

10 July 2012

Mr Peter Rowe
General Manager Business Operations
Vision Super
Level 5, 1 Spring Street
Melbourne VIC 3000

Dear Peter

LOCAL AUTHORITIES SUPERANNUATION FUND - WORKERS COMPENSATION

As you are aware, our actuarial investigation of the Local Authorities Superannuation Fund (“the Fund”) as at 31 December 2011 revealed a projected “actuarial shortfall” of \$453 million (excluding contribution tax) in respect of the main defined benefit plan as at 1 July 2013. As requested, this letter advises the proportion of employer contributions made to fund the “actuarial shortfall” that should be included in the definition of remuneration for the purposes of calculating premiums under the Accident Compensation (WorkCover Insurance) Act 1993 of Victoria (the Act).

Background

The Act provides that contributions made by an employer to a superannuation fund in respect of services performed by an employee before 1 January 1998 should not be included in the definition of remuneration when calculating WorkCover premiums. Section 3A of the Act requires that the employer's records must show the method used to calculate the amount of such contributions and the actuarial basis for the calculation. Section 3A(3) of the Act states that the certificate of an actuary is appropriate evidence of the suitability of the method and actuarial basis for the calculation in the absence of evidence to the contrary.

As requested, this advice has been prepared on the basis that Section 3B(b) is not applicable in this case. Section 3B(b) provides for the Workcover Authority to determine the proportion of contributions related to services performed before 1 January 1998 where the Fund is a wholly or partly unfunded fund or scheme under the Act.

The most recent triennial actuarial investigation of the Fund was carried out at 31 December 2011. The results were provided in our “Report on the Actuarial Investigation as at 31 December 2011” (“the Report”) dated 25 June 2012.

The Report addressed the funding arrangements of the Fund at 31 December 2011 and measured the appropriateness of those arrangements based on “best estimate” funding assumptions. There was an “actuarial shortfall” of \$453 million (excluding contribution tax) to be funded by 1 July 2013, although various payment options exist.

The shortfall amount partly relates to services performed by employees before 1 January 1998. Therefore, a proportion of the employer contributions made to fund the “actuarial shortfall” should not be included in remuneration for the purpose of calculating premiums.

Method

Our method calculates the portion of employer contributions made to fund the “actuarial shortfall” which should be included in the definition of remuneration for the purpose of calculating WorkCover premiums. The “actuarial shortfall” relates to the Defined Benefit Plan including life-time pensioners.

The “actuarial shortfall” has arisen primarily because of lower than expected investment returns and it is reasonable for it to be distributed between members and pensioners in proportion to their accrued liabilities.

The portion of the “actuarial shortfall” that relates to service after 1 January 1998 has been determined by estimating the proportion of accrued liabilities for all active Defined Benefit Plan members’ and lifetime pensioners that relate to service after this date. The 31 December 2011 membership data provided by Vision Super was used for calculating the apportionment. Approximations have been made in respect of pensioners whose service commencement date was not available.

Using this approach we have estimated the overall proportion of the employer contributions required to fund this “actuarial shortfall” that relate to service of employees after 1 January 1998. We have provided one estimate for all employer contributions and have not considered each employer separately.

The “best estimate” assumptions from the report were used for the calculations.

Results

We estimate that 46.7% of employer contributions made to fund the “actuarial shortfall” should be included in the definition of remuneration for the purpose of calculating WorkCover premiums.

Please call if you require any further information.

Yours sincerely



Matthew Burgess

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Gabrielle Baron

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