SA Metropolitan Fire Service Superannuation Scheme

Summary of 1 July 2021 Actuarial Investigation ("the Report")

(conducted by Mercer, report dated 26 July 2022)

Purpose and scope of the Report

The Report was prepared exclusively for the Trustee of the Scheme for the following purposes:

- To present the results of an actuarial investigation of the Scheme as at 1 July 2021;
- To review Scheme experience for the period since the previous actuarial investigation as at 1 July 2020;
- To recommend any additional contributions required from members to allow the Scheme to meet its benefit obligations in an orderly manner, and to reach and maintain an appropriate level of security for members' accrued benefit entitlements;
- To recommend any surplus distributions be made to members under the Scheme rules; and
- To satisfy the requirements of the Scheme's Trust Deed for actuarial investigations of the Scheme's financial position.

Data has been provided by the Scheme's administrator, Mercer.

Summary of annual results as at 1 July 2021

The coverage levels were significantly higher than the levels at the previous actuarial investigation, caused by higher than expected investment earnings and lower than expected salary growth (due to ongoing EBA negotiations).

- Scheme experience
  - The membership of the defined benefit section decreased (from 1,038 to 1,028 members).
  - The average investment return was 19.0% p.a., which was significantly higher than the assumed rate of 5.3% p.a.
  - The weighted average salary increase was 0.3% p.a., which was lower than the assumed rate of 4.1% p.a.
- Assets – the net assets to support the defined benefit liabilities of the Scheme (excluding accumulation accounts and self-insurance reserve) amounted to $383.1 million.
- Liabilities – all benefit measures increased and were at least 100% funded.

Vested Benefit Index (VBI)

Vested Benefits are the amounts payable as of right should all active members voluntarily resign, or if eligible, retire at the investigation date, representing a short term measure of financial position.

- The VBI under the Immediate Benefit measure increased from 101.0% to 111.0%.
- The vested benefit liability (Immediate) increased from $320.9 million to $345.0 million.
- The VBI under the Deferred benefit measure increased from 99.0% to 107.7%.
- The vested benefit liability (Deferred) increased from $327.4 million to $355.7 million.

Actuarial Value of Accrued Benefits Ratio

The Actuarial Value of Accrued Benefits is the expected value of all future expected benefit payments, based on membership to date, taking into account the probability of payment, representing a long term measure of financial position.

The Scheme's funding position was considered under two assumptions – *Best Estimate* (expected to have a 50% chance of being either too high or too low) and *Solvency* (more cautious than the Best Estimate assumptions, intended to show the resilience of the Scheme to either a short term shock or long term period of underperformance). The Solvency investment return assumption has been selected at a level where there is only a 15% chance that investment returns will be lower than assumed over the next 20 years.

- Funding measure under the Actuarial Value of Accrued Benefits (Best Estimate) increased from 105.3% to 120.9%.
- The Actuarial Value of Accrued Benefits (Best Estimate) increased from $307.8 million to $316.7 million.
- The shortfall limit for requesting additional contributions is the coverage of Actuarial Value of Accrued Benefits (Best Estimate) of 97%, and the Scheme is above this limit.
- Funding measure under the Actuarial Value of Accrued Benefits (Solvency) increased from 97.9% to 108.4%.
- The Actuarial Value of Accrued Benefits (Solvency) increased from $331.0 million to $353.4 million.
- The target for allocation of surplus is the coverage of Actuarial Value of Accrued Benefits (Solvency) of 100%, and the Scheme is above this target.

SG Minimum Benefits

The Minimum Requisite Benefits (MRB) index was 132.8% and hence the Scheme was considered to be "solvent" under SIS legislation.

- The MRB index increased from 129.2% to 132.8%.
- The MRB increased from $250.8 million to $288.5 million.

Surplus and Shortfall – Allocation or Recoupment

Due to the nature of the Scheme, where the future level of employer contributions is fixed and the members accept the risk (and reward) of future investment and salary growth experience, consideration needs to be given as to whether Scheme surpluses or shortfalls will give rise to member allocations or recoupments.

- Future surplus allocation – if assets exceed the Actuarial Value of Accrued Liabilities (Solvency), with this position likely to be sustained over the following three years and over the long term
    - Due to positive investment experience and minimal salary increases over the year ending 30 June 2021, there is a surplus in relation to accrued service liabilities under the solvency basis of $29.7m and a total service surplus of $9.1m.
    - However, taking into account actual investment experience to 30 June 2022, projections suggest that the coverage of accrued service liabilities under solvency basis will be below 100%, and assuming current assumptions match experience.
    - Distribute Decision: No distribution to be provided to members, as assets are not expected to exceed the Actuarial Value of Accrued Liabilities (Solvency), over the next three years.

- Future shortfall recoupment – if assets fall short of the Actuarial Value of Accrued Liabilities (Best Estimate) by 3% of the accrued liabilities, with this position likely to be sustained over the following three years
  - Assets exceed accrued service liabilities by around 21% and this coverage is expected to continue to be in surplus by at least 10% after allowing for negative investment return experience for the year ending 30 June 2022.
  - There is also a long term surplus of assets and future contributions over total service liabilities and future expenses and tax.
  - Recoupment Decision: No. Neither the short term nor the long term criteria have been met, i.e. there is no 3% shortfall over the short or long term. At this time there is no requirement to recoup amounts from members.

Recommended Contributions

The recommended contributions remain to be in line with the Scheme rules.

- Employer contributes at SG plus 4% p.a.
- Employees contribute between 5.5% p.a. and 6.0% p.a. depending on the age at entry.

The next actuarial investigation is required at a date no later than 1 July 2022. At that time, the adequacy of the total contribution levels and potential surplus distribution will be reassessed.