

POWER PACK PENSION FUND

Actuarial Valuation Report

as at

30 June 2003

(P.F. 12/8/32056)



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1. Executive Summary

We have pleasure in presenting the statutory actuarial valuation report of the Power Pack Pension Fund ("the Fund") as at 30 June 2003. This summary is for reference purposes only, and should be read in the context of the full report.

1.1 Membership

Pensioners	Number	Annual Pensions (R'000)
Existing as at 1 January 1996 ¹	226	4,976
Existing as at 30 June 2003	192	8,762

1.2 Financial results

The results of the current valuation are set out below. The funding level is determined by expressing the assets as a percentage of the total liabilities.

	Actuarial value 30.6.2003 (R'000)	
Old Mutual Purchased Pensions	89,727	
Actuarial value of other assets	46,723	
Total Value of Assets		136,450
Liabilities in respect of purchased pensioners	89,727	
Provision for closure and liquidation expenses	2,887	
Surplus Apportionment Expense Reserve	1,677	
Total Value of Liabilities		94,291
Surplus		42,159
Funding level (including Contingency Reserve)		145%

1.3 Future contribution rate

There were no in-service members at the valuation date and as a result no future contributions, or reassurance of death benefits, are required.

1.4 Financial condition of the Fund

The Fund is in a sound financial condition as at 30 June 2003, having taken into account net cash inflows into the Fund subsequent to the valuation date up to 31 August 2012 and discounted them to the valuation date, as hereinafter fully described.

¹ Based on data used for the transfer from the Cullinan Group 1985 Pension Scheme in terms of Section 14 of the Pension Funds Act as at 1 January 1996.



2. Introduction

2.1 Background

The Fund which had both defined benefit and defined contribution categories of members (a “hybrid” fund) was established on 1 November 1995 and it later became known as the Power Pack Pension Fund (“the Fund”).

With effect from 1 January 1996 the Fund merged with the Cullinan Group (1994) Pension Fund and the Cullinan Group (1985) Pension Scheme in terms of Section 14 of the Pension Funds Act (“the Act”), as approved by the Financial Services Board (“FSB”). This resulted in the Fund acquiring

- 194 members and R8.1 million in respect of the members’ actuarial reserve values
- 226 pensioners and annuity policies valued at R61.4 million in respect of these pensioners
- all former members of those funds
- cash in lieu of misappropriated demutualisation shares

The following facts have been extracted from an inspection report produced by the Financial Services Board (“FSB report”):

- By the end of 1997, due to major retrenchments and the sale of various businesses, only two divisions of Cullinan remained as participating employers. The Fund had about 40 active members left and some 200 pensioners whose liability was reinsured with Old Mutual.
- By 30 June 1999 these two remaining participating employers had withdrawn from the Fund, leaving behind a surplus of at least R53.8 million¹ in the Fund without any members.
- Shortly thereafter at least R41.85 million² was removed from the Fund under questionable circumstances.

The Fund was therefore reinstated and placed under curatorship on 4 October 2006 and then into liquidation on 1 March 2007. This report summarises the outcome of the transactions concluded by the Curator/Liquidator thus far to effect redress to the Fund in accordance with the provisions of various court orders and agreements concluded under the auspices of the FSB (refer Section 5).

¹ Comprising investments of R38.5 million and a R15.3 million Old Mutual demutualization share windfall.

² This was in respect of the Fund investments only (excluding the Old Mutual demutualization share windfall).



2.2 Purpose of the report

The purpose of this report is to give the results of an examination of the financial soundness of the Fund as at 30 June 2003.

Since this valuation is the first statutory valuation subsequent to the enactment of the Pension Funds Second Amendment Act, 2001 ("Surplus Act"), it sets the date at which the Fund's Surplus Apportionment Scheme ("SAS") must be developed and defines the amount of Surplus to be apportioned in terms of the Surplus Act.

According to the FSB report, the Fund has never submitted triennial valuation reports to the Registrar and it "is not possible to provide a proper analysis of the build up and utilisation of the Fund's surplus". An application for exemption from past valuations and to perform the valuation as at 30 June 2003 has been submitted to the Financial Services Board. We have used the figures produced by a previous Valuator as at 1 November 1997 for comparative purposes where possible and referred to it as the "previous valuation" for convenience, although it was not submitted to the Registrar.

The Fund had no remaining members (save the pensioners transferred into the Fund with effect from 1 January 1996) or deferred pensioners at the valuation date. This report clearly does not need to consider any future contribution rates for pension or death benefits. A summary of the benefit structure in terms of the Rules is given in Annexure I and a summary of the membership movements is given in Annexure II.

Due to the absence of previous valuations and the missing fund information it has not been possible to reconcile the data to previous valuations, build up a revenue account from previous valuations or complete an analysis of surplus. This valuation has thus been treated as the first valuation of the Fund in terms of Board Notice 149 of 2010 and Section 16 of the Pension Funds Act, 1956. As agreed with the FSB on 26 March 2010, it includes allowances for the impact of events post valuation date, to give effect the intention of the Surplus Act.

This report meets the requirements of the Professional Guidance Note 201 of the Actuarial Society allowing for the unavailability of data and the special circumstances. We are satisfied that the report is adequate for the purpose of determining the surplus to be distributed, given that there are no members (save the pensioners transferred into the Fund with effect from 1 January 1996) or deferred pensioners and the only assets are annuity policies and net amounts received, allowing for expenses incurred.

2.3 Method

The Fund has had no in-service members or deferred pensioners since 30 June 1999 so there are no liabilities for these members at the valuation date.



The Fund received annuity policies purchased from Old Mutual in respect of the pensioners transferred into the Fund with effect from 1 January 1996. We understand that the annuity policies received met the pensioner liability at that date in terms of Section 14 of the Act. We have used the value of these annuity policies as at 30 June 2003 as calculated by the Underwriter, since no minimum pension increases will be affordable for these purchased pensions, in terms of Section 14B(4) of the Act.

For the purposes of the valuation, we have discounted all assets received (after the valuation date up to 31 August 2012) back to the valuation date by fund return. Fund return has been derived solely for the purposes of discounting assets to the valuation date as follows:

- In respect of assets received by the Liquidator up to 31 August 2012 the interest rate adopted by the Liquidator was the net investment return¹ that would have been earned on the assets removed from the Fund based on the expected investment return of the investment strategy adopted by the Fund prior to the removal of assets.
- In respect of the debtor as at 31 August 2012, the prescribed interest rate of 15,5% per year from the valuation date to the date of determination of 1 August 2012; and the actual net investment return earned from the date of determination until the date of payment of 2 November 2012.
- In respect of all other cash flows (after the valuation date up to 31 August 2012), the actual net investment returns on the assets has been used.

The average fund return was calculated to be 11.0% per annum. The interest rate used for discounting affects the value of assets (and thus the surplus) determined at the valuation date, and the corresponding fund return for the period from the valuation date until 31 August 2012.

The interest rate used for discounting does not affect the actual assets (or the surplus) available for distribution as at 31 August 2012, or thereafter. For example, the higher the discount rate used, the lower the assets (and the surplus) determined at the valuation date, but the fund return thereafter would be higher, so that the assets at 31 August 2012 would be the same.

In addition, the rate used for discounting is not material to the distribution of surplus as the only payments will be to former members; since there are no minimum pension increases payable to pensioners (refer Section 4.3).

¹ We have made an allowance of 1.25% per annum for retirement fund tax and investment fees from 30 June 2003 until 28 February 2007 and 0.75% per annum thereafter. For amounts received during a month we have interpolated between the relevant monthly returns.



3. Data

3.1 Section 16(8) of the Act

For valued funds, the Registrar requires the Liquidator to deposit, together with the valuation report, a certificate stating that the valuation data supplied to the Valuator is correct and complete in every material aspect. Further, the Registrar requires that a copy of the Valuator's report be sent to each and every participating employer.

We comment in this report on the accuracy of the data provided by the Administrator to assist the Liquidator to satisfy this requirement. We also recommend that a certificate be obtained from the Administrator to certify the accuracy of the data.

3.2 Reasonability of Data

All the in-service members and deferred pensioners present at the previous valuation as at 1 November 1997 have subsequently left.

In respect of the pensioners, I have used the data supplied by the Underwriter for the annuity policies purchased from Old Mutual at the valuation date.

There were no other tangible fund assets at the valuation date. For the purposes of determining the net assets of the Fund received after the valuation date, I have used the draft accounts supplied by the Fund Accountant for the period 1 March 2007 to 31 August 2012. I have reconciled these to the asset statements supplied by the Administrator and Fund Accountant and produced a consolidated revenue account for the period, which is shown in Annexure III.

I am satisfied with the reasonability of the investment income received and the purchased annuity policy.

I have taken into account all income and expenses as reflected in the draft accounts provided to me by the Liquidator and Administrator as at 31 August 2012.

Given the special circumstances of the Fund described in Section 2.1, I consider that the data is adequate for the purposes of this report.

4. Pensioners

4.1 Pensioner assets

With-profit annuities purchased from Old Mutual were ceded to the Fund with effect from 1 January 1996 to back the pensioner liabilities transferred to the Fund at that date, as part of the merger of the Fund, the Cullinan Group (1985) Pension Scheme and the Cullinan Group (1994) Pension Fund. The value of these annuity policies was determined to be R61,438,000 at the merger date by the Valuator of the Cullinan Group (1985) Pension Scheme.

The value of these annuity policies as calculated by the Underwriter at the current valuation date was R89,727,000.

4.2 Pension increases

Pension increases have been granted as follows since the merger date:

Date of Increase	Pension increases (per annum)	CPI ¹
1.1.1997	14.0%	9.3%
1.1.1998	13.5%	6.3%
1.1.1999	3.0%	8.9%
1.1.2000	7.5%	2.2%
1.1.2001	11.0%	7.0%
1.1.2002	8.0%	4.5%
1.1.2003	7.0%	12.4%
1.1.2004	3.0%	0.4%
1.1.2005	6.0%	3.3%
1.1.2006	9.0%	3.6%
1.1.2007	12.0%	5.8%
1.1.2008	12.0%	9.0%
1.1.2009	7.0%	9.5%
1.1.2010	5.0%	6.3%
1.1.2011	5.5%	3.5%
1.1.2012	5.0%	6.1%
Average	8.0%	6.1%

4.3 Minimum benefits for pensioners

The Surplus Act requires that current pensioners be granted a *minimum pension increase* at the Surplus Apportionment Date such that their pension will have increased in line with CPI inflation since inception, to the extent that this can be afforded by the Fund. The pensions of pensioners have been purchased and therefore no minimum pension increase will become due in terms of the Surplus Act.

¹ Annual increase in Consumer Price Index: Metropolitan areas– All Items P0141 as published by Statistics SA.

5. Significant Post Valuation Events

5.1 Recovery of surplus assets and legal expenses

The Liquidator is seeking to recover the surplus assets of some R42 million that was removed from the Fund in 1999 and subsequently acquired by the Employer and other parties, together with interest and legal expenses.

In addition, as a result of the demutualisation and listing of Old Mutual, the Fund was allocated 234,300 Old Mutual shares as a consequence of its ownership of various investment policies. These shares were sold for R12.44 per share on 23 July 1999.

Furthermore, as a result of the demutualisation and listing of Old Mutual, the Cullinan Group (1985) Pension Scheme (which merged with the Fund effective 1 January 1996) was allocated 1,029,300 Old Mutual shares as a consequence of its ownership of pensioner annuity policies. These shares were sold for R12.33 per share on 12 August 1999.

Based on the FSB inspection report and documentation available it appears that the proceeds of the demutualisation shares were removed from the Fund and paid to other parties.

The Liquidator is seeking to recover assets wrongfully removed from the Fund and subsequently acquired by other parties, together with interest and legal expenses. Any amounts recovered will be added to the amount of surplus to be apportioned.

5.2 Provision for Fund closure and liquidation expenses

The Liquidator is seeking to recover further amounts which will be added to the amount of surplus to be apportioned. We have therefore allowed for the following associated costs in recovering misappropriated assets as estimated by the Fund Accountant and Administrator until the Fund is liquidated:

	Total (R'000)
Litigation and related expenses	7,000
Administration fees	274
Actuarial and consulting fees	236
TOTAL	7,510

We have deducted the discounted value of this provision from the actuarial value of the assets. Any over (or under) provision for these expenses will be added to (or deducted from) the surplus on finalisation of the SAS and be used to increase (or decrease) the surplus benefit payments to stakeholders.

5.3 Current Asset structure and returns

The value of the Fund's assets as at 31 August 2012 and the comparative figures as at 1 November 1997 are set out in the table below:

	Account Balances			
	1.11.1997		31.08.2012	
	(R'000)	%	(R'000)	%
Old Mutual Guaranteed Fund ¹	(16,200)	-37%	0	0%
Profile Growth Portfolio	14,045	32%	0	0%
Profile Balanced Portfolio	45,655	105%	0	0%
Old Mutual Capital Growth Investment	0	0%	101,419	83%
Old Mutual Capital Growth Cash	0	0%	151	0%
Nedbank	0	0%	6	0%
Trust account	0	0%	1,233	1%
Net current assets	0	0%	(337)	0%
Value of assets per Revenue Account	43,500		102,472	
Debtor	0	0%	19,076	16%
Value of assets for valuation purposes	43,500	100%	121,548	100%

A cash inflow of R106,886,023 received on 30 October 2008 was predominantly invested in Old Mutual's Capital Growth Investment. This is an insurance policy in an absolute return fund with an exposure to equities and cash instruments, with an explicit capital guarantee. The unit price is guaranteed not to fall below a quarterly minimum unit price that has been set for the investment quarter. The average net return on these assets has been 7.2% per annum over the period 1 December 2008 to 31 August 2012.

The balance of the assets have been held in various interest bearing accounts in Old Mutual Capital Growth, ABSA, Nedbank and the Trust account of Mostert Attorneys. The interest rates on these accounts have varied according to the nature of the account and fluctuated during the period.

The overall internal rate of return on the Fund's assets over the period 1 March 2007 to 31 August 2012 has been 7.4% per annum. A revenue statement for that period is given in Annexure III.

¹ Retrenchment payments were made from the Guaranteed Fund and part of the Profile Portfolios needed to be disinvested to restore it to a positive balance.



5.4 Improper use of Surplus

An investigation into improper uses of surplus by the Employer in terms of Section 15B(6) of the Surplus Act is being conducted. Any amount so determined will be added to the surplus to be distributed.

5.5 Contingency Reserves

The Liquidator is responsible for establishing and reviewing the contingency reserves in the Fund, upon the advice of the valuator. PF 117 gives specific examples of the types of contingency reserves that may be established.

The following contingency reserve accounts may be set up provided that the need for such accounts are fully justified and that the establishment of such accounts does not result in a deficit arising:

- Solvency Reserve
- Contingency Reserve for estimated surplus apportionment costs
- Data Reserve
- Risk Reserve
- Processing Error Reserve
- Contribution Reserve.

The Liquidator may review the contingency reserves the Fund holds at any subsequent valuation, if justified.

Based on the circumstances of the Fund, we recommend that the Liquidator approves a contingency reserve in order to cover the expenses related to the surplus apportionment exercise. The outstanding expenses have been estimated to be R4,362,819 as at 31 August 2012.

We have deducted the discounted value of this reserve using the average internal rate of return on the Fund's assets from the actuarial value of the assets. Any over (or under) provision for these expenses will be added to (or deducted from) the surplus on finalisation of the SAS and be used to increase (or decrease) the surplus benefit payments to stakeholders.

A detailed current estimate of the items making up this amount is provided in Annexure IV.

6. Valuation Results

6.1 Actuarial value of assets as at 30 June 2003

The following table provides a summary of the discounted values in terms of the method described in Section 2.3:

	Gross amounts 31.8.2012 (R'000)	Actuarial values 30.6.2003 (R'000)
Assets received	106,886	55,017
Other net assets	14,662	(8,294)
Value of assets before provisions and reserves	121,548	46,723
Provision for closure and liquidation expenses	(7,510)	(2,887)
Surplus Apportionment Expense Reserve	(4,363)	(1,677)
Value of assets after provisions and reserves	109,675	42,159

6.2 Funding Level

The results of the current valuation are set out below. The funding level is determined by expressing the assets as a percentage of the total liabilities.

	Actuarial value 30.6.2003 (R'000)	
Old Mutual Purchased Pensions	89,727	
Actuarial value of other assets	46,723	
Total Value of Assets		136,450
Liabilities in respect of purchased pensioners	89,727	
Provision for closure and liquidation expenses	2,887	
Surplus Apportionment Expense Reserve	1,677	
Total Value of Liabilities		94,291
Surplus		42,159
Funding level (including Contingency Reserve)		145%

The Fund is in a sound financial condition as at 30 June 2003, having taken into account net cash inflows into the Fund subsequent to the valuation date up to 31 August 2012 and discounted them to the valuation date.



7. Certification of Asset/Liability Matching

The Liquidator of the Fund is responsible for the investment of the Fund's assets and the Fund's investment strategy.

Pension Fund Circulars 71 and 72 issued by the Registrar of Pension Funds require the Valuator to certify that he is satisfied with the structure of the assets and that they adequately match the liabilities of the Power Pack Pension Fund.

The only Fund assets are surplus which will be allocated to stakeholders in terms of a surplus scheme to be submitted in terms of the Surplus Act. The assets are invested in an insurance policy in an absolute return fund with an explicit quarterly capital guarantee and an exposure to equities and cash instruments, and are also invested in interest bearing deposits.

We have examined the assets in relation to the liabilities, and consider that the Fund's asset profile is appropriate in relation to the nature and term of the liabilities.



8. Certification of Financial Soundness

As at 30 June 2003 the actuarial value of the Fund's assets exceeded the liabilities by R42,159,000 and the Fund is financially sound. This surplus must be distributed in terms of Section 15B of the Act. A surplus apportionment scheme will be submitted to the Financial Services Board in the near future.

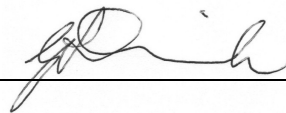
The contingency reserves and provisions established by the Liquidator on our advice allow for some fluctuations in asset values and/or unexpected changes in liabilities, there is no guarantee that these reserves will prove sufficient in practice. Conversely, it is possible that the reserves may prove to be more than sufficient.

If the reserves prove to be inadequate, action by the Liquidator will be required to rectify the position. This may involve, inter alia, the reduction of future surplus payments. If the reserves prove to be excessive or improper use of surplus or assets and legal expenses are recovered by the Liquidator, then the amount available for distribution would have been understated and future surplus payments may thus be increased.

The uncertainty of the adequacy or otherwise of the reserves held is unavoidable and the actual outcome can only be determined when the Fund ceases to have any further liabilities.

We recommend that the Liquidator approves a surplus apportionment expense reserve of R1,677,000 as at 30 June 2003.

The position will be reviewed at the next valuation due as at 30 June 2006.



G. R. Finch
B.Bus.Sc.(Hons), HIA, CFA, CFP, FASSA
Fellow of the Institute of Actuaries

In my capacity as Valuator of the Fund
and contracted to Old Mutual



M. S. Basadien
HIA, FASSA

In my capacity as an actuary
and an employee of Old Mutual

December 2012



ANNEXURE I – Present Benefit Structure

The following is a brief summary of the registered Rules, in respect of ordinary members to provide an impression of the benefits that were payable by the Fund. There are no members, deferred pensioners or pensioners and the Fund is in liquidation. In the event of a dispute, the Rules shall be binding.

NORMAL RETIREMENT AGE

Members: 65

Senior members: 60

Female members of the previous fund prior to 1 October 1997 may have elected an age related to 60.

A. In respect of defined benefit members who transferred from the previous fund

RETIREMENT BENEFIT

i. Annual pension benefit on normal retirement

2.25% of the highest average annual salary (over any 12 consecutive months during the last 10 years preceding retirement) for each year of pensionable service.

ii. Annual pension benefit on early retirement

A member may retire within the 10 years immediately preceding normal retirement date. The pension accrued up to the early retirement date shall be reduced by 0.25% for each month of retirement earlier than the member's normal retirement date.

iii. Annual pension benefit on late retirement

The pension calculated at normal retirement date will be increased by 1% for each month of deferred retirement.

PENSION INCREASES

Pensions paid by the Fund may be increased on an ad-hoc basis.

DEATH AFTER RETIREMENT

The balance (if any) of the first 60 monthly pension payments shall continue to be paid. Thereafter, in the case of a married member, a pension to the spouse equal to 60% of the member's pension before commutation shall be payable.

WITHDRAWAL BENEFIT

A return of the member's own contributions to the Fund plus interest; plus an additional percentage depending on service.



B. Defined contribution members

RETIREMENT BENEFIT

i. Annual pension benefit on normal retirement

An annuity secured by the member's FUND CREDIT, which is

- The sum transferred from the previous fund
- Contributions paid by the member and Employer, net of expenses
- Amounts allocated to the member from the Reserve Account
- Net fund earnings
- The additional member credit

The annuity, of which up to one-third may be commuted for cash, is payable to the member on the conditions selected.

ii. Annual pension benefit on early retirement

A member may retire within the 10 years immediately preceding normal retirement date. The annuity as described for normal retirement is payable.

iii. Annual pension benefit on late retirement

With the agreement of the Employer, a member may retire late (up to age 70). The annuity as described for normal retirement is payable.

WITHDRAWAL BENEFIT

The MEMBER CREDIT is payable, which is

- The sum transferred from the previous fund
- Contributions paid by the member
- Net fund earnings
- The additional member credit

A percentage of the amount by which the FUND CREDIT exceeds the above benefit, depending on service is payable. On retrenchment the Fund Credit is payable, subject to a minimum in respect of members who belonged to the previous fund as at 31 October 1995. In terms of the Surplus Act, the Fund Credit is payable to members who withdrew.

C. In respect of all members

RESERVE ACCOUNT

A separate Reserve Account may be maintained to which amounts not paid to members on withdrawal are allocated. The Reserve Account is used to provide additional benefits to members or to pay contributions or administration expenses of the Fund.

CONTRIBUTION RATE

7.5% of annual pensionable salary



ANNEXURE II – Membership Data

A. IN-SERVICE MEMBERS

Number of in-service members

	Males	Females	Total
Existing as at 1 November 1997			
Defined benefit members	6	1	7
Defined contribution members	36	17	53
Existing as at 30 June 2003	-	-	-

Total annual pensionable salaries (R'000)

	Males	Females	Total
Existing as at 1 November 1997	4,116	135	5,251
Existing as at 30 June 2003	-	-	-

Pensioners

	Number	Annual Pensions (R'000)
Existing as at 1 January 1996 ¹	226	4,976
Existing as at 30 June 2003	192	8,762

¹ Based on data used for the transfer from the Cullinan Group 1985 Pension Scheme in terms of Section 14 of the Pension Funds Act as at 1 January 1996.



ANNEXURE III – Revenue Statement

Revenue Statement¹ for the period 1 March 2007 to 31 August 2012

	R	R
Income		132,308,061
Assets received	106,886,023	
Investment income	25,422,038	
Expenditure		29,836,390
Liquidator fees (including VAT)	23,107,350	
Legal costs (including VAT)	5,665,316	
Administration, actuarial and consulting expenses	1,063,724	
Market Value as at 31 August 2012		102,471,671

¹ This is the Revenue Statement from the date of liquidation up to the latest available accounting date.



ANNEXURE IV – Surplus Apportionment Expense Reserve

The recommended Surplus Apportionment Expense Reserve of R4,362,819 for the outstanding items as at 31 August 2012 is made up as follows:

Item		Estimated costs (R)
(a)	Improper use investigation	50,000
(b)	Quantification of improper use	30,000
(c)	Surplus valuation (PF 117)	161,000
(d)	Former member data analysis & consolidation ¹	156,000
(e)	Minimum Benefit Upgrade Calculations	50,000
(f)	Call Centre	59,000
(g)	Tracing ²	400,000
(h)	Development of SAS	48,000
(i)	Communication to stakeholders (pre-objection period)	35,000
(j)	Communication to stakeholders (post-objection period)	35,000
(k)	Dealing with objections	20,000
(l)	Prepare and submit SAS in prescribed format	20,000
(m)	FSB Levy ³	16,000
(n)	Former member benefit payments ⁴	2,548,000
(o)	Former member representatives	30,000
(p)	Surplus consulting and investigations	171,000
TOTAL EXCLUDING VAT		3,829,000
VAT		533,820
TOTAL INCLUDING VAT		4,362,819

¹ This is in respect of the estimated 8,000 former members.

² Assuming 25% of former members require tracing at R200 per successful trace.

³ VAT not applicable.

⁴ Assuming 50% of former members will be paid at a payment cost of R437 for first payment and R200 for top up payment.



ANNEXURE V – Other Considerations

Pension Funds Second Amendment Act, 2001

In terms of the Surplus Act, this statutory valuation sets the date on which the surplus in the Fund, if any, must be apportioned between the various stakeholders. The stakeholders are former members who left the Fund after 1 January 1980, pensioners, in-service members and the Employer.

In quantifying the amount of surplus to be apportioned, a quantification of any prior *improper use(s)* of surplus is required. An investigation into potential improper uses of surplus by the Employer in terms of Section 15B(6) of the Surplus Act is being conducted. Should any improper use of surplus be found, it will be added to the surplus as per this report and be distributed in terms of the surplus scheme.

The value of any improper use(s) of surplus must be deducted from any final allocation of surplus to the Employer in the SAS. If the allocation of surplus to the Employer is insufficient, then the balance will constitute a debt owed by the Employer to the Fund.

2007 amendments to the Pension Funds Act

In addition, the Pension Funds Amendment Act (No 11 of 2007) (the “Amendment Act”) came into effect on 13 September 2007.

The main changes under the Amendment Act affecting the Fund can be summarised as follows:

- Improper use of surplus must be calculated irrespective of the Fund’s financial position at the surplus apportionment date.
- Fund returns must be added to the improper use from the effective date of the improper use until receipt by the Fund.
- Where the Employer must pay an amount to the Fund arising from improper use, the Employer must submit a scheme of repayment that conforms with prescribed requirements and repay the debt within a period approved by the Registrar.
- The calculation of the Minimum Individual Reserve has been amended as follows:
 - In the accrued pension calculation: to incorporate a minimum uniform rate of accrual to be used and to include portions of lump sum benefits payable at the normal retirement date which correspond to prior service; and
 - In the return of members’ contributions calculation: to allow members’ contributions to be accumulated with fund returns from the date that the contribution was paid into the Fund.
- The obligatory pension increase policy is not required where pensioners or the Fund (for the pensioners) purchased a long-term insurance policy to provide the pension.
- The provisions relating to the apportionment of death benefits in Section 37C are removed from application to spouses’ and children’s pensions.
- The “clean-break” principle has been introduced for future divorce awards to ex-spouses of Fund members.



Investment Markets

Investment markets have become increasingly volatile over the last few years. In the context of an ongoing Fund however, short-term fluctuations are not a major concern. Assets are held for their long-term worth to the Fund in matching its liabilities.

Market values can become very important, however, if the Fund is involved in any large financial transactions (such as bulk transfers, conversions, mergers, partial terminations or liquidations). These transactions should only be undertaken after appropriate legal, investment and actuarial consultation has taken place.

Fluctuations in asset values are more relevant since it is intended to terminate the Fund. The market values of the investments are thus more relevant than their long-term values.

Tax on Retirement Funds

With effect from 1 March 1996, the Tax on Retirement Funds Act was promulgated. This Act required tax to be paid on interest and net rental income of retirement funds.

Tax was introduced at a rate of 17%, and was increased to 25% as from 1 March 1998. With effect from 1 March 2003 the rate of tax was reduced to 18% and further reduced to 9% from 1 March 2006. As from 1 March 2007, Retirement Fund Tax has been abolished.