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Report to the Trustee on the Actuarial Investigation as at 30 June 2023

Cuesuper Superannuation Defined Benefits Plan

(a plan in NGS Super)

19 December 2023

Contents

1

Key Results and Recommendations

I have prepared this report on the actuarial investigation of the Cuesuper Superannuation Defined Benefits Plan (the Plan), a plan in NGS Super, as at 30 June 2023 for NGS Super Pty Limited, as Trustee of the Plan. The Plan is closed to new defined benefit members.

The Plan has two sub-groups consisting of the CUE (Schedule 1B) sub-group and CUNA sub-group. The CUNA sub-group is in respect of two former CUNA employees who remain Plan members as they are in receipt of lifetime pension payments, noting CUNA Mutual ceased to be a Participating Employer of the Plan in 2012, and that the Trustee purchased annuities from Challenger Life for the two CUNA sub-group pensioners on 20 April 2023 at a cost of $260,720.

My report should not be relied upon for any other purpose or by any party other than the Plan's Trustee. Mercer is not responsible for the consequences of any other use. This report should be considered in its entirety and not distributed in parts. The Trustee should share this report with the Employers who contribute to the Plan. The Employers may consider obtaining separate actuarial advice on the recommendations contained in the report.

Change in Financial Position

I set out below a summary of the Plan's financial position, at both this and the previous actuarial investigation.

Defined Benefits Only*	Position at 30 June 2023 $000	Position at 30 June 2023 Asset Coverage	Coverage at 30 June 2020
Assets	3,024		
Liability for Vested Benefits	2,914	103.8%	101.7%
Liability for Actuarial Value of Accrued Benefits	2,816	107.4%	112.9%
Discounted Accrued Retirement Benefits (DARB)	2,914	103.8%	101.7%
Liability for SG Minimum Benefits	2,273	133.0%	133.4%

* The above totals exclude additional accumulation balances for defined benefit members of $917,000 as at 30 June 2023.

The financial position at both this and the previous actuarial investigation split by the two sub-groups is also shown below.

CUE (Schedule 1B) sub-group:

Defined Benefits Only*	Position at 30 June 2023 $000	Position at 30 June 2023 Asset Coverage	Coverage at 30 June 2020
Assets	2,906		
Liability for Vested Benefits	2,914	99.7%	95.7%
Liability for Actuarial Value of Accrued Benefits	2,816	103.2%	108.0%
Discounted Accrued Retirement Benefits (DARB)	2,914	99.7%	95.7%
Liability for SG Minimum Benefits	2,273	127.8%	131.7%

* The above totals exclude additional accumulation balances for defined benefit members of $917,000 as at 30 June 2023.

CUNA sub-group:

Defined Benefits Only	Position at 30 June 2023 $000	Position at 30 June 2023 Asset Coverage	Coverage at 30 June 2020
Assets	118^		
Liability for Vested Benefits / Actuarial Value of Accrued Benefits	0^^	N/A	141.4%

^ Total Cash Assets of $171,000 (estimated as at 30 June 2023 based on the value of cash assets as at 30 June 2022 provided by the administrator adjusted for incorrectly loaded contributions {subsequently adjusted} during the year and the annuity buy-in) less administration expenses ($53,000) not yet recovered from Plan assets.

^^ Liabilities in respect of the two CUNA sub-group pensioners are matched by Challenger Life annuities.

All CUNA sub-group assets in addition to the Challenger Life annuities are invested in the Cash & Term Deposits option. The Trustee is using these surplus assets to meet the administration expenses for the CUNA sub-group.

The Plan's assets and Vested Benefits figures reported to APRA on a quarterly basis should in the future be based on the above figures, with the value of the Challenger Life annuity policy as reported by Challenger Life then added to these net Assets and Vested Benefits figures.

Experience

The coverage levels at 30 June 2023 were similar to the levels at the previous actuarial investigation, due to the following items of positive and negative experience:

Positive experience

- Cost of the purchase of annuities from Challenger Life for the two CUNA sub-group pensioners was lower than the actuarial value of their liabilities;
- Investment earnings of 7.1% p.a. were higher than the assumed long-term rate of 5.5% p.a. for the CUE (Schedule 1B) sub-group; and
- I have updated the assumptions adopted to value the CUE (Schedule 1B) sub-group liabilities from those used in the previous investigation. These reflect changes to the economic environment since the previous actuarial investigation. This has slightly decreased the Actuarial Value of Accrued Benefits.

Negative experience

- The increase in Salary of 5.4% p.a. of remaining CUE (Schedule 1B) sub-group members was higher than the assumed increase of 2.25% p.a.; and
- No Employer contributions remitted to meet CUE (Schedule 1B) sub-group expenses.

Recommended Contribution Rates and Projections

The Plan as a whole was in a satisfactory financial position at 30 June 2023 after taking account of the remaining surplus assets in respect of the CUNA sub-group.

However, the CUE (Schedule 1B) sub-group was in an unsatisfactory financial position as at 30 June 2023. The 99.7% coverage of the Defined Benefit Vested Benefits was also below the financing objective of between 100% and 105% coverage adopted for this investigation.

I recommend the Employers with members in the CUE (Schedule 1B) sub-group contribute in accordance with the following contribution program based on the financial position at 30 June 2023 and taking into account the actual investment return of -2.2% for the 4 months immediately after 30 June 2023:

- 8.0% of Salary for all members up to 31 December 2023; plus
- SG% of Salary for all members from 1 January 2024; plus
- Top up to SG% of OTE; plus
- All CUE (Schedule 1B) sub-group expenses as advised by the Trustee.

Employers should also ensure that the 5.0% of salary member contributions (or 5.9% of salary if paid via salary sacrifice) are paid to the Plan as well as any additional employer contributions agreed between an Employer and a member (e.g., additional salary sacrifice or employer contributions).

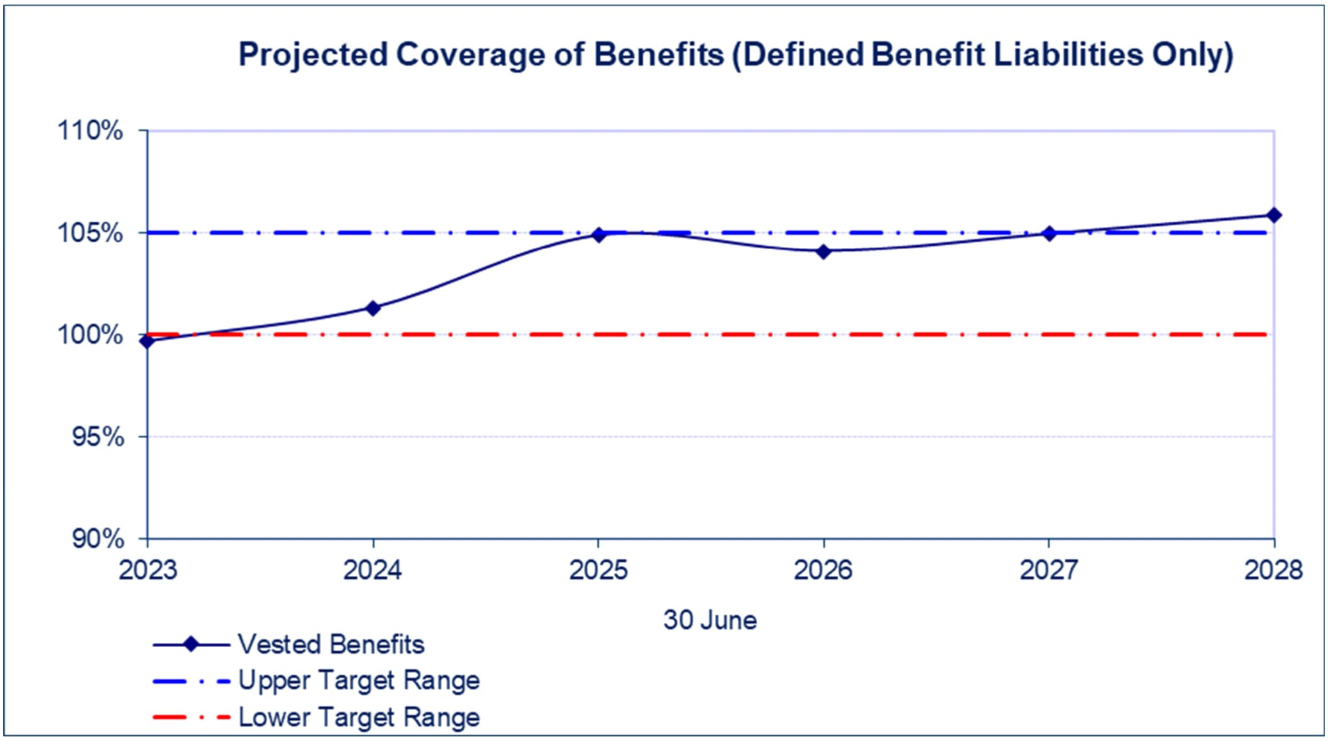
On a member’s exit, the Trustee will determine on actuarial advice whether a further top-up payment is required to reflect the financial position at the time of exit.

Requirements due to Unsatisfactory Financial Position: Restoration Plan

As the CUE (Schedule 1B) sub-group is in an “unsatisfactory financial position”, a Restoration Plan is required to be put in place for the CUE (Schedule 1B) sub-group. Therefore, in addition to the contribution program above, I recommend the Employers make the following additional contributions to the CUE (Schedule 1B) sub-group:

- An additional lump sum contribution of $90,000 by 31 March 2024 (to be split between the Employers in proportion to the Defined Benefit Vested Benefits in respect of the three members active as at 30 June 2023).

I have prepared the following projection of the CUE (Schedule 1B) sub-group assets and benefit liabilities based on the assumptions adopted for this investigation and the recommended contribution rates, and allowing for any material experience after the investigation date as detailed in this report:



The graph above shows that the CUE (Schedule 1B) sub-group is projected to return to a satisfactory financial position by 30 June 2024 (and with assets return to between 100% and 105% of Defined Benefit Vested Benefits, which is the financing objective adopted in this investigation), taken into account the -2.2% investment return from 30 June 2023 to 31 October 2023.

The Plan as a whole is projected to be in a satisfactory financial position throughout the period until the next actuarial investigation.

Ongoing Costs of the Plan

The membership of the Plan is very small. At 30 June 2023, there are only 3 members left in the CUE (Schedule 1B) sub-group (and 2 pensioners in the CUNA sub-group but their liabilities are now matched by Challenger Life annuities). Further, 2 of the 3 CUE (Schedule 1B) members turn age 65 in the next two years, and so their benefits convert to an accumulation basis.

Most of the costs of running the Plan are fixed and therefore the costs of operating the Plan are very high. The Trustee and the Employers should continue to investigate whether CUE (Schedule 1B) members' entitlements might be able to be converted to an accumulation basis in an appropriate manner taking account of the Trustee's obligations under superannuation law.

Requirements of SPS 160: Restoration Plan

My recommendations take into account the requirements of APRA Superannuation Prudential Standard 160: Defined Benefit Matters (SPS 160). SPS 160 requires that a Restoration Plan is put in place given that the CUE (Schedule 1B) sub-group is in an "unsatisfactory financial position".

Specifically, SPS 160 requires the Trustee to take the following actions on receipt of this report:

- Provide a copy of this report to APRA within 15 business days of receipt;
- Consult with the Employers about implementing the recommended contribution program;
- Appoint an actuary to be responsible for advice to the trustee during the restoration period;
- Develop and approve a Restoration Plan within 3 months;
- Provide a copy of the Restoration Plan to APRA within 15 business days of approval; and
- Implement the Restoration Plan.

Risks

The above projection is based on the assumptions adopted, which represent a single scenario from a range of possibilities. The future is uncertain, and the Plan's actual experience will differ from these assumptions; these differences may be minor in their overall effect, or they may be significant and material. In addition, different sets of assumptions or scenarios may also be within the reasonable range and results based on those alternative assumptions would be different. However, the coverage ratios will be reviewed by the Plan actuary at least once every year and quarterly on an approximate basis by the Trustee. The Trustee's monitoring of the experience specified in the Notifiable Events section of the Funding and Solvency Certificate will provide a further means of identifying adverse experience which warrants an immediate review of the Plan's financial position.

Sections 7 and 8 provide illustrations for the CUE (Schedule 1B) sub-group of the impact of investment volatility on the projected coverage of Vested Benefits and shows that a 1% p.a. reduction in the assumed future investment return would result in an 1% increase in the assessed value of liabilities for the CUE (Schedule 1B) sub-group.

Sections 8 and 9 discuss other risks associated with the liabilities, including salary increase risk, small plan, legislative risk, counterparty risk and risks around the provision of insurance benefits within the Plan.

Other Findings and Recommendations

Suitability of Policies

I am satisfied that the following current policies for the defined benefit section of the Plan are suitable:

- Investment policy
- Crediting rate policy
- Insurance arrangements
- Shortfall Limit (for the purposes of SPS 160)
- Trustee's process for monitoring the Plan's financial position.

Other Recommendations

Given the high costs of operating the CUE (Schedule 1B) sub-group on a per member basis, the Trustee and Employers should examine whether members' entitlements might be able to be converted to an accumulation basis in an appropriate manner, mindful of the Trustee's obligations under superannuation law.

Actions Required by the Trustee

The Trustee should consider this report and confirm its agreement (or otherwise) to the contribution and other recommendations, including the establishment of a Restoration Plan in respect of the CUE (Schedule 1B) sub-group in accordance with SPS 160.

The Trustee should seek formal agreement from the Employers to contribute in line with the recommendations.

2

Introduction

Background of the Plan

The Cuesuper Superannuation Defined Benefits Plan is a plan in NGS Super. The Plan is a resident regulated fund and a complying superannuation fund for the purposes of the SIS legislation. The Plan is taxed as a complying superannuation fund.

The Plan is operated for the benefit of credit union employees, with sub-groups maintained for:

- Former employees of CUNA Mutual (CUNA sub-group); and
- Employees from a collective of credit unions (CUE (Schedule 1B) sub-group).

The Trustee of NGS Super, NGS Super Pty Limited, holds a Registrable Superannuation Entity Licence under the SIS legislation and operates the Plan as required under the Trust Deed. The governing rules of the Plan are set out in the NGS Super Trust Deed dated 8 March 2011 (as amended).

The advice contained in this report is given in the context of Australian law and practice. I have made no allowance for taxation, accountancy or other requirements in any other country.

Purpose

I have prepared this report exclusively for the Trustee of the Plan for the following purposes:

- To present the results of an actuarial investigation of the Plan as at 30 June 2023;
- To review Plan experience for the period since the previous actuarial investigation as at 30 June 2020;
- To recommend contributions to be made by the Employer intended to allow the Plan 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 satisfy the requirements of the Plan's Trust Deed for actuarial investigations of the Plan's financial position; and
- To meet legislative requirements under relevant Commonwealth superannuation legislation; these include the Superannuation Industry (Supervision) Act 1993 and associated regulations (SIS legislation) and SPS 160.

My report satisfies Professional Standard 400 issued by the Actuaries Institute setting out requirements for actuarial investigations of defined benefit superannuation funds.

The previous actuarial investigation was conducted as at 30 June 2020 by me, on behalf of Mercer, and the results are contained in my report dated 14 December 2020.

Significant Events since the Investigation Date

The recommendations in this report consider the actual investment return of -2.2% for the CUE (Schedule 1B) sub-group for the 4 months immediately after 30 June 2023. I am unaware of any other significant events that have occurred since 30 June 2023 which would materially impact on the findings or recommendations in this report.

3

Experience since the Last Investigation

Data Provisions

To prepare this report, I have relied on financial and participant data provided by the Plan's administrator, Mercer Outsourcing (Australia) Pty Ltd. The data used is summarised in this report. I have not independently verified or audited the data provided but have performed a range of broad "reasonableness" checks and tested for consistency with previous records. I am satisfied that the data is sufficiently accurate for the purposes of this actuarial investigation.

I have also relied upon the documents, including amendments, governing the Plan as provided by the Trustee. The Trustee is ultimately responsible for the validity, accuracy and comprehensiveness of this information. If the data or Plan provisions are not accurate and complete, the investigation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a revision of this report.

Membership / Annuity Buy-in

The membership of the Plan as at 30 June 2023 is unchanged from that as at 30 June 2020, and was as follows:

30 June 2023 (30 June 2020)	CUE (Schedule 1B)*	CUNA**	Total
Number of members	3 (3)	2 (2)	5 (5)
Salary	$592,000 ($505,000)	-	$592,000 ($505,000)
Annual Pension	-	$28,000 ($28,000)	$28,000 ($28,000)

* Each of the three remaining CUE (Schedule 1B) members is employed by a different Employer.

** Liabilities in respect of the two CUNA sub-group pensioners are matched by Challenger Life annuities.

The CUNA sub-group consists of two lifetime pensioner members only, aged 76 and 82 at 30 June 2023, and who are in receipt of pensions totalling $28,000 p.a.. These pensions are not indexed, as per the Plan rules. They are not reversionary pensions, i.e., the pensions will cease in the event of death, and there is no subsequent payment to the widow(er).

The sponsoring employer for the CUNA sub-group - CUNA Mutual Australia Limited - ceased to be a Participating Employer with effect from 20 July 2012. The Trustee decided to continue to pay the CUNA lifetime pensions. The Trustee purchased annuities from Challenger Life for the two CUNA sub-group pensioners on 20 April 2023 at a cost of $260,720. As the purchase cost was lower than the actuarial value of their liabilities, this had a positive impact on the Plan's financial position.

Investment Returns

The table below shows the rates of investment earnings (after tax and investment fees) for the assets supporting the defined benefits of the CUE (Schedule 1B) sub-group active members over the period since the previous investigation.

Year Ending	Investment Return (p.a.)
30 June 2021	17.3%
30 June 2022	-3.4%
30 June 2023	8.5%
Compound Average	**7.1%**

The average investment return for the three-year period to 30 June 2023 was 7.1% p.a. compared to the long-term assumption at the last actuarial investigation of 5.5% p.a. The higher return than assumed had a positive impact on the Plan's financial position.

Salary Increases

Salaries for the current CUE (Schedule 1B) sub-group defined benefit members increased by an average of 5.4% p.a. over the period compared to the longer-term assumption at the last actuarial investigation of 2.25% p.a. The higher salary increases than assumed had a negative impact on the Plan's financial position, as all the CUE (Schedule 1B) sub-group's liabilities are salary related.

Contributions

The Employers have contributed at the following recommended rates at the last actuarial investigation of the CUE (Schedule 1B) sub-group:

- 8.0% of Salary for all members; plus
- Top up to SG% of OTE.

Employers also paid the 5.0% of salary member contributions (or 5.9% of salary if paid via salary sacrifice) to the Plan as well as any additional employer contributions agreed between an Employer and a member (e.g., additional salary sacrifice contributions).

I recommended at the last actuarial investigation that the Employers should also contribute to cover the CUE (Schedule 1B) sub-group expenses and insurance as advised by the Trustee. However, in consultation with me as Plan actuary, the Trustee continued to meet all sub-group expenses from Plan assets to 30 June 2021 given the Plan's favourable financial experience allowed this to occur.

For the period from 1 July 2021 onwards, CUE (Schedule 1B) sub-group insurance expenses totalling $33,000 have continued to be paid from sub-group assets and have been allowed for in this investigation. However, when valuing sub-group expenses for this investigation (which amounted to $117,000 at 30 June 2023), I have assumed that the Trustee will either ask the Employers to meet these outstanding sub-group expenses, or that these expenses will be met from NGS Super general reserves.

Impact of the Experience on the Financial Position

The main experience items affecting the Plan's financial position during the period from 30 June 2020 to 30 June 2023 were as follows:

Item	Assumption at previous review	Plan experience	Comment on effect
CUNA: Annuity Buy-in		Annuity buy-in with Challenger Life for CUNA pensioners	Positive effect – see above
CUE (Schedule 1B): Investment returns	5.5% p.a.	7.1% p.a.	Positive effect – investments grew at a higher rate than assumed
CUE (Schedule 1B): Salary increases	2.25% p.a.	5.4% p.a.	Negative effect – benefit liabilities grew at a higher rate than assumed
CUE (Schedule 1B): Contributions	8% of Salary + Top-up to SG + Meet expenses	No additional expense contributions remitted	Negative effect – see above

The overall impact of this experience was an improvement in the coverage of Vested Benefits of 2%.

4

Actuarial Assumptions

The ultimate cost to the Employer of providing the benefits to members is:

- The amount of benefits paid out; and
- The expenses of running the Plan, including tax;

less

- Members' contributions; and
- The return on investments.

The ultimate cost to the Employer will not depend on the actuarial assumptions or the methods used to determine the recommended Employer contribution, but on the actual experience of the Plan. The financing method and actuarial assumptions adopted will however affect the timing of the contribution requirements from the Employer.

The actuarial process includes projections of possible future Plan assets and benefit liabilities based on actuarial assumptions about future experience.

These assumptions include investment returns, salary/wage increases, the rates at which members leave the Plan for various reasons, and other factors affecting the financial position of the Plan.

It is not expected that these assumptions will be precisely borne out in practice, but rather that in combination they will produce a model of possible future experience that is considered a suitable basis for setting contribution rates.

Economic Assumptions – CUE (Schedule 1B) sub-group

The most significant assumption made in estimating the cost of defined benefits is the difference between:

- The assumed rate of investment earnings; and
- The rate of salary increases used in the projections of future benefit payments.

This difference is commonly referred to as the "gap".

The key economic long-term assumptions adopted for the CUE (Schedule 1B) sub-group for this investigation are:

	Assumption
Investment returns (after tax and investment fees)	6.0% p.a.
General salary increases	4.0% p.a.

The assumption for investment returns is based on the expected long-term investment return for the CUE (Schedule 1B) sub-group's current benchmark investment mix, calculated using Mercer's assumptions of the means and standard deviations of returns from the various underlying asset classes and the correlations of returns between those asset classes. It has been adjusted to reflect the term of the liabilities and reduced by 0.3% p.a. to reflect investment management fees.

The salary increase assumption is based on long term economic forecasts for future increases in average weekly earnings (AWOTE).

Demographic Assumptions – CUE (Schedule 1B) sub-group

The following tables show the assumptions that have been made concerning the rates at which members will leave the Plan for a variety of reasons.

Retirement

The rates at which members are assumed to leave the CUE (Schedule 1B) sub-group due to retirement are set out below. Given the small size of the CUE (Schedule 1B) sub-group, I have based these rates based on the experience of similar plans administered or advised by Mercer.

Age Last Birthday x	Percentage of members age x at beginning of year assumed to leave the Plan during the year on account of early retirement %
55 to 59	20
60	25
61 to 64	5
65	100

Death and Disablement in Service

No allowance has been made as there are only a few members left in the CUE (Schedule 1B) sub-group and any additional benefit payable on death or disablement is expected to be met by the Plan's insurance.

Resignation

No assumption required as all remaining CUE (Schedule 1B) sub-group members have reached early retirement age.

Retrenchment

No specific allowance is made for the possibility of future retrenchments.

Economic and Demographic Assumptions – CUNA sub-group

Following the purchase of annuities for the CUNA sub-group pensioners, there is no need to include their liabilities in the actuarial investigation as their liabilities are now matched by the Challenger Life annuities, i.e., economic and demographic assumptions are no longer required to be made in respect of the CUNA sub-group.

Other Assumptions

New Members

The Plan's defined benefit section is closed to new entrants, and I have made no allowance for new members.

Expenses – CUE (Schedule 1B) sub-group

The Employer will continue to pay the cost of expenses as advised by the Trustee. Group life insurance premiums (estimated to be $15,000 for 2023/24, then $8,000 p.a. thereafter) will be met from Plan assets.

Expenses – CUNA sub-group

At the investigation date, the administration expenses attributable to the CUNA sub-group were approximately $26,000 p.a.. I have assumed that the Trustee will be using the CUNA sub-group surplus assets to meet these annual administration expenses until they are fully utilised.

Tax

I have assumed that the current tax rate of 15% continues to apply to the Plan's assessable income, along with current tax credits and deductions.

All future Employer and member salary sacrifice contributions are assumed to be subject to 15% contribution tax, after deduction of any insurance premiums and administration and management costs. All contribution recommendations quoted in this report are gross of contributions tax.

I have made no allowance for:

- Excess contributions tax, as this is payable by the member.
- Additional tax on contributions (including defined benefit notional contributions) for those with incomes above the threshold (currently $250,000), which is also payable by the member.

Impact of the Changes in Assumptions

I have summarised in the table below the changes in assumptions from those used in the previous investigation and the reasons for the changes:

Assumption	Investigation at 30 June 2020	Investigation at 30 June 2023	Reason for change
CUE (Schedule 1B): Investment returns	5.5% p.a.	6.0% p.a.	Updated investment outlook in relation to asset class returns.
CUE (Schedule 1B): Salary increases	2.25% p.a.	4.0% p.a.	Updated wage outlook.
CUE (Schedule 1B): Expenses	Actuarial fees estimated to be $30,000 p.a. Administration expenses estimated to be $35,000 p.a. Group life insurance premiums estimated to be $15,000 p.a.	All expenses other than group life insurance premiums to be met by additional Employer contributions Group life insurance premiums estimated to be $15,000 for 2023/24 then $8,000 p.a. thereafter, to be met from Plan assets	Updated to reflect Plan experience and future expectations.
CUNA: Expenses	Actuarial fees estimated to be $5,000 p.a. Administration expenses estimated to be $23,000 p.a.	Actuarial fees estimated to be nil Administration expenses estimated to be $26,000 p.a. to be met from Plan assets	Updated to reflect Plan experience and future expectations.

The overall impact of the changes in assumptions was to decrease the Actuarial Value of Accrued Benefits by $5,000.

5

Assets

Market Value

The net market value of the Plan's assets as at 30 June 2023 was $3,941,000 (based on the data provided by the Plan's administrator).

Calculation of Defined Benefits Assets at 30 June 2023	
Net market value of the Plan's assets as at 30 June 2023	**$3,941,000**
Less accumulation accounts for defined benefit members	$917,000
Net assets to support the defined benefit liabilities of the Plan	**$3,024,000**

The split of the assets between the two sub-groups as at 30 June 2023 was:

	CUE (Schedule 1B)	CUNA	Total
Defined Benefit Assets	$2,906,000	$118,000	**$3,024,000**
Accumulation Accounts	$917,000	-	**$917,000**
Total	**$3,823,000**	**$118,000**	**$3,941,000**

The value of CUNA sub-group assets as at 30 June 2023 of $118,000 was determined as the Total Cash Assets of $171,000 estimated as at 30 June 2023 based on the value of cash assets as at 30 June 2022 provided by the administrator adjusted for incorrectly loaded contributions (subsequently adjusted) during the 2022/2023 year and the annuity buy-in, less administration expenses of $53,000 not yet recovered from Plan assets.

Operational Risk Reserves

The assets to meet the Trustee's Operational Risk Financial Requirement (ORFR) are held separately from the assets of the Plan.

The scope of this Investigation does not include a review of the adequacy of assets held to meet the Trustee's ORFR or the Trustee's ORFR strategy.

The Australian Prudential Regulator Authority (APRA) is conducting a review into the existing Prudential Standard SPS 114 Operational Risk Financial Requirement (SPS 114) with enhanced obligations for trustees. The Trustee will likely require a review of its ORFR strategy when the new prudential standard is in effect.

Investment Policy – CUE (Schedule 1B) sub-group

Assets backing Defined Benefit Liabilities

The assets supporting the CUE (Schedule 1B) sub-group's defined benefit liabilities are invested in the NGS Super Diversified (MySuper) investment option. This option currently involves a benchmark exposure of 70.5% to 'growth' assets such as shares and property and a benchmark exposure of 29.5% to 'defensive' assets such as cash and fixed interest. 'Growth' assets are expected to earn higher returns over the long term compared to 'defensive' assets, but at the same time to exhibit more variation in returns from year to year. This option is expected to provide a high level of liquidity in normal circumstances.

The Strategic Asset Allocation and Dynamic Asset Allocation Range for the assets supporting the defined benefit liabilities are as follows:

Asset Class	Strategic Asset Allocation	Dynamic Asset Allocation Range
Australian Shares	24.0%	15-40%
International Shares	27.0%	15-40%
Property	8.5%	0-20%
Listed Property	0.0%	0-15%
Infrastructure	10.5%	0-20%
Listed Infrastructure	0.0%	0-15%
Alternatives	10.5%	0-20%
Fixed Income	13.5%	0-40%
Cash	6%	0-25%
Total Growth	**70.5%**	**55-85%**
Total Defensive	**29.5%**	**15-45%**
Total	**100%**	**100%**

I have reviewed the CUE (Schedule 1B) sub-group's defined benefit investment policy considering the sub-group's financial position and the nature and term of the sub-group's defined benefit liabilities. I confirm I consider that the investment policy adopted is a suitable policy provided the Trustee and Employers understand and accept the contribution variability associated with the current investment policy.

Given that it is not known when members will take their benefit with certainty, the exact term of the sub-group's liabilities is unknown. However, two of the remaining three CUE (Schedule 1B) sub-group members are now over age 60, and their defined benefit liabilities at age 65 are converted to accumulation liabilities under the CUE (Schedule 1B) sub-group's rules if they remain members at that time. The duration of the remaining defined benefit liabilities is therefore relatively short. I therefore recommend the Trustee consult with the Employers and investigate whether the investment policy might be amended to be more defensive to reduce or even remove the investment volatility associated with the current strategy and the potential need for the Employers to make further additional lump sum contributions.

Assets backing Accumulation Benefit Liabilities

The additional accumulation accounts for defined benefit members in the CUE (Schedule 1B) sub-group are invested in line with the investment strategy adopted for the defined benefit assets. The actual returns on those investments (whether positive or negative) are passed on to members via changes in the unit prices by which member account balances are determined. Thus, the CUE (Schedule 1B) sub-group's accumulation liabilities and related assets are fully matched.

The CUE (Schedule 1B) sub-group's investments are expected to provide a high level of liquidity in normal circumstances.

I consider that the CUE (Schedule 1B) sub-group's investment policy for assets relating to accumulation liabilities is suitable, having regard to the nature and term of these liabilities.

Investment Policy – CUNA sub-group

All CUNA sub-group assets in addition to the Challenger Life annuities are invested in the NGS Cash & Term Deposits investment option. It has 100% exposure to cash and term deposits and aims to achieve net positive returns in all monthly periods thus providing a high level of security to the capital value of the investment.

These investments are expected to provide a high level of liquidity in normal circumstances.

I have assumed that the Trustee will be using the surplus assets to meet the annual administration expenses until they are fully utilised.

Crediting Rate Policy

NGS Super has a documented Unit Pricing Policy (dated September 2011).

CUE (Schedule 1B) sub-group members' benefits on resignation, as well as their Superannuation Guarantee minimum benefits, are based on the accumulation of member and notional employer contributions with investment earnings. The resignation benefit also applies as a minimum on retirement.

Retirement benefits at age 65 for CUE (Schedule 1B) sub-group members are accumulated with investment earnings. We note this minimum does not apply for any members.

In addition, all additional accounts (Employer Voluntary Account, Voluntary Member Contribution Accounts, Rollover Accounts and negative Surcharge Accounts) payable on resignation or retirement accumulate with investment earnings.

None of the accumulation accounts (real and notional in nature) are subject to Member Investment Choice. The assets are invested in line with the CUE (Schedule 1B) sub-group's investment strategy, currently the Diversified (MySuper) investment option.

The main features of the unit pricing policy in relation to real and notional accumulation accounts of defined benefit members are summarised briefly below:

- Earnings credited are based on the actual net earning rates (i.e. earnings net of investment costs, asset-based administration fees, member protection fees and provisions for tax) of the Diversified (MySuper) investment option. Net earnings are allocated via changes in unit prices. Unit prices are determined on a weekly basis.

- Hard-close unit prices are calculated (monthly and annually) for performance monitoring but are not used for transaction processing or member statements.
- All transactions (real and notional) except switches in and out of investment options are processed using historical unit pricing (i.e. based on the previous week's unit price). Switches in and out of investment options would be processed using forward unit pricing to limit the opportunity for members to select against the Plan; however, the option to switch investment options is currently not available to CUE (Schedule 1B) sub-group members.
- Members' defined benefits are crystallised at the date of leaving service. For the period from the date of leaving service to the date of payment of the benefit (or until transferred to the Industry section of NGS Super), late payment interest is payable on the benefit. This is calculated as the movement in the cash unit price between the date of leaving service and the date of payment/transfer.
- Members' additional accumulation benefits are calculated using the latest unit price at the date of payment/transfer.
- NGS Super Management allows certain member transaction requests to be backdated. That is, certain transactions can be processed with an earlier "business effective date" than the actual "processing date".
- NGS Super maintains a unit pricing reserve. A target fund level of 30 bps of the NGS Super's Net Asset Value is held to cover any potential errors caused by incorrect calculations of unit prices.
- Contingency arrangements are documented for the Trustee to take action if markets become significantly volatile, including the release of additional unit prices and the suspension of member transaction processing.

Comments

I consider that the current frequency of review of unit prices is appropriate. Whilst the use of historical unit pricing can result in members being disadvantaged or advantaged (depending on market movement), when considered alongside the contingency arrangements in place I consider the risk is controlled sufficiently.

Backdating of transactions creates a risk for the CUE (Schedule 1B) sub-group if markets fall between the business effective date and the actual processing date. Generally the contribution information received from the majority of employer sponsors is clean and hence there is little delay in the allocation of contributions. We therefore consider the risk to the CUE (Schedule 1B) sub-group to be minimal. We also understand that there are limitations in amending the administration system to remove backdating of transactions.

Conclusion

The unit pricing policy and related procedures are documented. A detailed review of the policy and related procedures is outside the scope of this investigation.

The general principles of the unit pricing policy are reasonable. Based on a review of the main features, I consider that the unit pricing policy for these benefits is generally suitable taking into consideration the principles of equity between different generations of members and any material risks which may have a significant impact on the CUE (Schedule 1B) sub-group (i.e. a market shock or sudden downturn in investment markets).

6

The Actuarial Approach

Financing Objective

The financing objective I have adopted for this investigation is to target/maintain the value of the Plan's assets over the period to the next valuation of at least equal to:

Sub-group	Accumulation account balances	Plus	Defined Benefits
CUE (Schedule 1B)	100%		Maintain 100% to 105% of Defined Benefit Vested Benefits
CUNA	N/A		N/A

The financing objectives reflect the different factors relevant to each sub-group including the different benefit designs and sponsoring employers for each sub-group.

CUE (Schedule 1B) sub-group:

The financing objective adopted for this investigation is to maintain the value of the CUE (Schedule 1B) sub-group's assets at least equal to:

- 100% of accumulation account balances; plus
- Between 100% and 105% of Defined Benefit Vested Benefits.

Accumulation account balances are matched by specific assets and do not require any additional margins. However, the defined benefit liabilities are linked to salaries and not to the returns on the underlying assets. A margin of between 100% and 105% coverage of vested defined benefits is therefore desirable to provide some security against adverse experience such as poor investment returns yet strike a suitable balance between the Trustee's desire to provide security to members and the unreasonable build-up of surplus.

Based on the assumptions adopted for this investigation, achieving the minimum financing objective of 100% of Vested Benefits for defined benefit members would also result in at least 100% coverage of the Actuarial Value of Accrued Benefits and a satisfactory margin of coverage over 100% of SG Minimum Benefits. Hence, it is not considered necessary to adopt specific financing objectives in relation to these benefit liability measures.

CUNA sub-group:

Now that annuities have been purchased for the CUNA sub-group pensioners, there is no need to hold a margin of assets over liabilities for the CUNA sub-group (provided that the expenses of paying the pensions are met by NGS Super).

I have taken into consideration the provisions of the Trust Deed and any professional requirements as set out below.

Professional Requirements

Under Professional Standard 400 issued by the Actuaries Institute, the funding method selected by the actuary *"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 Net 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." (Paragraph 5.5.4 of PS400).

Accordingly, the actuary needs to be satisfied that any funding program is expected to provide a level of assets which meets or exceeds immediate benefit entitlements based on members' reasonable expectations. Should assets fall below that level, the funding program needs to aim to lift assets to at least the required level over a reasonable time period and to maintain assets at or above the required level thereafter.

I have set the financing objective on the basis that members' reasonable expectations on termination would be to receive their vested benefit entitlement, including the pensions in payment for the CUNA sub-group.

Provisions of the Trust Deed

The rules of NGS Super require that:

- The Trustee ensures an actuarial investigation of the Plan is conducted when required by legislation. Accordingly actuarial investigations are carried out at three yearly intervals at a minimum; and
- The Employer must contribute at the rate determined by the Trustee, after consulting the Employer, on the advice of the Actuary to the Plan.

Financing Method

There are various financing methods that could be followed in setting the Employer contribution level. This investigation uses a "Target Funding" method. The Target Funding method was used at the previous investigation.

Under this method, the Employer contribution rate required to provide a target level of coverage of a particular benefit liability measure is determined.

Under this method of financing, the level of the Employer contribution may vary from time to time to ensure that the Plan remains on course towards its financing objectives.

I consider that the Target Funding method is suitable in the Plan's current circumstances as it allows the recommended contribution rates to be determined specifically to meet the Plan's financing objectives.

7

Financial Position of the Plan

Funding Status

Vested Benefits

Vested Benefits are the benefits payable if all active members resigned or, if eligible, retired at the investigation date. The values of Vested Benefits for pensioners are assumed to equal the Actuarial Value of Accrued Benefits.

At 30 June 2023 Plan assets were greater than Vested Benefits. Accordingly, the Plan as a whole was in a “satisfactory financial position” under SIS legislation.

However, at the individual sub-group level, assets were less than the Vested Benefits for the CUE (Schedule 1B) sub-group at 30 June 2023 - the CUE (Schedule 1B) sub-group’s assets represented 99.7% of the vested benefits and hence the CUE (Schedule 1B) sub-group was considered to be in an “unsatisfactory financial position” under SIS legislation. The 99.7% coverage of the Defined Benefit Vested Benefits was also below the financing objective of between 100% and 105% coverage adopted for this investigation.

Liabilities in respect of the two CUNA sub-group pensioners are now matched by Challenger Life annuities and therefore we have shown the Vested Benefits for the CUNA sub-group as nil.

SG Minimum Benefits

SG Minimum Benefits are the minimum benefits required under SG legislation, as defined in the Benefit Certificate (also referred to as Minimum Requisite Benefits or MRBs).

The Plan assets at 30 June 2023 were 133.0% of MRBs and hence the Plan was considered to be “solvent” under SIS legislation.

Actuarial Value of Accrued Benefits

The Actuarial Value of Accrued Benefits is the expected value (as at the investigation date) of all future expected benefit payments, based on membership to date, discounted to the investigation date, considering the probability of payment. This value is calculated using the actuarial assumptions and method outlined in the previous sections. In determining the value, I have not applied a minimum of the vested benefits. Further details concerning the calculation of the Actuarial Value of Accrued Benefits are set out in Appendix B.

The Plan Assets as 30 June 2023 represented 107.4% of the Actuarial Value of Accrued Defined Benefits.

The following table shows these funding measures at both the previous and current investigation dates for the Plan as a whole.

	Position at 30 June 2023		Coverage at 30 June 2020
Defined Benefits Only*	**$000**	**Asset Coverage**	
Assets	3,024		
Liability for Vested Benefits	2,914	103.8%	101.7%
Liability for Actuarial Value of Accrued Benefits	2,816	107.4%	112.9%
Discounted Accrued Retirement Benefits (DARB)	2,914	103.8%	101.7%
Liability for SG Minimum Benefits	2,273	133.0%	133.4%

* The above totals exclude additional accumulation balances for defined benefit members of $917,000 as at 30 June 2023.

The financial position at both this and the previous actuarial investigation split by the two sub-groups is also shown below.

CUE (Schedule 1B) sub-group:

	Position at 30 June 2023		Coverage at 30 June 2020
Defined Benefits Only*	**$000**	**Asset Coverage**	
Assets	2,906		
Liability for Vested Benefits	2,914	99.7%	95.7%
Liability for Actuarial Value of Accrued Benefits	2,816	103.2%	108.0%
Discounted Accrued Retirement Benefits (DARB)	2,914	99.7%	95.7%
Liability for SG Minimum Benefits	2,273	127.8%	131.7%

* The above totals exclude additional accumulation balances for defined benefit members of $917,000 as at 30 June 2023.

CUNA sub-group:

	Position at 30 June 2023		Coverage at 30 June 2020
Defined Benefits Only	**$000**	**Asset Coverage**	
Assets	118^		
Liability for Vested Benefits / Actuarial Value of Accrued Benefits	0^^	N/A	141.4%

^ Total Cash Assets of $171,000 (estimated as at 30 June 2023 based on the value of cash assets as at 30 June 2022 provided by the administrator adjusted for incorrectly loaded contributions {subsequently adjusted} during the year and the annuity buy-in) less administration expenses ($53,000) not yet recovered from Plan assets.

^^ Liabilities in respect of the two CUNA sub-group pensioners are matched by Challenger Life annuities.

The Plan's assets and Vested Benefits figures reported to APRA on a quarterly basis should in the future be based on the above figures, with the value of the Challenger Life annuity policy as reported by Challenger Life each quarter then added to these net Assets and Vested Benefits figures.

The coverage levels at 30 June 2023 were similar to the levels at the previous actuarial investigation due to the experience discussed in Section 3.

Recommended Contributions

The Plan as a whole was in a satisfactory financial position at 30 June 2023 due to the remaining surplus assets in respect of the CUNA sub-group.

The CUE (Schedule 1B) sub-group was in an unsatisfactory financial position as at 30 June 2023. The 99.7% coverage of the Defined Benefit Vested Benefits was also below the financing objective of between 100% and 105% coverage adopted for this investigation.

I recommend the Employers with members in the CUE (Schedule 1B) sub-group contribute in accordance with the following contribution program based on the financial position at 30 June 2023 and taking into account the actual investment return of -2.2% for the 4 months immediately after 30 June 2023:

- 8.0% of Salary for all members up to 31 December 2023; plus
- SG% of Salary for all members from 1 January 2024; plus
- Top up to SG% of OTE; plus
- All CUE (Schedule 1B) sub-group expenses as advised by the Trustee.

Employers should also ensure that the 5.0% of salary member contributions (or 5.9% of salary if paid via salary sacrifice) are paid to the Plan as well as any additional employer contributions agreed between an Employer and a member (e.g., additional salary sacrifice or employer contributions).

On a member's exit, the Trustee will determine on actuarial advice whether a further top-up payment is required to reflect the financial position at the time of exit.

Requirements due to Unsatisfactory Financial Position: Restoration Plan

As the CUE (Schedule 1B) sub-group is in an "unsatisfactory financial position", a Restoration Plan is required to be put in place for the CUE (Schedule 1B) sub-group. Therefore, in addition to the contribution program above, I recommend the Employers make the following additional contributions to the CUE (Schedule 1B) sub-group:

- An additional lump sum contribution of $90,000 by 31 March 2024 (to be split between the Employers in proportion to the Defined Benefit Vested Benefits in respect of the three members active as at 30 June 2023).

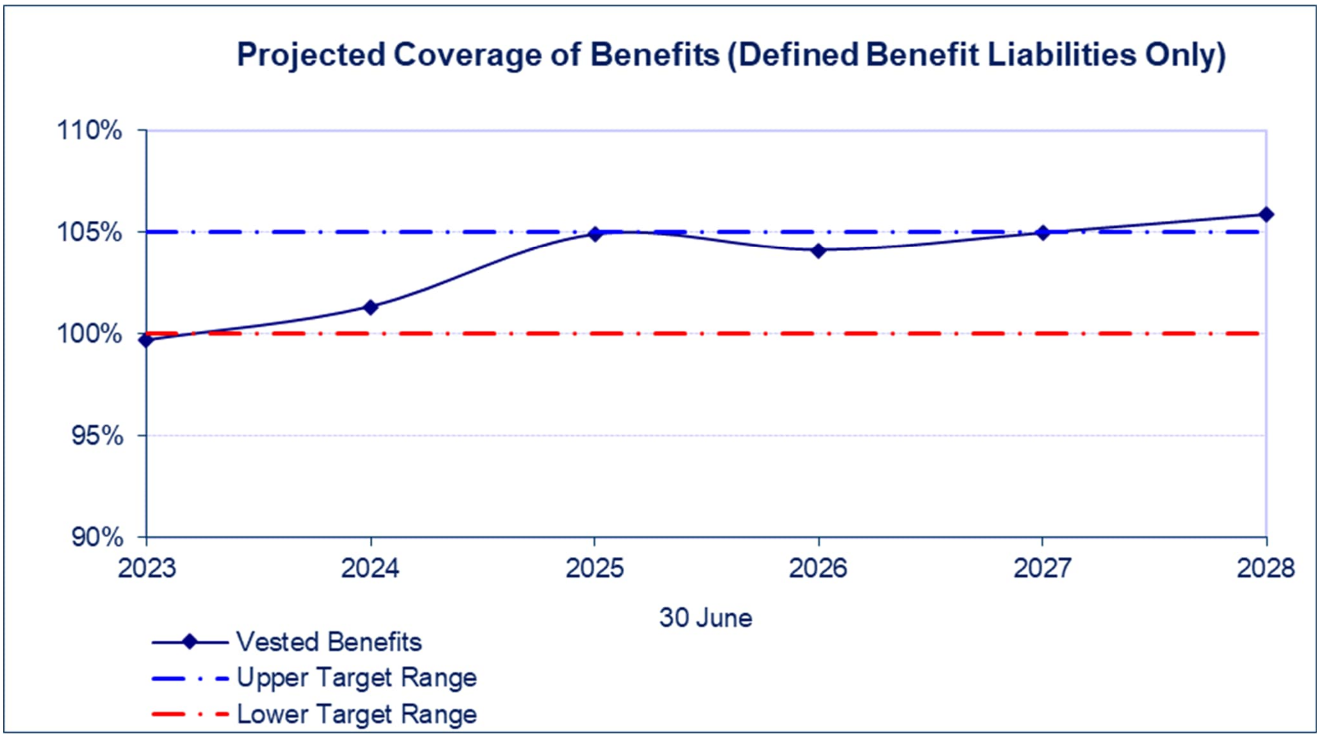
In practice, it is likely to be necessary to vary the Employer contributions at some point in the future to achieve the Trustee's financing objective.

Projected Financial Position

I have prepared a projection of the CUE (Schedule 1B) sub-group assets and benefit liabilities based on:

- The actuarial assumptions adopted for this investigation;
- The actual investment returns -2.2% for the 4 months immediately after 30 June 2023; and
- The recommended Employer contributions.

The results of the projection are as follows:



This projection is based on the assumptions adopted, which represent a single scenario from the range of possibilities. The future is uncertain, and the Plan's actual experience will differ from those assumptions; these differences may be minor in their overall effect, or they may be significant and material. In addition, different sets of assumptions or scenarios may also be within the reasonable range and results based on those alternative assumptions would be different, as discussed below.

The projection above shows that the CUE (Schedule 1B) sub-group is projected to return to a satisfactory financial position by 30 June 2024.

The Plan as a whole is projected to be in a satisfactory financial position throughout the period till next actuarial investigation.

Sensitivity Analysis

I have tested the effect of changes to the key assumptions on the value of liabilities and the CUE (Schedule 1B) sub-group's net financial position.

The liabilities shown in this report are calculated using my best estimate assumptions for investment return (6.0% p.a.) and salary growth (4.0% p.a.). As both future investment returns and future salary increases are unknown, it is almost certain that actual experience will differ from these assumptions.

It is the difference between the investment return rate and salary growth rate (commonly referred to as the 'gap') that is crucial rather than the individual assumptions, because the value of the assets move with investment returns while most of the CUE (Schedule 1B) sub-group's defined benefit liabilities grow with salaries.

To quantify the sensitivity of the net financial position to my assumptions, I have calculated the change in liability based on the following scenarios:

- Decrease the long-term investment return assumption by 1% p.a.; and
- Increase the salary growth assumption by 1% p.a.

All other assumptions, including the Employer contribution rates, are assumed to remaining the same.

The effects of these changes are shown below:

Scenario	Net financial position $M	Change in net financial position $M
Base assumptions as shown previously	0.090	
Decrease investment return by 1% p.a.	0.051	-0.039
Increase salary increase by 1% p.a.	0.077	-0.013

8

Key Risks

Investment Volatility – CUE (Schedule 1B) sub-group

Current vested benefits for CUE (Schedule 1B) sub-group defined benefit members are fully linked to salaries and not linked to investment returns. Therefore, the CUE (Schedule 1B) sub-group's vested benefits coverage is highly sensitive to changes in the investment returns.

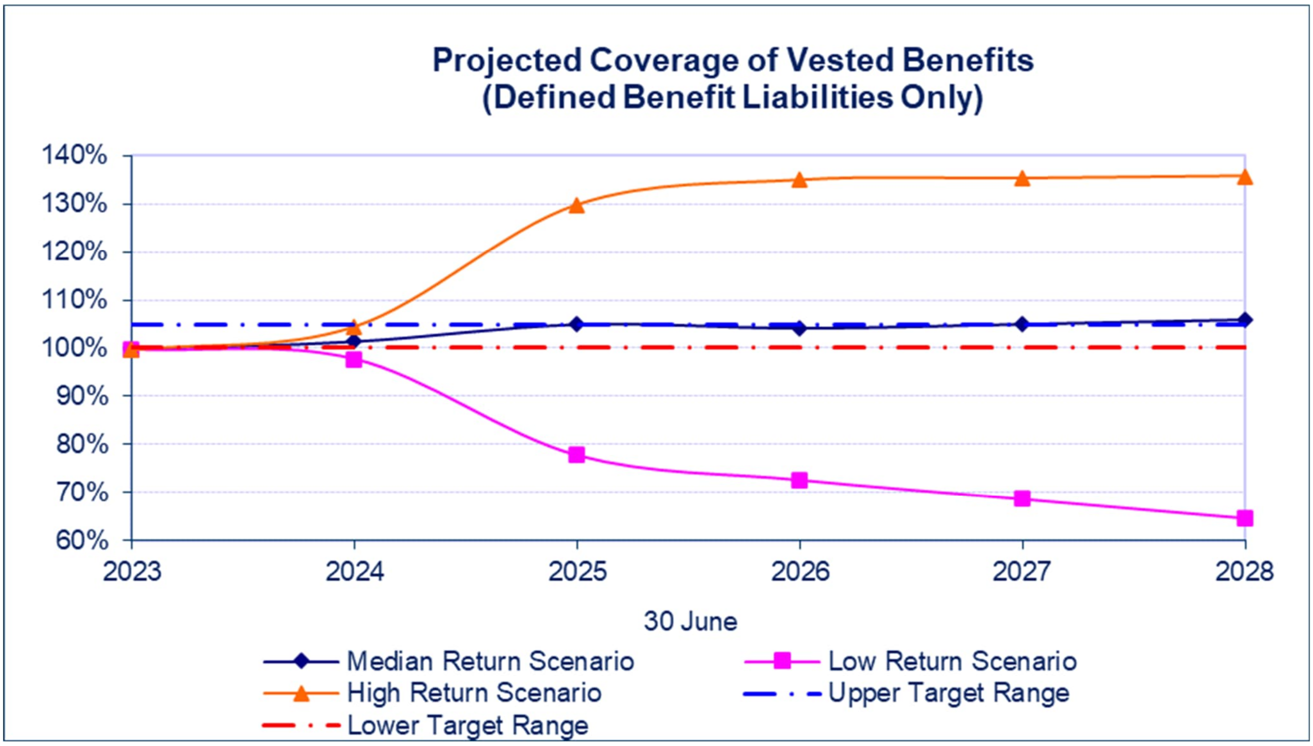
I have considered the impact of investment volatility on the CUE (Schedule 1B) sub-group's financial position over the next few years using a "High return" and a "Low return" scenario. The returns under both scenarios have been derived from assumptions about the likely risk attached to the CUE (Schedule 1B) sub-group's defined benefit investment strategy.

Using the investment return model and assumptions adopted, there is approximately a 10% chance of the CUE (Schedule 1B) sub-group's cumulative investment return being less than the "low return" scenario. Similarly, there is approximately only a 10% chance of the CUE (Schedule 1B) sub-group's cumulative investment return being greater than the "high return" scenario. I included an allowance for the actual return on assets of -2.2% during the 4-month period immediately following 30 June 2023.

1 July 2023 to 30 June	Assumed Cumulative Investment Return (%)		
	"Low Return"	Valuation	"High Return"
2024	-1.5%	1.7%	4.5%
2025	-0.5%	7.8%	15.4%
2026	0.5%	14.3%	27.4%
2027	1.5%	21.1%	40.6%
2028	2.5%	28.4%	55.2%

The cumulative investment return is the total return from 1 July 2023 up to 30 June in the year shown. The extent of variation allowed for in these projections reflects the CUE (Schedule 1B) sub-group's asset mix and Mercer's views on potential variability in investment results in various investment sectors.

The graph below shows the effect on the projected ratio of assets to Vested Benefits for defined benefit members under the "high return" and "low return" scenarios, with all other investigation assumptions remaining unchanged.



Based on fluctuations in investment returns only, and assuming other experience is in line with the assumptions adopted for this investigation, there is approximately an 80% chance that the coverage of assets over Vested Benefits at 30 June 2026 will fall in the range from 73% to 135% for the CUE (Schedule 1B) sub-group.

The “low return” scenario and the “high return” scenario shown above are illustrations only, and show what may occur under assumed future experiences that differ from my baseline assumptions. These scenarios do not constitute upper or lower bounds and the actual future coverage of Vested Benefits may differ significantly from the range shown above, depending on actual future experience. In fact, there is a 1 in 20 chance that the investment return could be less than -8.7% in any year based on the CUE (Schedule 1B) sub-group’s current asset allocation.

In my view, given the Plan as a whole is projected to be in a satisfactory financial position throughout the period till next actuarial investigation, the Trustee should be satisfied with the expected level of security over the next few years if the Employer contributes at the recommended levels.

Salary Growth Risk – CUE (Schedule 1B) sub-group

The risk is that wages or salaries (on which future benefit amounts will be based) will rise more rapidly than assumed, increasing benefit amounts and thereby requiring additional employer contributions. This risk is borne by the Employer.

For example, if the assumed future salary increase rate was increased by 1% p.a. with no change in other assumptions, then the CUE (Schedule 1B) sub-group’s net financial position would deteriorate by $13,000 from an excess of $90,000 to an excess/a shortfall of $77,000 as shown in the table in Section 7.

The actual rate of future salary increases may vary (positively or negatively) from the rate assumed at this investigation by much more than the (positive) 1% p.a. illustrated in the example above.

Small Plan Risk – CUE (Schedule 1B) sub-group

This risk relates to supporting a defined benefit plan where there are few remaining defined benefit members meaning the law of averages no longer applies and the time horizon of the defined benefit liabilities may have become short. As remaining members leave the CUE (Schedule 1B) sub-group (or reach age 65 and their benefits convert to an accumulation basis), this may have an impact on the financial position of the CUE (Schedule 1B) sub-group, depending on the position at the time that they leave. This impact may be positive or negative depending upon the circumstances and timing of any withdrawals.

Counterparty Risk – CUNA sub-group

Most of the risks to the Plan's financial position related to the two CUNA sub-group pensioners (investment risk and longevity risk) have been transferred to Challenger Life. The main risk that remains with respect to the annuity buy-in is counterparty risk – the risk that Challenger Life becomes insolvent, and another insurance company does not take on the liabilities of the annuity contract. The Trustee analysed counterparty risk in detail as part of the annuity buy-in project and concluded that this risk was relatively small.

Legislative Risk

This risk is that the Commonwealth Government could make legislative changes that increase the cost of providing the defined benefits – for example, an increase in the rate of tax on superannuation funds. This risk is borne by the Employer and is a real risk with the current level of government debt and rising interest rates.

The Plan's Risk Management Statement and Risk Management Plan should identify a full range of risks faced by the Trustee.

9

Insurance Risks

Insurance

The Plan is not permitted to self-insure.

There is no insurance in the CUNA sub-group.

For the CUE (Schedule 1B) sub-group defined benefit members, the group life sum insured formula currently in use (for both death and lump sum total and permanent disablement (TPD) benefits) is:

Sum Insured = Death/TPD Benefit *minus*
Sum of Member Account, Employer Accounts and additional accumulation accounts

The total amount insured should cover the excess of the death/TPD benefits over the CUE (Schedule 1B) sub-group's assets, unless there is a funding shortfall. Based on the formula in use at the investigation date, the coverage of death/TPD risk as at 30 June 2023 for the CUE (Schedule 1B) sub-group was as follows.

	Defined Benefit members	$000
	Death/Disablement Benefits	3,316
less	Sum Insured	928
less	Assets	2,906
	Uncovered Death/Disablement Benefits	(518)

It can be seen that there is a reasonable amount of over insurance at 30 June 2023.

Given the sub-group is expected to be wound-up shortly, I do not consider that a change to the current insurance formula is necessary.

The definition of TPD in the policy is also used to establish a member's eligibility for the benefit under the CUE (Schedule 1B) sub-group's governing rules, thus avoiding any definition mis-match risk.

For disability income benefits – the benefit provisions are entirely matched by the insurance cover provided by TAL. As such there is no funding gap and any claims or adverse experience will have no immediate financial impact on the CUE (Schedule 1B) sub-group.

In my opinion, the current group life insurance arrangements, including the sum insured formula for defined benefit members, are appropriate and provide adequate protection for the sub-group.

Documentation

The insurance arrangements are underwritten by TAL ("the insurer") and outlined in the latest endorsement to the policy (effective 1 June 2017) between the Trustee and the insurer. The purpose of the insurance policy is to protect the CUE (Schedule 1B) sub-group against unexpectedly large payouts on the death or disablement of members.

10

Prudential Standards

The prudential regulator (APRA) has issued a number of Prudential Standards for the superannuation industry, including SPS 160 relating to the financial management and funding of defined benefit plans. I comment below on several requirements arising from SPS 160.

Shortfall Limit

The Trustee must determine a "Shortfall Limit" for each fund, being:

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

I understand that the Trustee has adopted the following Shortfall Limits for the two sub-groups within the Plan:

Plan sub-group	Shortfall Limit
CUE (Schedule 1B)	96.5%
CUNA	100.0%

The Shortfall Limit is expressed as the coverage level of the defined benefit Vested Benefits by the defined benefit assets. It is appropriate to consider the following factors when determining if the Shortfall Limit remains appropriate:

- The guidance provided in the relevant Actuaries Institute Practice Guideline 499.08: Shortfall Limit Required under APRA Prudential Standard 160 dated March 2023;
- The investment strategy for defined benefit assets, particularly the overall benchmark exposure to "growth" assets (70.5% for the assets backing CUE (Schedule 1B) sub-group, 0% for assets backing CUNA sub-group); and
- The results of this investigation regarding the extent to which the current and projected Vested Benefits are not linked to the investment return on defined benefit assets (i.e. salary-based benefits) and the current and projected relativity between Vested Benefits and Minimum Requisite Benefits.

Based on the above, I recommend the Trustee maintain the current Shortfall Limit. However, Shortfall Limit is expected to no longer be required for the CUNA sub-group as their liabilities are now matched by Challenger Life annuities.

The projections also indicate that the level of Minimum Requisite Benefits is not expected to be a constraint in determining the Shortfall Limit. I will reassess the suitability of the adopted Shortfall Limit as part of the next regular actuarial investigation. The Shortfall Limit for the CUE (Schedule 1B) sub-group should be reviewed earlier if there is a significant change to the investment strategy for defined benefit assets – in particular a change to a more defensive strategy – or if the Trustee otherwise considers it appropriate to do so.

Monitoring Process

SPS 160 also requires the Trustee to determine and implement a process for monitoring the defined benefit Vested Benefits coverage against the Shortfall Limit for each plan. If this monitoring process indicates that the Vested Benefits coverage has (or may have) fallen below the Shortfall Limit, then under SPS 160:

- An "Interim Actuarial Investigation" may be required (depending on the timing of the next regular actuarial investigation); and
- A Restoration Plan is required to be put in place if an Interim Actuarial Investigation finds the plan has breached its Shortfall Limit. The Restoration Plan must be designed to return the plan to a "satisfactory financial position", so that the Vested Benefits are fully covered, within a reasonable period that must not exceed 3 years and this must be submitted to APRA.

I understand that the Trustee has adopted a monitoring process which includes the following:

- The defined benefit vested benefits coverage for each sub-group is prepared each quarter;
- If the Trustee's estimate indicates that the Shortfall Limit has, or may have been breached, action will be taken as required by SPS 160;
- For each sub-group in a satisfactory financial position where there was a significant reduction in the Trustee's estimate of defined benefit Vested Benefits coverage, the Trustee will request a review of the financial position and formal advice from the Plan actuary as to whether or not the current contribution program remains appropriate; and
- For each sub-group in an unsatisfactory financial position, the Trustee will request a review of the financial position and advice from the Plan actuary each quarter as to whether or not the current contribution program remains appropriate or any other action should be taken.

I consider that the adopted monitoring process is appropriate.

The Trustee should also continue to monitor the "Notifiable Events" specified in the Plan's Funding and Solvency Certificate and advise the actuary should any actual or potential Notifiable Events occur.

Requirements due to Unsatisfactory Financial Position

Restoration Plan

Under SPS 160, a Restoration Plan is also required to be put in place if the actuary finds in a regular Actuarial Investigation that a plan:

- Is in an unsatisfactory financial position (whether or not the Shortfall Limit is breached); or
- Is likely to fall into an unsatisfactory financial position.

The Restoration Plan must be designed to return the plan to a "satisfactory financial position", so that Vested Benefits are fully covered, within a reasonable period that must not exceed 3 years from the investigation date.

An SPS 160 Restoration Plan is not required if the plan is technically insolvent (in which case the insolvency rules must be followed). If an SPS 160 Restoration Plan is already in place then any changes to the contribution program (including its period) must be made within the framework of that Restoration Plan.

Although I have determined that the Plan as a whole is in a satisfactory financial position, the CUE (Schedule 1B) sub-group is in an “unsatisfactory financial position” and a Restoration Plan is required to be put in place for the CUE (Schedule 1B) sub-group. The recommendations in this report take into account the requirements of SPS160:

- The recommended contribution program is expected to result in more than 105% coverage of Vested Benefits by 30 June 2026, which is the maximum period of 3 years from the investigation date;
- The Restoration Plan is not expected to have any impact on benefit payments; and
- I consider that the “unsatisfactory financial position” does not necessitate any change to the investment strategy.

The Trustee will need to take the following actions after receipt of this report, as required by SPS 160:

- Provide a copy of this report to APRA within 15 business days of receipt;
- Consult with the Employers about implementing the recommended contribution program;
- Appoint an actuary to be responsible for advice to the Trustee during the restoration period
- Develop and approve a Restoration Plan within 3 months;
- Provide a copy of the Restoration Plan to APRA within 15 business days of approval; and
- Implement the Restoration Plan.

Actuary’s Reporting Requirements

Section 130 of the SIS Act requires that if an actuary forms the opinion that a plan’s financial position may be unsatisfactory, or may be about to become unsatisfactory, and that opinion was formed in performing an actuarial function, the actuary must advise both the Trustee and the prudential regulator (APRA) in writing immediately. An unsatisfactory financial position applies where assets are less than Vested Benefits.

These requirements apply to the CUE (Schedule 1B) sub-group, as an actuarial investigation is an actuarial function under the Act, and I am of the opinion that the CUE (Schedule 1B) sub-group is currently in an unsatisfactory financial position. I have made the necessary notifications to both the regulator (APRA) and the Trustee.

Under Part 9 of the SIS Regulations, I am required to consider the ability of the Plan’s assets to cover Superannuation Guarantee Minimum Requisite Benefits (MRBs). If assets are not sufficient, the Plan is considered to be ‘technically insolvent’.

The Plan’s assets are sufficient to fully cover the SG Minimum Benefits at 30 June 2023. Therefore, the Plan is not considered to be technically insolvent.

Statements Required by SPS 160

This section provides statements required to be made under APRA Prudential Standard SPS 160. Values cited relate to the Plan as a whole, which are inclusive of all accumulation members and accounts, as well as the value of the Challenger Life annuity policy in respect of the two CUNA sub-group pensioners of $247,000 as at 30 June 2023 (as valued by Challenger Life as per APRA Prudential Standard LPS 340 Valuation of Policy Liabilities in a letter dated 21 August 2023).

(a) The value of the Plan's assets as at 30 June 2023 was $4,188,000. This value excludes assets held to meet the Operational Risk Financial Requirement.

(b) In my opinion, the value of the liabilities of the Plan in respect of accrued benefits as at 30 June 2023 was $3,980,000. Hence, I consider that the value of the assets at 30 June 2023 is adequate to meet the value of the accrued benefit liabilities of the Plan as at 30 June 2023. Taking into account the circumstances of the Plan, the details of the membership and the assets, the benefit structure of the Plan and the industry within which the Employer operates, I consider that the assumptions and valuation methodology used are appropriate in relation to the determination of the accrued benefit liabilities for the purposes of this report. Further comments on the assumptions and valuation methodology are set out in Sections 4 and 6 of this report. Assuming that the Employer contributes in accordance with my recommendations based on the assumptions used for this actuarial investigation, I expect that assets will remain sufficient to cover the value of accrued benefit liabilities over the period to 30 June 2026.

(c) In my opinion, the value of the liabilities of the Plan in respect of vested benefits as at 30 June 2023 was $4,078,000. Hence, I consider that the value of the assets at 30 June 2023 is adequate to meet the value of the vested benefit liabilities of the Plan as at 30 June 2023. Assuming that the Employer contributes in accordance with my recommendations based on the assumptions made for this actuarial investigation, I expect that assets will remain sufficient to cover the value of vested benefit liabilities over the period to 30 June 2026. Hence I consider that the financial position of the Plan should not be treated as unsatisfactory as defined in SPS 160.

(d) In my opinion, the value of the liabilities of the Plan in respect of the minimum benefits of the members of the Plan as at 30 June 2023 was $3,437,000. Hence the Plan was not technically insolvent at 30 June 2023.

(e) A projection of the likely future financial position of the CUE (Schedule 1B) sub-group over the three-year period following 30 June 2023, based on what I consider to be reasonable expectations for the Plan for the purpose of this projection, is set out in Section 7 of this report,

(f) Based on the results of this investigation, I consider that the Shortfall Limit does not require review. Comments are set out earlier in this section.

(g) In respect of the three-year period following 30 June 2023, I recommend that the Employer contribute to the CUE (Schedule 1B) sub-group at least:

- 8.0% of Salary for all members up to 31 December 2023; plus
- SG% of Salary for all members from 1 January 2024; plus
- An additional lump sum contribution of $90,000 by 31 March 2024 (to be split between the Employers in proportion to the Defined Benefit Vested Benefits in respect of the three members active as at 30 June 2023); plus
- Top up to SG% of OTE; plus
- All CUE (Schedule 1B) sub-group expenses as advised by the Trustee.

Employers should also ensure that the 5.0% of salary member contributions (or 5.9% of salary if paid via salary sacrifice) are paid to the Plan as well as any additional employer contributions agreed between an Employer and a member (e.g., additional salary sacrifice or employer contributions).

On a member's exit, the Trustee will determine on actuarial advice whether a further top-up payment is required to reflect the financial position at the time of exit.

(h) The Plan is used for Superannuation Guarantee purposes:

- All Funding and Solvency Certificates required under Division 9.3 of the SIS Regulations have been issued for the period from the date of the last investigation to 30 June 2023;
- I expect to be able to certify the solvency of the Plan in any Funding and Solvency Certificates that may be required in the three-year period from 30 June 2023.

(i) In my opinion, there is a "high degree of probability", as at 30 June 2023, that the Plan will be able to meet the pension payments as required under the Plan's governing rules.

11

Actuarial Certification

Actuary’s Certifications

Professional Standards and Scope

I have prepared this report in accordance with generally accepted actuarial principles, Mercer’s internal standards, and the relevant Professional Standards of the Actuaries Institute, in particular PS400 which applies to *“...actuarial investigations of the financial condition of wholly or partially funded defined benefit superannuation funds.”*

Use of Report

This investigation report should not be relied upon for any other purpose or by any party other than the Trustee of the Plan. Mercer is not responsible for the consequences of any other use. This report should be considered in its entirety and not distributed in parts. The Trustee should share this report with the Employers who contribute to the Plan. The Employers may consider obtaining separate actuarial advice on the recommendations contained in the report.

The advice contained in this report is given in the context of Australian law and practice. I have made no allowance for taxation, accountancy or other requirements in any other country.

Actuarial Uncertainty and Assumptions

An actuarial investigation report contains a snapshot of a Plan’s financial condition at a particular point in time, and projections of the Plan’s estimated future financial position based on certain assumptions. It does not provide certainty in relation to a Plan’s future financial condition or its ability to pay benefits in the future.

Future funding and actual costs relating to the Plan are primarily driven by the Plan’s benefit design, the actual investment returns, the actual rate of salary growth and any discretions exercised by the Trustee or the Employer. The Plan’s actuary does not directly control or influence any of these factors in the context of an actuarial investigation.

The Plan’s future financial position and the recommended Employer contributions depend on several factors, including the amount of benefits the Plan pays, the cause and timing of member withdrawals, plan expense, the level of taxation and the amount earned on any assets invested to pay the benefits. These amounts and others are uncertain and unknowable at the investigation date but are predicted to fall within a reasonable range of possibilities.

To prepare this report, assumptions are used to select a single scenario from the range of possibilities. The results of that single scenario are included in this report.

However, the future is uncertain, and the Plan’s actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. For this reason, this report shows the impact on the Plan's financial position if alternative assumptions were to be adopted.

Actuarial assumptions may also be changed from one investigation to the next because of mandated requirements, Plan experience, changes in expectations about the future and other factors. I did not perform, and thus do not present, an analysis of the potential range of all future possibilities and scenarios.

Because actual Plan experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts and benefit related issues should only be made after careful consideration of possible future financial conditions and scenarios, and not solely based on a set of investigation results.

Additional Information

The next **actuarial investigation** is required at a date no later than 30 June 2026. At that time, the adequacy of the Employer contribution levels will be reassessed. The monitoring process recommended may lead to an earlier reassessment ahead of the next full actuarial investigation.

The next **Funding and Solvency Certificate** is required at least 12 months before the expiry of the current Funding and Solvency Certificate (which expires on 30 June 2028).

The next **Benefit Certificate** is required following the expiry of the current Benefit Certificate (which expires on 30 June 2028). The current Benefit Certificate is designed to accommodate changes to the legislated Superannuation Guarantee schedule.

Further Information

Please contact me to provide any supplementary information or explanations about this actuarial investigation as may be required.

Timothy Simon Jenkins
Fellow of the Institute of Actuaries of Australia

19 December 2023

I have reviewed this report under Mercer's professional Peer Review Policy. I am satisfied that it complies with the applicable professional standards and uses assumptions and methods that are suitable for the purpose.

Clement Cheung
Fellow of the Institute of Actuaries of Australia

Appendix A

Plan Design

Summary of Benefits

The CUNA sub-group consists of two lifetime pensioner members who are in receipt of pensions totalling $28,000 p.a.. These pensions are not indexed, as per the Plan rules. They are not reversionary pensions, i.e., the pensions will cease in the event of death, and there is no subsequent payment to the widow(er).

A summary of the main benefit provisions in respect of the CUE (Schedule 1B) sub-group defined benefit members is set out below. Reference should be made to the formal governing documents for definitive statements.

Benefit	
Resignation	No longer applies for any remaining members
Retirement (from age 55)	Greater of: (a) Multiple x Final Average Salary (b) 2.3 x Member Account (c) Member Account + Employer Accounts + SG Account
Late Retirement	Retirement Benefit at 65 accumulated with investment returns
Ill Health	Multiple x Final Average Salary (FAS) x Discount Factor
Death / Total and Permanent Disablement (TPD)	Greater of: (a) Normal Retirement Multiple x Final Average Salary (FAS) (b) Member Account + Employer Accounts + SG Account + 16% x Salary x Period to age 65
Minimum Requisite Benefit	As per SG Benefit Certificate

Voluntary Accumulation Accounts, negative Surcharge and Family Law Accounts are added to all benefits above.

Temporary Disability Benefit	NGS 60 day waiting period unitised cover (max 75% of salary) Payable to age 65, ceasing on earlier return to work, death or Total and Permanent Disablement.

Account	Contributions	Deductions
Member Account	5.0% of Salary	Tax if paid by salary sacrifice
Employer Accounts	n/a	
SG Account	SG% of Salary (less amounts to other funds)	Tax Insurance premiums Any exit / withdrawal fees
Employer Voluntary Account	SG% on OTE in excess of Salary (e.g., SG% on bonuses)	Tax Non-payment transactions fees (FL, switch, fin planning)
Accrual Rate (for Multiples)	16.0%	
Investment returns	Actual earnings	
Final Average Salary	The highest average of any 36 consecutive Monthly Salaries in the 10 years prior to leaving service. On death/TPD, salary is assumed to continue unchanged to normal retirement age.	
Discount Factor	1 – 2% /12 x Complete months to age 55	
Normal Retirement Age	65	

No material discretions have been exercised by the Trustee in relation to the Plan.

Neither the Trustee nor the Employer has a right within the Trust Deed to review benefits or member contribution rates.

Benefits on leaving service for any reason are subject to a minimum Superannuation Guarantee benefit described in the Plan's Benefit Certificate.

The Superannuation Guarantee (Administration) Act 1992

This Act requires employers to provide minimum superannuation benefits that are fully vested in their employees within a complying superannuation fund.

The contribution rates recommended in this report and the projected financial positions allow for benefits being augmented as necessary to meet the minimum Superannuation Guarantee (SG) benefit described in the Plan's current Benefit Certificate.

Under current legislation the SG rate is currently 11.0% and will increase by 0.5% p.a. until it reaches 12% from 1 July 2025.

Appendix B

Calculation of the Actuarial Value of Accrued Benefits

I have calculated the Actuarial Value of Accrued Benefits using a method of apportionment of benefits between past and future membership that satisfies the requirements of Professional Standard No. 402 of the Actuaries Institute and is acceptable for Australian Accounting Standard AASB 1056 purposes.

Defined Benefits

The past membership components of all defined benefits payable in the future from the Plan for the CUE (Schedule 1B) sub-group members in respect of current membership are projected forward allowing for assumed future salary increases and credited interest rates and are then discounted back to the investigation date at the investment return rate assumed for the investigation.

The past membership component for the retirement benefit is based on the member’s accrued benefit multiple or relevant account balances at the investigation date.

The weighted average term of the CUE (Schedule 1B) sub-group’s accrued benefit liabilities is 1.8 years.

Accumulation Benefits

The value of accumulation benefits is taken as the sum of the balances held in accumulation accounts at the date of the investigation.

Methodology of Calculating the Actuarial Value of Accrued Benefits

The method used for the determination of Accrued Benefits is the same as that used at the previous investigation.

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