ANZ Australian Staff Superannuation Scheme

Report on the Actuarial Investigation as at 31 December 2022

16 June 2023

wtwco.com

Towers Watson Australia Pty Ltd

ABN 45 002 415 349 AFSL 229921

Table of Contents

This page is intentionally blank

Section 1: Executive Summary and Recommendations

I am pleased to present my report to ANZ Staff Superannuation (Australia) Pty Limited, the Trustee of the ANZ Australian Staff Superannuation Scheme (the Scheme), on the actuarial valuation required by the APRA Prudential Standard SPS 160.

Membership

As at 31 December 2022 there were 82 current life-time pensioners receiving pensions totalling $1.753 million. This amount includes the Pension Value Maintenance increase in January 2023, however, we note that a further 1% supplementary pension increase was provided effective March 2023 which has not been reflected in this figure. A summary of the pensioner movements for the period 1 January 2020 to 31 December 2022 is set out in Appendix B.

In addition to the life-time pensioners the Scheme had 13,857 members in the Employee Section (i.e. Section A), 405 in Employee Section C, 14,093 in the Personal Section (i.e. Retained Benefit Account Section), 369 in the Partner Section (i.e. Spouse Contribution Account Section) and 1,009 in the Retirement Section (i.e. Account Based Pension Section). The total account balances for these members at 31 December 2022 was $5,815.7 million.

Results of the Valuation of the Pension Section

The financial assumptions adopted for the long-term valuation of the Scheme's pension liabilities were:

Rate of Investment Return	6.2% p.a.
Rate of Pension Increases	3.0% p.a.

In addition, we have allowed for the 1% supplementary pension increase that was provided effective March 2023 in our valuation results.

It is the difference between the assumed levels of investment return and pension increases (i.e. 3.2%), rather than their absolute values, which has a greater impact on the valuation of the pension liabilities. This difference has increased from 2.4% in the 31 December 2021 valuation. The pensioner mortality assumptions and the allowance for mortality improvement have remained unchanged.

The results of the valuation reveal a surplus of $1.260 million as at 31 December 2022 between the balance of the Pension Section Account (PSA) and the value of the pension liabilities. The surplus is slightly lower than disclosed in the financial statements for the year ended 31 December 2022 as it allows for the impact of the 1% supplementary pension increase in March 2023 on the value of the pension liabilities. The surplus of $2.043 million as at 31 December 2021 decreased largely due to:

- The actual investment return for the assets backing the pension liabilities (-7.8% over the year) being lower than the assumed return at the start of the year (4.8%); and
- The actual pension indexation of 4.0% for the year (inclusive of the 1% supplementary increase granted effective March 2023) being higher than the expected indexation of 2.4%.

Due to the relatively strong performance in investment markets since 31 December 2022 we estimate that this surplus will have increased as at 6 June 2023. The maximum Pension Value Maintenance that can be applied without ANZ consent is 3% p.a.. Therefore, the impact of the recent high inflation environment would be expected to be limited if ANZ does not agree to grant supplementary increases in excess of 3% p.a..

I recommend that no contributions be made in 2023 due to the current surplus position, noting that the contributions for 2024 and 2025 will be considered as part of the annual actuarial valuations, to reflect the actual experience of the PSA.

It would be possible for the Trustee to request ANZ to make further contributions to build a larger margin into the funding of the PSA. However, given the Pension Section is closed and its liability is reducing steadily, there is a risk of overfunding. As experience - particularly investment experience - emerges over time the funding position of the PSA is likely to fluctuate between an overfunded and an underfunded position. The Employer Funding Reserve helps provide a buffer at times when the PSA is underfunded so that we can certify that there is a high probability of the Scheme being able to make all pension payments.

The sensitivity of the funding position of the pension liabilities to any change in the differential between the rates of investment return and pension increases, and to any changes in the pensioner mortality rates, highlights the need to carefully monitor this funding position as the number of pensioners declines.

Employer Contributions for Employee Members

As at 31 December 2022, the balance in the Employer Funding Reserve is sufficient to meet the administration of and the expected cost of ANZ's subsidy of the charges for death and TPD cover in Employee Section C. Hence, the contributions in respect of Employee Section Members and Employee Section C Members should be made:

i. at the rate required under the Superannuation Guarantee legislation, subject to a minimum of 7% of Salary for Employee Section C Members; and

ii. equal to the salary sacrifice contributions payable on behalf of Members.

ANZ also meets the administration expenses of the Scheme in respect of a small group of employee Members.

Account management fees from Members' accounts may continue to be used to offset the Scheme administration costs paid by ANZ through means of short term contribution holidays.

The Employer Funding Reserve is larger than expected to be required to provide ANZ's subsidy of the charges for death and TPD cover and administration costs in Employee Section C. We recommend that, subject to further actuarial advice, an amount of at least $5.0 million be maintained in the Reserve to support the Pension Section and provide ANZ's subsidy of the charges for death and TPD cover and administration costs in Employee Section C. This amount has been reduced from $8 million previously recommended and includes a margin above the amount expected to be required in case of adverse investment or other experience. This amount will be reviewed at future actuarial investigations.

Self Insurance Review

As at 31 December 2022 all insurance benefits were insured with Zurich. However, the Scheme continues to retain responsibility for death and disablement claims incurred prior to 2 March 2015, when the Scheme was self-insured.

The amount of the Death and Disablement Reserve, $34.5 million as at 31 December 2022, is expected to be significantly larger than required to meet the remaining claims incurred prior to 2 March 2015. We estimate that, at 31 December 2022, there was at least $32.5 million more in the Death and Disablement Reserve than expected to be required to pay the run-off of self-insured claims.

The Trustee has previously determined to use the Death and Disablement Reserve to provide a 30% premium rebate since 2 March 2015. From 1 January 2019, based on actuarial advice, the premium rebate was increased to 40% and from 1 October 2020 the rebate was increased to 45%. We note that the Trustee reviews the sustainability of the rebate annually and retains the right to re-evaluate (i.e. reduce or discontinue) the level of the rebate if experience is materially worse than expected.

The Death and Disablement Reserve is invested in the Balanced Growth investment strategy. This investment strategy is among the range of reasonable strategies that could be adopted, noting that it is large enough that it would be expected to remain sufficient even if there was some poor investment experience. As set out below, we recommend that the Trustee review the investment strategy if the amount of the Death and Disablement Reserve reduces to $20 million during the year. This is because at this amount, at the current level of the insurance rebate it is likely the reserve will be used within a few years and the Trustee may prefer a lower level of investment risk. A lower level of investment risk could ensure the Trustee has time to consider, and likely amend, the current level of insurance rebate before the reserve is depleted.

Summary of Recommendations

We recommend that ANZ make no contributions to the PSA for the year ending 31 December 2023. The contributions for the 2024 and 2025 years will be considered as part of the annual actuarial valuations as at 31 December 2023 and 31 December 2024 respectively.

No change is recommended to the employer contributions made for employee Members.

As the Scheme is paying defined benefit pensions, annual actuarial investigations are required, although the scope of these investigations is more limited than is required under the triennial investigations. The next full actuarial investigation of the Scheme should be undertaken as at 31 December 2025 unless special circumstances arise in the meantime which make an earlier investigation advisable.

We recommend that at least $5.0 million be retained in the Employer Funding Reserve to support the Pension Section and provide ANZ's subsidy of the charges for death and TPD cover and administration costs in Section C.

We expect the Death and Disablement reserve to adequately support the premium rebate for several years, however we recommend that the adequacy of the Death and Disablement Reserve, and whether its amount can continue to support the premium rebate, should be reviewed at least annually by the Trustee, with the next review to be conducted as at 31 December 2023.

The Death and Disablement Reserve is invested in the Balanced Growth option and therefore is subject to the risk of a fall in value. If there is a significant fall in asset values before the next review of the adequacy of the Death and Disablement Reserve is completed, we recommend the Trustee consider moving some of the assets into a more conservative investment option. We suggest using a trigger amount of $20 million as a level of the Death and Disablement Reserve at which the investment strategy should be reviewed. If the Death and Disablement Reserve reaches this amount, while we suggest the investment strategy be reviewed, whether it is changed would depend on the Trustee's assessment at that time. The Trustee should also consider the level of the premium rebate if this occurs. The Funding and Solvency Certificate should also be reviewed if this occurs.

Reliance statement and data

This report is provided subject to the terms set out herein and in our contract for actuarial services dated 25 September 2003, as novated, and the accompanying Terms and Conditions of Engagement. This report is provided solely for the Trustee's use and for the specific purposes indicated above. It may not be suitable for use in any other context or for any other purpose.

No responsibility whatsoever is accepted by us for any consequences arising from any third party relying on this report or any advice relating to its contents.

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

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

Matthew Burgess

Matthew Burgess
Fellow of the Institute of Actuaries of Australia

Willis Towers Watson
Level 32, 385 Bourke Street
Melbourne VIC 3000
Australia

DO: KL | TR: AB | ER/CR: MB

Section 2: Introduction

Purpose of the Investigation

This report has been prepared for ANZ Staff Superannuation (Australia) Pty Limited, the Trustee of the Scheme, as required under Clause 16 of the Trust Deed. The purpose of this actuarial investigation is to advise the Trustee on the following matters:

- **The level of employer Contributions for Employee Section C Members.** In terms of Rule 2.4.5 of the Rules of the Section C Members, the contribution in respect of Employee Section C Members is determined by the Trustee after seeking the advice of the Actuary, as the amount required to meet the balance of the cost of benefits. ANZ's contribution in respect of Employee Members is set at the rate required under the Superannuation Guarantee. The level of the Employer Funding Reserve is also reviewed, because a subsidy in relation to the cost of death and disablement premiums and administration costs of Section C Members is funded from this reserve.
- **The funding of the Scheme's pensioner liabilities.** In terms of Rule 3.5.1 of the Rules of the Pension Section, ANZ's contribution in respect of pensioners is determined by the Trustee after seeking the advice of the Actuary, as the amount required to meet the balance of the cost of the benefits. The long term funding of the Scheme's pensioner liabilities via the Pension Section Account is examined.
- **The adequacy of the Death and Disablement Reserve.** Under Rules 1.6.12, 2.4.9, 4.9.4, and 5.6.7 the Trustee, after obtaining actuarial advice, can choose to subsidise part of the cost of death and disablement insurance via rebates from the Death and Disablement Reserve. As part of the actuarial investigation the adequacy of the Reserve to maintain the current level of rebates is assessed. This assessment also considers the amount which should be held in the Reserve to cover claims which occurred prior to 2 March 2015, which remain self-insured.
- **The short term financial position of the Scheme.** This is an important matter for the Trustee to consider and the Trust Deed and Rules specifically require this aspect to be examined.

As well as the Employer Funding Reserve and the Death and Disablement Reserve referred to above, the Scheme also has a Scheme Operating Reserve. Under current legislation covering Operational Risk Financial Requirements a detailed analysis of the Scheme Operating Reserve is separately undertaken by the Trustee. Therefore, while we have taken into account the Scheme Operating Reserve and briefly commented on its adequacy, we have not undertaken a detailed review.

The investigation also meets the legislative requirements of SPS 160.

This report satisfies the requirements of the Professional Standards 400, 402, 404 and 410 of the Institute of Actuaries of Australia.

Recommendations from Previous Actuarial Investigation

The previous triennial actuarial investigation of the Scheme was carried out by me, Matthew Burgess FIAA, and was effective 31 December 2019. The results were set out in my report dated 21 May 2020.

The report recommended that:

a. ANZ should make contributions to the PSA of $575,000 per annum over the three year period to 31 December 2022.The contributions for the 2021 and 2022 years were to be re-assessed as part of the annual actuarial valuations as at 31 December 2020 and 31 December 2021 respectively.

b. No change be made to the standard employer contributions to the Scheme.

c. The funding position of the Pension Section be reviewed annually.

d. At least $8.0 million be retained in the Employer Funding Reserve to support the Pension Section and provide ANZ's subsidy of the charges for Death and TPD cover and administration costs in Section C.

e. The adequacy of the Death and Disablement Reserve, and whether its amount can continue to support the premium rebate currently in place, should be reviewed at least annually by the Trustee.

f. If there is a significant fall in asset values before the next review of the adequacy of the Death and Disablement Reserve is completed, we recommended the Trustee consider moving some of the Reserve into a more conservative investment option. We suggested using a trigger amount of $20 million as a level of the Death and Disablement Reserve at which the investment strategy should be reviewed.

Furthermore, the actuarial valuations performed by me, Matthew Burgess, at 31 December 2020 and 31 December 2021 both recommended that ANZ make no contributions for the years ending 31 December 2021 and 31 December 2022 instead of the $575,000 contribution recommended in the 2019 report due to improvements in the financial position of the Scheme.

We believe these recommendations have been addressed by the Trustee, although we have not confirmed the employer contributions made to the Scheme that relate to members' accumulation accounts

Annual actuarial investigations to meet legislative requirements have also been undertaken, the most recent as at 31 December 2021 with my report dated 11 May 2022.

The recommendations from these reports have been appropriately considered by the Trustee.

Significant Events since the Previous Investigation

There have been many changes to superannuation and taxation legislation since the previous investigation. However, these changes have not required any material changes to be made to the Scheme's benefit provisions that impact this investigation.

Significant events since the Valuation Date

There have been no significant events between 31 December 2022 and the date of signing this report that impact the recommendations. A further 1% supplementary pension increase was provided effective March 2023, and the results of this report reflect the impact of that increase as it has been allowed for in the assumptions. The unit price movement of the Balanced Growth option, which backs the Pension Section assets, from 31 December 2022 to the current date has been higher than the investment return assumed in this report. As a result the surplus which existed at 31 December 2022 has likely further increased.

Section 3: Overview of the Scheme

Scheme Design

The ANZ Australian Staff Superannuation Scheme (the “Scheme”) commenced on 1 April 1987. The Scheme’s operations are governed by a Trust Deed dated 16 November 1987, as amended from time to time. We have been provided with a consolidated version of the Deed incorporating amendments which were effective up to and including 15 October 2015. There have been no further deed amendments since that time.

The Scheme is a complying fund under the Superannuation Industry (Supervision) Act, and is treated as a complying fund for tax purposes.

There are six sections of the Scheme:

Employee Section (Section A)

- Open section for employed Members;
- Lump sum accumulation benefits on all causes of exit;
- Choice of insured cover levels where a Member dies or becomes totally and permanently disabled (TPD); and
- Voluntary salary continuance insurance.

Employee Section C

- Closed section for employed Members;
- Lump sum accumulation benefits on all causes of exit;
- Optional insured cover where a Member dies or becomes TPD; and
- Voluntary salary continuance insurance.

Personal Section (Retained Benefit Account (RBA) Section)

- Subject to a minimum account balance, a rollover facility for former Employee or Partner Section Members;
- Accepts both lump sum personal contributions and contributions from a new employer; and
- Optional insured cover for certain members when a Member dies or becomes TPD.

Partner Section (Spouse Contribution Account (SCA) Section)

- Accumulation accounts for eligible spouses of Employee and Partner Section Members who remain members of the Scheme;
- Optional death insurance; and
- Optional total and permanent disablement insurance for certain Members.

Retirement Section (Account-Based Pension (ABP) Section)

- Subject to a minimum account balance, a tax effective facility which changes lump sum superannuation benefit into a flexible retirement income stream for Members over their preservation age who roll in benefits from other Sections of the Scheme.

Pension Section

- Closed section providing lifetime indexed pensions for beneficiaries.

There are no sub-funds within the Scheme.

Insurance Arrangements

The current arrangements for the provision of death and TPD benefits are summarised below. The insurance arrangements are covered in more detail in Section 11 of the report.

- The “insured” part of death and TPD benefits have been insured with Zurich Australia Limited (Zurich) (formerly OnePath life Limited) since 2 March 2015.
- Prior to that date the death and TPD benefits were self-insured within the Scheme.
- Amounts are deducted monthly (and at exit) from the accounts of Members equivalent to the balance of the cost of death and disablement cover (after applicable rebates) and credited to the Death and Disablement Reserve. Zurich’s premium is paid from the Death and Disablement Reserve.
- When Zurich admits a death or TPD claim, the sum insured is paid into the Death and Disablement Reserve. The death and disablement benefits payable from the Scheme, net of the applicable Members’ total account balances (if any), are paid from the Death and Disablement Reserve.
- The Scheme reinsured for two years from 2 March 2015, the excess of any self-insured claim incurred prior to 2 March 2015 over $750,000 up to a maximum amount in respect of all claims of $5 million. This cover expired on 2 March 2017 and no claims were made under the policy.
- No other insurance is currently carried by the Scheme in respect of death and TPD benefits.

Terminal Medical Condition insurance is provided in conjunction with the death cover. Also, voluntary salary continuance insurance is in place and has always been externally insured. The salary continuance arrangements have no impact on the Death and Disablement Reserve.

The Trustee determined to use the Death and Disablement Reserve to provide a 30% premium rebate from 2 March 2015 up to 31 December 2018. Subsequently, with actuarial agreement, the Trustee increased the rebate to 40% from 1 January 2019 and to 45% from 1 October 2020. The actuarial investigation as at 31 December 2021 recommended that the appropriateness of continuing this rebate be monitored annually. The Trustee has determined to continue this rebate for 2023.

Investment Arrangements

Under Member Investment Choice, there are four investment options - "Aggressive Growth", "Balanced Growth", "Cautious" and "Cash" – which Members can elect in any combination.

The Balanced Growth option remains the main investment approach of the Scheme and it also applies for the Pension Section and the internal reserve accounts, including the Death and Disablement Reserve and Employer Funding Reserve. It is the default option for Members who do not make an investment choice and is the option for MySuper Members.

The investment objectives and strategies of the Balanced Growth investment option at the valuation date are summarized below:

Balanced Growth	
Objectives	**Strategy**
Maximise returns over the long term whilst accepting a moderate degree of performance variability; and Exceed inflation (CPI increases), on average, by at least 2.5% p.a. over rolling ten year periods.	The investment strategy of the Balanced Growth option typically combines around 59% in shares and property, 24% in alternatives and 17% in defensive assets (diversified fixed income and cash).

The investment objectives and strategy adopted for the Balanced Growth investment option are within the range of reasonable objectives and strategies for the internal reserve accounts and Pension Section Account given the size of the Scheme, the nature of the relevant liabilities and the financial position of the Scheme.

The Balanced Growth option is a suitable investment for the Pension Section assets having regard to the liquidity required to meet the expected future pension payments. Because the Balanced Growth investment option is identical for the Pension Section and other Members, as the Pension Section reduces the illiquid alternative asset section of the Pension Section are automatically redistributed to other Balanced Growth Members. Please also refer to our comments in Section 11 in respect of the suitability of the Balanced Growth option for the Death and Disablement Reserve.

Crediting Rate Policy

The Trustee has provided a copy of its Unit Pricing Procedures. The Scheme uses weekly unit prices to credit investment earnings to Members' accounts. We consider this crediting rate policy adopted by the Trustee to be reasonable from the perspective that it helps to limit cross subsidies between Members invested in different options and between different sections of the Scheme.

Section 4: Membership

Membership Data

For the purposes of this actuarial investigation, Mercer, the Scheme's administrator, provided details of all Section A, Section C, RBA Section, SCA Section and ABP Section Members who were in force at 31 December 2022.

Details of the current life-time pensions being paid at 31 December 2022 and pensions ceasing during the three years ended 31 December 2022 were also provided.

Various checks have been applied to the data provided. We are satisfied that the data provided is reasonable and that there are no errors in the data which would have a material effect on the results of this actuarial valuation. We have relied upon the data provided.

Membership Summary

The following table shows the distribution of Members between Section A and Section C at 31 December 2022:

Age at 31 December 2022	Section A	Section C
Under 20	36	0
20-24	595	0
25-29	1,289	0
30-34	2,038	0
35-39	2,757	0
40-44	2,639	1
45-49	1,664	14
50-54	1,357	94
55-59	861	156
60 and over	621	140
Total	**13,857**	**405**

At 31 December 2022, there were also 14,093 Members of the RBA Section, 369 Members of the SCA Section and 1,009 Members of the ABP Section.

Pensions in Payment

The number of current pensioners decreased from 105 at 31 December 2019 to 82 at 31 December 2022, a reduction of 22%. The number of current pensioners will continue to reduce. The average age of the pensioners at 31 December 2022 was 84.3 years.

The annual pensions in payment at 31 December 2022 (including allowance for the Pension Value Maintenance (PVM) increase of 3.0% effective in January 2023) totalled $1.753 million, compared with $2.186 million at 31 December 2019. The average pension increased from $20,817 per annum at 31 December 2019 to $21,381 per annum at 31 December 2022. In addition, we note that a further 1% supplementary pension increase was provided effective March 2023. This increase has not been reflected these figures but has been allowed for in the valuation assumptions.

A summary of the age distribution of the pensioners at 31 December 2022 and 31 December 2019 is set out in the following table:

Age Group	Number of Pensioners as at 31/12/2022	Annual Pension as at 31/12/2022 ($'000)*	Number of Pensioners as at 31/12/2019	Annual Pension as at 31/12/2019 ($'000)*
40-49	0	0	0	0
50-59	0	0	1	#
60-69	5	101	7	144
70-79	26	452	25	442
80-89	30	647	42	945
90+	21	553	30	635
Total	**82**	**1,753**	**105**	**2,186**

* Including PVM increases effective January 2023 and January 2020 respectively. It does not include a further 1 % supplementary increase that was granted effective March 2023 which has been allowed for in the valuation assumptions.

Not provided for privacy reasons.

During the period under investigation, all pensions in payment were increased in accordance with the PVM provisions of Rules 3.3.16 to 3.3.18 inclusive. With effect from the January 2012 increase the Trustee determined that supplementary pension increases under Rule 3.3.18 would be determined annually, rather than triennially, which had been the previous practice.

The following increases were granted in respect of the period under investigation:

Effective From	Increase
January 2021	0.7%
January 2022	3.0%
January 2023	3.0%*

* A further 1% supplementary increase was granted effective March 2023 which has been allowed for in the valuation assumptions

The combined effect of the PVM increases and supplementary pension increase was to increase pensions until 31 December 2021 were in line with the movement in the Consumer Price. For the year ended 30 September 2022 CPI was 7.3% p.a., ANZ approved a supplementary increase of 1.0% above the 3.0% PVM increase. Average pension increases of 2.6% per annum were granted in respect of this three-year period.

Self-Insurance Data

While self-insurance ceased for claims incurred from 2 March 2015, the death and disablement claims incurred prior to this date remain self-insured. Also, the Death and Disablement Reserve continues to be used to provide a rebate to Members' insurance premiums.

For this investigation we were provided with details of death, disablement and vested benefits at 31 December 2022, as well as the amount of premiums deducted during the year to 31 December 2022.

We were also provided with historical data on death and disablement claims to 31 December 2022.

Section 5: Assets and Liabilities

Assets at 31 December 2022

Copies of the signed financial statements covering the period from 31 December 2019 to 31 December 2022 were provided for the purposes of this actuarial valuation and are the basis for all recommendations. The financial statements for the year ended 31 December 2022 were audited by KPMG and dated 30 March 2022. These statements show a net realisable value of assets available to pay benefits of $5,935.819 million as at 31 December 2022. We have relied upon the data provided.

Accumulation Account Liabilities at 31 December 2022

Most of the Scheme's liabilities are accumulation liabilities covering Section A, Section C, Spouse Contribution Account Section, Retained Benefit Account Section and Account Based Pension Section with account balances totalling approximately $5,815.694 million as at 31 December 2022.

The remaining net assets of the Scheme, $120.125 million, comprise the Pension Section Account, the internal reserves and a small unallocated amount. This difference also includes the impact of timing and tax differences between the asset valuations used for unit prices and the financial statements.

Because of these impacts, the remaining net assets of the Scheme of $120.125 million are not exactly equal to the assets attributable to the Pension Section Account and the internal reserve accounts set out below. As the timing and tax differences become reflected in the unit prices, and consequently the accumulation account balances, this discrepancy is expected to resolve.

Pension Section Account

The Pension Section Account is used to manage the funding of the pension benefits.

As at 31 December 2022, the balance in the Pension Section Account was $14.321 million.

Internal Reserve Accounts

A brief description of the internal reserve accounts is set out below:

The Employer Funding Reserve (EFR) is a mechanism for allocating ANZ's contributions. The cost of the ANZ-financed portion of the death and TPD cover and administration costs for Section C Members are also sourced from the Employer Funding Reserve. The Trustee is able to transfer amounts from the EFR to the Pension Section Account if that ever became necessary.

The Scheme Operating Reserve (SOR) facilitates the financial management of the Scheme and may be used in certain circumstances to address operational risk events or claims against the Scheme arising from operational risk events. Currently the SOR is the designated reserve for holding assets to meet the Scheme's Operational Risk Financial Requirement, as required under Prudential Standard SPS 114. The target Operational Risk Financial Requirement is 0.28% of net assets.

The Death and Disablement Reserve (DDR) operates as an insurance fund within the Scheme for the death and TPD cover provided to Members prior to 2 March 2015 and is used to manage cashflows related to the insured arrangements in place from that date. Currently the DDR is also being used to meet some of the cost of death and disablement cover for Members.

The following table sets out the balances in each of the internal reserve accounts at 31 December 2022:

Reserves	$'000
Employer Funding Reserve	17,819
Scheme Operating Reserve	30,831
Death and Disablement Reserve	34,486
TOTAL	**83,136**

Section 6: Valuation Method

Section A

Section A operates as a defined contribution fund. That is, the benefit payable in respect of any period of Section A Membership is equivalent to the accumulation of contributions less tax and charges for administration fees and death, TPD and salary continuance cover, if any, with investment earnings based on the changes in the relevant unit prices. The cost of the insured benefits payable on death or disablement (TPD or salary continuance) is financed from the charges for death and disablement cover debited to Members' accounts and from the Death and Disablement Reserve. Hence, the future contributions payable by ANZ in respect of Section A Members are the contributions required to meet its obligations under the Superannuation Guarantee or such higher contribution as is agreed between ANZ and the Member concerned.

Section C

Section C operates as a hybrid of a defined benefit and a defined contribution fund. The benefits payable in respect of any period of Section C Membership are equivalent to the accumulation of contributions less tax and charges for administration fees and death, TPD and salary continuance cover, if any, with investment earnings based on the changes in the relevant unit prices. An additional benefit expressed as a multiple of salary is payable on death or TPD. The charges for death and TPD cover debited to Section C Members' accounts do not exceed 80% of the insurance premiums charged by the insurer. Administration fees are charged to Members' accounts for Section C Members who are categorised as MySuper members. Members who are classified as Choice members do not have administration fees deducted. All charges for the salary continuance benefit are debited to Members' accounts.

In summary, the structure of the benefits in Section C mean that ANZ's funding obligations are the aggregate of:

- Contribution credits at the rate required under the Superannuation Guarantee legislation, subject to a minimum of 7% of Salary; plus
- The expected administration costs in relation to Section C Members who have opted out of the MySuper product; plus
- The expected cost of ANZ's 20% subsidy of the charges for death and TPD cover for Section C Members.

The total present value of the future amounts required from ANZ in respect of administration costs and the insurance subsidy may be estimated from the following valuation process:

- Project the cost of insurance cover expected to be required in respect of each Section C Member in each future year allowing for the probability that the member remains an active member;
- Project the amount of administration expenses in relation to Section C Members in each future year; and
- Discount each of these payment streams to its present value using the expected net investment earning rate.

The balance in the Employer Funding Reserve, which represents the pre-funding of contributions to be made by ANZ, can be considered in the assessment of the required employer contribution rate for Section C Members.

This valuation process is suitable for Section C, which is closed, as it is aimed at ensuring that future costs are funded in advance. The valuation of Section C is considered in Section 9.

Spouse Contribution Accounts and Retained Benefit Accounts

Both the SCA Section and the RBA Section operate as defined contribution funds. That is, the benefits payable in respect of any period of membership in the SCA Section or RBA Section is equivalent to the accumulation of contributions and rollovers less tax and administration fees, with investment earnings based on the changes in the relevant unit prices.

The total of the Members' account balances in the RBA Section as at 31 December 2022 was $2.710 billion and the total of the Members' account balances in the SCA Section as at 31 December 2022 was $69.9 million.

Account Based Pensions

The Account Based Pension Section operates as a tax effective income stream in retirement. The amount taken as a pension income stream each year is subject to minimum and maximums (for Transition to Retirement Account Based Pensions) set by the government and will continue to be paid subject to there being sufficient funds in the underlying account. The underlying account balance is equivalent to the accumulation of the opening balance less pension payments, tax and administration fees, with investment earnings based on the changes in the relevant unit prices. Investment income is tax free, except for investment income from most transition to retirement pensions from 1 July 2017 which ceased to be tax free.

The total of the Members' account balances in the ABP Section as at 31 December 2022 was $467.2 million.

Pension Section

As for previous actuarial investigations, a projection method has been used to calculate the pension liabilities of the Scheme. The process involves:

- Projecting the benefits expected to be paid to pensioners, allowing for Pension Value Maintenance (PVM) and supplementary pension increases (if considered relevant);
- Discounting the projected benefit payments to a present value using the expected future investment earning rate;
- Comparing the present value of the Scheme's pension liabilities with the value of the assets held in the Pension Section Account, and
- If there is a shortfall of assets against liabilities, determining how the shortfall is to be funded.

The projection method is appropriate for the Pension Section which is closed, and where benefits are fully accrued. No allowance for administration expenses is required because ANZ meets these separately.

The factors of major significance in the valuation are the assumed future rates of investment earnings and pension increases as well as the assumed rates of pensioner mortality.

ANZ makes contributions to the Pension Section of such amounts as the Trustee determines on the advice of the actuary. The Trust Deed allows the transfer of amounts from the Employer Funding Reserve to the Pension Section, and therefore the amount of the Employer Funding Reserve can be taken into account in assessing the funding of the Pension Section. In recent years when a deficit has arisen ANZ has made additional contributions.

Section 7: Experience and Assumptions

This section considers appropriate financial and demographic assumptions to be adopted for the actuarial investigation as at 31 December 2022. It also analyses the financial experience of the Scheme over the period since the previous actuarial investigation as at 31 December 2019 and compares the actual experience with the assumptions made in that investigation. The demographic experience of Section C Members and the mortality experience of pensioners are also covered in this section.

These assumptions are used for two purposes in the actuarial investigation:

- To calculate the value of the Pension Section liabilities; and
- To calculate the expected cost of ANZ's subsidy of the charges for death and TPD cover and administration expenses for Section C Members.

Investment Performance

The net investment returns (after allowing for expenses, tax and investment managers' fees) for the Balanced Growth options (gross and net of tax) for the three years to 31 December 2022 are presented in the table below:

Scheme Year	Balanced Growth Option (net of tax)	Balanced Growth Option (gross of tax)
2020	3.93%	4.03%
2021	12.55%	14.25%
2022	-6.61%	-7.76%
Over 3 years	**2.99% pa**	**3.11% pa**

For the purposes of valuing the liabilities in relation to Section C benefits which would become payable in the future, it is necessary to make assumptions regarding the net investment returns which could be earned on the assets backing the Section C liabilities over the long term and the rate of inflation of salary levels. Although Member Investment Choice is available in Section C, we are assumed that the majority of the Members' accounts are still invested in the Balanced Growth investment option.

To determine the expected rate of return on assets, we have considered the expected future investment returns for each major asset class net of investment tax, based on internal research carried out by Willis Towers Watson's investment research team. In view of the current medium to long-term expectations for net investment returns and the investment strategy adopted for the Balanced Growth investment option, the assumed rate of investment return of 5.3% per annum has been adopted for valuing the Section C liabilities. This is the greater than assumption used in the previous triennial actuarial investigation (3.8% p.a.).

No investment tax is payable on the assets supporting pensions so to calculate the liabilities of the Pension Section a gross of tax investment return of 6.2% per annum has been used.

Salaries

The contribution credits and the benefits payable on death or disablement are specified in terms of Members' salaries. For Section C Members, the salary is the superannuation salary (i.e. the notional salary of the Member). However, for the purposes of determining ANZ's obligations under the Superannuation Guarantee, the salary is the superannuation salary capped at a maximum contribution base prescribed under the Superannuation Guarantee legislation.

With effect from 1 July 2008 Superannuation Guarantee legislation has required contributions to be based on Ordinary Time Earnings ('OTE'), a salary definition similar to the definition of TEC.

Section C Members' superannuation salaries averaged $138,613 at 31 December 2022, an average increase of 2.4% p.a. from the average salary as at 31 December 2019 of $129,258 of the remaining members in Section C. Details of the salaries are summarised in the following table along with the superannuation salaries as at 31 December 2019 for comparison.

Section C Members	No. of Members	Total Salaries $'000 p.a.	Average Salary $ p.a.
31 December 2022	405	56,138	138,613
31 December 2019	581	69,584	119,767

The average salary for Section C Members increased by 2.4% p.a. over the valuation period (4.5% p.a. over the prior three years). An average salary inflation rate of 3.5% per annum has been adopted for this actuarial investigation for Section C Members based on projections of price inflation and expected productivity increases. This is higher than the rate used in the previous actuarial investigation (3%).

The difference between the assumed levels of net investment return and salary inflation has a greater impact on the financing of the Scheme than their absolute values.

As discussed earlier in this Section, an expected net investment return of 5.3% per annum has been adopted for this actuarial investigation, resulting in a differential of 1.8% per annum which we consider to be a reasonable long term assumption.

Noting that promotional salary increases are assumed to be immaterial for members over age 35, which is all Section C Members, we have retained the current promotional salary scale. This is summarised in Appendix C.

Pension Increases

The Rules provide for pensions to be increased each year by the lesser of 3% and the rate of increase in consumer prices.

The Trustee, in conjunction with ANZ, also considers granting supplementary pension increases every year. The supplementary pension increases, together with the cap of 3% per annum on PVM increases, prior to 2022 created a consistent pattern of pension increases, which result in pensions increasing in line with changes in the Consumer Price Index. ANZ approved a supplementary pension increase of 1.0% effective March 2023 in addition to the PVM increase of 3%. This is lower than the actual CPI increase of 7.3% for the year ended 30 September 2022.

For the actuarial investigation as at 31 December 2019, pension increases were assumed to be 2.0% per annum. Over the three years to 31 December 2022, the average difference between the rate of return on the assets backing the pension liabilities and the rate of pension increases was 0.5% per annum (a gross of tax investment return of 3.1% per annum less average pension increases of 2.6% per annum). This average differential can be compared to the assumed differential of 2.25% per annum adopted for the actuarial investigation as at 31 December 2019. The actual experience was slightly less favourable than that assumed.

For this actuarial investigation, we have assumed a rate of pension increases of 3.0% per annum. This is broadly in line with Willis Towers Watson's expected increases in the Consumer Price Index at durations consistent with the term of the pension liabilities, but also reflects the maximum Pension Value Maintenance that can be applied without ANZ consent. We have allowed for a further 1% supplementary pension increase that was provided effective March 2023.

If ANZ were to change its decision to not grant full CPI increases by agreeing to supplementary pension increases in excess of the current cap of 3% p.a., then we would likely need to adjust the assumed rate of future pension increases. However, WTW's expected future price inflation is around 3.1% p.a. so the impact would currently be a reasonably modest increase to the value of the pension liabilities.

In conjunction with the assumed investment return of 6.2% per annum, the pension increase assumption implies an average differential of 3.2% per annum between the rates of investment return and pension increases. This differential is greater than assumed in the 31 December 2019 triennial actuarial investigation of 2.25%. The impact of the increased differential between the assumed investment return and pension increases is to decrease the pension liability at 31 December 2022 by approximately $0.8 million.

As part of the sensitivity testing of the valuation results, we also considered varying the 3.2% per annum differential in the valuation basis (refer to Section 8).

Terminations of Section C Membership

During the three years to 31 December 2022 there were 176 Section C Members who ceased service. This was below the expected number of 222 exits. The ratio of actual to expected exits was approximately 79% for Section C. This ratio indicates that experience has varied from expectations, which is not unreasonable given the small remaining membership in the Section resulting in higher variability. It is therefore also difficult to produce statistically reliable demographic assumptions from recent experience and as such we have not conducted a full analysis of the exit rates.

The timing of retirement has a small impact on the financing of benefits for Section C Members. However, the deferment of retirement by those older entrants of Section C for whom the minimum death and TPD benefit of 3.5 times superannuation salary applies has the potential to increase the cost of ANZ's subsidy of the charges for death and TPD cover.

While the overall 3-year experience to 31 December 2022 was lower than expected, due to the decreasing remaining membership of the Section and the small impact of the assumption, I have retained the existing decrement rates.

Death and Disablement

As the Scheme now has external insurance in place it is not necessary to review the death and disablement experience, except for the mortality experience of the lifetime pensioners.

Pensioner Mortality

The mortality experience of the pensioners during the period from 31 December 2019 to 31 December 2022 has been reviewed. The actual number of pensioner deaths was compared to the expected number of deaths based on the mortality rates adopted for the actuarial investigation as at 31 December 2019.

The table below sets out the results of the analysis based on the number of pensioner deaths split by males and females:

	Actual Deaths	Expected Deaths	Actual/Expected %
Males	10	7.9	127%
Females	17	20.0	85%
Total	**27**	**27.9**	**97%**

The table indicates that the actual number of deaths was slightly lower than expected in aggregate.

Because of the relatively small number of pensioners, mortality experience can be expected to be variable. Therefore, in setting future pensioner mortality assumptions it is appropriate to consider the mortality of other larger groups. After analysis of the Scheme's pension mortality experience and other experience, we have retained the pension mortality assumptions as adopted in the actuarial investigation as at 31 December 2019, that are based on 95% of the mortality rates in the 2015-17 Australian Life Tables.

Given the length of time that has passed since the ill health pensions commenced, we will continue to assume that mortality for ill health pensioners is no different to the other pensioners in the Scheme.

We have made an allowance for ongoing mortality improvement of 1% per annum at all ages, commencing from 1 July 2016, being the midpoint of the period to which the 2015-17 Australian Life Tables relate.

Section 8: Valuation Results for the Pension Section

The Scheme's pension liabilities as at 31 December 2022 have been valued using the assumptions discussed in Section 7. The results of the valuation of the Scheme's pension liabilities are summarised in the following table:

Valuation of Pensioner Liabilities	($'000)
Current pensioners liability	13.061
Balance of the Pension Section Account	14,321
Surplus (excess of assets over liabilities)	1.260

As at 31 December 2022, the value of the Pension Section Account exceeded the Scheme's pension liabilities by $1.260 million (or approximately 9.6% of pension liabilities). The surplus is slightly lower than disclosed in the financial statements for the year ended 31 December 2022 as it allows for the impact of the1% supplementary pension increase granted in March 2023 on the value of the pension liabilities. The funding position in relation to the pension liabilities has improved since 31 December 2019, when the surplus represented 2.0% of liabilities. The favourable change in the funding position of the Pension Section at 31 December 2022 is largely attributable to:

- The increase in the difference between the assumed levels of investment return and pension increases to 3.2% p.a. from 2.25% p.a. adopted in the previous valuation;
- Employer contributions of $575,000 paid by ANZ in December 2020, in accordance with the recommendations in the actuarial valuation at 31 December 2019.

This has been partially offset by:

- The actual investment return for the assets backing the pension liabilities of 3.1% p.a. over the three years being lower than the 4.25% p.a. assumed at the previous valuation;
- the actual pension indexation of 2.6% p.a. over the three years being a little greater than the 2.0% p.a. assumed at the previous valuation.

Funding

The valuation shows that, at 31 December 2022, the pension assets were greater than the liabilities. The investment return from 1 January 2023 to 6 June 2023 was 5.8%, meaning that the surplus of $1,260,000 at 31 December 2022 has further increased.

I recommend that no contributions be made in 2023 due to the surplus position, and recommend that the contributions for 2024 and 2025 to be considered as part of the annual actuarial valuations, to reflect the actual experience of the PSA.

It would be possible for ANZ to make contributions to build a margin into the funding of the PSA. However, given that the Pension Section liability is small relative to ANZ's balance sheet, and the Pension Section liability is reducing steadily, this would increase the risk of overfunding. As experience - particularly investment experience - emerges over time the position of the PSA is likely to fluctuate between an overfunded and an underfunded position. This is to be expected, but means that the Pension Section may also require ANZ to make additional contributions to be made in future years. The Employer Funding Reserve provides a funding buffer at times when the PSA is underfunded.

The position of the Pension Section must be reviewed annually, in accordance with SPS 160. This level of monitoring should assist in identifying any emerging poor experience in a timely fashion.

Sensitivity

To test the sensitivity of the valuation results for the Pension Section to possible future experience changes, the effects of alternative assumptions were considered.

The sensitivity basis allowed for a variation in the differential between the assumed rates of investment return and pension increases, with the pensioner mortality assumptions being unchanged. If this differential were to be 1.0% lower than the current differential of 3.2%, the funding position in relation to the pension liabilities would deteriorate by approximately $0.9 million. A 1.0% increase in the differential would result in an improvement in the funding position of $0.8 million.

If there was a sudden fall in asset values of 10% then the funding position would deteriorate immediately by the order of $1.4 million, reducing the surplus to around zero. A similar outcome would also arise if the investment return in the first year was negative 3.8% (i.e. 10% lower than the assumed return of %). (The variations selected in the sensitivity analysis do not indicate upper or lower bounds of all possible outcomes).

The differences between the value of the pension liabilities on the alternative bases and the balance of the Pension Section Account indicate the sensitivity to potential changes in the Scheme's experience. They are not intended to be the largest variations that can occur. Given this sensitivity, it will be important to carefully monitor the Scheme's future experience to ensure that the pension liabilities are appropriately funded as the number of pensioners reduces.

Funding of the Supplementary Pension Increases

For the purposes of this actuarial investigation, aside from the allowance of a supplementary increase of 1% effective March 2023, it has been assumed that supplementary pension increases will not be fully granted in future years, in relation to the excess, if any, of the increase in the CPI rate over 3%.

The assumed rate of pension increases of 3.0% per annum (which encompasses only the PVM increases but not any supplementary pension increases) reflects our current expectation of the average rate of increase in the Consumer Price Index over the medium term and assumes ANZ will maintain its decision to not grant supplementary pension increases that fully reflect the increase in CPI over 3%. However, WTW's expected future price inflation is around 3.1% p.a. so the impact would currently be a reasonably modest increase of approximately $0.1million to the value of the pension liabilities.

Wind Up

Under the Trust Deed, ANZ is required to meet any shortfall in the PSA on wind up. It should also be noted that pension indexation is not guaranteed on wind up of the Scheme so the value of the pension liabilities may be reduced in those circumstances. The Trust Deed also anticipates that on wind-up the pensions would continue to be paid, rather than converted to a lump sum or transferred to an insurance company.

If the pension liabilities were to be transferred to a life insurance company the amount required would be expected to be materially higher than the liability calculated in this actuarial investigation. This is because life insurers must meet legislative requirements that require them to invest in assets that are expected to have lower investment returns that the Balanced Growth investment strategy and because they would expect to cover these costs and make a profit. The increase in the liability could be in excess of $4 million.

Implications of Prudential Standard SPS 160

Prudential Standard SPS 160 requires the Actuary to form an opinion as to whether there is a high probability that the Scheme will be able to pay pensions as required under the Scheme's governing rules. A "high degree of probability" is prescribed to be 70% or more.

In forming this opinion, it is necessary to identify the assets which would be available to finance future pension payments. The principles set out in Professional Standard 410 issued by the Actuaries Institute require the Actuary to consider which assets would be available to meet the current pension liabilities (after allowing for benefit liabilities which rank ahead of or equally with the current pensions) if the Scheme were to be wound up. While under the Trust Deed, ANZ is required to meet any shortfall in the PSA on wind up, the Professional Standard does not permit future contributions by ANZ to be included as an asset when assessing the capacity to meet future pension payments.

Under the provisions of the Trust Deed and Rules, the balance of the Pension Section Account is specifically allocated for the funding of the pension liabilities. As discussed in this report, there are also facilities for amounts to be transferred from the Employer Funding Reserve to the Pension Section Account to meet the pension liabilities. On wind up, further assets (i.e. from the Death and Disablement Reserve and Scheme Operating Reserve) could become available to support the pension liabilities. As referred to above, the pension indexation is not guaranteed on wind up of the Scheme so the value of the pension liabilities may be reduced in those circumstances.

At 31 December 2022, in order to allow for the certification of high probability, assuming no indexation, we have calculated that assets of approximately $11.7 million are required. Therefore, on this basis there is a surplus of $2.6 million. In addition, asset values have subsequently increased and the Trustee has access to the Employer Funding Reserve to pay pensions if that became necessary.

If allowance is made for indexation at 3.0% p.a. then assets of approximately $14.0 million would be required to make the certification, and the surplus would be about $0.3 million.

Taking into account the assets which would be available to meet future pension payments and the value of the pension liabilities on wind up I have formed the opinion that there is currently a high probability that the pensions payable from the Scheme will be able to be paid based on the assets available.

The use of the Employer Funding Reserve to support the PSA is discussed in Section 9.

Section 9: Employer Funding Reserve

Adequacy of the Employer Funding Reserve

The structure of the benefits in Section C mean that ANZ's funding obligations are the aggregate of:

i. Contribution credits at the rate required under the Superannuation Guarantee, subject to a minimum of 7% of Salary;

ii. The expected administration costs in relation to Section C Members who are classified as Choice members; and

iii. The expected cost of ANZ's subsidy of the charges for death and TPD cover for Section C Members.

The balance in the Employer Funding Reserve, which represents the pre-funding of employer contributions, can be considered in the assessment of the required employer contribution rate.

The balance of the Employer Funding Reserve as at 31 December 2022 was $17.8 million. This balance is more than sufficient to meet:

- The present value of the expected future cost of ANZ's subsidy of the charges for death and TPD cover for Section C Members, estimated to be $0.08 million as at 31 December 2022; plus
- The present value of the expected future administration costs plus a share of fixed and other relevant costs of $0.39 million in relation to Section C Members as at 31 December 2022. This amount is based on an advised budgeted cost of $85,000 for the 2023 year. The expected administration costs are assumed to reduce as Section C membership falls, although we note that there will be fixed costs that apply irrespective of the number of Section C Members. Because we do not have sufficient information to separately estimate fixed costs our estimate of the present value of the expected future administration costs only provides a broad order of magnitude.

The expected cost of ANZ's subsidy of the charges for death and TPD cover has continued to reduce, from $0.18 million as at 31 December 2019 to $0.08 million as at 31 December 2022, primarily as a result of the reduction in membership of Section C.

Although Superannuation Guarantee legislation has required ANZ's contributions to be based on a salary definition similar to the TEC definition from 1 July 2008, we understand that Section C Member's death and disablement benefits continue to be calculated using superannuation salary and we have assumed that this will continue to be the case.

We have also assumed that all Section C Members are Choice members and, hence, will have their administration fees covered by ANZ. This is a conservative assumption however we consider it is appropriate when assessing the sufficiency of the EFR.

The balance of the Employer Funding Reserve at 31 December 2022 is well in excess of the level required to support the expected cost of $0.47 million in respect of ANZ's subsidy of the charges for death and TPD cover and the expected future administration expenses for Section C Members. It would be prudent to maintain the balance of the Employer Funding Reserve at a level of more than $0.47 million. We suggest retaining at least $0.8 million for managing Section C charges for death and TPD and administration costs, which provides an additional margin of just over 50%. Although this is higher than expected to be required, it provides some protection should adverse future experience arise such as an increase in insurance premiums and investment volatility.

Although the Trust Deed permits amounts to be transferred from the Employer Funding Reserve to the Pension Section Account, the Trustee's practice is that any deficit in the Pension Section Account is funded by additional contributions from ANZ. Therefore, it is not expected that the excess assets in the EFR will be used to meet future pension payments. However, it will be needed to:

- provide a buffer because investment markets are volatile, it is likely there will be times where the balance of the Pension Section Account is temporarily less than the value of the pension liabilities; and
- to provide the statement required by SPS 160 that there is a high degree of probability that the fund will be able to pay the pensions.

As set out in Section 8, the SPS 160 high-probability certification, allowing for pension indexation, requires the 'support' of $2.0 million of assets of the Employer Funding Reserve. Incorporating a conservative margin we recommend that an amount of at least $4.0 million should be maintained to allow the support of the Pension Section.

For the purposes of this valuation, we have assumed that at least $5.0 million will be maintained in the Employer Funding Reserve to support the Pension Section Account and provide the subsidies for Section C members' insurance cover and fees. Therefore, this would leave an excess in the Employer Funding Reserve of $12.8 million. We note that some of this excess may be used for a contribution holiday to fund ANZ's costs relating to rebates on the account management fees.

Impact of Fees Received

Account management fees are deducted from Members' accounts in the SCA Section, RBA Section and ABP Section. Since 1 January 2014 fees have also been deducted from Section A and certain Section C Members' accounts. These fees are transferred to the Employer Funding Reserve and are available to meet the Scheme administration costs paid by ANZ.

These fees are available to meet ANZ's costs in respect of the administration costs. We understand that the process operates as follows:

- Fees are deducted weekly from accounts and transferred to the Employer Funding Reserve;
- Amounts are transferred monthly from the Employer Funding Reserve to employee members' accounts to make up the balance of contributions where a partial contribution holiday has applied for ANZ; and
- The amount of the partial contribution holiday is used to offset Scheme administration costs that are paid by ANZ directly rather than being paid from the Scheme.

We have not independently checked this process, but we understand that it is reviewed as part of the Scheme's audit processes and monitored as part of the budgeting process. From a funding perspective, it is important that irrespective of the process followed, at least $4.0 million plus any amounts necessary to support the rebate on the account management fees, be maintained in the Employer Funding Reserve to support the Pension Section and the subsidy of Section C death and TPD cover charges and administration costs.

Section 10: Solvency

Consistent with the actuarial investigation as at 31 December 2019, we have measured the Scheme's short term financial strength based on the Vested Benefits Index.

The Vested Benefit Index (VBI) is defined as follows:

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

"Vested Benefits" in this context means the total amount of benefits that would be due and payable if all Members voluntarily left service on the valuation date. In relation to the Pension Section, the Vested Benefit was taken to be the liability for future pension payments. For all other Members, the Vested Benefit was taken to be the total of their account balances.

For the purpose of calculating the VBI, the assets have been valued at net market value with adjustment for the value of the various internal reserves, as described below.

Under the Stronger Super legislation the Scheme is required to maintain an operational risk reserve to meet its Operational Risk Financial Requirement (ORFR) and the amount held to meet the ORFR must be excluded from the net asset value when assessing the coverage of vested benefits. Currently the Scheme Operating Reserve (SOR) is the designated reserve for holding assets to meet the ORFR. The amount in the SOR at 31 December 2022 ($30.831 million) exceeded the amount required to be held to meet the ORFR under the Scheme's ORFR policy, which is 0.28% of assets ($16.620 million at 31 December 2022). We understand that the excess may be segregated from the ORFR. Therefore, I have calculated the Vested Benefit Index both excluding the entire SOR from the net market value of assets and only deducting an amount equal to 0.28% of net assets ($16.620 million) from the net market value of assets.

It is also necessary to determine an appropriate amount to set aside to meet incurred but not reported insurance claims and pending insurance claims and to exclude these amounts when assessing the coverage of vested benefits. The Death and Disablement Reserve currently stands at $35.884 million, which is of the order of two times annual premiums. We consider it is likely that this will be more than sufficient to meet the liability for self-insured claims which the Scheme has retained. Additionally the Death and Disablement Reserve is currently being used to subsidise the insurance premiums for Members. Therefore for the purposes of calculating the Vested Benefit Index I have excluded the full amount of the Death and Disablement Reserve from the net value of assets.

The VBI is an indicator of the short term solvency of the Scheme. A ratio of 100% indicates solvency.

At 31 December 2022, the VBI was:

	Excluding SOR and DDR from Scheme Assets	Excluding only ORFR target Amount and DDR
Accumulation Vested Benefits ($ Million)	5,815.7	5,815.7
Pension Liability ($ Million)*	13.1	13.1
Net assets ($ Million)	5,870.5	5,884.7
VBI	100.7%	101.0%

* Includes allowance for a 1% supplementary pension increase that was provided effective March 2023 resulting in a slightly higher value than disclosed in the financial statements.

The VBI is above 100%, which indicates that the Scheme is solvent with a reasonable margin.

Because employed and retained Members receive accumulation benefits the value of accrued retirement benefits for the Scheme is equal to the Vested Benefits. Similarly, the actuarial value of accrued benefits is equal to Vested Benefits. Also, for practical purposes the Minimum Requisite Benefits can also be considered to be equal to the Vested Benefits. Therefore it is not necessary to calculate a separate solvency index using either accrued retirement benefits, actuarial value of accrued benefits or Minimum Requisite Benefits.

Termination of the Scheme

When examining the Scheme's short term solvency position, the following question needs to be asked:

> *"If the Scheme were to be terminated on the valuation date, would the existing assets be sufficient to provide for the benefits payable to accumulation Members on termination and to secure the pensioners' entitlements?"*

We have first considered members in Section A, Section C, the SCA Section, the RBA Section and the ABP Section. The benefit payable to each Member on termination of the Scheme is defined in Clause 25.4 of the Trust Deed. The Trust Deed provisions in force at 31 December 2022 defined the termination benefit as that benefit to which the Member would have been entitled on voluntarily leaving service immediately prior to the termination date. If the assets available (excluding the balance of the Pension Section Account) were insufficient to meet these benefits, the Trustee must decrease the amounts payable to Members still in service in a manner it considers fair and equitable having regard to the value of the assets available.

The above definition of termination benefits necessarily provides that the available assets are sufficient to cover the benefits payable on termination. Therefore, these sections of the Scheme would have been solvent if terminated at 31 December 2022.

Clause 25.7 of the Trust Deed sets out the benefits to be provided to pensioner beneficiaries on the termination of the Scheme. Clause 25.9 states that annual updating of pensions is not required to be continued following the termination of the Scheme. However, such increases would be a reasonable expectation of pensioners. Therefore, the results of the termination analysis for the Pension Section have been presented on two bases, firstly, the minimum entitlements and, secondly, allowing for PVM increases to be continued at the assumed rate of 3.0% per annum.

The following table summarises the results of the termination analysis for the Pension Section as at 31 December 2022:

Present Value of Pension Section Termination Benefits with respect to:	Without Updating of Pensions ($'000)	With 3.0% p.a. PVM Increases ($'000)
Total Termination Liabilities	10,859	13,061
Balance of the Pension Section Account	14,321	14,321

As at 31 December 2022, regardless of whether future pension increases were granted after January 2023, the balance of the Pension Section Account would have been adequate to cover the pension liabilities based on the assumed rate of investment return of 6.2% per annum. Furthermore, on termination, the balance of the Scheme reserves could be used to meet the pension liabilities, and this would be expected to be sufficient to cover the pension liabilities in the event of actual experience being worse than assumed.

This analysis has been done assuming pensions would continue to be paid from a superannuation fund similar to the Scheme. To transfer the pensions to a life insurance company is likely to require a higher amount of assets. If such a transfer had taken place at 31 December 2022 then the VBI for the remaining members would have been reduced to in the order of 100.6%. This is not an unacceptable outcome, because the Scheme would then be, for all intents and purposes, an accumulation fund. However, financing a transfer of the pensioners would require obtaining additional funding from ANZ or taking assets from the Employer Funding Reserve and/or other reserves.

The future funding of the Pension Section has been discussed more fully in Section 8.

Shortfall Limit

We understand that the Trustee has adopted a 100% shortfall limit. In accordance with Superannuation Prudential Standard 160, the Trustee must monitor the funding position and if the VBI falls below 100% certain actions are required. In particular, after receiving actuarial advice, a plan is required to restore the VBI to 100%.

We note that if the VBI of the Scheme is below 100% it is also expected that it would be technically insolvent in terms of the Superannuation Industry (Supervision) Regulations and prescribed actions would be required.

Given the consequences of the VBI falling to below 100%, we recommend that the shortfall limit remain at 100%.

Section 11: Death and Disablement Cover

This section discusses:

a. Insurance arrangements from 2 March 2015;

b. The level of the Death and Disablement Reserve and its adequacy to meet incurred but not reported (IBNR) claims and fund the current premium rebate; and

c. The appropriateness of the remaining self-insurance, in respect of claims incurred prior to 2 March 2015.

The death and disablement experience affects the solvency of the Scheme. As part of this actuarial investigation it is also appropriate to assess the adequacy of the amount of the Death and Disablement Reserve.

Death and Disablement Cover from 2 March 2015

In order to comply with Stronger Super legislation the Scheme externally insured the insurance of death and disablement benefits to Zurich Australia Limited (formerly OnePath Life) from 2 March 2015. We have been advised that the Scheme is only required to pay insured claims paid by the external insurer, where they are incurred on or after 2 March 2015. Whilst stop loss insurance was put in place for two years to cover some of the cost of claims incurred prior to 2 March 2015, the Scheme has retained most of this self-insurance risk. The insurance arrangements are reasonable.

In summary the death and disablement arrangements from 2 March 2015 are:

- All death and disablements incurred from 2 March 2015 are externally insured with Zurich. The Trust Deed has been amended so that an insured component of a death or disablement benefit will only be paid to a member if admitted and paid by Zurich. Hence, the payment of a death and disablement benefits requires no additional funding from the Scheme or ANZ.
- Amounts are deducted from the accounts of Section A, RBA and SCA Members monthly equal to the premiums for their chosen level of insured benefit, less (initially) a 30% rebate. Premiums are also paid to Zurich monthly. The premium rebate is funded from the Death and Disablement Reserve. From 1 January 2019, based on actuarial advice, the rebate increased to 40%.
- From 1 October 2020, with actuarial agreement, the rebate was increased to cover an 8% increase in the premiums. The premium increase reflected Scheme experience as well as *Protecting Your Super* and *Putting Members Interests First* legislation. In practice the rebate was increased from 40% to 45% and this increase was intended to apply for two years. Subsequently Zurich reduced premiums from 1 October 2022 and made several small definition changes. As discussed later in the section, we expect the Death and Disablement reserve will be adequate to maintain the 45% rebate until the next triennial investigation at 30 June 2025.
- ANZ subsidises the equivalent of 20% of the cost of death and disablement cover for Section C Members. The relevant subsidy is transferred annually from the Employer Funding Reserve to the Death and Disablement Reserve. Amounts are deducted from the accounts of Section C Members equivalent to the balance of the cost of death and disablement cover, less (initially) a 10% rebate, making a 30% rebate in total. The rebate is funded from the Death and Disablement Reserve. From 1 January 2019 the total rebate increased to 40% and from 1 October 2020 to 45%.

- The premiums deducted from members' account (and the Employer Funding Reserve for 20% of the Section C cost) are paid into the Death and Disablement Reserve. The death and disablement benefits payable from the Scheme, net of the applicable Members' total account balances are paid from the Death and Disablement Reserve.
- Admitted insurance claims paid by Zurich are paid into the Death and Disablement Reserve.
- Death and disablement claims incurred prior to 2 March 2015 remain self-insured by the Scheme. They are paid from the Death and Disablement Reserve.
- The Scheme had reinsurance cover in place for two years from 2 March 2015. This cover has expired, and no other insurance is currently carried by the Scheme in respect of pre-2 March 2015 death and TPD benefits.

Analysis of Self-Insurance Arrangements

The following table, which summarises the risk profile at 31 December 2014 of members who had self-insured cover in the Scheme, illustrates the level of self-insurance risk which remained with the Scheme in respect of pre 2 March 2015 claims.

	Number of Members	Number of Members with Insurance	Average Sum Insured	Total Sum Insured ($m)
Section A	17,740	16,109	355,492	5,727
Section C	1,207	979	116,043	114
RBA Section	12,293	9,452	268,103	2,534
SCA Section	258	56	162,469	9
Total	**31,498**	**26,596**	**315,214**	**8,383**

As at 31 December 2014, there were only a relatively small proportion of members with cover over $1 million. While low, there remains a small risk that a small number of large claims which were incurred prior to the external insurance commencing from 2 March 2015 could erode the reserve.

Adequacy of the Death and Disablement Reserve

A consequence of the external insurance arrangements is that it is no longer necessary for the Scheme to set self-insurance premium rates. However, actuarial oversight remains necessary and appropriate for considering the adequacy of the Death and Disablement Reserve to:

- Cover pending and IBNR claims in respect of the period prior to 2 March 2015; and
- Fund the 45% rebate to the premiums being charged to members' accounts (i.e. 55% of the premium being charged by Zurich is being passed on to members).

The Death and Disablement Reserve at 31 December 2022 was $34.5 million, which is lower than the Reserve at 31 December 2021 ($43.2 million).

We were advised by the Trustee that there are no pending self-insured claims as at 31 December 2022. The number of self-insured claims reported over the past three years is too small to allow for any meaningful statistical estimate of the outstanding IBNR. Therefore we have made a broad estimate that the IBNR for death and TPD claims will not exceed $2.0 million, noting that while very few claims are expected the maximum sum insured is $2 million.

The updated estimate of the excess Death and Disablement Reserve, at 31 December 2022, is:

	Amount of Death and Disablement Reserve Excess ($ Million)
Reserve 31 December 2022	34.5
Less Pending	-
Less IBNR	2.0
Expected Excess Reserve	32.5

It is unlikely that higher than expected IBNR claims will exceed the excess Death and Disablement Reserve available. At this time it is not necessary to determine how much additional Death and Disablement Reserve should be retained to allow for claims being greater than expected because the Trustee has decided to keep all of the reserve and use the excess gradually to provide members a 45% rebate in premiums.

The amount of the Death and Disablement Reserve is expected to be significantly larger than required to meet the remaining claims incurred prior to 2 March 2015.

Premium Rebate

The annual insurance premium is in the order of $16 million. Hence, the 45% premium rebate being provided by the Scheme is currently of the order of $7.2 million per annum. We would expect this amount to increase over time because the average sums insured are expected to increase.

This amount of rebate is expected to be sustainable for three years from 31 December 2022, i.e. the period until the next triennial valuation is due. However, we note that the Trustee retains the right to adjust (i.e. increase, reduce or discontinue) the level of the rebate within this period.

We recommend that the adequacy of the Death and Disablement Reserve, and whether its amount can continue to support the premium rebate, should be reviewed at least annually by the Trustee. We recommend that the next review be conducted as at 31 December 2023.

Investment of the Death and Disablement Reserve

The Death and Disablement Reserve is invested in the Balanced Growth option and therefore is subject to the risk of a fall in value. The strong position of the Death and Disablement Reserve means that it should be able to withstand a fall in value and still be expected to be sufficient to cover claims and provide the premium rebates for a significant length of time.

The Trustee reviews the insurance premium rebate annually and can reduce or cease the rebate. However, it would be more difficult to do this within a current year. Because the subsidy is about $7.2 million annually it would be prudent to ensure this amount of the Death and Disablement Reserve was always available. It would also be prudent to retain about $2.0 million (pending and IBNR) for self-insured claims.

If there is a significant fall in asset values before these amounts are paid we would recommend the Trustee consider moving some of the assets into a more conservative investment option. We suggest using a trigger amount of $20 million as a level of the Death and Disablement Reserve at which the investment strategy should be reviewed. At this point the existing insurance rebate would be expected to exhaust the reserve within a few of years the time horizon for the investment becomes short term. If the Death and Disablement Reserve reaches this amount, while we suggest the investment strategy be reviewed, whether it is changed would depend on the Trustee's assessment at that time. This trigger amount should also be reviewed over time and we would be pleased to do this as part of our annual actuarial tasks and review of the adequacy of the Death and Disablement Reserve.

Salary Continuance Insurance

Section A and Section C members can apply for salary continuance insurance through the Scheme. This cover is not available for RBA Section, ABP Section or SCA Section members. Salary continuance insurance provides a monthly benefit payment of up to 75% of salary (subject to a maximum of $20,000 per month) for up to two years. The salary continuance benefit is insured with Zurich and should not cause any additional funding strain on the Death and Disablement Reserve.

Section 12: Material Risks

The purpose of this section of this report is to identify the material risks for the Scheme which are associated with the actuarial assumptions or actuarial management of the Scheme, in particular to the Pension Section and self-insurance. We also comment on the way in which the identified financial risks are being managed by the Trustee.

The material risks are:

Underperformance of Scheme's Investments

The risk faced by the Pension Section, in particular, is that the investment returns earned on the assets will not be as high as expected. This means that the financial position of the Pension Section would deteriorate and additional funding may be required. The Trustee continues to monitor the position of the Pension Section annually, and it considers the liabilities and the funding position when determining the investment strategy, and this remains appropriate.

With the Scheme's death and disablement cover now externally insured, the impact of investment risk on the Death and Disablement Reserve is reduced. The Scheme retains the risk for pending and incurred but not reported claims at 2 March 2015. The Death and Disablement Reserve is also currently being used to provide a premium rebate for members. However, the Reserve is in a strong position and is likely to be able to withstand any adverse market movements. It would take a large negative investment return to reduce the Death and Disablement Reserve to the extent that it was expected to be insufficient. In Section 9 we recommend that the investment strategy of the Death and Disablement Reserve be reviewed if its amount reduces to a specified value of $20 million.

To a lesser extent the Scheme's other reserves are at risk of investment underperformance. However, as these reserves are well funded and/or not set aside to meet significant known liabilities, underperformance of investments is unlikely to require any particular action from the Trustee or Employer.

Inflation Risk

Higher than expected indexation of pensions would increase the Scheme's liability and may require additional funding.

Pensions are increased annually at a rate equivalent to the lesser of 3% and the rate of increase in the Consumer Price Index – Average of All Groups ("CPI") for the 12 months ending with the September quarter prior to the implementation of the increase. The inflation risk on the annual increases is therefore contained by the 3% cap.

Every year the Trustee considers a supplementary pension increase. Prior to 2022 this increase had been set so that pensions increase at the CPI rate each year. However, the Trustee is not able to grant a supplementary increase without ANZ consent and a supplementary increase of 1.0% was provided effective March 2023, therefore granting a lower overall increase than the actual CPI increase of 7.3% for the year ended 30 September 2022. If supplementary increases are reduced, the inflation risk is materially managed.

Increasing Life Expectancy

The Scheme has a liability for pensions of $13.061 million at 31 December 2022. The assumptions regarding pensioner mortality that we have used for this valuation explicitly allow for gradual future improvements in mortality.

There is a risk that a future breakthrough in medical diagnosis or treatment could lead to a significant increase in life expectancies and this would increase Scheme liabilities. However, given the high average age of the pensioners the risk of a large increase in the value of liabilities is low.

Self Insurance

The Scheme's self-insurance is now limited to claims which occurred prior to 2 March 2015. Claims are met from the Death and Disablement Reserve and the risk to the Trustee is that this reserve will not be sufficient to meet claims which arise is very low.

The adequacy of the Death and Disablement Reserve was considered in Section 9.

Other

The Scheme faces a variety of operational, legislative and other risks which may in some circumstances lead to cost increases. We understand that the Trustee monitors and takes action on such risks as part of its risk management framework. There is also the risk that ANZ will not pay contributions recommended in rectify a funding deficiency. We also note that when compared to the size of ANZ's operations, the cost of most risks is likely to be very small.

Appendix A: Summary of Benefits and Conditions

Sections A and C

Definitions

Additional Employer Contribution Account

The account to which any contributions ANZ makes in excess of the SGC Contribution and any salary sacrifice contributions are credited. Contributions tax is charged to this account. The account is adjusted for investment earnings based on the changes in the relevant unit prices.

ANZ

Australia and New Zealand Banking Group Limited.

Member's Contribution Account

The account to which after tax member contributions are credited. The account is adjusted for investment earnings based on the changes in the relevant unit prices.

Normal Retirement Date

60^{th} Birthday.

Salary

Annual base earnings plus such allowances as ANZ determines or such other amount as ANZ determines.

SGC Contribution

The SGC Contribution is calculated as the SGC Contribution Rate times SGC Salary.

SGC Contribution Account (SGC Account)

The account to which the SGC Contribution is credited. The charges for death and disablement cover, contributions tax and surcharge are charged to this account. The account is adjusted for investment earnings based on the changes in the relevant unit prices.

The Trust Deed and Rules allow for an administration fee to be deducted in Sections A and C. The administration fee is 0.11% p.a. of account balances up to $500,000, with a rebate of 0.03% for 2023. For Section C members who opt out of the MySuper product the fees are waived.

SGC Contribution Rate

The charge percentage from time to time as specified by the Superannuation Guarantee (Administration) Act 1992.

SGC Salary

Ordinary Time Earnings limited to the maximum contribution base from time to time specified under the Superannuation Guarantee (Administration) Act 1992. This maximum is $60,220 per quarter for 2022/23.

Total and Permanent Disablement (TPD)

"**Total and Permanent Disablement Benefit**" has the same meaning as is given to those words (or what the Trustee considers to be the corresponding word or words) in any policy of insurance effected by the Trustee.

Under the current insurance policy, Total and Permanent Disablement means:

"TPD Definition 1

An Insured Member satisfies all of the following (a), (b) and (c):

(a) is **Gainfully Working** as a **Permanent Employee** on the day immediately prior to the **Event Date**; and

(b) is **Gainfully Working** as a **Permanent Employee** for at least the **Minimum Average Hours**; and

(c) in the insurer's opinion based on medical or other evidence satisfactory to us, solely because of injury or illness, the Insured Member:

  (i) has not worked during the entire **Waiting Period**; and

  (ii) as at the **Date of Disablement** is unlikely ever to work in any **Gainful Employment** for which he or she is reasonably suited by education, training or experience, or would be suited by **Reasonable Retraining**.

OR

TPD Definition 2

In the insurer's opinion based on medical or other evidence satisfactory to us, solely because of injury or illness, the Insured Member:

(a) is totally and irreversibly unable to perform at least two of the **Activities of Daily Living**; and

(b) as at the **Date of Disablement** is unlikely ever to work in any **Gainful Employment** for which he or she is reasonably suited by education, training or experience, or would be suited by **Reasonable Retraining**."

where the capitalised terms are defined in the policy.

Eligibility

Employees commencing service with ANZ are eligible to apply to join Section A.

Contributions

Members

Section A and Section C Members may opt to contribute to the Scheme. Members may alter their rate of contribution at any time.

ANZ

ANZ contributes such amounts as the Trustee determines are required, after seeking the advice of the Actuary, to meet the balance of the cost of the benefits.

Benefits

Death or Total and Permanent Disablement

The Trust Deed allows the Trustee to reduce all insured benefits to the extent any sum insured is not received from the relevant external insurer.

The benefit payable is:

i. the sum of the Member's account balances; plus

ii. the insured benefit (if any).

The Section A insured benefit is equal to the amount calculated by the following formula:

> Number of blocks of cover taken out by the member x Total Employment Cost or Annual Base Salary if applicable at leaving ANZ employment x (1 – Reduction Factor)

The Reduction Factor is calculated as a factor of zero for members under 56, and increases by 10% for each year between ages 57 and 65 (reaching 90% at age 65).

The maximum number of blocks of cover that a member may take out is seven, and the insured benefit is subject to different maximums for death, disablement and terminal medical condition as agreed with Zurich. The maximum sums insured permitted are currently $5 million for death, $3 million for disablement and $2.5 million for terminal medical conditions.

For Section A Members, the insured cover on death or disablement ceases at age 66.

Three blocks of cover are provided to new Employees by default. Satisfactory health evidence is required to increase the number of blocks of cover or if cover is over $1 million, except by half a block in prescribed circumstances. Members can also elect to reduce their number of blocks of cover.

The insured cover options for Section C Members are as shown in the following table:

Insured Cover Option	Insured Benefit
No Cover	Nil
Multi-level Cover	The greater of: i. 15% of Salary at the date of death or disablement for each year of potential service to the NRD; and ii. 3.5 times Salary at the date of death or disablement less the sum of the Members' account balances.

For Section C Members, the insured cover on disablement ceases at age 60.

Salary Continuance Insurance

Section A and Section C members can apply for salary continuance insurance through the Scheme. This cover is not available for Retained Benefit Account, Account Based Pension or Spouse Contribution Account members. This cover is externally insured.

Retirement, Retrenchment and Withdrawal

The benefit payable is the sum of the Member's account balances (i.e. the Member's Contribution Account, SGC Contribution Account and Additional Employer Contribution Account).

Spouse Contribution Account Section

Eligibility

Eligible spouses of ANZ employee-Members and RBA Section Members of the Scheme who remain as members of the Scheme may apply to join the SCA Section. The initial contribution must be made by the ANZ employee-Member or RBA Section Member to establish his/her spouse's Spouse Contribution Account.

Regular Contributions

The ANZ employee Member may make regular after-tax contributions by payroll deduction to his/her spouse's Spouse Contribution Account. The RBA Section Member may also make regular additional after-tax contributions to his/her spouse's Spouse Contribution Account.

Additional Contributions and Rollovers

Additional contributions and rollovers (including benefits transferred to the Spouse Contribution Account from previous funds, and lump sum personal contributions made by the ANZ employee-Member for his/her spouse) are permitted.

Benefit

The benefit payable is the balance of the Spouse Contribution Account.

Insurance

SCA Section members may be paid an additional benefit on death and total and permanent disablement, subject to eligibility criteria and conditions. The additional benefit is based on “blocks” of cover of $50,000 each. To conform with MySuper requirements, from 1 January 2014 certain members have age-based minimum death and total and permanent disablement cover at the levels set out in Schedule 1 of the Superannuation Guarantee (Administration) Regulations 2018.

These members can opt out of the cover at any time.

SCA Section members can apply for higher cover (subject to underwriting).

The definition of Total and Permanent Disablement is as for Sections A and C above. From 1 October 2017, members are eligible for TPD cover up to the amount of death cover, if underwritten.

Retained Benefits Account Section

Eligibility

Former Members of Section A, Section C or the Spouse Contribution Account Section may transfer all or part of their benefit to the RBA Section when they leave ANZ or they close a Spouse Contribution Account.

Additional Contributions and Rollovers

Additional contributions and rollovers (including eligible termination payments, benefits transferred from other funds, and lump sum personal contributions on an after tax basis) are permitted.

Benefit

Members can make full or partial withdrawals (subject to preservation requirements) from their Retained Benefit Account.

Insurance

Members who transfer to the RBA Section after 1 January 2018 retain the level of death and TPD (if applicable) based on what applied prior to transfer.

Prior to 1 January 2018 members (where eligible) had blocks of death cover and minimum level of age based TPD cover.

Members can opt-out of insurance.

The definition of Total and Permanent Disablement is as for Sections A and C above.

Account Based Pension Section

Eligibility

Employees and retirees over the preservation age from other sections of the Scheme or recipients of a TPD benefit may, subject to a minimum investment of $25,000, transfer all or part of their benefit to the ABP Section.

Benefit

Members can make withdrawals (in addition to regular pension payments) once per annum subject to the relevant limits.

Pension Section

Spouse's Pension Option

Where applicable, the standard survivorship pension is 60% of the former member’s pension. A former member may give up part of his or her pension to provide an additional survivorship pension to his or her spouse, payable from the date of that former member’s death.

Commutation of Spouse Pensions

A spouse who becomes entitled to a spouse’s pension may commute 100% of his or her pension, other benefits and contingent benefits.

The Trustee, at its discretion, may permit commutation of other pensions.

Pension Value Maintenance

All pensions are reviewed at least every two years and increased according to the increase in Consumer Price Index, subject to the resulting pension not exceeding the initial pension increased at a rate of 3% per annum compounded over the period since commencement of that pension. Notwithstanding this, the Trustee may, with the agreement of the Principal Company, agree to higher increases to the pension.

In a Scheme termination situation pensions are not subject to pension value maintenance.

Appendix B: Summary of pensioner movements

Pensioner Membership

	1 January 2020 to 31 December 2022		
	Current	**Deferred / Contingent**	**Total**
Number of pensioners as at 1 January 2020	105	1	106
Plus			
Reversionary Pensioners	3	-	3
Less			
Deceased Pensioners	(27)	-	(27)
Adjust			
Transfers from Deferred / Contingent to Current	1	(1)	-
Number of pensioners as at 31 December 2022	82	-	82

Appendix C: Valuation Basis

Rate of Investment Return, Salary Inflation and Pension Increases

For the long term projections of Section C, calculations have been made using investment return (net of tax) and non-promotional earning increase assumptions of 5.3% and 3.5% per annum respectively.

The following assumptions were used for the long term projections of the liabilities of the Pension Section:

	2022 Basis	2019 Basis
Long Term Projections:		
Net rate of Investment Return^	6.2% p.a.	4.25% p.a.
Indexation of Pensions	3.0% p.a.	2.0% p.a.
Termination Liabilities:		
Net rate of Investment Return^	6.2% p.a.	4.25% p.a.
Indexation of Pensioners*	0% and 3.0% p.a.	0% and 2.0% p.a.

^ Investment returns for valuing pension liabilities assume a zero rate of tax, and are net of investment management fees

* The position on Scheme termination was considered both assuming no indexation and assuming indexation in line with increases in the CPI. We note that we have allowed for the 1% supplementary increase that was provided effective March 2023 under both of these scenarios.

Promotional Salary scales for Section C Members

The following scales give the assumed progression of salaries due to promotional increases, starting from a base salary of 1,000 at age 20.

Age	Scale
20	1,000
30	1,439
40	1,542
50	1,577
60	1,587

Mortality in Service, Disablement, Withdrawal and Early Retirements for Section C Members

Of every 10,000 Section C Members in the Scheme at the ages shown, the numbers given below are assumed to exit each year from active membership by the various causes of exit:

Age	Death & TPD*	Withdrawal	Early Retirement
25	6	1,250	0
30	7	1,250	0
35	7	875	0
40	11	750	0
45	22	500	0
50	36	500	0
55	68	0	1,250
56	79	0	1,250
57	91	0	1,250
58	103	0	1,250
59	113	0	1,250
60	47	0	1,250
61	52	0	1,250
62	58	0	1,250
63	66	0	1,250
64	74	0	1,250
65	81	0	10,000

*The TPD benefit ceases at age 60.

Pensioner Mortality

Of every 10,000 pensioners of each type shown below, the following numbers were assumed to die each year. Mortality improvement of 1% p.a. for each year from 1 July 2016 is assumed at all ages.

Age	Males	Females
40	13	7
50	27	17
60	62	36
70	147	91
80	446	300
90	1,443	1,160
100	2,876	2,929

Age of Pensioners' Spouses

Wives were assumed to be three years younger than their husbands.

Expenses

The rate of investment return referred to above is assumed to be net of investment expenses.

It is assumed that ANZ meets the expenses in respect of life-time pensions.

Taxation

It has been assumed that the current taxation regime will continue and that the Scheme will remain a “complying superannuation fund” for taxation purposes. Concessional tax arrangements apply for pensioners therefore no tax is levied on investment earnings.

Any tax surcharge levied on the Scheme would be deducted from the accounts of the Member concerned. Similarly, any excess contributions tax or tax levied on members who have not provided their TFN would be deducted from the accounts of the Member concerned. For the purposes of this actuarial investigation, further allowance for the imposition of these taxes was not required.

Appendix D: Statements required under SPS 160

This summary provides the information which must be contained in the report of an initial or regular actuarial investigation, in accordance with paragraph 23 of Prudential Standard SPS 160.

a. At 31 December 2022, the value of the assets of the Scheme, excluding the Scheme Operating Reserve that includes the Scheme's Operational Risk Financial Requirement (ORFR) target amount was $5,904.988 million. The amount required to meet the ORFR is held in the Scheme Operating Reserve, which is materially larger than the Scheme's ORFR target amount. If only the target amount is deducted the net value of the assets becomes $5,919.199 million.

b. The projected likely future financial position of the Scheme's pension liabilities during the three years following the valuation date based on my best estimate assumptions is as follows.

Date	Assets ($m)	Vested Benefits ($m)	Vested Benefits Index (%)
31 December 2022	14,321	13,061	109.6%
31 December 2023	13,910	12,128	114.7%
31 December 2024	13,149	11,259	116.8%
31 December 2025	12,447	10,440	119.2%

The projected financial position is shown only for the lifetime pensioner members and allows for actual investment return to 6 June 2023. The account balances of all accumulation members are fully funded and expected to remain fully funded during the three year projection period. The coverage of vested benefits for the whole Scheme is expected to remain above 100%. Allowing for the $17.8 million in the Employer Funding Reserve the Pension Section is well funded.

c. In my opinion, the value of the assets of the Scheme at 31 December 2022, excluding the amount held to meet the ORFR, was adequate to meet the liabilities in respect of the accrued benefits of members of the Scheme (measured as the value of members' accrued entitlements using the valuation assumptions). I consider that the assumptions and valuation methods set out in this report are appropriate for determining the accrued benefit liability.

d. At 31 December 2022 the Scheme was in a satisfactory financial position, as defined in SPS 160. In my opinion the Scheme does not need to be treated as being in an unsatisfactory financial position. The shortfall limit (currently 100%) does not need to be reviewed.

e. At 31 December 2022 the value of the liabilities of the Scheme in respect of minimum benefits of the members of the Scheme is $5,828.8 million. This amount of minimum benefits excludes the amount of pending and incurred but not reported death and disablements benefits, which are met from the Death and Disablement Reserve. If estimates of these amounts are added, the minimum benefits are $5,830.8 million. Minimum benefits are as defined in Regulation 5.04 of the Superannuation Industry (Supervision) Regulations.

f. Funding and Solvency Certificates for the Scheme covering the period from 31 December 2019 to 31 December 2022 have been obtained. The Scheme was solvent, as defined in the Superannuation Industry (Supervision) Regulations, at 31 December 2022. In my opinion, I expect that the solvency of the Scheme will be able to be certified in any other Funding and Solvency Certificate required under the Regulations during the three year period to 31 December 2025.

g. It is recommended that ANZ makes contributions at the rates set out below for the period to 31 December 2022:

   i. at the rate required under the Superannuation Guarantee legislation, subject to a minimum of 7% of Salary for Section C Members; and

   ii. the salary sacrifice contributions payable on behalf of Members.

   ANZ should also cover the administration expenses of the Scheme, which are not covered by deductions from Members' accounts. Fees received and credited to the Employer Funding Reserve may continue to be used to meet ANZ's administration costs by means of short term employer contribution holidays. Other contributions should be made in accordance with the Trust Deed with Section A members' contributions being at least the rate required to meet ANZ's Superannuation Guarantee obligations.

h. In my opinion, as at 31 December 2022 there is a high degree of probability that the Scheme will be able to pay the defined benefit pensions as required under the Scheme's governing rules.

Matthew Burgess

Matthew Burgess
Fellow of the Institute of Actuaries of Australia

Willis Towers Watson
Level 32, 385 Bourke Street
Melbourne VIC 3000
Australia

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

About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organisational resilience, motivate your workforce and maximise performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at wtwco.com.