University of Cape Town
Retirement Fund – PF 12/8/31582/2

# Interim actuarial valuation report as at 30 June 2013

September 2014

TOWERS WATSON

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# Executive Summary

## Purpose of report

The purpose of this valuation is to assess whether the University of Cape Town Retirement Fund's assets are at least equal to the aggregate of the members' liabilities and the targeted level of reserves, to review the employer contribution rate to ensure that it is sufficient to finance the benefits and costs as provided for in the Fund rules, and to review the level of the reserves of the Fund.

This report is prepared for the Trustees of the Fund.

## Summary of results

The valuation balance sheet compares the overall liabilities of the Fund with the market value of the assets at the valuation date. The position at the previous valuation is shown for comparison.

| | **Previous Valuation 30 June 2012** | **Current valuation 30 June 2013** |
|---|---|---|
| | R'000 | R'000 |
| **Total Liabilities and contingency reserves** | **2 387 519** | **2 809 805** |
| | | |
| **Accrued Liabilities** | **2 368 539** | **2 792 285** |
| In-service and deferred member accumulated credits | 2 161 409* | 2 515 211 |
| Pensioner accounts | 207 130 | 259 078 |
| Adjustments to member & pensioner credits | - | 12 581 |
| Surplus to be allocated | - | 4 570 |
| Unallocated assets at migration | | 845 |
| | | |
| **Contingency reserves** | **18 980** | **18 366** |
| Processing error reserve | 3 809 | 4 048 |
| Surplus apportionment cost reserve | 586 | 322 |
| Data reserve | 11 960 | `12 700 |
| General reserve | 2 625 | 1 297 |
| | | |
| **Assets (Total funds and reserves):** | **2 392 025** | **2 810 652** |
| Market Value | 2 392 025 | 2 810 652 |
| | | |
| **Actuarial surplus** | **4 506*** | **0** |
| **Funding level** | **100.19%** | **100.0%** |

*Note: As discussed in paragraphs 4.14 to 4.16 of this report, the accumulated credits of in-service and deferred members were in fact understated by R 1 108 000 in the statutory valuation report as at 30 June 2012, and the surplus was accordingly overstated by this amount.

The Fund's financial condition remains sound, with no surplus reflected at the current valuation. The Funding level is 100.0%, and the Fund remains financially sound with sufficient assets in the contingency reserves to provide a buffer against a reasonable degree of adverse experience.

## Future service contributions

The structure of the contribution rates is such that there is limited potential for actuarial surpluses to accumulate in future. The Employer should continue to contribute at the rates specified in the Rules.

Over the valuation period actual administration costs were again lower than budgeted for, though only slightly. The Trustees should continue to keep the portion of the contribution allocated towards the administration and other expenses of the Fund under review, to ensure that the Fund is correctly budgeting for these expenses. For permanent staff, the allocation was 0.5150% at the previous valuation date, but had reduced to 0.4754% from 1 January 2013 (and increased to 0.4974% with effect from 1 March 2014, after the valuation date).

## Membership summary

The change in the membership of the Fund during the valuation period was as follows:

| In-service and deferred members | Actives | Deferred | Total |
|---|---|---|---|
| **Number at 30 June 2012** | **3 470** | **110** | **3 580** |
| New entrants | 390 | | 390 |
| Adjustments | (19) | (2) | (21) |
| Transfers In | 17 | | 17 |
| Transfers out | (1) | | (1) |
| Withdrawals | (158) | (1) | (159) |
| Retirements | (66) | (3) | (69) |
| Deaths | (9) | | (9) |
| Net transfer to deferred pensioners | (11) | 11 | 0 |
| Transfer to living annuities | (24) | | (24) |
| **Number at 30 June 2013** | **3 589** | **115** | **3 704** |

| Pensioners and beneficiaries (living annuitants) | Total |
|---|---|
| **Number at 30 June 2012** | **137** |
| Adjustments | -3 |
| Transfers out | |
| Living annuitants who purchased life annuity | |
| New retirements | 24 |
| Deaths | |
| New beneficiaries' pensions | 19 |
| **Number at 30 June 2013** | **177** |

## Conclusion

The Fund's assets are sufficient to cover the member and pensioner liabilities and to provide for the maintenance of the contingency reserves at satisfactory levels as at 30 June 2013. The Fund was therefore in a sound financial position, but with no surplus at the valuation date.

In presenting this report I am operating under the professional standards of the Actuarial Society of South Africa, which is the professional body governing my conduct as a retirement fund valuator.

E J Potgieter

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# Section 1: Introduction

## Background

1.1 This report sets out the results of an interim actuarial valuation of the University of Cape Town Retirement Fund ("the Fund") as at 30 June 2013 ("the valuation date").

1.2 A statutory valuation was carried out as at 30 June 2012. The current valuation covers the one year period since the last statutory valuation ("the valuation period").

## Professional standards

1.3 This report has been prepared in my capacity as the appointed valuator to the Fund and as an associate of Towers Watson (Pty) Ltd.

1.4 The report takes into account the requirements set out in professional guidelines for actuarial reports (Standard of Actuarial Practice 201) issued by the Actuarial Society of South Africa, current as at the date of signature of the report, and Board Notice 149 of 2010 issued by the Registrar of Pension Funds. The valuator's primary professional regulator is the Actuarial Society of South Africa.

1.5 This report has been peer reviewed in terms of Towers Watson's standard internal peer review process. This internal peer review does not constitute a Formal Review as defined in the Explanatory Note on Peer Review issued by the Actuarial Society of South Africa.

# Section 2: Purpose of the valuation

## Valuation objectives

2.1 The purpose of this valuation is:

i) To assess whether the Fund's assets are at least equal to the member and pensioner liabilities as defined in the rules, and if possible are also sufficient to cover the targeted level of contingency reserves;

ii) To review the employer contribution rates to ensure that these are sufficient to finance the benefits and costs/expenses as provided for in the Fund rules;

iii) To review the level of contingency reserves required by the Fund.

## Scope of assessment

2.2 This report is addressed to the Trustees of the Fund, and has been prepared for the use by the Trustees. It should not be used by any other party, or for purposes not specifically noted. It may be submitted to the relevant stakeholders of the Fund, subject to the consent of the Trustees.

2.3 Consequently the report does not address the employer's pension expense or the relevant accounting disclosure that may be required in terms of pension accounting standard IAS 19.

2.4 The report has been prepared as at 30 June 2013. The previous statutory valuation was as at 30 June 2012.

## Limitations and disclaimer

2.5 This report has been prepared for the sole and exclusive use of the Trustees of the Fund and on the basis agreed with the Trustees. It may be submitted to the relevant stakeholders of the Fund, after approval by the Trustees.

2.6 This report was not prepared for use by any party other than the Trustees and the Registrar of Pension Funds, and may not address the needs, concerns or objectives of any such other party. As such this report should not be disclosed to any third party other than in accordance with the terms of our services agreement with the Fund or with our specific written consent.

2.7 Unless otherwise specifically agreed in writing, Towers Watson assumes no responsibility, duty of care or liability to any third party who may gain access to a copy of this report, and any such reliance that they place on it is entirely at their own risk on the basis that they acknowledge the full report and accept that they may not rely on it for any purpose other than its intended purpose.

# Section 3: Valuation data

## Membership data

3.1 In compiling this report, we have relied upon the accuracy and completeness of information made available to us. Except where expressly stated in the report, we have not independently verified the accuracy of the facts or the bases of the information supplied to us.

3.2 The Fund's auditor performs extensive checks on the data and as such we have largely relied on the information supplied in the audited annual financial statements. However, in order to ensure the accuracy of the valuation data, we have performed certain checks of our own for reasonableness and consistency compared with the data provided to us for the previous valuation.

3.3 In addition to the membership reconciliation, checks were performed for a sample of active members, deferred members and living annuity pensioners on the build-up of their accumulated credits / living annuity account balances over the valuation period. We would normally expect some minor differences between our estimates of the accumulation and the amounts maintained on the administrators' records. These differences could arise from any or all of the following factors:

i) timing of investment of monthly contributions (or disinvestment of monthly pension draw-down amounts);

ii) use of monthly net investment returns in our calculations versus the daily unit prices used by the administration system;

iii) other technical differences between the administration system and the actuarial valuation system; and

iv) differences between the administration data and the details extracted from the administration system for the purpose of the actuarial valuation.

3.4 In performing an actuarial valuation, the actuary only needs to be satisfied that the data is materially correct so that the Trustees can reasonably rely on the valuation results for decision-making. We are satisfied on this standard of materiality that the data supplied may be used for the purposes of the valuation.

3.5 We have not identified any discrepancies in the member data at 30 June 2013 and thus have made no adjustments to the values shown in the audited financial statements.

## Financial data

3.6 We were supplied with audited accounts for the year ended 30 June 2013. The valuation results depend in part on the accuracy of these financial statements. At the date of this report we had no reason to believe that the financial statements were materially incorrect.

# Section 4: Experience during the valuation period

The main financially significant events that have influenced the course of the Fund over the year since the previous statutory valuation at 30 June 2012 can be summarised as follows:

## Net investment returns

4.1 At the previous valuation there were four portfolios backing member liabilities, which may be invested in a money market portfolio, an insurer's smoothed-bonus portfolio, a balanced market-linked portfolio and a Shari'ah compliant portfolio (i.e. a balanced market-linked portfolio complying with the requirements of Islamic Shari'ah law) according to the member's choice. The investment portfolios are known as Portfolio A, B, C and D respectively and offer members different levels of investment risk/reward. These portfolios are also available to pensioner members receiving living annuities from the Fund.

4.2 The Fund offers a "life stage" default investment model using a combination of the market-linked and cash portfolios, for members who do not exercise their own investment choices.

4.3 The Fund's Contingency Reserves and unallocated assets (General Reserve) are invested in Portfolio A (the Income Fund, i.e. money market portfolio).

4.4 Over the valuation period, the net rates of return earned on the investment portfolios were as follows (after deducting asset management fees):

| Period | Portfolio A Income Fund | Portfolio B Smoothed-Bonus Fund | Portfolio C Balanced Fund | Portfolio D Shari'ah Fund |
|---|---|---|---|---|
| 1 July 2012 - 30 June 2013 | 6.18% | 14.31% | 14.38% | 16.13% |

4.5 For comparison, inflation as measured by the change in the headline Consumer Price Index was 5.57% over the year to 30 June 2013.

## Employer contribution rates

4.6 The Rules set out the required Employer contribution rates to the Fund and related schemes (i.e. the disability income benefit and the separate Group Life Assurance arrangement). The required rates differ for Permanent Staff (22.5% of salary bill) and Fixed Term Contract members (20.912% of salary bill). The tables below indicate how the employer contribution rates were allocated over the valuation period:

| Permanent Staff | As at 30/06/2012 | From 01/01/2013 |
|---|---|---|
| Retirement savings (as specified in Rules) | 16.000% | 16.0000% |
| Additional retirement savings contribution | 4.100% | 4.0000% |
| Death-in-service (based on 6x annual pensionable salary) | 0.994% | 0.9936% |
| Disability income benefits* | 0.560% | 0.7000% |
| Separate Group Life Assurance Scheme* | 0.331% | 0.3310% |
| Administration fee | 0.169% | 0.1690% |
| Other expenses (e.g. Audit, Actuarial, Consulting, Secretarial) | 0.346% | 0.3064% |
| **Total** | **22.500%** | **22.5000%** |

* These benefits are provided outside the Fund.

| Fixed-Term Contract Staff | As at 30/06/2012 | From 01/03 2013 |
|---|---|---|
| Retirement savings( as specified in Rules) | 16.000% | 16.000% |
| Additional retirement savings contribution | 3.400% | 3.400% |
| Death-in-service (based on 3x annual pensionable salary) | 0.993% | 0.993% |
| Administration fee | 0.169% | 0.169% |
| Other expenses (e.g. Audit, Actuarial, Consulting, Secretarial) | 0.350% | 0.350% |
| **Total** | **20.912%** | **20.912%** |

## Distribution of surplus

### 2001 surplus

4.7 As at 30 June 2012, an amount of R1.615m was reflected in benefits still payable in respect of the 2001 statutory surplus apportionment, payable to 278 former members. This amount was transferred to unclaimed benefits and amounts of R204,299 were paid out in respect of 38 members during the valuation period. As at 30 June 2013, there was therefore an amount of R 1.484m reflected in the unclaimed benefits amount, in respect of the 2001 surplus enhancements for 240 former members.

### 2010 surplus

4.8 At the 2010 statutory valuation, a surplus of R11.995m was revealed, and the Trustees resolved to allocate this surplus to those persons who were members of the Fund during the previous valuation period, i.e. between 1 January 2008 and 30 June 2010 inclusive.

4.9 The Trustees also decided to reduce the amount to be retained in the Surplus Apportionment Cost Reserve by R0.5m. The total surplus to be apportioned therefore increased to R12.495m as at 30 June 2010.

4.10 The 2012 financial statements reflect that R10.819m of surplus was credited to in-service members and deferred pensioners, and R0.786m to living annuitants – these amounts were credited to members during April 2012. In addition, R2.240m remained as at 30 June 2012 to be paid to 688 former members (expensed as benefit payments in the financial statements).

4.11 The 2013 financial statements reflect that payments of R1.745m had been made to former members during the valuation period. R0.535m remained as at 30 June 2013 to be paid to 196 former members (included in pending benefit payments in the financial statements).

**2012 surplus**

4.12 A surplus of R4.506m was revealed in the final 30 June 2012 valuation report, and the Trustees resolved in their meeting on 14 June 2013 to allocate this surplus (as 0.19% of the in-service and deferred members' and living annuitants' accumulated credits) to those persons who were members of the Fund as at 30 June 2012 and who had not exited by the time that the allocation was made. Former members were not allocated a share of the surplus because of the costs involved and the small size of the surplus.

4.13 As at 30 June 2013 this surplus had not yet been allocated to individual members' accounts, but an amount of R4.570m is included in the members' and living annuitants' liabilities in the financial statements in respect of allocations made shortly after the year end. This amount is slightly lower than might be expected, because allocations were not made to members who had exited between 30 June 2012 and the actual date of allocation – this resulted in a saving of some R0.214m to the Fund (effectively a source of new surplus as at 30 June 2013).

4.14 However, we have subsequently realised that the surplus was overstated by some R1.108m as at 30 June 2012 (equivalent to R1.176m at 30 June 2013).

4.15 Paragraph 3.4 of the 2012 valuation report records that the member credits reflected in the 2012 financial statements were reduced by R1.460m for valuation purposes, as a result of data adjustments made during the data checking process. These data adjustments were discussed with the administrator at that time, but we misunderstood a communication from the administrator, with the effect that the member credits were reduced by R1.460m when the correct reduction should have been only R0.352m.

4.16 Consequently, as noted, the surplus was overstated by some R1.108m. Since the Trustees in fact resolved to distribute the full surplus (of R4.506m) as disclosed in the valuation report, it would perhaps be more appropriate to re-state the General Reserve balance shown in the 2012 valuation, from R2.625m (after the adjustments proposed in the 2012 report) down to R1.517m, i.e. a reduction of R1.108m, leaving the surplus as R4.506m in line with the amount that the Trustees intended to distribute.

4.17 A General Reserve of R1.517m would have been sufficient to cover 3 – 4 months' budgeted expenses, rather than 6 months as was originally intended. Even so, this should have been a sufficient margin to cover any likely expense overruns during the coming year.

## Rule amendments

4.18 Revised Fund Rules were adopted by the Trustees in December 2010 with effect from 1 July 2010. The new Rules were approved by the Registrar of Pension Funds on 25 March 2011.

4.19 Rule Amendment 1 to the Rules was registered by the FSB on 20 March 2013. This amendment:

- allows for the transfers between various reserve accounts, as well as require that surplus be allocated to the Employer and Member Surplus Accounts first before being paid out to members or the employer;
- allows for a portion of the withdrawal benefit to be taken as cash and the remainder to be preserved;
- gives the Trustees the power to enforce the maximum draw-down permitted by SARS in respect of living annuities, and provide for the commutation of small pensions as allowed by SARS;
- reduces the amount of the withdrawal benefit which may be used for a housing loan guarantee to 50%.

The first provision is effective from 1 July 2010, while the remaining provisions are effective from 1 July 2013.

4.20 Rule Amendment 2 to the Rules, effective 1 July 2010, was registered by the FSB after the valuation date, on 18 July 2013. This amendment allows a deferred pensioner to elect a preservation vehicle of their choice and corrects some grammatical errors.

4.21 Rule Amendment 3 to the Rules, effective 1 July 2013, was registered on 3 April 2014. This amendment:

- Clarifies that portfolio A may be used when the Rules specify that monies must be invested in Near-Cash;
- Allows for the Fund to receive the value of ceded employer owned Deferred Compensation Policies on behalf of members and for the Trustees to deal with the value of such cessions to the benefit of the members concerned.

## Financially significant post-valuation events

4.22 I do not consider that there have been any financially significant post-valuation events (up to the date of signing this report).

# Section 5: Fund assets

## Market values

5.1 The change in the market value of the assets since the previous statutory valuation at 30 June 2012 is summarized below.

5.2 The figures below are consistent with the audited accounts of the Fund at the valuation date. Assets have been valued at market or fair value for the purpose of the actuarial valuation (numbers may not add up exactly, owing to rounding).

| Portfolio and Asset Class | Investment Manager | 30.06.2012 (R'000) | 30.06.2013 (R'000) |
|---|---|---|---|
| **Portfolio A (Income Fund)** | Prescient Investment Mgt | **270 941** | **278 391** |
| **Portfolio B (Smoothed Bonus)** | Momentum Life Multi-Manager Smooth Growth Fund (Global) | **612 218** | **708 196** |
| **Portfolio C (Balanced)** (i) | | | |
| SA Equities | Investec Asset Mgt | 370 676 | 342 801 |
| | Allan Gray Ltd | 420 386 | 512 066 |
| SA Listed Property | Catalyst Fund Managers | 60 484 | 74 808 |
| SA Bonds | Prescient Investment Mgt | 284 127 | 329 762 |
| International | Orbis via Allan Gray | 356 139 | 373 174 |
| | PIMCO Europe Limited | - | 75 506 |
| | Stone Harbour | - | 70 333 |
| | **Total Portfolio C** | **1 491 812** | **1 778 450** |
| **Portfolio D (Shari'ah)** | 27four Shari'ah Balanced Fund (ii) | **31 804** | **48 706** |
| | | | |
| **Money-market investments held against unclaimed benefits** | | **-** | **4 163** |
| **Sanlam annuities** | | **-** | **12 581** |
| **Cash and money-market investments held against benefits payable** | | **8 813** | **-** |
| | | | |
| **Total Investments** | | **2 415 589** | **2 830 486** |
| Net current assets | | (23 564) | (19 834) |
| **Total Funds and reserves** | | **2 392 025** | **2 810 652** |

(i) The market-linked portfolio (Balanced Fund) had an asset allocation at 30 June 2013 of 48.1% domestic equities (including cash held in the equity portfolios, or 46.2% if this cash is excluded), 4.2% domestic listed property, 18.5% domestic cash and bonds, 8.2% in global fixed-income investments and 21.0% global equities.

(ii) The Shari'ah Balanced Fund had an asset allocation at 30 June 2013 of 40% domestic equity, 27% Murabah contracts, 3% non-interest bearing cash, 4% African investments, 3% Platinum ETF, 6% global sukuks and 17% in global equities. Murabah contracts and sukuks are Islamic debt instruments.

(iii) Net current assets are calculated as current assets (cash at bank) of R34.698, minus current and non-current liabilities of R50.369m and R4.163m (in respect of unclaimed benefits) respectively.

5.3 Note on Momentum Multi-Manager Smooth Growth Fund:

The Momentum Multi-manager Smooth Growth Fund holdings include non-vested bonuses of R100.7m (14.2% of the total investment value). In adverse market conditions the Insurer has the right to withdraw these non-vested bonuses in part or in full, or to reduce the balance in members' non-vested accounts on member switches or policy termination, subject to the insurer applying such action equitably to other investors in the Smooth Growth Fund. The proportion of non-vested bonuses differs from member to member invested in the portfolio, depending on the pattern of cash flows invested in the portfolio in respect of the member concerned.

Furthermore, the value of the Smooth Growth policy is stated in the above table on the premise that the Fund continues with this investment. At times when the insurer has declared more in bonuses than it has earned on the underlying assets, a "market value adjustment" (reduction) would apply on early termination. (Our understanding is that this would not have applied on 30 June 2013.)

If members choose to switch out of the portfolio in defined circumstances (usually before the member has completed 5 years as an investor in the portfolio), a "market value adjustment" (reduction) may also apply to the member's own investment in the portfolio when switching. The extent of any such adjustment will again depend on the pattern of cashflows invested in the portfolio in respect of the member concerned.

The above circumstances do not result in increased financial risk to the Fund, as in terms of the Rules such adverse circumstances would be passed onto the members via a negative investment return. Of course these contractual provisions represent risk for the members.

## Actuarial value of assets

5.4 The assets have been valued at market value for the purpose of this actuarial valuation, adjusted as shown above by the net current assets.

5.5 The Fund does not grant housing loans to members, but allows members to pledge a portion of their net withdrawal benefits as security for loans for housing from approved financial institutions. At the valuation date the total outstanding amount against which pledges had been given by the Fund was R3.111m in respect of 54 members. This has no effect on the actuarial value of the Fund's assets, as the outstanding pledges are covered by the relevant members' withdrawal benefits.

5.6 To our knowledge no Fund assets have been hypothecated or encumbered.

# Section 6: Financial structure of the Fund

The Fund Rules provide for the following accounts to be established and maintained. (For a detailed description of the structure of each account, reference must be made to the Rules.)

## Accumulation Account

6.1 This account is the total of all members' and deferred pensioners' accumulated credits in the Fund – these essentially comprise the retirement-funding contributions made by and in respect of each member, amounts transferred in from other approved retirement funds for the member (or from other accounts in the Fund), any ad hoc bonuses as determined by the Trustees (i.e. apportionments of surplus), and the net investment returns thereon, minus any charges incurred in connection with investment switches made by the member. The account therefore represents the members' and deferred pensioners' interests in the Fund in terms of the Rules.

## Living Annuity Balance Account

6.2 This account is the total of all pensioners' balances in the Fund – these essentially comprise transfers from the Accumulation Account when members retire and choose to take living annuity pensions from the Fund, any transfers from other accounts of the Fund, any ad hoc bonuses as determined by the Trustees (i.e. apportionments of surplus), and investment returns thereon, minus pension instalments paid and administration expenses and Fund charges as determined by the Trustees.

## Risk Benefit Reserve Account

6.3 This account is credited with the portion of the contributions required to meet the cost of death cover of members within the Fund and debited with the corresponding premium amounts. It is also credited with reinsurance payments made by the insurers on the death of a member, and debited with the corresponding death benefits paid payable. The intention is that the balance held in this account will always be zero.

## Data Reserve Account

6.4 This contingency reserve account is credited with amounts determined by the Trustees in consultation with the actuary, as well as transfers from the other accounts of the Fund and investment returns.

6.5 It is debited with payments arising as a result of errors in the fund data, transfers to other accounts of the Fund, and also with amounts representing surplus transferred to the Accumulation account or Living Annuity Balance account, as agreed by the Trustees.

## Processing Error Reserve Account

6.6 This contingency reserve account is credited with an opening balance as determined by the Trustees, other amounts as agreed by the Board, transfers from the other accounts of the Fund and investment returns.

6.7 The account is debited with fund payments arising as a result of processing errors arising from timing differences between the actual vs. deemed investment (or disinvestment) of Fund monies, transfers to other accounts of the Fund and also with amounts representing surplus transferred to the Accumulation account or Living Annuity Balance account, as agreed by the Trustees.

## Surplus Apportionment Cost Reserve Account

6.8 This contingency reserve account is credited with amounts as determined by the Trustees, and approved by the Registrar in terms of Section 15B of the Act, transfers from other accounts of the Fund and investment returns. The account is debited with expenses in respect of surplus apportionments, transfers to other accounts of the Fund, and also with amounts representing surplus transferred to the Accumulation account or Living Annuity Balance account, as agreed by the Trustees.

## Employer Surplus Account

6.9 This account would be credited with any surplus apportioned to the employer and investment returns thereon. Any balance held would be applied at the request of the employer for any purpose specified in terms of Section 15E of the Pension Funds Act.

## Former Member Reserve Account

6.10 This account is credited with amounts as agreed by the Trustees, including those amounts approved by the Registrar in terms of Section 15B of the Act, representing any surplus allocated to former members of the Fund, and investment returns. It is debited with surplus payments to former members, or the transfer of unpaid surplus to a permitted account in respect of members who cannot be traced.

## General Reserve Account

6.11 This account is established to provide for contingencies not covered by the other reserve accounts, and comprises a record of all monies of the Fund not allocated to other accounts.

6.12 It is credited with the portion of contributions allocated to cover administration, auditing fees and consultancy services to the Fund and other fees approved by the Trustees, transfers from other accounts of the Fund, switching costs charged to members, and also with investment returns.

It is debited with expenses related to the management and administration of the Fund, including but not limited to administration and consultancy fees, legal expenses and the cost of audits and actuarial investigations borne by the Fund, transfers to other accounts of the Fund and also with amounts representing surplus transferred to the Accumulation account or Living Annuity Balance account, as agreed by the Trustees.

# Section 7: Contingency reserves

## Principles

7.1 Regulation 35 of the Act provides for the Trustees to set up such contingency reserves as they deem prudent based on the advice of the actuary. The establishment and amount of any contingency reserve must be soundly motivated based on an objective assessment of the specific risks. To the extent that the assets of the Fund are insufficient to cover the ideal level of contingency reserves, the valuation result will understate the risk of possible future deficits.

7.2 In deciding on appropriate contingency reserves, Trustees should be aware of:

- the competing interests of different groups of members; and
- the inter-dependence of the risks involved and the possibility of double-counting.

## Specific contingency reserves

7.3 The assets relating to all the contingency reserves dealt with below are invested in Portfolio A (the Fund's Income Fund or money market investment channel).

### Risk Benefit Reserve

7.4 The Risk Benefit Reserve will reflect a zero balance, as this account is simply used to record the portion of contributions that is allocated to cover premiums required for insured risk benefits, and matching premium payment amounts. No balance is accumulated in this account – the risk benefits are fully reinsured by the Fund.

### Surplus Apportionment Cost Reserve

7.5 The Trustees established a reserve of R881 000 as at 31 December 2001 for the costs of the surplus apportionment exercise.

7.6 The amount held in this account as at 30 June 2012 was R0.586m.

7.7 The amount reflected in the 2013 financial statements, after the deduction of surplus-related expenses of R0.298m and the addition of net Portfolio A returns, was R0.322m as at 30 June 2013. Since there will be further surplus-related expenses incurred after the year end, we recommend retaining this balance in the account.

7.8 The build-up of this reserve since the previous valuation is shown in the table below:

| Build-up of the Surplus Apportionment Cost Reserve over the inter-valuation period | R'000 |
|---|---|
| **Closing Balance as at 1 July 2012 (as per financial statements)** | **586** |
| Adjustment | 0 |
| **Opening Balance as at 1 July 2012 (after adjustment)** | **586** |
| Expenses paid out of the Surplus Apportionment Reserve | (298) |
| Investment return allocated (net Portfolio A return) | 34 |
| **Closing Balance as at 30 June 2013 before any adjustments** | **322** |
| Proposed Adjustment | 0 |
| **Closing Balance as at 30 June 2013 after adjustments** | **322** |

### Processing Error Reserve

7.9 This is a provision for mismatching and for timing differences between the actual date of investment or disinvestment of moneys and the dates when investment or disinvestment is deemed to have occurred for the calculation of benefits or the accrual of investment returns. In the previous statutory valuation, we proposed that this should be set at 0.25% of Portfolio C and D assets. This implied a target balance of only R3.809m, allowing a release of R2.255m as surplus as at 30 June 2012.

7.10 The amount of R4.048 reflected in the financial statements as at 30 June 2013 represents the proposed (adjusted) reserve balance of R3.809m as at 30 June 2012 accumulated with net Portfolio A investment returns for the year.

7.11 If this reserve were to be adjusted to the targeted level of 0.25% of the market value of assets of Portfolios C and D only, this would imply a balance of **R4.568** as at 30 June 2013 - this would require a reallocation of R0.520m from the General Reserve. (This is because the growth in these portfolios, representing both investment returns and net inflows to the portfolios, was higher than the net Portfolio A return of 6.18% for the one-year period.)

7.12 The build-up of this reserve since the previous valuation is shown in the table below:

| Build-up of the Processing Error Reserve over the inter-valuation period | R'000 |
|---|---|
| **Closing Balance as at 1 July 2012 (as per financial statements)** | **6 064** |
| Adjustment | (2 255) |
| **Opening Balance as at 1 July 2012 (after adjustment)** | **3 809** |
| Investment return allocated (net Portfolio A return) | 375 |
| Investment return allocated on adjustment amount* | (136) |
| **Closing Balance as at 30 June 2013 before any adjustments** | **4 048** |
| Proposed transfer from the General Reserve | 520 |
| **Closing Balance as at 30 June 2013 after possible adjustment** | **4 568** |

*The adjustment (transfer between reserve accounts) was actually made at the end of June 2013, and therefore almost a full year's net return was added to the adjustment amount.

## Data Reserve

7.13 This is a provision for amounts that may become payable as a result of data errors, in circumstances where it is not possible to make recovery from the party responsible for the error (or from the Fund's insurers). In the previous statutory valuation, it was proposed that this should be set at 0.5% of the value of "total Funds and reserves" (consistent with the auditor's materiality limit).

7.14 The amount of R12.699 reflected in the financial statements as at 30 June 2013 represents the proposed (adjusted) reserve balance of R11.960m as at 30 June 2012 accumulated with net Portfolio A investment returns for the year.

7.15 If this reserve were to be adjusted to the targeted level of 0.5% of "total Funds and reserves", this would imply a balance of **R14.053m** as at 30 June 2013 - this would require a reallocation of R1.354m from the General Reserve. (This is again because the growth in the total Fund, representing both investment returns and net inflows, was higher than the net Portfolio A returns for the one-year period.)

7.16 Given the high standard of data received from the administrator for this and the previous valuations, it may no longer be necessary to maintain a data reserve as high as 0.5% of total Funds and reserves. This is a matter which we will consider in the next statutory valuation report.

7.17 The build-up of this reserve since the previous valuation is shown in the table below:

| Build-up of the Data Reserve over the inter-valuation period | R'000 |
|---|---|
| **Closing Balance as at 1 July 2012 (as per financial statements)** | **10 571** |
| Adjustment | 1 389 |
| **Opening Balance as at 1 July 2012 (after adjustment)** | **11 960** |
| Investment return allocated (net Portfolio A return) | 655 |
| Investment return allocated on adjustment amount* | 84 |
| **Closing Balance as at 30 June 2013 before any adjustments** | **12 699** |
| Proposed transfer from the General Reserve | 1 348 |
| **Opening Balance as at 1 July 2013 after possible adjustment** | **14 047** |

*The adjustment (transfer between reserve accounts) was actually made at the end of June 2013, and therefore almost a full year's net return was added to the adjustment amount.

## General Reserve

7.18 This reserve operates as the account into which are paid (a) the contributions in excess of the specified 16% minimum allocation for retirement funding and the amount needed to fund the risk benefit premiums, and out of which are paid (b) the additional discretionary contribution allocation for retirement funding (as set by the Trustees from time to time) and (c) the costs of Fund administration.

The balance that accumulates in this account therefore represents the small margin of contributions left over, after deducting retirement savings, risk benefit costs, administration and other Fund expenses (other than investment manager fees).

7.19 The table below sets out the build-up of the General Reserve as summarized in the financial statements over the valuation period – note that the net transfer of R 3.730m to other accounts, as shown in the financial statements, has been "unpacked" in this table.

| Build-up of the General Reserve over the inter-valuation period | R'000 |
|---|---|
| **Closing Balance as at 1 July 2012 (as per financial statements)** | **4 435** |
| Transferred from Processing Error Reserve | 2 255 |
| Transferred to Data Reserve | (1 389) |
| Expected to be allocated as part of 2012 surplus | (2 676) |
| **Opening Balance as at 1 July 2012 (after adjustments and surplus)** | **2 625** |
| Net contributions allocated to the General Reserve (towards fund expenses) | 5 265 |
| Expenses paid out of the General Reserve | (5 105) |
| Investment return allocated (net Portfolio A return) | 432 |
| Investment return allocated on transfer from Proc. Error Reserve | 136 |
| Investment return allocated on transfer to Data Reserve | (84) |
| Additional allocation to 2012 surplus | (1 894) |
| Additional allocation to 2010 surplus | (78) |
| **Closing Balance as at 30 June 2013 before any adjustments** | **1 297** |
| Proposed transfer of "Amounts to be Allocated" | 845 |
| Proposed transfer to the Processing Error Reserve | (520) |
| Proposed transfer to the Data Reserve | (1 348) |
| **Closing Balance as at 30 June 2013 after possible adjustments** | **274** |

7.20 It is clear from the above table that the contributions allocated towards Fund's expenses (averaging roughly 0.48% of pensionable salaries over the 2012/13 year) were almost equal to the actual administration expenses incurred by the Fund (roughly 0.46% of pensionable salaries), resulting in a minimal contribution to the growth of the General Reserve over the valuation period.

7.21 It can be seen that the actual amount allocated towards the 2012 surplus was considerably greater than envisaged in the 2012 valuation report, even allowing for an offset from "Amounts to be Allocated" (which in effect represents surplus in the Fund). The 2012 valuation report anticipated that R 2.676m would be allocated from the General Reserve, as at that date, as part of the total surplus of R4.506m shown in the valuation report. Ultimately, as can be seen from the above table, R4.570m (i.e. R2.676m plus an additional R1.894m) was allocated as 2012 surplus out of the General Reserve. As noted in paragraph 4.13 above, this represents the full surplus shown in the 2012 valuation report, revalued to 30 June 2013 with net Portfolio A return, less a small saving in respect of members who exited the Fund during the 2013 financial year.

7.22 It was previously expected that the excess (i.e. the additional R1.894m) would be funded from "Amounts to be Allocated" as shown in the 2012 balance sheet, adjusted in respect of data discrepancies identified during the valuation. However, as discussed in paragraphs 4.14 to 4.17 above, the effect of the data discrepancies was overstated, and the actual surplus was considerably smaller than the figure shown in the valuation report.

7.23 Clearly, the "Amounts to be Allocated" figure of R0.845m as at 30 June 2013 is available as surplus, and can therefore be regarded as partly offsetting the strain arising from the valuation error. The net additional amount allocated as 2012 surplus from the General Reserve can therefore be regarded as (R1.894m – R0.845m) = R1.049m.

7.24 In the table above we have shown a proposed transfer of the “Amounts to be Allocated” figure of R0.845m in to the General Reserve as at 30 June 2013. This would bring the General Reserve balance up to **R2.142m**, which would be enough to cover some 4 – 5 months’ budgeted expenses. However, the effect of the proposed reallocations to the Data and Processing Error reserves, if made, would be to reduce the General Reserve to only **R0.274m** even after the incorporation of the “Amounts to be Allocated”.

7.25 The previously targeted level for the General Reserve was 6 months’ budgeted expenses, which implies a level of **R2.835m** (based on the expense budget of R 5.670m). Clearly this level cannot be achieved, whether or not the proposed transfers to the Data and Processing Error reserves are made. It may therefore be preferable not to make these proposed transfers, and to leave a higher balance in the General Reserve. The reserve balances could then be reviewed at the time of the next valuation.

## Employer surplus account and Former Member reserve account

7.26 These accounts had nil balances at both the previous and current valuation dates, i.e. they have not been used by the Fund yet.

# Section 8: Valuation results

## Accrued position

8.1 The following table shows the valuation balance sheet as at 30 June 2012 and 30 June 2013.

8.2 The valuation results shown in the final column of the table reflect the various contingency reserve adjustments proposed in section 7, still to be approved by the Trustees.

| | Previous Valuation 30 Jun 2012 | Current valuation 30 Jun 2013 (per AFS) | Current valuation 30 Jun 2013 (if adjusted) |
|---|---|---|---|
| | R'000 | R'000 | R'000 |
| **Total Liabilities and contingency reserves** | **2 387 519** | **2 809 805** | **2 810 652** |
| **Accrued Liabilities** | **2 368 539** | **2 792 285** | **2 791 440** |
| Members' accumulated credits | 2 161 409 | 2 515 211 | 2 515 211 |
| Pensioner accounts[(i)] | 207 130 | 259 078 | 259 078 |
| Beneficiaries – term annuity policies | - | 12 581 | 12 581 |
| 2012 Surplus to be allocated | - | 4 570 | 4 570 |
| Amounts to be allocated | - | 845 | - |
| **Contingency reserves**[(ii)] | **18 980** | **18 366** | **19 211** |
| Processing error reserve | 3 809 | 4 048 | 4 568 |
| Surplus apportionment cost reserve | 586 | 322 | 322 |
| Data reserve | 11 960 | `12 700 | 14 047 |
| General reserve | 2 625 | 1 297 | 274 |
| **Assets (Total funds and reserves):** | **2 392 025** | **2 810 652** | **2 810 652** |
| Market Value | 2 392 025 | 2 810 652 | 2 810 652 |
| **Actuarial surplus** | **4 506** | **0** | **0** |
| **Funding level** | **100.19%** | **100.0%** | **100.0%** |

(i) The only pensions payable from the Fund are those where members choose to take a living annuity from the Fund. The Fund has no obligations for pension increases in respect of such pensioners, and the pensioner also takes on the full investment and mortality risk.

(ii) The 30 June 2013 Contingency Reserve balances shown in the final column are those proposed in section 7 above. As noted in paragraph 7.25, it may however be preferable not to make these adjustments, but instead to review these reserve balances at the time of the next valuation.

## Explanation for change in past service position

8.3 The figure of R 844 928 shown as "Amounts to be allocated" in the audited 2013 balance sheet is miscellaneous surplus – we have not investigated its origin as it is clearly immaterial. Part of this balance has been brought forward from 30 June 2012.

8.4 The over-distribution of surplus as at 30 June 2012 has been discussed in detail in paragraphs 4.12 – 4.17 and 7.19 – 7.23 above. This explains why the General Reserve balance is considerably lower than the balance of some R3.0m that we might have expected.

## Comparison of assets and liabilities at portfolio level

8.5 The table below compares the invested assets in each portfolio with the corresponding total members' and pensioners' accumulated credits and reserves at the valuation date, and has been based on the asset/liability match supplied by the administrator after the financial statements were audited. The objective is to assess the extent of any mismatches at the valuation date that could result in deficits or surpluses arising after the valuation date. **We are satisfied that the residual mismatches in column F are insignificant and require no further investigation**.

| Portfolio (1) | Invest-ments R'000 | Member Credits and Reserves R'000 | Benefits still invested R'000 | Mismatch R'000 | Adjustment R'000 | Residual Mismatch R'000 |
|---|---|---|---|---|---|---|
| | **A** | **B** | **C** | **D=(A minus (B+C))** | **E (2)** | **F=(D plus E)** |
| Portfolio A | 278 078(3) | 270 542(3) | 3 090 | 4 446 | (4 570)(4) | (124) |
| Portfolio B | 700 335 | 691 333 | 9 030 | (28) | - | (28) |
| Portfolio C | 1 778 388 | 1772 175 | 6 213 | - | - | - |
| Portfolio D | 48 706 | 48 363 | 343 | - | - | - |
| **Total** | **2 805 467** | **2 782 413** | **18 676** | **4 418** | **4 570** | **(152)** |

(1) Portfolio A: Income Fund (money-market portfolio).
Portfolio B: Smoothed-Bonus Fund.
Portfolio C: Balanced Fund.
Portfolio D: Shari'ah Fund.

(2) A negative amount in this column E represents an increase (write-up) in liabilities. A positive amount would represent a reduction (write-down) of the liabilities.

(3) This amount includes only the portion of the reserve accounts that was invested in Portfolio A at the year end (R 22.801m). Similarly the "member credits" included in column B are only the portions invested in portfolios A to D and exclude R10.323 invested in "unclaimed benefits - bank", R18.008m invested in the "exit product" (money market unit trust) and R8.960m attributed to "timing differences between the administrator and the asset managers" in the financial statements, of which the adjustment in respect of Portfolio B makes up the major portion.

(4) This amount relates to the surplus which had not yet been allocated to the member credits as at 30 June 2013 (thus was included in the general reserve balance in Column A, but not included in the liability section of Column B)

## Employer contribution rate

8.6 The table below shows the allocation of the employer contribution rate for Permanent Staff and Fixed Term Contract members at 30 June 2013. The changes in this allocation over the inter-valuation period are shown in paragraph 4.6 above.

| | Permanent staff | Fixed Term Contract staff |
|---|---|---|
| Retirement savings( as specified in Rules) | 16.000% | 16.000% |
| Insured death-in-service benefits of the Fund* | 0.9936% | n/a |
| Disability income benefits** | 0.7000% | n/a |
| Separate Group Life Assurance Scheme** | 0.3310% | 0.993% |
| Administration fees | 0.1690% | 0.169% |
| Provision for other Fund expenses | 0.3064% | 0.350% |
| Extra allocation for retirement savings | 4.0000% | 3.400% |
| **Total** | **22.500%** | **20.912%** |

*Assuming that the member chooses cover of 6x annual pensionable salary. The underlying premium rate is R0.138 per month per R1000 death cover.

**These arrangements are outside the Fund. The rate shown for separate Group Life cover is for a cover multiple of 1 x annual pensionable salary for permanent staff, and 3 x annual pensionable salary for contract staff – the underlying premium rate is R0.276 per month per R1000 death and permanent disability cover.

8.7 The Fund reinsures its salary-multiple death benefits, and we continue to regard this as prudent and appropriate.

8.8 We regard the current allocation for Fund administration and other expenses and consequently the additional allocation for retirement-funding as prudent, although the latter should be reviewed whenever the insured benefit premium rates change and/or the budget for administration and other expenses changes materially.

8.9 The allocation for administration fees and other Fund expenses was reduced from 0.515% to 0.4754% (for permanent staff) with effect from 1 January 2013. The extra allocation for retirement funding for these staff reduced from 4.1% to 4.0% of salaries at that date, because the premium rate for the insured disability income benefit increased from that date with the addition of a “waiver of employer contributions” rider benefit to the disability income policy.

8.10 The total contribution rates are of course fixed in the Fund Rules. The total allocation for retirement funding depends on the Fund’s expenses (and expense budgeting) and on the cost of the insured risk benefits, which are funded from contributions. This total retirement-funding allocation has fluctuated somewhat over recent years - overall it has increased slightly. Given the size of the Fund, the stability of the membership profile and the control exercised by the Trustees over Fund expenses, we judge it unlikely that the retirement-funding allocation will reduce significantly over the next three years.

8.11 (In fact, following the re-broking of the insured benefits in early 2014, the extra allocation for retirement savings was increased with effect from 1 March 2014 to 4.150% of pensionable salaries for permanent staff and 3.640% for contract staff.)

# Section 9: Investment strategy

## Professional requirement

9.1 The valuator is required to comment on the nature of the assets and the suitability of the Fund's investment strategy relative to the liabilities.

9.2 This is in addition to the fundamental requirement that the Trustees are responsible for the investment of the assets, and they need to ensure that the investment strategy remains appropriate in relation to the Fund's liabilities.

## Asset / Liability Matching

9.3 Under the Fund's default investment strategy for individual members, members' accumulated credits are allocated to a portfolio with a risk and return profile broadly appropriate to their expected term to normal retirement (as described in paragraph 4.2). Members who wish to invest differently, and living annuitants receiving pensions from the Fund, are allowed to choose among (or a combination of) the Fund's four member-choice portfolios.

9.4 The members' accumulated credits are credited at the end of each day with the investment return earned for the previous day on the underlying portfolio(s). The Administrator carries out a monthly reconciliation to check that the accumulated credits in each portfolio correspond to the amount invested in each underlying portfolio, and reports on this to the Trustees.

9.5 The reserve accounts are invested in the money market investment channel (Portfolio A - Income Fund), and benefits awaiting payment are invested in a money market unit trust. (Rule Amendment 3, registered on 3 April 2014, permits the investment of benefits awaiting payment in Portfolio A, a change that was made after the valuation date.)

## Overall comment

9.6 In view of the above, we consider that the current investment strategy of the Fund and the nature of the assets held by the Fund remain broadly appropriate as at the valuation date in relation to the liability profile. (As the Fund is a Defined Contribution fund, the question of "matching" of assets to liabilities does not arise except in the sense referred to in the Asset / Liability Matching section above, so we do not consider that it is necessary to give any further certification e.g. as to whether the assets are real or nominal.)

9.7 (This is not intended to be a detailed analysis of the investment strategy, or to suggest that this is the best possible strategy for the Fund. We merely confirm that the strategy is broadly suitable for the Fund given the nature of its liabilities.)

# Section 10: Conclusion

## Key results

10.1 The Fund is in a sound financial position as at 30 June 2013, with sufficient contingency reserves to buffer the Fund against adverse experience. There was no apportionable surplus in the Fund as at the valuation date.

10.2 In respect of the future service contributions, we note that members were credited with additional retirement-finding contributions (in addition to the minimum of 16.0% provided in the Rules) of 4.0% of pensionable salaries for permanent staff and 3.4% for contract staff, in respect of the period from 1 January 2013 to 28 February 2014, and that since that date members are being credited with an additional 4.15% of pensionable salaries for permanent staff, and 3.64% for contract staff.

This reflects the fact that the cost of the risk benefits and expenses continues to be well below the threshold of 6.5% of pensionable salary for permanent members defined in the Fund Rules (4.912% for fixed-term contract members).

We are satisfied that the process of setting these additional retirement-funding contribution rates (with actuarial input) is robust and we recommend that it should continue.

This allocation should be reviewed if the insured benefit premium rates or the Fund's budgeted expenses change materially. (The next review is expected to take place in early 2015.)

10.3 We have proposed new balances for the Processing Error Reserve, Data Reserve and General Reserve as at 30 June 2013. These imply various transfers between accounts and also the transfer of the "Amounts to be Allocated" (as reflected on the 30 June 3013 balance sheet) to the General Reserve. However, in paragraph 7.25 and note (ii) to paragraph 8.2, we commented that it may be preferable not to make these adjustments, but instead to review these reserve balances at the time of the next valuation, as at 30 June 2014.

*The Trustees considered this at a meeting on 26 September 2014 and resolved not to make these adjustments, other than the transfer of the "Amounts to be Allocated" in to the General Reserve*.

## Surplus

10.4 Because it was not possible to fund the General Reserve (and the other contingency reserves) to the full targeted levels as at 30 June 2013, there was no apportionable surplus in the Fund at that date. Nonetheless, we consider that the level of these reserves is sufficient to buffer the Fund against a reasonable level of adverse experience.

## Actuarial opinion

10.5 In my opinion:

- the value of the assets is sufficient to cover the accrued actuarial liabilities and therefore the Fund is financially sound at the valuation date;

- there was no apportionable surplus in the Fund at the valuation date;
- the structure of the benefits and contribution rates is sustainable and consistent with the continued financial soundness of the Fund in future;
- the recommended balances in the contingency reserves are not greater than the provisions that are reasonably required in terms of the contingencies for which they are established, and overall the amounts to be set aside in these reserves are reasonable in the circumstances;
- the investment strategy and the nature of the assets are appropriate to the nature and term of the liabilities of the Fund (which is a Defined Contribution fund);
- the arrangements for the reinsurance of the salary-multiple death benefits are appropriate for the Fund, and it remains appropriate for the Fund to reinsure these benefits;
- the matching of the assets to the liabilities is satisfactory.

EJ Potgieter

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September 2014

# Appendix A: Membership statistics

## In-service membership (including Deferred Pensioners)

| In-service and deferred members | Actives | Deferred | Total |
|---|---|---|---|
| **Number at 30 June 2012** | **3 470** | **110** | **3 580** |
| New entrants | 390 | | 390 |
| Adjustments | (19) | (2) | (21) |
| Transfers In | 17 | | 17 |
| Transfers out | (1) | | (1) |
| Withdrawals | (158) | (1) | (159) |
| Retirements | (66) | (3) | (69) |
| Deaths | (9) | | (9) |
| Net transfer to deferred pensioners | (11) | 11 | 0 |
| Transfer to living annuities | (24) | | (24) |
| **Number at 30 June 2013** | **3 589** | **115** | **3 704** |

## Annual pensionable salaries

Total annual pensionable salaries per annum as advised by the Fund Administrator:

| 30 June 2012 | Number of members | Total Fund Pensionable salaries | Average Fund Pensionable salaries | Average Age |
|---|---|---|---|---|
| Females | 2 040 | 492 363 018 | 241 354 | 44 2/12 |
| Males | 1 430 | 505 498 593 | 353 496 | 46 7/12 |
| Total | 3 470 | 997 861 611 | 287,568 | 45 2/12 |

| 30 June 2013 | Number of members | Total Fund Pensionable salaries | Average Fund Pensionable salaries | Average Age |
|---|---|---|---|---|
| Females | 2 101 | 543 952 015 | 258 778 | 44 3/12 |
| Males | 1 487 | 558 210 538 | 375 394 | 46 3/12 |
| Total | 3 589 | 1 102 162 553 | 307 095 | 45 1/12 |

## Pensioners and beneficiaries (living annuitants of the Fund)

| Pensioners and beneficiaries (living annuitants) | Total |
|---|---|
| **Number at 30 June 2012** | **137** |
| Adjustments | -3 |
| Transfers out | |
| Living annuitants who purchased life annuity | |
| New retirements | 24 |
| Deaths | |
| New beneficiaries' pensions | 19 |
| **Number at 30 June 2013** | **177** |

## Monthly living annuity payments

Total average monthly living annuity payments as shown in the Fund's financial statements:

| | Average monthly living annuity payments R'000 |
|---|---|
| 12 month period ending 30 June 2012 | 785 |
| 12 month period ending 30 June 2013 | 1 016 |

# Appendix B: Benefit summary

The following is only a summary of the key provisions in the Fund Rules.

## ELIGIBILITY CONDITIONS

All persons who are in service of the Employer and who receive a Pensionable Salary are required to be members of the Fund. The Pension Salary is the deemed pensionable amount (portion) of the employee's total remuneration package as defined in the employee's conditions of service, and is subject to a minimum of 50% of the total remuneration package.

## NORMAL RETIREMENT AGE

65

## PENSIONABLE SERVICE

Membership of the Fund plus any service granted in respect of additional employer contributions on a basis specified in the Rules, plus service under the AIPF.

## RETIREMENT BENEFITS

**(i) Normal and early retirement**

On retirement after the attainment of age 55, a pension secured by the member's accumulated credit. A member may elect to commute part of, or the entire amount of, his/her retirement benefit and receive a lump sum benefit.

**(ii) Ill health early retirement**

A member may apply to the Trustees to retire early at any age on the basis of ill health, provided that the member is not receiving a disability income benefit in terms of the associated disability income insurance scheme. The benefit is calculated on the same basis as for early retirement.

## FORM OF PENSION BENEFIT

The member may choose to receive a "living annuity" from the Fund, or may purchase a life or living annuity from an Insurer in terms of the provisions of GN18 (i.e. the policy will be issued in the name of the retiree, and the Fund will have no further liability toward the retiree).

The Rules provide for a life annuity option from the Fund where the Fund allows this. However, the Trustees have decided not to implement this enabling provision.

## DEATH BEFORE RETIREMENT – FUND BENEFITS

**(i) Members with less than 10 years' service**

Pensions for the member's beneficiaries secured by:

1) An insured benefit of 6 times annual pensionable salary; plus

2) The member's accumulated credit.

**(ii) Members with 10 years' service or more**

The member may choose the level of death-in-service benefits payable within the following limits:

**Minimum cover at time of election**

4 times annual pensionable salary, taking into account the member's accumulated credit (i.e. the insured benefit may not be less than 4 times annual pensionable salary minus the accumulated credit at the time the election is made).

**Maximum cover**

6 times annual pensionable salary plus the member's accumulated credit.

Annually on 1 January, members may choose the level of insured cover they require within these limits. Once a member has chosen to reduce his/her cover, he/she may only increase it again with the consent of the Trustees and subject to providing evidence of good health.

Should the member choose to be covered for less than the maximum insured cover, an additional contribution as determined by the Trustees in consultation with the Actuary will be credited to the member's accumulated credit.

The member's beneficiaries may choose any of the pension options from an insurer or from the Fund, or may choose (subject to taking financial advice) to receive the death benefit (or part thereof) in the form of a lump sum.

No insured benefit is provided from the Fund for contract workers who are Fund members.

## WITHDRAWAL BENEFIT

The benefit on voluntary withdrawal, dismissal or retrenchment is the member's accumulated credit.

The member may choose to leave his or her benefit in the Fund until retirement and become a deferred pensioner of the Fund. Alternatively, the benefit may be taken in cash or transferred to another fund, including a provident preservation fund (or the member may take part in cash and preserve the balance).

## EMPLOYER CONTRIBUTION

The Employer contributes at a rate of 16.0% of annual pensionable salary in respect of retirement benefits, plus a further amount of 6.5% (4.912% for fixed term contract employees) of annual pensionable salary payable in respect of Fund salary-multiple death-in-service benefits and Fund expenses and, where applicable, the separate disability income benefit and separate Group Life Assurance arrangements.

# Appendix C: Valuation Method and Basis

## Assets

The investment in the Momentum Multi-Manager Smooth Growth Fund has been taken at face value, including declared vested and non-vested bonuses. The remaining assets have been taken into account at full market value, as the members are credited with the full investment return (net of investment management fees) earned on the underlying assets.

## Liabilities

The member liabilities are taken as the total of the accumulated credits of all members (including living annuitant pensioners) as at 30 June 2013. We have made no adjustments to the 30 June 2013 member values reflected in the 2013 financial statements.

The data reserve, surplus apportionment cost reserve and processing error reserve have been established in accordance with the principles set out in the FSB's Circular PF117, as set out in section 7 of the main report.

# Appendix D: Revenue Statement

## Summarised revenue statement

The following table is a summarised build-up of the Total Funds and Reserves over the valuation period. The numbers were derived from the financial statements.

| | 1 July 2012 to 30 June 2013 |
|---|---|
| | R'000 |
| **Opening value – Total funds and reserves** | **2 392 025** |
| Prior period adjustment | 12 347 |
| | |
| **Income** | |
| Contributions: Retirement savings | 178 057 |
| Contributions: Additional retirement savings | 43 396 |
| Contributions: Re-insurance and expenses | 14 409 |
| Re-insurance proceeds | 15 525 |
| Transfers from other funds | 6 610 |
| Benefits reinvested to purchase Fund living annuities | 42 099 |
| Net investment returns | 331 504 |
| | |
| **Outgo** | |
| Administration expenses | 5 485 |
| Re-insurance premiums | 9 144 |
| Transfers to other funds | 4 210 |
| Benefits paid (including pensions) | 206 482 |
| | |
| **Closing value – Total funds and reserves** | **2 810 652** |

# Appendix E: Member Funds and Reserves

## Summarised build-up and cash flow movements

The following tables (one for each year) summarise the build-up of the Member and Living Annuitants Funds and Reserves together with the cash flow movements between them over the valuation period. The numbers were derived from the financial statements.

| 1 July 2012 to 30 June 2013 | Members R'000 | Living annuitants R'000 | Risk Reserve R'000 | Data Reserve R'000 | Processing Error Reserve R'000 | Surplus Expense Reserve R'000 | General Reserve R'000 | Total Funds and Reserves R'000 |
|---|---|---|---|---|---|---|---|---|
| **Opening value** | **2 163 239** | **207 130** | **-** | **10 571** | **6 064** | **586** | **4 435** | **2 392 025** |
| Prior period adjustment | 12 347 | | | | | | | **12 347** |
| Contributions received | 168 805 | | 9 922 | | | | 47 883 | **226 610** |
| AVCs | 9 251 | | | | | | | **9 251** |
| Risk premiums paid | | | (9 144) | | | | | **(9 144)** |
| Transfer to member accounts | 43 396 | | (778) | | | | (42 618) | |
| Surplus allocated | 4 590 | 58 | | | | | (4 648) | |
| Transfers between accounts | | | | 1 473 | (2 391) | | 918 | |
| Reinsurance recoveries received | | | 15 525 | | | | | **15 525** |
| Investment returns | 303 153 | 26 855 | | 656 | 375 | 34 | 432 | **331 504** |
| Member transfers into the Fund | 6 610 | | | | | | | **6 610** |
| Member transfers out of the Fund | | (4 210) | | | | | | **(4 210)** |
| Benefits paid | (136 066) | (12 792) | (15 525) | | | | | **(164 383)** |
| Retirals taking Fund living annuities | (42 099) | 42 099 | | | | | | |
| Fund expenses paid | (20) | (63) | | | | (298) | (5 105) | **(5 485)** |
| **Closing value** | **2 533 207** | **259 078** | | **12 699** | **4 048** | **322** | **1 297** | **2 810 658** |