Summary Report on the Actuarial Investigation of Maritime Super as at 30 June 2014

Maritime Super

30 APRIL 2015

ACTUARIAL INVESTIGATION AS AT 30 JUNE 2014

MARITIME SUPER

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1 EXECUTIVE SUMMARY

1.1 We are pleased to present our summary report to the Trustee of Maritime Super ("the Fund") in respect of the valuations carried out of the defined benefit liabilities of the Fund as at 30 June 2014. The previous valuation of the Fund was conducted as at 30 June 2012.

1.2 Separate valuation reports dated 6 March 2015 have been prepared in respect of the defined benefit liabilities for each of the following Sections of Maritime Super:

- Section A;
- Section B;
- Section C;
- Section D;
- Section E; and
- Section F.

In addition a review has been undertaken in respect of the Insurance Reserve of Maritime Super.

1.3 For the purpose of this report a reference to a particular Section is a reference to the assets attributable to defined liabilities for each of the above separate Sections of the Fund.

1.4 The purpose of this report is to provide a summary of the key information and recommendations set out in these reports for the benefit of the Trustee. As such this summary report does not comply with the relevant Professional Standards issued by the Actuaries Institute and does not meet the requirements of a report prepared for the purposes of APRA Prudential Standard SPS 160. We confirm, however, that the separate valuation reports have been prepared in accordance with these Professional Standards.

Membership

1.5 The total number of members in the Fund as at 30 June 2014 was 29,787 compared to a total of 31,125 as at 30 June 2012.

1.6 The total number of defined benefit members of the Fund as at 30 June 2014 was 2,548 compared to 3,176 as at 30 June 2012.

1.7 A breakdown of defined benefit members between each Section is set out in Section 3 of this report. Details of total Fund membership are included in Appendix 1 of the report.

Assets

1.8 The total net market value of the Fund's assets was $4,303,490,000 as at 30 June 2014. A breakdown of these assets between defined benefit and accumulation benefits for each Section is set out in Section 5 of this report.

Investments

1.9 The assets held in respect of members' accumulation benefits, including Section B members with a defined benefit guarantee, are invested in the investment option chosen by these members.

1.10 The assets held in respect of defined benefits are currently invested according to the selected investment strategy of Section.

1.11 We consider that the investment objectives and strategies adopted by the Trustee continue to be appropriate for each Section given the size and with the benefit design of these Sections. In reaching this conclusion we have noted that in the first instance the Employer assumes responsibility for making up any funding shortfall.

Financial Position as at 30 June 2014

1.12 The Vested Benefit Index of the Fund as a whole was 101.9% as at 30 June 2014. The Fund was therefore not in an unsatisfactory position as at 30 June 2014 overall.

1.13 The financial position of each Section as at 30 June 2014 with respect to defined benefit liabilities is shown in the table below:

	Vested Benefit Index	Accrued Benefit Index
Sections (Defined Benefits)		
Section A	101.0%	112.0%
Section B	103.4%	100.7%
Section C	103.4%	94.4%
Section D	95.9%	84.1%
Section E	123.8%	113.8%
Section F	125.1%	94.0%
Total Defined Benefits	**104.3%**	**101.2%**
Total Fund	**101.9%**	**101.3%**

1.14 Sections A, B, C, E and F were not in an unsatisfactory financial position as at 30 June 2014 (i.e. the Vested Benefit Index was greater than or equal to 100%).

1.15 Section D was in an unsatisfactory financial position as at 30 June 2014 (i.e. the Vested Benefit Index was less than 100%).

1.16 We have determined that none of the Sections were technically insolvent as at 30 June 2014 i.e. in no cases were the assets of the Section less than the total of Minimum Requisite Benefits for the Section.

Summary of Findings

1.17 The results of the actuarial assessment of each of the Sections are set out in the separate reports for the defined benefit membership groups. In summary these results are as follows. In our opinion no events have subsequently occurred since that date which would cause us to alter those findings.

Section A

1.18 The actuarial investigation of Section A as at 30 June 2014 shows that the Section was no longer in an unsatisfactory financial position. This was demonstrated by a Vested Benefits Index of 101.0%.

1.19 In addition the Section had an actuarial surplus of $1.6 million in respect of the long-term funding position and $4.4 million in respect of benefits accrued to the valuation date.

1.20 However the surplus was not sufficient to indicate that there was scope to adjust contribution rates Accordingly we recommend that employer contributions for Permanent Members continue at a rate of 12.6% of CBW for all Permanent Members and member contributions continue at a rate of 4.8% of CBW.

1.21 We also recommend the continuation of the application of an additional funding strategy under which the reserve of $5.2 million currently held within the Insurance Reserve be utilised for the purpose of ensuring that vested benefits remain fully funded at all times.

1.22 We recommend that the Shortfall Limit of the Section be maintained at 98%.

1.23 We recommend that the Section continue its insurance arrangements.

1.24 In our opinion, expected future life and fixed term pension payments are satisfactorily covered by the assets of Section A set aside for this purpose.

1.25 Finally, we recommend that the Vested Benefit Index of the defined benefits in Section A of Maritime Super continue to be monitored on a quarterly basis.

Section B

1.26 We advise the following:

- Section B had an excess of assets over liabilities with a Vested Benefits Index of 103.4% as at 30 June 2014;
- In our opinion there is no current requirement to make additional contributions above the standard contributions required for accumulation members at this time, and find that the potential for additional contributions to be required in future has reduced materially due to the improvement in investment markets since the last investigation; and
- We also recommend that the Vested Benefit Index be monitored on a quarterly basis.

1.27 We recommend that the Shortfall Limit of the Section be maintained at 100%.

1.28 We recommend that the Section continue its insurance arrangements.

1.29 In our opinion, on the basis of the actuarial assumptions, Section B has sufficient reserves to meet expected future longer term requirements in respect of the defined benefit guarantee. The projections show that over the next ten years, the probability that additional contributions may be required ranges from 1.0% to 24.2%. This suggests that there is a probability that additional contributions could be required, while noting that not all instances of VBI being less than 100% would necessarily lead to a requirement for additional contributions.

Section C

1.30 We confirm that Section C had an excess of assets over liabilities with a defined benefit Vested Benefits Index of 103.4% as at 30 June 2014. We recommend that the Employer pay the following contributions with effect from 1 July 2015 in respect of defined benefit members:

- 15.0% of salaries; plus
- Additional contributions of $850,000 per annum payable quarterly from 1 July 2015 until 30 June 2018; plus
- Top-up payments in respect of any exiting members with Employer consent for a retirement between ages 55 and 60, equal to the difference between the member’s retirement benefit and vested benefit (if positive) plus applicable contribution tax; plus
- Top-up payments in respect of any exiting members as a consequence of retrenchment equal to the difference between the member’s retrenchment benefit and vested benefit (if positive) plus applicable contribution tax.

In addition to the above contributions the Employer is also required to pay a contribution of 3% of Salary for certain members which is to be credited to the member's 3% Accumulation Account.

1.31 We recommend that the Shortfall Limit of the Section be maintained at 98%.

1.32 We recommend that the Section continue its insurance arrangements.

1.33 We further recommend that the VBI position (and other measures of solvency) continue to be monitored on a regular basis throughout the inter-valuation period, to ensure that these contribution recommendations remain sufficient to achieve solvency for Section C by the expected date, and therefore whether any further short-term increases (or decreases) are appropriate.

Section D

1.34 Section D remained in an unsatisfactory financial position with a defined benefit vested benefits index of 95.9% as at 30 June 2014.

1.35 Section D's assets were invested in the Conservative Option as at 30 June 2014.

1.36 At the time of drafting this report, at the request of the Employer and following advice on the matter, Section D's investment strategy has been altered from the Fund's Conservative Option to the Fund's Balanced MVP Option with an effective transfer date of 13 January 2015.

1.37 We consider that the investment objectives and strategy adopted by the Trustee continue to be appropriate for the fund of the size and with the benefit design of Section D.

1.38 For the purposes of the valuation of Section D as at 30 June 2014 we have assumed that the assets are investment in the Balanced MVP Option.

1.39 We recommend that the Employer pay the following contributions with effect from 1 January 2015 in order to achieve and maintain the funding objective of a VBI of at least 100%:

- 32% of Salaries from 1 January 2015; plus
- Top-up payments in respect of deficit between the assets and benefit payments for exiting members.

1.40 This rate of contributions is expected to achieve a Vested Benefits Index of over 100% by 30 June 2017.

1.41 We recommend that the Shortfall Limit of the Section be reduced to a value of 98% as a consequence of the change in the Section's investment strategy from the Fund's Conservative Option to the Balanced MVP Option.

1.42 We recommend that the Section continue its insurance arrangements.

1.43 We further recommend that the VBI position be monitored on a quarterly basis throughout the inter-valuation period, to ensure that these contribution recommendations remain sufficient to remove Section D from an unsatisfactory financial position by 30 June 2017, and to assess whether any further short-term increases are needed.

Section E

1.44 Section E was in surplus overall with a VBI of 123.8% at 30 June 2014. The funding program for this Section recognises the individual funding positions for the participating employers for whom, the VBI at 30 June 2014 in respect of defined benefits were:

	VBI as at 30 June 2014
Employer Group	
Employer I	275.3%
Employer II	119.8%
Employer III	119.2%
Employer IV	117.4%
Employer V	135.1%
Employer VI	123.5%
Total	**126.5%**

1.45 With effect from 1 January 2015 nine members of Employer VI were retrenched and became entitled to a retrenchment benefit from the Section. The remaining member has been transferred to the Employer IV Group Fund. As at 1 January 2015 there were sufficient assets to cover the Retrenchment Benefits payable to the members.

1.46 The Section's assets were invested in the Conservative Option as at 30 June 2014.

1.47 At the time of drafting this report we have been notified by the Trustee of the Section's intention to alter the investment strategy in respect of all Employer Groups from the Fund's Conservative Option to the Balanced MVP Option.

1.48 We consider that the investment objectives and strategy adopted by the Trustee continue to be appropriate for the fund of the size and with the benefit design of the Section.

1.49 For the purposes of the valuation of Section E as at 30 June 2014 we have assumed that the assets are invested in the Balanced MVP Option.

1.50 The long-term funding target for each of the employer groups is a VBI of 110%. The table above shows that the current funding position for each employer group was in excess of this funding target.

1.51 However in conducting this review we have noted the increasing tendency for retiring members to elect to take part or all of their benefit in pension form. Because the value of the pension benefit is higher than the equivalent lump sum this has the potential to increase the liabilities of the Section. Accordingly in conducting this actuarial investigation we have added the assumption that retiring members will take 30% of their benefit in pension form. This change has the effect of reducing the VBI in respect of each employer group as shown in the following table.

	VBI as at 30 June 2014
Employer Group	
Employer I	275.3%
Employer II	113.8%
Employer III	118.2%
Employer IV	114.0%
Employer V	128.3%
Employer VI	123.5%
Total	**123.8%**

1.52 As maybe seen while this had the effect of reducing the funding levels of the Section the overall funding levels still remain in excess of the funding target of 110%.

1.53 Having regard to the above results we recommend that the following contribution rates are paid by each employer with effect from 1 July 2015 in order to achieve or maintain the relevant funding target:

- Employer I Nil
- Employer II 30% of Salaries
- Employer III 30% of Salaries
- Employer IV 30% of Salaries
- Employer V 30% of Salaries

1.54 We further recommend that the VBI position be monitored on a quarterly basis throughout the inter-valuation period, to monitor the surplus position within this fund and to ensure that these contribution recommendations remain sufficient to meet the funding targets.

Section F

1.55 Section F is in surplus and has a VBI of 133.2% at 30 June 2014. This funding level was above the desired target of a VBI of 110%.

1.56 However in conducting this review we noted the increasing tendency for retiring members to elect to take part or all of their benefit in pension form. Because the value of the pension benefit is higher than the equivalent lump sum this has the potential to increase the liabilities of the Section. Accordingly in conducting this actuarial investigation we have added the assumption that retiring members will take 30% of their benefit in pension form. This change has the effect of reducing the VBI to 125.1%.

1.57 Based on these changes we recommend that the following contribution rate is paid with effect from 1 July 2015 in order to achieve or maintain the revised funding target:

- 22.5% of Salaries

1.58 We further recommend that the VBI position be monitored on a quarterly basis throughout the inter-valuation period, to monitor the surplus position within this fund and to ensure that these contribution recommendations remain sufficient to meet the funding target.

Summary of Recommended Contributions Rates

1.59 In summary the recommended contribution rates each of the Sections are set out in the table below:

Sections	Recommended Contributions from 1 July 2015
Section A	• Employer: 12.6% of Classification Base Wage • Employees: 4.8% of Classification Base Wage
Section B	• Agreed contributions to be made for the accumulation arrangement, with no additional employer contributions being required for the defined benefit guarantee
Section C	• 15.0% of Salaries; plus • Additional Contributions of $850,000 per annum payable quarterly until 30 June 2018; plus • Top-up payments in respect of members taking early retirement benefits between age 55 and 60 with Employer consent; plus • Top-up payments in respect of members who exit the as a consequence of retrenchment
Section D	• 32% of Salaries; plus • Top-up payments in respect of deficit between the assets and benefit payments for exiting members
Section E	**Employer Group** • Employer I Nil • Employer II 30% of Salaries • Employer III 30% of Salaries • Employer IV 30% of Salaries • Employer V 30% of Salaries
Section F	• 22.5% of Salaries

AAS25 Accounting Information

1.60 The statement required under accounting standard AAS25 is set out in Appendix A of this report.

Events Occurring since 30 June 2014

1.61 We are not aware of any other matters arising or events occurring in relation to the Fund or the Sections between 30 June 2014 and the date of signing this report which would cause us to alter our findings or change our recommendations.

Tony Miller
Fellow of the Institute of Actuaries of Australia
30 April 2015

Russell Employee Benefits Pty Ltd
Level 13, 8 Exhibition Street
Melbourne VIC 3000

Quality Assurance

I confirm that Russell Employee Benefit's Quality Assurance standards have been applied in the preparation of this report.

Sam Underhill
Fellow of the Institute of Actuaries of Australia
30 April 2015

Russell Employee Benefits Pty Ltd
Level 13, 8 Exhibition Street
Melbourne VIC 3000

2 INTRODUCTION

2.1 This report to the Trustee of Maritime Super (“the Fund”) is prepared in accordance with Rule 14 of the Fund’s Trust Deed, which states the Trustee shall cause the Actuary to make an actuarial investigation of the Fund at intervals of not more than three years. The timing of the actuarial investigation for the Fund is consistent with the requirements of the Superannuation Industry (Supervision) (“SIS”) Act.

2.2 This report presents a summary of the results of the actuarial investigation of the Fund as at 30 June 2014 by Tony Miller of Russell Investments.

2.3 The previous actuarial valuation of Maritime Super was conducted as at 30 June 2012 by Tony Miller of Russell investments with the results presented in reports dated 30 April 2013.

2.4 The Fund is governed by a Trust Deed, which was consolidated as at 1 March 2009 and subsequent amendments. The Fund is a complying superannuation fund for the purposes of the SIS Act and the Tax Act respectively.

2.5 The Fund is composed of the following Divisions

(a) General Division

(b) Division 1

(c) Division 2

These divisions provide a mixture of accumulation based benefits, defined benefits, allocated pensions, fixed term pensions and lifetime pensions. This actuarial investigation is conducted with respect to the members with defined benefits within the following divisions.

General Division

- Section E
- Section F

Division 1

- DB Contributing and DB Non-Contributing Members of Section A

Division 2

- Section B
- Section C
- Section D

2.6 In addition Section A includes a number of fixed-term pensioners while the Section B contains both fixed-term and lifetime pensioners and these pensioners are also included within the scope of the investigation. Because the pensioners share a common investment structure they have been assessed together as part of the review of Section A.

2.7 By their nature, liabilities in respect of accumulation accounts require no actuarial investigation as the value of the assets underlying those accounts matches the value of the accounts. The Fund contains separately identifiable assets in respect of each of the defined benefit divisions set out above and each has been subject to a separate actuarial investigation. The following reports have been prepared from these investigations:

(a) Permanent Members in Section A, including term pensioners and term and lifetime pensioners from Section A;

(b) Members with Defined Benefits in Section B;

(c) Section C;

(d) Section D;

(e) Section E; and

(f) Section F

Other Information

2.8 The liabilities of Maritime Super are divided between Defined Benefit liabilities, Accumulation accounts (including accounts held in respect of allocated pensioners) and fixed-term and lifetime pensioner liabilities.

2.9 This investigation covers:

- The financial position and funding at 30 June 2014 in respect of the Fund as a whole,
- The financial position and funding at 30 June 2014 individually for each of the defined benefit parts above including the adequacy of the reserves within Section B to meet the cost of the guaranteed defined benefits provided in respect of the members of that division, and
- The adequacy of assets held in respect of pensioner liabilities.

2.10 Separate actuarial investigations have been conducted with respect to each Section. A separate report has been prepared in respect of each of those investigations. This report provides a summary of the results emerging from the separate investigations.

Previous Actuarial Valuation

2.11 The last actuarial investigation of the Fund was conducted as at 30 June 2012.

2.12 As part of this investigation, assessments of the financial condition of the Fund were conducted and in particular, an assessment of the Vested Benefit Index (VBI) of the Fund and the respective defined benefit parts was made.

2.13 The VBI measures the amount of coverage of the Fund's vested benefits by the market value of assets and for this purpose, is defined as follows:

$$\text{VBI} = \frac{\text{Net Market Value of Assets}}{\text{Total Vested Benefits}}$$

2.14 At 30 June 2012 the values of VBI with respect to defined benefit liabilities were determined to be as follows:

	Assets	Vested Benefits	VBI as at 1 July 2012
Section	$000's	$000's	
Section A	35,780	38,157	93.8%
Section B	631,206	620,195	101.8%
Section C	39,040	39,030	100.0%
Section D	2,594	2,946	88.1%
Section E	28,916	26,639	108.5%
Section F	12,698	11,384	111.5%
Total Sections	**750,234**	**738,351**	**101.6%**
Total Fund	**3,361,774**	**3,281,594**	**102.4%**

2.15 In relation to these results it was noted that:

- Section B, C, E and F were not in an unsatisfactory financial position as at 30 June 2012 (i.e. the Vested Benefit Index was greater than or equal to 100%).
- Section A and D were in an unsatisfactory financial position as at 30 June 2012 (i.e. the Vested Benefit Index was less than 100%).
- None of the Sections were technically insolvent as at 30 June 2012 i.e. in no cases were the assets of the Section less than the total of Minimum Requisite Benefits for the Section.

Recommendations from 2012 Investigation

2.16 The following funding recommendations were made as a result of the 2012 investigation:

2.17 Section A

(i) The employer contribution rate in respect of Permanent Members was retained at 12.6% of CBW and member contributions at a rate of 4.8% of CBW

(ii) It was further recommended that a contingency funding reserve of $5.2m be established within the Insurance Reserve for the purpose of ensuring that the VBI remained above 100%, to the extent possible at all times, through the transfer of funds when needed.

2.18 Section B

(i) No additional contributions were required to increase the reserve held for the purpose of meeting the guaranteed defined benefits.

(ii) It was noted that the probability that the defined benefit reserve may not be sufficient over the next 10 years had increased over the review period to 55%.

2.19 Section C

(i) The employer to continue to contribute at a rate of 15% of Salaries, plus

(ii) Additional contributions of $850,000 per annum payable quarterly from 1 July 2013 until 30 June 2023, plus

(iii) Top-up payments in respect of any exiting members with Employer consent for a retirement between ages 55 and 60, equal to the difference between the member's retirement benefit and vested benefit (if positive); plus

(iv) Top-up payments in respect of any retrenchment benefits equal to the difference between the member's retrenchment benefit and their vested benefit increased for applicable contribution tax.

(v) It was noted that the Employer contribution rate of 15% of Salaries may not be sufficient in the longer term and that increases may be required.

2.20 Section D

(i) The employer to contribute at a rate of:

- 22.7% of Salaries from 1 July 2012 to 30 June 2013;
- 29.7% of Salaries from 1 July 2013 to 30 June 2015; and
- 23.3% of Salaries from 1 July 2015.

(ii) In the event of further exits from the Section, consideration be given to either an increase in employer contributions or a top-up payment equal to the funding shortfall increased by applicable contribution tax; and

2.21 Section E

(i) The following employer contributions to be paid:

a) Employer I nil;

b) Employer II 30% of Salaries;

c) Employer III 30% of Salaries;

d) Employer IV 50% of salaries to 30 June 2015, 30% of Salaries thereafter;

e) Employer V 25% of Salaries: and

f) Employer VI 15.5% of Salaries.

2.22 Section F

(i) Employer contribution rate of 22.5% of Salaries from 1 July 2013.

3 MEMBERSHIP DATA AND DEMOGRAPHIC EXPERIENCE

Membership Data

3.1 For the purposes of this investigation we were supplied with the membership data as at 30 June 2014.

3.2 The data for the investigation was supplied by the Fund's Administrator. We have relied on the accuracy of the data provided. In addition we have undertaken checks of this data as at 30 June 2014 in relation to membership reconciliation and reasonableness checks and other ongoing checks over the period under review in relation to the data for the purpose of other actuarial tasks We are satisfied that the data provided is suitable for the purpose of this valuation.

3.3 The number of active members as at 30 June 2014 totalled 2,557. A breakdown of these members between each Section of the Fund is set out in the table below (membership numbers as at 30 June 2012 are also shown for comparison):

Number of DB Members	As at 30 June 2012	As at 30 June 2014
Section		
Section A	306	286
Section B	2,696	2,131
Section C	98	74
Section D	11	8
Section E	46	37
Section F	16	12
Total	**3,173**	**2,548**

Other Experience

3.4 Full details of the experience and the assumptions used in valuing the liabilities for each of the Sections are set out in the separate reports for the defined benefit membership groups.

4 FINANCIAL EXPERIENCE

Investment Returns

4.1 The investment returns achieved by each of the Sections investments over the two years from 1 July 2012 to 30 June 2014, and the corresponding assumed returns were as shown in the following table. Returns are not shown for Section B, where members are able to select their own underlying investment option.

4.2 As can be seen, during the investigation period the investment returns were higher than the assumed rates of return used at the previous actuarial valuation.

	Expected Investment Return	Actual Investment Return
Section		
Section A	5.8% p.a.	13.3% p.a.
Section C	5.8% p.a.	13.3% p.a.
Section D	4.6% p.a.	8.4% p.a.
Section E	Conservative Option: 4.6% p.a. Balanced Option: 5.8% p.a.	8.4% p.a. 13.3% p.a.
Section F	5.8% p.a.	10.9% p.a.

Rate of Salary Increase

4.3 For the two years to 30 June 2014 the annualised rate of Salary Growth for the defined benefit members of each of the Sections of the Fund were as follows (the assumptions used for the previous valuation as at 30 June 2012 are also shown for comparison):

	Expected Salary Growth	Actual Salary Growth
Sections		
Section A	4.0% p.a.	4.4% p.a.
Section B	4.0% p.a.	2.7% p.a.
Section C	5.0% p.a.	5.5% p.a.
Section D	5.0% p.a.	7.7% p.a.
Section E	7.5% p.a.	6.0% p.a.
Section F	7.5% p.a.	5.6% p.a.

5 ASSETS

Valuation of Assets as at 30 June 2014

5.1 The market value of the assets of the Fund at 30 June 2014 (net of redemption costs), as set out in the audited accounts, is $4,350,772,000.

5.2 The apportionment of the market value of the assets between the defined benefits and accumulation benefits for each part of the Fund as advised by Maritime Super, is as follows:

Assets	
Sections	**$000's**
Accumulation	3,428,513
Section A	41,421
Section B	697,613
Section C	40,611
Section D	2,616
Section E	34,327
Section F	14,939
Unallocated Member Funds	9,320
Insurance Reserve	31,331
Operational Risk Reserve	11,938
Fund Reserves	38,093
Total	**4,350,722**

5.3 We are satisfied that the above apportionment is suitable for the purpose of the valuation as at 30 June 2014.

6 INVESTMENTS

6.1 As at 30 June 2014, members of the Fund with accumulation benefits, including members of Section A with a defined benefit guarantee, have the choice of eight investment options for their benefit accounts:

- Australian Shares Option
- International Shares Option
- Growth Option
- Balanced Option
- Moderate Option
- Conservative Option
- Cash Enhanced
- Cash

With effect from 1 July 2014 Maritime Super introduced a Managed Volatility Process (MVP) Option for Balanced and Growth investment options. The process aims to reduce volatility of investment returns in periods of extreme volatility. Where these options have been selected we refer to the investment option as the Balanced MVP option or the Growth MVP option.

6.2 As at 30 June 2014, the remainder of the defined benefit assets of the Fund were invested as follows:

	Investment Option
Sections	
Section A	Growth MVP
Section B	Conservative
Section C	Growth MVP
Section D	Conservative
Section E	Conservative
Section F	Conservative
Life and Fixed Term Pensioners of Section A	Goldman Sachs Swap plus Cash

6.3 Further to this we note that at the time of drafting this report:

- At the request of the Employer and following advice on the matter, Section D's investment strategy has been altered from the Fund's Conservative Option to the Fund's Balanced MVP Option with an effective transfer date of 13 January 2015; and

- We have been notified by the Trustee of Section E's intention to alter the investment strategy in respect of all Employer Groups from the Fund's Conservative Option to the Balanced MVP Option.

6.4 We have therefore carried out the analysis of the contribution requirements in respect of Section D and E on this basis.

6.5 The investment objectives of the core investment options are as follows:

- Conservative Option – to outperform the annual rate of inflation (CPI) by around 1% pa after fees and taxes over rolling 10-year periods.

- Balanced Option – to outperform the annual rate of inflation (CPI) by around 2.75% pa after fees and taxes over rolling 10-year periods.

- Growth Option – to outperform the annual rate of inflation (CPI) by around 3.5% pa after fees and taxes over rolling 10-year periods.

The Balanced MVP is structured to invest 96% of funds according to the target asset allocation of the Balanced Option with the remaining 4% of funds used to actively manage risk during periods of market volatility.

The Growth MVP is structured to invest 95% of funds according to the target asset allocation of the Growth Option with the remaining 5% of funds used to actively manage risk during periods of market volatility.

6.6 With the exception of certain money market deposits, the Fund's investments are managed by external investment managers.

6.7 The strategic asset allocations of the Conservative, Balanced and Growth Options are summarised in the following table:

Asset Class	Conservative	Balanced	Growth
Australian Equities	10%	25%	35%
International Equities	10%	25%	35%
Property	3%	8%	8%
Private Equity	2%	5%	6%
Infrastructure	4%	4%	4%
Growth Alternatives	1%	3%	2%
Total Growth Assets	**30%**	**70%**	**90%**
Defensive Alternatives	10%	10%	2%
Fixed Interest	20%	12%	5%
Cash Enhanced	40%	8%	3%
Total Defensive Assets	**70%**	**30%**	**10%**
Total	**100%**	**100%**	**100%**

6.8 We are satisfied that these portfolio structures will be reasonably expected to achieve the investment return objectives set out above. We further believe that this objective is consistent with the long term investment assumptions used for the purpose of this investigation.

6.9 We consider that the investment objectives and strategies adopted by the Trustee continue to be appropriate for each Section given the size and with the benefit design of these Sections. In reaching this conclusion we have noted that in the first instance the Employer assumes responsibility for making up any funding shortfall. However, the Trustee may wish to review these investment options and consider a reduction in the investment risk profile once a Section's funding objective has been achieved.

7 VALUATION BASIS – LONG-TERM PROJECTIONS

Valuation of Benefit Liabilities

7.1 As in previous valuations, projection methods were used to value the benefit liabilities and assess long-term contribution requirements. In addition short-term funding targets were also applied where appropriate to assess the capacity of the Sections to provide greater than 100% coverage of vested benefits and to meet funding targets.

Funding Methods and Funding Objectives

7.2 The funding method and funding objectives vary between for each Section. Full details of the funding method and funding objectives used in valuing the liabilities and determining the contributions payable for each of the Sections are set out in the separate reports for the defined benefit membership groups.

Long-term Funding Assumptions

7.3 The following tables summarise the key financial assumptions used for the valuation of each Section of the Fund and AAS25 valuations:

	Expected Long Term investment Return (p.a.)	Expected Rate of Salary Growth (p.a.)
Section		
Section A	6.3%	4.0%
Section B	Accumulation Balances: 6.2% Reserves: 4.6%	4.0%
Section C	6.3%	5.0%
Section D	5.5%	6.0%
Section E	5.5%	6.0%
Section F	4.6%	6.0%

8 FINANCIAL POSITION AT 30 JUNE 2014

8.1 The “solvency” of a superannuation fund generally relates to the ability of the Fund to meet its obligations, and therefore involves a measure of the assets against accrued liabilities at a particular date of measurement.

8.2 There are a number of measures of solvency, which involve measures of assets (e.g. Market Value) and different measures of liabilities (e.g. voluntary withdrawal benefits, accrued retirement benefits). Appropriate combinations of these measures are made to consider various aspects of solvency and funding within each Section and for the Fund in aggregate.

Relevant Legal Requirements

8.3 There are two solvency measures in the SIS Regulations for a regulated fund which provides Superannuation Guarantee benefits. These are:

(a) *Unsatisfactory Financial Position*

Under the applicable legislation, a defined benefit fund is considered to be in an unsatisfactory financial position if the net assets are less than the vested benefits. This is measured by the Vested Benefits Index (VBI) which is the ratio of the net realisable value of assets to the vested benefits. The vested benefits are the aggregate withdrawal benefits (or, where eligible, the retirement benefits or the value of pensions) payable should all members choose to leave the fund on the measurement date. A VBI of less than 100% implies that the assets do not cover its vested benefits.

(b) *Technical Insolvency*

Where the assets of a fund do not cover the Minimum Requisite Benefits (i.e. the minimum benefits required to be provided under the Superannuation Guarantee legislation) the fund is technically insolvent.

For the purpose of this valuation, we have assessed the solvency measures for the entire Fund as well as each of the defined benefit parts.

8.4 In addition, the SIS Regulations also require the Actuary to include a statement (which is to be available to members if they so request):

> *“of the actuary's opinion regarding the likelihood of an actuary being able to certify the solvency of the fund in any funding and solvency certificate that may be required under these Regulations during the 3-year period immediately following the valuation date”*

8.5 This statement and relevant information is contained in Appendix A of the report. Hence, not only is the solvency position at the valuation date important, but also the likelihood of this position being maintained over the subsequent three years.

Accounting Standard - AAS25 Accrued Benefits

8.6 In practice, there will be a mix of members who exit in the short term and members who remain until retirement. There will also be some death and TPD benefits payable. A second measure to assess the adequacy of assets is the AAS25 accrued benefits, which represents the actuarial present value of the accrued benefits - taking account of the expected exits from various causes by using appropriate decrement assumptions. The Accrued Benefits Index (ABI) is the ratio of the market value of assets to the present value of accrued benefits.

8.7 The accounting standard AAS25 requires accrued benefits to be calculated on a specified set of assumptions which generally differs from the actuarial funding assumptions. These AAS25 assumptions rely on the “best estimate” assumptions, together with the market value of assets less disposal costs. AAS25 also requires a summary of the actuarial investigation to be included in the Fund accounts. The information required under AAS25 for the Fund accounts is provided in Appendix B of Part 1 of the report.

8.8 The “best estimate” assumptions used for the AAS25 valuation are also outlined in Appendix B of Part 1 of the report.

Solvency Position as at 30 June 2014

8.9 We have determined that the VBI of the Fund at 30 June 2014 was 101.9%. As the VBI is greater than 100%, the Fund was not in an unsatisfactory financial position overall.

8.10 However, as a large component of the Fund is in accumulation account balances (where the market value of assets match the value of vested benefits), a more appropriate measure of the level of solvency is to compare the level of assets backing the respective defined benefit components of the Fund. This is also important as the contribution recommendation for each of the Sections depend in part on the solvency levels for the respective Sections.

Vested Benefit Index

8.11 The Vested Benefit Index (VBI) as at 30 June 2014 for each defined benefit Section as well as the Fund as a whole is set out in the table below:

	Assets	Vested Benefits	VBI
Section	**$000's**	**$000's**	
Section A	41,421	41,011	101.0%
Section B	697,018[1]	674,077	103.4%
Section C	40,611	39,274	103.4%
Section D	2,616	2,728	95.9%
Section E	34,327	27,738	123.8%
Section F	14,939	11,940	125.1%
Total Sections	**830,932**	**796,768**	**104.3%**
Total Fund	**4,303,490**	**4,225,281**	**101.9%**

[1] A deduction of $595,000 has been made from the assets held in Section B in respect of pending claims.

Accrued Benefit Index

8.12 The Accrued Benefit Index (ABI) as at 30 June 2014 for each defined benefit Section as well as the Fund as a whole is set out in the table below:

	Assets	Accrued Liability	ABI
Section	**$000's**	**$000's**	
Section A	41,421	36,979	112.0%
Section B	696,799[1]	691,995	100.7%
Section C	40,611	43,040	94.4%
Section D	2,616	3,112	84.1%
Section E	34,327	30,160	113.8%
Section F	14,939	15,901	94.0%
Total Sections	**830,713**	**821,187**	**101.2%**
Total Fund	**4,303,490**	**4,249,700**	**101.3%**

[1] A deduction of $813,000 has been made from the assets held in Section B in respect of pending claims and the expected present value of the Minimum Death and TPD cover reserve.

Summary of Financial Position as at 30 June 2014

8.13 The following table provides details of the solvency position in respect of defined benefits in each of the defined benefit parts at 30 June 2014. It shows the adequacy of assets towards meeting defined benefit withdrawal / retirement benefits (VBI), and also towards meeting discounted accrued retirement benefits (ABI). The VBI and ABI as at 30 June 2012 are also shown for comparison.

	VBI		ABI	
	30 June 2012	30 June 2014	30 June 2012	30 June 2014
Section				
Section A	93.8%	101.0%	102.9%	112.0%
Section B	101.8%	103.4%	100.5%	100.7%
Section C	100.0%	103.4%	82.8%	94.4%
Section D	88.1%	95.9%	79.3%	84.1%
Section E	108.5%	123.8%	95.6%	113.8%
Section F	111.5%	125.1%	96.4%	94.0%
Total Sections	**101.6%**	**104.3%**	**99.1%**	**101.2%**
Total Fund	**102.4%**	**101.9%**	**101.9%**	**101.3%**

8.14 The relevance of these indices and their impact on future solvency and funding for each of the Sections are discussed in detail in the separate reports for the defined benefit membership groups.

8.15 As can be seen from the movement in the above indices, the financial positions in respect of all the Sections have improved over the period from 1 July 2012 to 30 June 2014. This has primarily been due to investment returns being higher than expected.

9 LONG-TERM FUNDING

Projection of Long-Term Financial Position

9.1 We have projected the long-term financial position for each Section in order to determine whether the current contributions will be sufficient to meet the Section's funding objective. Where the contributions are deemed to be insufficient we have recommended an alternative rate of contributions that is expected to achieve the funding objectives.

9.2 Details of these long-term projections, recommended contributions and sensitivity analyses are set out in the separate reports for the defined benefit membership groups.

Contribution Recommendations

9.3 The recommended contribution rates payable from 1 July 2015 for each of the Sections are set out in the table below:

Sections	Recommended Contributions from 1 July 2015
Section A	• Employer: 12.6% of Classification Base Wage • Employees: 4.8% of Classification Base Wage
Section B	• Agreed contributions to be made for the accumulation arrangement, with no additional employer contributions being required for the defined benefit guarantee
Section C	• 15% of Salaries; plus • Additional Contributions of $850,000 per annum payable quarterly until 30 June 2018; plus • Top-up payments in respect of members taking early retirement benefits between age 55 and 60 with Employer consent; plus • Top-up payments in respect of members who exit the as a consequence of retrenchment
Section D	• 28% of Salaries until 31 December 2014 32% of Salaries from 1 January 2015; plus • Top-up payments in respect of deficit between the assets and benefit payments for exiting members
Section E	**Employer Group** • Employer I Nil • Employer II 30% of Salaries • Employer III 30% of Salaries • Employer IV 30% of Salaries • Employer V 30% of Salaries
Section F	• 22.5% of Salaries

Ongoing Monitoring of Solvency

9.4 For each Section we recommend that the VBI position continue to be monitored on a quarterly basis throughout the inter-valuation period to ensure that the above contribution recommendations remain sufficient to achieve the solvency (or maintain it where VBI is currently above 100%) and to assess whether any further short-term increases (or decreases) are appropriate.

10 INSURANCE

10.1 The Fund's insurance arrangements in respect of each of the membership groups are examined in detail in the separate reports for the defined benefit membership Sections.

10.2 In summary:

- For all members, benefits paid on death and total and permanent disablement are insured by American International Assurance Company (Australia) (AIA).
- For members in Section A, this arrangement commenced on 1 January 2010. Prior to that date death and Total and Permanent Disablement Benefits were self–insured;
- For members in Section B, Incurred but not Reported (IBNR) claims that arose prior to 30 June 2008 but were reported after that date are also externally insured. A similar arrangement applies for IBNR claims arising prior to 1 January 2010 in respect of members in Section B;
- The Fund has retained an Insurance Reserve of approximately $31.3 million. This reserve has been managed by the Trustee for a range of approved purposes including meeting the cost of any previously self-insured claims in respect of current or former Section A Members not covered by insurance policies. With the exception of $5.2m the reserve set aside for the purpose, if required, of creating a funding reserve for Section A, no other portion of this reserve has been applied as an asset of a Section for the purpose of preparing the recommendations arising from this actuarial review.
- There is also a small self-insured liability in relation to members in Section C who receive a total and temporary disablement benefit which is paid for more than two years. In practice, the probability of paying such a benefit for longer than two years is very small, and we are not aware of any TTD payments which have been ongoing for more than two years for the two years to 30 June 2014; and
- We note that the insurance cover for Section D is not adequate to cover the total risk not covered by the assets. However, as the funding positions of these Sections are expected to improve over the next three years, and having regard to the low risk of claim from such small membership groups, we have not recommended that any change be made to the be made to their current insurance arrangements.
- Overall, we consider that the Fund's insurance arrangements in respect of death, TPD and TTD benefits to be appropriate.

APPENDIX 1 – FUND MEMBERSHIP

The number of active members and retained benefit members as at 30 June 2014 totalled 29,796.
A breakdown of these members between defined benefit and accumulation for each Part of the Fund is set out in the table below (membership numbers as at 30 June 2012 are also shown for comparison):

Number of Members	As at 30 June 2012			As at 30 June 2014		
	DB	Accum	**Total**	DB	Accum	**Total**
Division/Sub-Fund						
Accumulation Advantage	-	8,532	**8,532**	-	9,393	**9,393**
Accumulation Basic	-	2,888	**2,888**	-	2,635	**2,635**
Accumulation Plus	-	4,648	**4,648**	-	3,999	**3,999**
Allocated Pensions	-	2,354	**2,354**	-	2,702	**2,702**
AMOU	-	11	**11**	-	11	**11**
Reliance	-	-	**0**	-	3	**3**
All other Accumulation Cats.	-	12	**12**	-	9	**9**
Retained	-	7,225	**7,225**	-	6,255	**6,255**
Section A	181	-	**181**	164	-	**164**
Section B	2,696	1,713	**4,409**	2,131	1,676	**3,807**
Section C	98	152	**250**	74	160	**234**
Section D	11	94	**105**	8	67	**75**
Section E	46	274	**320**	37	283	**320**
Section F	16	46	**62**	12	46	**58**
Fixed term and Lifetime Pensioners	125	-	**125**	122	-	**122**
FTP Pensioners	-	9	**9**	-	9	**9**
Total	**3,173**	**27,958**	**31,131**	**2,548**	**27,248**	**29,796**

APPENDIX 2 - ACTUARIAL STATEMENT FOR THE PURPOSES OF AUSTRALIAN ACCOUNTING STANDARD AAS 25

MARITIME SUPER

REPORTING PERIOD ENDED 30 JUNE 2014

This statement sets out the value of Accrued Benefits and other actuarial information required under AAS 25, for disclosure in the financial statements of the Fund.

This statement replaces the statement included in the valuation report dated 30 April 2015. The presentation of the figures in this statement has been amended in order to provide further information regarding the breakdown of the benefits.

Results

For the purpose of AAS 25 disclosure, the Accrued Benefits under the Fund as at 30 June 2014 are determined to be $4,249,701,000 comprising the following components:

Accrued Benefits	Accumulation Benefits	Present Value of Accrued Benefits	Total
Sub-Fund	**$000's**	**$000's**	**$000's**
Section A (incl pensioners)	3,159,701	36,979	**3,196,680**
Section B	507,898	345,923	**853,821**
Section C	40,903	43,040	**83,943**
Section D	6,372	3,112	**9,484**
Section E (incl pensioners)	48,409	30,160	**78,569**
Section F	11,302	15,901	**27,203**
Total Fund	**3,774,585**	**475,115**	**4,249,700**

The aggregate amount of Vested Benefits at 30 June 2014 was $4,225,280,000 comprising the following components:

Vested Benefits	Accumulation Benefits	Defined Benefits	Total
Sub-Fund	**$000's**	**$000's**	**$000's**
Section A (incl pensioners)	3,159,701	41,011	**3,200,712**
Section B	507,898	328,006	**835,904**
Section C	40,903	39,274	**80,177**
Section D	6,372	2,728	**9,100**
Section E (incl pensioners)	48,409	27,738	**76,147**
Section F	11,302	11,940	**23,242**
Total Fund	**3,774,585**	**450,697**	**4,225,282**

Method

Accrued Benefits are based on the expected future benefit payments which arise from membership of the Fund up to the measurement date.

Accrued Benefits in relation to defined benefit Fund members are determined as a proportion of Projected Benefits (calculated as set out below), and then discounted for interest and for the probability of payment.

Projected Benefits are determined as the benefits payable to defined benefit members under each of the possible contingencies provided under the rules of the Fund at any future date, taking into account expected future salary increases.

The proportion of Projected Benefits taken into account is determined as:

$$\text{Projected Benefit} \times \frac{\text{Completed Service at Measurement Date}}{\text{Service at Date of Projected Payment}}$$

The method of determining Accrued Benefits has not changed since the previous measurement date.

Accrued Benefits have been calculated in a manner consistent with Professional Standard 402 and Guidance Note 454 issued by The Institute of Actuaries of Australia.

Data and Assumptions

The data used to calculate Accrued Benefits for defined benefit members was the same as for the actuarial investigation of the Fund as at 30 June 2014. The financial assumptions adopted are the "best estimate" assumptions as required by AAS25. They are as follows:

Division/Part	Expected Long Term investment Return (p.a.)	Expected Rate of Salary Growth (p.a.)
Section A	6.3%	4.0%
Section B	Accumulation Balances: 6.2% Reserves: 4.6%	4.0%
Section C	6.3%	5.0%
Section D	5.5%	6.0%
Section E	5.5%	6.0%
Section F	4.6%	6.0%
Section A Pensioners	6.3%	4.0%

The discount rates are considered to be a reasonable expectation of actual future Fund returns over the average expected term of the benefit liabilities, in the light of the Fund's present investment strategy and taxation position. Different discount rates for the different sections have been used, which recognise the different investment strategies of the assets backing these liabilities. The expected term of the Fund's defined benefit liabilities is calculated to be 9.5 years at 30 June 2014. All other assumptions are set out in the relevant appendices of the actuarial valuation reports for each defined benefit Sub-Fund as at 30 June 2014.

Summary of Actuarial Report

For the purpose of AAS 25, the summary report dated 27 October 2015 on the most recent actuarial investigation of the Fund as at 30 June 2014 may be summarised as follows:

Data

The actuarial investigation was based on the following number of members as at 30 June 2014:

Number of Members	DB	Accum	Total
Division/Part			
Other Accumulation	-	25,007	**25,007**
Section A (incl pensioners)	286	-	**286**
Section B	2,131	1,676	**3,807**
Section C	74	160	**234**
Section D	8	67	**75**
Section E (incl pensioners)	37	283	**320**
Section F	12	46	**58**
Total	**2,548**	**27,239**	**29,787**

The net market value of assets shown in the financial statements as at 30 June 2014 was $4,350,772,000.

Funding Methods and Recommendations

Section B of the Fund is structured on an accumulation basis with an underlying defined benefit guarantee applicable to certain members and supported by the Fund's net reserves. The guarantee is evaluated using a combination of accrued benefit methods and stochastic methods. An aggregate funding method has been used to assess the long term contribution rates for the Sections A and C. A projected benefit funding method has been used to assess the long term contribution rates for Section D, E and F defined benefit members. Where necessary additional contributions have been determined using the projected benefit funding method for the next three years to improve the coverage of vested benefits over that period in order to remove the Sub-Funds from an unsatisfactory financial position.

Based on this funding method and the actuarial assumptions set out in the summary report dated 30 April 2015, I recommended that the following contributions are made in respect of defined benefit members in each of the Sub-Funds:

DB Sub-Fund	Recommended Contributions from 1 July 2015
Section A	• Employer: 12.6% of Classification Base Wage • Employees: 4.8% of Classification Base Wage
Section B	• Agreed contributions to be made for the accumulation arrangement, with no additional employer contributions being required for the defined benefit guarantee
Section C	• 15% of Salaries; plus • Additional Contributions of $850,000 per annum payable quarterly until 30 June 2018; plus • Top-up payments in respect of members taking early retirement benefits between age 55 and 60 with Company consent; plus • Top-up payments in respect of members who exit the as a consequence of retrenchment
Section D	• 29.7% of Salaries until 31 December 2014 32.0% of Salaries from 1 January 2015; plus • Top-up payments in respect of deficit between the assets and benefit payments for exiting members
Section E	**Employer Group** • Employer I Nil • Employer II 30% of Salaries • Employer III 30% of Salaries • Employer IV 30% of Salaries • Employer V 30% of Salaries
Section F	• 22.5% of Salaries

Financial Condition

The coverage of various measures of benefit liabilities by assets at 30 June 2014 for the Fund in total was as follows:

Coverage of Vested Benefits	Assets	Vested Benefits	VBI
Defined Benefit Sub-Fund	**$000's**	**$000's**	
Section A	41,421	41,011	101.0%
Section B	350,946	328,006	107.0%
Section C	40,611	39,274	103.4%
Section D	2,616	2,728	95.9%
Section E	34,327	27,738	123.8%
Section F	14,939	11,940	125.1%
Total DB Sub-Funds*	**484,860**	**450,697**	**107.6%**
Total Fund*	**4,338,240**	**4,225,282**	**102.7%**

*excluding ORFR

Coverage of Accrued Benefits	Assets	Accrued Liability	ABI
Defined Benefit Sub-Fund	**$000's**	**$000's**	
Section A	41,421	36,979	112.0%
Section B	350,728	345,923	101.4%
Section C	40,611	43,040	94.4%
Section D	2,616	3,112	84.1%
Section E	34,327	30,160	113.8%
Section F	14,939	15,901	94.0%
Total DB Sub-Funds*	**484,642**	**475,115**	**102.0%**
Total Fund*	**4,338,022**	**4,249,700**	**102.1%**

*excluding ORFR

Note that the asset values shown for Section B differs in the respective tables above due to differing treatment of insurance reserves for the purpose of measuring VBI and ABI.

On the basis of these results, the Section D was in an unsatisfactory financial position as at 30 June 2014 as defined in Section 9.09 of the SIS Regulations, although the Total Fund, and the other Sub-Funds were not in an unsatisfactory financial position as at 30 June 2014.

In addition to the position reported above, the actuary has projected the Fund's ongoing ability to meet both Accrued and Vested Benefits over the three years following the date of the investigation. This was undertaken on the basis that:

- The actuarial assumptions as to investment, salary inflation and membership turnover would apply over the next three years;

- The employers will contribute to the Fund at the recommended rates over the next three years, and

In the light of the projections, it is anticipated that both Vested Benefits and Accrued Benefits of the total Fund will remain covered by Fund assets throughout the three years following the date of the investigation. The Vested Benefits in respect of Section D are expected to be covered by the assets held by the Sub-Fund within three years from 30 June 2017.

Tony Miller

Tony Miller
Fellow of the Institute of Actuaries of Australia
30 April 2015

Russell Employee Benefits Pty Ltd
Level 13, 8 Exhibition Street
Melbourne VIC 3000