Report to the Trustee on the Actuarial Investigation as at 30 June 2021

Health Super DB Fund
(a sub-fund of Aware Super)

30 August 2021

welcome to brighter

Contents

Context

This report is only in relation to the Health Super DB Fund, a sub-fund of Aware Super. The Health Super DB Fund covers defined benefit members in the Health Super Defined Benefit Scheme and the Health Super Lifetime Pensions Scheme. Any reference to "the Fund" in this report refers only to the Health Super DB Fund. I have not considered the accumulation sections of Aware Super.

Any reference to "Institutions" includes all institutions whose members participate in the Fund.

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Key Results and Recommendations

The Health Super DB Fund (the Fund) covers defined benefit members in the Health Super Defined Benefit Scheme and the Health Super Lifetime Pensions Scheme. This report sets out the results of the actuarial investigation as at 30 June 2021 of the Fund, a sub-fund of Aware Super (formerly known as First State Superannuation Scheme). This investigation does not consider the accumulation sections of Aware Super.

This report should not be relied upon for any other purpose or by any party other than the Fund's Trustee, Aware Super Pty Ltd (formerly known as FSS Trustee Corporation). 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 Trustee should share this report with the Institutions who contribute to the Fund. The Institutions may consider obtaining separate actuarial advice on the recommendations contained in the report.

Change in Financial Position

A summary of the Fund's financial position as at 30 June 2021 is set out below (2020 shown alongside for comparison):

Health Super DB Fund	As at 30 June 2021		As at 30 June 2020	
	$m	Asset Coverage	$m	Asset Coverage
Assets	1,143.2*		1,118.3	
Vested Benefits	1,043.8	109.5%	1,075.2	104.0%
Actuarial Value of Accrued Benefits	1,042.6	109.6%	1,076.0	103.9%

* See Section 5 for calculation of the net value of assets for actuarial investigation purposes.

This confirms the Fund is in a "satisfactory financial position" as defined in the SIS legislation as at 30 June 2021 as the value of Fund assets exceeds total Vested Benefits. The Fund's asset coverage of Vested Benefits is above the financing objective of 100% with a margin to allow for gradual immunisation of the assets supporting pensions in payment.

I have determined that Fund assets are in excess of the Fund's Vested Benefits by $99.3 million as at 30 June 2021. The actuarial investigation as at 30 June 2020 revealed that Fund assets were in excess of the Fund's Vested Benefits by $43.1 million. Therefore, the Fund's financial position has increased by $56.2 million over the year to 30 June 2021.

The more significant factors affecting the Fund's financial experience during the period since the previous actuarial investigation as at 30 June 2020 were as follows:

Item	Assumed at previous investigation	Fund experience	Comment on effect
Investment returns	3.0% pa*/ 3.75% pa**	8.5% / 9.8%	**Positive** – investments grew at a rate higher than assumed
Average Final Fund Salary (AFFS) increases	3.0% pa	4.7% pa^	**Negative** – benefit liabilities grew more rapidly than expected for active Defined Benefit Scheme members
Indexation rate	2.0% pa	0.9% pa	**Positive –** pensions and deferred benefits increased at a rate less rapidly than expected

* Net of investment tax and fees return on assets supporting the Defined Benefit Scheme.

** Net of fees return on assets supporting the Lifetime Pensions Scheme.

^ Based on AFFS increase for each member weighted by each member's Vested Benefit.

Recommended Contribution Rates and Projections

At 30 June 2021, the Fund was in a satisfactory financial position. The Fund's asset coverage of Vested Benefits is above 100% in accordance with the Fund's financing objective. A margin of assets above Vested Benefits provides some security against adverse experience such as poor investment returns and the likely impact of immunising the Fund's investment portfolio at some stage in the future.

Given the number of Institutions contributing to the Fund, it is also desirable to maintain stability in the Institutions' contribution rates provided the Fund is in a satisfactory financial position. Accordingly, I recommend that the Institutions continue to contribute to the Fund at the following rates for the Defined Benefit Scheme active members:

Member Contribution Rate (% of Salary)	0%	3%	4%	6%
Institution Contribution Rate (% of Salary)	1%	6%	6%	10%

We expect the Institutions contribution rates to remain at their present level unless there is significant fall in the funding status (refer to Section 7).

I have prepared a projection of the assets and benefit liabilities of the Fund (refer to Section 7) based on:

- The recommended Institution contribution rates set out above;
- The Fund's current investment strategy;
- The actuarial assumptions adopted for this investigation; and
- Allowance for future active member movements into the deferred and lifetime pension sections at rates assumed for this investigation (see Section 4 for details of membership movement assumptions).

My projections show that on this basis the projected coverage of the Fund's Vested Benefits will remain above 100%, noting the projected coverage is sensitive to the assumptions used and there are several risks which may affect the Fund's actual financial position (refer to Sections 8 and 9).

Given the level of funding the Trustee may want to consider taking advantage of the funding position and change the current investment strategy to better match the profile of liabilities and provide greater certainty of Vested Benefits coverage remaining above 100%. This will reduce Vested Benefits coverage levels, as a 1% pa reduction in the assumed future investment return would result in a 9% increase in the assessed value of liabilities.

Risks

The Trustee should note that the above projection is based on the assumptions adopted, which represent a single scenario from a range of possibilities. The future is uncertain and the Fund's actual experience will differ from these 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. However the coverage ratios will be reviewed by the Fund actuary at least once every year and quarterly on an approximate basis by the Trustee. The Trustee's monitoring of the experience specified in the Notifiable Events section of the Funding and Solvency Certificate will provide a further means of identifying adverse experience which warrants an immediate review of the Fund's financial position.

Sections 7 to 9 provide illustrations of the impact of investment volatility on the projected coverage of Vested Benefits, together with other risks associated with the liabilities, including salary growth, legislative, benefit selection, insurance, indexation and longevity risks.

Other Findings and Recommendations

Investment policy and liquidity

I confirm that the Fund's current investment policy remains appropriate, provided that the Institutions recognise and accept the potential variability in returns and contribution requirements (refer to Section 5). The Trustee continues to explore an alternative investment strategy that immunises assets and pensioner liabilities to a greater extent, recognising the increased percentage of Fund liabilities represented by the Fund pensioners.

The expected average term of the Fund's liabilities in respect of the Defined Benefit Scheme (active and deferred sections) is approximately 4 years. While a proportion of members are eligible to receive pension benefits, a large proportion will receive lump sum payments. Accordingly, there will be a significant level of benefit outflow, exceeding net contributions. This illustrates a need for the Trustee to ensure that the Fund's investments provide a suitable level of liquidity to meet projected benefit obligations.

Crediting policy

A detailed review of the approach for crediting earnings to members' accounts is outside the scope of this investigation. Based on a review of the main features (refer to Section 5), I consider that the crediting rate approach adopted is generally suitable taking into consideration the principles of equity between different generations of members and any material risks which may have a significant impact on the Fund (i.e. a market shock or sudden downturn in investment markets).

Insurance

As at 30 June 2021, death and disability benefits of Defined Benefit Scheme active members were insured, but there was an insurance “surplus” of $23.8 million on their total disability benefits were all active Fund members to become disabled at the same time. It is a relatively small amount of over-insurance and it is not at a level where I consider that a change to the current insurance formula is necessary. I therefore confirm that the current group life insurance formula is appropriate and provides adequate protection for the Fund. Section 9 of the report provides further details.

Shortfall Limit

The Fund’s Shortfall Limit of 98% (for the purposes of SPS 160) remains suitable. Refer to Section 10 for further details.

Actions Required by the Trustee

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

The Trustee should obtain formal agreement of the Institutions that they will contribute to the Fund in accordance with the recommendations of this report.

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Introduction

Background of the Fund

The Fund, as a sub-fund of Aware Super, is a resident regulated Fund and a complying Fund for the purposes of Superannuation Industry (Supervision) Act 1993 (the SIS Act). The Trustee of the Fund, Aware Super Pty Ltd, holds a Registrable Superannuation Entity Licence under the SIS legislation and operates the Fund as required under the Trust Deed.

The SIS Act requires that the Fund, as a regulated defined benefit superannuation fund with pensioners, has annual actuarial investigations.

This report 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 previous actuarial investigation was conducted as at 30 June 2020 by me on behalf of Mercer, and the results are contained in a report dated 17 August 2020.

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.

Purpose

I have prepared this report exclusively for the Trustee of the Fund for the following purposes:

- To present the results of an actuarial investigation of the Fund as at 30 June 2021;
- To review Fund experience for the period since the previous actuarial investigation as at 30 June 2020;
- To recommend contributions to be made by the Institutions intended to allow the Fund 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 Fund's Trust Deed for actuarial investigations of the Fund's financial position; and
- To meet legislative requirements under relevant Commonwealth superannuation legislation.

Significant events since the investigation date

I am not aware of any significant events that have occurred since 30 June 2021, which I have not already taken into account, which would have a material impact on the recommendations in this report.

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Experience since the last review

Membership

The membership of the Fund as at 30 June 2021 is as follows:

- 1,259 Health Super Defined Benefit Scheme active members with total full time equivalent salaries of $141.3 million (or total Average Fund Final Salary of $138.8 million);
- 1,740 members with deferred benefits in the Health Super Defined Benefit Scheme; and
- 3,129 pensioners in the Health Super Lifetime Pension section with annual pensions of $43.8 million.

This compares with the membership of the Fund as at 30 June 2020:

- 1,390 Health Super Defined Benefit Scheme active members with total full time equivalent salaries of $149.9 million (or total Average Fund Final Salary of $146.3 million);
- 1,824 members with deferred benefits in the Health Super Defined Benefit Scheme; and
- 3,205 pensioners in the Health Super Lifetime Pension section with annual pensions of $43.9 million.

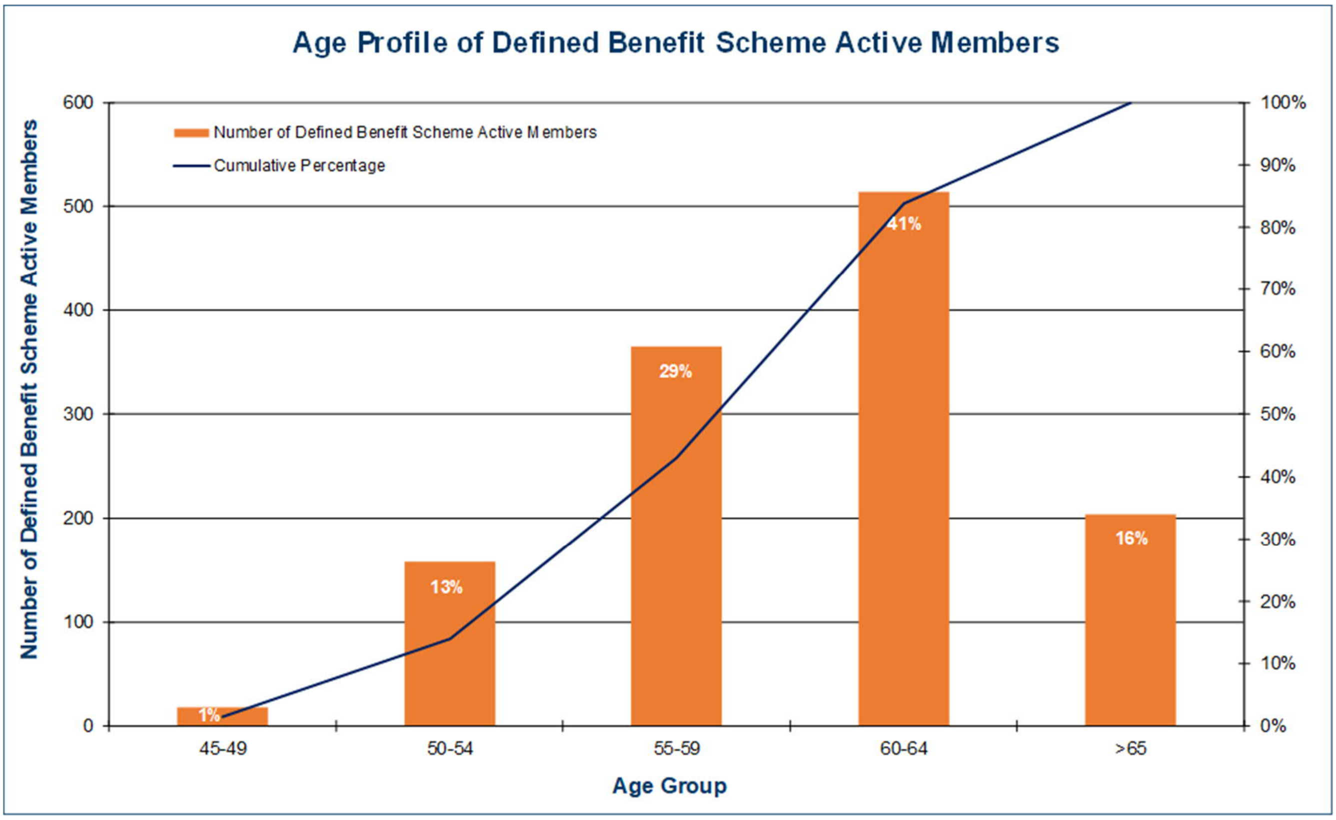
Defined Benefit Scheme – active membership

A summary of the Defined Benefit Scheme active membership by member contribution rate as at 30 June 2021 is as follows:

	0% Contributors		3% and 3.5% Contributors		4% Contributors		6% Contributors	
Age Group	**Number**	**Total Salaries* ($000)**	**Number**	**Total Salaries* ($000)**	**Number**	**Total Salaries* ($000)**	**Number**	**Total Salaries* ($000)**
45-49	5	502.4	1	70.4	2	145.1	10	1,004.5
50-54	36	4,458.0	31	3,280.4	21	2,006.0	70	7,105.2
55-59	44	5,701.1	60	6,188.9	42	4,406.1	219	22,774.3
60-64	38	4,109.7	79	7,626.0	62	7,194.4	335	39,845.9
>65	161	19,839.3	8	655.5	7	682.4	28	3,716.9
Totals	**284**	**34,610.5**	**179**	**17,821.2**	**134**	**14,434.0**	**662**	**74,446.8**

* Salaries in the above table are equivalent full time salaries.

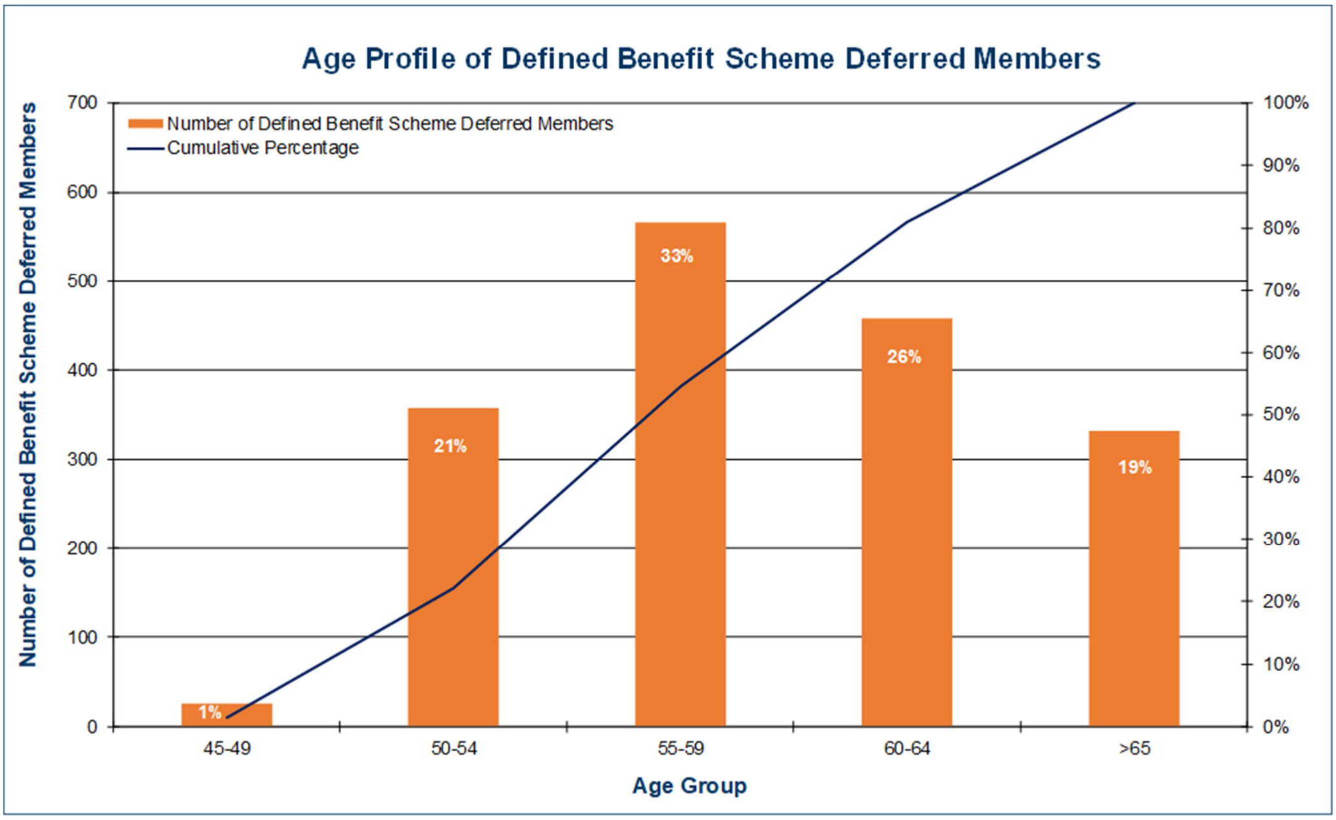
The Defined Benefit Scheme active membership as at 30 June 2021 by age group is shown in the following graph:



As shown in the graph, 86% of the Defined Benefit Scheme active membership is over age 55 and therefore eligible for retirement as at 30 June 2021. This compares to 84% of the membership as at 30 June 2020. A further 13% will become eligible for retirement in the next five years.

Defined Benefit Scheme – deferred membership

The Defined Benefit Scheme deferred membership as at 30 June 2021 by age group is shown in the following graph:



As shown in the graph, 78% of the Defined Benefit deferred section membership is over age 55 and therefore eligible for retirement benefits as at 30 June 2021. This compares to 73% of the membership as at 30 June 2020. A further 21% will become eligible for retirement benefits in the next 5 years. I note that whilst members over the age of 55 could withdraw their benefits at any time, members below the age of 55 can also transfer a discounted lump sum into another eligible superannuation fund at any time.

Health Super Lifetime Pension

Details of the pensioners in this section as at 30 June 2021 are set out below. The average age of the pensioners has increased to 78.2 years old from 77.7 years old as at 30 June 2020.

Pension Type	Number of Pensioners	Average Age	Annual Pension $000
Retirement	2,136	77.0	34,873
Spouse	492	84.5	3,895
Disablement	501	77.1	5,026
Child	0	N/A	0
Total	**3,129**	**78.2**	**43,794**

Investment Returns

The 30 June 2020 investigation assumed that investment returns would average 3.0% pa (net of tax and investment fees) on non-pension assets and 3.75% pa (after fees and 0% tax but allowing for the refund of franking credits) on assets supporting pensions.

The Fund's investment return (net of tax and investment fees) on non-pension assets was 8.5% over the year to 30 June 2021. I am not advised a percentage investment return for pension assets but assuming an effective tax rate of 13% the return on pension assets would have been around 9.8%.

The higher than assumed investment returns have had a positive impact on the Fund's financial position.

Salary Increases

I note that in some individual cases the change in salary from 30 June 2020 to 30 June 2021 provided to the Trustee by the Institutions is outside the range we would expect. As a result, for 18% of the membership we adopted (full time equivalent) salaries based on their 2020 salary increased at 3.6% (refer to Appendix B for further details). We then recalculated the AFFS for these members based on their revised 2021 salary figure.

Based on the revised data, over the 12 months to 30 June 2021:

- Average salary increases were 4.1% and average AFFS increases 4.8%;
- Weighting the salary increases by members' liabilities, the average salary and AFFS increase was 4.7%.

At the 2020 investigation, it was assumed that salary increases would be 3.0% pa plus age related promotional increases; i.e. average total salary increases would be around 3.25% per annum. As the benefit weighted basis average salary/AFFS increases were 4.7% and therefore higher than the 3.25% expected, this had a negative impact on the Fund's financial position.

Contributions

Since the previous investigation, participating Institutions have contributed to the Fund in accordance with the actuarial recommendations. As the recommended contribution rates exceed the long-term rates required to fund the accrual of defined benefits, this has had a positive impact on the Fund's financial position.

Pension and deferred benefit indexation

Lifetime pensions and deferred defined benefits are indexed based on changes in the Consumer Price Index (CPI).

At the 30 June 2020 actuarial investigation, it was assumed that the indexation rate would be 2.0% pa. As the actual indexation rate of 0.9% was less than expected, this had a positive impact on the Fund's financial position.

Recall allowance rectification impact

The recall allowance issue remains outstanding and is expected to be fully resolved in the remainder of the 2021/22 year. The top-up amount payable to impacted former Fund members who already received a lump sum amount was valued at $4.7 million as at 30 June 2019. Allowing for investment earnings over the 2 years to 30 June 2021 and grossed up for 15% tax, the value of the top-up contribution required as at 30 June 2021 is $6.2 million. I have allowed for this amount in the value of available assets as at 30 June 2021 (refer to Section 5 of this report).

In addition, the recall allowance issue is also expected to increase the value of current deferred member and pensioners by $1.8 million as at 30 June 2019. I have allowed for an additional $2 million in the 30 June 2021 liability figures shown in this report as a result.

As the recall allowance issue was expected to be resolved last year and we made similar adjustments as described above in the 30 June 2020 actuarial investigation, the recall allowance issue has had no impact on the change in the Fund's financial position over the 2020/21 year.

Impact of the experience on the financial position

I have determined that Fund assets are in excess of the Fund's Vested Benefits by $99.3 million as at 30 June 2021. The actuarial investigation as at 30 June 2020 revealed that Fund assets were in excess of the Fund's Vested Benefits by $43.1 million. Therefore, the Fund's financial position has increased by $56.2 million over the year to 30 June 2021. The main factors impacting the Fund's coverage of Vested Benefits were:

- The Fund's actual investment return being higher than assumed (estimated positive impact of $59.0m);
- The actual pension indexation being lower than assumed (estimated positive impact of $7.0m);
- The average benefit weighted AFFS increase being higher than assumed (estimated negative impact of $5.8m); and
- Institutions' contributions being paid at rates higher than the long term cost (estimated positive impact of $2.6m).

Ultimately, the cost to Institutions of maintaining the Fund depends on actual experience, not actuarial assumptions. The actuarial assumptions primarily influence the timing of contributions to the Fund. However, it is possible for experience to differ from that assumed without changes to the Institutions' contributions being required, as the financial impact of variations in some areas can offset variations in others.

4 Actuarial assumptions

The ultimate cost to the Institutions of providing Fund benefits is:

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

less

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

The cost to each Institution will not depend on the actuarial investigation assumptions or methods used to determine the recommended Institution contribution rates, but on the actual experience of the Fund. The financing method and actuarial assumptions adopted will however affect the timing of the cost to the Institutions.

The actuarial process includes projections of possible future Fund experience based on relevant actuarial assumptions. These projections allow for investment returns, salary/wage increases, pension indexation rates, crediting rates, rates at which members cease service for different reasons, and various other factors affecting the experience of the Fund. 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.

Economic assumptions

The major assumptions influencing the cost of defined benefits are:

- The assumed investment earnings;
- The indexation rate assumed to apply to pensions and deferred benefits; and
- The salary increase assumption used in the projections of future benefit payments, though this assumption is becoming less significant with the decline in the active section of the Fund.

The difference, or "gap", between the assumed investment return and the level of pension indexation (or, to a lesser extent, the salary increase assumption) is the key factor.

The economic assumptions adopted for this investigation are:

Assumption	% pa
Discount Rate	
Lump sum benefits (after tax and fees)	3.0*
Pension benefits (after fees and 0% tax but including refund of imputation credits)	3.75**
Investment return***	
Lump sum benefits (after tax and fees)	3.0
Pension benefits (after fees and 0% tax but including refund of imputation credits)	3.75
General salary increases	3.0
Lifetime Pension and deferred benefit increases	2.0

* Based on an average 5-year investment horizon.

** Based on an average 10-year investment horizon.

*** Used for the purposes of asset projections only.

These assumptions take into account the following considerations:

- The investment return assumptions are based on the expected long-term investment returns for the Fund's current benchmark investment mix, calculated using Mercer'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 expected investment expenses applying to these assets have also been taken into account.
- The discount rate adopted for assets supporting active and deferred lump sum benefits is net of investment tax and fees. It assumes that these assets have an average 5-year investment horizon and allows for the lower long-term return expected on the investments held by the Fund, in particular, those for fixed interest and cash investments over this timeframe.
- The discount rate adopted for assets backing pension liabilities is net of investment fees but assumes that any income earned on these assets is exempt from tax and allows for the refund of imputation credits. It assumes these assets have an average 10-year investment horizon and allows for the lower than long-term return expected on fixed interest and cash investments over this timeframe.
- The economic assumptions adopted for this investigation are the same as those adopted in the 30 June 2020 actuarial investigation as they continue to reflect the latest economic conditions.
- An allowance for age related promotional salary increases has been made in addition to the general salary increases stated above, which is the same as used in the 2020 investigation.

Other assumptions

The assumptions set out below are the same as adopted in the 30 June 2020 actuarial investigation.

New members

The Defined Benefit Scheme is in effect closed to new members. Members of the former Basic Benefit Scheme are able to join but past Fund experience indicates that it has been many years since there was a new member. Therefore, I have assumed that no new members join the Defined Benefit Scheme in the future.

Expenses

For the Defined Benefit Scheme, I have assumed administration expenses at 1.0% of active members' salaries. For the Lifetime Pension section, I have assumed administration expenses at 2.0% of total annual pension payments.

Tax

All future Institution contributions are currently 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.

Proportions married

It is assumed that 70% of pensioners, and 90% of Defined Benefit Scheme active members are married, or have dependants.

Spouse ages

Husbands are assumed to be three years older than wives.

Medical classifications (death and disablement benefits)

It is assumed that all members are entitled to standard death and disablement benefits.

Defined Benefit Scheme - active members

The following additional assumptions have been made in respect of active members of the Defined Benefit Scheme:

Transfer of deferred benefits

I have assumed that 2% of active members leaving prior to age 55 immediately transfer their deferred benefit out of the Fund.

Division D – Old Scheme Benefits

Division D members are entitled to elect to receive Old Scheme Benefits (lump sum plus pension benefits). I have assumed the following for this investigation:

Benefit Type	Proportion of Eligible Members electing Old Scheme Benefits
Retirement	80%
Death	50%
Disablement	70%
Resignation	80%

Promotional salary increases

Members are assumed to receive promotional salary increases, in addition to general inflationary salary increases, according to an age-related scale. Specimen promotional increases are:

Age Last Birthday	Promotional Salary Increase (%)
40	0.6
45	0.6
50	0.7
55	0.5
60	0.2

Mortality and disablement

The number of members (per 100,000) assumed to leave the Fund due to death and disablement are:

Age Last Birthday	Death		Disablement
	Male	Female	Male and Female
40	73	40	38
45	102	62	58
50	152	94	127
55	227	136	272
60	361	218	307

Resignations

The number of members (per 100,000) assumed to leave the Fund on account of resignation are:

Age Last Birthday	Resignation	
	Male	Female
40	5,525	4,180
45	3,500	2,560
50	3,500	2,560

Early retirement

The number of members (per 100,000) assumed to leave the Fund on account of early retirement are:

Age Last Birthday	Retirement (Male and Female)
55	8,000
56	6,000
57	6,000
58	7,000
59	8,000
60	15,000
61	10,000
62	13,000
63	15,000
64	22,000
65	100,000

Retrenchment

Due to the nature of retrenchments, it is difficult to predict the number of retrenchments that may occur. Therefore, no members are assumed to be retrenched by the Institutions.

Defined Benefit Scheme - deferred members

The following additional assumptions have been made in respect of deferred members of the Defined Benefit Scheme:

Transfer of deferred benefits

I assumed that 1% of deferred members in the Defined Benefit Scheme will transfer their benefit out of the Fund each year.

Death

I have adopted the same mortality assumptions for the Defined Benefit Scheme deferred members as for the active members. The number of members (per 100,000) assumed to leave the Fund due to death are:

Age Last Birthday	Death	
	Male	Female
40	73	40
45	102	62
50	152	94
55	227	136
60	361	218

Disablement

I have assumed that no deferred member will leave the Fund due to disablement.

Early retirement

The number of members (per 100,000) assumed to leave due to early retirement are:

Age Last Birthday	Retirement (Male and Female)
55	20,000
56	9,000
57	8,000
58	8,000
59	8,000
60	12,000
61	10,000
62	8,000
63	8,000
64	8,000
65	100,000

Benefit option selection for Option 3 members

I have maintained the assumption from the 2020 investigation that 75% of Option 3 members take a lump sum plus pension (Old Scheme Benefit) and 25% take a lump sum only.

Health Super Lifetime Pension

The following additional assumptions have been made in respect of pensioners in the Lifetime Pension Section:

Death - retirement pensioners

The number of retirement pensioners (per 100,000) assumed to leave the Fund due to death are:

Age Last Birthday	Retirement pensioner mortality (base rates) per 100,000		Annual retirement pensioner mortality improvement discount	
	Male	Female	Male	Female
60	403	231	3.33%	2.52%
65	686	432	3.29%	2.52%
70	839	664	3.08%	2.45%
75	1,731	1,472	2.73%	2.30%
80	4,143	3,022	2.21%	2.07%
85	7,838	6,927	1.61%	1.62%
90	14,174	11,547	1.07%	1.03%
95	22,384	22,457	0.78%	0.68%
100	30,259	32,123	0.51%	0.47%
105	100,000	100,000	0.24%	0.26%

The base pensioner mortality rates are multiplied by (1 – the annual retirement pensioner mortality improvement discount) for the number of years since 30 June 2007.

Death - spouse pensioners

Age Last Birthday	Pensioner mortality (base rates) per 100,000	
	Male	Female
60	366	231
65	624	432
70	1,164	664
75	2,404	1,472
80	4,603	3,022
85	8,709	6,927
90	15,749	11,547
95	24,871	22,457
100	33,621	32,123
105	100,000	100,000

Death - disablement pensioners

The number of disablement pensioners (per 100,000) assumed to leave the Fund due to death are based on Australian Life Table 2005-2007 (as per the below).

Age Last	Disablement pensioners mortality	
Birthday	Male	Female
60	721	436
65	1,200	679
70	1,920	1,115
75	3,312	1,982
80	5,760	3,661
85	9,907	7,088
90	16,286	13,094
95	23,106	20,895
100	28,205	28,281
105	100,000	100,000

Impact of the changes in assumptions

There were no changes in assumptions from those used in the previous investigation as at 30 June 2020.

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Assets

Market Value

The Fund Administrator advised us on 13 May 2021 that the net value of the Fund assets as at 31 March 2021 was $1,110.8 million. I understand that this value does not include any portion of the Scheme's Administration Reserve, Operational Risk Financial Requirement Reserve or Insurance Reserve.

I have rolled forward the value of assets from 31 March 2021 to 30 June 2021 by allowing for known benefit payables, actual contributions, pension payments, expenses, contribution tax and investment earnings (at 3.9%, based on returns for April, May and June advised by the Fund Administrator). I have also increased the assets by an estimated pension tax exemption adjustment for 2020/21 of $2.0 million.

The total Fund assets adopted for the purposes of the 30 June 2021 actuarial investigation is $1,143.2 million as set out below.

	$m
Net Assets as at 31 March 2021	1,110.8
Due and unpaid benefits at 31 March 2021	-
Cash flow assumed for April, May and June	(7.3)
Investment earnings assumed for April, May and June	43.2
Pension tax exemption for 2020/21 (estimate)	2.6
Top-up amount payable to former Fund members impacted by recall allowance (gross of 15% tax)	(6.2)
Net Assets as at 30 June 2021	**1,143.2**

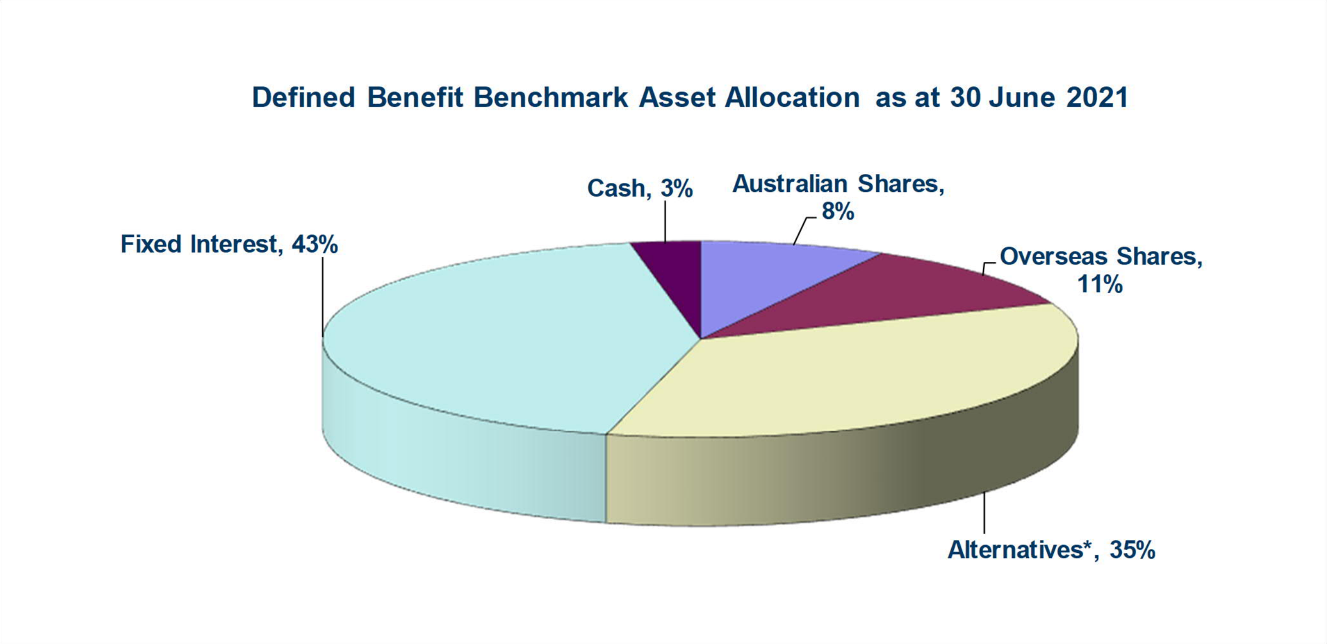
Investment Policy

I have reviewed the Fund's investment policy in light of the funding method adopted and the nature of the Fund's liabilities. The investment objectives for the Fund are:

1. The primary objective is to maintain a ratio of assets to vested benefit liabilities in excess of the minimum target level of 100% over the long term.
2. The secondary objectives are to:
   - Achieve sufficient asset coverage above Vested Benefits to adopt an immunisation program that minimises funding risks over the long term;
   - Maintain a balance between reducing the long-term cost of the benefits and reducing the volatility of the required Institutions' contribution rate; and
   - Generate sufficient liquidity to provide for the cash flow requirements of the Fund.

The investment mix includes a benchmark exposure of 45% of assets in ‘growth’ sectors such as shares and most of the alternative assets, with the balance in ‘defensive’ investments such as cash and bonds. Over the long term, while ‘growth’ assets are expected to earn higher returns than ‘defensive’ assets, these returns are expected to show greater variation from year to year.

The benchmark asset allocations in respect of the Fund assets are as follows:



* The 35% of Alternatives assets consist of ‘growth’ assets of 8% in Private Equity, 8% in Unlisted Infrastructures & Real Assets and 10% in Unlisted Properties; and ‘defensive’ assets of 2% in Liquid Alternative Defensive and 7% in Credit Income.

The expected average term of the Fund’s liabilities in respect of the Defined Benefit Scheme active and deferred membership is around 4 years. As a proportion of members are eligible to receive pension benefits and the Fund also pays lifetime pensions, the average term of the Fund’s liabilities would be longer than this. As such, the Fund is expected to benefit by investing in ‘growth’ assets over the long term. However, this is likely to result in the Fund’s investment return exhibiting a degree of volatility from year to year, which may impact on the financial position of the Fund and the required level of Institution contributions.

I confirm that the Fund’s current investment policy remains appropriate.

Crediting Rate Policy

Accounts used in the calculation of active members’ benefits are allocated earnings at the Crediting Rate. The interim Crediting Rate is updated daily based on the change in unit price on the defined benefit investment option. The unit prices allow for tax and investment fees. The interim rate is determined as an annualised financial year to date rate. A final declared Crediting Rate is set using the same methodology as at 30 June each year. Updating the interim rate on a daily basis is appropriate and helps prevent selection against the Fund by members.

Conclusion

A detailed review of the approach for crediting earnings is outside the scope of this investigation. Based on a review of the main features, I consider that the approach adopted is generally suitable taking into consideration the principles of equity between different generations of members and any material risks which may have a significant impact on the Fund (i.e. a market shock or sudden downturn in investment markets).

6

The Actuarial Approach

Financing Objective

The financing objective adopted for the previous investigation of the Fund as at 30 June 2020 was to target a funding range of between 100% and 110% assets coverage of Vested Benefits.

Most of the Fund's liabilities (defined benefit and lifetime pension) are not linked to the returns on the underlying assets. A margin in excess of 100% coverage of the Fund's Vested Benefits is therefore desirable to provide some security against adverse experience such as poor investment returns and the impact of immunising the Fund's investment portfolio.

Given the number of Institutions contributing to the Fund, it is desirable if there is stability in the Institutions' contribution rates. Accordingly, I have formalised adoption of a financing objective for this investigation to target assets at least equal to 100% of the Vested Benefits of the Fund, with a margin to allow for gradual immunisation of the assets supporting pensions in payment.

Based on the assumptions adopted for this investigation, achieving the financing objective of 100% of the Fund's Vested Benefits would also result in at least 100% coverage of the Actuarial Value of Accrued Benefits and SG Minimum Benefits. Hence, it is not necessary to adopt specific financing objectives in relation to these benefit liability measures.

Professional Requirements

This report satisfies the requirements of Professional Standard 400 of the Actuaries Institute relating to the investigation of the financial position of defined benefit superannuation funds. It also meets the requirements of SIS Regulation 9.29A for an annual actuarial investigation.

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 any pension entitlements, on the actuarial assumptions adopted for this investigation.

Provisions of the Trust Deed

The rules of the Fund's Trust Deed include requirements that:

- The Trustee must "take any action in order to comply with superannuation law" (Rule 1.A.21.4 (a)) which includes ensuring an actuarial investigation of the Fund is conducted when required by legislation. Accordingly actuarial investigations are carried out annually; and
- Participating Institutions "contribute to the Fund at any particular time the amount or rate of contributions determined by the Trustee after obtaining the advice of the actuary" (Rule 3.B.7.1).

Financing Method

There are various financing methods that could be followed when determining Institution contributions. This investigation uses the "Target Funding" method, which was also used at the previous investigation.

Under this method, the Institution contribution rates required to provide a target level of coverage of a particular benefit liability measure is determined. The Fund's target financing objective is detailed in Section 6 of this report.

Over time, the level of contributions may vary significantly and will depend on the Fund's actual experience relative to that expected. If actual experience differs significantly from that expected, the level of Institution contributions may need to be adjusted to ensure the Fund remains on course towards its financing target.

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

7 Financial Position of the Fund

Funding status

The following measures of benefit liabilities have been used in this investigation.

Vested Benefits

Vested Benefits are the benefits payable as of right if all members resigned or, if eligible, retired at the investigation date. Coverage of less than 100% of these benefits would mean that the Fund is in an "Unsatisfactory Financial Position" as defined under the SIS legislation. The Fund's current financing objective is to target coverage of Vested Benefits of at least 100%.

Section 7 of this report provides a projection of coverage of Vested Benefits over the next few years, and reflects the effects of any significant changes in Vested Benefits for members.

I estimate the total Vested Benefits of the Fund as at 30 June 2021 to be $1,043.8 million. The Vested Benefits attributed to the various sections of the Fund are as follows:

	30 June 2021 ($m)
Health Super Lifetime Pensions	634.4
Health Super Defined Benefit Scheme – active members	348.1
Health Super Defined Benefit Scheme – deferred members	61.4
Total	**1,043.8**

Actuarial Value of Accrued Benefits

The Actuarial Value of Accrued Benefits is an actuarial value of all future expected benefit payments, attributable to membership to date, discounted to the investigation date. These benefits are calculated using the actuarial methods and assumptions set out in Section 4 of this report. This value is consistent with Accrued Benefits for the purposes of AASB 1056.

The benefit applicable on early retirement for members of the Fund will often exceed the Actuarial Value of Accrued Benefits, and so coverage of Vested Benefits may be a more important indicator of the financial strength of the Fund. However, the Vested Benefit for members not yet eligible for early retirement will generally be less than the Actuarial Value of Accrued Benefits, and so changes in members' ages over time could result in significant changes in the coverage level of Vested Benefits.

I calculate the Actuarial Value of Accrued Benefits of the Fund as at 30 June 2021 to be $1,042.6 million. The Actuarial Value of Accrued Benefits attributed to the various sections of the Fund are as follows:

	30 June 2021 ($m)
Health Super Lifetime Pensions	634.4
Health Super Defined Benefit Scheme – active members	346.8
Health Super Defined Benefit Scheme – deferred members	61.4
Total	**1,042.6**

SG Minimum Benefits

SG Minimum Benefits are the benefits determined in accordance with the Fund's Benefit Certificate, being the minimum amounts required from this Fund to satisfy the Institution's obligations under Superannuation Guarantee legislation. If assets do not provide at least 100% coverage of SG Minimum Benefits (known as MRBs), the Fund is classified as being 'technically insolvent' under relevant Commonwealth superannuation legislation.

For active members in the Defined Benefit Scheme, Institutions' Superannuation Guarantee contributions are paid to accumulation accounts external to the Fund. The MRB within the Defined Benefit Scheme for the active members consists of the member contribution component and some pre-1992 benefit components, as defined in the Fund's Superannuation Guarantee Benefit Certificate. The value of Minimum Requisite Benefits in respect of the Defined Benefit Scheme active members as at 30 June 2021 is $188.0 million.

Coverage of benefit liabilities

Coverage of benefit liabilities at 30 June 2021

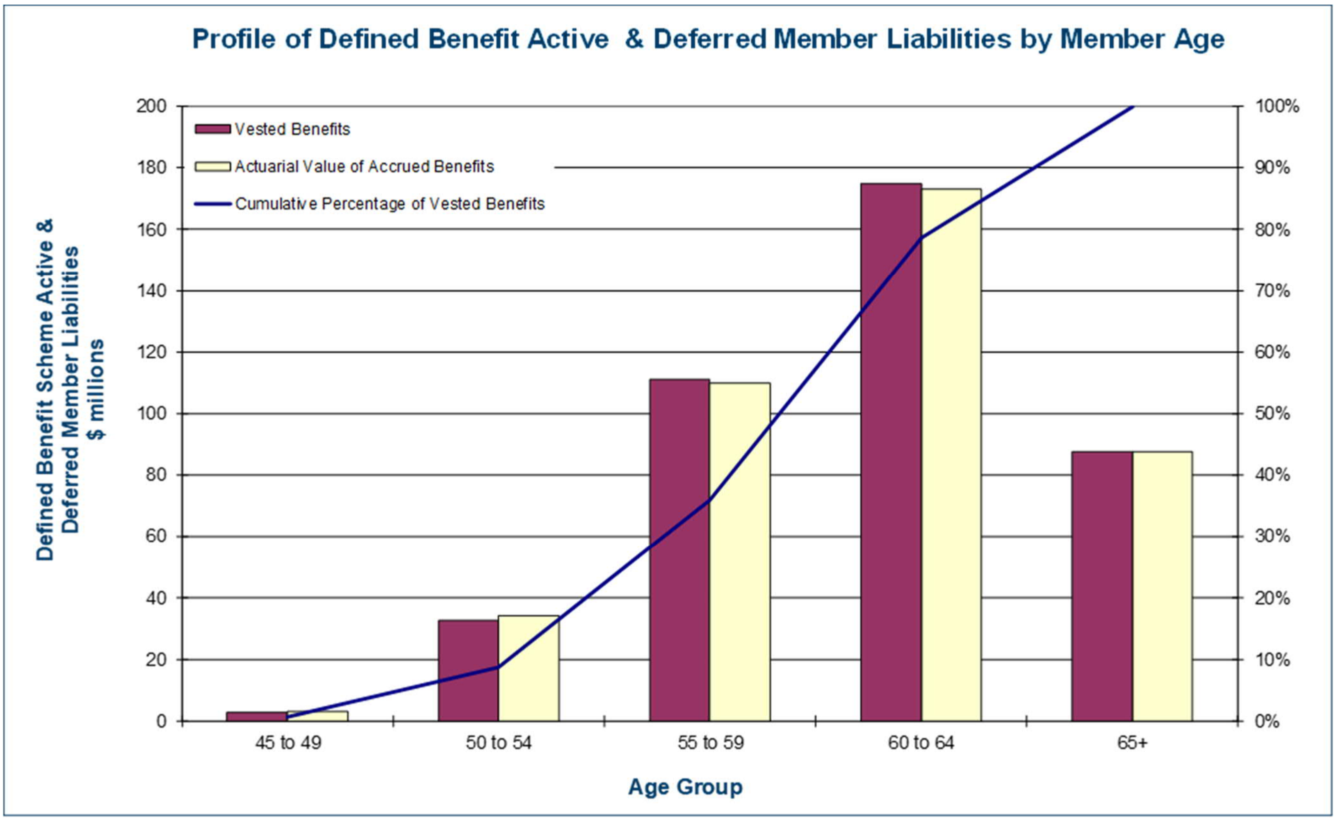
As at 30 June 2021, the Fund's Vested Benefits and the Actuarial Value of Accrued Benefits were covered by the Fund's assets. The following table sets out the coverage of the benefits as at 30 June 2021, with the corresponding values at prior years for comparison.

	Coverage of Benefits by Assets				
As at 30 June	**2021**	**2020**	**2019**	**2018**	**2017**
Vested Benefits	109.5%	104.0%	109.6%	106.4%	104.5%
Actuarial Value of Accrued Benefits	109.6%	103.9%	110.2%	107.0%	105.3%

According to the SIS legislation, the Fund is in a "satisfactory financial position" as at 30 June 2021 as the Vested Benefits are less than the value of the assets.

Cover for Defined Benefit Scheme liabilities

The following graph shows the Vested Benefits and Actuarial Value of Accrued Benefits of the Defined Benefit Scheme members, including active and deferred members, at 30 June 2021, split by age.



The graph shows that approximately 91% of the Defined Benefit Scheme Vested Benefits relates to members who are over age 55 and therefore eligible for retirement.

Cover for Minimum Requisite Benefits of Defined Benefit Scheme active members

If it is assumed that lifetime pension benefits and Defined Benefit Scheme deferred member benefits are fully funded, then the value of assets available to meet the minimum benefits in respect of the Defined Benefit Scheme active members is $446.8 million.

The following table sets out the coverage by these assets of the Minimum Requisite Benefits for the Defined Benefit Scheme active members as at 30 June 2021, with the corresponding values at prior years for comparison.

	Coverage of Defined Benefit Scheme Active section Members' Minimum Requisite Benefits				
As at 30 June	**2021**	**2020**	**2019**	**2018**	**2017**
Minimum Requisite Benefits	237.6%	210.6%	231.4%	215.5%	203.2%

According to the SIS legislation, the Fund is "technically solvent" as at 30 June 2021 as the Minimum Requisite Benefits are less than the value of the assets.

Coverage of benefits on Fund termination

If the Fund is terminated, the liability under the governing rules is limited to whatever assets are then held in the Fund. Accordingly, it is important for the Trustee to maintain assets in excess of 100% of the Vested Benefits of the Fund.

Valuation Results in Summary

The actuarial projection of possible future experience produced the following results, where projected future payments have been converted to a present value using the assumed discount rates.

Item	Value on Actuarial Assumptions $m
Present value of future pension payments accrued at investigation date in respect of Health Super Lifetime Pension members	634.4
Present value of future defined benefit payments accrued at investigation date in respect of Health Super Defined Benefit Scheme deferred members	61.4
Present value of future defined benefit payments accrued at investigation date in respect of Health Super Defined Benefit Scheme active members	346.8
Present Value of future defined benefit payments accruing after investigation date in respect of Health Super Defined Benefit Scheme active members	26.6
Present Value of future Fund operating costs and tax on contributions	17.7
Total present value of future payments out of Fund	**1,086.9**
Value of Fund assets available to support Fund liabilities at 30 June 2021	1,143.2
Present Value of future Institutional contributions at recommended rates	27.2
Present Value of future member contributions (at rates specified in the Trust Deed)	15.8
Total available assets (in absence of other contributions)	**1,186.2**
Excess/(Deficiency) of assets to value of future payments	**99.3**

This result demonstrates that the Fund's financial position is not particularly sensitive to changes in the Institution contribution rates, reflecting the declining significance of the Defined Benefit Scheme active membership relative to the assets supporting the Fund. The present value of future Institution contributions for Defined Benefit Scheme active members on the recommended rates is only 2.6% of the current Actuarial Value of Accrued Benefits. This means any shortfalls due to adverse experience would be difficult to fund by increasing contribution rates and may require large lump sum contributions.

Current Contributions

The Institutions that participate in the Fund are currently contributing at the following rates for the Defined Benefit Scheme active members:

Member Contribution Rate (% of Salary)	0%	3%	4%	6%
Institution Contribution Rate (% of Salary)	1%	6%	6%	10%

Recommended Contributions

The Fund's asset coverage of Vested Benefits is above the target coverage level of 100%. Given the number of Institutions contributing to the Fund, it is desirable to maintain stability in the Institutions' contribution rates and also to have a margin to provide some security against adverse experience such as poor investment returns and the costs of immunising the Fund's investment portfolio.

Accordingly, I recommend that the Institutions continue to contribute to the Fund at the following rates for the Defined Benefit Scheme active members:

Member Contribution Rate (% of Salary)	0%	3%	4%	6%
Institution Contribution Rate (% of Salary)	1%	6%	6%	10%

We expect the Institutions contribution rates to remain at their present level unless there is a significant fall in the funding status (refer below).

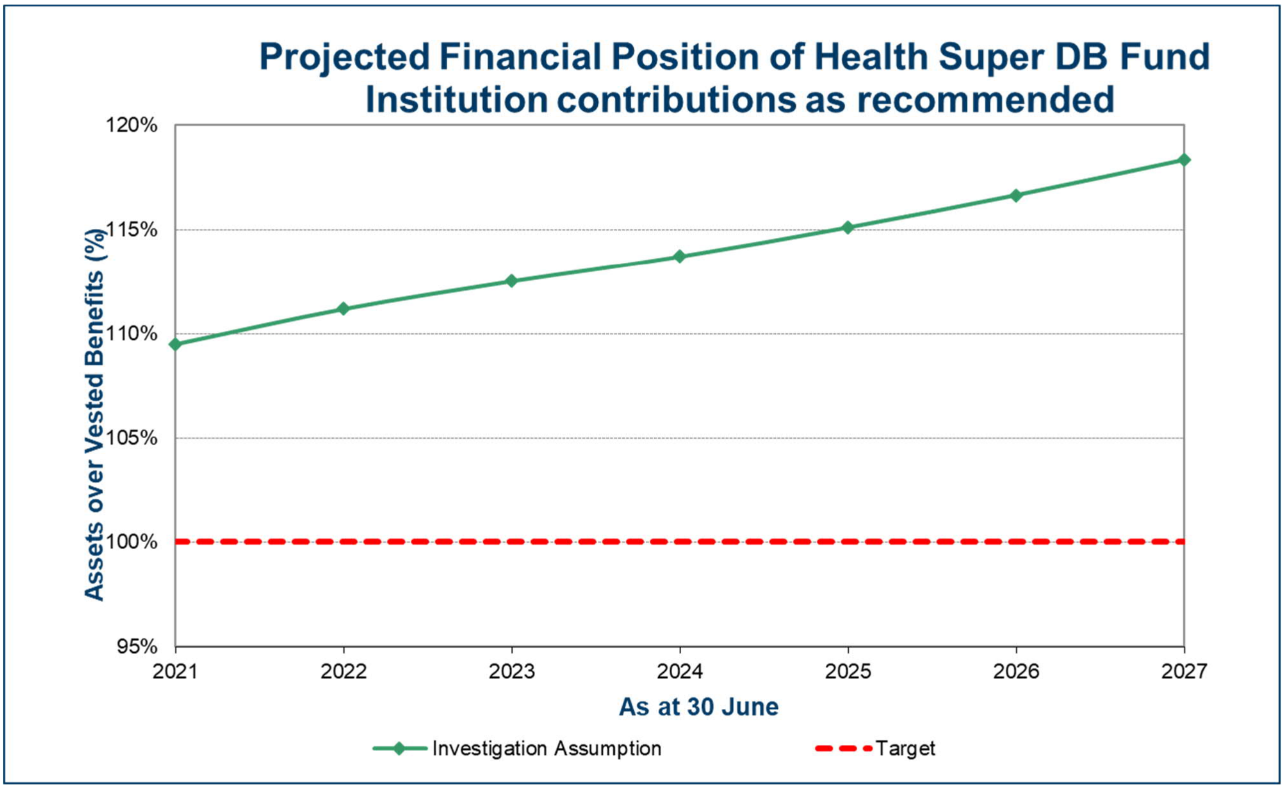
Projected Financial Position

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

- The recommended Institution contribution rates set out above in Section 7;
- The Fund's current investment strategy;
- The actuarial assumptions adopted for this investigation; and
- Allowing for future member movements into the deferred and lifetime pension sections at rates assumed for this investigation (see Section 4 for details of membership movement assumptions).

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 Fund'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, as discussed below.

The following chart shows that the projected coverage of the Fund's Vested Benefits is expected to continue to remain above the financing objective of coverage of Vested Benefits of at least 100% based on the above assumptions.



Given the level of funding the Trustee may want to consider taking advantage of the funding position and change the current investment strategy to better match the profile of liabilities and provide greater certainty of Vested Benefits coverage remaining above 100%. This will reduce Vested Benefits coverage levels, as a 1% pa reduction in the assumed future investment return would result in a 9% increase in the assessed value of liabilities. Accordingly, the Fund's projected coverage of Vested Benefits is unlikely to increase as shown in the above chart.

Sensitivity Analysis

We have tested the effect of changes to the key assumptions on the value of liabilities and the Fund's net financial position.

The liabilities shown in this report have been calculated using our best estimate assumptions for investment returns (based on the current investment strategy), rates of salary increases and pension indexation. As future investment returns, rates of salary increases and pension indexation are unknown, it is almost certain that actual experience will differ from these assumptions.

Whilst experience can be better or worse than expected, we have focused our sensitivity analysis on the downside risks, given the Trustee's role to manage the security of members' benefits.

To quantify the sensitivity of the net financial position to our assumptions, we have calculated the change in liability based on the following scenarios focusing on downside risks:

- Decrease the long term investment return assumption by 1% pa;
- Increase the rate of salary increase assumption by 1% pa;
- Increase the pension indexation rate assumption by 1% pa;
- Pensioners live one year longer than currently assumed; and
- Pensioners live five years longer than currently assumed.

All other assumptions, including the Institutions' contribution rates, are assumed to remain the same.

The effects of these changes are shown below:

Scenario	Accrued Liabilities as at 30 June 2021 ($m)	Change in Accrued Liabilities ($m)	Asset Coverage
Base assumptions as shown previously	1,042.6		109.6%
Decrease investment return by 1% pa	1,135.5	+92.9	100.7%
Increase salary increase by 1% pa	1,049.2	+6.6	109.0%
Increase price indexation by 1% pa	1,123.5	+80.9	101.7%
Pensioners live 1 year longer	1,070.9	+28.3	106.7%
Pensioners live 5 year longer	1,180.2	+137.6	96.9%

These scenarios illustrate that whilst the Fund is presently in a satisfactory financial position, if experience is unfavourable or changes are made to the Fund's investment strategy, the Fund's financial position could quickly change. They highlight the prudence of maintaining a margin of assets above the value of Accrued Liabilities.

8

Key Risks

Investment volatility

I have considered the impact of investment volatility on the Fund's financial position over the next 10 years using a "high return" and a "low return" scenario based on the current investment strategy. The returns under both scenarios have been derived from assumptions about the likely risk attached to the Fund's defined benefit investment strategy.

Using the investment return model and assumptions adopted, there is approximately a 10% chance of the Fund's cumulative investment return being less than the "low return" scenario over the next 10 years. Similarly, there is approximately only a 10% chance of the Fund's cumulative investment return being greater than the "high return" scenario over the next 10 years. The "low return" scenario and the "high return" scenario are illustrations only, and show what may occur under assumed future experiences that differ from the baseline assumptions. These scenarios do not constitute upper or lower bounds and the actual future coverage of Vested Benefits may differ significantly from the range shown above, depending on actual future experience.

The cumulative investment return on pension assets to 30 June 2031 under the "low return" and "high return" scenarios are 0.9% and 6.4% per annum respectively (0.3% and 5.7% per annum respectively on non-pension assets). The extent of variation allowed for in these projections reflects the Fund's asset mix and Mercer's views on potential variability in investment results in various investment sectors.

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 at 30 June 2031 will fall in the range from 82% to 182%.

As such, it will be necessary for the Trustee to monitor coverage levels regularly during the period to the next investigation so that corrective action can be implemented as early as possible. The Fund's Funding and Solvency Certificate specifies "Notifiable Events" which the Trustee needs to monitor on a regular basis. These are designed to detect any adverse changes in the Fund's financial position.

Investment liquidity

The expected average term of the Fund's liabilities in respect of the Defined Benefit Scheme active and deferred section members is around 4 years. While a proportion of members are eligible to receive pension benefits, a large proportion will receive lump sum payments. Accordingly, there will be a significant level of benefit outflow, exceeding net contributions. This illustrates a need for the Trustee to ensure that the Fund's investments provide a suitable level of liquidity to meet projected benefit obligations.

Indexation risk

The risk that the indexation applied to lifetime pensions and deferred defined benefits will be greater than expected creating a shortfall in assets that will require additional contributions from the Institutions. As the Fund's lifetime pension liabilities increase as a proportion of the Fund liabilities, indexation risk will have an increasing impact on the Fund's future liabilities.

For example, if the assumed future pension increase (or indexation) rate was increased by 1% pa with no change in other assumptions, then the Fund's Actuarial Value of Accrued Benefits would increase by 7.8% overall. This would translate to an increase of around $80.9 million in the Fund's Actuarial Value of Accrued Benefits as at 30 June 2021. The Fund's Vested Benefits would increase by 7.9% overall. This would translate to an increase of around $82 million in the Fund's Vested Benefits as at 30 June 2021.

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

Longevity risk

The risk that the pensioners will live longer than expected requiring more pension payments thereby increasing the pension liabilities of the Fund and requiring additional contributions from the Institutions.

For example, if all current and potential lifetime pensioners lived one year longer than currently assumed, with no change in other assumptions, then the Fund's Actuarial Value of Accrued Benefits would increase by 2.7% overall. This would translate to an increase of around $28.3 million in the Fund's Actuarial Value of Accrued Benefits as at 30 June 2021. The Fund's Vested Benefits as at 30 June 2021 have a similar change.

Now for example, if all current and potential lifetime pensioners lived five years longer than currently assumed, with no change in other assumptions, then the Fund's Actuarial Value of Accrued Benefits would increase by 13.2% overall. This would translate to an increase of around $137.6 million in the Fund's Actuarial Value of Accrued Benefits as at 30 June 2021. The Fund's Vested Benefits as at 30 June 2021 have a similar change.

Salary growth risk

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

For example, if the general salary increase rate were increased by 1% pa with no change in other assumptions, then the Fund's Actuarial Value of Accrued Benefits would increase by around $6.6 million as at 30 June 2021. This would translate to an increase of around 0.6% in the Fund's total Actuarial Value of Accrued Benefits, reflecting the membership profile of the remaining Defined Benefit Scheme active members. However, the Fund's Vested Benefits as at 30 June 2021 are not affected by a change in the future salary assumption.

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

Legislative risk

This risk is that the Commonwealth Government could make legislative changes that 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 Institutions and is a real risk in the post COVID-19 environment.

Benefit selection risk

The risk that the number of members, who have the option to choose a pension benefit, will choose the pension benefit in greater numbers than assumed in the actuarial investigation. A higher number of members choosing pensions than expected will increase the Fund's liabilities. Any difference will impact on the Fund's liabilities and the Institutions may need to increase contributions to finance such increases. This risk is borne by the Institutions.

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Insurance Risks

The insurance arrangements are underwritten by TAL Life Limited ("the insurer") and outlined in a policy dated 1 July 2012.

The purpose of the Fund's insurance policy is to protect against unexpectedly large payments on the death or disablement of Fund members who are Health Super Defined Benefit Scheme active section members.

The current group life insurance formula for Defined Benefit Scheme active members is designed so that the amount insured is approximately equal to the excess of their death benefit over their accrued retirement benefit. That is:

Sum insured = Death Benefit – Lump Sum Accrued Retirement Benefit

Based on the formula in use at the investigation date, the 'amount at risk' as at 30 June 2021 for the Fund with respect to Defined Benefit Scheme active members was as follows.

	As at 30 June 2021	Death ($m)	Disability ($m)
	Total Benefits	332.3	473.1
less	Sum Insured	49.5	49.5
less	Assets*	447.4	447.4
	Net amount at Risk	**(164.6)**	**(23.8)**

* Assets supporting Defined Benefit Scheme active members assuming deferred and lifetime pensioner liabilities are fully covered.

On disability Defined Benefit Scheme active section members under the age of 60 receive a lifetime pension with a spouse reversion. On death, only selected active section Defined Benefit Scheme members under the age of 60 are eligible for a spouse pension. The total value of disability benefits is higher than the value of death benefits, because of the higher value placed on pension benefits.

As at 30 June 2021, there was an insurance "surplus" of $23.8 million on Defined Benefit Scheme active members' total disability benefits. This result assumes that all active members become disabled at the same time. It is a relatively small amount of over-insurance and it is not at a level where I consider that a change to the current insurance formula is necessary.

I therefore confirm that the current group life insurance formula is appropriate and provides adequate protection for the Fund.

10

Prudential Standards

The prudential 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 plans. We have commented below on several requirements arising from SPS 160.

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 Fund’s Shortfall Limit, determined by the Trustee on the basis of previous actuarial advice, is 98%.

The Shortfall Limit is expressed as the coverage level of the defined benefits vested benefits by the defined benefit assets. It is appropriate to consider the following factors when determining if the Shortfall Limit remains appropriate:

- The guidance provided in the relevant Actuaries Institute Information Note;
- The investment strategy for defined benefit assets, particularly the benchmark exposure of 45% to “growth” assets; and
- The results of this investigation regarding the extent to which the current and projected 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 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 – or if the Trustee otherwise considers it appropriate to do so.

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 plan. If this monitoring process indicates that the 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 plan has breached its Shortfall Limit. The Restoration Plan must be designed to return the plan 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.

The Trustee should also continue to monitor the "Notifiable Events" specified in the Fund's Funding and Solvency Certificate and advise the Actuary should any actual or potential Notifiable Events occur.

Requirements due to Unsatisfactory Financial Position

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 plan:

- 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 plan 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 plan 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 indicated by the financial position and the projections, we consider that:

- The Fund is not in an unsatisfactory financial position; and
- The Fund is not likely to fall into an unsatisfactory financial position.

Hence the special requirements of SPS 160 for funds in an unsatisfactory financial position do not apply at this investigation.

Actuary's Reporting Requirements

Section 130 of the SIS Act requires that if an actuary forms the opinion that a plan'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 prudential regulator (APRA) in writing immediately. Note: an unsatisfactory financial position applies where assets are less than Vested Benefits.

These requirements do not currently apply as I am of the opinion that the Fund's financial position is not unsatisfactory (or about to become unsatisfactory).

Statements Required by SPS 160

(a) The value of the assets of the Health Super DB Fund ("the Fund"), a sub-fund of Aware Super, as at 30 June 2021 adopted for the purposes of the actuarial investigation was $1,143.2 million. This value excludes assets held to meet the Operational Risk Financial Requirement. This is also the value of assets used in determining the recommended Institution contribution rates.

(b) In my opinion, the value of the liabilities of the Fund in respect of Accrued Benefits of the Fund as at 30 June 2021 was $1,042.6 million. Hence, I consider that the value of the assets at 30 June 2021 is adequate to meet the value of the Accrued Benefits of the Fund as at 30 June 2021. Taking into account the circumstances of the Fund, the details of the membership and the assets, the benefit structure of the Fund and the industry within which the Fund operates, I consider that the assumptions and valuation methodology used are appropriate in relation to the determination of the Accrued Benefit liabilities for the purposes of this report. Further comments on the assumptions and valuation methodology are set out in Section 4 of this report. Assuming that the Institutions contribute in accordance with my recommendations, and based on the assumptions adopted for this actuarial investigation, I expect that the assets will remain sufficient to cover the value of liabilities in respect of Accrued Benefits during the period up to 30 June 2024.

(c) In my opinion, the value of the liabilities of the Fund in respect of Vested Benefits of the Fund as at 30 June 2021 was $1,043.8 million. Hence, I consider that the value of the assets at 30 June 2021 is adequate to meet the value of the Vested Benefit liabilities of the Fund as at 30 June 2021. Assuming that the Institutions contribute in accordance with my recommendations, and based on the assumptions made for this actuarial investigation, I expect that assets will remain sufficient to cover the value of Vested Benefit liabilities over the period to 30 June 2024. Hence, I consider that the financial position of the Fund should not be treated as unsatisfactory as defined in SPS 160.

(d) In my opinion, the value of the liabilities of the Fund in respect of the minimum benefits of active Fund members as at 30 June 2021 was $188.0 million. The asset available to support these liabilities was $447.4 million. Hence, the Fund was not technically insolvent at 30 June 2021.

(e) A projection of the likely future financial position of the Fund over the 3-year period following 30 June 2021, based on what I consider to be reasonable expectations for the Fund for the purpose of this projection, is set out in Section 7 of this report.

(f) Based on the results of this investigation, I consider that the Shortfall Limit does not require review. Comments are set out in Section 10 of this report

(g) In my opinion, there is a "high degree of probability" as at 30 June 2021 that the Fund will be able to meet the pension payments as required under the Fund's governing rules.

(h) In respect of the three-year period following 30 June 2021, I recommend that the Institutions continue to contribute to the Fund at the following rates for Health Super Defined Benefit Scheme active members:

Member Contribution Rate (% of Salary)	0%	3%	4%	6%
Institution Contribution Rate (% of Salary)	1%	6%	6%	10%

(i) The Fund is used for Superannuation Guarantee purposes:

- 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 30 June 2021; and
- I expect to be able to certify the solvency of the Fund in any Funding and Solvency Certificate that may be required in the three year period from 30 June 2021.

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Actuarial Certification

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

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

The Fund's future financial position and the recommended Institution contributions depend on a number of factors, including the amount of benefits the Fund pays, the cause and timing of member withdrawals, Fund 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 valuation 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 simple scenario are included in this report.

However, the future is uncertain and the Fund'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. For this reason, this report shows the impact on the Fund's financial position if alternative assumptions were to be adopted.

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

Because actual Fund experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts and 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 valuation results.

Additional information

As the Fund has pensioners, the SIS legislation requires annual actuarial investigations of the Fund. The next **actuarial investigation** is required at a date no later than 30 June 2022.

The next **Funding and Solvency Certificate** is required at least 12 months before the expiry of the current Funding and Solvency Certificate (which expires on 30 June 2024).

The next **Benefit Certificate** is required following the expiry of the current Benefit Certificate (which expires 30 June 2023). It is required primarily by the Institutions to demonstrate compliance with its Superannuation Guarantee obligations to employees who are Fund members. The current Benefit Certificate is designed to accommodate changes to the legislated Superannuation Guarantee schedule.

Conflicts

This investigation has been undertaken by Timothy Simon Jenkins, FIAA of Mercer Consulting (Australia) Pty Ltd as actuary to the Fund. A related entity, Mercer Administration Services (Australia) Pty Ltd, is the Fund Administrator. In my view, there is no conflict of interest in Mercer Consulting (Australia) undertaking this investigation. The purpose of the actuarial investigation is not to audit the Fund Administrator or the Fund's administration membership records. Data shortcomings identified in the course of carrying out this work have been brought to the attention of Fund management.

Further information

Please contact me to provide any supplementary information or explanations about this actuarial investigation as may be required.

Prepared by

Timothy Simon Jenkins
Fellow of the Institute of Actuaries of Australia

30 August 2021

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

Richard Boyfield
Fellow of the Institute of Actuaries of Australia

Appendix A

Fund Design

Summary of benefits

A simplified 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.

Eligibility

Closed to new members since 1 January 1994.

Members' Contributions (% of salary)

Members can elect to contribute at 0%, 3% or 4% of salary.

Members who were contributing 3.5% and 6% of salary at 31 December 1993 may continue to do so.

Accrual Rate (from 1 July 2004)

Defined benefit accrual rates vary as follows:

Member Contribution Rate	0%	3%	4%	6%
Accrual Rate	0%	3%	4.5%	10%

Average Final Fund Salary (AFFS)

This is the average of a member's aggregate salary earned over the preceding two years of service.

A minimum dollar value (equal to the member's salary at 1 January 1994) also applies.

Normal/Early Retirement Age

65/55

(Accrued) Retirement Benefit

The benefit is a lump sum equal to the member's accrued retirement benefit. This is calculated as a multiple of AFFS. Maximum multiples of 7.2 and 8.0 apply for members of Divisions C and D respectively.

Death Benefit

For a member aged below 60, the death benefit is calculated as the projected accrued retirement benefit at age 60, assuming that:

- AFFS remains unchanged
- The member's contribution rate for the period between the date of death and age 60 is 4% of salary (or 6% for members currently contributing at that rate).

For a member aged over 60, the death benefit is equal to the member's accrued retirement benefit.

A minimum dollar death benefit (equal to the member's benefit at 31 December 1993) also applies.

Disability Benefit

For a member aged below 60, the disability benefit is an annual pension equal to 1/12 of the death benefit. Pensions are indexed annually based on changes in CPI. On turning 65, these disability pensioners can elect to cease receiving the disability pension and to receive instead a lump sum benefit.

For a member aged over 60, the disability benefit is a lump sum equal to the accrued retirement benefit.

Resignation Benefit	The resignation benefit consists of two components: • Immediate Cash Benefit This is a lump sum equal to the sum of the annual contribution rates paid by a member during their period of membership, multiplied by AFFS. Referred to as “adjusted member contributions”. • Deferred Benefit Given all members have more than 5 years’ service, a deferred benefit is also payable. This is calculated as the excess of the member’s accrued retirement benefit over the member’s adjusted member contributions, multiplied by a vesting factor. The vesting factor was 5% for each year of service in excess of 5 years with a maximum of 100%. All members now have in excess of 25 years’ service and so have a 100% vesting factor. The deferred benefit may be retained in the Fund and if so becomes payable on retirement after age 55, or upon death or disablement. Deferred benefits are indexed to CPI. However, members may instead choose to transfer their deferred benefit to another section of Aware Super or to another superannuation fund. On transfer, the deferred benefit is discounted by 4% p.a. for each year remaining to age 55.
Division D (members who joined prior to 1 July 1988)	Division D members are members of the Old Scheme (i.e. members who joined the Fund prior to 1 July 1988) are entitled to certain guaranteed benefit options. Further details are set out in the Fund’s Trust Deed.
Pension Scheme Contributors	Pension Scheme Contributors as defined by the Fund’s Trust Deed can elect to receive pension benefits in lieu of lump sum benefits or in combination with lump sum benefits.

The Superannuation Guarantee (Administration) Act 1992

All benefits are subject to a minimum Superannuation Guarantee benefit, known as the Minimum Requisite Benefit, which is described in the Fund’s Benefit Certificate. The Superannuation Guarantee (Administration) Act 1992 requires Institutions to provide fully vested minimum superannuation benefits to their employees within a complying superannuation fund.

The Defined Benefit Scheme active members receive Institutions’ Superannuation Guarantee (SG) contributions (under current legislation the SG rate is 10% at 1 July 2021 and it will increase by 0.5% pa until it reaches 12% from 1 July 2025) to accumulation accounts external to the Fund. Therefore, the prospective SG rate increases are not expected to have an impact on the Fund or increase the cost of providing the defined benefits, assuming there is no benefit design change.

The Minimum Requisite Benefit within the Defined Benefit Scheme for the active members consists of the Adjusted Member Contributions and some pre-1992 benefit components, as defined in the Fund’s Benefit Certificate.

Appendix B

Data

Data provisions

To prepare this report, I have relied on financial and participant data provided by the Fund Administrator on behalf of the Trustee. The data used is summarised in this report. I have reviewed the financial and participant data for internal consistency and general reasonableness and, following some amendments, believe it is suitable for the purpose of this report. I have not verified or audited any of the data or information provided.

I have also relied upon the documents, including amendments, governing the Fund as provided by the Trustee. The Trustee is ultimately responsible for the validity, accuracy and comprehensiveness of this information. If the data or Fund provisions are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a revision of this report.

For the purposes of this investigation, the Trustee provided the following:

1. Data for all persons who were active or deferred members of the Defined Benefit Scheme or pensioners in the Lifetime Pension section of the Fund at any time during the period from 31 March 2020 to 31 March 2021;
2. Details of rates of indexation applied to Lifetime Pension and deferred defined benefit balances;
3. An estimate of the net of tax investment earnings of the Fund assets for the year to 30 June 2021; and
4. The net value of Fund assets as at 31 March 2021.

Members' account balances, defined benefit multiples and pension amounts were appropriately adjusted for the period from 31 March 2021 to 30 June 2021.

As per prior years', the salary and AFFS data provided by the administrator as at 31 March 2021 appeared to have significant problems. This is not unexpected and relates to the salary and service fraction data being advised by the Institutions each fortnight/month rather than any problem with the way the data queries were run.

We were provided with salaries as at 30 June 2020 and a complete salary and service fraction history over the 2 years to 31 March 2021 for each active member. We used the history to estimate a projected salary as at 30 June 2021. Our analysis indicates:

- Actual salaries as at 30 June 2020 were around 0.5% higher on average than the salaries we adopted for the 30 June 2020 actuarial investigation.
- 82% of active members had a "reasonable" movement when comparing the 30 June 2020 salary provided with our calculated 30 June 2021 salary. We have defined "reasonable" to be a movement between -2% and +25%.
- 18% of active members had a salary movement since 2020 which was less than -2%.
- The average salary change for members with "reasonable" salary movements was 3.6%.

We have calculated a 30 June 2021 salary for those with unreasonable movements based on the 30 June 2020 salary provided in this year's data increased by 3.6%.

Appendix C

Calculation of the Actuarial Value of Accrued Benefits

Methodology of Calculating the Actuarial Value of Accrued Benefits

I have calculated the Actuarial Value of Accrued Benefits 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 AASB 1056 purposes.

Defined Benefits

The past membership components of all defined benefits payable in the future from the Fund 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 at the investigation date
Death and Disablement:	calculated by adjusting the total expected benefit in proportion to the accrued benefit multiple at the investigation date divided by the accrued benefit multiple at the projected date of death or disablement
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
Deferred:	based on actual accruals to the date of investigation, with progressive vesting for active members

The expected average term of the Fund's liabilities in respect of the Defined Benefit Scheme (active and deferred sections) is approximately 4 years.

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.

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