

SA Metropolitan Fire Service Superannuation Scheme
Summary of 1 July 2023 Actuarial Investigation (“the Report”)
(conducted by Mercer, report dated 26 March 2024)

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 2023;
- To review Scheme experience for the period since the previous actuarial investigation as at 1 July 2022;
- 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 2023

The coverage levels were lower than the levels at the previous actuarial investigation, primarily due to the 2022 surplus distribution, partially offset by a higher than expected investment earnings.

- Scheme experience
 - The membership of the defined benefit section increased (from 1,005 to 1,019 members).
 - The average investment return was 8.2% p.a., which was higher than the assumed rate of 5.3% p.a.
 - The weighted average salary increase was 8.7% p.a., which was lower than the assumed rate of 9.3% p.a.
- Assets – the net assets to support the defined benefit liabilities of the Scheme (excluding accumulation accounts and self-insurance reserve) amounted to \$362.0 million.
- Liabilities – all benefit measures increased, but were still 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 decreased from 107.2% to 106.0%.
- The Vested Benefit liability (Immediate) increased from \$329.8 million to \$341.6 million.
- The VBI under the Deferred benefit measure increased from 102.5% to 102.9%.
- The Vested Benefit liability (Deferred) increased from \$344.7 million to \$352.0 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) decreased from 114.0% to 113.6%.
- The Actuarial Value of Accrued Benefits (Best Estimate) increased from \$310.1 million to \$318.6 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) decreased from 105.5% to 105.3%.
- The Actuarial Value of Accrued Benefits (Solvency) increased from \$335.2 million to \$343.8 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 126.7% and hence the Scheme was considered to be “solvent” under SIS legislation.

- The MRB index decreased from 131.8% to 126.7%.
- The MRB increased from \$268.2 million to \$285.7 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.

- 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 over the year to 30 June 2023, there is a surplus in relation to accrued service liabilities under the solvency basis of \$18.3m and a total service surplus of \$11.7m.
 - Taking into account actual investment experience to 31 January 2024, projections suggest that the coverage of accrued service liabilities under solvency basis will remain above 100% for at least the next 3 years, assuming current assumptions match experience.
 - A surplus of \$11.7m is available for distribution to members (as the lesser of the surplus on the short and long term bases).
 - Distribute Decision: Distribute \$11.7m to members. Note, this will reduce the Actuarial

Value of Accrued Benefit (Best Estimate) to around 110.0% as at 1 July 2023 which still provides significant buffer before shortfall recoupment procedures may be required.

- 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 14% and this coverage is expected to improve over the following three years.
 - 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, but this decision should be reviewed at the next investigation.

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 Trustee is recommended to distribute \$11.7m of surplus to members in line with the Surplus Distribution Policy.

The next actuarial investigation is required at a date no later than 1 July 2024. At that time, the adequacy of the total contribution levels and potential surplus distribution or shortfall recoupment will be reassessed.