vision super

FinPro – LASF DB funding update

24 February 2023

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Refer to the Vision Super Financial Services Guide on the fund website for more details.

Agenda

- What are we funding
- What is the membership profile
- Current funding position
- Restoration plans and funding calls
- Likelihood of a funding call
- The investment markets

What are we funding?

What are we funding?

- A defined benefit promise - a guaranteed benefit to the member
    - Lump sum (formula driven)
        - Based on salary and years of service
    - A lifetime pension for pre 26 May 1988 for members opt to take it
        - 50% of their lump sum benefit
        - Indexed to CPI every 6 months
- Active members + deferred members + lifetime pensioners
- LASF DB closed to new members on 31 December 1993
    - No new active members but still members eligible to take a lifetime pension

LASF DB is different

REMEMBER:

- Set up by the state government so that employees could move between employers with no impact on their DB benefits

- LASF DB is a true multi-employer sponsored plan
  - We are all in this together
  - Not segmented into separate pots for each employer

- Pooled employer arrangement for all benefits (lump sums and pensions)
  - All employers have an obligation to make contributions as and when required even if they have no current active DB employees

What is the membership profile?

LASF DB member profile – at 30 June 2022

Summary of Defined Benefit Plan Membership Data		
Active Members	**30 June 2022**	**30 June 2021**
Number	1,444	1,700
Average Age	58.0 years	57.7 years
Average Past Membership	33.8 years	33.0 years
Average Salary	$96,481	$95,036
Lifetime Pensioners		
Number	4,071	4,124
Average Age	77.5 years	77.4 years
Average Annual Pension	$16,076	$14,878
Fixed Term Pensioners		
Number	3	4
Deferred Beneficiaries		
Number	1,143	1,227
Average Age	57.6 years	57.0 years
Average Account Balance	$257,950	$271,064

- Total members ≈ 6,660

Movement	# of exits
The 3Rs	250
Death	4
TPD	2
New pensioners	140
Pensions ceasing	(193)
Net movement	209

What is the current funding position?

LASF DB's current funding position

- Three key measurements
  - Generally a comparison on the sub-plan assets to the benefit liability (+/- things)

- **APRA** - Vested benefit index (VBI)
  - Assumes that everyone leaves all at once on the same day

- **Fund actuary** - Total service liability surplus
  - How much do the assets + expected future contributions exceed the expected future benefits and expenses

- **AASB 1056** - Discounted accrued benefit index (DABI)
  - Assumes that everyone leaves as expected based on their service to date

LASF DB’s current funding position (cont)

Extract from the sample employer note for the 30 June 2023 financial statements:

	2022 (Interim) $m	2021 (Interim) $m
• A VBI surplus	$45.7	$214.7
• A total service liability surplus	$105.8	$270.3
• A discounted accrued benefits surplus	$112.9	$285.2

Extract from LASF’s 30 June 2022 financial statements:

Results	30 June 2022	30 June 2021
VBI	**102.2%**	109.8%
DABI	**105.6%**	113.4%
MRBI	**140.8%**	151.2%

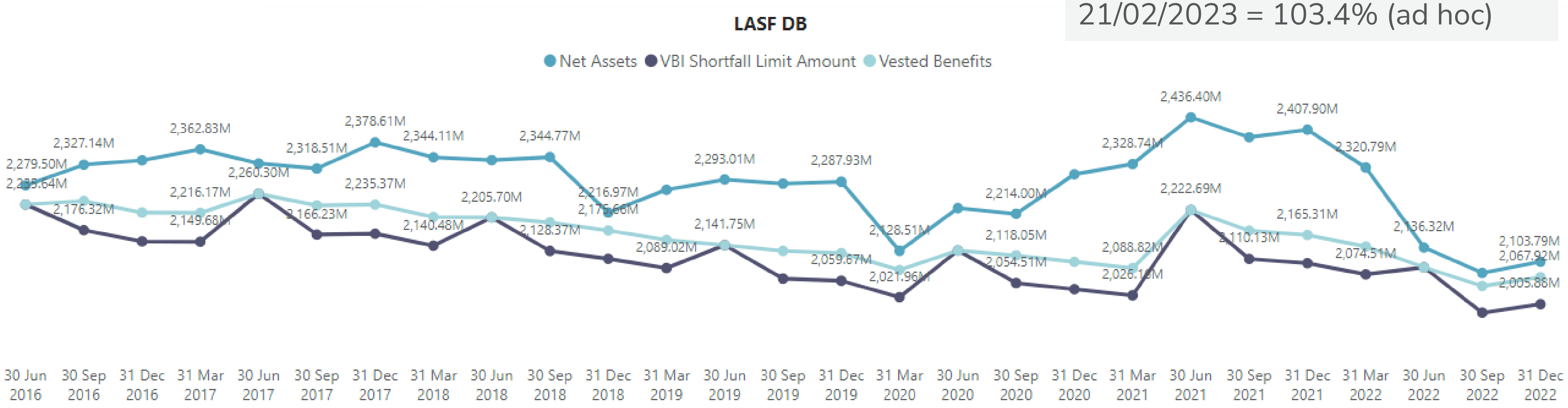
TSLI = 105.8%
v VBI = 102.2%

NB. Minimum requisite benefits index (MRBI)

- Assumes that everyone is only receiving their SG benefits

Movement in the VBI

Estimated VBI at
31/12/2022 = 101.7% (quarterly)
21/02/2023 = 103.4% (ad hoc)



- The LASF DB VBI fluctuates primarily based on the investment market performance

What is a Restoration Plan and what might a Funding Call look like?

APRA’s prudential standard - SPS 160

- Starting point – what does APRA want?

- SPS 160 is a funding straitjacket
  - The VBI is ‘king’
  - Not driven by the usual actuarial measurements
  - APRA may prefer this measurement
    - Not test yet in a restoration plan/funding call environment

APRA's prudential standard - SPS 160 (cont)

- VBI > The sub-plan's shortfall limit at all times

Quarter ending	VBI Threshold
September	97%/100%*
December	97%
March	97%
June	100%

* Based on whether any relevant actuarial review is underway

  - Thresholds reflect the sub-plan's SAA/DAA and objectives

- If the VBI falls below the relevant threshold
  - Restoration plan required
  - VBI must be returned to at least 100% within 3 years

What is a Restoration Plan?

- A plan to return the sub-plan's VBI to 100% over 3 years
- How is a restoration plan set?
  - Starts with the Fund actuary starting an actuarial review
    - Is there really a shortfall?
    - VBI v TSLI?
  - What are the potential solutions?
    - Will the investment markets bounce back?
    - How long will it take the investment markets to bounce back?
  - Discussions/negotiations with APRA on potential outcome/position
  - Work with MAV/employers/other parties
  - A funding call is potentially the position of last resort

What might a funding call look like?

- Amount of call – fund actuary advice and outcomes of negotiations with APRA
  - Total funding call = $xxx + contributions tax (@15%)
- Participating employers/authorities share the funding call
  - Methodology for splitting funding call agreed back in 1997
  - Participating employers/authorities

Relating to	Pre 1 July 1993 component	Post 30 June 1993 component
Current active members (1)	Based on share of total salaries at 30 June 1993	Based on share of total salaries at the date of the investigation
Lifetime pensions (2)	Based on share of total salaries at 30 June 1993	

(1) Regardless of who the member has worked for
(2) Regardless of when the pension starts and who the pensioner has worked for

You can have no active DB employees and still have a share of the funding call

What might a funding call look like? (cont)

- When would a funding call have to be paid?
  - Fund actuary recommendations
  - APRA requirements/outcomes of negotiations
  - Timing of the Restoration Plan adopted
  - Timing of placement of money into the investment markets

eg. SPS 160 – 3 years from when the shortfall arose

2011 funding call – 15 years

2010 funding call – 10 years

Prior to 1997 – originally a 30 year funding plan that was abandon

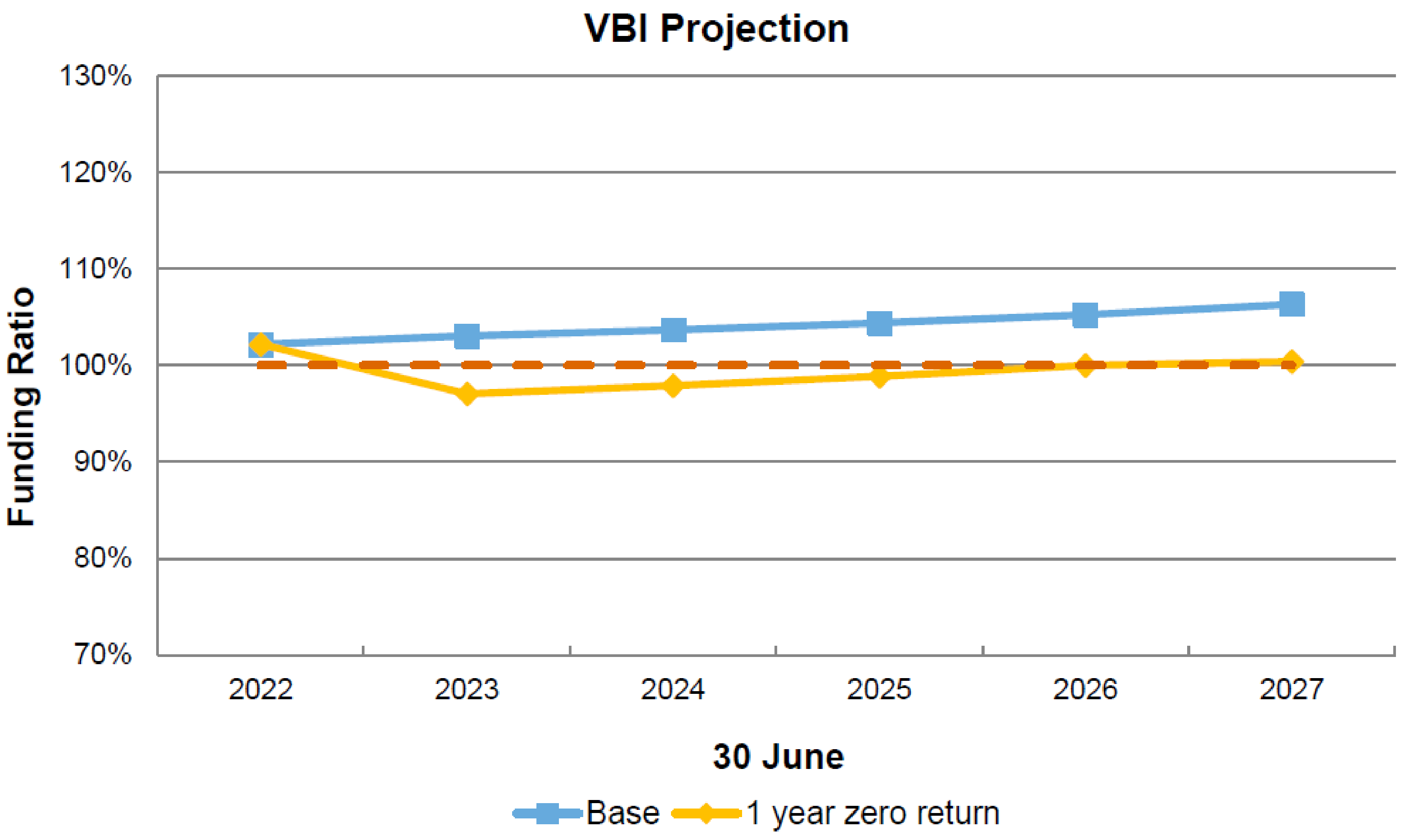
What is the likelihood of a funding call?

Fund actuary's VBI projection at 30 June 2022

Where:

- Base = expected returns
- 1 year = 0% return in year 1 (and expected returns thereafter)

LASF DB's YTD returns at 31 Jan 2023 = 6.8%



What are we doing about it?

- Actual investment returns are the main driver of VBI

- Change to **long term investment assumption** has immediate one-off impact
  - Current rule of thumb - 1% reduction in return →5% reduction in VBI

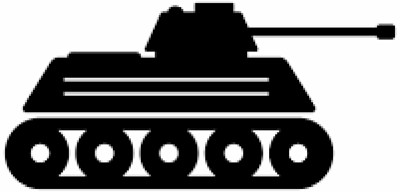
- Feedback loop:

  1. Build a VBI margin with good returns
  2. Remove some investment risk (if possible)
  3. Reduction in likely investment volatility but also long term expected return
  4. Immediate one-off impact on the VBI (reduction)
  5. Repeat

The investment markets

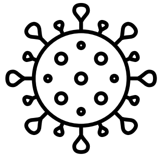
Key factors impacting the investment environment

Central Banks



Geopolitical

Climate change



Covid-19 – now a secondary issue

Investment outlook

- World experiencing the negative effects of inflation (probably peaked)
- Inflation needs to be brought under control
- Moderate US recession likely (although not certain)
- Equities most likely to fall further
- Medium-term investment outlook has improved but inflation control important

- Impact of the above
  - On both actual returns and financial assumptions
  - How to avoid moving into the ‘shortfall territory’
    - Can’t take much too much investment risk off the table – still need returns
    - Tail-risk hedging – expensive solution in the wrong markets
    - Movement back into bonds – what would be the timing?
  - VBI monitoring
    - Usually quarterly but more frequently during periods of market volatility

What is in store for 30 June 2023?

30 June 2023 triennial actuarial review

- Expecting downward pressure on the VBI
  - Depending on the final assumptions

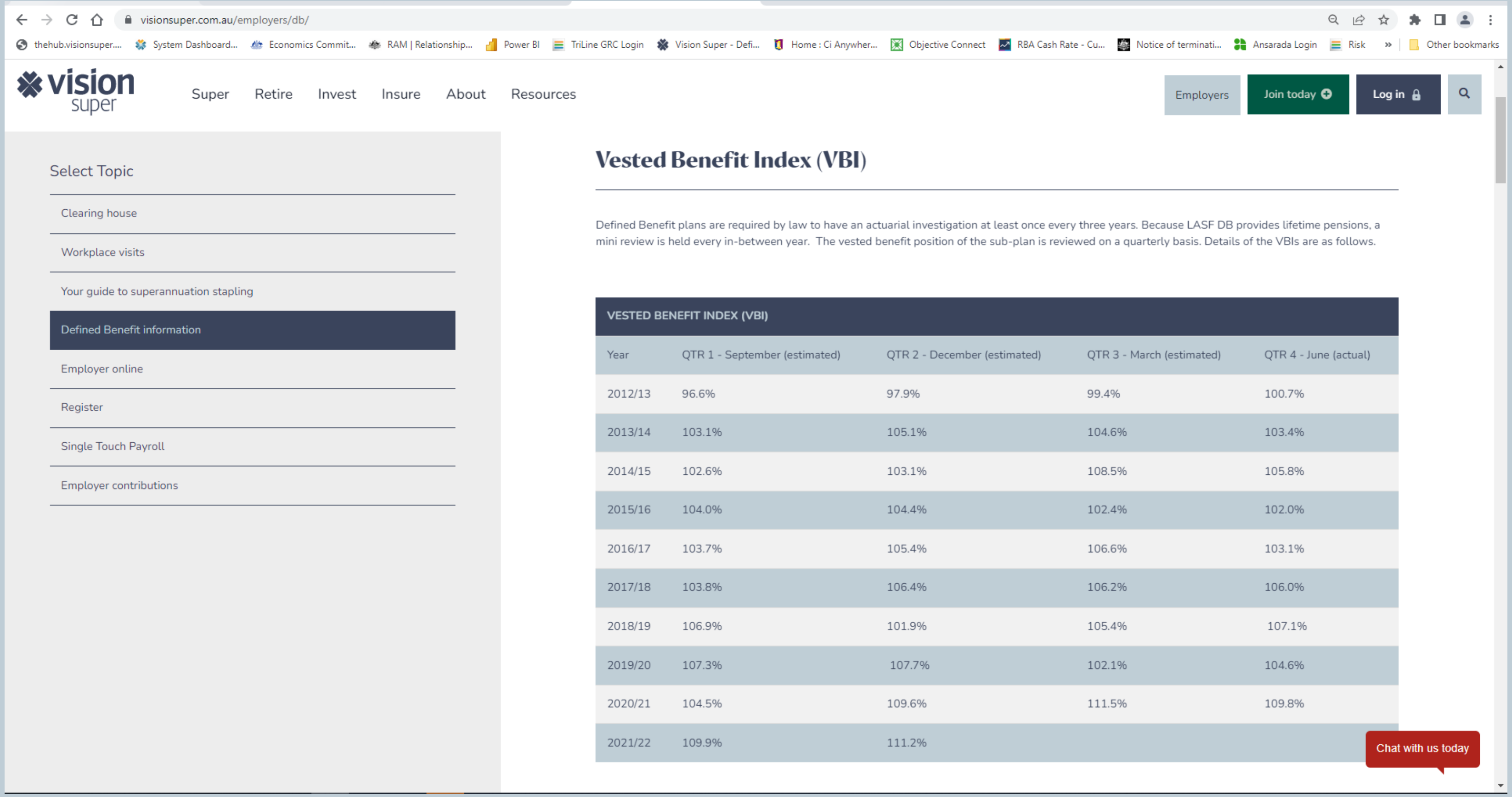
- 30 June 2023 VBI position
  - Estimated VBI – mid-late August 2023
  - Annual review final report – December 2023

- Sample employer superannuation note will be updated once assumptions are finalised

- External audit queries

Useful resources

www.visionsuper.com.au/employers/db/



Vested Benefit Index (VBI)

Defined Benefit plans are required by law to have an actuarial investigation at least once every three years. Because LASF DB provides lifetime pensions, a mini review is held every in-between year. The vested benefit position of the sub-plan is reviewed on a quarterly basis. Details of the VBIs are as follows.

VESTED BENEFIT INDEX (VBI)				
Year	QTR 1 - September (estimated)	QTR 2 - December (estimated)	QTR 3 - March (estimated)	QTR 4 - June (actual)
2012/13	96.6%	97.9%	99.4%	100.7%
2013/14	103.1%	105.1%	104.6%	103.4%
2014/15	102.6%	103.1%	108.5%	105.8%
2015/16	104.0%	104.4%	102.4%	102.0%
2016/17	103.7%	105.4%	106.6%	103.1%
2017/18	103.8%	106.4%	106.2%	106.0%
2018/19	106.9%	101.9%	105.4%	107.1%
2019/20	107.3%	107.7%	102.1%	104.6%
2020/21	104.5%	109.6%	111.5%	109.8%
2021/22	109.9%	111.2%		

Employer information booklet Download

Member information booklet Download

Thank you

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