

FUNDING AND SOLVENCY CERTIFICATE**SUPERANNUATION INDUSTRY (SUPERVISION) ACT 1993**

1. Regulation 9.09(1) of the *Superannuation Industry (Supervision) Regulations* (the Regulations) requires the trustee of a defined benefit fund to obtain a funding and solvency certificate from an actuary, where the fund is being used by an employer to meet its obligations under the *Superannuation Guarantee (Administration) Act*.
2. This Certificate has been prepared at the request of Local Authorities Super Pty Ltd, the Trustee of the Local Authorities Superannuation Fund (the Fund), pursuant to Regulation 9.09(1).
3. The *Miscellaneous Acts (Omnibus No. 1) Act 1998* required all entities liable to make contributions to the Fund immediately before 1 July 1998 to execute certain documents prior to 31 December 1998. The Employer Agreement requires the Employer “to continue to have the same funding obligations with respect to the Fund as it had under the 1988 Act” as described in Circular 12/97 (attached to the agreement). The amount invoiced, relating to the Authority’s share of the unfunded liability of the Fund as at 1 July 1997 referred to in Circular 12/97, is also attached to the agreement.

We understand that the following amounts of the actuarial shortfall, plus contribution tax have been invoiced and that the authorities have taken account of their share of the expense remaining (if any) outstanding in their financial statements:

- The actuarial shortfall of \$321 million as at 30 June 1997;
- The actuarial shortfall of \$127 million as at 31 December 2002;
- The actuarial shortfall of \$71 million as at 31 December 2008 has been invoiced effective 1 July 2011.

To the extent that any of these amounts are outstanding, they have therefore been treated as an asset for the purpose of this Certificate and are included in the Fund’s financial statements.

4. Name of Regulated Fund to which this Certificate Relates:

Local Authorities Superannuation Fund (“the Fund”).

5. Date of Effect of this Certificate:

27 March 2012

This Certificate replaces my Certificate issued effective 1 November 2010 and dated 6 December 2010 due to the occurrence of a notifiable event on 27 March 2012. The previous Certificate was due to expire on 1 July 2013.

The current Certificate has been issued for a term of 4 and 3/4 years. Under the Regulations the current Certificate must be replaced 12 months before the Certificate expires. This means in practice we will replace it before 31 December 2015.

6. Date this Certificate Ceases to have Effect:

31 December 2016

7. Notifiable Events:

The Certificate will also cease to have effect should any of the following events occur:

- the Minimum Requisite Benefits described in the Benefit Certificate referred to in 8 below are varied;
- any actual or possible misappropriation of assets of the Fund of \$2 million or more unless within three months the actuary advises that the Certificate should not cease to have effect. The date of occurrence of the event shall be the date the Trustee becomes aware that the event has occurred;
- The Defined Benefit plan investment return for the period from 1 January 2012 to the date of calculation is less than the amounts specified in the following table, unless within three months the actuary advises that the Certificate should not cease to have effect on this account.

Within Period	Cumulative Investment Return since 1 January 2012 less than
1 January 2012 to 30 June 2012	-5%
1 July 2012 to 31 December 2012	0%
1 January 2013 to 30 June 2013	5%
1 July 2013 to 31 December 2013	-18%
1 January 2014 to 30 June 2014	-13%
1 July 2014 to 31 December 2014	-8%
1 January 2015 to 30 June 2015	-3%
1 July 2015 to 31 December 2015	2%
1 January 2016 to 30 June 2016	7%
1 July 2016 to 31 December 2016	12%

- average salary increases since 31 December 2011 for Defined Benefit plan members exceed 6% p.a.;
- any changes are made to the level or method of calculation of the benefits payable from the Fund, whether by amendment of the Trust Deed of the Fund or otherwise unless within one month the actuary advises that the Certificate should not cease to have effect;
- any Authority fails to pay contributions at least at the rates specified in this Certificate; or
- the actuary otherwise advises the Trustee in writing that the solvency position should be reviewed.

8. Minimum Requisite Benefits

The Certificate relates to the Minimum Requisite Benefits (MRBs) described in the Benefit Certificate effective 1 July 2008 issued by me on 5 December 2008 and assumes that when it is replaced the MRBs specified in its replacement will be in the same form as the MRBs in the current Benefit Certificate.

9. The Certificate is based on the benefits, data and assumptions described in the Attachment.
10. I certify that the Fund was solvent (as that term is defined in Regulation 9.06(2)) as at 27 March 2012.
11. The adjusted minimum benefit index, as defined in Regulation 9.15(2), is one, which was set as at 1 July 1997.
12. I certify that, on the basis described in this Certificate, I expect that the Fund will be solvent on 31 December 2016, the expiry date of the Certificate, if contributions are made by the Employers of Members of the Fund, in addition to salary sacrifice contributions, as follows:
 - Defined benefit sub-plan:
 - 9.25% of members' salaries;
 - additional payments as a consequence of retrenchment;
 - Top-up contribution of \$453 million (plus contribution tax) funded by 1 July 2013. While employers will be encouraged to pay their share of this amount by 1 July 2013, they can also choose to fund this amount over any period less than 15 years;
 - City of Melbourne sub-plan:
 - 13% of members' salaries (4% prior to 1 July 2013); and
 - Top-up payment of \$2.2 million (inclusive of contribution tax) per annum by 30 June 2013, 30 June 2014 and 30 June 2015.
 - Quarterly additional payments for exiting members from 1 July 2012 (and retrenchments prior to that date);

- Parks Victoria sub-plan:
 - 12% of members’ salaries for Division E members (10% prior to 1 July 2013);
 - Top-up payment of \$1.9 million (inclusive of contribution tax) by 30 June 2013, 30 June 2014 and 30 June 2015;
 - Quarterly additional payments for exiting members from 1 April 2012;
 - For Division F members:
 - the contribution rates set out in the table below:

Former fund	Current Member Contribution Rate % of salaries	Employer Accruing Cost Contribution Rates % of salaries
Transport Scheme	0.0	9.5
	2.5	9.5
	5.0	13.5
	7.5	18.0
Revised Scheme	N/A	17.0

13. We understand that the top-up payments for the Defined Benefit plan will be invoiced to the Authorities shortly and that these invoiced contributions receivable are expected to be treated as an asset in the audited financial statement on 30 June 2012. Accordingly, for the purpose of this Certificate, these amounts have been treated as an asset.
14. The salary related payments specified above for the defined benefit plans should be based on the monthly salaries of members and must be paid not later than 28 July following the year of income in respect of which the contributions are payable.
15. Quarterly top up payments may be made for some employees to Vision Super Saver to ensure the Notional Employer Contribution Rate specified in the Benefit Certificate is at least 9%. Such top up payments should be made in accordance with the timing requirements for the Superannuation Guarantee contributions made

to accumulation funds as set out in Section 23 of the Superannuation Guarantee (Administration) Act.

16. Employers should also make contributions in respect of accumulation members of the Fund in accordance with the Trust Deed.
17. The contributions set out in this certificate are expected to be greater than the minimum required to fully fund the MRBs at 31 December 2016 because they are intended to fully fund the Fund's benefits, not just the MRBs.
18. I am not aware of any occurrence between the effective date and the date of signing that would affect the contents of this Certificate.

19. This Certificate has been prepared in accordance with Professional Standard 407 issued by the Institute of Actuaries of Australia.

Matthew Burgess

Matthew Burgess
Fellow of the Institute of Actuaries of Australia

I confirm that this document was produced in accordance with Russell Employee Benefits Quality Assurance procedures.

Gabrielle Baron

Gabrielle Baron
Fellow of the Institute of Actuaries of Australia
26 June 2012

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ATTACHMENT TO FUNDING AND SOLVENCY CERTIFICATE

Membership Data

Vision Super Pty Ltd has provided the membership data used for this certificate.

A summary of the membership is set out below. The Defined Benefit section information is as at 31 December 2011.

Sub-plan	Number of Members	Total Salaries (\$m)
Defined Benefit	4,972*	350.1^
City of Melbourne	177	14.8
Parks Victoria	105	8.2

* includes one former Ports plan member.

^ excludes 22 members who exited after 31 December 2011.

In addition at 31 December 2011 there were:

- 5,132 pensioners with total annual pension entitlements of \$36.8 million;
- 2,212 deferred beneficiaries; and
- \$2,541.1 million of accumulation liabilities (and any reserves) in respect PRA Accounts, Allocated Pensions, Vision Super Saver Members' Accounts, Spouse Accounts, Disability Beneficiaries' Accounts, Preserved Beneficiaries' Accounts, Retained Accounts (Ex City of Melbourne), Additional Benefit Contracts and ASU Accounts of current and former members of the Fund.

Assets

I have been supplied by Vision Super with an unaudited copy of the Fund's financial statements as at 31 December 2011. The net market value of Fund assets at 31 December 2011 was \$4,315.3 million, excluding \$2.0 million of contributions yet to be paid by Parks Victoria.

A summary of the value of assets is provided below:

VALUE OF ASSETS AS AT 31 December 2011	
	\$ Million
Defined Benefit members, deferred beneficiaries and pensioners	1,692.2
City of Melbourne members	52.4
Parks Victoria members	29.7
Other assets	<u>2,541.0</u>
Total	4,315.3

For the period from 1 January 2012 to 27 March 2012 and 8 June 2012 the investment return on the Defined Benefit plan assets was 3.9% and 2.8% respectively.

Benefits

The benefits provided by the Fund are as described in Appendix A of my report dated 25 June 2012 on the actuarial investigation of the Fund as at 31 December 2011 as well as the Benefit Certificate effective 1 July 2008.

Assumptions

The assumptions used to value Minimum Requisite Benefits and to carry out projections of benefits and assets of the Fund to 31 December 2016, the expiry date of the Certificate, and in determining the employer contribution rates, are the same as those described in Appendix D of my report dated 25 June 2012 on the actuarial investigation of the Fund as at 31 December 2011.

The defined benefit sub-plans are closed. All new members join Vision Super Saver and receive accumulation style benefits.