

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:

Defined Benefit Plan (Division C of the Trust Deed):

- 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 (which has been invoiced effective 1 July 2011); and
- The actuarial shortfall of \$406 million as at 31 December 2011 (which has been invoiced effective 1 July 2013).

City of Melbourne Plan (Division D of the Trust Deed):

- As at 30 June 2013, there remained a contribution receivable of \$0.3 million in respect of prior actuarial shortfalls that have been invoiced to City of Melbourne and other authorities.

Parks Victoria Plan (Division E and F of the Trust Deed):

- As at 30 June 2013 there remained a contribution receivable of \$2.3 million in respect of prior actuarial shortfalls that have been invoiced to Parks Victoria.

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

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

Local Authorities Superannuation Fund ("the Fund").

5. Date of Effect of this Certificate:

1 July 2013

This Certificate replaces my Certificate issued effective 27 March 2012 and dated 26 June 2012 due to the occurrence of notifiable events. The previous Certificate was due to expire on 31 December 2016.

The current Certificate has been issued for a term of 5 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 30 June 2017.

6. Date this Certificate Ceases to have Effect:

30 June 2018

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 \$2 million or more for the Defined Benefit plan or Vision Super Saver, and \$200,000 or more for the City of Melbourne plan or Parks Victoria plan, 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 ratio of the net market value of the assets of the Defined Benefit plan, City of Melbourne plan have been calculated to be less than 90% of the vested benefits (or for the Parks Victoria plan have been calculated to be less than 85% of the vested benefits) at any time after the date of signing this Certificate, unless within three months of the date of the occurrence of the event the actuary advises that the Certificate should not cease to have effect on this account. The date of occurrence of the event shall be the date the Trustee becomes aware that the event has occurred;
- The Defined Benefit plan's, City of Melbourne plan's or Parks Victoria plan's investment return in any quarter is less than negative 10%, unless within three months of the date of the occurrence of the event the actuary advises that the Certificate should not cease to have effect on this account. The date of occurrence of the event shall be the date the Trustee becomes aware that the event has occurred;
- average salary increases within a quarter exceed 10% for any one of the Defined Benefit plan, City of Melbourne plan or Parks Victoria plan members, unless within three months of the date of the occurrence of the event the actuary advises that the Certificate should not cease to have effect on this account. The date of occurrence of the event shall be the date the Trustee becomes aware that the event has occurred;
- the Trustee becomes aware that, in any financial year, more than 25% of the Defined Benefit plan's, City of Melbourne plan or Parks Victoria plan's defined benefit assets have been paid out as benefits or rolled over to the Fund's accumulation divisions, unless within three months of the date of the occurrence of the event the actuary advises that the Certificate should not cease to have effect on this account. The date of occurrence of the event shall be the date the Trustee becomes aware that the event has occurred.

In addition to these notifiable events, the Certificate will automatically expire under the SIS legislation if (and when):

- another Funding and Solvency Certificate takes effect in respect of the Fund; the Actuary to the Fund withdraws the Certificate by written notice to the Trustee;
- the employer fails to pay contributions at the rates specified in the Certificate;
- any payment of surplus is made to an employer sponsor; or
- any changes are made to the level or method of calculation of the benefits payable from the Fund, whether by amendment to the Trust Deed of the Fund or otherwise.

Should any of these events occur, the Certificate must be replaced within three months. The Actuary may be required to carry out calculations before issuing a replacement certificate. Therefore it is important that the Trustee regularly monitor the Fund for the occurrence of such an event and notify the Actuary as soon as possible should such an event occur.

8. Minimum Requisite Benefits

The Certificate relates to the Minimum Requisite Benefits (MRBs) described in the Benefit Certificate effective 1 July 2013 issued by me on 19 August 2013, with an expiry date of 30 June 2018, 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 30 June 2013.
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 30 June 2018, the expiry date of the Certificate, if contributions are

made by the Employers of the Members of the Fund, in addition to salary sacrifice contributions, as follows:

Defined Benefit Plan:

- 9.25% of members' salaries from 1 July 2013 to 30 June 2014;
- 9.5% of members' salaries from 1 July 2014 to 30 June 2015;
- 10.0% of members' salaries from 1 July 2015 to 30 June 2016;
- 10.5% of members' salaries from 1 July 2016 to 30 June 2017;
- 11.0% of members' salaries from 1 July 2017 to 30 June 2018;
- Outstanding amounts that have already been invoiced to Employers and are included in the Fund's financial statements as contributions receivable; and
- Additional payments as a consequence of retrenchment.

City of Melbourne plan:

- 13% of members' salaries;
- Outstanding amounts that have already been invoiced to Employers and are included in the Fund's financial statements as contributions receivable; and
- Quarterly additional payments for exiting members (which may not be required for exits other than retrenchments when the Vested Benefit Index is 100% or more).

Parks Victoria plan:

- 12% of members' salaries for Division E members;
- Outstanding amounts that have already been invoiced to Employers and are included in the Fund's financial statements as contributions receivable;
- Quarterly additional payments for exiting members (which may not be required for exits other than retrenchments when the Vested Benefit Index is 100% or more); and

- 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. The salary related payments specified above for the defined benefit sub-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.
14. 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 the applicable Superannuation Guarantee Charge rate. 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.
15. Employers should also make contributions in respect of accumulation members of the Fund in accordance with the Trust Deed.
16. The contributions set out in this certificate are expected to be greater than the minimum required to fully fund the MRBs at 30 June 2018.
17. I am not aware of any occurrence between the effective date and the date of signing that would affect the contents of this Certificate.
18. 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
2 September 2013

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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 as at 30 June 2013 is set out below:

Sub-plan	Number of Members	Total Salaries (\$m)
Defined Benefit	4,380	330.8
City of Melbourne	161	14.1
Parks Victoria	92	7.7

In addition there were:

- 4,951 lifetime pensioners with total annual pension entitlements of \$37.7 million;
- 15 fixed term pensioners with total annual pension entitlement of \$0.2 million;
- 2,046 deferred beneficiaries;
- \$3,101.4 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 30 June 2013. The net market value of the Fund assets at 30 June 2013 was \$5,467.1 million.

A summary of the value of assets is provided below:

VALUE OF ASSETS AS AT 30 JUNE 2012	
	\$ Million
Defined Benefit plan*	2,255.8
City of Melbourne plan	61.5
Parks Victoria plan	35.0
Other assets	<u>3,114.8</u>
Total	5,467.1

* includes beneficiaries and lifetime pensioners

The Vested Benefits Index of the defined benefit sub plans as at 30 June 2013 are summarised in the table below:

VESTED BENEFIT INDICES AS AT 30 JUNE 2013*	
	VBI (%)
Defined Benefit plan	100.7%
City of Melbourne plan	104.6%
Parks Victoria plan	95.6%

*Refer to my letter dated 28 August 2013 for more information on the calculation of the VBIs.

Benefits

The benefits provided by the defined benefit sub plans 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 2013. All Trust Deed amendments to the date of this certificate are reflected.

Assumptions

The assumptions used to value Minimum Requisite Benefits and to carry out projections of benefits and assets of the defined benefit sub plans to 30 June 2018, 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 to new members. All new members join Vision Super Saver and receive accumulation style benefits.