

# UniSuper update

A report prepared for UniSuper's Consultative Committee (7 July 2009)

## Protecting the financial future of UniSuper's Defined Benefit Division

As you're aware, retirement benefits for members of UniSuper's Defined Benefit Division (DBD) are calculated using a formula based on age, salary, years of membership and level of contributions.

As a result, investment returns don't generally play a part in how much members receive when retire.

In practice, the contributions paid on behalf of DBD members into their defined benefit component, along with the funds of members receiving regular payments from a Defined Benefit Indexed Pension, are pooled together and invested by UniSuper. This pool is invested in a diverse portfolio of shares, property, bonds and cash; currently similar to UniSuper's Balanced investment option, and is collectively known as the Defined Benefit Division (DBD).

This portfolio is designed to grow over time so that sufficient funds are available to pay both existing DB indexed pensions and other members' benefits as they become due.

## Results from the Actuary's most recent investigation into the DBD

As set out in UniSuper's Trust Deed, a formal actuarial review of the DBD is conducted every three years. The most recent investigation was conducted as at 31 December 2008.

This comprehensive review looked at the financial health of the DBD and its ability to pay members' benefits as they become due. Importantly, in its report, the Actuary confirmed that, on a 'best estimates' basis, the DBD's assets and future contributions are expected to be sufficient to meet current and future benefit payments.

Two measures are applied to determine the financial health of the DBD.

- **The Accrued Benefits Index (ABI)** – this is the measure that the Trustee of UniSuper believes is the more relevant indicator of the financial health of the DBD. It reflects the expected pattern of members actually joining, contributing to and leaving the DBD, against the assets required to ensure that all members' benefits are available when they fall due.
- **The Vested Benefits Index (VBI)** – this is the measure that the Fund must compulsorily report to the Australian Prudential Regulation Authority (APRA). It measures the capacity of the DBD to pay out all members' benefits from existing assets in the event that every Defined Benefit Division superannuation account holder were to leave the DBD at the same time.

While it is an important theoretical measure, this proposed scenario is practically inconceivable in UniSuper's case, as our DBD is a multi-employer fund where the liabilities are shared across a number of large and stable employers who all pay contributions into the DBD at a constant rate. This contrasts with the more traditional single-employer defined benefit funds, where an individual member may be more exposed to the risk of his or her employer failing to meet their defined benefit liabilities.

At 31 December 2008, the Actuary confirmed:

- the ABI was 104.2%, indicating that, on best estimates, the DBD's assets and future contributions are expected to be able to meet future benefit payments.
- the VBI was 89.7%.

Although market volatility has meant the VBI has fallen below 100%, it is important to understand that the DBD is designed to allow for times when the VBI is under 100%, and others when it has an excess of assets relative to its liabilities. Indeed, the recent fall in the VBI is not unprecedented.

## Clause 34 and how the Trustee manages the DBD

UniSuper's Trust Deed has been written to assist the Trustee to protect the long-term financial stability of the DBD and properly manage the assets of all DBD members for the future.

As many Consultative Committee will recall, the 2006 amendment to Clause 34 states that reductions in the Defined Benefit Division may occur where UniSuper assets are insufficient, under the following circumstances:

- a. If, after an actuarial investigation and valuation of UniSuper, the Trustee considers that UniSuper is or may be insufficient to provide benefits payable under the Deed, the Trustee must notify each employer and the members entitled to benefits under Divisions A or B accordingly.
- b. If, after the next two succeeding actuarial investigations and valuations of UniSuper (made in a period of not less than 4 years) the Trustee still considers that UniSuper is or may be insufficient to provide the benefits payable under the Deed, the Trustee must reduce the benefits (including benefits in the course of payment) payable under Division A and Division B on a fair and equitable basis.
- c. Notwithstanding anything in this Clause 34, if the Trustee believes that UniSuper is or may be technically insolvent, the Trustee must comply with Superannuation Law.

## The Trustee has invoked Clause 34 of the Trust Deed

Whilst the results of the actuarial review were reassuring, the Trustee recognised that if markets continue to perform below long-term expectations, it is possible that the DBD's assets may become insufficient to pay members' and pensioners' benefits in full.

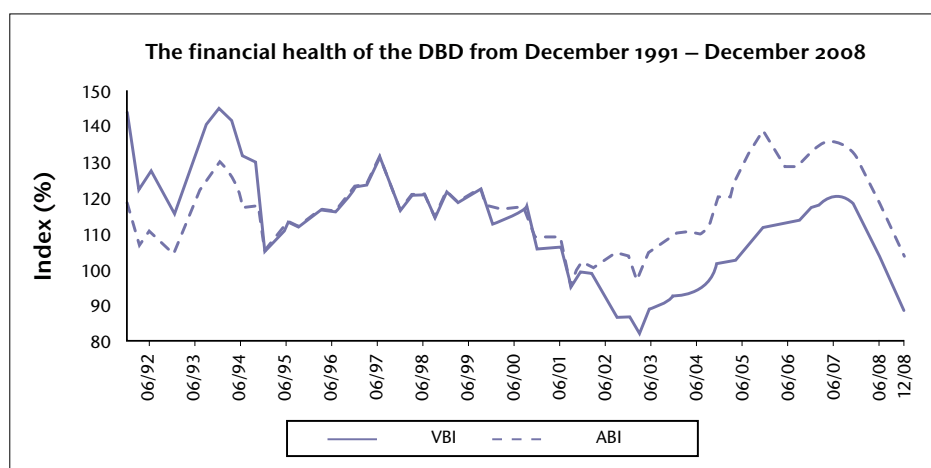
As such, the Trustee is now formally advising the Consultative Committee that the process set out in Clause 34 of the Trust Deed has commenced.

## The history of the Defined Benefit Division

Over its 26-year history, the DBD has experienced a number of periods when its liabilities have exceeded its assets, as measured by the VBI. Usually these situations have been as a result of extraordinary market volatility.

In every instance these shortfalls have turned around and at no time have members' benefits been affected.

The graph below considers the financial health of the DBD since December 1991, using both the ABI and the VBI.



During the past seventeen years, the values of both indices have fluctuated in line with a number of factors. These include actuarial revisions to projections of the expected numbers of members joining and leaving the division, salary increases among DBD members, movements in investment markets and changes in the Trust Deed to accommodate new developments.

As you can see, in 2002/03 the VBI was below 90%. At this time, the Trustee also invoked Clause 34.

Importantly, there was no impact on members because investment markets subsequently rebounded and the VBI returned to over 100% by June 2005. And whilst there are no guarantees in the current environment, we remain optimistic that, over the long term, markets turn around and return to growth.

## What Clause 34 means for members

As a result of UniSuper invoking Clause 34, it is important to understand that there is no immediate change for contributing members of the DBD or for those members who are already receiving payments as a result of taking up a Defined Benefit Indexed Pension. Nor are there any current plans to reduce member benefits.

Although the Trustee has formed the view that there is an increased risk that assets may become insufficient, we would like to reiterate that benefits would only be reduced in extreme circumstances. If the ABI and VBI remain at current levels or only marginally decline during the four-year period, it is unlikely that there would be any impact on members' benefits.

Indeed, the Trustee believes that at the end of the monitoring period – at least four-years – it is likely that no action will be required.

## Important information for DBD members wanting to start a transition to retirement pension

From 1 July 2009, UniSuper will restrict access to pensions taken under transition to retirement (TTR) provisions for DBD members to only those who are genuinely reducing their working hours, by at least 20%.

To verify the reduction in working hours, members simply need to have their employer attest to the reduction in working hours using the *Transition to retirement pension attestation form* on the UniSuper website ([www.unisuper.com.au](http://www.unisuper.com.au)).

Members who are not reducing their working hours but still want access to a TTR pension, may be able to establish one using their accumulation component.

## Planned member communications

From 6 July 2009, a number of communications will be sent to members to keep them fully informed. These include:

- letters to both contributing and defined benefit pension members
- comprehensive and up-to-date information on a dedicated section of UniSuper's website – go to [www.unisuper.com.au/DBDupdate](http://www.unisuper.com.au/DBDupdate)
- fact sheets for members and pensioners, which have been posted to affected members and can be downloaded from [www.unisuper.com.au/DBDupdate](http://www.unisuper.com.au/DBDupdate)
- a web news article
- new SPDSs, dated 7 July 2009 for *Super for Defined Benefit Division and Accumulation 2 members* and *Your guide to pensions*
- alterations to the Decisions 101 tutorial to take in this new information.

## Looking ahead

While the current investment climate may be unsettling for members, UniSuper is doing everything it can to protect members' savings and deliver full pension entitlements.

If you would like more information on this topic, please refer to dedicated DBD member area of our website – [www.unisuper.com.au/DBDupdate](http://www.unisuper.com.au/DBDupdate).

UniSuper will continue to provide you with regular updates on the health of the Defined Benefit Division and will formally notify you before any action is taken.

Naturally, if you have any further questions about the Clause 34 process, please contact the UniSuper Helpline on 1800 331 685.



Find out more [www.unisuper.com.au](http://www.unisuper.com.au) [enquiry@unisuper.com.au](mailto:enquiry@unisuper.com.au) 1800 331 685

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Date: 7 July 2009