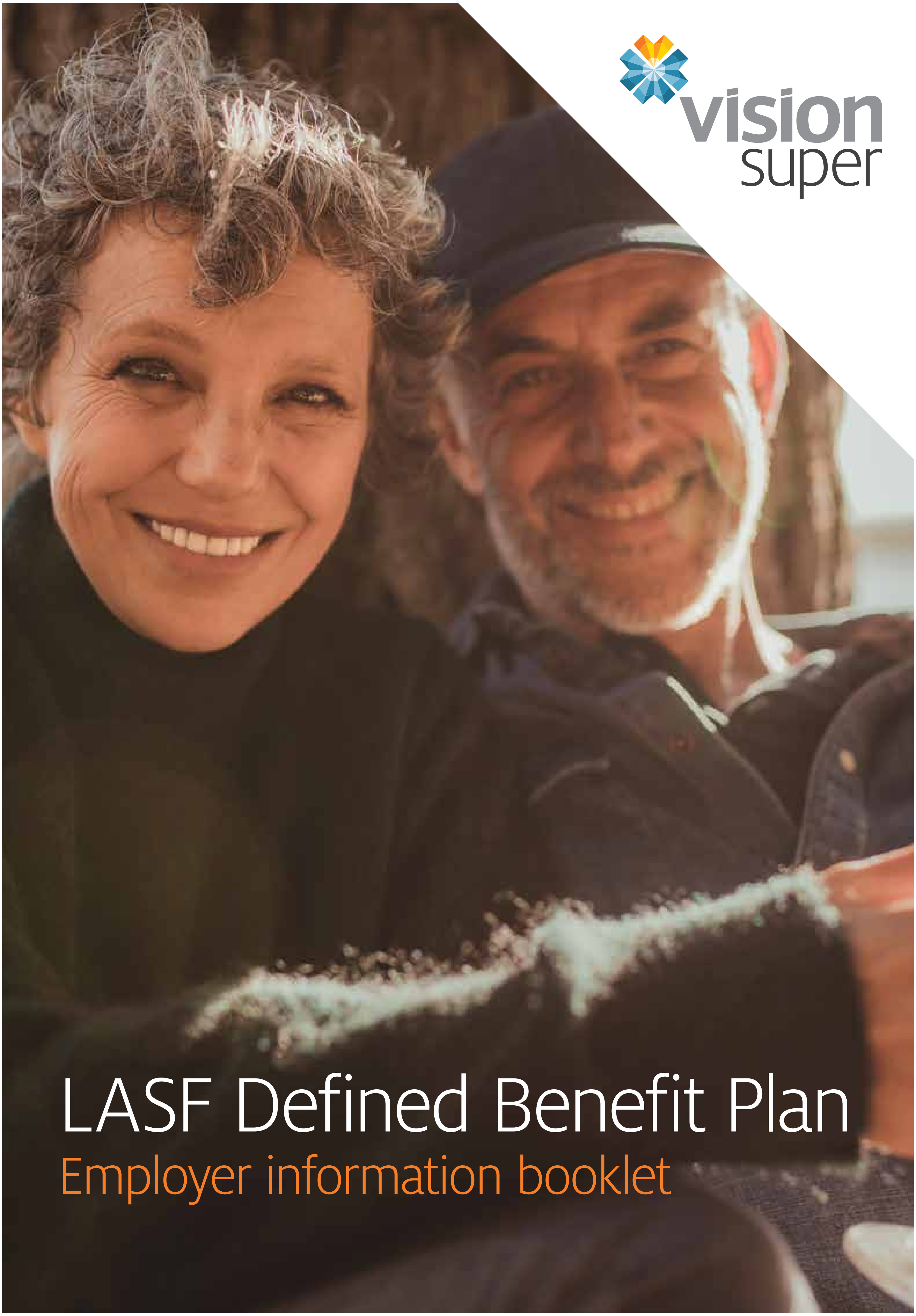

LASF Defined Benefit Plan

Employer information booklet

Contents

The information contained in this booklet is up to date at the time it was prepared. Vision Super believes that the statements are correct and not misleading, but we give no warranty in relation to them.

This information is not intended to constitute financial, taxation or legal advice.


vision
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Vision Super – who we are

Vision Super is one of Australia's leading superannuation funds with a long history dating back to 1947 when it first began to provide superannuation benefits to employees in local government and the water industry.

Vision Super is a hybrid fund with both accumulation and defined benefit (DB) members from a range of industries and we provide both lump sum and pension benefits (including life-time pensions).

Vision Super was originally known as Local Authorities Super (and later known as Local Authorities Superannuation Fund (LASF)). It was established and operated by the Victorian government up until 1 July 1998 when the Local Authorities Super Act was repealed and LASF became a regulated fund.

Vision Super is now governed by its trust deed and must comply with the superannuation legislation as a regulated fund and is subject to supervision by the Australian Prudential Regulation Authority (APRA).

APRA supervises Australia's banks, building societies and credit unions (authorised deposit-taking institutions), life and general insurance and reinsurance companies and friendly societies, together with superannuation funds (excluding self-managed funds). APRA aims to promote financial stability by requiring financial institutions to manage risk prudently so as to minimise the likelihood of financial losses to depositors, policy holders and superannuation fund members.

Purpose of this booklet

The purpose of this booklet is to provide you with a basic understanding of the LASF Defined Benefit (LASF DB) plan and your obligations as a participating employer of that plan.

Defined benefit arrangements are complex. If you have any queries about the LASF DB plan at any time, please contact your Account Manager, our Business Actuary or our Chief Financial Officer.

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Types of superannuation benefits

There are basically two types of methods to calculate the value of the superannuation benefit to be paid to the member on retirement. 'Accumulation benefits' refers to the most common method used today. However, prior to the introduction of compulsory employer superannuation, 'defined benefits' was the most common method used.

Accumulation benefits

Accumulation benefits are the most common method used to calculate a member's benefits in Australia. The value of an accumulation benefit is generally equal to:

1. The amount of contributions (including employer contributions) that have been made for the member plus

2. The investment earnings on those contributions (which may be positive or negative) less

3. Any fees and taxes.

Once an employer has paid their accumulation contributions (such as their superannuation guarantee (SG) and award contributions) to the fund for a member, the employer is generally not required to make any further payments in relation to the member's benefits.

As the accumulation benefit includes the investment earnings on the contributions, the investment risk is borne by the member.

Defined benefits

Unlike an accumulation benefit, a defined benefit (DB) is calculated using a formula that usually takes into account:

- The member's service with the employer/years of membership with the fund

- The member's final average salary, and

- A benefit's accrual rate which is generally specified in the fund's trust deed.

Under a DB arrangement, the employer is required to pay sufficient contributions to the fund so that the fund is able to pay out the DB as they become payable. The investment performance of the fund affects the amount of contributions the employer must make so that the fund can pay out the benefits that have been promised to the members.

Therefore, the investment risk of a DB is borne by the employer because the member is guaranteed his/her benefit regardless of the investment performance of the fund.

The above generally reflects the factors used to calculate the benefit entitlements of the LASF DB members.

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LASF Defined Benefits (LASF DB)

The LASF DB plan is a sub-plan of Vision Super and is a multi-employer sponsored plan.

The participating employers include Victorian local government, water authorities and other similar organisations. As at 30 June 2015, there were over 130 participating employers.

The LASF DB plan was set up so that a DB member could move from one participating employer to another without there being a negative impact on the value of their DB (ie the member's DB service period includes his/her service period with all participating employers). This was to allow for the mobility of the workforce between the participating employers.

The LASF DB plan was closed to new members on 31 December 1993. Only those employees employed by a participating employer prior to 1 January 1994 who have remained employed by a participating employer can be LASF DB members.

The benefits of a LASF DB member can be paid to the member as either:

1 A lump sum, or

2 A combination of a lump sum and lifetime pension if the member is eligible.

For a LASF DB member to be eligible for a life-time pension, the LASF DB member had to be a member of the fund prior to 25 May 1988. A lifetime pension is a guaranteed pension/income stream for the eligible DB member's life and after the eligible DB member's death, for the life of a qualifying spouse (if any) at a reduced rate.

The financial position of the LASF DB plan depends upon a number of factors including:

- The growth in the LASF DB benefit obligations due to such factors as salary increases (including promotional increases), price inflation, employment termination patterns, longevity, pension take-up rates and so on
- The investment performance of the asset portfolio supporting the LASF DB plan, and
- The level of employer contributions.

Our DB investment beliefs

Vision Super is guided by a set of investment beliefs when decisions are made about the investment portfolio. There are tailored beliefs for the LASF DB plan due to the plan's specific circumstances.

Importantly, Vision Super recognises that our primary risk is the funding of the LASF DB plan liabilities which includes seeking investment returns and liquidity needed to be able to pay the LASF DB plan's benefits (including lifetime pensions) as they become due and payable.

To manage this risk, Vision Super has been investigating ways to mitigate the impact of market volatility on the assets supporting the LASF DB plan such as:

1 Tail risk hedging

Tail risk hedging acts as an insurance against the assets of a portfolio falling below a specified value and is used to minimise losses in a market downturn, and

2 Investment strategy de-risking

This involves reducing the investment risk associated with the assets supporting the LASF DB plan and aims to dampen the impact of volatile markets/investment returns (both upside and downside).

The extent that de-risking can be implemented needs to be balanced against the expected lower investment returns. Currently, it is not practical to remove all the investment risk because lower expected investment returns potentially increases the need for higher contributions from employers.

The following is an extract of our investment beliefs that specifically relate to the LASF DB plan:

Belief 8

We believe that meeting the real long-term target returns (after fees and taxes) is most important with a focus on achieving the returns assumed by the Actuary. Negative returns have adverse consequences on meeting this primary target, so we integrate an element of downside risk management into our investment processes.

Belief 9

We believe our primary risk is the need to make additional calls on employers to fund liabilities. This has ramifications for our relationship with key stakeholders and on their businesses.

Belief 10

We believe that maximising net returns is more important than fees in their own right. We have a strong awareness of overall fees paid. We seek to achieve 'value for money' for our fees bearing in mind market comparatives and the overall net return goal.

Belief 11

We believe that an appropriate timeframe for making investment decisions is three to five years. We consider investment decisions in the context of the investments required to meet the long-term nature of the liabilities of the Defined Benefit Plan.

A full set of Vision Super's investment beliefs can be downloaded at:
www.visionsuper.com.au/investments/our-investment-beliefs

As appropriate, Vision Super will implement different investment strategies from time to time to manage the assets supporting the LASF DB plan.

The Fund Actuary

Management of a DB arrangement is complex. In accordance with legislative requirements, Vision Super has appointed a Fund Actuary to assist with the management of the LASF DB plan. The Fund Actuary carries out regular reviews/investigations of the LASF DB plan. Generally, a major investigation is carried out every three years. Because the LASF DB plan provides lifetime pensions, an annual review is carried out for the years where a major investigation is not carried out. The purpose of each investigation/review is:

- To meet the requirements of the LASF Trust Deed and the relevant superannuation legislation
- To examine the current financial position of the LASF DB plan
- To provide advice to the trustee on the funding arrangements (ie the contributions that the participating employers should be making)
- To provide advice to the trustee on the self-insurance arrangements within the LASF DB plan
- To provide actuarial certification in respect of the funding of pension entitlements, and
- To meet the requirements of APRA's Prudential Standards SPS 160 (refer below).

Contributions

Based on advice from the Fund Actuary, Vision Super's trustee determines the amount of contributions that should be paid by the participating employers.

To assist the participating employers, Vision Super issues regular invoices to each employer specifying the amount of contributions that the employer should pay to meet their DB obligations.

The contributions from the participating employers are pooled together to pay the defined benefits as they become payable regardless of whether the DB member is a current employee/former employee of a particular employer.

There is no proportional split of the DB liabilities, assets or costs between the participating employers as the DB obligation is a floating obligation between the participating employers. The only time that the aggregate obligation is allocated to specific employers is when a funding call is made (refer below).

Winding-up of participating employers

Unlike many DB arrangements, the LASF DB arrangement was originally set up under an Act of the Victorian Parliament. When this legislation was repealed, all participating employers contributing to the LASF DB plan at 1 July 1988 were required to continue to be participating employers.

In the event that a participating employer is wound-up, the DB obligations of that employer will be transferred to that employer's successor.

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APRA and the LASF DB plan

As the superannuation fund regulator, APRA monitors the financial condition of all DB arrangements and has set a number of requirements that DB trustees must adhere to. These requirements include:

- Appointing a Fund Actuary to undertake, and report on, regular actuarial investigations into the financial position of the DB plan
- Arranging for an interim actuarial investigation in circumstances where required under the superannuation legislation
- Implement a funding plan where the financial position of the DB plan is not satisfactory, and
- Arranging for regular actuarial oversight of any self-insurance arrangements in the DB plan.

DB funding requirements

APRA has issued a prudential standard (Prudential Standard SPS 160 – Defined Benefit Matters (SPS 160)) which sets out the funding requirements for a DB plan. Under this standard:

- The vested benefits index (VBI) is the measure to determine whether there is an unfunded liability, and
- Any unfunded liability that arises must be rectified within three years[1].

Under SPS 160, DB plans are generally required to be in a 'satisfactory financial position'. For these purposes, the value of the assets of the DB plan must be sufficient to cover the vested benefit liability of the DB plan.

The vested benefit liability of a DB plan is equal to the value of the total benefits that would be payable by the DB plan if all the members voluntarily terminated their service with their employer at that time. Any lifetime pension benefits in a DB plan are also included in the vested benefit calculations.

[1] In some circumstances, APRA may approve a longer period.

Vested benefit index (VBI) as the funding indicator

Under SPS 160, the VBI is used to determine if a DB plan is in a satisfactory or unsatisfactory financial position.

The VBI is calculated as follows:

$$\text{VBI} = \frac{\text{Market value of assets}}{\text{Total of vested benefits}}$$

A VBI of 100% or greater means that the value of the assets supporting the DB plan are more than sufficient to cover the vested benefit liabilities of the plan at that date.

As a result, the DB plan is in a satisfactory financial position.

A VBI less than 100% means that the value of the assets supporting the DB plan are not sufficient to cover the vested benefit liabilities of the plan at a particular date.

As a result, the DB plan is in an unsatisfactory financial position.

A number of assumptions need to be made to be able to determine a DB plans VBI. The long-term assumptions used in the 30 June 2015 review were:

Net investment returns	7.0% pa
Salary increases	4.25% pa
Price inflation	2.5%

These assumptions may vary from time to time due to a number of factors including:

- The strategic asset allocation (SAA) of the asset portfolio supporting the DB plan
- The anticipated earnings of the DB plan based on that SAA, and
- The employer’s anticipated long-term salary growth (including promotional increases).

Shortfall limit

Under SPS 160, each DB plan must have a shortfall limit. The shortfall limit represents the lowest VBI that the DB plan can have where there is an expectation that corrections to temporary market fluctuations could result in the VBI returning to at least 100% within one year.

A shortfall limit must not be set at a threshold where the DB plan may become technically insolvent before breaching the shortfall limit. A DB plan is technically insolvent if there are insufficient assets to pay the DB plan's minimum requisite benefits (MRBs) (refer below).

A DB plan's VBI must generally be kept above its nominated shortfall threshold between actuarial investigations. When an actuarial investigation/review is in progress, the fund's VBI must be at least 100% at the time that the actuarial report is signed.

VBI monitoring

Vision Super reviews the VBI position of the LASF DB plan at regular intervals.

While the LASF DB plan's VBI is above 100%, the VBI position is reviewed on a quarterly basis using the same methodology used by the Fund Actuary during the Fund Actuary's investigations/reviews.

The usual timetable for the quarterly measurement of the VBI and the relevant shortfall; thresholds are as follows:

QUARTER ENDING	VBI THRESHOLD
30 September	97%/100%
31 December	97%
31 March	97%
30 June	100%

As the LASF DB plan is a closed plan, the VBI is very sensitive to the performance of investment markets. When the investment market is more volatile and trending downwards, the VBI position is monitored more regularly.

Restoration plans

Where a DB plan's VBI is lower than its nominated shortfall limit (or 100% at the time of an actuarial investigation/review), an actuarial investigation must be carried out unless an actuarial investigation is due to commence within six months. Depending upon the findings of the Fund Actuary, a restoration plan may be required to be developed to return the DB plan to a satisfactory position within three years of the valuation date.

The restoration plan may be developed in consultation with the participating employers and the Fund Actuary and must be approved by the Board within three months of receiving the Fund Actuary's report.

The above can be summarised as follows:

VBI is	Greater than 100%	100%	Less than 100% but greater than the shortfall limit	Less than the shortfall limit
Satisfactory position	Yes	Yes	No	No
Action required	Regular monitoring	More frequent regular monitoring	Continual monitoring Potential restoration plan required if it occurs when an actuarial investigation is being completed	Actuarial investigation may be required to be carried out Potential restoration plan required

The nominated shortfall threshold for the LASF DB Plan is currently 97%.

Because of the SPS 160 requirements, more frequent but smaller funding calls could arise than would otherwise arise had SPS 160 not been introduced by APRA.

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DB contributions

As indicated above, Vision Super determines the amount of contributions that should be paid by the participating employers.

When making recommendations on the contributions to be made to a DB plan, the Fund Actuary takes into consideration a number of factors including whether:

- The DB plan has any lifetime pension obligations
- The DB plan is in a satisfactory/unsatisfactory financial position
- There is actuarial surplus/VBI surplus (refer below) in the DB plan.
- Usually, the following types of contributions made to a DB plan are:
- Regular contributions, and
- Irregular/ad hoc contributions.

Regular contributions

Currently, the LASF DB participating employers are required to make regulator contributions to the LASF DB plan. These contributions are generally paid quarterly based on a percentage of the salaries of their active DB employees. Currently, this percentage has been set to reflect the superannuation guarantee (SG) contribution rate and will increase in line with any increase to the SG contribution rate.

In addition, the participating employers are required to make top-up contributions to cover the excess of the benefits paid to a DB member where the member's retrenchment benefit is greater than the resignation/retirement benefit that would have otherwise been payable to the member.

The above regular contributions may vary from time to time.

Irregular/ad hoc contributions

There may be circumstances where the Fund Actuary recommends to Vision Super that the participating employers should make an irregular/ad hoc contribution to the DB plan.

These recommendations typically arise where the DB plan is in an unsatisfactory financial position and the Fund Actuary considers that an additional contribution(s) is required. These contributions are typically referred to as 'funding calls' (refer below).

Additional DB employer obligations

As a participating employer of a DB plan, it is still essential for the employer to comply with all their superannuation compliance obligations including their SG, payroll tax and workers compensation obligations.

SG compliance obligations

The Fund Actuary issues Benefit Certificates on a regular basis which set out the basis upon which employers meet their SG obligations in relation to their DB employees in the DB plan. In particular, it provides a description of the MRBs in the DB plan.

The LASF DB Benefit Certificates are available at:
www.visionsuper.com.au/db

Each certificate is generally valid for five years.

The Fund Actuary also issues Funding and Solvency Certificates which certify that the DB plan is expected to be solvent (ie the assets of the plan exceed the MRBs) at the expiry of the certificate if contributions are made at the level set out in the certificate.

The LASF DB Funding and Solvency Certificates are available at:
www.visionsuper.com.au/db

Each certificate is generally valid for five years unless a notifiable event occurs.

Workers compensation and payroll tax

All employers pay workers compensation premiums and some pay payroll tax.

Generally, an employer's DB contributions are included in the employer's workers compensation and payroll tax calculations at the time that the payment is made.

However, where a funding call is made, a portion of the funding call payment may be excluded for workers compensation/payroll tax calculations.

Where appropriate, the Fund Actuary provides letters advising what proportion of a funding call is assessable for workers compensation and payroll tax.

Copies of these letters are available at:
www.visionsuper.com.au/db

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Restoration plans

As indicated above, the purpose of a restoration plan is to return the DB plan to a satisfactory financial position within the three years from the valuation date. The difference between the DB plan's VBI and 100% is often referred to as a funding deficit or an unfunded liability.

Depending on the size of the funding deficit/unfunded liability, there may be a number of ways for the DB plan to be returned to a satisfactory position. As such, there are no prescribed actions that need to be included as part of the restoration plan.

Usually, Vision Super would consult with the Fund Actuary, the participating employers/employer organisations and member organisations while it is formulating the restoration plans. Vision Super would also consult with APRA and the Victorian State Government.

Funding calls

One option that may be included in a restoration plan is a funding call.

The amount of a funding call will depend on a number of factors including the size of the funding deficit/unfunded liability, expected investment returns over the next 12 months/two years, expected timing of the DB member retirement/resignations/terminations, and so on.

If a funding call is made, each participating employer is required to make a contribution to the DB plan to cover the amount of the funding deficit/unfunded liability which has been determined by the Fund Actuary.

The timing of when the payment of the contribution is required also depends upon a number of factors. In some circumstances, it may be possible that the funding call could be payable in instalments.

Apportionment methodology

As the LASF DB plan is a pooled multi-employer sponsored plan, any funding call needs to be allocated amongst the various participating employers in a fair and equitable manner.

An apportionment methodology was agreed between the participating employers and Vision Super in 1997 in the lead up to the first funding call following the closure of the LASF DB plan to new members and the abandonment of the 30 year funding plan.

Any funding call that is made will be split into a number of components. A brief description of how a funding call is apportioned between the LASF DB plan participating employers is as follows:

COMPONENTS OF THE FUNDING CALL	PRE-1 JULY 1993 COMPONENT	POST-30 JUNE 1993 COMPONENT
Lifetime pension component	Apportioned to each participating employer based on the employer's share of the 30 June 1993 defined benefit salaries	
Active DB members component - pre 1 July 1993 service	Apportioned to each participating employer based on the employer's share of the 30 June 1993 defined benefit salaries	
Active DB members component - post 30 June 1993 service		Apportioned to each participating employer on the employer's share of the total active DB salaries at the date of the actuarial investigation

In the event that a participating employer is wound-up, the DB obligations of that employer will be transferred to that employer's successor.

Funding surpluses

Where a fund is in a satisfactory financial position, this indicates that there is a VBI surplus. This means that the market value of the DB plan's assets supporting the DB obligations exceed the vested benefits that the DB members would have been entitled to if they had all exited the DB plan on the same day.

As part of the triennial actuarial investigation, the Fund Actuary also considers whether there is an 'actuarial shortfall/surplus'. This actuarial shortfall/surplus considers whether assets supporting the DB plan plus expected future contributions exceed the expected future benefits and expenses of the DB plan. Effectively, this is a measurement of the assets supporting the DB plan compared to the total service liability of the DB plan.

An actuarial surplus means that the current value of the assets supporting the DB plan plus expected future contributions exceeds the value of expected future benefits and expenses of the DB plan.

Due to the nature of the contractual obligations between the participating employers and Vision Super, and that the LASF DB plan includes lifetime pensioners and their reversionary beneficiaries, it is unlikely that the LASF DB plan will be wound up.

In the unlikely event that the LASF DB plan is wound up and there is a surplus in the LASF DB plan, the surplus cannot be applied for the benefit of the DB employers where there are on-going DB obligations. The surplus would be transferred to the fund accepting those DB obligations (including the lifetime pension obligations) of the LASF DB plan.

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Need more information?

More information about the LASF DB plan can be found at:
www.visionsuper.com.au/db

This webpage is regularly updated and includes:

- APRA DB prudential requirements
- Vested benefit index (VBI)
- Sample employer superannuation notes for financial statements
- Actuarial investigation reports
- Benefit certificates
- Funding and solvency certificates
- Funding apportionment methodology
- Workers compensation and payroll tax, and
- Frequently asked questions (FAQs).

Alternatively you can call your Account Manager or the Employer hotline on 1300 304 947.

In addition, regular DB employer briefing sessions are held to provide an update to participating employers on current developments for the LASF DB plan including:

- The latest VBI position
- Investment strategy updates,
- Fund Actuary updates, and
- Other relevant business updates.

The briefing sessions provide a forum for employers to meet one another, to ask questions to the Vision Super team and allow all employers to hear the responses of the team to the various questions.

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Key dates in our history

DATE	EVENT
1947	LASF was established by an Act of Parliament
1979	Lifetime pensions introduced backdated to 1947
1982	Defined benefits introduced backdated to 1947
1988	Lifetime pensions closed to new members Improved retirement, resignation and retrenchment benefits introduced
1993	LASF Defined Benefit plan closed to new members 30 year funding plan abandoned
1996	Local government reform – significant number of retrenchments and retrenchment benefits of $1+ billion paid
1997	Actuarial shortfall ($321^ million) (Funding call made in 1998*)
1998	LASF became a regulated superannuation fund governed by a Trust Deed
2002	Actuarial shortfall ($127^ million) (Funding call made in 2003*)
2003	LASF changed its trading name to Vision Super
2008	Global financial crisis Actuarial shortfall ($71^ million) (Partial funding call made in 2010*)
2011	Actuarial shortfall ($406^ million) (Funding call made in 2012*)

^ Excluding contributions tax
* Prior funding calls are not indicators of future funding calls.

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Abbreviations

ABBREVIATION	MEANING
APRA	The Australian Prudential Regulation Authority
ASIC	The Australian Securities and Investments Commission
DB	Defined benefit
LASF	Local Authorities Superannuation Fund
MRBs	Minimum requisite benefits. The benefit amount required to be paid to a member to meet the employer's compulsory superannuation guarantee (SG) requirements.
SAA	Strategic asset allocation
SG	Superannuation guarantee
SPS	Superannuation prudential standard
VBI	Vested benefit index

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Vision Super Pty Ltd ABN 50 082 924 561, Australian Financial Services Licence 225054, is the Trustee of the Local Authorities Superannuation Fund ABN 24 496 637 884.

Pooled Super Pty Ltd ABN 11 142 516 005 is the Trustee of the Vision Pooled Superannuation Trust ABN 40 836 494 603.

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