

## Your Defined Benefit Division Pension and the investment markets

### What this fact sheet does

This fact sheet explains how UniSuper's Defined Benefit Division (DBD) pensions are managed and the steps the Trustee has taken to maintain the DBD's ongoing financial health.

### Who it is for?

This fact sheet is for any member receiving a UniSuper's Defined Benefit Division Pension.

### Important points regarding the Defined Benefit Division Pension:

- Despite market volatility all pension payments continue to be made in full and there are no current plans to reduce any members' benefits.
- As a precautionary measure, the Trustee has started the process described in Clause 34 of the UniSuper Trust Deed. This Clause prepares UniSuper for an extreme circumstance that may occur, but is considered unlikely.
- 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. For instance, if the ABI and VBI remain at current levels or only marginally decline during the monitoring period, it is unlikely that there would be any impact on members' benefits.

### How your pension works

As a Defined Benefit Division pension member, your payments are calculated using a formula and indexed to inflation for the rest of your life. This means that your individual pension is generally not subject to market volatility.

However, the pension funds are pooled and invested in a portfolio that is exposed to market risks.

When you first took out your Defined Benefit Division Pension, your final superannuation account balance was pooled with that of other Defined Benefit Division pensioners and contributing Defined Benefit Division members. This pool is known collectively as the Defined Benefit Division (DBD).

In order to meet the future benefit and pension payments of our members, UniSuper invests the DBD pool in a diverse portfolio of shares, property, bonds and cash, similar to our Balanced investment option.

This portfolio is designed to grow over time so that sufficient funds are available to pay the benefits and pensions of individual members as they fall due.

As we have experienced over the past 18 months, these investments can and do experience occasional periods of negative returns. On the other hand, they also regularly deliver returns over and above those needed to pay members' pensions.

### How investment markets can impact your pension

Typically, investment markets don't have any impact on Defined Benefit Division pensions. Indeed, throughout UniSuper's 26-year history, investment market performance has never affected UniSuper's ability to pay its members' pensions. Similarly, investment market performance has never led to any reduction in UniSuper's defined benefit members' benefits.

However, if future investment returns continue to average below long-term expectations, then it is possible that the assets of the DBD pooled fund may be insufficient to meet its liabilities.

If this happens, the Trustee may be required to reduce the benefits of DBD members and pensioners on a fair and equitable basis. However, in practice, this scenario is considered unlikely.

## Monitoring the DBD pool through market volatility

The Fund's Actuary recently completed his 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 its ability to pay members' benefits as they become due.

Importantly, in his report, the Actuary confirmed that on best estimates, 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. At that time, 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.

## The history of the DBD pool

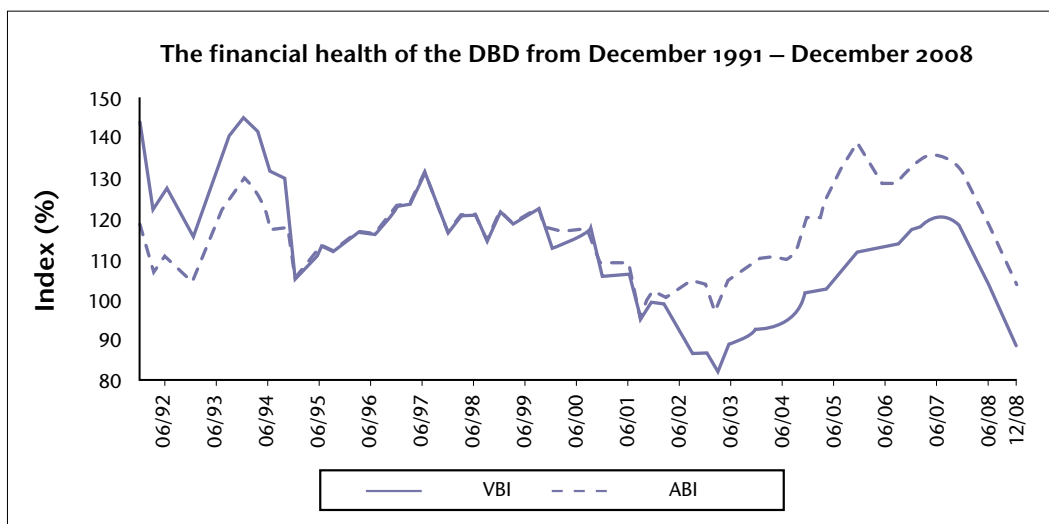
Over its 26-year history, the DBD has experienced a number of periods when its liabilities have exceeded its assets, as measured by the VBI. Usually these situations have been as a result of extraordinary market volatility. In every instance these shortfalls have turned around and at no time have members' 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 also below 90%. 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 with the current situation, we remain optimistic that over the long term markets will turn around and return to growth.



## 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 UniSuper Trust Deed in June 2009. This provision helps us manage long-term market downturns and maintain the ongoing health of the DBD.

The Clause 34 process triggers a period of at least four years (starting June 2009) 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 benefits on a fair and equitable basis.

## Could your pension be affected?

It's important to understand that there is no immediate change to your pension as a result of UniSuper initiating Clause 34. Nor are there any current plans to reduce your benefits.

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

Whilst UniSuper believes it is important for all members to understand this scenario, we would like to reiterate that Clause 34 prepares UniSuper for an extreme circumstance that may theoretically occur, but is considered unlikely. For instance, 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. At this time, the Trustee expects that at the end of the monitoring period (at least four years), no action will be required.

In relation to this clause it is important for members to note that:

- **Clause 34 prepares UniSuper for an extreme circumstance that may occur, but is considered unlikely, and**
- **The Actuary has confirmed that on best estimates, the DBD's assets and future contributions are expected to be sufficient to meet current and future benefit payments.**

Some members may recall that this process was initiated in 2002/03. In practice, however, the Fund never approached the need to consider any reduction in members' benefits because of the subsequent market recovery.

## Monitoring the ongoing financial health of your pension

So that you can remain up-to-date on developments regarding your defined benefit pension, UniSuper will maintain a dedicated section of our website throughout the Clause 34 monitoring period.

Simply type 'www.unisuper.com.au/DBDupdate' into the address bar of your internet browser.

Alternatively, if you would like to speak with someone regarding your Defined Benefit Division pension benefit, please call the UniSuper Helpline on 1800 331 685.

## What exactly does Clause 34 say?

Clause 34 states that reductions in the Defined Benefit Division and Defined Benefit Division pensions 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.



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