

The Defined Benefit Division (DBD)

The Fund's actuary recently completed the triennial review of the financial position of the DBD as at 31 December 2008. This comprehensive review looked at the financial health of the DBD and the Fund's ability to pay members' benefits as they become due.

Importantly, in his report, the Fund's 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 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 Trustee 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 they were all 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 the 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.

As at 31 December 2008, the Fund's Actuary confirmed that the ABI was 104.2%, indicating that, on a "best estimates" basis, the DBD's assets and future contributions are expected to be able to meet future benefit payments. At that time, the VBI was 89.7%.

As at 30 June 2009, the Fund's actuary estimated the DBD's Accrued Benefits Index (ABI) and Vested Benefits Index (VBI) to be 99.4% and 86.0% respectively. More recently, at 31 July 2009, the Trustee estimated that the ABI and VBI were 102.2% and 88.5% respectively.

Although market volatility has meant that 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.

What happens if the markets don't recover for several years?

As a precautionary measure, the Trustee initiated the process described in Clause 34 of the Trust Deed in June 2009. This provision helps UniSuper respond to prolonged market downturns and maintain the ongoing health of the DBD.

The Clause 34 process triggers a four-year (or more) period during which the DBD will be closely monitored and two further formal actuarial reviews will be conducted. If, at the end of that monitoring period, there has been a further deterioration in the funding position, the Trustee will be required to take action to reduce DBD members' benefits on a fair and equitable basis.

How could member benefits be affected?

The Trustee is regularly monitoring the situation and will at all times act in the best interest of members. In the unlikely event that DBD members' benefits were to be affected, they would be altered on a fair and equitable basis for all members.

Although the Trustee has formed the view that there is an increased risk that assets may become insufficient, it would like to reiterate that benefits would only be reduced in extreme circumstances.

Stay up to date on the DBD

You can find regular updates and access more information regarding the financial position of the DBD by logging onto the website www.unisuper.com.au/DBDupdate.

Reserves

The Fund maintains the following reserves:

- an administration reserve to help manage the operation of the Fund
- a group life insurance reserve for the external optional insurance cover
- a self insurance reserve for the death and disablement benefits to Accumulation 2 members.

The reserves are invested in a diversified portfolio with an asset allocation that mirrors that of UniSuper's Balanced investment option.

The total amount of reserves as at 30 June for the past three years was \$12.8 million in 2007, \$22.6 million in 2008, and \$17.2 million in 2009.