vision super

FinPro – VBI update

3 June 2022

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

Defined benefits promise

- To pay a guaranteed benefit
  - Based on salary and years of service
- LASF DB closed to new members on 31 December 1993
- Pre 26 May 1988 members can opt to take a lifetime pension
  - The majority are likely to do this going forward
- All LASF DB members can elect to take a deferred benefit

APRA's prudential standard - SPS 160

- Need to be able to pay out all leaving service benefits at all times
  - Measured against the vested benefits not total service benefits
- SPS 160 is a funding straitjacket
  - The VBI is 'king'
  - APRA driven – not actuarial
- VBI = $\dfrac{\text{Net assets supporting LASF DB}}{\text{LASF DB benefit liability}}$

APRA’s prudential standard - SPS 160 (cont’d)

- Minimum thresholds must be meet 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

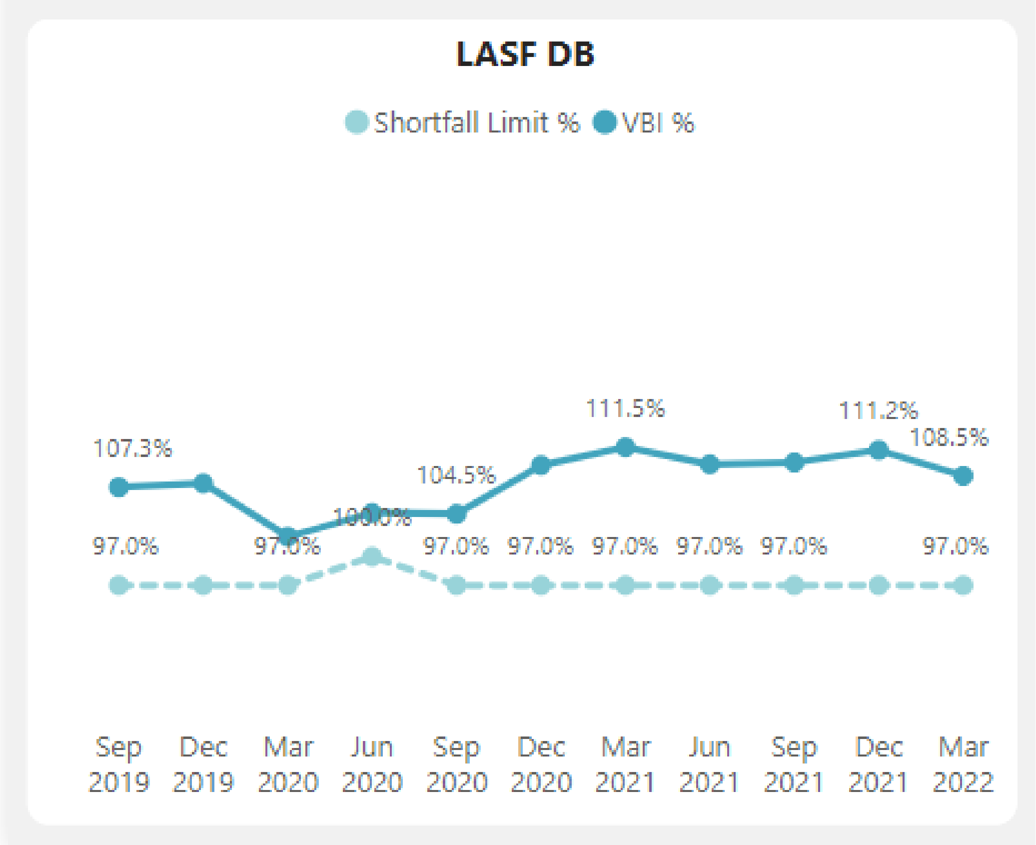
- If the VBI falls below the relevant threshold
  - Restoration plan required
  - VBI must be returned to at least 100% within 3 years

Vested benefits index (VBI)

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

- The shortfall limit varies based on the date of the VBI measurement
  - 100% while an actuarial review is underway (usually every 30 June until the review is completed)
  - 97% at all other times

- If the VBI is below the shortfall limit, we need to kick-off a restoration plan review



2021 Actuarial review (annual)

- Annual review because LASF DB pays out lifetime pensions
  - Triennial review every 3 years (30 June 2020)

- Full report at www.visionsuper.com.au/wp-content/uploads/2021/09/Actuarial-30-June-2021.pdf
- Key assumptions for 30 June 2021

	30 June 2021
Net Investment Return	4.75% p.a. (gross: 5.50%p.a.)
Salary Inflation	2.75% p.a.
Price Inflation	2.25% p.a.

2021 Actuarial review (annual) (cont'd)

- Key findings for 30 June 2021

	30 June 2021 Funding Indices
	%
Vested Benefit Index[1]	109.8
Discounted Accrued Benefit Index[2]	113.4
Minimum Requisite Benefit Index[3]	151.2

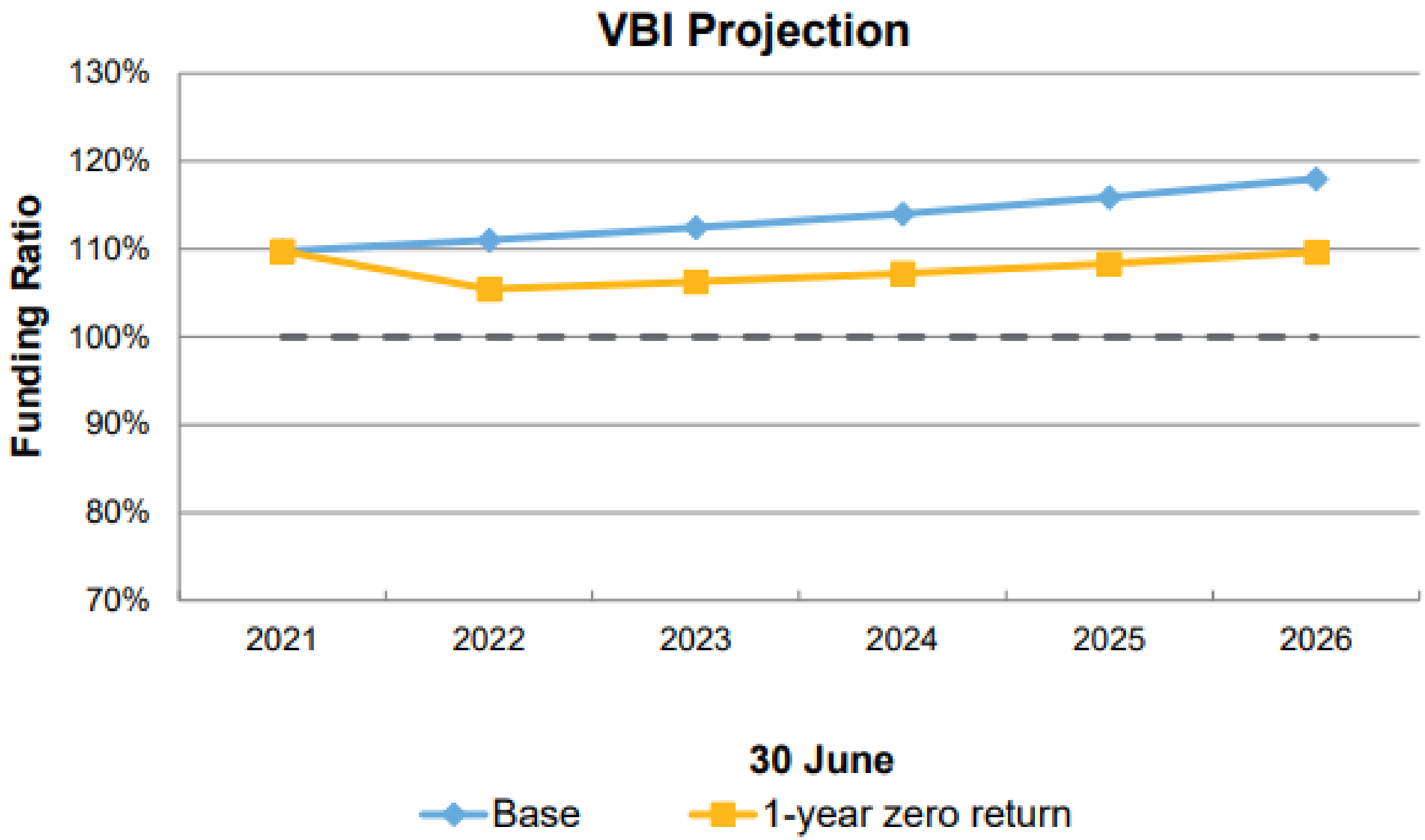
- The financial experience has been significantly better than assumed
  - Excess of investment returns above salary increase and price inflation

- Future funding position (and the potential for additional contributions)
  - Dependent upon the future experience - particularly future investment returns

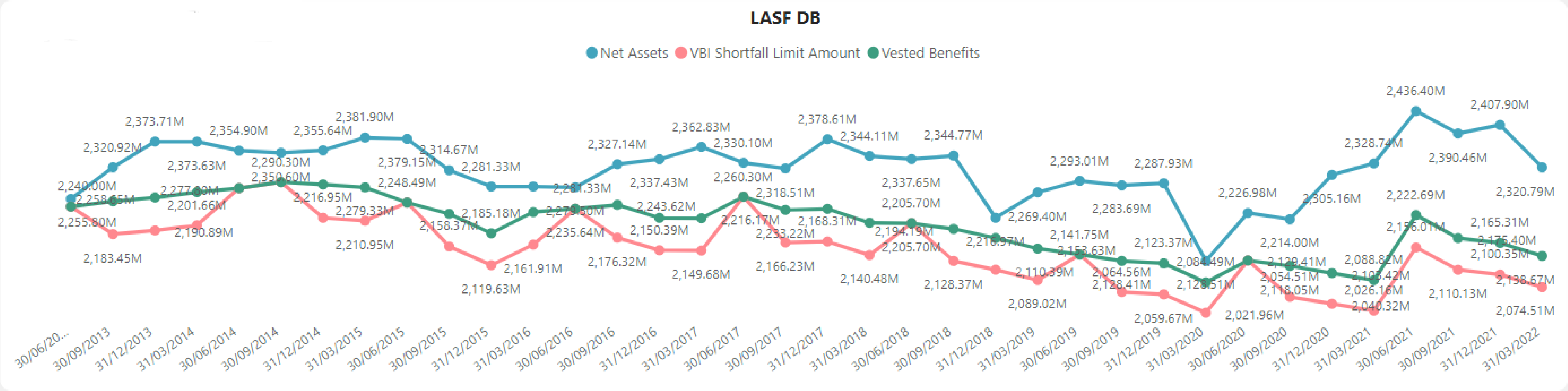
Fund actuary's VBI projection

Where:

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



Movement in the VBI



LASF DB VBI – Where to from here?

- Actual investment returns are the main driver of VBI

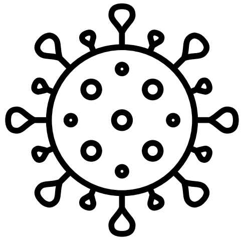
- Change to long term investment assumption has immediate one-off impact
  - Current rule of thumb - 1% reduction in return →5% reduction in VBI

- 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

Key factors impacting the investment environment

Central Banks



Covid-19

Climate change

Investment outlook

- World now experiencing the negative effects of significant monetary inflation
- Inflation needs to be brought under control
- Moderate US recession likely (although not certain)
- Equities to fall further
- Medium-term investment outlook has improved (reflecting falling valuations), but inflation control important

- Impact of the above
  - On both actual returns and financial assumptions
  - VBI monitoring
    - Usually quarterly but more frequently during periods of market volatility

Expected outcomes of the 30 June 2022 actuarial review

- Expecting downward pressure on the VBI
  - Depending on the final assumptions - 1.5% to 1.75%

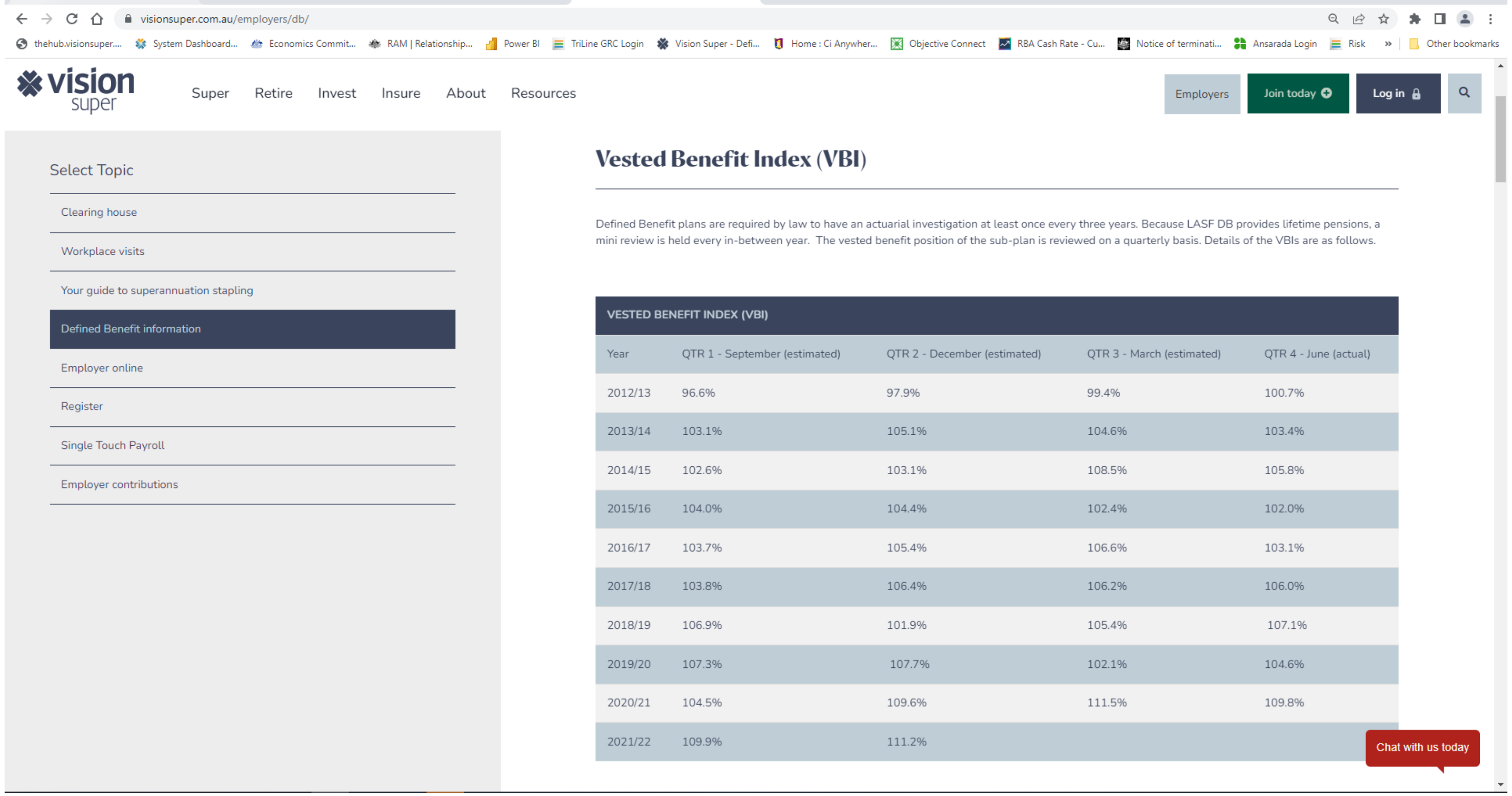
- 30 June 2022 VBI position
  - Estimated VBI – mid-late August 2022
  - Annual review final report – October 2022

- 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%		

Thank you

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