

ACTUARIAL REPORT ON THE MURPHY SUPERANNUATION FUND

Including:

Adequacy statement of opinion for Superannuation Industry (Supervision) Act 1993 regulation 9.31 covering the period 01/07/2023 to 30/06/2024

Certificate of exempt income for the 2022/23 year for Income Tax Assessment Act section 295-390 of ITAA 1997, and

Associated financial condition report

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2 December, 2023

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Contents

1. Summary of statement and certificates
2. Introduction
3. Fund details
4. Membership and benefit information
5. Methodology and assumptions
6. Value of assets
7. Superannuation guarantee
8. Valuation results and SIS regulation 9.31 statements
9. Insurance
10. ITAA 1997 sections 295-390 tax exemption certificate for the 2022/23 financial year
11. Next report

Important information:

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Accurium has prepared the report based on the data provided by you (or on your behalf). Whilst all care is taken in the preparation of this report no warranty is given and Accurium accepts no responsibility for errors or omissions beyond our reasonable control.

The opinions in this report are subject to certain qualifications and assumptions, the details of which are set out in the body of the report.

2 December, 2023

The Trustees
Murphy Superannuation Fund
C/- The MacRo Group Pty Ltd

PO Box 3555

SOUTH BRISBANE QLD 4101

Dear Trustees,

1. Summary of statements and certifications

Statements for the purpose of SIS Regulation 9.31

- 1.1 The date of this valuation is 01/07/2023.
- 1.2 In my opinion, based on the data, assumptions and methodology used in this report, the level of assets is adequate to meet the value of the liabilities in respect of accrued benefits of members.
- 1.3 Consequently the Fund is *not* in an unsatisfactory financial position as defined in regulation 9.04 of the superannuation industry (supervision) regulations 1994, nor is it expected to become unsatisfactory before the next investigation.
- 1.4 In my opinion, based on the data, assumptions and methodology used in this report, the level of assets backing the defined pensions of Valerie Murphy sufficiently exceeds the level of defined pension liabilities for there to be a high degree of probability that the Fund will be able to pay the pensions required under the Fund's governing rules.

Certification under ITAA 1997 section 295-390

- 1.5 I hereby certify that 22.248% of the applicable income earned on the unsegregated assets for the year ended 30/06/2023 should be exempt from tax.
- 1.6 I certify that the amount of the assets at 30/06/2023, if accumulated after that time at the rate I expect will be the rate of the Fund's earnings on those assets together with future contributions in respect of the non-allocated pension liabilities, will provide the amount required to discharge in full the liabilities as they fall due.

2. Introduction

- 2.1 This report and actuarial certificate has been prepared at the request of the Trustees of the Murphy Superannuation Fund to:
- ◆ fulfil the requirements of the Superannuation Industry (Supervision) Act 1993, in particular regulation 9.29A which requires that the Trustees obtain annual actuarial statements of the matters prescribed in regulation 9.31;
 - ◆ provide the certificate specified in section 295-390 of the Income Tax Assessment Act 1997 specifying the proportion of exempt assessable income; and
 - ◆ report to the Trustees on the financial position of the Fund and any matter that might affect that position.
- 2.2 This report has not examined the solvency and benefit certificate requirements of the Superannuation Guarantee Charge Act 1992.
- 2.3 This actuarial report, statements and certificates have been prepared in compliance with the requirements of:
- ◆ Professional Standards 400 and 410 of the Institute of Actuaries of Australia applying to investigations of defined benefit funds, as updated from time to time, and;
 - ◆ Professional Standard 406 of the Institute of Actuaries of Australia applying to certificates by actuaries under the Income Tax Assessment Act, as updated from time to time,
- 2.4 For income streams that are asset test exempt under section 9 of the Social Security Act 1991 this report satisfies the requirements of social security (actuarial certificate – lifetime income stream guidelines) determination 2012 and social security (actuarial certificate – life expectancy income stream guidelines) determination 2012.
- 2.5 This report is issued by Doug McBirnie, B.Sc.(Hons), FIAA, Fellow of the Institute of Actuaries of Australia and has an effective date of 01/07/2023. The previous report was issued by Doug McBirnie, Fellow of the Institute of Actuaries of Australia in a report dated 22/11/2022 with an effective date of 01/07/2022.

3. Fund details

Name of Fund MURPHY SUPERANNUATION FUND

Full name of Trustees Valerie May MURPHY
Karen Anne MURPHY

- 3.1 The Fund was constituted under a trust deed dated 29/07/2002.
- 3.2 This actuarial investigation and report are based on information provided by the Trustees and their advisors/administrators - The MacRo Group Pty Ltd, including in particular:
- (a) details of the level of assets and the intended investment policy for the pension assets; and
 - (b) details of current members; and
 - (c) the current benefits provided by the Fund.

- 3.3 We have reviewed the data provided for consistency but we have not separately verified its accuracy. It is the Trustees' responsibility to ensure we are supplied with materially accurate information.
- 3.4 The benefits provided by the Fund and the circumstances in which contributions are paid to the Fund are described in more detail in the Fund's trust deed. We have summarised the key parts of the benefits in the next section.
- 3.5 We understand that the Fund complies with all relevant taxation and prudential legislation.

4. Membership and benefit information

- 4.1 The Fund may be subject to tax on contributions it receives, on its investment income and on capital gains.
- 4.2 By reference to section 10 of the Superannuation Industry (Supervision) Act 1993 and the corresponding definitions in regulation 1.03 of the superannuation industry (supervision) regulations 1994 the Fund has at least one member who is being paid a defined benefit pension and is therefore a defined benefit fund.
- 4.3 The benefits provided by the Fund and the circumstances in which contributions are paid to the Fund are described in more detail in the Fund's trust deed.
- 4.4 The Fund consists of one member with the following structure at dates relevant to this report:

<u>Date</u>	<u>Membership structure</u>
01/07/2022	Valerie Murphy receiving two complying, lifetime defined benefit pension, both started 10/10/2002.
30/06/2023	No known changes to Fund structure during financial year. No known segregation of Fund assets during financial year.

- 4.5 In this report I make no distinction between the three types of account-based pensions: allocated pensions, market linked (term allocated) pensions and account-based pensions. Investment earnings are tax exempt on all three and therefore receive identical treatment in the tax exempt calculation in section 10.
- 4.6 The standards for account-based income streams include a requirement for a minimum amount to be paid to the member over the year depending on the member's age, opening account balance and date of commencement. Where the minimum pension standards are not met the earnings on the assets supporting that income stream may not be eligible for an exemption from income tax and the tax exempt proportion shown in this certificate may not be correct. It was confirmed upon submission of the data for this report that all assets shown as supporting retirement phase superannuation income streams are eligible for an exemption from income tax by virtue of having met the minimum pension standards for the income year. We have not checked that this is the case and recommend that the Fund's auditor satisfies him or herself that the relevant standards have been met.

4.7 Information specific to the defined benefit pension sub-fund is as follows:

Name:	Valerie Murphy	
Birthdate and gender:	17/05/1937, Female	
Pension start date:	10/10/2002	10/10/2002
Type of pension:	1.06(2)	1.06(2)
Pension rate at 01/07/2023:	\$16,250 p.a. at 01/07/2023, making a total pension payment during 2023/24 of \$16,250 if payments are made uniformly.	\$22,500 p.a. at 01/07/2023, making a total pension payment during 2023/24 of \$22,500 if payments are made uniformly.
Pension increases:	Nil, fixed pension amount.	Nil, fixed pension amount.
Payment frequency:	Monthly	Monthly
Term of pension:	Lifetime	Lifetime
Residual capital:	Nil	Nil
Reversion to dependent:	Nil	Nil

5. Methodology and assumptions

- 5.1 The Trustees have not matched their liability to pay pensions from this Fund with annuities purchased from a life insurance company. Consequently, the Fund faces both mortality and investment return risks. This report will present both a best estimate present value of the promised pensions as well as reserve amounts for both of the main risks. Other risks are normally of a lower magnitude and covered by margins in the high-probability-of-adequacy basis.
- 5.2 As specified in Professional Standard 410 of the Institute of Actuaries of Australia the assessment of adequacy requires that there is at least a 70% probability that the Fund's assets will be sufficient.
- 5.3 No further contributions are expected in respect of the pension(s). Consequently, this report concentrates on assessing the adequacy of the assets to meet all future pension payments on both a best estimate and a "high probability" basis. The account-based pension liability is simply the account balance.
- 5.4 The most recent life table published by the Australian Government Actuary is ALT 2015-17. This is based on the mortality of Australians over the three years centred on the 2016 Census. The mortality in this table is a 'snapshot' and understates the life expectancy of a person currently alive since there is no allowance for likely mortality improvement. I have based the mortality assumptions in this report on decrements that assume the improvement rates over the past 25 years will continue into the future.
- 5.5 In our calculations we have allowed for the ongoing annual fees associated with managing a Self-Managed Superannuation Fund (SMSF), such as SMSF Admin, Audit, Actuarial, supervisory levy and other expenses. We have been informed that the ongoing fees associated with the SMSF are \$3,600 per annum. In our calculations we have assumed that this annual fee will increase with inflation.

- 5.6 The other main assumptions are the economic assumptions. The assumptions chosen for this report are based on experience in the investment markets for the main asset sectors and the economy as a whole. The selected rates of return are gross of investment management fees and have been reduced by the fees relevant to the investment strategy of the Fund as tabulated below.
- 5.7 We have not considered the past investment or other experience of this Fund in isolation in determining the assumptions.
- 5.8 To select the margin by which the investment return is reduced for the assessment of adequacy, I have considered the rate of return differentials between average and lower quartile returns over longer durations and the historic standard deviations for the main asset sectors.
- 5.9 The table below summarises the economic assumptions adopted:

Investment strategy description	Approximate allocation to growth assets	Investment return (pa)	Investment fees	Margin for adequacy assessment	Inflation (pa)
Growth	75%	6.3%	0.40%	1.50%	2.0%

6. Value of assets

- 6.1 We understand that it is the intention of the Trustee that these assets are to be invested with a growth investment strategy, with an approximate allocation of 75% to growth assets (shares and property). We understand that the Trustees' policy is generally to credit interest to members' accounts based on the Fund's investment return.
- 6.2 The proposed investment strategy for the assets available to support the defined benefit pension(s) is in line with the level of long-term risk and the nature of those liabilities. The Trustees' policy for crediting interest to members' accounts is suitable for this type of Fund.
- 6.3 The Trustees have indicated that they are comfortable that sufficient assets are in a liquid form or can be realised in an expedient time frame to pay pensions. Consequently we have assumed that the liquidity position of the Fund will be adequate.
- 6.4 The Fund's total assets at the valuation date before tax are \$1,120,759. Of this amount the assets in respect of account-based pensions total Nil and the assets in respect of contributory accounts total Nil. The assets in the defined benefit sub-fund at the valuation date amount to \$1,120,759.
- 6.5 We understand that the accounts are un-audited and that we have been supplied current market values as at the valuation date.
- 6.6 We estimate that the rate of investment return on the Fund's unsegregated assets for the year ended 30/06/2023 was 10.0%.
- 6.7 The level of tax to be paid on assets backing defined pensions has been considered in forming an opinion of adequacy.
- 6.8 The investment policy is therefore suitable for the liabilities undertaken by the Fund.

- 6.9 If subsequent audit shows any material discrepancy with the data items adopted in this report the conclusions of this report may be incorrect and must be reviewed.
- 6.10 I am not aware of any changes in the circumstances of the Fund between the valuation date and the date of signing this report that will affect the conclusions of this report.

7. Superannuation Guarantee Liability

- 7.1 If the Fund has been used to meet any employer's obligations under the superannuation guarantee legislation, the Trustees should ensure that appropriate benefit certificates and funding and solvency certificates are obtained. I have not been provided with copies of benefit certificates or funding and solvency certificates for this actuarial investigation.

8. Valuation results and SIS regulation 9.31 statements

- 8.1 The date of this valuation is 01/07/2023.
- 8.2 The net market value of unsegregated Fund assets at the valuation date is \$1,120,759. The net market value of assets in the defined benefit sub-fund at the valuation date is \$1,120,759.
- 8.3 The table below summarises the results of the defined pension liability calculations:

Best estimate valuation	\$234,781
High probability margin – Investment risk	\$18,236
High probability margin – Mortality risk	\$63,681
High probability valuation (total of best estimate and high probability margins)	\$316,698
Surplus of defined benefit sub-fund with respect to high probability valuation	\$804,061

- 8.4 The average of the best estimate value over the financial year is used in the calculation of the exempt income percentage for that year, as detailed in the ITAA 1997 section 295-390 tax exemption certificate in this report.
- 8.5 At 01/07/2023 the vested benefits ratio and accrued benefit ratio was 477.36%. At the last valuation date of 01/07/2022 the vested benefit ratio was 420.34%. The vested benefit ratio and the accrued benefits ratios have been determined as the ratio of the market value of the Fund's assets to the value of all members' total current entitlements on a best estimate basis. Benefits of an accumulation nature, including account-based pensions, have been excluded from this calculation.
- 8.6 In my opinion, based on the data, assumptions and methodology used in this report, the level of assets is adequate to meet the value of the liabilities in respect of accrued benefits.
- 8.7 Consequently the Fund is *not* in an unsatisfactory financial position as defined in regulation 9.04 of the superannuation industry (supervision) regulations 1994, nor is it expected to become unsatisfactory before the next investigation.
- 8.8 In my opinion, based on the data, assumptions and methodology used in this report, the level of assets backing the defined pensions of Valerie Murphy sufficiently exceeds the level of defined pension liabilities for there to be a high degree of probability that the Fund will be able to pay the pension(s) required under the Fund's governing rules.

- 8.9 Therefore any asset-test exempt lifetime and life-expectancy income streams in the Fund satisfy the high probability requirement of sections 9A and 9B, respectively, of the Social Security Act 1991 for the purpose of maintaining asset-test exemption.

9. Insurance

- 9.1 The solvency position of the Fund demonstrates there is no need at present for the Fund to insure any of its pension liabilities. This position will be examined at each actuarial valuation.
- 9.2 Despite the positive finding of this report it is not possible to guarantee that the assets in the defined pension sub-fund will be sufficient to support all promised pension payments. Trustees wishing to improve the certainty of such payments might consider insuring the Fund's defined pension liabilities.

10. ITAA 1997 section 295-390 tax exemption certificate for the 2022/23 financial year

- 10.1 This certificate is required by a complying superannuation fund where the whole or a portion of the assets in that fund in any particular year of income represents an unsegregated mix of current and non-current pension liabilities. In accordance with section 295-390 of the Income Tax Assessment Act 1997 it establishes what proportion of applicable income received in that year from those unsegregated liabilities should be exempt from tax.
- 10.2 The proportion is calculated in accordance with section 295-390(3) of ITAA 1997 as the ratio of average unsegregated current pension liabilities to average unsegregated superannuation liabilities. The proportion is applied to the normal assessable income of those unsegregated liabilities to determine the exempt amount.
- 10.3 For each defined benefit pension the average value of the current pension liability is the average of the best estimate liability only; the reserves and surplus are non-current pension liabilities and therefore not exempt from tax. For each of the three types of account-based pension, allocated pensions, market linked (term allocated) pensions and account-based pensions, the average value of the current pension liability is the average of the account balance.
- 10.4 In this certificate segregated current and non-current pension liabilities are excluded from these averages.
- 10.5 The value of the unsegregated superannuation liabilities is the average value during the year of income of the sum total of unsegregated current and non-current pension assets in respect of which the average of the current pension liabilities has been calculated.
- 10.6 Segregated current and non-current pension assets are excluded from this average.
- 10.7 The rates of return and other assumptions used in the liability calculations are set out earlier in this report.
- 10.8 For Murphy Superannuation Fund the tax exempt percentage below applies to the investment income derived from the assets described in sections 6.

10.9 The proportion of exempt investment income during the abovementioned financial year is:

$$\frac{\text{Average unsegregated current pension liabilities}}{\text{Average unsegregated superannuation liabilities}} = \frac{\$242,113}{\$1,088,245} = 22.248\%$$

10.10 I hereby certify that 22.248% of the applicable income earned on the unsegregated assets for the year ended 30/06/2023 should be exempt from tax. Applicable income is assessable income excluding assessable contributions, non-arm's length income and income derived from any segregated non-current assets.

10.11 I certify that the amount of the assets at 30/06/2023, if accumulated after that time at the rate I expect will be the rate of the Fund's earnings on those assets together with future contributions in respect of the non-allocated pension liabilities, will provide the amount required to discharge in full the liabilities as they fall due. No recommendation is needed with regard to future contributions.

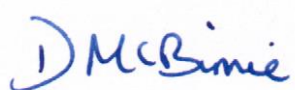
10.12 The standards for account-based income streams include a requirement for a minimum amount to be paid to the member over the year depending on the member's age, opening account balance and date of commencement. Where the minimum pension standards are not met the earnings on the assets supporting that income stream may not be eligible for an exemption from income tax and the tax exempt proportion shown in this certificate may not be correct. It was confirmed upon submission of the data for this report that all assets shown as supporting retirement phase superannuation income streams are eligible for an exemption from income tax by virtue of having met the minimum pension standards for the income year. We have not checked that this is the case and recommend that the Fund's auditor satisfies him or herself that the relevant standards have been met.

11. Next report

11.1 The next valuation of these liabilities is due as at 01/07/2024.

11.2 If one or more of the complying, defined benefit pensions are Asset Test Exempt for Social Security (Centrelink) purposes then the next actuarial certificate need to be signed off by an actuary within 26 weeks from 01/07/2024 and submitted to Centrelink within 29 weeks from 01/07/2024. Failing to meet these deadlines could result in the complying, defined benefit pension(s) losing the Asset Test Exemption.

Yours sincerely,



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Fellow of the Institute of Actuaries of Australia
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