



Institute of Actuaries of Australia

PROFESSIONAL STANDARD 400

INVESTIGATIONS OF THE FINANCIAL CONDITION OF DEFINED BENEFIT SUPERANNUATION FUNDS

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1 INTRODUCTION

1.1 Application

1.1.1 This Professional Standard applies to the actuarial investigation of the financial condition of:

- (a) a Fund under Division 9.5 of the SIS Regulations (including a Self Managed Superannuation Fund); and
- (b) a Public Sector Superannuation Scheme.

1.1.2 Work performed under this Professional Standard is Prescribed Actuarial Advice. Members' attention is directed towards the requirements of the Code in relation to Prescribed Actuarial Advice, as well as to Practice Guideline 199.01 (Prescribed Actuarial Advice Reporting).

1.2 Classification

1.2.1 This Professional Standard has been prepared in accordance with the Institute's Policy for Drafting Professional Standards. This Professional Standard must be applied in the context of the Code.

1.2.2 This Professional Standard is binding on Members of the Institute of Actuaries of Australia in respect of all work covered by the Professional Standard.

1.2.3 Non-compliance with this Professional Standard by a Member engaged in work covered by the Professional Standard may constitute Actionable Conduct and may lead to penalties under the Institute's Disciplinary Scheme.

1.2.4 This Professional Standard in itself defines the requirements of the Institute in respect of all work covered by the Professional Standard. If a Member believes that the Professional Standard is ambiguous or for some other reason wishes to seek clarification of it, that Member may consult the Institute's Professional Standards Committee for guidance as to the interpretation of the Professional Standard. Apart from legislation or regulatory standards, no other document, advice or consultation (including Practice Guidelines of the Institute) can be taken to modify or interpret the requirements of this Professional Standard.

1.2.5 Members who find that they cannot carry out work in a manner that complies with this Professional Standard must decline to carry out the work, or terminate their agreement to do so.

1.3 Background

Actuarial investigations, to which this Professional Standard applies, are undertaken in accordance with the SIS Act or, in the case of some Public Sector Superannuation Schemes, other relevant legislation.



1.4 Purpose

The purpose of this Professional Standard is to provide Members with principles and directions that must be followed with regard to the work described in clause 1.1.

1.5 Previous versions

1.5.1 In 1984, the Institute formally adopted Professional Standard No 2 for investigations of Funds.

1.5.2 In May 1995, Professional Standard No 2 was modified and re-issued as Professional Standard 400.

1.5.3 The previous version of this Professional Standard became effective from November 2002.

1.5.4 Previous versions were not limited to valuations made to satisfy SIS requirements.

1.6 Legislation

1.6.1 Section 31 of the SIS Act provides operating standards for regulated Funds, including actuarial standards that will apply to Funds. The standards in relation to the actuarial Investigation of a Fund are set out in SIS Regulations 9.29 and 9.30, as amended by Modification Declarations issued by a Regulator from time to time (including Modification Declaration No. 23 issued by APRA). As a general rule, a Trustee of a Fund must obtain an actuarial Investigation on establishment of a Fund and every three years thereafter (or every year thereafter, unless granted an exemption by the Regulator, if the Fund has one or more members being paid a Defined Benefit Pension). The Regulator may direct a Fund's Trustee to obtain an actuarial Investigation of the Fund at any other time.

1.6.2 In addition, SIS Regulations 9.31, 9.32 and 9.33 set out the legislative requirements for the contents of Reports in relation to the actuarial Investigation of a Fund.

1.6.3 The Member must be familiar with relevant provisions of the SIS Act, Superannuation Guarantee (Administration) Act 1992 (Cth), the Income Tax Assessment Act 1936 (Cth) and the Income Tax Assessment Act 1997 (Cth).

1.6.4 In relation to Public Sector Superannuation Schemes, the Member must also take into account any other Commonwealth or State legislation that applies to such a scheme.

1.6.5 If there is a difference between this Professional Standard and the applicable legislation, the legislation takes precedence. In this context, legislation includes regulations, prudential standards and subordinate standards and rules.



1.6.6 A reference to legislation or a legislative provision in this Professional Standard includes any statutory modification, or substitution of that legislation or legislative provision and any subordinate legislation issued under that legislation or legislative provision.

1.6.7 Sections 129 to 130C of the SIS Act (inclusive) impose certain obligations on Members. Members need to understand the obligations that apply to them in their circumstances. This may require Members to seek legal or other professional advice.

2 COMMENCEMENT DATE

This Professional Standard applies to Investigations with an Effective Date on or after 1 October 2010.

3 DEFINITIONS

3.1 In this Professional Standard:

'Accrued Benefit' means the amount of a prospective benefit attributable to past membership or service to the relevant date, where the apportionment is in accordance with Professional Standard 402 (Determination of Accrued Benefits for Defined Benefit Superannuation Funds).

'Actuarial Value' means the present value of a future payment, making allowance for the probability of survival to the date on which the benefit falls due, and for the expected (or, where appropriate, notional) investment return which may be earned during that period.

'APRA' means the Australian Prudential Regulation Authority (or its successors from time to time).

'Code' means the Code of Professional Conduct of the Institute.

'Defined Benefit Pension' has the same meaning given in SIS Regulation 9.04E.

'Defined Benefit Superannuation Fund' has the same meaning as applies to 'defined benefit fund' for the purposes of SIS Regulations 9.26 – 9.30 under Modification Declaration No 23. The term includes any Fund from which Defined Benefit Pensions are paid, where those pensions are not fully backed by annuity contracts or otherwise fully insured.

'Discretion' is the right provided under the Trust Deed for the Fund Sponsor and/or Trustee to vary the amount of a benefit or employee contribution or to vary the mode of payment of a benefit.

'Effective Date' means the date of the valuation of the assets and liabilities of the Fund.



'Exempt Public Sector Superannuation Scheme' has the same meaning given in section 10 of the SIS Act.

'Fund' means a Defined Benefit Superannuation Fund.

'Fund Sponsor' means either the employer-sponsor of a Fund (as defined in section 16 of the SIS Act) or, in the case of a Self Managed Superannuation Fund, the individual or individuals who make, or ordinarily make, contributions to the Self Managed Superannuation Fund.

'Funding Status' means the extent to which the benefits of members of a Fund, in respect of past membership or service to the relevant date, are covered by the Fund's assets.

'Funding Method' means the systematic basis for meeting the cost of benefits.

'Funding Status Measures' means the various ratios of assets to benefits based on the definitions of benefits and assets as set out in Section 5 of this Professional Standard.

'Fund Termination Benefits' are the benefits (or the value of the benefits where appropriate) which would be payable, as set out in the Fund's Trust Deed, if the Fund was terminated.

'Investigation' means an actuarial investigation to which this Professional Standard applies.

'Investment Policy' means the policy of a Fund's Trustee that:

- (a) sets out the objectives for the investment of the Fund's assets;
- (b) governs how the Fund's assets are invested and managed to achieve those objectives; and
- (c) provides benchmarks for investment performance, liquidity and diversity of assets, and monitoring of investments.

'Material' means relevant to the Fund's circumstances and is either important or essential in the opinion of the Member. For this purpose, 'Material' does not have the same meaning as that used in Australian accounting standards. 'Materiality' has a meaning consistent with 'Material'.

'Minimum Requisite Benefit' in relation to a member, means the benefit certified by a Member in a relevant benefit certificate as the minimum benefit in respect of the member.

'Net Assets' means the assets that are available to meet the liabilities being valued, after making appropriate adjustments for any accrual items such as receivables, payables and other provisions.



'Net Market Value' means, in accordance with Australian Accounting Standard AAS 25, the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting all the costs expected to be incurred in realising the proceeds of such a disposal.

'Option' means a benefit choice available to the member of a Fund, such as receiving a benefit as a lump sum or life pension using fixed commutation factors.

'Other Benefits' are benefits of defined contribution members, active defined benefit members entitled to late retirement benefits, former members, pensioners, deferred beneficiaries or members' dependants which need to be taken into account, including:

- (a) any former members' or dependants' pensions (including allowance for pension increases provided for either by the Trust Deed or in accordance with precedent or the intentions of the Trustee and/or Fund Sponsor);
- (b) any former members' or dependants' outstanding account based pension balances;
- (c) deferred benefits for former members or dependants; and
- (d) benefits of an accumulation nature held in respect of active defined contribution or defined benefit members or former members.

'Prudential Requirements' means the requirements under Commonwealth, State or Territory legislation in Australia (including regulations, standards or rules) governing Prescribed Actuarial Advice.

'Public Sector Superannuation Scheme' has the same meaning as set out in section 10 of the SIS Act and, for the avoidance of doubt, includes an Exempt Public Sector Superannuation Scheme.

'Regulated Superannuation Fund' has the same meaning given in section 19 of the SIS Act.

'Regulator' means any of APRA, the Australian Securities and Investment Commission, the Australian Taxation Office, any other relevant regulator for the purposes of the SIS Act, or any successor to any of them.

'Report' means a report prepared by a Member under this Professional Standard or its predecessors as the context requires.

'Retrenchment Benefit' means the benefit (or the value of the benefit where appropriate – for example, where benefits are in the form of a pension or deferred benefit), if any, set out in the Fund's Trust Deed as being payable on the retrenchment of a member.



'Self Managed Superannuation Fund' has the same meaning given in section 17A of the SIS Act.

'SIS Act' means the Superannuation Industry (Supervision) Act 1993 (Cth).

'SIS Regulation' means the Superannuation Industry (Supervision) Regulations 1994 (Cth) (as modified by any Modification Declaration issued by the Australian Prudential Regulation Authority from time to time).

'Trust Deed' includes, for Public Sector Superannuation Schemes, the rules of the Fund as prescribed in legislation.

'Trustee' has the same meaning as set out in section 10 of the SIS Act.

'Vested Benefit' means the benefit (or the value of the benefit where appropriate – for example, where benefits are in the form of a pension or deferred benefit) to which the member of the Fund would have the right to payment if the member voluntarily ceased employment, subject to a minimum of the Minimum Requisite Benefit.

- 3.2 A word that is derived from a defined word has a corresponding meaning.
- 3.3 Other capitalised terms used in this Professional Standard have the same meaning as set out in the Code.

4 MATERIALITY

- 4.1 The Member must take Materiality into account when undertaking and reporting on an Investigation. In determining whether something is Material, the Member must take into account the purpose of the Investigation. Whether something is Material or not will always be a matter requiring the exercise of the Member's professional judgment.
- 4.2 If, in the Member's opinion, a matter required to be considered under this Professional Standard is not Material to the Investigation in the circumstances, then:
- (a) the Member must document that the matter is not Material and provide reasons for forming that opinion, but does not have to further consider that matter; and
 - (b) if the matter is not relevant to the Fund's circumstances, the matter may be omitted from the Report; or
 - (c) if the matter is relevant to the Fund's circumstances, the Member must state in the Report that the matter is not Material and provide reasons for such opinion.
- 4.3 In relation to Public Sector Superannuation Schemes, the Member must take into account the impact of any actual or implicit Government guarantee when determining whether something is Material.



5 INVESTIGATIONS – METHOD AND ASSUMPTIONS

5.1 Matters for consideration

5.1.1 In undertaking an Investigation of a Fund, a Member must consider and document, in respect of the Fund, each of the matters listed below:

- (a) purpose of the Investigation and terms of reference;
- (b) information and data;¹
- (c) investments;²
- (d) valuation of assets, including assumptions;³
- (e) Funding Method (including valuation of liabilities);⁴
- (f) considerations applying to Defined Benefit Pension Funds;⁵
- (g) Material risks;⁶ and
- (h) any other matter relevant to the Investigation that the Member identifies as Material and that is not detailed elsewhere in this Professional Standard.

5.1.2 The Member must, in respect of the Fund, also consider and document each of the matters listed below where any of these matters have not been included in any previous Report having an Effective Date within three years of the Effective Date of the Report:

- (a) financial and demographic experience;⁷
- (b) insurance arrangements;⁸
- (c) Funding Status and Funding Status Measures (except for unfunded or partially funded Public Sector Superannuation Schemes);⁹
- (d) valuation results and recommended future contribution rates; and
- (e) sensitivity analyses.¹⁰

¹ Refer clause 5.2.

² Refer clause 5.3.

³ Refer clauses 5.4 and 5.6.

⁴ Refer clauses 5.5 and 5.6.

⁵ Refer clause 5.7.

⁶ Refer clause 5.17.

⁷ Refer clause 5.8.

⁸ Refer clause 5.9.

⁹ Refer clauses 5.10 to 5.14 inclusive.



- 5.1.3 If a previous Investigation has been conducted, the Member must also consider and document the reasons for the differences in the results of the Investigation compared with the results of the previous Investigation. For this purpose, the previous Investigation may have been undertaken under the previous version of Professional Standard 400.
- 5.1.4 If the Member identifies additional Material matters not detailed in clauses 5.1.1 or 5.1.2, including any significant changes in experience between the Effective Date and the date of signing the Report which would be likely to have a Material effect on the conclusions and recommendations in the Report, the Member must also consider and document each of these matters.
- 5.1.5 The Member must undertake an Investigation covering all of the matters set out in clauses 5.1.1 and 5.1.2 (subject to clause 4), as well as any additional matters set out in clause 5.1.4, at least once every three years. For other Investigations performed within three years of the previous Investigation that covered all such matters (such as Investigations performed for the purposes of Modification Declaration No 23 issued by APRA), the Member may determine that only the matters listed in clause 5.1.1 are necessary for that purpose.
- 5.1.6 The Member must:
- (a) consider declining to undertake an investigation of a Fund if:
 - (i) the Member considers that the data or information provided by the Fund's Trustee is insufficient for the purpose of the Investigation;
 - (ii) the Trustee seeks to direct the Member to use only a particular Funding Method that, in the Actuary's opinion, would produce misleading results; or
 - (iii) the Member considers that the circumstances of the Investigation are such that his or her advice may otherwise potentially be misleading; and
 - (b) if he or she decides not to decline to undertake the Investigation in the circumstances set out in clauses 5.1.6(a)(i)-(iii), comply with clauses 6.4.5, 6.4.6 and 6.8.

5.2 Information and data

The Member must:

- (a) ask the Fund's Trustee to provide all relevant information required for the Investigation, including data and reports; and

¹⁰ Refer clause 5.16.



- (b) take reasonable steps to verify the consistency, completeness and accuracy of the information provided by the Fund, in order to determine whether or not the Member is able to rely on the information provided. The Member must document both the steps undertaken to verify, and the decision on, the information's reliability.

5.3 Investments

5.3.1 The Member must document the Investment Policy, crediting rate policy and investments reserving policy (if any) in respect of the Fund.

5.3.2 The Member must consider and document the general suitability of the Fund's Investment Policy after considering:

- (a) the nature and timing of the liabilities;
- (b) the covenants under the SIS Act and SIS Regulations;
- (c) any funding shortfalls;
- (d) the support of the Fund Sponsor in addressing any shortfall at the Effective Date or in the future; and
- (e) any other Material matters.

5.3.3 The Member must consider and document:

- (a) the general suitability of the Fund's policies for crediting investment earnings to members' accounts;
- (b) the general suitability of the Fund's policies for investments reserving, if applicable; and
- (c) any Material issues arising from the Fund's Investment Policy.

5.4 Valuation of assets

5.4.1 In placing a value on the assets for the purposes of the Investigation, the Member must comply with Professional Standard 404 (Valuation of Superannuation Fund Assets).

5.4.2 The method of valuing the assets must:

- (a) have regard to the purpose of the valuation (for example, to determine contribution rates or a particular Funding Status Measure);
- (b) be consistent with the method and assumptions used for determining the value of liabilities; and
- (c) have regard to the nature of the assets held by the Fund.



5.5 Funding Method (including valuation of liabilities)

- 5.5.1 The amounts and the timing of payments of benefits from a Fund cannot be known precisely in advance. They will depend on such things as salary increases and death, disablement and resignation rates of the members of the Fund.
- 5.5.2 Recommended contributions for Fund Sponsors are estimates, in accordance with a particular Funding Method, of the payments to be made to the Fund which, together with existing assets, future member contributions and future investment income, will meet the benefits, tax and expenses payable by the Fund.
- 5.5.3 Funding Methods fall into two main groups – accrued benefit methods and projected benefit methods – both of which require assumptions regarding future experience and the value to be placed on existing assets.
- 5.5.4 In selecting the Funding Method, the Member must incorporate actuarial principles that the Member considers reasonable in the circumstances. Except for unfunded or partially funded Public Sector Superannuation Schemes, the method must aim to provide that:
- (a) members' benefit entitlements (including any pension increases provided by the Trust Deed or in accordance with either precedent or the intentions of the Trustee and/or Fund Sponsor) are fully funded before the members retire; and
 - (b) the assets of the Fund from time to time, after making full provision for the entitlements of any beneficiaries or members who have ceased to be employed, exceed the aggregate of benefits which employed members would reasonably expect to be payable to them on termination of membership, including the expenses of paying those benefits, and having regard to the provisions of the Trust Deed and the likely exercise of any Options or Discretions.
- 5.5.5 The Funding Method selected will depend on:
- (a) the available information;
 - (b) the nature of the data;
 - (c) whether new members are being admitted to the Fund or not;
 - (d) the operating environment and circumstances of the Fund and the Fund Sponsor;
 - (e) relevant industry practice in relation to the type of fund being investigated (for example, a private or public sector fund, a Self Managed Superannuation Fund, a small APRA fund or other APRA-regulated fund);



(f) the manner in which Options and Discretions are likely to be exercised; and

(g) any other matters identified by the Member as being relevant.

5.5.6 The Member must document the reasons for the chosen Funding Method. If the data or other factors limit the Member's choice of Funding Methods, then the Member must document this together with any consequent limitations.

5.6 Assumptions

5.6.1 The Member must determine assumptions that are suitable for the Fund in its circumstances and, in the Member's opinion, are either:

(a) from within the best estimate range of assumptions; or

(b) more conservative than this range provided the circumstances, based on the Member's professional judgment, justify the use of more conservative assumptions.

5.6.2 When selecting assumptions, the Member must:

(a) be satisfied as to their suitability in relation to the expected future experience of the Fund;

(b) consider the consistency of the assumptions as a whole;

(c) consider the past experience of the Fund. If the experience of the Fund is not sufficiently credible, then the Member must consider the available relevant industry statistics or other information; and

(d) take into account any special features of, or trends in, the experience.

5.6.3 The Member must determine assumptions (whether explicitly or implicitly, as the case may be) in relation to:

(a) the expected (or, where appropriate, notional) rate of earnings on investments;

(b) future increases in benefits due to salary increases, the application of a crediting rate or investment returns or pension increases (as provided by the Trust Deed or in accordance with either precedent or the intentions of the Trustee and/or Fund Sponsor);

(c) taxation of contributions and investment income;

(d) expenses incurred in running the Fund, including the costs of insurance and in the provision of investment management;

(e) the rate and mode of exit of members of the Fund; and



- (f) any other experience item the Member considers relevant and significant.

5.7 Considerations applying to Defined Benefit Pension Funds

The Member must consider and document the following issues in relation to Funds providing Defined Benefit Pensions:

- (a) whether the Fund has sufficient liquidity to provide for pensions either through investment income, sale of the Fund's assets or contributions from the Fund Sponsor;
- (b) the suitability of assets for matching the expected income streams;
- (c) the sufficiency of assets, including future contributions, to provide for the risk of longevity;
- (d) the treatment of any surplus on the death of a pensioner;
- (e) whether some or all of the members of the Fund are in receipt of pensions; and
- (f) the implications in the event the Fund were to reach an unsatisfactory financial condition.

5.8 Financial and demographic experience

The Member must consider and document:

- (a) the significant features or trends in the Fund's recent experience, over at least the period since the last consideration of the experience. This assessment must consider investment returns, salary increases, membership and decrement rates, including any abnormal features; and
- (b) deviations of the recent experience from the assumed experience and the reasons, if known, for such deviations.

5.9 Insurance arrangements

- 5.9.1 The Member must document the insurance arrangements of the Fund, including any self insurance arrangements for death and/or disability benefits. The insurance arrangements include the insurer, any support of the Fund Sponsor in the event of poor claims experience, the terms of the cover under the insurance policy or self insurance arrangement and the formula used to determine the sum insured. Special arrangements may apply to the funding of death and disability benefits in some Public Sector Superannuation Schemes and, where applicable, these must be documented.



5.9.2 The Member must consider and document:

- (a) the general suitability of the insurance arrangements, taking into account the current and projected Funding Status; and
- (b) any Material issues arising from the Fund's insurance arrangements.

5.10 Funding Status

5.10.1 Except for an unfunded or partially funded Public Sector Superannuation Scheme, the Member must calculate the following Funding Status Measures:

- (a) Vested Benefits;
- (b) Actuarial Value of Accrued Benefits;
- (c) Fund Termination Benefits, if these are specifically provided for in the Trust Deed and/or if the Member considers that members' entitlements in these circumstances are Material; and
- (d) Retrenchment Benefits or other Discretionary or contingent benefits, if these are specifically provided for in the Trust Deed and/or if the Member considers that members' entitlements in these circumstances are Material.

5.10.2 In calculating each Funding Status Measure, the Member must include the relevant benefit entitlements of active defined benefit members applicable to that Funding Status Measure.

5.10.3 For each Funding Status Measure, the Member must consider which Other Benefits and corresponding assets should be included or excluded. Circumstances where the exclusion of the value of Other Benefits may be considered appropriate include where they consist of:

- (a) accumulation benefits that are credited with actual investment earnings (whether positive or negative);
- (b) pension benefits that have been secured by the allocation of appropriate assets or the purchase of annuities;
- (c) all pension benefits; or
- (d) additional benefits considered to be precisely fully funded.

5.10.4 The Member must consider the effect on each Funding Status Measure of:

- (a) excluding any asset with a value dependent on the continued operation of the Fund Sponsor;
- (b) allowing for the sale of any illiquid assets on a forced sale, rather than ongoing, basis;



- (c) excluding any future income tax benefit;
- (d) valuing pension benefits on an equivalent market value basis (that is, the amount determined as being required to be paid to a third party to take on the liability);
- (e) where Discretions exist in determining Vested Benefits, Retrenchment Benefits or Fund Termination Benefits, assuming any available Discretions are exercised in full; and
- (f) where member Options exist in determining Vested Benefits, Members must use assumptions for the relative take-up rate for the Options which are the same as those used for funding purposes and which have been set in accordance with clause 5.6.

5.11 Funding Status Measures - Vested Benefits ratio

- 5.11.1 The purpose of the Vested Benefits ratio is to measure the capacity of the Fund's assets to meet the total benefits which would be payable if all members received their Vested Benefit.
- 5.11.2 The Vested Benefits ratio is determined as the ratio of the Net Market Value of the Net Assets of the Fund to the total Vested Benefits of the Fund at the date of determination.
- 5.11.3 Where the Vested Benefits ratio is less than 100%:
 - (a) the Member must determine the Minimum Requisite Benefits ratio of the Fund. The Minimum Requisite Benefits ratio is determined as the ratio of the Net Market Value of the Net Assets of the Fund to the total Minimum Requisite Benefits of the Fund at the date of determination; and
 - (b) the Member's contribution recommendation must (except in relation to an unfunded or partially funded Public Sector Superannuation Scheme) ensure that, on reasonable expectations regarding the Fund's future experience, the ratio increases to 100% over a time period that is, in the Member's opinion, reasonable in the circumstances of the Fund.

5.12 Funding Status Measures - Actuarial Value of Accrued Benefits

- 5.12.1 The Actuarial Value of Accrued Benefits ratio is determined as the ratio of the assets of the Fund to the Actuarial Value of Accrued Benefits of the Fund at the date of determination. Its purpose is to measure progress towards funding members' retirement and other benefits, based on the valuation assumptions used for determining recommended contributions.
- 5.12.2 For this purpose, the assets of the Fund should be taken as the value of assets used in the determination of the recommended contribution rates.



- 5.12.3 If the method used under Professional Standard 402 for the apportionment of the benefit differs from the method used in the previous calculation of the Actuarial Value of Accrued Benefits, the Member must calculate the effect of the change and document the reason for the change.

5.13 Funding Status Measures - Retrenchment Benefits

- 5.13.1 Where Retrenchment Benefits are specifically provided for in the Trust Deed and the Member considers they are Material, the Member must calculate the Funding Status in relation to Retrenchment Benefits.
- 5.13.2 The purpose of the Retrenchment Benefits ratio is to measure the capacity of the Net Market Value of the Net Assets of the Fund to meet the total benefits which would be payable if all members received their Retrenchment Benefit.
- 5.13.3 The Retrenchment Benefits ratio is determined as the ratio of the Net Market Value of the Net Assets of the Fund to the total Retrenchment Benefits of the Fund at the date of determination.

5.14 Funding Status Measures – Fund Termination Benefits

- 5.14.1 Where Fund Termination Benefits are specifically provided for in the Trust Deed and the Member considers they are Material, the Member must calculate the Funding Status in relation to Fund Termination Benefits.
- 5.14.2 The purpose of the Fund Termination Benefits ratio is to measure the capacity of the Net Market Value of the Net Assets of the Fund to meet the total benefits which would be payable if the Fund was wound up at the date of the Investigation.
- 5.14.3 The Fund Termination Benefits ratio is determined as the ratio of the Net Market Value of the Net Assets of the Fund to the total Fund Termination Benefits at the date of determination.

5.15 Results and future contribution rates

- 5.15.1 The Member must:
- (a) document the key results of, and considerations arising from, the Investigation;
 - (b) consider and document all Material issues arising from or disclosed by the Investigation; and
 - (c) determine the recommended contribution rate as a percentage of salary, or alternatively, the recommended future levels of contributions expressed in some other form which is appropriate to the circumstances of the Fund. The contributions must be those required for funding purposes.



5.15.2 In considering the future contribution rate, the Member must take into account the circumstances of the Fund including:

- (a) the investment policy (including any large exposures to single assets or to assets which are illiquid or are not listed on a major stock exchange) and the degree to which the security of members' benefits could decline if there are falls in the investment markets;
- (b) any future income tax benefit included in the assets of the Fund;
- (c) the liquidity of the assets to meet the normal requirements for benefit payments and other outgoings without the need to realise assets at possibly temporarily depressed prices;
- (d) the valuation basis of any pension liabilities;
- (e) the maturity of the defined benefit section of the Fund;
- (f) whether the Fund is closed or open to new members;
- (g) any potential reductions in the membership of the Fund and the expected benefits payable, and their potential to significantly worsen the financial position of the Fund in respect of the remaining members;
- (h) any relevant provisions of the Trust Deed affecting funding and/or security of members' benefits;
- (i) whether there are any additional protections for members' benefits beyond the current assets of the Fund. For example, the Fund Sponsor may have a bank guarantee in respect of the deficiency or there may be provisions in the Trust Deed, or elsewhere, giving the Fund legal recourse to the Fund Sponsor for any deficiency on a winding up of the Fund;
- (j) the frequency with which the Fund's financial position is monitored by the Member;
- (k) the attitude of the Fund Sponsor to the funding of deficits;
- (l) the crediting rate policy and the impact of that policy in relation to declared or interim rates on the overall financial position of the Fund;
- (m) equity between the defined benefit and accumulation categories. For example, the potential impact of smoothed interest rates for accumulation members on the solvency of the defined benefits and the potential for a deficit in the defined benefit category to impact the benefits of accumulation members on the winding up of the Fund;
- (n) any Discretions;



- (o) any Options that a member of the Fund is able to choose; and
- (p) any other circumstances that are, in the Member's opinion, Material.

5.15.3 Where the Funding Method used involves determination of long-term contribution levels, the Member must determine both the long term level of contribution implied by the Funding Method and assumptions adopted, and indicate any variations around this level of contribution in the short term to allow for any surplus or deficit. In other cases, the expected future pattern or trend of contributions must be determined.

5.15.4 The Member must consider and document the reasons for any changes to past recommended contribution rates or expected future levels and trend of contributions.

5.16 Sensitivity analyses

5.16.1 The Member must consider and document the implications of the uncertainty identified in key assumptions used in the Funding Method. The key assumptions may include the gap between future investment earnings and future salary increases, and pensioner mortality.

5.16.2 The assumptions used in these analyses must be selected to illustrate the impact on results when a reasonable variation to key assumptions is made. The Member must document the results of the sensitivity analyses.

5.17 Material risks

The Member must consider and document:

- (a) any Material risks and issues identified during the Investigation that are associated with the actuarial assumptions used in the Investigation; and
- (b) any Material risks that directly relate to the ongoing actuarial management of the defined benefit section of the Fund.

6 REPORTING REQUIREMENTS

6.1 Obligation to provide a Report

The Member must provide a written report on the Investigation to the Trustee of the Fund which:

- (a) includes the matters set out in this section 6; and
- (b) complies with the Code.



6.2 Matters for inclusion in the Report

6.2.1 The Report must include, in respect of the Fund, each of the matters listed below (with consideration at the Effective Date of historical analysis and future implications, where applicable):

- (a) statements by the Member;¹¹
- (b) information and data;¹²
- (c) overview of the Fund;¹³
- (d) investments;¹⁴
- (e) valuation of the assets, including assumptions;¹⁵
- (f) Funding Method (including valuation of the liabilities);¹⁶
- (g) Material risks;¹⁷ and
- (h) statements required by the SIS Regulations.¹⁸

6.2.2 Subject to clause 6.2.3, the Report must also include, in respect of the Fund, each of the matters listed below (with consideration at the Effective Date of historical analysis and future implications, where applicable):

- (a) financial and demographic experience;¹⁹
- (b) insurance arrangements;²⁰
- (c) Funding Status and Funding Status Measures (except for unfunded or partially funded Public Sector Superannuation Schemes);²¹
- (d) valuation results and recommended future contribution rates;²² and
- (e) sensitivity analyses.²³

¹¹ Refer clause 6.3.

¹² Refer clause 6.4.

¹³ Refer clause 6.5.

¹⁴ Refer clause 6.6.

¹⁵ Refer clause 6.7.

¹⁶ Refer clause 6.8.

¹⁷ Refer clause 6.15.

¹⁸ Refer clause 6.9.

¹⁹ Refer clause 6.10.

²⁰ Refer clause 6.11.

²¹ Refer clause 6.12.

²² Refer clause 6.13.

²³ Refer clause 6.14.



- 6.2.3 Any of the matters referred to in clause 6.2.2 are not required to be included in the Report if those matters have (or that matter has) been included in any previous Report having an Effective Date within three years of the Effective Date of the Report.
- 6.2.4 If the Member identifies additional Material matters not detailed in clauses 6.2.1 or 6.2.2, including any significant changes in experience between the Effective Date and the date of signing the Report which would be likely to have a Material effect on the conclusions and recommendations in the Report, the Member must include such matters in the Report.
- 6.2.5 The Member must prepare a Report on an Investigation covering all of the matters set out in clauses 6.2.1 and 6.2.2 (subject to clause 4), as well as any additional matters identified under clause 6.2.4, at least once every three years. For other Investigations performed within three years of the previous Investigation that covered all such matters (such as Investigations performed for the purposes of Modification Declaration No 23 issued by APRA), the Member may determine that only the matters listed in clause 6.2.1, as well as any additional matters identified under clause 6.2.4, are necessary for that purpose.

6.3 Statements by the Member

- 6.3.1 The Member must sign and state the date of completion of his or her Report.
- 6.3.2 Statements must be provided setting out who commissioned the Report, the scope and purpose of the Report, the Effective Date of the Report, any specific terms of reference and any restrictions or limitations placed upon the Member in preparing the Report.
- 6.3.3 If there is a previous Report, the Effective Date of the previous Report must be provided, together with the name of the Member responsible for the previous Report and the date that the Member so responsible signed the previous Report.

6.4 Information and data

- 6.4.1 The Member must summarise in the Report all Material information relied upon in preparing the Report.
- 6.4.2 Material data discrepancies that cannot be resolved with the Fund must be outlined in the Report, together with the consequent limitations of the Report.
- 6.4.3 The degree to which the Member relies upon information, including data, policies and reports provided by the Fund's Trustee, or upon testing of the data or other information by the Fund's auditor or other third parties, must be explained in the Report, together with an assessment of the consequent limitations of the Report.



- 6.4.4 Where the Member relies on work carried out by other Members, the Member must be satisfied as to the suitability of the work. Where the Member is not satisfied, alternative analyses must be undertaken and explained in the Report.
- 6.4.5 Where the Fund does not provide adequate and timely access to information (including data and reports) and staff, as required by the Member, and the information cannot otherwise be practically obtained, the Member may omit from the Report analysis that is dependent on that information, but must provide:
- (a) an explanation as to why it has been omitted;
 - (b) details of any assumptions made as a result of the information limitations; and
 - (c) an assessment of the consequent limitations of the Report.
- 6.4.6 Where the Member places reliance upon others to provide any information required, and this information is limited or not forthcoming, the Member must state this in the Report, together with an assessment of the consequent limitations of the Report.

6.5 Overview of the Fund

- 6.5.1 The Report must include an overview of the structure and operations of the Fund, including:
- (a) benefit design;
 - (b) whether the Fund is open to new members;
 - (c) investment arrangements;
 - (d) insurance arrangements;
 - (e) current compliance status under the SIS Act;
 - (f) taxation status;
 - (g) the frequency of Reports;
 - (h) rights to review contributions and/or benefits;
 - (i) benefit guarantees, Discretions and Options; and
 - (j) any Prudential Requirements imposed on the Fund by a Regulator.
- 6.5.2 The Report must contain a clear identification of the current legal documents governing the Fund and a summary of the Material provisions relating to benefits and contributions (including the customary exercise of Options and Discretions) which affect benefits.



6.6 Investments

6.6.1 The Report must comment on the general suitability of the Investment Policy of the Fund's Trustee after considering:

- (a) the nature of the liabilities;
- (b) the covenants under the SIS Act and SIS Regulations;
- (c) any funding shortfalls;
- (d) the support of the Fund Sponsor in addressing any shortfall at the Effective Date or in the future; and
- (e) any other Material matters.

6.6.2 The Report must:

- (a) comment on the general suitability of the Fund's policies for crediting investment earnings to members' accounts;
- (b) comment on the general suitability of the Fund's policies for investments reserving, if applicable; and
- (c) outline and comment on Material issues arising from the Fund's Investment Policy.

6.7 Valuation of the assets

The Report must:

- (a) state the values of the assets used in determining the contribution rate recommendations and the Funding Status Measures;
- (b) state the Net Market Value of the Net Assets of the Fund;
- (c) set out any changes made to the methodology or assumptions since the previous Report and why these have been made. The Report must quantify any Material effects of the changes on the value of the assets; and
- (d) include any other matters required by Professional Standard 404 to be reported.

6.8 Funding Method (including valuation of the liabilities)

The Report must:

- (a) include the valuation method(s) used and a description of the method(s). It must set out why the method(s) is considered suitable in the circumstances of the Fund and any implications of adopting the method(s);



- (b) set out any changes made to the method(s) since the previous Report and why these have been made. The Report must quantify any Material effects of the changes on the Actuarial Value of Accrued Benefits and the assessment of the future contribution rate requirements;
- (c) include all the Material assumptions used in the valuation, the reasons those assumptions have been made and the suitability of those assumptions to the circumstances of the Fund;
- (d) set out, and comment on the effect of, any conservatism in the assumptions;
- (e) set out any changes made to the assumptions since the previous Report and why these have been made. The Report must quantify any Material effects of the changes on the valuation results;
- (f) include a summary of the key results of the valuation; and
- (g) outline and comment on Material issues arising from or disclosed by the valuation.

6.9 Statements required by the SIS Regulations

6.9.1 The Member must include in the Report all statements required by SIS Regulations 9.31, 9.32 and 9.33 (as applicable).

6.9.2 In the case of an Investigation to which SIS Regulation 9.31 applies, the Member is required to include in the Report, *inter alia*, the following statements:

- (a) a statement of the Member's opinion on whether, at the Investigation date, the assets of the Fund are adequate to cover the value of accrued liabilities (Actuarial Value of Accrued Benefits);²⁴
- (b) a statement regarding the financial position of the Fund, indicating whether it is, or may be about to become, "unsatisfactory" (that is, the value of the assets is less than the amount of the Vested Benefits);²⁵
- (c) a statement regarding the likelihood of a Member being able to certify the solvency of the Fund in any funding and solvency certificate that may be required to be issued during the three year period immediately following the Investigation;²⁶ and

²⁴ Refer SIS Regulations 9.31(1)(b) and 9.31(2).

²⁵ Refer SIS Regulation 9.31(1)(d), (3) and (4).

²⁶ Refer SIS Regulation 9.31(1)(e).



- (d) for a Fund paying Defined Benefit Pensions, a statement of the Member's opinion on whether, at the valuation date, there is a high degree of probability that the Fund will be able to pay the Defined Benefit Pensions as required under the Fund's governing rules.²⁷

6.9.3 To complete the statements referred to in clauses 6.9.2(a) and (b), the Member must either:

- (a) have made a projection of the Actuarial Value of Accrued Benefits or Vested Benefits ratio (as the case may be) over the next three years' time (or longer if required) based on the recommended contributions over the next three years and the actuarial assumptions, modified if appropriate for expected short term experience; or
- (b) be satisfied that the circumstances of the Fund are such that it is clear from inspection that those statements can be made.

6.9.4 To complete the statement referred to in clause 6.9.2(c), the Member must either:

- (a) have made a projection of the "minimum benefits index" (as defined in SIS Regulation 9.15(2)), in three years' time (or longer if required), based on the recommended contributions over that period and the actuarial assumptions; or
- (b) be satisfied that the circumstances of the Fund are such that it is clear from inspection that the statement can be made.

6.10 Financial and demographic experience

6.10.1 The Report must identify and comment on the significant features or trends in the Fund's recent experience, over at least the period since the previous Report (if any), to the extent that such experience exists and the data is available. This assessment must include investment returns, salary increases, membership and decrement rates, including any abnormal features.

6.10.2 Significant deviations of actual experience from the assumed experience, over at least the period since the last consideration of the experience (if any) or a longer period that includes the period since the last consideration of the experience (if any), must also be discussed, including an assessment of the reasons for such deviations (if known).

6.10.3 If relevant, the Report must comment on the steps taken, or which are proposed to be taken, by the Fund to address areas of deviation and/or adverse experience.

²⁷ Refer SIS Regulation 9.31(1)(ba) (contained in Modification Declaration No 23).



6.11 Insurance arrangements

The Report must comment on:

- (a) the general suitability of the Fund's insurance arrangements, taking into account the current and projected Funding Status. If applicable, the insurance arrangements include the insurer, the terms of the cover under the insurance policy and the formula used to determine the sum insured;
- (b) the management of any self insurance of death and/or disability benefits that the Fund carries; and
- (c) if relevant, Material issues and risks arising from the Fund's insurance arrangements.

6.12 Funding Status and Funding Status Measures

6.12.1 The Report must:

- (a) set out the Funding Status Measures;
- (b) outline and comment on Material issues arising from or disclosed by the Funding Status;
- (c) describe the purpose of, and method used (including the treatment of any additional Other Benefits and the valuation of the assets) to calculate, the Funding Status Measures. The Report must describe the approach used and the reasons for using that approach; and
- (d) comment on the trend of the Funding Status Measures, explaining any significant changes which have occurred since the previous Report (if any), or which are likely to occur in the future.

6.12.2 Funding Status Measures must include:

- (a) Vested Benefits and Actuarial Value of Accrued Benefits; and
- (b) if specifically provided for in the Trust Deed and/or if the Member considers that members' entitlements in these circumstances are Material, Fund Termination Benefits and Retrenchment Benefits, or other Discretionary or contingent benefits.

6.12.3 If the Vested Benefits ratio is less than 100%, the Funding Status Measures must include the Minimum Requisite Benefits ratio.

6.12.4 Where the Funding Status Measures would be Materially different if measured allowing for the factors in clause 5.10.4, the Member must include comment on the impact and any implications.



6.13 Valuation results and recommended future contribution rates

6.13.1 The Report must:

- (a) include a summary of the key results of, and considerations arising from, the Investigation;
- (b) outline and comment on Material issues arising from or disclosed by the Investigation;
- (c) set out:
 - (i) the recommended contribution rate or range of rates as a percentage of salary, or alternatively, the recommended future levels of contributions expressed in some other form appropriate to the circumstances of the Fund. The level(s) of contributions recommended in the Report must be those required for funding purposes; and
 - (ii) the reasons for the recommendation(s) in clause 6.13.1(c)(i);
- (d) set out the valuation balance sheet or alternative presentation of the results; and
- (e) include comment on the reasons for any changes to past recommended contribution rates or expected future levels and trend of contributions.

6.13.2 Where the Funding Method used involves determination of long-term contribution levels, the contribution recommendation must:

- (a) state both the long term level of contribution implied by the Funding Method and assumptions adopted; and
- (b) indicate any variations around this level of contribution in the short term to allow for any surplus or deficit.

In other cases, the expected future pattern or trend of contributions must be indicated.

6.14 Sensitivity analyses

The Member must:

- (a) set out the results of any sensitivity analyses undertaken in relation to key assumptions and comment on the results and the implications for the recommendations made in relation to the required future contribution rate; and
- (b) state that the variations selected in the sensitivity analyses do not indicate upper or lower bounds of all possible outcomes.



6.15 Material risks

6.15.1 The Member must set out in the Report:

- (a) any Material risks and issues identified during the Investigation that are associated with the actuarial assumptions used in the Investigation; and
- (b) any Material risks that directly relate to the ongoing actuarial management of the defined benefit section of the Fund,

and must include a discussion of the implications of these Material risks.

6.15.2 Where:

- (a) the Member identifies that a Material risk in clause 6.15.1 has potential adverse implications for the Fund's overall financial condition; and
- (b) in the Member's opinion, action (or further action) should be taken or considered by the Trustee of the Fund to mitigate the risk,

then the Report must include the Member's recommendations as to the action (or further action) that should be taken or considered by the Trustee of the Fund to mitigate the relevant risk(s). It would be sufficient for the Member to recommend that the Trustee seeks, or considers seeking, further advice regarding how to address the relevant risk(s).

6.16 Previous recommendations

The Member must comment on the extent to which the Trustee has addressed recommendations provided in the previous Report (if any).

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