402 of the Actuaries Institute and is acceptable for Australian Accounting Standard AAS25 purposes.

More details on the method can be found in the attached summary of the actuarial report prepared for AAS25 purposes.

2.4. Impact of valuing pensions at 'market value'

The basis used to value defined benefit pension entitlements for the purposes of this valuation is considered suitable taking into account the Scheme's current circumstances, including the current investment policy and assuming the ongoing support of the University.

Furthermore, as noted in Section 4.2, the financing objective has been set on the basis that pensioners' reasonable expectations on termination of the Scheme would be to receive the lump sum value of their pension determined on the actuarial assumptions adopted for this valuation.

If instead the pension liabilities were to be valued on a 'market value' basis – that is, the amount which would be required to be paid to a third party (for example, a life office) to take on the liability – a much higher pension liability value would be obtained.

It is not possible to be precise about what the 'market value' of the pension liabilities would be, as the market in Australia is currently very shallow.

However it is likely that a third party would base its pricing on a discount rate around the level of long-term Government bond rates. To provide an illustration of the order of magnitude of the potential impact, we have valued the pension liabilities (current pensioners only) using a discount rate of 2.9% p.a. (based on the 30 June 2015 12 year Commonwealth bond rate less 0.5% p.a. as a very broad allowance for expenses), but with other assumptions unchanged. This change in discount rate increases the value of the pensions by around 42% as at the valuation date. We have also valued pensions using our best estimate of future mortality experience. If a third party were to adopt more conservative mortality assumptions (as well as a lower discount rate), this has the potential to increase the value of the pension liabilities by 5% to 10% or more.

To illustrate the potential impact on the funding indices set out in Section 1.1, if the value of the pension liabilities was increased by 50%, the coverage levels in the table of Section 1.1 would reduce by around 25%.

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Bond yields of relevant duration have fallen by approximately 0.5% since the valuation date which could increase the pension liability by approximately 6% more than the increase illustrated above.

The above coverage measures effectively assume the Scheme is ongoing. The following considerations may be relevant in circumstances such as the wind-up of the employer and/or the Scheme.

Impact of excluding future income tax benefits

At 1 July 2015, future income tax benefits (deferred tax assets) comprised 0.5% of the Scheme's assets. If these assets were excluded, the above coverage levels would reduce by around 0.5%. Note that these reductions assume that the write-off of investment-related deferred tax assets would be passed on to accumulation-related defined benefits.

3

Experience

3.1. Change in Financial Position since Previous Investigation

The table below shows the coverage of assets over Vested Benefits, the Actuarial Value of Accrued Benefits and the SG minimum benefits as at 1 July 2015, and the corresponding values at the previous investigation date.

	Position at 1 July 2015		Position from 1 July 2014 Investigation Report	
Defined Benefits Only*	**$000**	**Asset Coverage**	**Projected Coverage at 1 July 2015**	**Coverage at 1 July 2014**
Assets	13,532			
Liability for Vested Benefits**	13,824	97.9%	Not projected	101%
Liability for Vested Benefits (Lump Sum)	13,149	102.9%	107%	105%
Liability for Actuarial Value of Accrued Benefits^	14,500	93.3%	100%	97%
Liability for SG Minimum Benefits#	11,065	122.3%	Not projected	123%

*Note that the benefit totals above include the actuarial value of the current pension liabilities ($8,511,000) at the investigation date and has been adjusted for a significant event post 1 July 2015, see section 13.4 for details..

**Vested Benefits have been calculated assumed that 50% of members take a pension and 50% take a lump sum at retirement - referred to as "Vested Benefits (50:50)".

^Actuarial Value of Accrued Benefits have been calculated assuming 100% of members take a pension at retirement.

#SG Minimum Benefits has been estimated by rolling-forward data provided by the Administrator of the Scheme.

The coverage levels at 1 July 2015 were lower than the levels at the previous actuarial investigation, due to negative experience and change in assumptions.

The reasons for the changes in the financial position since the previous investigation are detailed below.

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3.1.1. *Investment Returns and Crediting Rates*

The table below shows the rates of investment earnings (after tax, investment fees and asset based administration fees) for assets supporting defined benefits and the Notional ASSS rate used for Notional ASSS calculations over the period since the previous valuation.

Year Ending	Gross Investment Return (p.a.)	Net Investment Return / Agreed Rate (p.a.)	Notional ASSS Rate (p.a.)
1 July 2015	6.1%	5.6%	5.6%

The investment return for the year to 1 July 2015 was 5.6% p.a. compared to our longer term assumption at the last actuarial investigation of 6.5% p.a. The lower than assumed return had a negative impact on the Scheme's financial position.

In addition, in our benefit coverage projections prepared in the previous investigation, we had allowed for investment earnings of 11.9% in the first year. The lower actual return had a negative impact on the Scheme's financial position at 1 July 2015 compared with that projected in the previous investigation.

3.1.2. *Salary Increases*

Salaries for the current defined benefit members increased by 1.5% over the year since the previous actuarial investigation compared to our longer term assumption of 3.0% p.a. The lower than assumed salary increases had a small positive impact on the Scheme's financial position.

3.1.3. *Changes in Membership/Decrements*

One member who was past their normal retirement age was expected to retire during the year and to release surplus on the basis of being paid their vested benefit (lump sum). This did not eventuate. This had a slightly negative effect on the funding position relative to expectations.

Should this member choose to retire in the period to the next actuarial investigation, a surplus of $31,000 would be expected to be released if they are paid their vested benefit (lump sum). However, if the member elects to take up the pension option, a shortfall of approximately $326,000 would be generated. In conjunction with the contribution recommendations of this investigation report, a top up contribution of approximately half of this shortfall amount ($163,000 or $192,000 grossed up for contribution tax) would then be required from the University (with no surplus being released).

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3.1.4. Pension Indexation

The average rate of pension indexation over the year since the previous actuarial investigation was 1.4% p.a. compared with our longer term assumption of 2.5% p.a. The lower than assumed pension indexation had a positive impact on the Scheme's financial position.

3.1.5. Contributions

The Employer contributions paid over the review period were slightly higher than the long term Employer contribution rate (i.e. the estimated employer cost of future service benefits), which had a positive impact on the Scheme's financial position. The contributions received included:

- 14% of employed members' salaries; plus
- an additional lump sum contribution of $100,000; plus
- $20,000 per month to cover Scheme expenses.

The Employer contribution rates were in accordance with our contribution recommendations.

3.2. Change in Assumptions since the Previous Investigation

The changes in the actuarial assumptions have resulted in an increase in the actuarial value of the accrued benefits and the Vested Benefits (50:50). The impact of this is examined in the assumptions section of this report.

4

Contribution Requirements

4.1. Financing Objectives

The financing objectives I have adopted for this investigation is to target the value of the Scheme's assets at least equal to:

- 100% of accumulation account balances, plus
- 100% of Defined Benefit Vested Benefits (50:50) by 1 July 2018, plus
- 110% of Defined Benefit Vested Benefits (Lump Sum) by 1 July 2020.

Accumulation account balances are matched by specific assets and do not require any additional margins. However, most of the defined benefit liabilities are not linked to the returns on the underlying assets. A margin in excess of 100% coverage of vested defined benefits (lump sum) is therefore desirable to provide some security against adverse experience such as poor investment returns. I consider that the target margin of 10% strikes a suitable balance between the Trustee's desire to provide security to members and the Employer's desire to avoid an unnecessary build-up of surplus.

Based on the assumptions adopted for this investigation, achieving the financing objective of 110% of Vested Benefits (Lump Sum) and 100% of Vested Benefit (50:50) for defined benefit members would also result in at least 100% coverage of the Actuarial Value of Accrued Benefits and a satisfactory margin of coverage over 100% of SG Minimum Benefits. Hence, it is not considered necessary to adopt specific financing objectives in relation to these benefit liability measures.

I have taken into consideration the provisions of the Trust Deed and any professional requirements as set out below.

4.1.1. Professional Requirements

Under Professional Standard 400 issued by the Actuaries Institute, the funding method selected by the actuary *"must aim to provide that:*

(a) members' benefit entitlements (including any pension increases provided by the Trust Deed or in accordance with either precedent or the intentions of the Trustee and/or Fund Sponsor) are fully funded before the members retire; and

(b) the assets of the Fund from time to time, after making full provision for the entitlements of any beneficiaries or members who have ceased to be employed, exceed the aggregate of benefits which employed members would reasonably expect to be payable to them on termination of membership, including the expenses of paying those benefits, and having regard to the provisions of the Trust Deed and the likely exercise of any Options or Discretions." (Paragraph 5.5.4 of PS400).

Accordingly the actuary needs to be satisfied that any funding program is expected to provide a level of assets which meets or exceeds immediate benefit entitlements based on members' reasonable expectations. Should assets fall below that level, the funding program needs to aim to lift assets to at least the required level over a reasonable time period and to maintain assets at or above the required level thereafter.

The financing objective has been set on the basis that members' reasonable expectations on termination would be to receive their vested benefit entitlement (including the lump sum value of their pension, on the actuarial assumptions adopted for this investigation, in the case of current pensioners and active members entitled to a pension on termination).

4.1.2. Provisions of the Trust Deed

Schedule 1 of the Scheme's Trust Deed include requirements that:

- the Trustee ensures an actuarial investigation of the Scheme is conducted when required by legislation. Accordingly, actuarial investigations are carried out at three yearly intervals at a minimum; and
- The Employer must contribute at the rate determined by the Trustee, after consulting the Employer, on the advice of the Actuary to the Scheme.
- The Scheme's Trust Deed specifies that "*The University will make contributions to the Scheme of such amount and upon such basis as will ensure the payment to or in respect of the defined benefit members of the Scheme of their benefits…"*

4.2. Financing Method

There are various financing methods that could be followed in setting the Employer contribution level. This investigation uses a "Target Funding" method.

Under this method, the Employer contribution rate required to provide a target level of coverage of a particular benefit liability measure is determined.

Under this method of financing, the level of the Employer contribution may vary from time to time to ensure that the Scheme remains on course towards its financing objectives (target of 110% coverage of Vested Benefits (Lump Sum) and 100% of Vested Benefit (50:50)).

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I consider that the Target Funding method is suitable in the Scheme's current circumstances as it allows the recommended contribution rate to be determined specifically to meet the Scheme's financing objective.

4.2.1. Changes in Financing Method

The Target Funding method was also adopted at the last investigation.

4.3. Employer's Future Service Cost

Based on the assumptions adopted for this investigation, I estimate that the Employer's long-term defined benefit funding cost (i.e. the normal cost of funding future service defined benefit accruals ignoring any surplus or deficit) is 17.3% of defined benefit members' salaries. The Employer's long-term defined benefit funding cost above excludes the expected expenses and any award contributions, and includes allowance for contributions tax.

The assessed long-term costs have increased by 3.3% of defined benefit members' salaries since the last investigation due to a reduction in the gap between the assumed rate of investment earnings and the rate of salary increases (referred to as the "gap") from 3.5% p.a. to 3.0% p.a.

4.4. Recommended Contributions

Based on the financial position at 1 July 2015 and taking into account the actual investment return of -2.1% for the period immediately after 1 July 2015 to 19 February 2016 and 0% for the remaining period to 30 June 2016, I recommend that the Employer increases contributions to the Scheme as follows:

- 14.0% of employed members' salaries from 1 July 2015 to 30 June 2016, increasing to 17.3% of employed members' salaries from 1 July 2016; plus
- The following additional lump sum contributions for the respective financial years:

Financial Year	Lump sum contribution
2015/16	$100,000
2016/17 and 2017/18	$665,000 p.a.
2018/19 and 2019/20	$320,000 p.a.
2020/21 onwards	$100,000 p.a.

plus

- In the event that an employed member terminates employment and elects to take a pension, or a deferred pension, an additional contribution equal to *half of the difference* between their lump sum vested benefit and the capital value of the pension at the time of termination, grossed up for tax; plus
- In the event of an employed member being paid an invalidity pension, monthly payments equal to the value of the invalidity pension payments, grossed up for contributions tax; plus
- $20,000 per month to cover Scheme expenses (or such other amount as subsequently agreed); plus
- In the event that the Trustee purchases disability income insurance, an additional amount to cover the cost of these insurance premiums.

This recommended contribution program is expected, on the basis of the actuarial assumptions adopted for this valuation, to result in the Scheme meeting its financing objectives, as illustrated in the following section. The financial position should be reviewed again following the 1 July 2016 actuarial investigation.

4.5. Projected Financial Position

The next section of the report shows the projected financial position on the recommended contributions compared with the Financing Objectives adopted by the Trustee.

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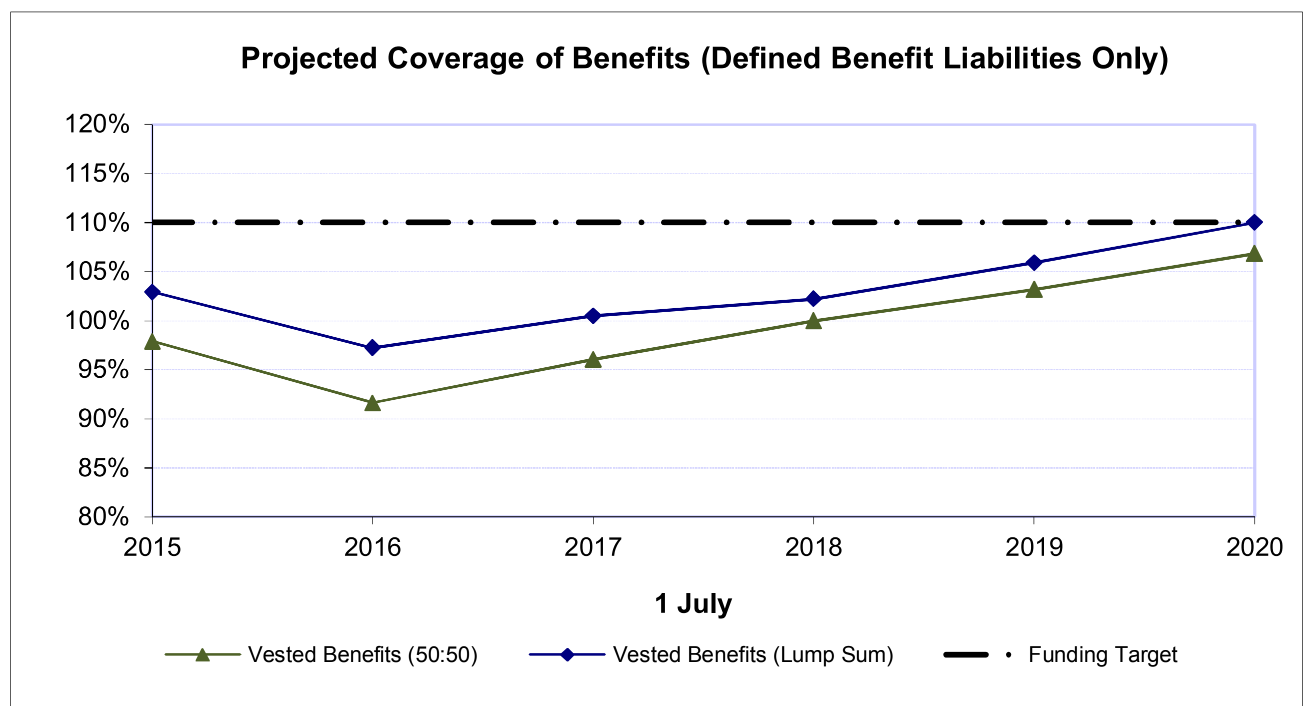
Projections

I have prepared a projection of Scheme assets and benefit liabilities based on:

- the actuarial assumptions adopted for this investigation;
- but allowing for actual investment returns of -2.1% for the period immediately after 1 July 2015 to 19 February 2016 and 0% for the remaining period to 30 June 2016; and
- assuming that the Employer contributes on the basis as recommended above.

The results of the projection are as follows:



The Trustee should note that this projection is based on the assumptions adopted, which represent a single scenario from the range of possibilities. The future is uncertain and the Scheme's actual experience will differ from those assumptions; these differences may be minor in their overall effect, or they may be significant and material. In addition, different sets of assumptions or scenarios may also be within the reasonable range and results based on those alternative assumptions would be different.

5.1. Meeting the Financing Objective

The projections above show that the recommended contributions are anticipated to result in assets of at least 110% of Defined Benefit Vested Benefits (Lump Sum) by 1 July 2020 (the financing objective adopted in this investigation).

In addition, the projection above shows that the recommended contributions are anticipated to result in assets of at least 100% of Defined Benefit Vested Benefits (50:50) – i.e. the Scheme achieving a satisfactory financial position - by 1 July 2018.

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Investment Policy and Related Risks

6.1. Investment Policy

Assets backing defined benefit liabilities

The Scheme's investment strategy for assets supporting defined benefit liabilities (including pensioner liabilities) currently involves a benchmark 65% exposure to 'growth' assets such as shares and property and a benchmark 35% exposure to 'defensive' assets such as cash and fixed interest (refer to the table below for the actual and benchmark investment allocations of these assets as at the investigation date). 'Growth' assets are expected to earn higher returns over the long term compared to 'defensive' assets, but at the same time to exhibit more variation in returns from year to year.

1 July 2015	Benchmark Allocation	Actual Allocation
Australian Shares	30.0%	37.9%
Overseas Shares	25.0%	20.0%
Property	10.0%	7.0%
Fixed Interest	30.0%	19.5%
Alternatives	0.0%	0.0%
Cash	5.0%	15.6%
Total	**100.0%**	**100.0%**

The defined benefit liabilities are partly affected by the investment return on the Scheme's assets. The volatility of the Scheme's investment returns will therefore affect the financial position of the Scheme from year to year and is likely to impact on the required level of Employer contributions.

I recommend that the Trustee considers adopting a more conservative investment policy because:

- The Scheme's current investment policy of 65% growth assets has a high growth asset bias. This means that investment returns are susceptible to large investment volatility; and

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- A large portion of the Scheme's liabilities are pension liabilities (about 60% to 65%) which is expected to grow as more employed members leave the Scheme or take up pensions. As pension liabilities grow, the Scheme should consider an immunisation strategy to protect the assets against market returns given that the liabilities are growing by the pension indexation rate which is linked to the rate of inflation.

We can prepare additional information assessing the expected impact of a change in investment strategy on the University's contribution rate and on the variability of the financial position, if required.

However, I note that this issue has been raised in the past with agreement reached to invest under the current policy. In these circumstances, I recommend that the University reaffirms its preferred approach to the investment of the Scheme's defined benefit assets, having regard to the expected benefit payments and its attitude to investment risk and the variability of the University contribution requirements.

I recommend that the Trustee then consider whether a change to the Scheme's investment strategy should be made, taking into account the University's views.

6.2. Crediting Policy

We are not aware of a formal crediting rate policy document that details the current methodology.

In our letter dated 30 September 2010 regarding crediting rates for the year ended 30 June 2010, we discussed the ASIC and APRA guide to good practice in relation to unit pricing (updated in August 2008) which is equally relevant for crediting rate practices.

The Trustee operates under some established principles (largely maintained by the former trustee) when calculating and declaring crediting rates, but we are not aware that the Trustee has a formal documented crediting rate policy in place. For many funds, documentation does not cover all the areas or go into the detail that APRA and the actuarial profession would now expect.

However, we understand that improved documentation of the crediting rate policy was not raised by APRA following a past review of the operation of the Scheme.

Background

Each year the Trustee reviews the "Agreed Rate" as defined in clause D.1.1 of the Trust Deed. The Agreed Rate is the interest rate used to accumulate member contributions and transfer values. It therefore affects the level of benefits paid from the Scheme.

The Trust Deed (as amended effective 18 September 2007) specifies that:

> *"Agreed Rate means the Fund earnings (including unrealised gains/losses on assets) as determined by the Trustee from time to time which earnings may be positive or negative depending upon the investment performance of the Fund's assets."*

The amendment classified the intention that members will participate in and be exposed to those earnings whether positive or negative, and for the avoidance of doubt stated that *"use of words such as "with interest added and accrued at the "Agreed Rate" ………. "shall not be construed so as to require, by definition, a positive Agreed Rate for the Fund."*

Methodology

The main features of the crediting methodology in relation to defined benefits are summarised briefly below:

- All investments, including the bank account have been used as unsegregated assets are maintained by the Scheme.
- For the cash investment, transactions relating to investments and redemptions and single transactions in excess of $50,000 have been allowed for at the date they occur. For all other transactions, a net cash-flow transaction is allowed for mid-month. This approach is intended to simplify the calculation process without sacrificing material accuracy.
- For other investments, all investments and redemptions have been allowed for at the date they occur.
- The tax status and distribution details for each investment manager are sought from the Trustee.
- The long term tax rates from Mercer Investment Consulting model is used to assign expected tax rates on each investment product, based on the relevant (or estimated) benchmark asset allocation. As of the 30 June 2015 crediting rate calculation, the tax rates are as follows:

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– BankSA Cheque Plus	15.0%
– Bank Term Deposits (Various Institutions)	15.0%
– Black Rock International Gold Fund	10.7%
– Colonial First State Wholesale Global Resources Fund	9.8%
– Fidelity Australian Equities Fund	1.6%
– Pimco Equity Wholesale Diversified Fixed Interest Fund	15.0%
– Platinum International Fund	12.2%
– Tyndall Australian Shares Wholesale Fund	1.9%
– Vanguard Wholesale Property Securities Index Fund	12.0%
– Vanguard Australian Government Bond Index Fund	15.0%
– Ironbark GTP Global Equity Agribusiness Fund	11.5%
– Schroder Balanced Fund	9.7%

- No adjustment is made to the crediting rate in relation to prior periods e.g. to reflect any differences in the actual tax rate on non-pension investments for the previous year relative to the assumed tax rates.

The Crediting Rate is determined based on the actual earning rate of the defined benefit assets, after allowance for tax and investment expenses. The crediting rate is declared annually after the investment manager statements become available.

Whilst the annual update of the interim rate theoretically allows some scope for anti-selection, taking into account the size of the Scheme, nature of the benefits and that termination of service (with associated notice periods) would generally be required to trigger a payment, I consider that the current frequency of review of interim rates is appropriate.

Conclusion

Taking into account the nature and term of the liabilities to which it applies and the associated investment strategy, I consider that the current crediting policy is appropriate for the Scheme.

However, I believe that the Scheme's operational and risk management framework would benefit from enhancing the existing documentation of the policy and the associated controls and procedures.

6.3. Investment Risk – Impact on Cost to the Employer

There is a risk that investment returns will be lower than assumed and the Employer will need to increase contributions to offset this shortfall. This risk is normally borne by the Employer.

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For example, if assumed future investment returns were reduced by 1.0% p.a. with no change in other assumptions, then the Actuarial Value of Accrued Benefits would increase by $705,000 (Employer funding cost impact $705,000 / 0.85 = $829,000), with a resulting reduction in the coverage of the Actuarial Value of Accrued Benefits from 93.3% to 89.0%.

The actual investment return achieved by the Scheme in future may vary (positively or negatively) from the rate assumed at this investigation by much more than the (negative) 1.0% p.a. illustrated in the example above.

6.4. Investment Volatility

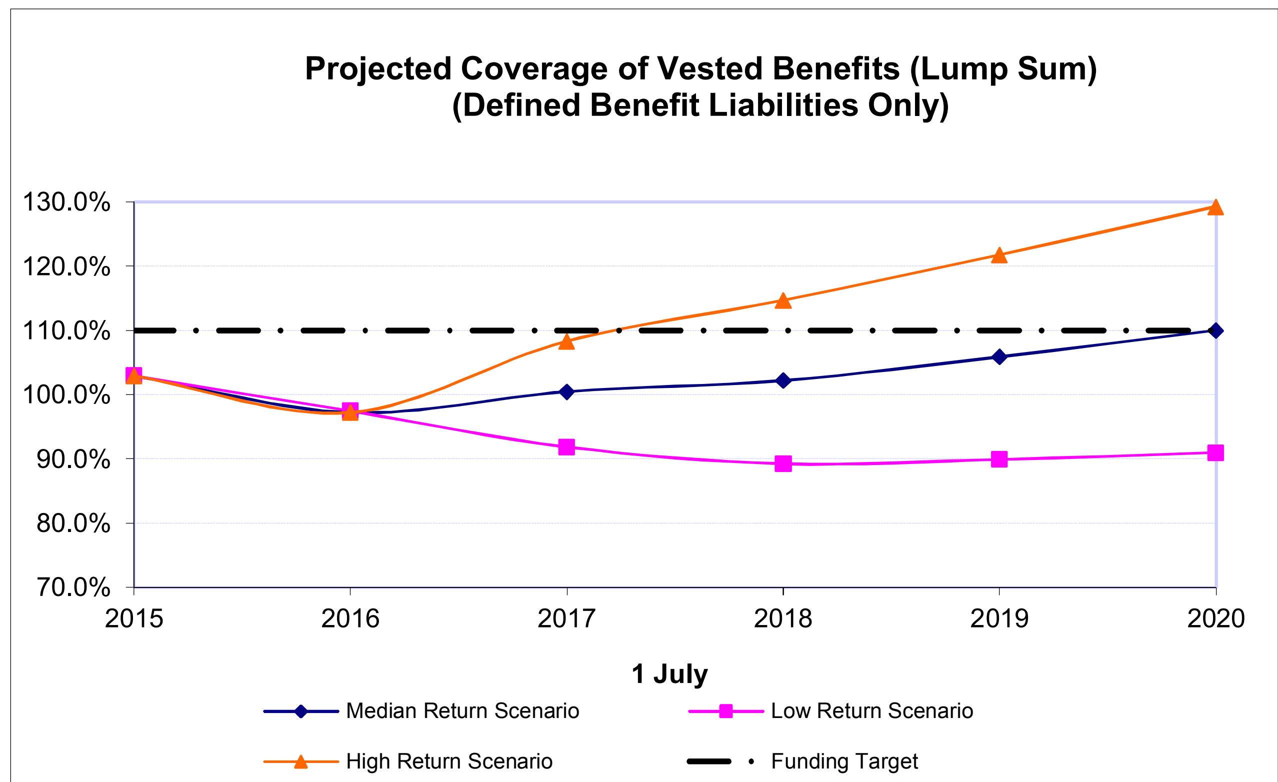
I have considered the impact of investment volatility on the Scheme's financial position over the next few years using a "high return" and a "low return" scenario. The returns under both scenarios have been derived from assumptions about the likely risk attached to the Scheme's defined benefit investment strategy.

Using the investment return model and assumptions adopted, there is approximately a 10% chance of the Scheme's cumulative investment return being less than the "low return" scenario. Similarly, there is approximately only a 10% chance of the Scheme's cumulative investment return being greater than the "high return" scenario. Allowance has been included for the actual return on assets of -2.1% during the period immediately following 1 July 2015 to 19 February 2016 and due to the current volatility in markets, we have allowed for a return of 0% from the remaining period to 30 June 2016.

1 July 2015 to 30 June	Assumed Cumulative Investment Return (%)		
	"Low Return"	Valuation	"High Return"
2016	-2.1%	-2.1%	-2.1%
2017	-6.4%	3.8%	14.0%
2018	-3.9%	10.0%	24.6%
2019	0.1%	16.6%	34.4%
2020	4.6%	23.6%	44.5%

The cumulative investment return is the total return from 1 July 2015 up to 30 June in the year shown. The extent of variation allowed for in these projections reflects the Scheme's asset mix and Mercer's views on potential variability in investment results in various investment sectors.

The graph below shows the effect on the projected ratio of assets to Vested Benefits (Lump Sum) for defined benefit members under the "high return" and "low return" scenarios, with all other investigation assumptions remaining unchanged.



Based on fluctuations in investment returns only, and assuming other experience is in line with the assumptions adopted for this investigation, there is approximately an 80% chance that the coverage of assets over Vested Benefits (Lump Sum) at 1 July 2018 will fall in the range from 89% to 115%.

Please note that the Low Return Scenario and the High Return Scenario shown above are illustrations only, and show what may occur under assumed future experiences which differ from our baseline assumptions. These scenarios do not constitute upper or lower bounds and the actual future coverage of Vested Benefits (Lump Sum) may differ significantly from the range shown above, depending on actual future experience.

In my view, the Trustee should be satisfied with the expected level of security over the next few years if the Employer contributes at the recommended levels.

7

Insurance Policy and Related Risks

The purpose of the insurance policy is to protect the Scheme against unexpectedly large payouts on the death or disablement of members. The insurance with Statewide Super Financial Management Services covers the value of death benefits and so no self-insurance applies.

The group life sum insured formula currently in use for defined benefit members is:

Sum insured = (if married) 62.5% x Normal Retirement Pension x CF^1
+ (if Children) % x term certain until no longer eligible x Normal Retirement Pension
+ (if other Special Dependants) % x Normal Retirement Pension x CF (as determined by actuary)
+ (if any Special Dependants) 5% x Future Service to Normal Retirement Age x Salary
– Greater of:
a) Lump Sum Benefit on termination of employment, and
b) Accrued Retirement Pension x CF^2 x Discount Factor

Where:

CF^1 = Commutation Factor for spouse (i.e. single life)

CF^2 = Commutation Factor for member, with spouse reversion

Accrued Retirement Pension = For members over ERA, pension payable on retirement,
Otherwise, Member's Reserve / 10

Discount Factor[1] = For members over Early Retirement Age (ERA), 1
Otherwise, (1.04/1.065)^(period to ERA)

Children = Under age 18, or if full-time student under age 24.
Child date of birth and status advised by administrator.

Assumptions and spouse age – as per 1 July 2014 valuation assumptions.

Ideally the total amount insured should be approximately equal to the excess of the death benefits over the Scheme's assets. Based on the formula in use at the valuation date, the 'amount at risk' as at 1 July 2015 for the Scheme was as follows:

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	Defined Benefit members	$000
	Death/Disablement Benefits	4,016
less	Sum Insured	-
less	Assets	5,021
	Uncovered Death/Disablement Benefits	(1,005)

The formula has resulted in no insurance being required for employed members, as there are currently sufficient assets to meet all death and disablement benefits if necessary.

I confirm that the current group life sum insured formula for defined benefit members remains appropriate and provides adequate protection for the Scheme.

Self Insurance

The Scheme currently self-insures disability income benefits. Disability income benefits are defined as:

Disability Income Benefits	56% of top of scale salary for members' classifications

The Trustee currently manages this arrangement via a quarterly monitoring process of current and potential claims.

APRA has released new self-insurance guidelines which allow for old self-insurance arrangements to continue but disallow any new self-insurance.

Given the size of the Scheme and current contribution program, I confirm that the current self-insurance arrangement is appropriate.

7.1. Documentation

The insurance arrangements are underwritten by Statewide Super Financial Management Services (“the insurer”) and outlined in a policy between the Trustee and the insurer. The purpose of the insurance policy is to protect the Scheme against unexpectedly large payouts on the death or disablement of members.

7.2. Conclusion

I consider that the Scheme’s current insurance arrangements are suitable.

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8

Pension Liabilities and Related Risks

- **Pensioner Longevity risk** – borne by the University. The risk is that pensioners live longer than assumed, increasing future pension payments and thereby requiring additional Employer contributions.

  For example, if the assumed pension mortality decrements were reduced by 10% (ie. a lighter mortality) with no change in other assumptions, then the Actuarial Value of Accrued Benefits would increase by $386,000 (Employer funding cost impact $386,000 / 0.85 = $454,000), with a resulting reduction in the coverage of the Actuarial Value of Accrued Benefits from 93.3% (as per the table in Section 1.1) to 90.9%.

- **Pension indexation risk** – borne by the University. The risk is that pensions will increase at a rate greater than assumed, increasing future pension payments and thereby requiring additional employer contributions.

  For example, if the assumed pension indexation was increased by 1.0% p.a. with no change in other assumptions, then the Actuarial Value of Accrued Benefits would increase by $1,165,000 (Employer funding cost impact $1,165,000 / 0.85 = $1,371,000), with a resulting reduction in the coverage of the Actuarial Value of Accrued Benefits from 93.3% (as per the table in Section 1.1) to 86.4%.

- **Pension take up risk** – borne by the University. The risk is that more than 50% of employed members choose a lifetime pension on retirement rather than a lump sum. If a member elects to receive their benefit in pension form, additional lump sum contributions can be expected as discussed in Section 1.2.

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9

Other Risks

There are a number of other risks relating to the operation of the Scheme. The more significant financial risks, other than investment, pension, and insurance risk, relating to the defined benefits are:

9.1. Salary growth risk

The risk is that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing benefit amounts and thereby requiring additional employer contributions. This risk is borne by the Employer.

For example, if the assumed future salary increase rate was increased by 1.0% p.a. with no change in other assumptions, then the Actuarial Value of Accrued Benefits would increase by $36,000 (Employer funding cost impact $36,000 / 0.85 = $43,000), with a resulting reduction in the coverage of the Actuarial Value of Accrued Benefits from 93.3% to 93.1%.

The actual rate of future salary increases may vary (positively or negatively) from the rate assumed at this investigation by much more than the (positive) 1% pa illustrated in the example above.

9.2. Legislative risk

The risk is that legislative changes could be made which increase the cost of providing the defined benefits – for example an increase in the rate of tax on superannuation funds. This risk is borne by the Employer.

9.3. Self Insurance Risk

The risk is that a large portion of employed members become eligible for disability income benefits for longer than expected, causing a strain on Scheme assets thereby requiring additional employer contributions.

The Scheme's Risk Management Statement and Risk Management Plan should identify a full range of risks faced by the Trustee.

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10

Assets

10.1. Assets

The net market value of the Scheme's assets as at 1 July 2015 amounted to $13,666,000 based on audited Financial Statements for the Scheme at 1 July 2015.

Calculation of Defined Benefit Assets at 1 July 2015	$
Net market value of the Scheme's assets as at 1 July 2015	**13,666,000**
Less Assets held to meet the Operational Risk Financial Requirement*	-
Less accounts for accumulation members	-
Less accumulation accounts for defined benefit members	-
Less post 1 July 2015 Significant Event Adjustment to Scheme Asset**	134,000
Assets to support the defined benefit liabilities of the Scheme	**13,532,000**

* We note no separate ORFR reserve is segregated in the audited financial statement for the Scheme as at 1 July 2015.

** The Administrator advised that one pension drawing member as at 1 July 2015 died during November 2015. The deceased pensioner's reversionary beneficiary applied for the full commutation of the remaining pension benefit in February 2016. The adjustment to the Scheme Asset to allow for this event is based on the best estimate of this commutation as at 1 July 2015. For details see section 13.4.

10.2. Operational risk reserves

The assets to meet the Operational Risk Financial Requirement (ORFR) are held directly by the Scheme. At 1 July 2015, no separate allowance was stated in the Financial Statements to meet the ORFR. However, we note that the Trustee resolved to set aside $35,000 of Scheme assets to meet this requirement in early 2015 by holding the amount in a term deposit instrument.

The scope of this Investigation does not include a review of the adequacy of assets held to meet the ORFR or the ORFR strategy.

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11

Actuarial Assumptions

The ultimate cost to the Employer of providing Scheme benefits is:

- the amount of benefits paid out; plus
- the expenses of running the Scheme, including tax;

less

- members' contributions; and
- the return on investments.

The ultimate cost to the Employer will not depend on the actuarial investigation assumptions or methods used to determine the recommended Employer contribution rate, but on the actual experience of the Scheme. The financing method and actuarial assumptions adopted will however affect the timing of the contribution requirements from the Employer.

The actuarial process includes projections of possible future Scheme assets and benefit liabilities on the basis of actuarial assumptions about future experience.

These assumptions include investment returns, salary/wage increases, crediting rates, rates at which members cease service for different reasons, and various other factors affecting the financial position of the Scheme.

It is not expected that these assumptions will be precisely borne out in practice, but rather that in combination they will produce a model of possible future experience that is considered a suitable basis for setting contribution rates.

11.1. Economic assumptions

The most significant assumption made in estimating the cost of defined benefits is the difference between:

- the assumed rate of investment earnings; and
- the rate of salary increases used in the projections of future benefit payments.

This difference is commonly referred to as the "gap".

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The key economic long term assumptions adopted for this investigation are:

	Assumption
Investment returns (after tax and investment fees)#	
- In force	6.0% p.a.
- Post retirement	6.9% p.a.
Crediting rate (after tax and investment fees)	6.0% p.a.
General salary increases	3.0% p.a.
Pension increase rate	2.5% p.a.

#In the projections of the Scheme financial position in the 1 July 2015 investigation, the first year investment return assumed incorporates an allowance for the actual return over the period from 1 July 2015 to 19 February 2016 of -2.1% and an assumption of 0% return for the remaining period to 30 June 2016 to allow for the current market volatility.

The assumption for investment returns is based on the expected long-term investment return for the Scheme's current benchmark investment mix, calculated using Mercer Investment Consulting's assumptions of the means and standard deviations of returns from the various underlying asset classes and the correlations of returns between those asset classes.

The general salary increase assumption is based on long term economic forecasts for future increases in average weekly earnings (AWOTE) and discussions with the Employer.

11.2. Other assumptions

New members
The Scheme's defined benefit section is closed to new entrants. No allowance has been made for new members.

Expenses
The University is currently contributing $20,000 per month to meet the cost of administration and management expenses plus the net cost of group life insurance for defined benefit members. Based on recent experience over three years, these costs have been observed to have fluctuated slightly. We recommend the University maintain their current contribution for the cost of administration and management expenses plus the net cost of group life insurance for defined benefit members of $20,000 per month (or such other amount as is subsequently agreed).

Tax
It is assumed that the current tax rate of 15% continues to apply to the Scheme's assessable income, along with current tax credits and other concessions.

All future Employer contributions are assumed to be subject to 15% contribution tax, after deduction of any insurance premiums and administration and management costs. All contribution recommendations quoted in this report are gross of contribution tax.

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No allowance has been made for:

- Any surcharge liability as members' benefits will be reduced by a surcharge offset amount equal to the surcharge payments made, accumulated at the Scheme crediting rate. Surcharge was abolished with effect from 1 July 2005.
- Excess contributions tax, as this is payable by the member.
- Additional tax on contributions (including defined benefit notional contributions) for those with incomes higher than $300,000, which is also payable by the member.

In Service Decrements

I have maintained the same assumptions in relation to rates of resignation, retirement and death as were adopted at the 1 July 2014 actuarial investigation. Examples of the assumed death and TPD rates for current employee members are set out below:

Age Last Birthday	Retirement/ Resignation	Death	Age Last Birthday	Retirement/ Resignation	Death
x	%	%	x	%	%
49	1	0.50	57	4	1.10
50	1	0.56	58	5	1.21
51	1	0.62	59	6	1.33
52	1	0.68	60	20	1.46
53	1	0.75	61	10	1.60
54	1	0.83	62	10	1.76
55	2	0.91	63	10	1.94
56	3	1.00	64	10	2.13
57	4	1.10	65	100	2.33
58	5	1.21			

Retrenchment

No specific allowance is made for the possibility of future retrenchments. Upon retrenchment, members receive the Member's Reserve.

Pensions

I have maintained the same lifetime pension mortality assumptions as were adopted at the 1 July 2014 actuarial valuation.

Mortality in Retirement (Healthy Pensioners)	Mercer Pensioner Mortality (2005-09) with short term mortality improvement
Mortality in Retirement (Invalidity Pensioners)	125% of ALT05-07 (no mortality improvement)
Spouse Pensioners	
Male	100% ALT05-07 with long term mortality improvement
Female	90% ALT05-07 with long term mortality improvement
Mortality Improvements	25-year improvement factors from ALT 2005-07

Other assumptions adopted for this valuation are as follows:

Marital Status	Actual marital status used
Age difference between member and spouse	Actual age difference used wherever possible Females are assumed to be 3 years younger than males where actual spouse date of birth is not provided
Lump Sum	All employed members are assumed to receive a pension benefit on retirement

11.3. Changes in Assumptions since the Previous investigation

The following table sets out changes in assumptions from those used in the previous investigation and the reasons for the changes:

Assumption	**1 July 2015 investigation#**	**1 July 2014 investigation**	**Reason for change**
Discount Rate (Actives)	6.0% p.a.	6.5% p.a.	Reduced outlook for return expectations
Discount Rate (Pensioners)	6.9% p.a.	7.4% p.a.	Reduced outlook for return expectations

#In the projections of the Scheme financial position in the 1 July 2015 investigation, the first year investment return assumed incorporates an allowance for the actual return over the period from 1 July 2015 to 19 February 2016 of -2.1% and an assumption of 0% return for the remaining period to 30 June 2016 to allow for the current market volatility.

The overall impact of the changes in assumptions was to increase the Actuarial Value of Accrued Benefits by $544,000.

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12

The Regulator and Prudential Standards

The regulator (APRA) has issued a number of Prudential Standards for the superannuation industry, including Prudential Standard (SPS 160) relating to the financial management and funding of defined benefit Schemes. We have commented below on a number of the requirements arising from SPS 160.

12.1. Shortfall Limit

The Trustee must determine a "Shortfall Limit" for each fund, being "the extent to which the fund 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 the fund assets, the fund can be restored to a satisfactory financial position within a year".

We understand that the Scheme's Shortfall Limit, determined by the Trustee on the basis of previous actuarial advice, is 98% Vested Benefits. From the actuarial investigation as at 1 July 2014, the Vested Benefit measure adopted is the one based on a 50:50 take up of pension and lump sum benefits, i.e. Vested Benefits (50:50). We continue to recommend that the Shortfall Limit be based on this Vested Benefits measure.

The Shortfall Limit is expressed as a percentage coverage level of defined benefit vested benefits by defined benefit assets and it is appropriate to consider the following when determining if the shortfall limit remains appropriate:

- The guidance provided in the Actuaries Institute Information Note: Shortfall Limit in Prudential Standard 160 dated June 2013;
- The investment strategy for defined benefit assets, particularly the overall benchmark exposure of 65% to "growth" assets;
- The results of this investigation regarding the extent to which the current and projected defined benefit Vested Benefits are not linked to the investment return on defined benefit assets (i.e. salary-based benefits and defined benefit pensions) and the current and projected relativity between Vested Benefits and Minimum Requisite Benefits.

Based on the above, we recommend maintaining the current shortfall limit.

The projections also indicate that the level of Minimum Requisite Benefits is not expected to be a constraint in determining the Shortfall Limit. We will reassess the suitability of the adopted

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Shortfall Limit as part of the next regular actuarial investigation. The Shortfall Limit should be reviewed earlier if there is a significant change to the investment strategy for defined benefit assets – in particular a change to a more defensive strategy which has a benchmark allocation to "growth" assets of less than 65% - or if the Trustee otherwise considers it appropriate to do so.

12.2. Monitoring Process

SPS 160 also requires the Trustee to determine and implement a process for monitoring the defined benefit Vested Benefits coverage against the Shortfall Limit for each Scheme. If this monitoring process indicates that defined benefit vested benefits coverage has (or may have) fallen below the Shortfall Limit, then under SPS 160:

- An "Interim Actuarial Investigation" may be required (depending on the timing of the next regular actuarial investigation).
- A Restoration Plan is required to be put in place if an Interim Actuarial Investigation finds the Scheme has breached its Shortfall Limit. The Restoration Plan must be designed to return the Scheme to a "satisfactory financial position", so that the Vested Benefits are fully covered, within a reasonable period that must not exceed 3 years and this must be submitted to APRA.

We understand that the Trustee has adopted a monitoring process which includes the following:

- A broad estimate of the defined benefit vested benefits coverage is prepared each quarter using an approximate approach which takes into account key factors such as the investment return and top-up contributions (if any) for the quarter ("Trustee's estimate");
- If the Trustee's estimate indicates that the Shortfall Limit has, or may have been breached, action will be taken as required by SPS 160;
- For a Scheme in a satisfactory financial position where there has been a significant reduction in the Trustee's estimate of defined benefit vested benefits coverage, the Trustee will request a review of the financial position and formal advice from the Scheme actuary as to whether or not the current contribution program remains appropriate;
- For a Scheme in an unsatisfactory financial position, the Trustee will request a review of the financial position and advice from the Scheme actuary each quarter as to whether or not the current contribution program remains appropriate or any other action should be taken;

The Scheme's Defined Benefit Vested Benefits (50:50) coverage of 97.9% at 1 July 2015 has breached the Shortfall Limit of 98% and hence triggered the special requirements under SPS160.

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We consider that the adopted monitoring process requires review. Reiterating our recommendation from the previous actuarial investigation, we recommend a review of the quarterly calculation process to reflect the adoption of the Vested Benefits (50:50) calculation methodology.

The Trustee should also continue to monitor the “Notifiable Events” specified in the Scheme’s Funding and Solvency Certificate and advise the Actuary should any actual or potential Notifiable Events occur.

12.3. Requirements due to Unsatisfactory Financial Position

12.3.1. Restoration Plan

Under SPS 160, a Restoration Plan is also required to be put in place if the actuary finds in a regular Actuarial Investigation that a Scheme:

- Is in an unsatisfactory financial position (whether or not the Shortfall Limit has been breached); or
- Is likely to fall into an unsatisfactory financial position.

The Restoration Plan must be designed to return the Scheme to a “satisfactory financial position”, so that Vested Benefits are fully covered, within a reasonable period that must not exceed 3 years from the investigation date.

An SPS 160 Restoration Plan is not required if the Scheme is technically insolvent (in which case the insolvency rules must be followed). If an SPS 160 Restoration Plan is already in place then any changes to the contribution program (including its period) must be made within the framework of that Restoration Plan.

As we have determined that the Plan is in an “unsatisfactory financial position”, a Restoration Plan is required to be put in place. The recommendations in this report take into account the requirements of SPS160:

- the recommended contribution program is expected to result in at least 100% coverage of Vested Benefits (50:50) by 1 July 2018, which is the maximum period of 3 years from the investigation date;
- there are recommendations in regard to the monitoring program;
- the Restoration Plan is not expected to have any impact on benefit payments; and
- we consider that the “unsatisfactory financial position’ does not necessitate any change to the investment strategy (although I have recommended that the Trustee consider adopting a more conservative investment policy).

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The Trustee will need to take various actions after receipt of this report, as required by SPS 160, including:

- providing a copy of this report to APRA within 15 business days of receipt;
- consulting with the Employer about implementing the recommended contribution program
- appointing an actuary to be responsible for advice to the trustee during the restoration period;
- developing and approving a Restoration Plan within 3 months;
- providing a copy of the Restoration Plan to APRA within 15 business days of approval; and
- implementing the Restoration Plan.

12.3.2. Actuary's Reporting Requirements

Section 130 of the SIS Act requires that if an actuary forms the opinion that a Scheme's financial position may be unsatisfactory, or may be about to become unsatisfactory, and that opinion was formed in performing an actuarial function, the actuary must advise both the Trustee and the regulator (APRA) in writing immediately (an unsatisfactory financial position applies where assets are less than Vested Benefits).

These requirements apply, as an actuarial investigation is an actuarial function under the Act, and I am of the opinion that the Scheme is currently in an unsatisfactory financial position. The Trustee and the regulator has been advised of the unsatisfactory financial position in my letter dated 31 March 2016.

Under Part 9 of the SIS Regulations, I am required to consider the ability of the Scheme's assets to cover Superannuation Guarantee Minimum Requisite Benefits (SG Minimum Benefits or MRBs). If assets are not sufficient, the Scheme is considered to be 'technically insolvent'. The Scheme's assets are sufficient to fully cover the SG Minimum Benefits as at 1 July 2015. Therefore the Scheme is not considered to be technically insolvent.

12.4. Statements Required by SPS 160

The Summary of Actuary's Report (AAS 25), in Appendix C, provides statements required to be made under APRA Prudential Standard SPS 160.

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13

Actuarial Certification

13.1. Purpose

I have prepared this report exclusively for the Trustee of the The University of Adelaide Superannuation Scheme A for the following purposes:

- To present the results of an actuarial investigation of the Scheme as of 1 July 2015;
- To review Scheme experience for the period since the previous actuarial investigation (effective at 1 July 2014);
- To recommend contributions to be made by the Employer intended to allow the Scheme to meet its benefit obligations in an orderly manner, and to reach and maintain an appropriate level of security for members' accrued benefit entitlements;
- To satisfy the requirements of the Scheme's Trust Deed for actuarial investigations of the Scheme's financial position; and
- To meet legislative requirements under relevant Commonwealth superannuation legislation.

It has been prepared in accordance with the requirements of the Trust Deed, the Superannuation Industry (Supervision) Act 1993 and associated regulations (SIS legislation), Prudential Standard SPS 160 issued by APRA and Professional Standard 400 issued by the Actuaries Institute setting out requirements for actuarial investigations of defined benefit superannuation funds under SIS legislation.

The advice contained in this report is given in the context of Australian law and practice. No allowance has been made for taxation, accountancy or other requirements in any other country.

The previous actuarial investigation was conducted as at 1 July 2014 by Stuart Mules, on behalf of Mercer, and the results are contained in a report dated 31 March 2015.

13.2. Background information of the Scheme

The University of Adelaide established and administered 2 superannuation funds to provide superannuation and retirement benefits to its staff:

- The University of Adelaide Superannuation Scheme A; and
- The University of Adelaide Superannuation Scheme A 1981.

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From 1 December 1984 the University also became a participating employer of Superannuation Scheme for Australian Universities (SSAU), also known as UniSuper. Many members of the University superannuation funds transferred to SSAU.

On 1 July 1986, The University of Adelaide Superannuation Scheme A 1985 (the Scheme) commenced and all members of the 2 University superannuation funds were transferred into the Scheme. The 2 funds were then wound up.

Until 5 June 2006, the Scheme was run by an Incorporated Trustee or 'Committee of Management', The University of Adelaide Superannuation Scheme A 1985 Incorporated.

On 5 June 2006, the University appointed a professional trustee for the Scheme, Tidswell Financial Services Limited. At the same time, a Policy Committee was set up to act as a conduit between the Trustee and members of the Scheme.

The Scheme is a resident regulated fund and a complying superannuation fund for the purposes of the SIS legislation. The Scheme is taxed as a complying superannuation fund.

13.3. Governing Documents

The governing rules of the Scheme are set out in the Trust Deed as amended from time to time.

13.4. Additional information

Significant events since the investigation date – The recommendations take into account the actual investment return of -2.1% for the period immediately after 1 July 2015 to 19 February 2016.

The Administrator advised that one pension drawing member as at 1 July 2015 died during November 2015. The deceased pensioner's reversionary beneficiary applied for the full commutation of the reversionary pension benefit in February 2016. The Scheme's Assets as at 1 July 2015 has been adjusted to allow for this event by removing the best estimate value of this pension commutation as at 1 July 2015. Correspondingly, all reported Scheme liability measures in this report have been adjusted to exclude this pensioner and his reversionary beneficiary as at 1 July 2015 and for all projection periods.

I am not aware of any other significant events that have occurred since 1 July 2015 which would have a material impact on the recommendations in this report.

Next actuarial investigation - Required at a date no later than 1 July 2016. At that time, the adequacy of the Employer contribution levels will be reassessed.

AAS25 Summary - A summary of the report for Australian Accounting Standard AAS25 purposes is enclosed and forms part of this report.

Next Funding and Solvency Certificate – required at or before the expiry of the current Funding and Solvency Certificate (which expires on 13 November 2018).

Next Benefit Certificate – required at or before the expiry of the current Benefit Certificate (which expires 30 June 2018). The current Benefit Certificate is designed to accommodate changes to the legislated Superannuation Guarantee schedule.

13.5. Actuary's certifications

Professional standards and scope

This report has been prepared in accordance with generally accepted actuarial principles, Mercer internal standards, and the relevant Professional Standards of the Actuaries Institute, in particular PS400 which applies to *"...actuarial investigations of the financial condition of wholly or partially funded defined benefit superannuation funds."*

Use of report

This investigation report should not be relied upon for any other purpose or by any party other than the Trustee of the Scheme and the University. Mercer is not responsible for the consequences of any other use. This report should be considered in its entirety and not distributed in parts.

The advice contained in this report is given in the context of Australian law and practice. No allowance has been made for taxation, accountancy or other requirements in any other country.

Actuarial Uncertainty and Assumptions

An actuarial investigation report contains a snapshot of a Scheme's financial condition at a particular point in time, and projections of the Scheme's estimated future financial position based on certain assumptions. It does not provide certainty in relation to a Scheme's future financial condition or its ability to pay benefits in the future.

Future funding and **actual** costs relating to the Scheme are primarily driven by the Scheme's benefit design, the **actual** investment returns, the **actual** rate of salary inflation and any discretions exercised by the Trustee or the University. The Scheme's actuary does not directly control or influence any of these factors in the context of an actuarial investigation.

The Scheme's future financial position and the recommended University contributions depend on a number of factors, including the amount of benefits the Scheme pays, the cause and timing

of member withdrawals, Scheme expense, the level of taxation and the amount earned on any assets invested to pay the benefits. These amounts and others are uncertain and unknowable at the investigation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, assumptions are used to select a single scenario from the range of possibilities. The results of that single scenario are included in this report.

However, the future is uncertain and the Scheme's actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different.

Actuarial assumptions may also be changed from one investigation to the next because of mandated requirements, Scheme experience, changes in expectations about the future and other factors. We did not perform, and thus do not present, an analysis of the potential range of future possibilities and scenarios.

Because actual Scheme experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit related issues should be made only after careful consideration of alternative future financial conditions and scenarios, and not solely on the basis of a set of investigation results.

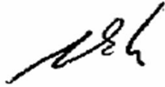
Data and Scheme Provisions

To prepare this report, we have relied on financial and participant data provided by the Scheme's administrator. The data used is summarised in this report. We have reviewed the financial and participant data for internal consistency and general reasonableness and believe it is suitable for the purpose of this report. We have not verified or audited any of the data or information provided. We have also relied upon the documents, including amendments, governing the Scheme as provided by the Trustee. The Trustee is ultimately responsible for the validity, accuracy and comprehensiveness of this information. If the data or Scheme provisions are not accurate and complete, the investigation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a revision of this report.

Further Information

If requested, the actuary is available to provide any supplementary information and explanation about the actuarial investigation.

Prepared by



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Stuart Mules
Fellow of the Institute of Actuaries of Australia

31 March 2016

I have reviewed this report under Mercer's professional Peer Review Policy. I am satisfied that it complies with applicable professional standards and uses assumptions and methods which are suitable for the purpose.

....

Mark Nelson
Fellow of the Institute of Actuaries of Australia

APPENDIX A

Membership Information

The membership of the defined benefit section has changed since 1 July 2014 as follows:

Active members at 1 July 2014	7
Exits	0
New Entrants	0
Active members at 1 July 2015	7

Total salaries at 1 July 2015	$621,000
Average salaries at 1 July 2015	$89,000
Average age at 1 July 2015	61.3 years

The Scheme is closed to new entrants.

There are also 24* members at 1 July 2015 who are in receipt of a pension from the Scheme. These pensions are paid as defined pensions, and so these members are treated as defined benefit members. These members are split by pensioner type in the following table:

Pensioner types	Retirement	Widows	Supplementary	Spouse Supplementary	Deferred	Invalids
Pensioners at 1 July 2014	12	7	-	4	1	2
Less						
Deceased	1*	-	-	1	1*	-
Plus						
New Pensioners	1*	-	-	-	-	-
Pensioners at 1 July 2015*	12	7	-	3	-	2
Annual Pensions	$607,000	$134,000	-	$18,000	-	$61,000

*One Deferred Pensioner became a pension drawing Retirement pensioner on 31 December 2014 (during the year). The Administrator advised the member then died during November 2015. The pensioner's reversionary beneficiary applied for the full commutation of the reversionary pension benefit in February

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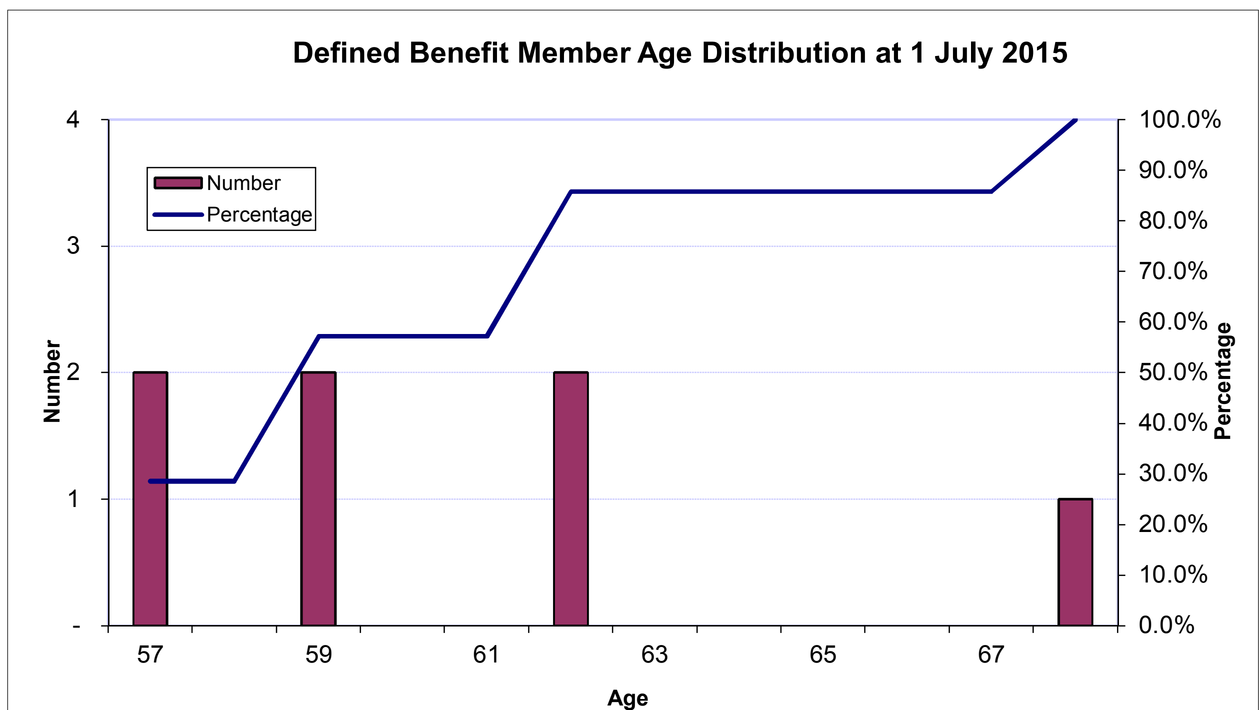
2016. We have allowed for the full commutation of this pension benefit in all asset and liability measures as at 1 July 2015 in this report. Therefore the table above excludes this pensioner and his reversionary pensioner as part of the pension count as at 1 July 2015.

The membership data used for this investigation was taken from the database used to administer the Scheme. I have carried out some broad "reasonableness" checks on the data and I am satisfied with the quality of the data and its suitability for this purpose.

A.1. Active defined benefit member age profile

The 1 July 2015 defined benefit membership split by age is shown in the following graph:



The Trustee and employer should note that there is an employed member currently aged 68 who has not yet retired. On retirement, if the member elects a pension benefit, a top-up contribution payment maybe required from the University, estimated to be about $192,000. Refer to Section 3.1.3 for details.

APPENDIX B

Scheme Design

B.1. Background information

The University of Adelaide established and administered 2 superannuation funds to provide superannuation and retirement benefits to its staff:

- The University of Adelaide Superannuation Scheme A; and
- The University of Adelaide Superannuation Scheme A 1981.

From 1 December 1984 the University also became a participating employer of Superannuation Scheme for Australian Universities (SSAU), also known as UniSuper. Many members of the University superannuation funds transferred to SSAU.

On 1 July 1986, The University of Adelaide Superannuation Scheme A 1985 (the Scheme) commenced and all members of the 2 University superannuation funds were transferred into the Scheme. The 2 funds were then wound up.

Until 5 June 2006, the Scheme was run by an Incorporated Trustee or 'Committee of Management', The University of Adelaide Superannuation Scheme A 1985 Incorporated.

On 5 June 2006, the University appointed a new professional trustee for the Scheme, Tidswell Financial Services Limited.

At the same time a Policy Committee was set up to act as a conduit between the Trustee and members of the Scheme.

This report is provided for the Trustee and presents the results of the actuarial valuation of the Scheme as at 1 July 2015.

It has been prepared in accordance with the requirements of the Trust Deed, the SIS legislation and Professional Standard 400 of the Institute of Actuaries of Australia.

The previous actuarial valuation was conducted as at 1 July 2014 by Stuart Mules, on behalf of Mercer, and the results are contained in a report dated 31 March 2015.

The Scheme is a resident regulated fund and a complying superannuation fund for the purposes of the SIS legislation. The Scheme is taxed as a complying superannuation fund.

The advice contained in this report is given in the context of Australian law and practice. No allowance has been made for taxation, accountancy or other requirements in any other country.

B.2. Summary of benefits

A summary of the main benefit provisions in respect of defined benefit members is set out below. Reference should be made to the formal governing documents for definitive statements.

Employed Members

Employed members can elect to take pension or lump sum benefit on resignation or retirement.

Generally, the lump sum benefit is defined as the greater of:

- 2.5 times member contributions accumulated with investment returns (less tax as appropriate); and
- Accrued Pension Multiple x Discount Factor x 10

Minimum benefits apply to some members, and the discount factor varies depending on a schedule of membership and years of service.

The pension is generally subjected to a minimum of the Member's reserve (usually the lump sum benefit) divided by a Pension Factor based on age.

Members receive a 50% of salary invalidity pension to their normal retirement age, and their normal retirement pension thereafter.

The benefits payable on death vary depending on the number of Special Dependants. If there are Special Dependants, the death benefit is a combination of a pension and lump sum benefit. If there are no Special Dependants, a lump sum benefit is payable.

Benefits are subject to a minimum of Minimum Requisite Benefit (MRB) as required to meet SG legislation.

Pensioners

Pensions are paid regularly, with CPI indexation occurring annually or six monthly depending on the type of pension payable. Reversionary pensions are generally payable on the death of a pensioner.

The table below indicates the material discretions available to the Trustee and Employer and the member options specified within the Scheme's legal documents, to the extent that these affect

benefits. The table also shows the general prevalence of the past exercise of discretions and the options chosen by the members. Please note that past exercises of discretions should not be viewed as precedents which would constrain any future decisions.

Trustee and Employer Discretions
None

Member Options	
Description and Deed Reference	**Historical Prevalence**
Employed members may choose to take a lump sum or convert to an annual pension	Some members take lump sums and lifetime pensions. Additional contributions are sought from the University in the event that a pension is commenced.

Neither the Trustee nor the Employer has a right within the Trust Deed to review benefits or member contribution rates.

Benefits on leaving service for any reason are subject to a minimum Superannuation Guarantee benefit described in the Scheme's Benefit Certificate.

B.3. The Superannuation Guarantee (Administration) Act 1992

This Act requires employers to provide minimum superannuation benefits that are fully vested in their employees within a complying superannuation fund.

The contribution rates recommended in this report and the projected financial positions allow for benefits being augmented as necessary to meet the minimum Superannuation Guarantee (SG) benefit described in the Scheme's current Benefit Certificate, which allows for increases in the SG rate over the period to 30 June 2018.

Legislation was passed in September 2014 to freeze the SG rate at 9.5% until 1 July 2021. The SG rate will then increase by 0.5% pa until it reaches 12% from 1 July 2025. For the purpose of determining projected minimum benefits for defined benefit members, this investigation assumes that the currently legislated SG rates will apply in future years (ie increasing until it reaches 12% from 1 July 2025).

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APPENDIX C

Summary of Actuary's Report (AAS 25)

The University of Adelaide Superannuation Scheme A

*This Summary has been prepared for the purposes of **Australian Accounting Standard 25**. This Summary also provides statements required to be made under APRA Prudential Standard SPS 160. Values cited relate to the Scheme as a whole.*

The effective date of the most recent actuarial investigation of the The University of Adelaide Superannuation Scheme A (the Scheme) was 1 July 2015 covering the period from 1 July 2014 to that date. The investigation was undertaken by Stuart Mules, a Fellow of the Institute of Actuaries of Australia, on behalf of Mercer, 70 Franklin Street Adelaide SA 5000, and the results are set out in a report dated 31 March 2016. A summary of this report follows:

(i) As at 1 July 2015, the net realisable value of the assets of the Scheme, based on audited information provided by the Trustee, amounted to $13,532,000. This value excludes a post 1 July 2015 significant event adjustment to the Scheme Asset. This is also the value of assets used in determining the recommended contribution rate.

(ii) The Scheme's liability in respect of pensioner, postponed retirements or deferred benefits is as follows:

Pensioner types	Retirement	Widows	Supplementary	Spouse Supplementary	Deferred	Invalids	Total
Pension Liability	$6,047,000	$1,206,000	-	$134,000	-	$1,123,000	$8,511,000

(iii) The actuarial value of accrued benefits as at 1 July 2015 was $14,500,000. Hence I consider that the value of the assets at 1 July 2015 is inadequate to meet the value of the accrued benefit liabilities of the Scheme as at 1 July 2015. In determining the value, I have applied a minimum of the vested benefit at the individual member level (see (iv) below).

(iv) The total as at 1 July 2015 of members' Vested Benefits (i.e. voluntary resignation benefits, or early retirement benefits if eligible as of right based on the assumption of 50% of members taking a lump sum and 50% taking a lifetime pension), amounted to $13,824,000. Hence I consider that the financial position of the Scheme should be

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treated as unsatisfactory as defined in SPS 160. Assuming that the Employer contributes in accordance with my recommendations, based on the assumptions made for this actuarial investigation, I expect that assets will increase sufficiently to cover the value of vested benefit liabilities over the three year period to 1 July 2018.

(v) In my opinion, the value of the liabilities of the Scheme in respect of the minimum benefits of the members of the Scheme as at 1 July 2015 was $11,065,000. Hence the Scheme was not technically insolvent at 1 July 2015.

(vi) The ratios of the assets to the present value of accrued benefits, vested benefits and the SG Minimum Benefits are:

	Employed	**Pensioners***	**Total Scheme***	
	$000	**$000**	**$000**	**Asset Coverage**
Assets*			13,532	
Liability for Vested Benefits**	5,313	8,511	13,824	97.9%
Liability for Actuarial Value of Accrued Benefits	5,989	8,511	14,500	93.3%
Liability for SG Minimum Benefits	2,554	8,511	11,065	122.3%

*Note that the totals above has been adjusted for a significant event post 1 July 2015, see section 13.4 for details.

**Vested Benefits have been calculated assumed that 50% of members take a pension and 50% take a lump sum at retirement - referred to as “Vested Benefits (50:50)”.

(vii) The actuarial investigation was carried out using the “Target” funding method. Under this method, contributions are set with the aim of providing assets which provide coverage of specified accrued benefit liabilities at a minimum ‘target’ level. The target level adopted was at least 110% coverage of Vested Benefits (lump sum).

The investigation disclosed that the Scheme was in an unsatisfactory financial position at 1 July 2015.

(viii) The actuary recommended that the Employer contribute to the Scheme at the following rates from 1 July 2015:

- 14.0% of employed members’ salaries from 1 July 2015 to 30 June 2016, increasing to 17.3% of employed members’ salaries from 1 July 2016; plus
- The following additional lump sum contributions for the respective financial years:

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Financial Year	Lump sum contribution
2015/16	$100,000
2016/17 and 2017/18	$665,000 p.a.
2018/19 and 2019/20	$320,000 p.a.
2020/21 onwards	$100,000 p.a.

plus

- In the event that an employed member terminates employment and elects to take a pension, or a deferred pension, an additional contribution equal to *half of the difference* between their lump sum vested benefit and the capital value of the pension at the time of termination, grossed up for tax; plus
- In the event of an employed member being paid an invalidity pension, monthly payments equal to the value of the invalidity pension payments, grossed up for contributions tax; plus
- $20,000 per month to cover Scheme expenses (or such other amount as subsequently agreed); plus
- In the event that the Trustee purchases disability income insurance, an additional amount to cover the cost of these insurance premiums.

(ix) A projection of the likely future financial position of the Scheme over the 3-year period following 1 July 2015, based on what I consider to be reasonable expectations for the Scheme for the purpose of this projection, is set out in the report.

(x) Based on the results of this investigation, I consider that the shortfall limit does not require review.

(xi) The next full triennial investigation date should be no later than 1 July 2016. At that time, the level of Employer contributions will be reviewed. The progress of the Scheme's coverage of Vested Benefits (50:50) should be reviewed quarterly while vested benefits coverage is less than 100%, or otherwise each year following the annual administrative review, to ascertain if an adjustment to the Employer contribution levels is required prior to the next complete investigation.

(xii) The Scheme has been used for Superannuation Guarantee purposes.

   a. all Funding and Solvency Certificates required under Division 9.3 of the SIS Regulations have been issued for the period from the date of the last investigation to 1 July 2015;

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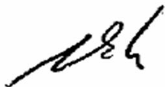
b. I expect to be able to certify the solvency of the Scheme in any Funding and Solvency Certificates that may be required in the three year period from 1 July 2015.

(xiii) In my opinion, there is not a "high degree of probability", as at 1 July 2015, that the Scheme will be able to meet the pension payments as required under the Scheme's governing rules. This is because the Plan is currently in deficit and the Actuaries Institute Guidance Note 465 does not allow future employer contributions to be taken into account in the assessment for the "high degree of probability" statement. In practice, it is anticipated that the Employer will provide adequate funding to enable pensions to be paid in full.

(i) Taking into account the circumstances of the Scheme, the details of the membership and the assets, the benefit structure of the Scheme and the industry within which the Employer operates, the assumptions and valuation methodology used are appropriate in relation to the determination of the present value of accrued benefits for the purposes of the actuarial investigation and AAS25.

(ii) In preparing this summary, I have complied with the Professional Standards and Guidance Notes issued by the Actuaries Institute.



Stuart Mules
Fellow of the Institute of Actuaries of Australia
Representative of
Mercer Consulting (Australia) Pty Ltd AFS Licence #411770

31 March 2016

C.1. Note 1: Summary of Method of Attributing Benefits to Past Membership

C.1.1. Defined Benefits

The past membership components of all defined benefits payable in the future from the Scheme in respect of current membership are projected forward allowing for assumed future salary increases and credited interest rates and are then discounted back to the investigation date at the investment return rate assumed for the investigation.

The past membership component for each type of benefit is:

Retirement:	based on the member's accrued benefit multiple or relevant account balances at the investigation date increased allowing for future vesting to the projected date of retirement.
Death and Disablement:	based on the member's accrued resignation and retirement benefits at the projected date of death or disablement. Explicit allowance for the cost of insurance premium has been allowed for in the contribution rate recommendations.
Resignation:	based on the member's accrued benefit multiple or relevant account balances at the investigation date, allowing, where applicable, for future vesting to the projected date of resignation

In determining the value of the past membership components, I have applied a minimum of the vested benefit at the individual member level.

C.1.2. Changes in Methodology of Calculating the Actuarial Value of Accrued Benefits

The method used for the determination of Accrued Benefits is the same as that used at the previous investigation.

C.2. Note 2: Summary of Assumptions

C.2.1. Financial Assumptions

	Assumption
Investment returns (after tax, investment and asset based administration fees)[#]	
- In force	6.0% p.a.
- Post retirement	6.9% p.a.
Crediting rate (after tax and investment fees)	6.0% p.a.
General salary increases	3.0% p.a.
Pension increase rate	2.5% p.a.

[#]In the projections of the Scheme financial position in the 1 July 2015 investigation, the first year investment return assumed incorporates an allowance for the actual return over the period from 1 July 2015 to 19 February 2016 of -2.1% and an assumption of 0% return for the remaining period to 30 June 2016 to allow for the current market volatility.

For the purposes of determining the present value of accrued benefits in accordance with Australian Accounting Standard AAS25, a market-determined, risk adjusted discount rate of 6.5% per annum was used. This rate represents the weighted average (weighted by accrued benefit liabilities) expected return on the Scheme's defined benefit assets.

The weighted average term of the accrued benefit liabilities is 12 years.

C.2.2. Other Assumptions

Assumptions regarding rates at which members will leave the Scheme on account of retirement, death, disablement and resignation have been based on the experience of this and other similar Schemes. Further details can be found in my report of the actuarial investigation as at 1 July 2015.

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C.2.3. Changes in Key Assumptions

The following table details key assumptions that have changed since the previous actuarial investigation:

Assumption	1 July 2015 investigation#	1 July 2014 investigation	Reason for change
Discount Rate (Actives)	6.0% p.a.	6.5% p.a.	Reduced outlook for return expectations
Discount Rate (Pensioners)	6.9% p.a.	7.4% p.a.	Reduced outlook for return expectations

#In the projections of the Scheme financial position in the 1 July 2015 investigation, the first year investment return assumed incorporates an allowance for the actual return over the period from 1 July 2015 to 19 February 2016 of -2.1% and an assumption of 0% return for the remaining period to 30 June 2016 to allow for the current market volatility.

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