Mercer

Report to the Trustee on the Actuarial Investigation as at 30 June 2023

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

14 August 2023

welcome to brighter

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Key Results and Recommendations

I have prepared this report for Aware Super Pty Ltd, as Trustee of the Health Super DB Fund (the Fund), a sub-fund of Aware Super. The Fund is closed to new members.

This report sets out the results of the actuarial investigation of the Fund as at 30 June 2023. It covers members in the Fund's two divisions – the Health Super Defined Benefit Scheme (the Defined Benefit Scheme) and the Health Super Lifetime Pensions Scheme (the Lifetime Pensions Scheme) – and does not consider other sections of Aware Super.

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

Change in Financial Position

I set out below a summary of the Fund's financial position as at 30 June 2023 and at the date of the previous actuarial investigation:

Health Super DB Fund	As at 30 June 2023		As at 30 June 2022	
	$m	Asset Coverage	$m	Asset Coverage
Assets	1,071.7*		1,060.9*	
Vested Benefits	1,005.4	106.6%	965.1	109.9%
Actuarial Value of Accrued Benefits	1,004.3	106.7%	959.1	110.6%

* 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 2023 as the value of Fund assets exceeds total Vested Benefits. The Fund's asset coverage of Vested Benefits is also above the financing objective of 100%.

Fund assets are in excess of the Fund's Vested Benefits by $66.2 million as at 30 June 2023, $29.6 million less than the excess of assets over the Fund's Vested Benefits as at 30 June 2022.

The change in the Fund's financial position reflects the Fund's actual experience in the year, the 31 July 2023 annuity buy-in of the existing pensioner members in the Lifetime Pensions Scheme and changes to the assumptions I have used to calculate the value of Fund liabilities. These are detailed below.

Annuity Buy-in

The Trustee purchased an annuity policy from Challenger Life effective as at 31 July 2023 in respect of the existing Lifetime Pension Scheme member liabilities. As a result of this buy-in I have made changes to the assumptions and methodology as discussed further below.

As these liabilities are now matched by the annuity policy I have set out below a summary of the Fund's financial position as at 30 June 2023 excluding the existing Lifetime Pension Scheme members.

Health Super DB Fund	As at 30 June 2023	
	$m	Asset Coverage
Assets	405.5*	
Vested Benefits	339.2	119.5%
Actuarial Value of Accrued Benefits	338.2	119.9%

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

The Fund's Assets and Vested Benefits figures reported to APRA on a quarterly basis should in the future be based on the above liabilities excluding the existing Lifetime Pension Scheme member benefits, with the value of the Challenger Life annuity policy as reported by Challenger Life each quarter then added to these net Assets and Vested Benefits figures.

All figures shown in the remainder of this report are inclusive of the Lifetime Pension Scheme assets and liabilities unless otherwise stated.

Experience

Item	Assumed at previous investigation	Fund experience	Comment on effect
Investment returns	4.0% pa* / 5.0% pa**	4.1% / 4.7%	**Small negative** – investments grew at a rate lower than assumed
Average Final Fund Salary (AFFS) increases	4.0% pa	3.5% pa^	**Small positive** – benefit liabilities grew less rapidly than expected for active Defined Benefit Scheme members
Pension indexation rate	5.0% for 2022/23	7.8% pa	**Negative –** pensions and deferred benefits increased at a rate higher 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.

The overall impact of the Fund's experience in the year to 30 June 2023 was to reduce the asset surplus over Vested Benefits by $8.6 million.

Assumptions and Methodology

I have made changes in the assumptions adopted to value Fund liabilities from those used in the previous investigation. These reflect changes to the economic environment since 30 June 2022 and take into account the 31 July 2023 annuity buy-in of the existing Lifetime Pension Scheme members. The overall impact of the changes in assumptions was to increase the Vested Benefits by $60.5 million, and increase the Actuarial Value of Accrued Benefits by $63.0 million.

Furthermore, to account for the 31 July 2023 annuity buy-in, I have adjusted the total Fund assets by deducting the Challenger Life premium amount from the assets, and then adding back the value of liabilities in respect of the existing Lifetime Pension Scheme members. The difference between the two amounts increased the asset surplus by $39.5 million.

The overall impact of these changes in assumptions and methodology was to reduce the asset surplus over Vested Benefits by $21.0 million.

Recommended Contribution Rates and Projections

At 30 June 2023, the Fund was in a satisfactory financial position. Currently the Institutions are recommended 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%

As the liabilities in respect of existing members in the Lifetime Pensions Scheme at 31 July 2023 are expected to be 100% covered by Challenger Life (who bears all funding risks for these members) after the annuity buy-in on 31 July 2023, there is no need to include a margin in the future when funding these liabilities. Accordingly, the Trustee can focus on asset coverage of Vested Benefits excluding the existing Lifetime Pensions Scheme members. This asset coverage is 119.5% which is well above the Fund's financing objective of 100%.

This level of asset coverage should allow a reduction to the Institutions' future contribution rates. However, given the implementation of the Challenger Life annuity policy is still very recent, I recommend the Institutions continue to contribute at the current rates until 30 June 2024 while the impact of the buy-in on the Fund is more fully assessed. Subject to no material adverse assessment, I recommend that the Institutions then cease contributing to the Fund from 1 July 2024.

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;
- The Fund's updated investment strategy;
- The actuarial assumptions adopted for this investigation; and
- Allowing for future Defined Benefit Scheme member movements into the deferred and lifetime pension sections at the rates assumed for this investigation (see Section 4 for details of membership movement assumptions).

I project the 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). This means that it is unlikely that the Institutions will be required to contribute to the Fund again in the future unless experience is much worse than anticipated.

Risks

My projection reflects 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, as Fund Actuary, I review the coverage ratios at least once every year, and the Trustee reviews them quarterly on an approximate basis. 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 that 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, inflation, longevity and counterparty risks.

Other Findings and Recommendations

Investment policy and liquidity

I confirm that the Fund's investment policy as amended in 2023 is appropriate (refer to Section 5). The expected average term of the Fund's liabilities is approximately 4 years in respect of the Defined Benefit Scheme (active and deferred sections) and approximately 10 years in respect of existing members in the Lifetime Pensions Scheme (noting these liabilities are matched by the Challenger Life annuity policy). While a proportion of Defined Benefit Scheme 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. The Trustee's investment policy ensures that the Fund's investments have a suitable level of liquidity to meet projected benefit payments.

Crediting policy

Fund benefits are not generally linked to the Fund earning rate. Based on a review of the main features (refer to Section 5), I consider that the crediting rate approach adopted is broadly 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). However, it should be reviewed to accommodate the impact of the annuity policy with Challenger Life.

Insurance

The Trustee insures the death and disability benefits of Defined Benefit Scheme active members. At 30 June 2023 there was an insurance "surplus" of $19.3 million on their total disability benefits were all active Fund members to become disabled at the same time. This indicates a relatively small amount of over-insurance but not at a level where I consider a change is necessary to the current insurance formula. 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

I consider that the Fund’s Shortfall Limit of 100% (for the purposes of SPS 160) as adopted earlier in 2023 in anticipation of the annuity buy-in remains suitable. Refer to Section 10 for further details.

Funding and Solvency Certificate

The Fund’s Funding and Solvency Certificate will need to be reissued before 1 July 2024 should the Trustee adopt my recommendation that the Institutions commence a contribution holiday from that date.

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 share this report with the Institutions who contribute to the Fund and obtain their formal agreement that they will contribute to the Fund in accordance with the contribution recommendations in this report. However, only the Fund’s Trustee may rely on this report and Mercer is not responsible for the consequences of any other use. The Institutions may consider obtaining separate actuarial advice on the recommendations contained in the report.

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Introduction

Fund Background

The Fund is a sub-fund of Aware Super and is closed to new members. Aware Super is a resident regulated fund and a complying fund for the purposes of the Superannuation Industry (Supervision) Act 1993 (the SIS Act). The Fund's Trustee, 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.

I have prepared this report 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.

I conducted the previous actuarial investigation as at 30 June 2022 on behalf of Mercer, and the results are contained in my report dated 17 August 2022.

My advice and recommendations contained in this report are in the context of Australian law and practice. I have made no allowance for taxation, accountancy or other requirements in any other country.

Purpose

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

- To present the results of an actuarial investigation of the Fund as at 30 June 2023, taking into account the annuity buy-in relating to existing members in the Lifetime Pension Scheme members at 31 July 2023;
- To review Fund experience for the period since the previous actuarial investigation as at 30 June 2022;
- 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 APRA Superannuation Prudential Standard SPS 160, and the Trustee's Defined Benefit Matters Policy; and
- To meet legislative requirements under relevant Commonwealth superannuation legislation.

Significant events since the investigation date

Other than the annuity buy-in effective as at 31 July 2023 which I have taken account of in this investigation, I am unaware of any significant events that have occurred since 30 June 2023 that would have a material impact on the recommendations in this report.

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Experience since the Last Review

Membership

Fund membership as at 30 June 2023 is as follows:

Member Class	30 June 2023 Member Count	Total Average Final Fund Salary (Full Time Equivalent) / Total Pension
Defined Benefit Scheme Active	937	$111,439,000
Defined Benefit Scheme Deferred	1,526	N/A
Lifetime Pensions Scheme	2,976	$47,896,000

Fund membership has decreased by 6% since 30 June 2022, when membership by Fund category was as follows:

Member Class	30 June 2022 Member Count	Total Average Final Fund Salary (Full Time Equivalent) / Total Pension
Defined Benefit Scheme Active	1,093	$124,722,000
Defined Benefit Scheme Deferred	1,631	N/A
Lifetime Pensions Scheme	3,050	$44,963,000

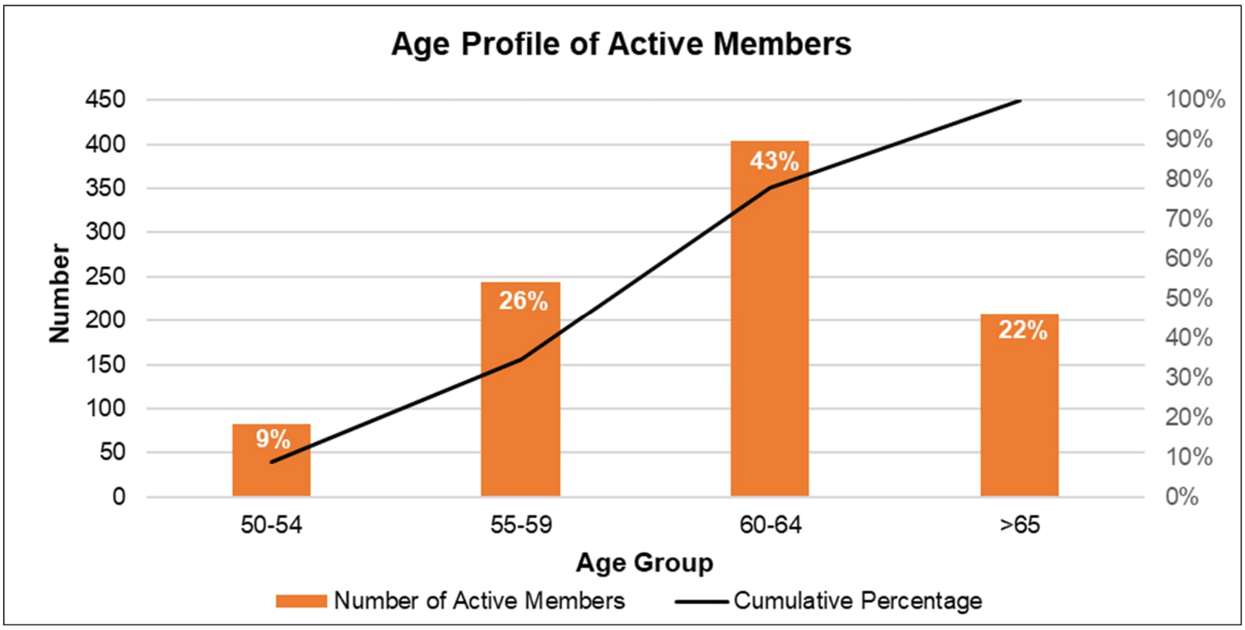
Defined Benefit Scheme – active membership

A summary of the Defined Benefit Scheme active membership by member contribution rate as at 30 June 2023 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)
50-54	16	1,910.1	18	1,967.6	12	1,539.9	36	3,844.2
55-59	43	6,210.8	42	4,786.8	28	3,177.7	131	14,375.3
60-64	27	3,431.4	66	7,396.9	56	6,524.5	254	30,807.1
>65	187	25,283.8	5	401.6	2	585.4	14	1,423.2
Totals	**273**	**36,836.1**	**131**	**14,552.9**	**98**	**11,827.5**	**435**	**50,449.8**

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

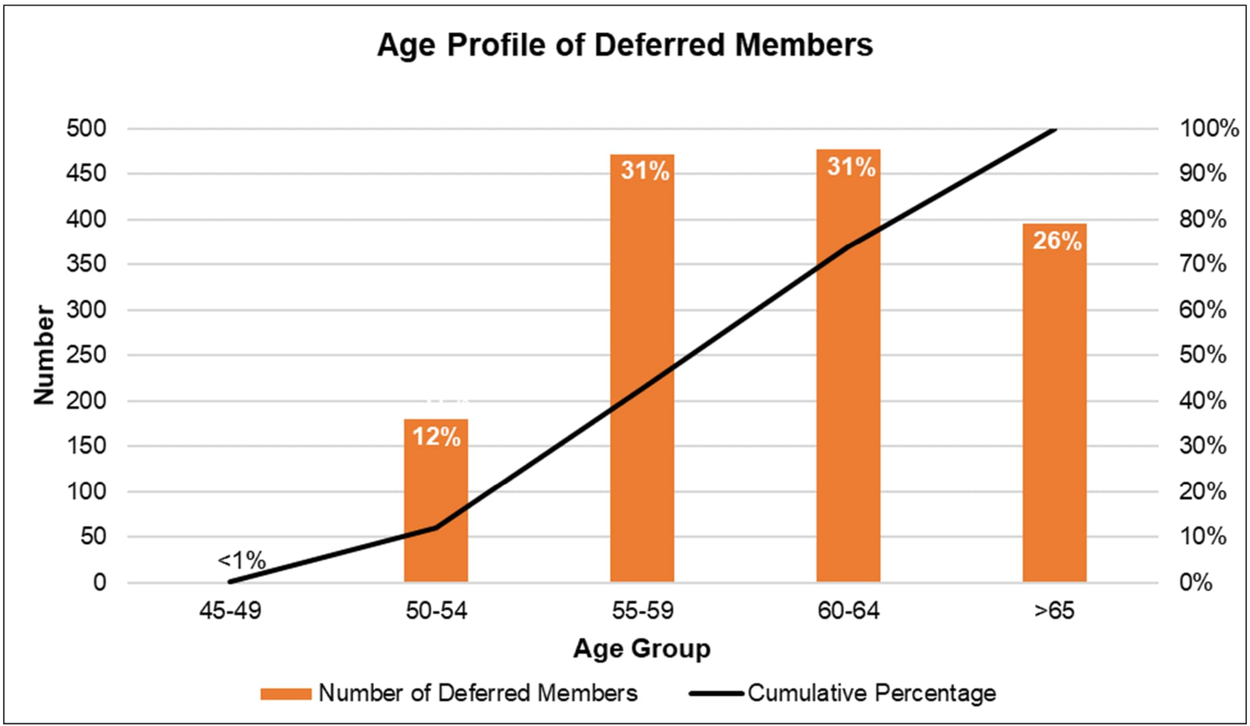
The Defined Benefit Scheme active membership as at 30 June 2023 by age group is as follows:



As shown in the graph, 91% of the Defined Benefit Scheme active membership is aged 55 or over and is therefore eligible for retirement as at 30 June 2023. This compares to 89% of the membership as at 30 June 2022. All active members will be over age 55 in five years' time and so eligible for retirement.

Defined Benefit Scheme – deferred membership

The Defined Benefit Scheme deferred membership as at 30 June 2023 by age group is as follows:



As shown in the graph, 88% of the Defined Benefit Scheme deferred membership is aged 55 or over and is therefore eligible for retirement benefits as at 30 June 2023. This compares to 83% of the membership as at 30 June 2022. Virtually all deferred section members will be aged 55 or over in five years' time and so eligible for retirement benefits.

Lifetime Pensions Scheme

Details of the pensioners in this section as at 30 June 2023 are set out below. The average age of the pensioners has increased to 78.9 years old from 78.6 years old as at 30 June 2022.

Pension Type	Number of Pensioners	Average Age	Annual Pension $000
Retirement	2,067	77.8	38,462
Spouse	460	85.0	4,307
Disablement	449	77.8	5,127
Child	0	N/A	N/A
Total	**2,976**	**78.9**	**47,896**

Investment Returns

For the 30 June 2022 investigation, I assumed that investment returns would average 4.0% per annum (net of tax and investment fees) on non-pension assets and 5.0% per annum (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 4.1% over the year to 30 June 2023. Assuming an effective tax rate of 13% the return on pension assets would have been around 4.7%.

The overall lower than assumed investment returns have had a small negative impact on the Fund's financial position.

Salary Increases

For the 2022 investigation, I assumed that salary increases would be 4.0% per annum with no adjustment for promotional increases.

As in prior years, the salary and AFFS data provided by the Fund Administrator indicates significant variability year-on-year for some active members. This is to be expected and relates to the movement in salary and service fraction data advised by the Institutions each fortnight/month. As a result, I used an AFFS based on active members' 2022 salary increased at 4.1% for 21% of active members (refer to Appendix B for further details). Based on the revised data, over the 12 months to 30 June 2023:

- Average salary increases were 3.4% and average AFFS increases 3.3%;
- Weighting the salary increases by members' liabilities, the average salary and AFFS increases were 3.8% and 3.5% respectively.

As the liability-weighted average AFFS increases were 3.5% and therefore lower than the 4.0% expected, this had a small positive 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. These contribution rates slightly exceed the long-term rates required to fund the accrual of defined benefits and have 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).

For the 30 June 2022 actuarial investigation, I assumed that the indexation rate would be 5.0% for the 2022/23 year. As the actual indexation rate of 7.8% was more than expected, this had a negative impact on the Fund's financial position.

Recall allowance rectification impact

The Trustee reviewed historical benefit payments for some members to allow for inclusion of a recall allowance in the calculation of members' AFFS. The rectification was fully resolved during the 2022/23 year. As the recall allowance issue was already allowed for in the 30 June 2022 actuarial investigation, it has had no impact on the change in the Fund's financial position over the 2022/23 year.

Impact of the experience on the financial position

The main experience items affecting the Fund's financial position during the period from 30 June 2022 to 30 June 2023 and their impact on the coverage of Vested Benefits were as follows:

- The Fund's actual investment return being slightly lower than assumed (estimated negative impact of $1.4m);
- The actual pension indexation being higher than assumed (estimated negative impact of $17.2m);
- The average benefit weighted AFFS increase being slightly lower than assumed (estimated positive impact of $1.5m); and
- Institutions paid contributions at rates slightly higher than the long-term cost (estimated positive impact of $2.1m).

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.

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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	
Discount Rate	
Lump sum benefits (after tax and fees)	3.4% pa
Pension benefits (after fees and 0% tax but including refund of imputation credits)	4.25% pa
General salary increases	4.0% pa
Lifetime Pension and deferred benefit increases	4.5% for the first year; 3.5% for the second year; 2.5% pa thereafter.

I considered the following when setting these assumptions:

- The discount rate for assets supporting active and deferred lump sum benefits is based on the expected long-term investment returns for the Fund's current benchmark investment mix, taking into account Mercer's assumptions of the means and standard deviations of net returns (after tax and investment expenses) from the various underlying asset classes and the correlations of returns between those asset classes.
- The discount rate for assets supporting active and deferred lump sum benefits is net of investment tax and investment fees. It assumes that these assets have an average 5-year investment horizon.
- The discount rate adopted for assets backing pension liabilities is based on the expected investment return for the Mercer Australian Inflation Plus Fund investment option, as we reasonably believe this investment option's objective of CPI+1% is similar to Challenger Life's investment objective. The discount rate 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.

Other assumptions

The assumptions set out below are the same as adopted in the 30 June 2022 actuarial investigation unless otherwise stated.

New members

The Fund is closed to new members. Therefore, I have assumed that no new members join the Defined Benefit Scheme in the future.

Expenses

I have assumed administration expenses at a fixed dollar amount of $1.3 million per annum to reflect current actual administration fees arrangements as advised by Aware Super. I further note that the Trustee may want to review these expenses to accommodate the additional operation of the Challenger Life annuity policy, but for the purposes of this investigation I have assumed they remain at $1.3 million per annum with no indexation. The assumed administration expenses at the 30 June 2022 actuarial investigation was a fixed dollar amount of $1.4 million per annum with no indexation.

Tax

All future Institution 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.

Proportions married

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

Spouse ages

I have assumed that husbands are three years older than wives where reversionary benefits apply.

Medical classifications (death and disablement benefits)

I have assumed that all members are entitled to standard death and disablement benefits.

Defined Benefit Scheme - active members

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

Transfer of deferred benefits

I have assumed that 10% 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

Nil. I consider that a separate allowance for promotional increases is not necessary given the current age and service of the active membership profile.

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 assumed early retirement rates are:

Age Last Birthday	Assumed Rates of Early Retirement
55	3%
56	3%
57	3%
58	4%
59	4%
60	8%
61	8%
62	8%
63	8%
64	15%
65	100%

Retrenchment

Due to the nature of retrenchments, it is difficult to predict the number of retrenchments that may occur. Therefore, I have assumed no retrenchments by the Institutions.

Defined Benefit Scheme - deferred members

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

Transfer of deferred benefits

I assumed that 1% of deferred members 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 assumed early retirement rates are:

Age Last Birthday	Assumed Rates of Early Retirement
55	15%
56	7%
57	5%
58	5%
59	5%
60	10%
61	9%
62	8%
63	8%
64	8%
65	100%

Benefit option selection for Option 3 members

I have assumed that 75% of Option 3 members take a lump sum plus pension (Old Scheme Benefit) and 25% take a lump sum only.

Lifetime Pensions Scheme

Death

The following pensioner mortality assumptions, based on the current standard Mercer pensioner mortality rates, have been made in respect of pensioners in the Lifetime Pension Section:

Primary Pensioners	Mercer Standard Retiree Pensioner Mortality Rates 2012-2017, which is based on a study on pensioners in Australia's major public sector plans
Spouse Pensioners	90% of Australian Life Tables 2015-17
Disablement Pensioners	Australian Life Tables 2015-17
Mortality improvements	The above mortality rates are adjusted on a member by member basis to allow for mortality improvements based on the 25-year improvement factors from Australian Life Tables 2015-17

The mortality rates (before adjustments for mortality improvements) assumed at this actuarial investigation are set out below:

Age Last	Primary Pensioners		Disablement Pensioners		Spouse Pensioners	
	Male	**Female**	**Male**	**Female**	**Male**	**Female**
55	0.214%	0.129%	0.429%	0.259%	0.386%	0.233%
60	0.259%	0.175%	0.652%	0.374%	0.587%	0.337%
65	0.410%	0.281%	0.967%	0.566%	0.870%	0.510%
70	0.794%	0.552%	1.547%	0.956%	1.392%	0.860%
75	1.526%	1.068%	2.631%	1.676%	2.368%	1.508%
80	3.268%	2.262%	4.694%	3.160%	4.224%	2.844%
85	7.026%	4.911%	8.677%	6.279%	7.809%	5.651%
90	13.584%	10.821%	15.193%	12.208%	13.674%	10.987%
95	23.199%	17.923%	22.422%	20.422%	20.180%	18.380%
100	34.416%	27.751%	30.273%	30.832%	27.246%	27.748%
105	46.984%	37.894%	38.222%	42.406%	34.400%	38.166%
110	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%

Note: the primary pensioner mortality rates at extremely high ages (95 plus) reflect the very small data sets at these ages. They have not been smoothed into the Australian Life Table 2015-17 rates as the impact on the valuation of liabilities is not significant.

The mortality improvements assumed at this actuarial investigation are set out below:

Mortality Improvements					
Age Last	**Male**	**Female**	**Age Last**	**Male**	**Female**
55	2.05%	1.80%	85	1.61%	1.45%
60	2.55%	2.16%	90	0.89%	0.80%
65	2.97%	2.43%	95	0.52%	0.34%
70	2.99%	2.40%	100	0.08%	0.00%
75	2.77%	2.33%	105	0.00%	0.00%
80	2.35%	2.03%	110	0.00%	0.00%

Commutation Factors

The Trustee uses commutation factors to convert pension entitlements into lump sums upon request by current pensioners. This will not affect the Fund's Vested Benefits and Actuarial Value of Accrued Benefits in this investigation, as I have calculated both without reference to the commutation factors.

Impact of the changes in assumptions

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

Assumption	Investigation at 30 June 2022	Investigation at 30 June 2023	Reason for change
Investment return	4.0% pa lump sum; 5.0% pa pension	3.4% pa lump sum; 4.25% pa pension	Updated to reflect investment strategy changes and annuity buy-in, and current investment market outlook
Pension indexation	5.0% 1st year; 3.0% pa 2nd/3rd years; 2.5% pa thereafter	4.5% 1st year; 3.5% 2nd year; 2.5% pa thereafter	Updated to reflect current inflation expectations
Expenses	$1.4m pa	$1.3m pa	Updated to reflect actual arrangements

The overall impact of the changes in assumptions was to increase the Vested Benefits by $60.5 million, and increase the Actuarial Value of Accrued Benefits by $63.0 million.

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Assets

Market Value

The Fund Administrator advised on 14 May 2023 that the net value of the Fund assets as at 31 March 2023 was $1,054.1 million. 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 2023 to 30 June 2023 by allowing for known benefit payables, actual contributions, pension payments, expenses, contribution tax and investment earnings (at -1.6%, based on changes in unit prices provided by the Trustee). I have also increased the assets by an estimated pension tax exemption adjustment for 2022/23 of $4.2 million.

To account for the annuity buy-in, I have further adjusted the total Fund assets by deducting the Challenger Life premium quote as at 28 June 2023 of $626.7 million from the assets above, and then adding back the value of liabilities in respect of existing members in the Lifetime Pension Scheme of $666.2 million. The difference between the two amounts increased the asset surplus by $39.5 million. This adjustment means that the pensioner assets and liabilities are assumed to be exactly matched for those pensioners covered by the annuity policy.

Note that in a letter of 7 August 2023, Challenger Life has confirmed to Aware Super that the value of the annuity policy is estimated to be $667.2 million as at 30 June 2023, which is very close to the value I have placed on these liabilities of $666.2 million.

The adjusted total Fund assets adopted for the purposes of the 30 June 2023 actuarial investigation is $1,071.7 million as set out below:

	$m
Net Assets as at 31 March 2023	1,054.1
Due and unpaid benefits at 31 March 2023	-
Cash flow assumed for June 2023 quarter	(8.9)
Investment earnings assumed for June 2023 quarter	(17.2)
Pension tax exemption for 2022/23 (estimate)	4.2
Challenger Life premium (quote as at 28 June 2023)	(626.7)
Net Assets (excluding current Lifetime Pensioners) as at 30 June 2023	**405.5**
Value of current Lifetime Pension Scheme liabilities	666.2
Net Assets (including current Lifetime Pensioners) as at 30 June 2023	**1,071.7**

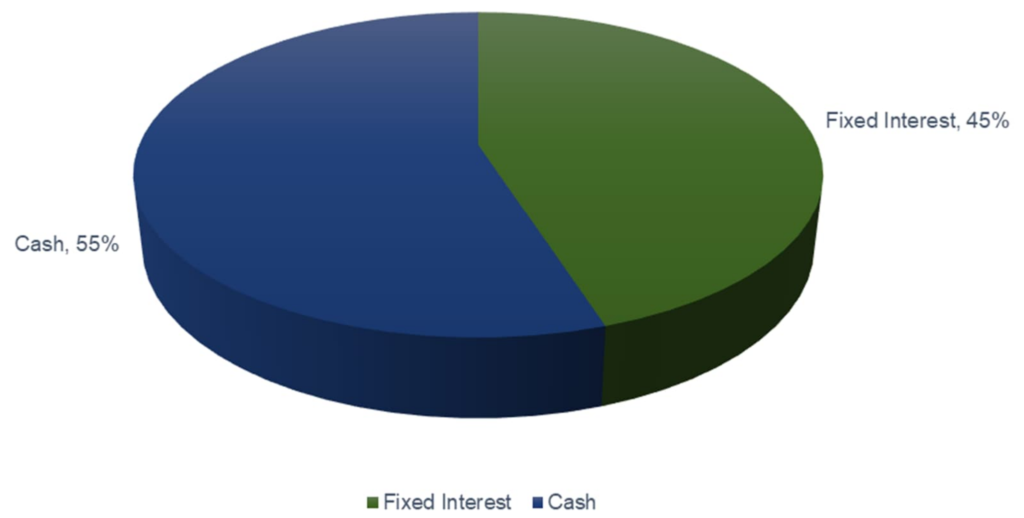
Investment Policy

I have reviewed the Fund's investment policy as amended in 2023 in light of the annuity buy-in, 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;
   - Reduce the volatility of the required Institutions' contribution rate; and
   - Generate sufficient liquidity to provide for the cash flow requirements of the Fund.

The Fund's investment strategy for assets supporting defined benefit liabilities has been amended in 2023 to a benchmark exposure of 100% of assets in 'defensive' investments such as cash and bonds. The benchmark asset allocations in respect of the Fund assets are as follows:

Defined Benefit Benchmark Asset Allocation as at 30 June 2023



The expected average term of the Fund's liabilities in respect of the Defined Benefit Scheme active and deferred membership is around 4 years (and around 10 years in respect of existing members in the Lifetime Pensions Scheme noting these are matched by the Challenger Life annuity policy). Over the long term, while 'defensive' assets are not expected to earn higher returns than 'growth' assets, these returns are expected to show less variation from year to year. As such, the Fund is expected to benefit by investing in 'defensive' assets for assets supporting the Defined Benefit Scheme active and deferred membership (which are not matched by the Challenger Life annuity policy) which is expected to result in a lower degree of volatility from year to year and therefore have a lower impact on the financial position of the Fund and the required level of Institution contributions.

The Fund's investments are expected to provide a high level of liquidity in normal circumstances.

I confirm that the Fund's investment policy as updated in 2023 is appropriate.

Crediting Rate Policy

Old Scheme Contributor's Member 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. 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 that may have a significant impact on the Fund (i.e. a market shock or sudden downturn in investment markets). However, the crediting rate policy should be reviewed to accommodate the impact of the annuity policy with Challenger Life.

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The Actuarial Approach

Financing Objective

The financing objective adopted for the previous investigation of the Fund as at 30 June 2022 was to target a funding range of between 100% and 110% assets coverage of Vested Benefits in respect of members in the Defined Benefit Scheme and the Lifetime Pensions Scheme.

As the liabilities in respect of members in the Lifetime Pensions Scheme at 31 July 2023 are 100% covered by Challenger Life after the annuity buy-in on 31 July 2023, the financing objective should therefore be set to target a funding range in respect of liabilities in the Defined Benefit Scheme only (i.e. active and deferred members only), and any Lifetime Pensions Scheme members not covered by the Challenger Life policy.

Most of the Defined Benefit Scheme's liabilities are not linked to the returns on the underlying assets. A margin in excess of 100% coverage of the Defined Benefit Scheme's Vested Benefits is therefore desirable to provide some security against adverse experience such as poor investment returns or higher than expected salary increases.

Given the number of Institutions contributing to the Fund, it is desirable to have 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 Defined Benefit Scheme (i.e. active and deferred members only).

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 1.21.4 (a)) which includes ensuring an actuarial investigation of the Fund is conducted when required by legislation. Accordingly, given the requirements of APRA Superannuation Prudential Standard SPS 160, 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 are determined. The Fund's target financing objective is detailed above. 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.

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Financial Position of the Fund

Funding status

I have used the following measures of benefit liabilities 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.

I estimate the total Vested Benefits of the Fund as at 30 June 2023 to be $1,005.4 million. The Vested Benefits attributed to the various sections of the Fund are as follows:

	30 June 2022 ($m)
Lifetime Pensions Scheme	666.2
Defined Benefit Scheme – active members	281.8
Defined Benefit Scheme – deferred members	57.4
Total	**1,005.4**

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. I have calculated these benefits 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.

As all active members will be eligible for retirement in the next five years, and the benefit applicable on early retirement for Fund members will often exceed the Actuarial Value of Accrued Benefits, the coverage of Vested Benefits is a more important indicator of the financial strength of the Fund.

I calculate the Actuarial Value of Accrued Benefits of the Fund as at 30 June 2023 to be $1,004.3 million. The Actuarial Value of Accrued Benefits attributed to the various sections of the Fund are as follows:

	30 June 2022 ($m)
Lifetime Pensions Scheme	666.2
Defined Benefit Scheme – active members	280.8
Defined Benefit Scheme – deferred members	57.4
Total	**1,004.3**

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 meet their Superannuation Guarantee contributions through 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 2023 is $155.7 million.

Coverage of benefit liabilities

Coverage of benefit liabilities at 30 June 2023

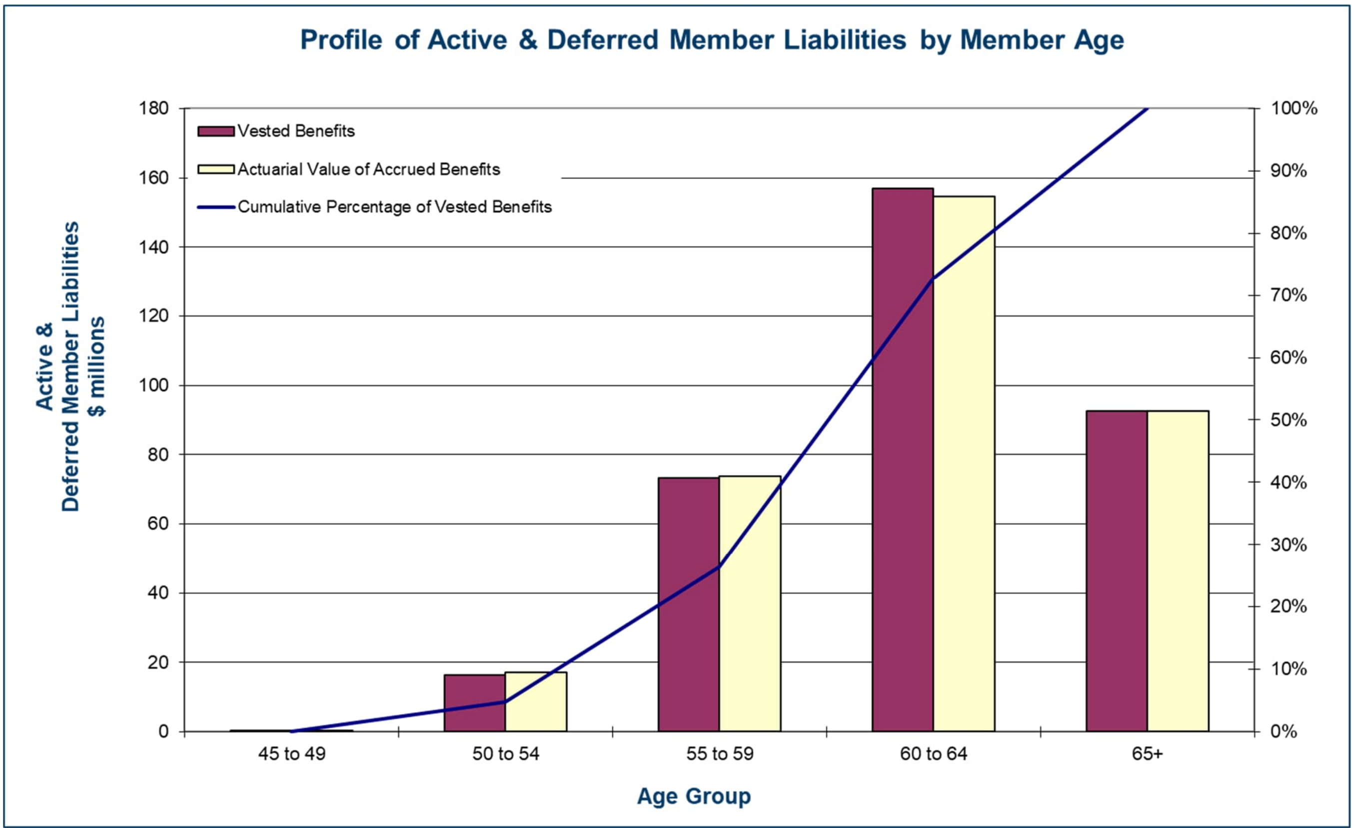
As at 30 June 2023, the Fund's assets covered both Vested Benefits and the Actuarial Value of Accrued Benefits. The following table sets out the coverage of the benefits as at 30 June 2023, with the corresponding values at prior years for comparison.

	Coverage of Benefits by Assets				
As at 30 June	**2023**	**2022**	**2021**	**2020**	**2019**
Vested Benefits	106.6%	109.9%	109.5%	104.0%	109.6%
Actuarial Value of Accrued Benefits	106.7%	110.6%	109.6%	103.9%	110.2%

According to the SIS legislation, the Fund is in a "satisfactory financial position" as at 30 June 2023 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 active and deferred members at 30 June 2023, split by age.



The graph shows that approximately 95% 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

On the assumption 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 $348.1 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 2023, with the corresponding values at prior years for comparison.

	Coverage of Defined Benefit Scheme Active section Members' Minimum Requisite Benefits				
As at 30 June	**2023**	**2022**	**2021**	**2020**	**2019**
Minimum Requisite Benefits	223.6%	235.5%	237.6%	210.6%	231.4%

According to the SIS legislation, the Fund is “technically solvent” as at 30 June 2023 as the Minimum Requisite Benefits are less than the value of the assets.

Coverage of benefits on Fund termination

If the Fund were 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 are converted to a present value using the assumed discount rates. The results below exclude current liabilities in the Lifetime Pension Scheme as their liabilities are matched by the annuity buy-in policy from 31 July 2023. However, future Lifetime Pension Scheme liabilities in respect of current active and deferred members are included in the results below.

The projection results also assume no future contributions by the Institutions from 1 July 2024 (see my later recommendations in this report).

Item	Value on Actuarial Assumptions $m
Present value of future defined benefit payments in respect of Defined Benefit Scheme deferred members	57.4
Present value of future defined benefit payments accrued at investigation date in respect of Defined Benefit Scheme active members	280.8
Present Value of future defined benefit payments accruing after investigation date in respect of Health Super Defined Benefit Scheme active members	20.1
Present Value of future Fund operating costs and tax on contributions	9.5
Total present value of future payments out of Fund	**367.8**
Value of Fund assets available to support Defined Benefit Scheme (i.e. active and deferred members) liabilities at 30 June 2023	405.5
Present Value of future Institution contributions at recommended rates (i.e. contribution holiday from 1 July 2024)	4.8
Present Value of future member contributions (at rates specified in the Trust Deed)	12.0
Total available assets (in absence of other contributions)	**422.3**
Excess/(Deficiency) of assets to value of future payments	**54.5**

The excess of assets over the value of benefits (in respect of both past and future membership of current active and deferred members) of $54.5 million means that it is not expected to be necessary to make any further Institution 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

As the liabilities in respect of existing members in the Lifetime Pensions Scheme at 31 July 2023 are expected to be 100% covered by Challenger Life (who bears all funding risks for these members) after the annuity buy-in on 31 July 2023, there is no need to include a margin in the future when funding these liabilities. Accordingly, the Trustee can focus on asset coverage of Vested Benefits excluding the existing Lifetime Pensions Scheme members. This asset coverage is 119.5% which is well above the Fund's financing objective of 100%.

This level of asset coverage should allow a reduction to the Institutions' future contribution rates. However, given the implementation of the Challenger Life annuity policy is still very recent, I recommend the Institutions continue to contribute at the current rates until 30 June 2024 while the impact of the buy-in on the Fund is more fully assessed. Subject to no material adverse assessment, I recommend that the Institutions then cease contributing to the Fund from 1 July 2024.

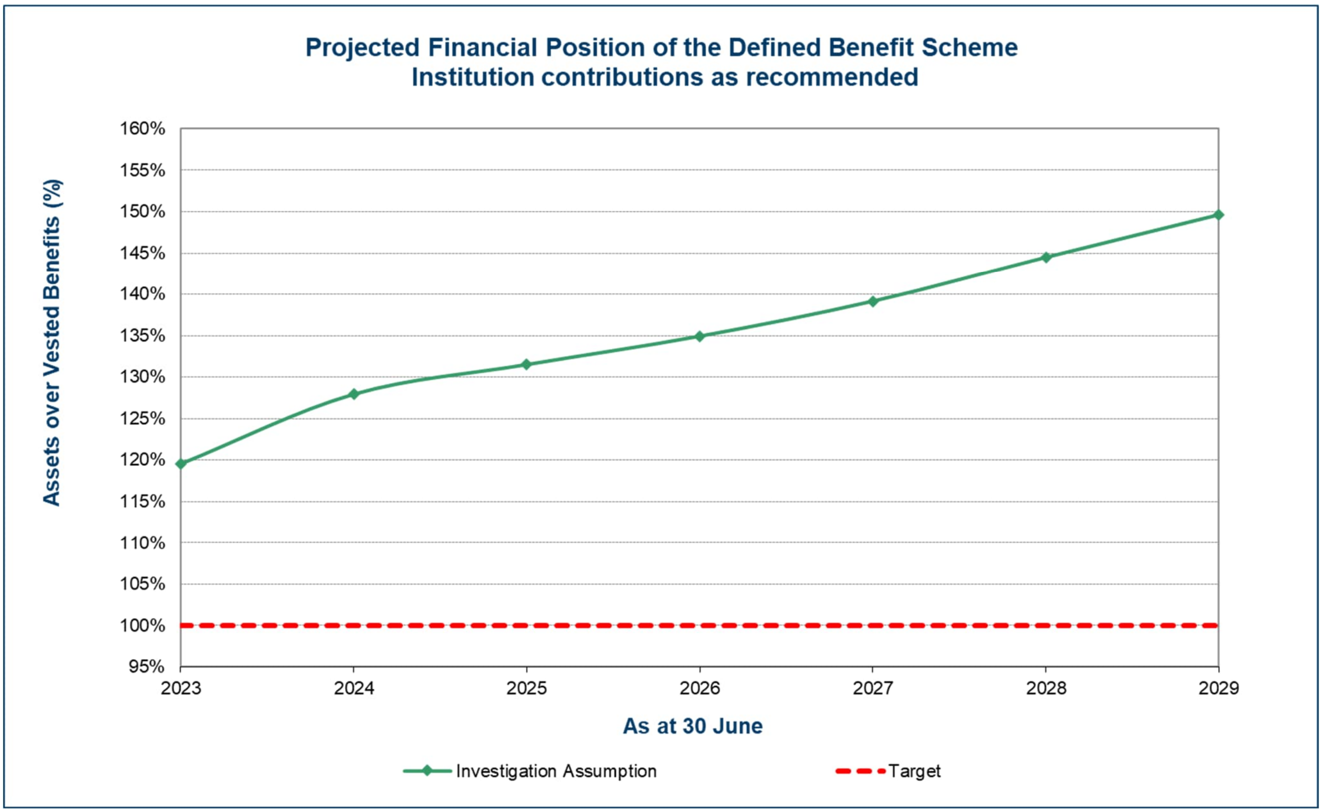
Projected Financial Position

As the liabilities in respect of members in the Lifetime Pensions Scheme are expected to be 100% covered by Challenger Life after the annuity buy-in on 31 July 2023, I have prepared a projection of the assets and benefit liabilities of the Defined Benefit Scheme only (i.e. current active and deferred members only) based on:

- The recommended Institution contribution rates set out above in Section 7 (i.e. contribution holiday from 1 July 2024);
- 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). While I understand that new pensioners (who are currently active or deferred members) are expected to be added to the Challenger Life annuity policy in the future, I have included future Lifetime Pension Scheme liabilities in respect of current active and deferred members in the projection results.

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 Defined Benefit Scheme's Vested Benefits (i.e. in respect of current active and deferred members only) is expected to continue to remain above the financing objective of coverage of Vested Benefits of at least 100% based on the above assumptions.



Sensitivity Analysis

As the liabilities in respect of existing members in the Lifetime Pensions Scheme are expected to be 100% covered by Challenger Life after the annuity buy-in on 31 July 2023, I have tested the effect of changes to the key assumptions on the value of liabilities and the net financial position of the current Defined Benefit Scheme members only (i.e. current active and deferred members only).

I have calculated the liabilities shown in this report using 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, I have focused my 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 the assumptions, I 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; and
- Increase the pension indexation rate assumption by 1% pa.

I have assumed that all other assumptions remain the same. The effects of these changes are shown below:

Current Defined Benefit Scheme members (i.e. current active & deferred members) **Scenario**	**Actuarial Value of Accrued Liabilities as at 30 June 2023 ($m)**	**Change in Accrued Liabilities ($m)**	**Asset Coverage**
Base assumptions as shown previously	338.2		119.9%
Decrease investment return by 1% pa	358.3	+20.1	113.2%
Increase salary increases by 1% pa	343.3	+5.1	118.1%
Increase price indexation by 1% pa	350.9	+12.7	115.5%

These scenarios illustrate that whilst the Fund is presently in a satisfactory financial position, the Fund's financial position could change if experience is unfavourable or if there is a change in the assumptions used to value the liabilities. They highlight the prudence of maintaining a margin of assets above the Actuarial Value of Accrued Liabilities.

8

Key Risks

Investment volatility

Since approximately 60% of Fund assets are invested in the Challenger Life annuity buy-in policy from 31 July 2023, the overall investment volatility is expected to be much less than previously.

Given this, I have considered the impact of investment volatility on the financial position for the current Defined Benefit Scheme members only (i.e. current active and deferred members only) using a “high return” and a “low return” scenario based on the current investment strategy.

I have prepared the “low return” and “high return” scenarios for the Defined Benefit Scheme and derived the returns under both scenarios 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 Defined Benefit Scheme’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 Defined Benefit Scheme’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 Defined Benefit Scheme assets to 30 June 2028 under the “low return” and “high return” scenarios are 2.4% and 4.3% per annum respectively (2.1% and 6.1% per annum respectively on assets supporting future pension liabilities in respect of current active and deferred members). The extent of variation allowed for in these projections reflects the Defined Benefit Scheme’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 2028 for the Defined Benefit Scheme will fall in the range from 134% to 154%.

As such, it will be necessary for the Trustee to monitor coverage levels regularly during the period to the next investigation so that it can implement any corrective action needed 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 (which are expected to be covered by future annuity buy-ins), a large proportion will receive lump sum payments. Accordingly, there will be a significant level of benefit outflow, exceeding net contributions. The Trustee’s investment policy ensures that the Fund’s investments provide a suitable level of liquidity to meet projected benefit payments.

Indexation risk

This is 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 liabilities in respect of the current Lifetime Pensions Scheme members are expected to be hedged by the annuity buy-in policy from 31 July 2023, the majority of this risk has now been passed onto Challenger Life. The Fund has also largely hedged the risk attached to the deferred defined benefits by investing a proportion of the Plans assets into Index Linked Bonds.

As discussed in Section 7, if the assumed future pension increase (or indexation) rate was increased by 1% per annum with no change in other assumptions, then the Fund’s Actuarial Value of Accrued Benefits in respect of the current Defined Benefit Scheme members (i.e. current active and deferred members only) would increase by $12.7 million (or 3.8%). Vested Benefits as at 30 June 2023 have a similar change.

Longevity risk

This is the risk that the pensioners (including potential pensioners) will live longer than expected requiring more pension payments thereby increasing the pension liabilities of the Fund. As the Fund’s lifetime pension liabilities are expected to be hedged by the annuity buy-in policy from 31 July 2023, the majority of this risk has now been passed onto Challenger Life.

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% per annum with no change in other assumptions, then the Defined Benefit Scheme’s Actuarial Value of Accrued Benefits would increase by around $5.1 million (or 1.5%) as at 30 June 2023. However, Vested Benefits as at 30 June 2023 are not affected by a change in the future salary assumption.

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.

Due to the annuity buy-in policy, there is a risk that legislation changes increase the cost of providing the pensions, e.g. imposition of tax on investment income, the risk of which has not been assumed by Challenger Life. Challenger Life has the ability to reduce the payments to the Trustee should the cost of providing the annuity be increased due to changes in taxation, stamp duty or other government charges.

Counterparty risk

Most of the risks to the Fund's financial position related to the lifetime pensioners (investment risk, inflation risk and longevity risk) have been transferred to Challenger Life by investing in a Challenger Life annuity buy-in policy from 31 July 2023. The main risk that remains with respect to the annuity buy-in is counterparty risk – the risk that Challenger Life becomes insolvent and another insurance company does not take on the liabilities of the annuity contract. The Trustee analysed counterparty risk in detail as part of the annuity buy-in project and concluded that this risk was relatively small.

Benefit selection risk

128 of the Fund's 937 Defined Benefit Scheme active members at 30 June 2023 have the option to select a pension benefit. The benefit selection risk is the risk that those members who have the option to choose a pension benefit will do so in greater numbers than assumed in the actuarial investigation. This will increase 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 Defined Benefit Scheme active section members.

The current group life insurance formula 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 2023 for Defined Benefit Scheme active members was as follows.

	As at 30 June 2023	**Death ($m)**	**Disability ($m)**
	Total Benefits	265.1	363.2
less	Sum Insured	34.4	34.4
less	Assets*	348.1	348.1
	Net amount at Risk	**(117.4)**	**(19.3)**

* 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 2023, there was an insurance “surplus” of $19.3 million on Defined Benefit Scheme active members’ total disability benefits. This result is based on a scenario where 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. I comment 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".

I understand that the Fund's Shortfall Limit, determined by the Trustee in light of the investment strategy change due to the annuity buy-in, has increased from 98% to 100%.

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 100% to "defensive" 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, I 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. I 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, I 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 2023 adopted for the purposes of the actuarial investigation was $1,071.7 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 2023 was $1,004.3 million. Hence, I consider that the value of the assets at 30 June 2023 is adequate to meet the value of the Accrued Benefits of the Fund as at 30 June 2023. 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 2026.

(c) In my opinion, the value of the liabilities of the Fund in respect of Vested Benefits of the Fund as at 30 June 2023 was $1,005.4 million. Hence, I consider that the value of the assets at 30 June 2023 is adequate to meet the value of the Vested Benefit liabilities of the Fund as at 30 June 2023. 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 2026. 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 2023 was $155.7 million. The value of the assets available to support these liabilities was $348.1 million. Hence, the Fund was not technically insolvent at 30 June 2023.

(e) A projection of the likely future financial position of the Fund over the 3-year period following 30 June 2023, 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 2023 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 2023, I recommend that the Institutions continue to contribute to the Fund at the following rates for Health Super Defined Benefit Scheme active members up to 30 June 2024, and then cease contributing from 1 July 2024.

Member Contribution Rate (% of Salary)	0%	3%	4%	6%
Institution Contribution Rate to 30 June 2024 (% 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 2023; 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 2023.

11

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 2024.

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 22 April 2026). However, it will need to be updated earlier should the Institution contribution recommendations in this report be accepted.

The next **Benefit Certificate** is required following the expiry of the current Benefit Certificate (which expires 30 June 2027). It is required primarily by the Institutions to demonstrate compliance with historical Superannuation Guarantee obligations to employees who are Fund members.

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

14 August 2023

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.

Esther Conway

Esther Conway
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. The formal governing documents should be referenced 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 from 1 July 2004 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 instead receive 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 25 years’ or more 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

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

The Defined Benefit Scheme active members receive Institutions’ Superannuation Guarantee (SG) contributions (under current legislation the SG rate is 11.0% at 1 July 2023 and it will increase by 0.5% per annum until it reaches 12% from 1 July 2025) to accumulation accounts external to the Fund. As a result, the Minimum Requisite Benefit within the Defined Benefit Scheme for the active members consists of the Adjusted Member Contributions and some historical SG benefit components, as defined in the Fund’s Benefit Certificate. Further, given the Institutions make ongoing SG contributions outside the Fund, the prospective SG rate increases will not increase the cost of providing Fund benefits, assuming there is no benefit design change.

Appendix B

Data

I have relied on financial and participant data provided by the Fund Administrator on behalf of the Trustee when preparing 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 inaccurate or incomplete, the valuation results may differ significantly from the results 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 2022 to 31 March 2023;
2. Details of rates of indexation applied to Lifetime Pension and deferred defined benefit balances;
3. Month-end unit prices of the Fund assets for the year to 30 June 2023; and
4. The net value of Fund assets as at 31 March 2023.

Members' account balances, defined benefit multiples and pension amounts were appropriately adjusted for the period from 31 March 2023 to 30 June 2023.

As per prior years', the salary and AFFS data provided by the Fund Administrator as at 31 March 2023 indicates significant variability year-on-year for many active members. This is to be expected and relates to the movement in salary and service fraction data advised by the Institutions each fortnight/month.

I was provided with salaries as at 30 June 2022 and a complete salary and service fraction history over the 2 years to 31 March 2023 for each active member. I used the history to estimate a projected salary as at 30 June 2023. My analysis indicates:

- Actual salaries as at 30 June 2022 were around 0.8% lower on average than the salaries I adopted for the 30 June 2022 actuarial investigation.
- 79% of active members had a "reasonable" movement when comparing the 30 June 2022 salary provided with the calculated 30 June 2022 salary. I have defined "reasonable" to be a movement between -2% and +25%.
- 20% of active members had a salary movement since 2022 that was less than -2%.
- The average salary change for members with "reasonable" salary movements was 4.1%.

I have calculated a 30 June 2023 salary for those active members with unreasonable movements based on the 30 June 2022 salary provided in this year's data increased by 4.1%.

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.

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 is approximately 4 years in respect of the Defined Benefit Scheme (active and deferred sections) and is approximately 10 years in respect of the Lifetime Pensions Scheme.

No Change to Methodology Adopted

The method used for the determination of Accrued Benefits as described above is unchanged from that used at the previous investigation.

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