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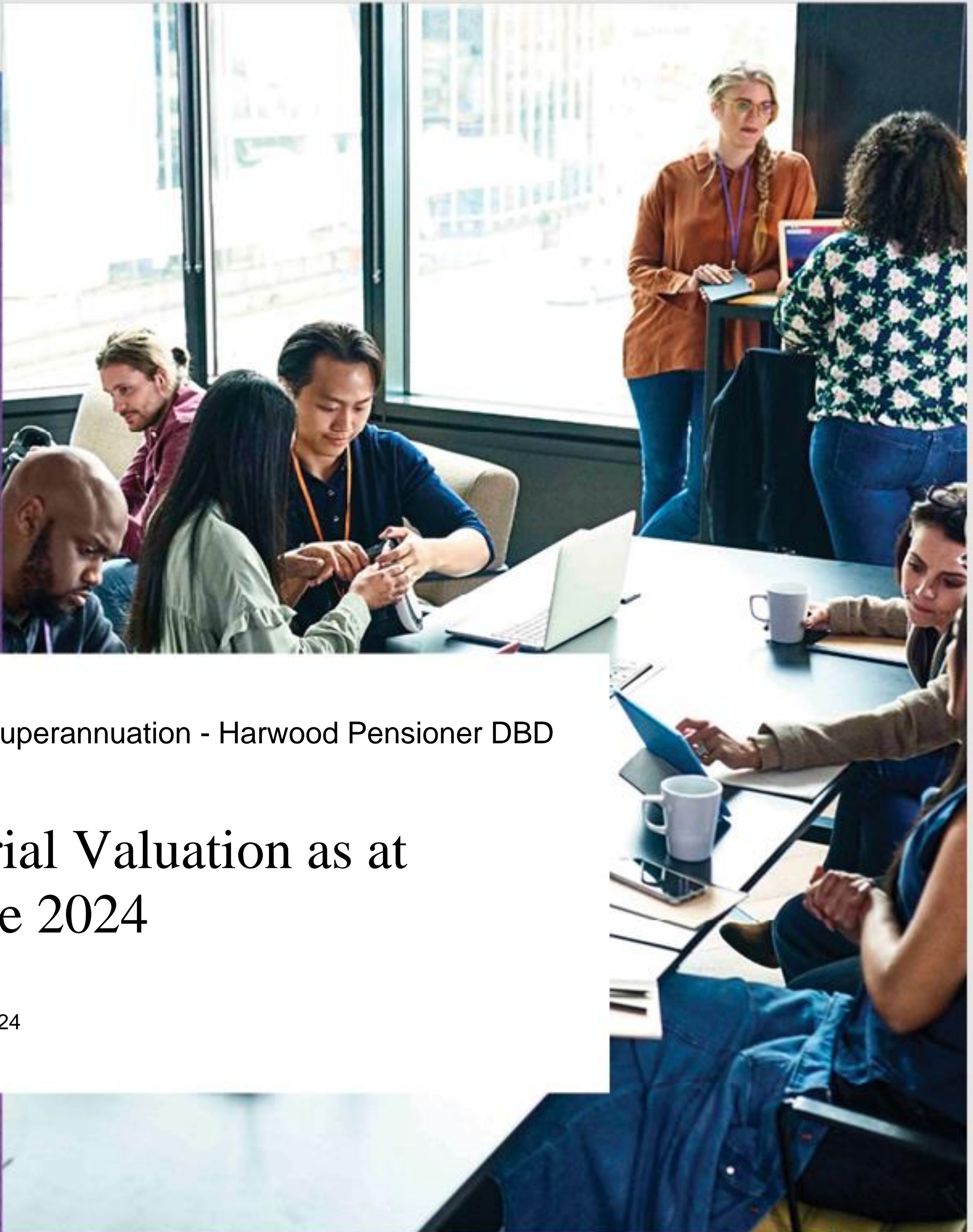

Harwood Superannuation - Harwood Pensioner DBD Plan

Actuarial Valuation as at 30 June 2024

7 November 2024

Towers Watson Australia Pty Ltd
ABN 45 002 415 349
AFSL 229921

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Reliance statement and data

This report is provided subject to the terms set out herein and in our engagement letter dated 13 March 2017 and the accompanying Terms and Conditions of Engagement. This report is provided solely for the Trustee's use and for the specific purposes indicated above. It may not be suitable for use in any other context or for any other purpose.

Except where expressly agree in writing, this report should not be disclosed or provided to any third party, other than as provided below. In the absence of such consent and an express assumption of responsibility, no responsibility whatsoever is accepted by us for any consequences arising from any third party relying on this report or any advice relating to its contents.

The Trustee may make a copy of this report available to its auditors, the Companies and to any person to whom the Trustee may be required to provide a copy under relevant legislation, but we make no representation as to the suitability of this report for any purpose other than that for which it was originally provided and accept no responsibility or liability to the Trustee's auditors, the Companies or any third party in this regard. The Trustee should draw the provisions of this paragraph to the attention of its auditors and the Companies when passing this report to them.

In preparing this valuation, we have relied upon information and data provided to us orally and in writing by the Trustee and other persons or organisations designated by the Trustee. We have relied on all the data and information provided, including Plan provisions, membership data and asset information, as being complete and accurate. We have not independently verified the accuracy or completeness of the data or information provided, but we have performed limited checks for consistency. The data and information we have relied upon is shown in Section 1.

In our opinion, all calculations are in accordance with requirements of applicable legislative requirements and the procedures followed and the results presented conform to applicable actuarial standards of practice.

Executive Summary

The Harwood Pensioner DBD Plan (the Plan) in Sub-Division One is a sub-fund of Harwood Superannuation (the Fund) as defined by Prudential Standard SPS 160. This report summarises the results of the actual investigation carried out as at 30 June 2024 (the valuation date). It has been prepared for Total Risk Management Pty Limited (the Trustee), in my capacity as RSE Actuary to the Plan. Note that in all cases this report only considers the benefits payable under Sub-Division One of the Plan.

Funding Status Measures

Trustee's Funding Policy

The Trustee's Funding Policy, effective from 1 November 2014 and amended in December 2017 following a change in the investment strategy, requires the Plan's funding position to be calculated on three measures:

1. "Hard floor" – set equal to 100% of the actuarial value of accrued liabilities.
2. Variable Minimum Funding Level (VMFL) – it is set equal to 100% (see Section 4).
3. Minimum Funding Level (MFL) – set equal to 103% of accrued liabilities.

The results of our calculation of the funding position of the Plan on these measures at the valuation date are set out in the following table.

Funding position of the Plan as at 30 June 2024 ($)	
Accrued Liabilities (current and contingent pensioners)	**129,975,523**
Hard Floor (100%)	129,975,523
Variable Minimum Funding Level (100%)	129,975,523
Minimum Funding Level (103%)	133,874,789
Net Assets (excluding ORFR[1])	**130,337,124**
Surplus/(Shortfall) to Hard Floor (net)	**361,601**
Surplus/(Shortfall) to Variable Minimum Funding (net)	**361,601**
Surplus/(Shortfall) to Minimum Funding (net)	**(3,537,664)**

1 Operational Risk Financial Reserve

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Bank Guarantees

Rule 3.2(d) of the Trust Deed, when read with the Trustee's Funding Policy, requires that the funding of the Plan be at 107% or more, after taking into account any Bank Guarantee arrangements. As shown in the following table, the Plan has a shortfall under Rule 3.2(d) and therefore will need to arrange Bank Guarantees for the shortfall amount shown. Note that the required Bank Guarantees are less than the existing Bank Guarantees, therefore no additional Bank Guarantees are required.

Rule 3.2(d) requirements as at 30 June 2024 ($)	
107% of total accrued liabilities	139,073,810
Assets (including ORFR)	130,663,784
Shortfall (gross of tax at 15%)	9,894,148
Existing Bank Guarantees	10,827,074
Shortfall/(Surplus) (net of existing Bank Guarantees)	**(932,926)**

Vested Benefits and Accrued Benefits

The Plan's "vested benefit" liability is calculated as the present value (using the assumptions and methodology detailed in this report) of the expected future pensions payable from the Plan to current pensioners and contingent pensioners. The following table shows the ratio of the Plan's assets to vested benefits as at the valuation date and the results of the previous valuation for comparison.

	30 June 2023	30 June 2024
Total Vested Benefits	$132,820,610	129,975,523
Net Assets (excluding ORFR)	$132,582,752	130,337,124
Vested Benefits Index (VBI)	**99.8%**	**100.3%**

Company Contributions

In last valuation, we recommended that Company contributions of $1.5m are required to be paid to the Plan by 30 June 2024 and Company contributions of $650,000 per annum are required to be paid in each of the subsequent four years to restore the funding level to the MFL of 103% as is required under the Funding Policy.

As at 30 June 2024, the required contributions have been paid to the Plan and restore the funding level to the VMFL of 100%.

Our projections show that a contribution of $650,000 over the next four years will no longer be sufficient to restore the funding level to the MFL and that a contribution of $650,000 will also be required in the year ending 30 June 2029. Therefore, we recommend that Company contributions of $650,000 per annum are required to be paid in each of the next five years (i.e. in the years ending 30 June 2025, 30 June 2026, 30 June 2027, 30 June 2028 and 30 June 2029) to restore the funding level to the MFL of 103% as is required under the Funding Policy by 30 June 2029.

We recommend the funding position, and in particular the coverage of vested benefits by Plan assets, continue to be monitored quarterly by Russell Investments and reviewed each year at 30 June. Future contributions may be required to be paid to the Plan should the funding position not improve over the next year.

Shortfall Limit

Under Superannuation Prudential Standard SPS 160, the “Shortfall Limit” is the amount by which the VBI may fall below 100% and for there to be a reasonable expectation of it being restored to 100% within one year without the need for further employer contributions, in addition to those being made at the time. Considering the Plan’s current investment strategy, we recommend the Trustee retain the Shortfall Limit at 99%.

Investments

We consider the current investment strategy to be reasonable given the Trustee’s funding approach. That said, the Trustee has chosen to adopt a very defensive investment strategy, and this has resulted in a low discount rate being used to value the liabilities. A low discount rate means that a larger value in placed on the Plan’s liabilities. Consequently, there is a shortfall of assets to the MFL specified in the Trustee’s Funding Policy and the level of funding required under Rule 3.2(d) of the Rules of Sub-Division One. Bank Guarantees are therefore required.

Defined Benefit Pensions

The Plan pays defined benefit pensions. Taking into account the Trustee’s Funding Policy and in particular the requirement to have in place Bank Guarantees in accordance with Rule 3.2(d) of the Trust Deed, we believe there is a high probability that the Trustee will be able to pay the pensions as required under Rule 16 of the Plan’s governing rules.

Certifications

The actuarial statement required under Prudential Standard SPS 160, made under section 34C of the Superannuation Industry (Supervision) Act 1993 is contained in Appendix D. The Plan is not used to meet the Companies’ Superannuation Guarantee obligation as it only provides benefits to retired former employees.

Next Valuation

In accordance with the Fund’s Rules, the next actuarial valuation is due at 30 June 2025.

Travis Dickinson
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07 November 2024

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Section 1: Purpose and Summary

The Harwood Pensioner DBD Plan (the Plan) in Sub-Division One is a sub-fund of Harwood Superannuation (the Fund) as defined by Prudential Standard SPS 160. The Plan provides lifetime pensions to retired employees. When active members retire from the CSR DBD Plan or the Wilmar DBD Plan and take a pension, their benefit entitlement is transferred to the Harwood Pensioner DBD Plan. With such a plan, a regular actuarial review is necessary to:

- examine the sufficiency of the assets in relation to members' accrued benefit entitlements;
- determine the recommended contribution rate required to be paid by CSR Limited and Wilmar Sugar Australia Limited (the Companies) under Rule 3.2(d) of the Rules of Sub-Division One;
- examine the suitability of the Plan's investment arrangements;
- satisfy Rule 7.1 of the Trust Deed that requires an actuarial review to be periodically conducted;
- meet legislative and prudential standard requirements, in particular paragraph 23 of Prudential Standard 160 Defined Benefit Matters (SPS160).

This actuarial review has been conducted as at 30 June 2024. This report has been prepared in accordance with Professional Standard 400, dated March 2021, issued by the Institute of Actuaries of Australia.

Section 2: Background and Data

The Harwood Superannuation Fund (the Fund) was originally established in 1890. The Harwood Superannuation Fund Trust Deed was amended on many occasions in the past and the Harwood Superannuation Fund was also renamed over time. In early 2003, it was renamed from "CSR Australian Superannuation Fund" to "Harwood Superannuation Fund".

Effective 1 November 2014, the Harwood Superannuation Fund transferred on a successor fund basis to the Russell Investments Master Trust. Its operations are governed by the Rules governing Harwood Superannuation in the Russell Investments Master Trust (the Harwood Superannuation Rules) and the Trust Deed of the Fund.

The Harwood Pensioner DBD Plan (the Plan) in Sub-Division One is a sub-fund of the Fund as defined by Prudential Standard SPS 160. The Plan provides lifetime pensions to retired employees. When active members retire from the CSR DBD Plan or the Wilmar DBD Plan and take a pension, their benefit entitlement is transferred to the Harwood Pensioner DBD Plan. A summary of the main benefits is included as Appendix A to this report.

The Plan is a regulated fund under the Superannuation Industry (Supervision) Act 1993 and receives concessional tax treatment accordingly.

Previous Recommendations

The previous valuation, which was conducted by me, was carried out at 30 June 2023 with the results set out in a report dated 4 October 2023. That report was in respect of the Plan and covered the three-year period ended 30 June 2023. Key findings from that report included the following:

- the Plan did not have sufficient assets to meet its VMFL;
- the Plan did not have sufficient assets to meet its MFL defined in the Trustee’s Funding Policy (i.e. that the funding level is at 103% or more);
- the Plan did not have sufficient assets to meet the funding target defined in Rule 3.2(d) of the Rules of Sub-Division One (i.e. that the funding level is at 107% or more);
- the Vested Benefits Index (VBI) and Accrued Benefits Reserve Index (ABRI) was 99.8%; and
- given that there is a deficit of the Plan’s assets to meet its VMFL and MFL, the report recommended company contributions of $1.5m to be paid to the Plan by 30 June 2024 to restore the funding level to the VMFL of 100% and company contributions of $650,000 per annum to be paid in each of the subsequent four years to restore the funding level to the MFL of 103%.

Sources of Information

We have relied on the following data provided by Link Administration (the Fund Administrator):

- the administrative records at the valuation date; and
- the unaudited financial information as at the valuation date for the Plan.

Where possible the information provided has been checked for reasonableness and is considered suitable for the purposes of this investigation.

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Data

The membership details are summarised in the following tables. We have carried out checks on the data and are satisfied that the data provided is reasonable based on our knowledge of the Plan.

Member pensioners	30 June 2023	30 June 2024
Number of members	71	69
Average age (years)	80.89	81.61
Annual pensions	$8,155,128	$8,335,068
Annual notional pensions	$6,729,083	$6,607,507

Spouse pensioners	30 June 2023	30 June 2024
Number of members	35	35
Average age (years)	86.04	86.73
Annual pensions	$2,703,126	$2,740,145
Annual notional pensions	n/a	n/a

Commuted pensioners	30 June 2023	30 June 2024
Number of members	8	8
Average age (years)	97.25	98.25
Annual pensions	$0	$0
Annual notional pensions	$807,531	$840,640[1]

1 Note that whilst the notional pensions for the commuted pensioners totals $840,640 the existence of a spouse eligible to receive the contingent pension is currently only confirmed for one of these commuted pensioners. The benefits pertaining to the contingent pensioners are only valued where the existence of an eligible spouse has been confirmed. The notional pensions relating to this member totalled $585,881 p.a. as at 30 June 2024.

Section 3: Assets and Investment Strategy

Accounts

We have been supplied with unaudited accounts covering the twelve-month period to the valuation date. The Plan's accounts show that the Companies have been contributing in accordance with the recommendations of the last valuation report.

Market Value of Net Assets

The following table provides a breakdown of the market value of the Plan's assets at the valuation date.

Market value of the Plan's assets at 30 June 2024	$
Net assets before deducting the ORFR	**130,663,784**
Operational Risk Financial Reserve (ORFR)	(326,659)
Market value of the Plan's net assets	**130,337,124**

The market value of the Plan's invested assets is based on redemption unit prices. The market value of the net assets is the net assets available to meet the Plan's liabilities as used in determining the contribution recommendations and Funding Status Measures at the valuation date.

Nature of Defined Benefit Liabilities

The level of the defined benefit liabilities does not bear the same direct relationship with the defined benefit assets as exists with accumulation liabilities (where the assets and liabilities are generally matched). The defined benefit liabilities reflect the pensions payable and future indexation, whereas the supporting assets depend on a range of factors including:

i. the level of Company contributions; and

ii. the level of investment returns.

In this case it is the Companies that bear the investment risk as the level of contributions required depends on the level of investment returns achieved.

An investment strategy for a defined benefit plan, which is framed to take a long-term view, will often adopt relatively high levels of equity investment in order:

i. to secure attractive long-term investment returns; and

ii. to provide an opportunity for capital appreciation and dividend growth, which gives some protection against inflation (as benefits are indexed to inflation).

The main constraint is that potential fluctuations in asset values mean the total asset value could fall below the level of Vested Benefits, placing the Plan in an unsatisfactory financial position.

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While the impact of a sudden sharp fall in asset values can be limited by maintaining a buffer of assets over and above the level of vested benefits, the level of the buffer may never be sufficiently high to safeguard against all possible investment outcomes. However, the buffer should be at a level where the risk of the asset values falling below the level of vested benefits under a particular investment strategy is acceptable to the Trustee and the Companies.

In this regard, a lower buffer may be acceptable where the Companies are willing and able to accept short-term variations in contributions as part of underwriting the defined benefits of the Plan. In this case, short-term variations in company contributions may result from:

i. reducing a buffer that has grown too large; or

ii. rebuilding a buffer that has fallen or become negative.

An alternative for a plan which does not have a sufficient asset buffer above the level of Vested Benefits is to adopt a more conservative investment strategy. While this may reduce short-term fluctuations in asset values, it is also likely to reduce long-term returns and hence result in increased company contributions in the long-term.

In summary, a balance needs to be achieved between these short-term and long-term considerations in funding the defined benefit liabilities.

Defined Benefits – Investment Objectives and Guidelines

The Trustee has developed formal objectives and a policy for the investment of the Plan's assets. These objectives and policies are summarised in the Investment Policy Statement for the Russell Investments Master Trust dated 7 May 2018.

At the valuation date, the investment policy was to have the assets supporting the Plan's defined benefit liabilities invested 10% in growth assets such as shares and property and 90% in income assets such as cash and fixed interest. We have taken account of the investment objectives of the Plan in setting our actuarial assumptions in Section 4 of this report. The following table below shows the benchmark asset allocation for the Plan's assets as at the valuation date.

Asset Class	Benchmark Asset Allocation as at 30 June 2024
Australian Shares	5%
Overseas Shares	5%
Fixed Interest	71%
Cash	19%
Total	**100%**

Suitability of Investment Strategy

We consider the current investment strategy to be reasonable given the Trustee's funding approach. That said, the Trustee has chosen to adopt a very defensive investment strategy, and this has resulted in a low discount rate. A low discount rate means that a larger value is placed on the Plan's liabilities. Consequently, there is a shortfall of assets to meet the MFL specified in the Trustee's Funding Policy and the level of funding that is required under Rule 3.2(d) of the Rules of Sub-Division One.

Considerations Relating to Lifetime Pensions

We also consider the assets held by the Plan to have sufficient liquidity for meeting the future expected benefit payments for the pension members of the Plan and are sufficient to provide for the risk of longevity.

If the Plan were to reach an unsatisfactory financial position (where vested benefits are greater than assets) then the current lifetime pensions would continue to be paid in full. In this situation additional employer contributions would be paid to restore the Plan to a satisfactory financial position in line with the requirements of the agreed funding policy. The Plan’s vested benefits were lower than assets as at 30 June 2024 and therefore we consider the Plan to be in a satisfactory financial position.

Upon the death of a lifetime pensioner (where no reversionary spouse pension is payable), the liability would cease. Any surplus created at that time improves the Plan’s financial position.

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Section 4: Valuation Method, Plan Experience and Actuarial Assumptions

To carry out an actuarial valuation for defined benefit liabilities, it is necessary to decide on:

- The valuation method to be adopted; and
- The assumptions as to the factors which will affect the cost of the benefits to be provided by the Plan in the future.

Trustee's Funding Policy

The valuation method is linked to the Trustee's Funding Policy (effective from 1 November 2014 and amended in December 2017 following a change in the investment strategy) that requires the Plan's funding position to be calculated on three measures:

- the first measure is a "hard floor" of 100% of the actuarial value of accrued liabilities.
- the second measure is the VMFL applying at this valuation for accrued liabilities (see the following section). It has remained at 100% for this valuation.
- the third measure is the MFL. It has remained at 103% for this valuation.

Contributions to the Plan are the sum of:

- the amounts (if any) required to increase the Plan assets (excluding the Bank Guarantees) to the VMFL or "hard floor" (if higher) over a period no longer than one year from the valuation date; and
- further amounts expected to be required to increase the Plan assets to the MFL over the next five years.

Note that Rule 3.2(d) of the Trust Deed, when read with the Trustee's Funding Policy, requires that the funding of the Plan be at 107% of accrued liabilities or more, which can be achieved through an immediate cash contribution or using Bank Guarantee arrangements.

Calculation of the Variable Minimum Funding Level (VMFL)

The VMFL has an equilibrium level of 103% of accrued liabilities and varies based on the difference between the value of the liabilities on current actuarial assumptions and the liability value on long term equilibrium assumptions and the difference between the market value of assets and a smoothed market value with returns smoothed over five years.

The VMFL has been calculated using the approach adopted in previous years as follows:

- The value of the liabilities is at a higher than equilibrium point in the economic cycle, based on the gap between assumed future investment returns and inflation being at a low point (reflecting historically low bond yields as at the valuation date).

The gap between assumed future investment returns (gross of tax) and inflation as at the valuation date is 2.5% p.a. This compares to an equilibrium gap of 3.5% p.a. The equilibrium gap has been calculated by considering the long term expected investment return assumption (5.5% p.a.) and inflation assumption (2.0% p.a.). Allowing for the difference in liability values based on these gaps, the VMFL is reduced by 9%.

- The market value of the assets is in line with the equilibrium point.

  We have determined that the actual investment return (reflected within the market value of assets (MVA)) is fully reflected in the smoothed market value of assets (SMVA). This calculation is set out in the following table.

Year to 30 June	Actual Investment Return (1)	Excess Return (2) = (1) – X%[1]	Percentage of Excess Return Not in Smoothed Value (3)	Excess Return Not in Smoothed Value (4) = (2) x (3)
2021	4.2%	-1.3%	20%	-0.3%
2022	-6.2%	-11.7%	40%	-4.7%
2023	3.0%	-2.5%	60%	-1.5%
2024	5.7%	0.2%	80%	0.2%
Total excess of MVA over SMVA (sum of (4))				**-6.3%**

1. X% represents the equilibrium return. From December 2017 the equilibrium return has been set at 5.5% p.a.

- Where the calculated VMFL is below 100%, we recommend that the VMFL is set at a minimum of 100%.

The VMFL is calculated to be 88% (103% less 9% minus 6.3%). Therefore, the VMFL is set equal to 100%.

Plan Experience and Valuation Assumptions

It is important when setting the valuation assumptions to examine the experience of the Plan to see whether the previous assumptions have been borne out in practice. A summary of the major items of experience over the last year is given in the following paragraphs.

Investment Return

The following table compares the investment return assumption made at the last valuation with the Plan's actual experience over the twelve-month period to the valuation date:

	30 June 2023 assumption	2023 - 2024 experience
Investment return (gross of tax and net of expenses)	5.1% p.a.	5.7% p.a.

The Plan's investment return over the twelve-month period to the valuation date was higher than assumed at the last valuation. This has had a positive effect on the Plan's financial position.

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For this valuation, we have adopted the following long-term future investment return assumptions:

	30 June 2023 assumption	30 June 2024 assumption
Investment return (gross of tax and net of expenses)	5.1% p.a.	5.1% p.a.

These investment return assumptions are consistent with the Trustee's investment objectives and strategy.

Pension Increases

The following table compares the pension increase assumption made at the last valuation with the Plan's actual experience over the twelve-month period to the valuation date:

	30 June 2023 assumption	2023 – 2024 experience
Pension increases	2.8% p.a.	4.1% p.a.

Pension increases were higher than assumed at the last valuation. Considered in isolation this has had a negative effect on the Plan's financial position. For this valuation, we have adopted the following pension increase assumption which is in line with our long-term inflation assumption at the valuation date and consistent with the assumptions underlying the capital market model used to derive the discount rate.

	30 June 2023 assumption	30 June 2024 assumption
Pension increases	2.8% p.a.	2.6% p.a.

Impact of changes in financial assumptions

Over the long term, it is the "gap" between the assumed investment return (gross of tax) and pension increase assumption that is important when valuing the members' liabilities. The "gap" has been set to 2.5% p.a. (5.1% p.a. return minus 2.6% p.a. inflation), being higher than the "gap" of 2.3% p.a. used in the previous valuation. The increase in the gap, when considered in isolation, has had a positive impact on the liabilities.

Pensioner Mortality

For the previous actuarial valuation, it was assumed that pensioner mortality would be in line with Australian Life Tables 2015-2017 (ALT15-17) reduced by two years with future improvements of 1.5% p.a. from 30 June 2019. We consider this assumption for pensioner mortality to still be reasonable and as such have also adopted it for this valuation.

Expenses

At the previous investigation it was assumed that administration expenses would be covered by an allowance of $30,000 p.a. We consider this assumption for the administration expenses to still be reasonable and as such we have retained this assumption for this valuation

Duration of liabilities

Using the assumptions described, the duration of the Plan's liabilities is calculated to be 8.6 years as at 30 June 2024.

Summary of Valuation Assumptions

A summary of our valuation assumptions is set out in Appendix C to this report.

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Section 5: Funding Status Measures

There are several methods used to assess the current financial situation (i.e. funding status measures) of the Plan. These measures are considered below.

Trustee's Funding Policy

The results of our calculation of the funding position of the Plan at the valuation date are set out in the following table. Benefits for active members relate to membership completed as at the valuation date.

Funding position of the Plan as at 30 June 2024 ($)	
Accrued Liabilities (current and contingent pensioners)	**129,975,523**
Hard Floor (100%)	129,975,523
Variable Minimum Funding Level (100%)	129,975,523
Minimum Funding Level (103%)	133,874,789
Net Assets (excluding ORFR)	**130,337,124**
Surplus/(Shortfall) to Hard Floor (net)	**361,601**
Surplus/(Shortfall) to Variable Minimum Funding (net)	**361,601**
Surplus/(Shortfall) to Minimum Funding (net)	**(3,537,664)**

The table shows that, as at the valuation date, the Plan had a surplus of assets to liabilities on the VMFL but a shortfall of assets to liabilities on the MFL.

Analysis of Change in the Plan’s Financial Position

The financial position of the Plan has improved compared to that shown at the last investigation. The main factors that impacted the funding position are listed below:

- Positive: the increase in the “gap” (i.e. expected investment returns less inflation). The combined impact of these two factors on the valuation of the accrued liabilities is positive;
- Positive: higher than expected levels of investment returns over the year preceding the valuation date; and
- Negative: pension increases being higher than expected over the year preceding the valuation date.

Rule 3.2(d) Requirements

Rule 3.2(d) of the Trust Deed, when read with the Trustee’s Funding Policy, requires that the Plan’s funding be at 107% or more, after considering any Bank Guarantee arrangements. The following table sets out the shortfall/(surplus) (gross of contributions tax) based on the Rule 3.2(d) requirements as at the valuation date:

Rule 3.2(d) requirements as at 30 June 2024 ($)	
107% of total accrued liabilities	**139,073,810**
Assets (including ORFR)	130,663,784
Shortfall (gross of tax at 15%)	**9,894,148**
Existing Bank Guarantees	10,827,074
Shortfall/(Surplus) (net of existing Bank Guarantees)	**(932,926)**

As shown in the previous table, the Plan has a surplus under Rule 3.2(d) when the existing Bank Guarantees are considered. Therefore, the Plan will require a reduced Bank Guarantee of at least $9,894,148.

Vested Benefits

Pursuant to superannuation law and SPS 160, a fund (or a section of a fund) is in a "satisfactory" financial position if the assets cover the Vested Benefit entitlements of the members of the fund.

The Vested Benefits represent the value of the pension benefits for members who have already left service. The following table shows the progression of the VBI over the review period.

	30 June 2023	30 June 2024
Vested Benefits:	132,820,610	129,975,523
Net Assets (excluding ORFR)	132,582,752	130,337,124
Vested Benefits Index (VBI)	**99.8%**	**100.3%**

As at the valuation date, the net assets of the Plan were higher than the Vested Benefits and therefore the Plan was in a satisfactory financial position. The VBI has improved compared to that shown last year.

Actuarial Value of Accrued Benefits

An indication of the funding status of the Plan is given by the ratio of the Plan's net assets to the actuarial value of accrued benefits. This is called the Accrued Benefits Reserve Index (ABRI).

Actuarial value of accrued benefits for pensioners are equal to vested benefits, so it follows that the ABRI is equal to the VBI.

Benefits Payable on Termination of the Plan

On termination of the Plan, the Rule 16 of the Trust Deed states that Sub-Division One assets should be applied in the following order:

- To pay benefits and secure pensions which at the termination date had become payable to pensioners or spouse pensioners or other beneficiaries or had prospectively become payable in consequence of the deaths of pensioners or spouse pensioners of the Plan occurring before the termination date; and
- To provide for the payment of benefits to other members at the termination date as and when they leave service (we have assumed the minimum payment would be the vested benefits as described above).

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As at the valuation date, the calculations for the Plan are as follows:

Benefits Payable on Termination of the Plan	$
Value of Unpaid Death Benefits	Nil
Value of Pensions in payment, contingent pensioners	129,975,523
Value of Liability for Deferred Members	Nil
Estimated minimum value of Termination Benefits for other members	Nil
Surplus assets	361,601
Value of the Plan assets	**130,337,124**

The table shows that as at the valuation date the Plan had assets which were sufficient to cover its estimated minimum termination payments under Rule 16.2.

If the Trustee was required to secure current pensions on termination by purchasing pensions from a financial services institution, it is likely the cost would be considerably higher than the value of the pensions in payment shown above. We have not carried out these calculations.

Shortfall Limit

As required under SPS 160 the Trustee has set the Shortfall Limit for the Plan as 99%. The shortfall limit is defined in paragraph 10 of SPS 160 as:

"… the extent to which an RSE licensee considers that a fund can be in an unsatisfactory financial position with the RSE licensee still being able to reasonably expect that, because of corrections to temporary negative market fluctuations in the value of fund assets, the fund can be restored to a satisfactory financial position within one year."

Should the financial position of the Plan breach the Shortfall Limit, additional interim Actuarial investigations will be required with rectification plans to be put in place to address the unsatisfactory financial position.

The Information Note dated June 2013, issued by the Actuaries Institute, provides guidance on what might be a reasonable shortfall limit based on modelling undertaken by several actuaries involved in the Actuaries Institute Superannuation Practice Committee. In the absence of any Plan specific analysis, based on the Information Note and considering the Plan's current investment strategy, we recommend the Trustee maintain the Shortfall Limit at 99%.

Summary

The Plan's funding position of the VMFL has improved since the last valuation and the Plan has been restored to a satisfactory position. This is largely attributable to changes in the assumptions used to measure the liabilities, the Plan's investment return over the twelve-month period to the valuation date was higher than assumed and the top-up Company contributions have been paid as per recommendations at the last valuation. However, there is still a shortfall of assets to liabilities on the MFL. There is also a shortfall of assets to the level of funding required under Rule 3.2(d) of the Rules of Sub-Division One and as such Bank Guarantees continue to be required.

Section 6: Valuation Contribution Results

It should be emphasised that the funding measures shown in Section 5 relate to the Plan's funding position at the review date. A projection of the Plan is required to assess the adequacy of Company contribution rates to provide defined benefits in the future. Such a projection has been carried out using the funding method and assumptions discussed in Section 4 and set out in Appendix C.

In my report on the actuarial investigation of the Plan as at 30 June 2023 we concluded that Company contributions were required to be paid to increase the Plan assets to restore the funding level to the VMFL of 100% by 30 June 2024 and the MFL of 103% over the next five years. We have revisited that recommendation as part of this actuarial investigation.

From a statutory perspective, because the assets are more than the vested benefits, the Plan was in a satisfactory financial position and additional Company contributions to the Plan are not required.

In terms of the Trustee's Funding Policy, and as reported in the previous section, there is a shortfall to the MFL. This requires contributions to be paid by the Companies to increase the Plan assets to restore the funding level to the MFL of 103% over the next five years.

Our projections show that a contribution of $650,000 over the next four years will no longer be sufficient to restore the funding level to the MFL and that a contribution of $650,000 will also be required in the year ending 30 June 2029. Therefore, we recommend that Company contributions of $650,000 per annum are required to be paid in each of the next five years (i.e. in the years ending 30 June 2025, 30 June 2026, 30 June 2027, 30 June 2028 and 30 June 2029) to restore the funding level to the MFL of 103% as is required under the Funding Policy by 30 June 2029.

We also recommend the funding position, and in particular the coverage of vested benefits by Plan assets, continue to be monitored quarterly by Russell Investments and reviewed each year at 30 June. Future contributions may be required to be paid to the Plan should the funding position not improve over the next year.

Projection of Results

Given the Plan's current funding position but allowing for Company contributions of $650,000 p.a. to be paid in the next five years, I expect the VBI to remain above 100% and improve to above 103% by 30 June 2029. This assumes that the valuation assumptions are borne out in practice and contributions are paid to the Plan in line with the recommendations made in this report.

Next Valuation

In accordance with the Fund's Rules, the next actuarial valuation is due at 30 June 2025.

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Section 7: Sensitivity Analysis and Material Risks

Investment Returns

If actual investment returns are less than assumed in the investigation, with all other actuarial assumptions borne out, then the funding position will worsen and increased Company contributions may be required. The Trustee has taken significant steps to mitigate this risk by reducing the Plan's exposure to growth assets in December 2017.

The Trustee's funding approach has also partially addressed this risk by establishing a minimum funding level target of 103% and so creating a buffer to absorb adverse investment experience. However, in general, the Plan's funding level will fluctuate around this level and may be above or below it at any point in time. Indeed, the Plan assets may fall to the extent that their market value is below the total of the Plan's vested benefits. The Trustee's funding approach addresses this issue by establishing a requirement for additional contributions by the employers which is expected to return the Plan to a position where it is funded to 100% of its accrued liabilities over a one-year period after the date at which the calculations were made.

Nevertheless, the Plan may need to be terminated at a time when the Plan's assets are below the vested benefits (for example because of recent market movements, or non-payment by the employers of contributions, etc.). This indicates the need for the Trustee to maintain a policy of monitoring the Plan's assets against vested benefits, especially in times of market instability.

Any change to the investment strategy that impacts future expected return on assets supporting the defined benefit liabilities will potentially have a material impact on the financial position of the Plan. If the Trustee is considering changing the investment strategy, we recommend that we be asked to assess the potential impact on the financial position of the Plan and future Company contribution requirements.

Inflation

Future pension payments are linked to increases in the Consumer Price Index, with a maximum of 10% p.a. Significant increases in price inflation are likely to significantly increase the Plan's liabilities, unless these inflationary increases are accompanied by compensating higher rates of investment return. This indicates the need for the Trustee to monitor price inflation.

Pensioner mortality

We have made allowance for both socio-economic factors and improvements in pensioner mortality in the decrement basis used to value pension benefits. If pensioners experience improvements in mortality at greater rates than allowed for, or experience lighter mortality than anticipated in the socio-economic factors, then the cost of the pensions will increase, and the financial position of the Plan will be worse than anticipated. The reverse is also true (i.e. if mortality improvement proves to be less than our allowance, or socio-economic factors not as light, the cost of the pensions will decrease).

Credit Risk

The continuation of the Plan is dependent on the funding support of the Companies. If the Companies were unwilling or unable to pay contributions, or to meet the expenses, that may affect the ongoing viability of the Plan. Given the current funding position and the nature of the Companies we do not believe that credit risk should be seen as a material issue.

Liquidity Risk

The benefit payments from the Plan are expected to be made as income stream payments, therefore the Plan requires access to sufficient liquid assets to meet these payments as they fall due. The Plan's current assets are considered to be sufficiently liquid to mitigate this risk.

Sensitivity Analysis

Investment returns / pension increase assumption

For the purpose of this investigation the "gap" between the investment return assumption (gross of tax) and pension inflation assumption is 2.5% p.a. The table below demonstrates the impact of reducing the "gap" by 1% p.a. (i.e. which could be achieved by assuming lower investment returns or higher inflation) between these assumptions on the Plan's financial position. The demographic assumptions are unchanged in this scenario.

Funding position of the Plan as at 30 June 2024 ($)	This valuation	Sensitivity ("gap" -1.0% p.a.)
Accrued Liabilities	**129,975,523**	**140,796,094**
Hard Floor (100%)	129,975,523	140,796,094
Variable Minimum Funding Level (100%)	129,975,523	140,796,094
Minimum Funding Level (103%)	133,874,789	145,019,977
Net Assets (excluding ORFR)	**130,337,124**	**130,337,124**
Surplus/(Shortfall) to Hard Floor (net)	**361,601**	**(10,458,969)**
Surplus/(Shortfall) to Variable Minimum Funding (net)	**361,601**	**(10,458,969)**
Surplus/(Shortfall) to Minimum Funding (net)	**(3,537,664)**	**(14,682,852)**

The impact of reducing the "gap" by 1% p.a. is to increase the value placed on the Plan's liabilities by around $11m. A change of this size would increase the Plan's shortfall position significantly and, all other things being equal, additional contributions would be payable by the Companies to help restore the Plan to full funding.

If the "gap" was increased by 1% p.a. the impact would be similar albeit in the opposite direction (i.e. the value placed on the liabilities would reduce by around $11m).

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Pensioner mortality

The average age (i.e. weighted by pension) of the Plan's member pensioners was 84 years at the valuation date. The mortality assumption adopted for the valuation implies that members will, on average, survive a further 10 years. The table below demonstrates the impact of reducing mortality rates by 10% (i.e. approximately equivalent to assuming that members survive one year longer than expected). No changes have been made to the other assumptions in this scenario.

Funding position of the Plan as at 30 June 2024 ($)	This valuation	Sensitivity (90% of mortality rates)
Accrued Liabilities	**129,975,523**	**134,799,481**
Hard Floor (100%)	129,975,523	134,799,481
Variable Minimum Funding Level (100%)	129,975,523	134,799,481
Minimum Funding Level (103%)	133,874,789	138,843,465
Net Assets (excluding ORFR)	**130,337,124**	**130,337,124**
Surplus/(Shortfall) to Hard Floor (net)	**361,601**	**(4,462,357)**
Surplus/(Shortfall) to Variable Minimum Funding (net)	**361,601**	**(4,462,357)**
Surplus/(Shortfall) to Minimum Funding (net)	**(3,537,664)**	**(8,506,341)**

The impact of reducing the mortality rates by 10% p.a. is to increase the value placed on the Plan's liabilities by around $5m. Under this scenario, the Plan's shortfall would increase and as such, all other things being equal, additional contributions would be payable by the Companies.

It should be noted that the variations selected in the sensitivity analysis above do not indicate upper or lower bounds of all possible outcomes. Further analysis can be carried out if required.

Appendix A: Summary of Benefits

Pensioner members

Pensions are payable monthly for life.

Death after Retirement Benefit

- No Surviving Spouse: a lump sum equal to the lump sum the member would have received if he or she had chosen a lump sum benefit at retirement less any commuted benefit paid and less the amount of benefit already paid to the pensioner.
- Surviving Spouse: a pension equal to 75% of the pension currently being paid at the date of death plus a lump sum equal to the amount payable if there was not a surviving spouse less 5 times the spouse's pension. (A complying pension option is available which is not of greater value than the above.)

Pension Increases

All pensions in payment and deferred pensions are subject to review on 1 April each year and are increased automatically by the lesser of:

- The percentage increase in the CPI weighted average for the State Capital Cities applicable to the prior December quarter over the CPI applicable to the preceding December quarter, and
- 10%.

Commutation of Pensions

The Trustee may consent to the request by a pensioner to commute their pension. Evidence of good health is obtained in these cases.

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Appendix B: Movement in Plan Assets

A summary of the movement in Plan assets since the previous actuarial valuation is shown in the following table:

	Harwood Pensioner DBD Plan ($)
Net assets available to pay benefits at 30 June 2023	**132,582,752**
Investment Revenue	7,289,229
Company contributions	1,410,000
Total Revenue from Ordinary Activities	**8,699,229**
Insurance	-
Administration Expenses	(78,600)
Benefits Paid	(10,748,674)
Excess Contributions Tax	-
Surcharge	-
Total Expenses from Ordinary Activities	**(10,827,274)**
Net movement related to ORFR	5,628
Income Tax (Expense) / Benefit	(123,210)
Net assets available to pay benefits at 30 June 2024	**130,337,124**
plus ORFR	326,659
Net Market Value (including ORFR) at 30 June 2024	**130,663,784**

Appendix C: Valuation Assumptions

Asset Value

Market value taken from unaudited accounts at the valuation date.

Investment Returns (Sub-Division One)

5.1% p.a. (gross of taxation and net of investment expenses)

Pension increases

2.6% p.a.

Mortality for Pensioners

In accordance with ALT15-17 table, reduced by 2 years. Mortality rates are assumed to reduce by 1.5% p.a. after 30 June 2019.

Family statistics

For members with no spouse information but are identified as having a spouse, we have assumed that the male partner is three years older than their female partner.

Administration Expenses

At the previous investigation it was assumed that administration expenses would be covered by an allowance of $30,000 p.a. We have retained this assumption for this valuation.

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Appendix D: Requirements under Prudential Standard SPS 160

I have carried out an actuarial valuation of the Harwood Pensioner DBD Plan (the Plan) in Sub-Division One, which is a sub-fund of Harwood Superannuation (the Fund) in the Russell Investments Master Trust as defined by Prudential Standard SPS 160. My valuation is carried out as at 30 June 2024. For the purposes of Prudential Standard SPS 160, as Actuary to the Plan, I certify that:

1. The value of assets of the Plan for the purposes of the valuation has been taken as $130,337,124 which is the market value of assets of the Plan, excluding the amount held to meet the ORFR.
2. I have projected that, based on my reasonable expectations and subject to the contributions that I have recommended in this report being paid, it is likely that during the three years following the valuation date the assets of the Plan will exceed the liabilities of the Plan in respect of both accrued benefits and vested benefits.
3. In my opinion the assets of the Plan, excluding the amount held to meet the ORFR, were sufficient to meet the liabilities in respect of the accrued benefits of the members of the Plan.
4. The value of accrued benefits for pensioners has been taken as the present value of future pension payments on the valuation assumptions. The assumptions adopted to calculate accrued benefits are best estimate assumptions. In my opinion, these methods and assumptions are appropriate for the purpose of determining accrued benefits.
5. The financial position of the Plan is satisfactory at 30 June 2024.
6. Given the Plan's investment strategy, in my opinion, the shortfall limit should be maintained at 99%.
7. The value of the liabilities in respect of the minimum benefits of the members of the Plan as at 30 June 2024 was $129,975,523.
8. Based on the results of this valuation and in line with the Trustee's Funding Policy, I recommend that Company contributions of $650,000 per annum are required to be paid in each of the next five years (i.e. in the years ending 30 June 2025, 30 June 2026, 30 June 2027, 30 June 2028 and 30 June 2029) to restore the funding level to the MFL of 103% as is required under the Funding Policy by 30 June 2029. A valuation will be conducted at 30 June 2025 to reassess the contribution recommendations.

9. In my opinion, as at 30 June 2024, taking into account the Trustee's Funding Policy and in particular the requirement to have in place Bank Guarantees in accordance with Rule 3.2(d) of the Trust Deed, there was a high degree of probability that the Plan will be able to pay the pensions as required under the Trust Deed and Rules.

Travis Dickinson
Fellow of the Institute
of Actuaries of Australia

07 November 2024

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