
PROFESSIONAL STANDARD 400

**INVESTIGATIONS OF THE FINANCIAL CONDITION OF DEFINED
BENEFIT SUPERANNUATION FUNDS**

March 2021

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1 INTRODUCTION

1.1 Application

1.1.1 This Professional Standard applies to an initial or regular actuarial investigation (but not an Interim Investigation or an investigation undertaken at the direction of APRA) of the financial condition of:

- (a) a Fund required under SPS 160;
- (b) a Self Managed Superannuation Fund under Division 9.5 of the SIS Regulations; and
- (c) a Public Sector Superannuation Scheme.

This Professional Standard also applies to Members who support another Member in providing advice under the Professional Standard, as relevant to their contribution to the Services.

1.1.2 A Member who provides advice under this Professional Standard:

- (a) must be an Eligible Actuary; and
- (b) must exercise his or her independent professional judgement and give impartial advice.

Members supporting the Member providing advice under the Professional Standard are not required to be an Eligible Actuary.

1.1.3 All work performed under this Professional Standard, whether by the Member providing advice or by a Member supporting the Member providing advice, is designated as an Applicable Service. As such, Members' attention is directed towards Practice Guideline 1 (General Actuarial Practice) which applies to Applicable Services. In the case of a Member supporting the Member providing advice, Practice Guideline 1 applies as relevant to their contribution to the Services.

1.1.4 This version of the Professional Standard incorporates changes relating to Members who support another Member providing the advice under this Professional Standard.

1.2 About this Professional Standard

1.2.1 This Professional Standard:

- (a) has been prepared in accordance with the Institute's Policy for Developing

Documents to Guide and Regulate Professional Practice;

- (b) must be applied in the context of the Code;
 - (c) binds Members of the Institute when they perform work that the Standard covers; and
 - (d) defines the Institute's requirements for all work the Standard covers.
- 1.2.2 If a Member believes that this Professional Standard is ambiguous or wishes to seek clarification of it, then they may consult the Institute's Professional Standards Committee for an interpretation.
- 1.2.3 If a Member finds that they cannot carry out their work in a way that complies with this Professional Standard then they must either:
- (a) decline to carry out the work; or
 - (b) end their agreement to do so.
- 1.2.4 If a Member does not comply with this Professional Standard, then that may constitute Misconduct under the Institute's Disciplinary Scheme.
- 1.2.5 This Professional Standard does not constitute legal advice. Any interpretation or commentary within this Professional Standard regarding specific legislative or regulatory requirements reflects the expectations of the Institute but does not guarantee compliance under applicable legislation or regulations. Accordingly, Members should seek clarification from the relevant regulator and/or seek legal advice in the event they are unsure or require specific guidance regarding their legal or regulatory obligations.

1.3 Other relevant documents

- 1.3.1 This Professional Standard must be applied in the context of the relevant law, and relevant accounting and auditing standards.
- 1.3.2 A reference to legislation or a legislative provision in this Professional Standard includes any statutory modification, or substitution of that legislation or legislative provision and any subordinate legislation issued under that legislation or legislative provision. Similarly, a reference to a Professional Standard includes any modification or replacement of that Professional Standard.
- 1.3.3 Apart from the Code, from legislation or from regulatory standards, no other document, advice or consultation (including Practice Guidelines of the Institute) can be taken to modify or interpret the requirements of this Professional Standard.

1.3.4 If there is a conflict between this Professional Standard and any legislation, then the legislation takes precedence. In this context, legislation includes regulations, prudential standards, subordinate standards, rules issued by government authorities and standards issued by professional bodies which have the force of law.

1.4 Legislation

1.4.1 Section 31 of the SIS Act provides operating standards for regulated Funds, including actuarial standards that apply to Funds.

1.4.2 The requirements in relation to the actuarial Investigation of a Fund are set out in SPS 160 where the Fund is not a Self Managed Superannuation Fund and in SIS Regulations 9.29, 9.29A, 9.30 and 9.31 where the Fund is a Self Managed Superannuation Fund.

1.4.3 In relation to SPS 160, paragraph 42 allows APRA to adjust or exclude a specific prudential requirement in relation to the Trustee or the Member.

1.4.4 As a general rule, a Trustee of a Fund must obtain an actuarial Investigation on establishment of a Fund and every three years thereafter (or every year thereafter, unless granted an exemption by the Regulator, if the Fund has one or more members being paid a Defined Benefit Pension). The Regulator may direct a Fund's Trustee to obtain an actuarial Investigation of the Fund at any other time.

1.4.5 In relation to an Investigation of a Fund other than a Self Managed Superannuation Fund, the Member must be familiar with relevant provisions of SPS 160.

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

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

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

2 COMMENCEMENT DATE

This Professional Standard applies to Investigations with an Effective Date on or after 31 March 2021.

3 DEFINITIONS

3.1 In this Professional Standard:

'AASB 13' means the Australian Accounting Standards Board's accounting standard AASB 13 (Fair Value Measurement).

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

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

'Applicable Services' means Services that are designated in an Institute Professional Standard or Practice Guideline as being Applicable Services.

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

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

'Defined Benefit Pension' has the same meaning given in SIS Regulation 9.04E or SPS 160 (where SPS 160 applies to the Investigation).

'Defined Benefit Superannuation Fund' has the same meaning as applies to 'defined benefit fund' for the purposes of SIS Regulations or SPS 160 (where SPS 160 applies to the Investigation). The term includes:

- (a) any Fund from which one or more Defined Benefit Pensions are paid, where those pensions are not fully backed by annuity contracts or otherwise fully insured; and
- (b) a defined benefit sub-fund where so required by SIS Regulations or SPS 160 (as applicable).

'Disciplinary Scheme' means the document of that name prepared by the

Institute setting out the rules and procedures governing professional discipline of a Member, as amended by Council from time to time.

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

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

'Eligible Actuary' means:

- (a) a Fellow or Accredited Member of the Institute; or
- (b) a Member who is eligible to act in an actuarial capacity pursuant to a requirement under legislation.

'Every Three Years' means the Member must also consider, document and include in the Report, as appropriate, the particular matter where it has not been included in any previous Report having an Effective Date within three years of the Effective Date of the Report, or in the case of self-insurance matters, in a previous report on self-insurance matters having an effective date within three years of the Effective Date of the Report.

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

'Fund' means a Defined Benefit Superannuation Fund.

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

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

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

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

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

Fund was terminated.

'Interim Investigation' has the same meaning given in SPS 160.

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

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

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

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

'Minimum Benefit', in relation to a member, means the benefit calculated under SIS Regulation 5.04.

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

'Net Asset Value' means the value of the Net Assets determined in accordance with Professional Standard 404.

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

'Other Benefits' are benefits of defined contribution members, active defined benefit members entitled to late retirement benefits which do not form part of the defined benefit liability, former members, pensioners, deferred beneficiaries or members' dependants which need to be taken into account, including:

- (a) any former members' or dependants' pensions (including allowance for pension increases provided for either by the Trust Deed or in accordance with precedent or the intentions of the Trustee and/or Fund Sponsor);
- (b) any former members' or dependants' outstanding account based pension

balances;

- (c) deferred benefits for former members or dependants; and
- (d) benefits of an accumulation nature held in respect of active defined contribution or defined benefit members or former members.

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

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

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

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

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

'Satisfactory Financial Position' means the value of the Net Assets of the Fund is adequate to cover the liabilities of the Fund in respect of the Vested Benefits of the members of the Fund.

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

'Shortfall Limit' means the amount set by the Trustee in accordance with SPS 160.

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

'SIS Regulation' means the Superannuation Industry (Supervision) Regulations 1994 (Cth).

'SPS 160' means Superannuation Prudential Standard 160 (issued by APRA under section 34C of the SIS Act).

'Transaction Costs' has the same meaning as set out in Appendix A of AASB 13.

'Trust Deed' includes, for Public Sector Superannuation Schemes, the rules of the

Fund as prescribed in legislation.

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

'Unsatisfactory Financial Position' and 'Unsatisfactory' means the value of the Net Assets of the Fund is not adequate to cover the liabilities of the Fund in respect of the Vested Benefits of the members of the Fund.

'Vested Benefit' means:

- (a) the benefit of the member on voluntary termination of employment; or
- (b) where the member has already terminated employment and is receiving a defined benefit pension or is entitled to a deferred benefit, the value of that pension or deferred benefit.

Where the member is entitled, or would on voluntary termination of employment become entitled, to a defined benefit pension or a deferred benefit or to exercise an option, then the value of that defined benefit pension, deferred benefit or option is determined using assumptions and methodology determined in accordance with the requirements of this Professional Standard for recommending future contributions.

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

4 MATERIALITY

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

- (c) if the matter is relevant to the Fund's circumstances, the Member must state in the Report that the matter is not Material and provide reasons for such opinion.

4.3 In relation to Funds that provide accumulation benefits and defined benefits, any issues associated with the provision of accumulation benefits must be considered and included in the Report only if they have or may have a Material impact on the financial position of the Fund in relation to the defined benefits.

4.4 In relation to Public Sector Superannuation Schemes, the Member must take into account the impact of any actual or implicit Government guarantee when determining whether something is Material.

5 INVESTIGATIONS – METHOD AND ASSUMPTIONS

5.1 Matters for consideration

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

- (a) purpose of the Investigation and terms of reference;
- (b) information and data;¹
- (c) investments;²
- (d) insurance arrangements, including self insurance;³
- (e) Funding Status and Funding Status Measures (except for unfunded or partially funded Public Sector Superannuation Schemes) in relation to the requirements of SPS 160;⁴
- (f) valuation of assets, including assumptions;⁵
- (g) Funding Method (including valuation of liabilities and provision for the Trustees' policy in respect of reserves);⁶

¹ Refer clause 5.2.

² Refer clause 5.3.

³ Refer clause 5.9.

⁴ Refer clauses 5.10 to 5.15 inclusive.

⁵ Refer clauses 5.4 and 5.6.

⁶ Refer clauses 5.5 and 5.6.

- (h) considerations applying to Defined Benefit Pension Funds;⁷
 - (i) valuation results and recommended future contributions;⁸
 - (j) financial projection;⁹
 - (k) Material risks;¹⁰
 - (l) financial and demographic experience Every Three Years;¹¹
 - (m) sensitivity analyses Every Three Years;¹² and
 - (n) any other matter relevant to the Investigation that the Member identifies as Material and that is not detailed elsewhere in this Professional Standard.
- 5.1.2 If a previous Investigation has been conducted, the Member must also consider and document the reasons for the differences in the results of the Investigation compared with the results of the previous Investigation. For this purpose, the previous Investigation may have been undertaken under the previous version of Professional Standard 400.
- 5.1.3 If the Member identifies additional Material matters not detailed in clause 5.1.1, including any significant changes in experience between the Effective Date and the date of signing the Report which would be likely to have a Material effect on the conclusions and recommendations in the Report, the Member must also consider and document each of these matters.
- 5.1.4 The Member must:
- (a) consider declining to undertake an investigation of a Fund if:
 - (i) the Member considers that the data or information provided by the Fund's Trustee is insufficient for the purpose of the Investigation;
 - (ii) the Trustee seeks to direct the Member to use only a particular Funding Method that, in the Actuary's opinion, would produce misleading results; or

⁷ Refer clause 5.7.

⁸ Refer clause 5.17.

⁹ Refer clause 5.16.

¹⁰ Refer clause 5.19.

¹¹ Refer clause 5.8.

¹² Refer clause 5.18.

- (iii) the Member considers that the circumstances of the Investigation are such that his or her advice may otherwise potentially be misleading; and
- (b) if he or she decides not to decline to undertake the Investigation in the circumstances set out in clauses 5.1.4(a)(i)-(iii), comply with clauses 6.4.5 and 6.4.6.

5.2 Information and data

The Member must:

- (a) ask the Fund's Trustee to provide all relevant information required for the Investigation, including data and reports; and
- (b) take reasonable steps to verify the consistency, completeness and accuracy of the information provided by the Fund, in order to determine whether or not the Member is able to rely on the information provided. The Member must document both the steps undertaken to verify, and the decision on, the information's reliability.

5.3 Investments

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

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

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

5.3.3 The Member must consider and document:

- (a) the general suitability of the Fund's policies for crediting investment earnings to members' accounts;
- (b) the general suitability of the Fund's policies for investments reserving, if

applicable; and

- (c) any Material issues arising from the Fund's Investment Policy.

5.4 Valuation of assets

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

5.4.2 The method of determining and valuing the assets must:

- (a) have regard to the purpose of the valuation (for example, to determine contributions or a particular Funding Status Measure);
- (b) be consistent with the method and assumptions used for determining the value of liabilities;
- (c) be appropriate in the circumstances of the accumulation assets where the defined benefit assets are derived from the total assets and the amount determined in relation to the accumulation assets; and
- (d) have regard to the nature of the assets held by the Fund.

5.5 Funding Method (including valuation of liabilities)

5.5.1 The amounts and the timing of payments of benefits from a Fund cannot be known precisely in advance. They will depend on such things as salary increases and death, disablement and resignation rates of the members of the Fund.

5.5.2 Recommended contributions for Fund Sponsors are estimates, in accordance with a particular Funding Method, of the payments to be made to the Fund which, together with existing assets, future member contributions and future investment income, will meet the benefits, tax and expenses payable by the Fund. The recommended contributions will also take into account any increase or decrease in reserves required or allowed under the Trustee's reserving policy.

5.5.3 Funding Methods fall into two main groups – accrued benefit methods and projected benefit methods – both of which require assumptions regarding future experience and the value to be placed on existing assets.

5.5.4 In selecting the Funding Method, the Member must incorporate actuarial principles that the Member considers reasonable in the circumstances. Except for unfunded or partially funded Public Sector Superannuation Schemes, the method

must aim to provide that:

- (a) members' benefit entitlements (including any pension increases provided by the Trust Deed or in accordance with either precedent or the intentions of the Trustee and/or Fund Sponsor) are fully funded before the members retire; and
- (b) the 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.

5.5.5 The Funding Method selected will depend on:

- (a) the available information;
- (b) the nature of the data;
- (c) whether new members are being admitted to the Fund or not;
- (d) the operating environment and circumstances of the Fund and the Fund Sponsor;
- (e) relevant industry practice in relation to the type of fund being investigated (for example, a private or public sector fund, a Self Managed Superannuation Fund, a small APRA fund or other APRA regulated fund);
- (f) the requirements of clause 5.17.2;
- (g) the manner in which Options and Discretions are likely to be exercised; and
- (h) any other matters identified by the Member as being relevant.

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

5.6 Assumptions

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

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

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

5.6.2 When selecting assumptions, the Member must:

- (a) be satisfied as to their suitability in relation to the expected future experience of the Fund;
- (b) consider the consistency of the assumptions as a whole;
- (c) consider the past experience of the Fund. If the experience of the Fund is not sufficiently credible, then the Member must consider the available relevant industry statistics or other information; and
- (d) take into account any special features of, or trends in, the experience.

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

- (a) the expected (or, where appropriate, notional) rate of earnings on investments;
- (b) future increases in benefits due to salary increases, the application of a crediting rate or investment returns or pension increases (as provided by the Trust Deed or in accordance with either precedent or the intentions of the Trustee and/or Fund Sponsor);
- (c) taxation of contributions and investment income;
- (d) expenses incurred in running the Fund, including the costs of insurance and in the provision of investment management;
- (e) the rate and mode of exit of members of the Fund; and
- (f) any other experience item the Member considers relevant and significant.

5.7 Considerations applying to Defined Benefit Pension Funds

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

- (a) whether the Fund has sufficient liquidity to provide for pensions either through investment income, sale of the Fund's assets or contributions from the Fund Sponsor;

- (b) the suitability of assets for matching the expected income streams;
- (c) the sufficiency of assets, including future contributions, to provide for the risk of longevity;
- (d) the treatment of any surplus on the death of a pensioner;
- (e) whether some or all of the members of the Fund are in receipt of pensions; and
- (f) the implications in the event the Fund were to reach an Unsatisfactory Financial Position.

5.8 Financial and demographic experience

Every Three Years, the Member must consider and document:

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

5.9 Insurance arrangements

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

5.9.2 The Member must consider and document:

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

5.9.3 In relation to the self insurance of death and disability benefits, the Member must

consider and document:

- (a) the risks of the self insurance arrangements;
- (b) the method by which self insured benefits are funded; and
- (c) the adequacy of the reserves or other arrangements in place.

5.9.4 In relation to the self insurance of death and disability benefits, Every Three Years the Member must:

- (a) conduct an analysis of the risks of the self insurance arrangements, including the catastrophe risk;
- (b) undertake a review of the death and disability experience;
- (c) estimate the incurred claims liability for self insured benefits including pending benefits, Incurred But Not Reported benefits and where disability income benefits are provided, the amount outstanding in respect of reported benefits.

5.9.5 The Member must consider whether there are circumstances that would require an actuarial review of the self insurance arrangements prior to the next actuarial investigation.

5.10 Funding Status

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

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

5.10.2 In calculating each Funding Status Measure, the Member must include the

relevant benefit entitlements of those defined benefit members still in the service of the Fund Sponsor (other than those included in Other Benefits) applicable to that Funding Status Measure.

5.10.3 For each Funding Status Measure, the Member must consider which Other Benefits and corresponding assets should be included or excluded.¹³ Circumstances where the exclusion of the value of Other Benefits may be considered appropriate include where they consist of:

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

5.10.4 If the Fund self insures death or disability benefits, the Member must allow for the incurred benefit liability in respect of pending benefits, incurred but not reported benefits and if applicable outstanding disability income benefits in calculating each Funding Status Measure. The Member must consider the consistency of the treatment of the allowance made with the treatment of any self insurance reserves.

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

- (a) excluding any asset with a value dependent on the continued operation of the Fund Sponsor;
- (b) allowing for the sale of any illiquid assets on a forced sale, rather than ongoing, basis;
- (c) excluding any future income tax benefit;
- (d) the impact of Transaction Costs on the value of assets;

¹³ Note that APRA annual reporting form SRF 160.0 requires reporting of total defined benefit liabilities (Actuarial Value of Accrued Benefits, Vested Benefits and Minimum Benefits) and associated assets, with total accumulation liabilities and associated assets reported separately. It also requires reporting of the funding status calculated from each of these figures. APRA quarterly reporting form SRF 160.1 requires reporting of Vested Benefits on the same basis. It may be helpful for the funding status measures in the Report to be calculated on a consistent basis with these APRA reporting forms.

- (e) valuing pension benefits including the future expenses of paying and administering these benefits;
- (f) valuing pension benefits on an equivalent market value basis (that is, the amount determined as being required to be paid to a third party to take on the liability); and
- (g) where Discretions exist in determining Vested Benefits, Retrenchment Benefits or Fund Termination Benefits, assuming any available Discretions are exercised in full.

5.11 Funding Status Measures - Vested Benefits ratio

- 5.11.1 The purpose of the Vested Benefits ratio is to measure the capacity of the Fund's assets to meet the total benefits which would be payable if all members received their Vested Benefit.
- 5.11.2 The Vested Benefits ratio is determined as the ratio of the Net Asset Value of the Fund to the total Vested Benefits of the Fund at the date of determination.

5.12 Funding Status Measures - Actuarial Value of Accrued Benefits

- 5.12.1 The Actuarial Value of Accrued Benefits ratio is determined as the ratio of the assets of the Fund to the Actuarial Value of Accrued Benefits of the Fund at the date of determination. Its purpose is to measure progress towards funding members' retirement and other benefits, based on the valuation assumptions used for determining recommended contributions.
- 5.12.2 For this purpose, the assets of the Fund should be taken as the Net Asset Value.
- 5.12.3 If the method used under Professional Standard 402 for the apportionment of the benefit differs from the method used in the previous calculation of the Actuarial Value of Accrued Benefits, the Member must calculate the effect of the change and document the reason for the change.

5.13 Funding Status Measures - Retrenchment Benefits

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

of the Fund to the total Retrenchment Benefits of the Fund at the date of determination.

5.14 Funding Status Measures – Fund Termination Benefits

5.14.1 Where Fund Termination Benefits are specifically provided for in the Trust Deed and the Member considers they are Material, the Member must calculate the Funding Status in relation to Fund Termination Benefits.

5.14.2 The purpose of the Fund Termination Benefits ratio is to measure the capacity of the Net Asset Value of the Fund to meet the total benefits which would be payable if the Fund was wound up at the date of the Investigation.

5.14.3 The Fund Termination Benefits ratio is determined as the ratio of the Net Asset Value of the Fund to the total Fund Termination Benefits at the date of determination. If the Member considers the Transaction Costs expected to arise on realisation of the assets to be Material, then the Net Asset Value must be adjusted to allow for these costs when determining the Fund Termination Benefits ratio. This reflects that fund termination is likely to lead to asset realisation. If the Net Asset Value is adjusted, the Member must comment that this has been done and on the impact this adjustment has made to the result.

5.15 Funding Status Measures – Minimum Benefits

5.15.1 The purpose of the Minimum Benefits ratio is to measure the capacity of the Fund's assets to meet the total of the Minimum Benefits which would be payable if all members received their Minimum Benefit.

5.15.2 The Minimum Benefits ratio is determined as the ratio of the Net Asset Value of the Fund to the total Minimum Benefits of the Fund at the date of determination.

5.16 Financial Position Projection

If the fund is not a Self Managed Superannuation Fund, the Member must make a projection of the Vested Benefits ratio during at least the three years following the Effective Date based on the recommended contributions and the actuarial assumptions, modified if appropriate for expected short term experience.

5.17 Results and future contributions

5.17.1 The Member must:

- (a) document the key results of, and considerations arising from, the Investigation;
- (b) consider and document all Material issues arising from or disclosed by the

Investigation;

- (c) consider whether the Shortfall Limit should be reviewed; and
- (d) determine the recommended contributions as a percentage of salary, or alternatively, the recommended future levels of contributions expressed in some other form which is appropriate to the circumstances of the Fund. The contributions must be those required for funding purposes.

5.17.2 Where the Fund is in an Unsatisfactory Financial Position, the Member's contribution recommendation must (except in relation to an unfunded or partially funded Public Sector Superannuation Scheme) ensure that, on reasonable expectations regarding the Fund's future experience, the Fund will return to a Satisfactory Financial Position over a time period that is, in the Member's opinion, reasonable in the circumstances of the Fund but which must not exceed three years from the Effective Date, unless the Fund is a Self Managed Superannuation Fund or technically insolvent or a longer period or other arrangement is approved by the Regulator. Where a restoration plan is already in place, the recommendations must have regard to the restoration plan provisions.

5.17.3 Reasonable expectations mean best estimate assumptions consistent with the valuation assumptions including any short term adjustments if appropriate.

5.17.4 In considering the future contributions, the Member must take into account the circumstances of the Fund including:

- (a) the investment policy (including any large exposures to single assets or to assets which are illiquid or are not listed on a major stock exchange) and the degree to which the security of members' benefits could decline if there are falls in the investment markets;
- (b) any future income tax benefit included in the assets of the Fund;
- (c) the liquidity of the assets to meet the normal requirements for benefit payments and other outgoings without the need to realise assets at possibly temporarily depressed prices;
- (d) the valuation basis of any pension liabilities;
- (e) the maturity of the defined benefit section of the Fund;
- (f) whether the Fund is closed or open to new defined benefit members;
- (g) any potential reductions in the membership of the Fund and the expected benefits payable, and their potential to significantly worsen the financial

position of the Fund in respect of the remaining members;

- (h) any relevant provisions of the Trust Deed affecting funding and/or security of members' benefits;
- (i) whether there are any additional protections for members' benefits beyond the Net Assets of the Fund. For example, the Fund Sponsor may have a bank guarantee in respect of the deficiency or there may be provisions in the Trust Deed, or elsewhere, giving the Fund legal recourse to the Fund Sponsor for any deficiency on a winding up of the Fund;
- (j) the frequency with which the Fund's financial position is monitored by the Member;
- (k) the attitude of the Fund Sponsor to the funding of deficits;
- (l) the impact of Transaction Costs on the value of assets;
- (m) the crediting rate policy and the impact of that policy in relation to declared or interim rates on the overall financial position of the Fund;
- (n) equity between the defined benefit and accumulation categories. For example, the potential impact of smoothed interest rates for accumulation members on the solvency of the defined benefits and the potential for a deficit in the defined benefit category to impact the benefits of accumulation members on the winding up of the Fund;
- (o) any Discretions;
- (p) any Options that a member of the Fund is able to choose;
- (q) timeframes required to be met under SPS 160;
- (r) any self insurance arrangements including self insurance liabilities; and
- (s) any other circumstances that are, in the Member's opinion, Material.

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

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

5.18 Sensitivity analyses

- 5.18.1 At least Every Three Years, the Member must undertake sensitivity analyses of key assumptions.
- 5.18.2 The Member must consider and document the implications of the uncertainty identified in key assumptions used in the Funding Method. The key assumptions may include the gap between future investment earnings and future salary increases, and pensioner mortality.
- 5.18.3 The assumptions used in these analyses must be selected to illustrate the impact on results when a reasonable variation to key assumptions is made.
- 5.18.4 The Member must document the results of the sensitivity analyses.

5.19 Material risks

The Member must consider and document:

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

6 REPORTING REQUIREMENTS

6.1 Obligation to provide a Report

- 6.1.1 The Member must provide a written report on the Investigation to the Trustee of the Fund which:
- (a) includes the matters set out in this section 6; and
 - (b) complies with the Code.

6.2 Matters for inclusion in the Report

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

- (a) statements by the Member;¹⁴
 - (b) information and data;¹⁵
 - (c) overview of the Fund;¹⁶
 - (d) investments;¹⁷
 - (e) valuation of the assets, including assumptions;¹⁸
 - (f) Funding Method (including valuation of the liabilities);¹⁹
 - (g) valuation results and recommended future contributions including the Fund financial position projection;²⁰
 - (h) Funding Status and Funding Status Measures (except for unfunded or partially funded Public Sector Superannuation Schemes);²¹
 - (i) Material risks;²²
 - (j) financial and demographic experience Every Three Years;²³
 - (k) insurance arrangements;²⁴
 - (l) sensitivity analyses Every Three Years;²⁵ and
 - (m) statements required by the SIS Regulations and SPS 160.²⁶
- 6.2.2 The Report must include an item listed in clause 6.2.1 only where Section 5 requires the item to be considered. Some items only need to be considered Every Three Years.
- 6.2.3 If the Member identifies additional Material matters not detailed in clause 6.2.1, including any significant changes in experience between the Effective Date and

¹⁴ Refer clause 6.3.
¹⁵ Refer clause 6.4.
¹⁶ Refer clause 6.5.
¹⁷ Refer clause 6.6.
¹⁸ Refer clause 6.7.
¹⁹ Refer clause 6.8.
²⁰ Refer clause 6.13.
²¹ Refer clause 6.12.
²² Refer clause 6.15.
²³ Refer clause 6.10.
²⁴ Refer clause 6.11.
²⁵ Refer clause 6.14.
²⁶ Refer clause 6.9.

the date of signing the Report which would be likely to have a Material effect on the conclusions and recommendations in the Report, the Member must include such matters in the Report.

6.3 Statements by the Member

6.3.1 The Member must sign and state the date of completion of his or her Report.

6.3.2 Statements must be provided setting out:

- (a) who commissioned the Report;
- (b) the scope and purpose of the Report;
- (c) the Effective Date of the Report;
- (d) any specific terms of reference; and
- (e) any restrictions or limitations placed upon the Member in preparing the Report.

6.3.3 If there is a previous Report, the Effective Date of the previous Report must be provided, together with the name of the Member responsible for the previous Report and the date that the Member so responsible signed the previous Report.

6.4 Information and data

6.4.1 The Member must summarise in the Report all Material information relied upon in preparing the Report.

6.4.2 Material data discrepancies that cannot be resolved with the Fund must be outlined in the Report, together with the consequent limitations of the Report.

6.4.3 The degree to which the Member relies upon information, including data, policies and reports provided by the Fund's Trustee, or upon testing of the data or other information by the Fund's auditor or other third parties, must be explained in the Report, together with an assessment of the consequent limitations of the Report.

6.4.4 Where the Member relies on work carried out by other Members, the Member must be satisfied as to the suitability of the work. Where the Member is not satisfied, alternative analyses must be undertaken and explained in the Report.

6.4.5 Where the Fund does not provide adequate and timely access to information (including data and reports) and staff, as required by the Member, and the information cannot otherwise be practically obtained, the Member may omit from the Report analysis that is dependent on that information, but must provide:

- (a) an explanation as to why it has been omitted;
- (b) details of any assumptions made as a result of the information limitations;
and
- (c) an assessment of the consequent limitations of the Report.

6.4.6 Where the Member places reliance upon others to provide any information required, and this information is limited or not forthcoming, the Member must state this in the Report, together with an assessment of the consequent limitations of the Report.

6.5 Overview of the Fund

6.5.1 The Report must include an overview of the structure and operations of the Fund, including:

- (a) benefit design;
- (b) whether the Fund is open to new members;
- (c) investment arrangements;
- (d) insurance arrangements;
- (e) current compliance status under the SIS Act;
- (f) taxation status;
- (g) the frequency of Reports;
- (h) rights to review contributions and/or benefits;
- (i) benefit guarantees, Discretions and Options; and
- (j) any prudential requirements imposed on the Fund by a Regulator.

6.5.2 The Report must contain a clear identification of the current legal documents governing the Fund and a summary of the Material provisions relating to benefits and contributions (including the customary exercise of Options and Discretions) which affect benefits.

6.6 Investments

6.6.1 The Report must comment on the general suitability of the Investment Policy of

the Fund's Trustee after considering:

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

6.6.2 The Report must:

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

6.7 Valuation of assets

The Report must:

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

6.8 Funding Method (including valuation of the liabilities)

The Report must:

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

6.9 Statements required by the SIS Regulations or SPS 160

- 6.9.1 The Member must include in the Report all statements required by SIS Regulation 9.31 (Self Managed Superannuation Fund) or paragraphs 23, 24 or 25 of SPS 160 (as applicable).
- 6.9.2 In the case of an Investigation to which SIS Regulation 9.31 or paragraph 23 of SPS 160 applies, the Member is required to include in the Report, *inter alia*, statements regarding the adequacy of Net Assets to cover Vested Benefits and the Actuarial Value of Accrued Benefits. To complete these statements the Member must either:
 - (a) have made the projection required under clause 5.16; or
 - (b) in the case of a Self Managed Superannuation Fund, be satisfied that the circumstances of the Fund are such that it is clear from inspection that those statements can be made.

6.9.3 In the case of an Investigation to which SIS Regulation 9.31 or paragraphs 23 or 25 of SPS 160 applies, the Member may be required to include in the Report a statement on the expected solvency of the Fund. To complete this statement the Member must either:

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

6.10 Financial and demographic experience

6.10.1 Subject to clause 6.2.2, the Report must identify and comment on the significant features or trends in the Fund's recent experience, over at least the period since the previous Report (if any), to the extent that such experience exists and the data is available. This assessment must include investment returns, salary increases, membership and decrement rates, including any abnormal features.

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

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

6.11 Insurance arrangements

Subject to clause 6.2.2, the Report must:

- (a) comment on the general suitability of the Fund's insurance arrangements, taking into account the current and projected Funding Status. If applicable, the insurance arrangements include the insurer, the terms of the cover under the insurance policy and the formula used to determine the sum insured;
- (b) where the Fund self insures death and/or disability benefits:
 - (i) describe and comment on the funding method for the self insured death and disability benefits;

- (ii) describe and comment on the extent and adequacy of the actuarial oversight undertaken for these arrangements;
 - (iii) comment on the risks of self insurance, including the likelihood and impact of (self insured) claim fluctuations on the financial position of the Fund and the catastrophe risks and consequences;
 - (iv) comment on the adequacy of the amount of the reserves held by the Fund or the adequacy of other arrangements in respect of the self insurance arrangement; and
 - (v) recommend trigger events that may require the next investigation of the self insurance arrangements to be brought forward unless the Member considers that no trigger events are necessary in which case the Member must state this and set out the reasons that none are necessary; and
- (c) if relevant, comment on Material issues and risks arising from the Fund's insurance arrangements.

6.12 Funding Status and Funding Status Measures

6.12.1 The Report must:

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

6.12.2 Subject to clause 6.2.2, Funding Status Measures must include:

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

contingent benefits.

6.12.3 Where the Funding Status Measures would be Materially different if measured allowing for the factors in clause 5.10.5, the Member must include comment on the impact and any implications.

6.13 Valuation results and recommended future contributions

6.13.1 The Report must:

- (a) include a summary of the key results of, and considerations arising from, the Investigation including the projection of the likely future financial position of the Fund during the three years following the valuation date, based on the reasonable expectations of the Member;
- (b) include a statement regarding the financial position of the Fund that indicates whether it is to be treated as being in an Unsatisfactory Financial Position, and whether, in the opinion of the Member, the Shortfall Limit should be reviewed;
- (c) outline and comment on Material issues arising from or disclosed by the Investigation;
- (d) set out:
 - (i) the recommended contribution rate or range of rates as a percentage of salary, or alternatively, the recommended future levels of contributions expressed in some other form appropriate to the circumstances of the Fund. The level(s) of contributions recommended in the Report must be those required for funding purposes and must be for at least the three-year period immediately following the Effective Date;
 - (ii) the reasons for the recommendation(s) in clause 6.13.1(d)(i); and
 - (iii) where the Member makes a finding that the Fund is to be treated as being in an Unsatisfactory Financial Position, or the financial position is likely to become Unsatisfactory, the recommended actions to be taken to address the financial position;
- (e) set out the valuation balance sheet or alternative presentation of the results Every Three Years; and
- (f) include comment on the reasons for any changes to past recommended contributions or expected future levels and trend of contributions.

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

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

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

6.14 Sensitivity analyses

Subject to clause 6.2.2, the Member must:

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

6.15 Material risks

6.15.1 The Member must set out in the Report:

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

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

6.15.2 Where:

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

then the Report must include the Member's recommendations as to the action (or further action) that should be taken or considered by the Trustee of the Fund

to mitigate the relevant risk(s). It would be sufficient for the Member to recommend that the Trustee seeks, or considers seeking, further advice regarding how to address the relevant risk(s).

6.16 Previous recommendations

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

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