

# PRESTOLITE PENSION FUND

## Actuarial Valuation Report

as at

30 June 2002

(P.F. 12/8/27521)



OLD MUTUAL  
Corporate

Licensed Financial Services Provider

invest  
in your  
success



# Table of Contents

---

1. Executive Summary ..... 1

2. Introduction ..... 3

3. Data..... 6

4. Pension Increases ..... 8

5. Assets ..... 9

6. Significant Post Valuation Events ..... 10

7. Valuation Results ..... 14

8. Certification of Asset/Liability Matching..... 16

9. Certification of Financial Soundness ..... 17

ANNEXURE I – Present Benefit Structure..... 18

ANNEXURE II – Membership Statistics ..... 21

ANNEXURE III – Revenue Statement ..... 23

ANNEXURE IV –Surplus Apportionment Expense Reserve ..... 26

ANNEXURE V – Other Considerations..... 27

## 1. Executive Summary

We have pleasure in presenting the statutory actuarial valuation report of the Prestolite Pension Fund (the "Fund") as at 30 June 2002. This summary is for reference purposes only, and should be read in the context of the full report.

### 1.1 Membership

|                                             | 30 June<br>1999 | 30 June<br>2002 |
|---------------------------------------------|-----------------|-----------------|
| In-service members <sup>1</sup>             | 248             | 238             |
| Deferred pensioners                         | 3               | 3               |
| Pensioners with purchased pensions          | 29              | 41              |
| Pensioners with pensions paid from the Fund | 6               | 3               |

### 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<br>30.6.2002<br>(R'000) |                |
|-------------------------------------------------------------------------------|-----------------------------------------|----------------|
| Old Mutual Purchased Pensions                                                 | 9,911                                   |                |
| Actuarial value of other assets                                               | 29,675                                  |                |
| Actuarial value of rectification by Lucas Fund                                | 6,062                                   |                |
| Provision for rectification adjustment by Lucas Fund                          | 1,376                                   |                |
| Actuarial value of D&L repayment i.r.o. pensioners                            | -5,201                                  |                |
| Provision for recoupment of D&L i.r.o. pensioners                             | 566                                     |                |
| Actuarial value of other future transactions                                  | -2,391                                  |                |
| <b>Total Value of Assets</b>                                                  |                                         | <b>39,998</b>  |
| Liabilities held in respect of purchased pensions                             | -9,911                                  |                |
| Liability in respect of in-service members including minimum benefit upgrades | -20,384                                 |                |
| Liabilities in respect of pensioners paid by the Fund                         | -2,303                                  |                |
| Liabilities in respect of deferred pensioners                                 | -659                                    |                |
| Data reserve                                                                  | -467                                    |                |
| Surplus Apportionment Expense Reserve outstanding                             | -830                                    |                |
| <b>Total Value of Liabilities</b>                                             |                                         | <b>-34,554</b> |
| <b>Surplus</b>                                                                |                                         | <b>5,444</b>   |
| Funding level (including Contingency Reserve)                                 |                                         | <b>116%</b>    |

<sup>1</sup> This includes one late notification of withdrawal as at 30 June 2002.



### **1.3 Future contribution rate**

Since all members have left the Fund subsequent to the valuation date and allowance has been made for the payment of their full benefit, including the minimum benefit in terms of the Act, it is not necessary to recommend a future contribution rate, or to consider the reassurance of death benefits.

### **1.4 Financial condition of the Fund**

The Fund is in a sound financial condition as at 30 June 2002 having taken into account all transactions subsequent to the valuation date up to 15 September 2010 and discounted them to the valuation date, as hereinafter fully described.



## 2. Introduction

---

### 2.1 Background

The Fund which is a defined benefit pension fund commenced on 1 June 1992 with the transfer in of 344 members from the Lucas South Africa Pension Fund ("Lucas Fund"). On 1 March 1994, a further 55 members and 9 paid up members were transferred from the Lucas Fund.

There were 238 members<sup>1</sup> at the valuation date, all of whom exited the Fund by 30 June 2004.

The Fund was placed under curatorship on 4 April 2006 and then into liquidation on 1 September 2006. During investigations into the past activities of the Fund, it was found that a number of the past transactions related to The Lucas Fund were suspect or incorrect and required adjustment (refer Section 6).

### 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 2002.

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. The previous valuation report on the Fund was conducted as at 30 June 1999.

A summary of the present benefit structure in terms of the Rules is given in Annexure I and a summary of the membership data is given in Annexure II.

This report covers, inter alia, the requirements of a Statutory Valuation in terms of Section 16 of the Pension Funds Act, 1956. It includes allowance for the impact of post valuation date events to give effect to the intention of the Surplus Act, as discussed with the Financial Services Board on 26 March 2010.

Since all members have left the Fund subsequent to the valuation date and allowance has been made for the payment of their full benefit, including the minimum benefit in terms of the Act, it is not necessary to recommend a future contribution rate, or to consider the reassurance of death benefits.

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. I am satisfied that the report is adequate for the purpose of determining the surplus to be distributed.

---

<sup>1</sup> This includes one late notification of withdrawal.



## 2.3 Method

The Fund has a with-profit annuity policy purchased from Old Mutual. I have used the value of this annuity policy calculated by the Underwriter. I consider that this annuity policy has met the pensioner liability including minimum pension increases as defined in Section 14B(4) of the Surplus Act in respect of the pensioners with purchased pensions.

The actuarial value of the other assets has been taken as the market value of those assets at the valuation date.

For the purposes of the valuation, I have discounted the transactions which occurred after the valuation date but before 15 September 2010, back to the valuation date by fund return. Fund return has been derived as follows:

- In respect of the rectification by the Lucas Fund and the demutualisation repayment: The interest rate expected to be recovered by the Liquidator, which is the net investment return that would have been earned on the assets removed from the Fund based on the investment strategy adopted by the Fund prior to the removal of assets.
- In respect of all other transactions, the actual net investment returns on the assets has been used.

The average fund return<sup>1</sup> was calculated to be 9.6% 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 15 September 2010.

The interest rate used for discounting does not affect the actual assets (or the surplus) available for distribution as at 15 September 2010, 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 15 September 2010 would be the same.

The value of the liabilities in respect of in-service members as at 30 June 2002 who subsequently died or withdrew from the Fund has been calculated as the discounted value of:

- The exit amounts paid to them; plus
- where applicable, the minimum benefit upgrades due to them.

---

<sup>1</sup> For benefit payments the date of disinvestment from the Old Mutual Guaranteed Fund has been used. Small amounts were assumed to occur in the middle of each financial year.



The value of the liabilities in respect of pensioners paid by the Fund as at 30 June 2002 and members who subsequently retired from the Fund with a pension has been calculated as the discounted value of:

- The pensions paid to them up to 31 December 2010, including pension increases in terms of the Pension Increase Policy; plus
- the value of the pension payable to them as at 31 December 2010, using an interest rate of 5% per annum and a mortality table of PA(90) for males and females as adjusted in 2006 by Old Mutual Employee Benefits Investment Services based on their actual experience from a large cross-section of the South African retirement industry, including an allowance of 4% for expenses and 0,5% per annum for mortality improvement.

The value of the liabilities in respect of deferred pensioners has been calculated as the discounted value of:

- The payments made to them in respect of cash commutations and transfers in terms of GN18; plus
- where applicable, the value of the pension payable to them as at 31 December 2010, using an interest rate of 5% per annum and a mortality table of PA(90) for males and females as adjusted in 2006 by Old Mutual Employee Benefits Investment Services based on their actual experience from a large cross-section of the South African retirement industry, including an allowance of 4% for expenses and 0,5% per annum for mortality improvement.



### 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 Membership Statistics

The membership of the Fund declined from 248 members at the previous valuation to 238 members<sup>1</sup> at the current valuation and the salary-weighted average age has increased slightly from 42 years 3 months to 42 years 6 months.

A summary of the membership data upon which the valuation has been based, together with statistics derived from this data, is set out in Annexure II.

#### 3.3 Reasonability of Data

##### 3.3.1 For the period 1 July 1999 to 30 June 2002

The period from 1 July 1999 to 30 June 2002 is the statutory intervaluation period. Old Mutual administered the Fund until 28 February 2000, when the administration was taken over by Sovereign Fairsure Employee Benefits.

Due to the changes in administration, it has not been possible to reconcile the data as at 30 June 1999 with that as at 30 June 2002. In addition, benefits paid could not be checked against the expected payments as defined in the Rules of the Fund. With effect from 1 December 2002, Alexander Forbes were appointed as administrators of the Fund, and the data has been supplied by them for the purposes of this valuation.

The following checks have been performed:

- Contributions paid by members were checked for reasonability;
- Risk premiums paid over the intervaluation period were checked for reasonability against retirement funding contributions;
- The value of the assets as at 30 June 2002 was reconciled with the value as at 30 June 1999; and
- Investment returns earned and fees paid from 1 July 1999 to 30 June 2002 were checked for reasonability against expected returns and fees for the period.

---

<sup>1</sup> This includes one late notification of withdrawal.



In respect of the pensioners, we have used the value at the valuation date as supplied by the Underwriter for the annuity policy purchased from Old Mutual.

### **3.3.2 For the period 1 July 2002 to 31 August 2006**

The period from 1 July 2002 to 31 August 2006 is the post-valuation period until the Fund was placed in liquidation. All in-service members left the Fund by 30 June 2004 and the Fund had only pensioner members thereafter.

We have been supplied with:

- Audited annual financial statements for the 2003 financial year;
- Draft annual financial statements prepared by Alexander Forbes for 2004, 2005 and 2006 financial years; and
- Draft accounts by the Liquidator's office for the period 1 July 2006 to 31 August 2006.

The following checks have been performed:

- The value of the assets as at 31 August 2006 was reconciled with the value as at 30 June 2002; and
- Investment returns earned and fees paid from 1 July 2002 to 31 August 2006 were checked for reasonability against expected returns and fees for the period.

There was insufficient data to reconcile the member data with the accounting data, or to perform any other checks.

### **3.3.3 For the period 1 September 2006 to 15 September 2010**

The period from 1 September 2006 to 15 September 2010 is the period during which the Fund has been in liquidation and the Fund only has pensioner members. Old Mutual was appointed administrator with effect from 1 July 2007. I have been supplied with draft accounts by the Liquidator's office for this period.

The following checks have been performed:

- The value of the assets as at 15 September 2010 was reconciled with the value as at 31 August 2006; and
- Investment returns earned and fees paid from 1 September 2006 to 15 September 2010 were checked for reasonability against expected returns and fees for the period.

We have taken into account all expenses and recoveries as reflected in the draft accounts as at 15 September 2010.

We have produced a revenue account for each period, which is shown in Annexure III. Given the special circumstances of the Fund described in the background and in terms of the agreement reached with the FSB on 26 March 2010, I consider that the data is adequate for the purposes of this report.



## 4. Pension Increases

---

### 4.1 Pension increases

With effect from 30 June 2002, the Pension Increase Policy of the Fund is to aim to provide increases to pensioners of at least 70% of the rate of increase in inflation as measured by the Consumer Price Index, subject to affordability by the Fund. Increases, in terms of this Pension Increase Policy are considered on 1 January each year.

For those pensioners who have with-profit annuities purchased from Old Mutual pension increases have been granted as follows since the previous valuation:

| Date of Increase | Pension increases (per annum) | CPI <sup>1</sup> |
|------------------|-------------------------------|------------------|
| 1.1.2000         | 5.6%                          | 2.2%             |
| 1.1.2001         | 9.1%                          | 7.0%             |
| 1.1.2002         | 9.5%                          | 4.5%             |
| 1.1.2003         | 7.5%                          | 12.4%            |
| 1.1.2004         | 2.5%                          | 0.4%             |
| 1.1.2005         | 1.5%                          | 3.3%             |
| 1.1.2006         | 5.0%                          | 3.6%             |
| 1.1.2007         | 8.5%                          | 5.8%             |
| 1.1.2008         | 8.5%                          | 9.0%             |
| 1.1.2009         | 8.5%                          | 9.5%             |
| 1.1.2010         | 7.0%                          | 6.3%             |
| <b>Average</b>   | <b>6.7%</b>                   | <b>5.8%</b>      |

The pensioners whose pensions are paid from the Fund have received the same increases, backdated to the same effective date where applicable.

### 4.2 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.

For those pensioners whose pensions have been purchased, no minimum pension increase will become due in terms of the Surplus Act. Any minimum pension increase due to those pensioners with pensions paid from the Fund will be assessed in the surplus apportionment scheme.

---

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

## 5. Assets

### 5.1 Pensioner Assets

The Fund has purchased growth pensions from Old Mutual in respect of most pensioners. We have assumed that the growth pensions will continue to meet the pensioner liability including increases in line with the Fund's pension increase policy and minimum pension increases as defined in Section 14B(4) of the Surplus Act in respect of these pensioners.

The value of the annuity policies included in the 2002 accounts amounted to R34,096,102. After adjustments in the 2003 and 2004 accounts, the residual value of R32,188,537 was removed from the accounts due to uncertainty about the pensioners' fund membership.

The value of the policy in respect of the pensioners of the Fund with purchased pensions has now been determined by the Underwriter to be R9,911,226 as at 30 June 2002. This value has therefore been included in the value of the Fund assets as at 30 June 2002.

### 5.2 Other Assets

The value of the Fund's other assets as at 30 June 2002 and the comparative figures as at 30 June 1999 are set out in the table below:

|                            | Account Balances |      |              |      |
|----------------------------|------------------|------|--------------|------|
|                            | 30 June 1999     |      | 30 June 2002 |      |
|                            | (R'000)          | %    | (R'000)      | %    |
| Old Mutual Guaranteed Fund | 26,228           | 100% | 29,675       | 102% |
| Net Current Assets         | (142)            | 0%   | (573)        | (2%) |
| Value of assets            | 26,086           | 100% | 29,102       | 100% |

The Guaranteed Fund is a smoothed bonus investment policy underwritten by Old Mutual. The portion in the Basic Account is fully guaranteed, but the amount in the Capital Account may be suspended, reduced or removed by Old Mutual should market conditions deteriorate. On termination of the policy, there are no guarantees, and the lower of the book value (above) or market value is payable.

The following table sets out the annual rates of bonus declared during the intervaluation period:

| Declaration Period   | Basic Bonus | Capital Bonus | Total Bonus | Year on Year Increase in CPI |
|----------------------|-------------|---------------|-------------|------------------------------|
| 1.7.1999 – 30.6.2000 | 7.0%        | 9.0%          | 16.0%       | 7.28%                        |
| 1.7.2000 – 30.6.2001 | 8.0%        | 7.5%          | 15.5%       | 5.16%                        |
| 1.7.2001 – 30.6.2002 | 6.0%        | 6.0%          | 12.0%       | 6.31%                        |

These bonuses are declared gross of management fees and tax.

## 6. Significant Post Valuation Events

### 6.1 Current Asset structure and returns

We have accrued for additional expenses of R391,555 as supplied by the Liquidator's office and the service providers, which have been incurred by the Fund but have not yet been reflected in the draft accounts.

The value of the Fund's assets (excluding the annuity policy in respect of pensioners) as at 15 September 2010 and the comparative figures as at 30 June 2002 are set out in the table below:

|                                  | Account Balances |      |           |       |
|----------------------------------|------------------|------|-----------|-------|
|                                  | 30.6.2002        |      | 15.9.2010 |       |
|                                  | (R'000)          | %    | (R'000)   | %     |
| Old Mutual Guaranteed Fund       | 29,675           | 102% | 19,626    | 129%  |
| Nedbank account                  | 0                | 0%   | 34        | 0%    |
| Trust account                    | 0                | 0%   | (59)      | 0%    |
| Net current assets/(liabilities) | (573)            | (2%) | (4,362)   | (29%) |
| Value of assets                  | 29,102           | 100% | 15,239    | 100%  |

The assets have remained predominantly invested in Old Mutual's Guaranteed Fund. The average net return on these assets has been 9.9% per annum over the period 30 June 2002 to 15 September 2010.

The balance of the assets has been held in various interest bearing accounts. The interest rates on these accounts have varied according to the nature of the account and fluctuated during the period.

### 6.2 Rectification by the Lucas South Africa Pension Fund

The Fund and its predecessors were affected by irregular transfers of surplus assets from its predecessors.

Transfers took place from the Lucas Fund to the Fund between 1 June 1992 and 1 March 1994 with less than a proportionate share of surplus based on market values at the time. The Liquidator therefore considered it reasonable and equitable<sup>1</sup> to redress the situation by rectifying the manner in which the transfer was implemented.

An amount of R13,979,907 was received by the Fund from the Lucas Fund on 31 October 2008. We have made a provision for an additional amount of R2,923,402 as at 15 September 2010 to be received from the Lucas Fund as a result of the , based on the additional assets recovered in that fund. Any additional assets

---

<sup>1</sup> This does not imply that the previous transfers were not in terms of the Rules or standard practices applicable at the time.



recovered by that fund in this regard will require further amounts to be received by the Fund.

### 6.3 Demutualisation Shares

The Fund was allocated 690,200 shares resulting from the demutualisation and listing of Old Mutual. Of the shares that were allocated to the Fund, 284,026 were in respect of the pensioner liabilities of the Lucas Fund pensioners. The shares were sold at R12.41 per share on 26 October 1999. Allowing for the service charges of R48,823, this amounted to R8,516,559. Of this amount, R3,504,672 was in respect of the Lucas Fund pensioners.

The Fund therefore repaid R11,710,278 including interest as at 5 May 2008. We have made a provision for the recoupment of an amount of R1,203,841 as at 15 September 2010 resulting from this transaction, since the previous payment was based on incorrect pensioner liabilities.

### 6.4 Provision for Fund closure and liquidation expenses

The Fund was placed under curatorship on 4 April 2006 and then into liquidation on 1 September 2006.

We have allowed for the following additional costs estimated by the Liquidator's office and Administrator until the Fund is liquidated:

|                               | Total           |
|-------------------------------|-----------------|
| Legal costs                   | 140,483         |
| Administration fees           | 410,400         |
| Actuarial and consulting fees | 285,000         |
| <b>TOTAL</b>                  | <b>R835,883</b> |

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.

### 6.5 Improper use of Surplus

An investigation was conducted into potential improper uses of surplus by the Employer in terms of Section 15B(6) of the Surplus Act. It was found that the Employer contribution holiday after 7 December 2001 amounted to R910,967 including fund return up to 30 June 2002. The Employer repaid an amount of R500,000 in September 2005.

We have estimated that the balance outstanding including fund return up to 15 September 2010 to be R1,355,000. Any additional assets recovered from this source must therefore be added to the distributable surplus on finalisation of the SAS and used to increase the surplus benefit payments to stakeholders.



## **6.6 Employer contributions from 1 July 2002 to 30 June 2004**

The Employer continued on a contribution holiday after the valuation date.

In keeping with the methodology used for determining the accrued liabilities of the Fund, we have calculated the required Employer contributions from 1 July 2002 until 30 June 2004 when the last member left, as the present value of

- the future service proportion of the withdrawal benefits paid;
- the assumed future service proportion of retirement benefits paid;
- insured benefit premiums;
- administration expenses; less
- the member contributions.

Transactions other than the withdrawal exits were assumed to occur in the middle of the financial year. The result of R2,728,000 as at 30 June 2002 was similar to what one would have arrived at using the present value of the expected contributions based on a projected unit method.

Any additional assets recovered from this source must therefore be added to the distributable surplus on finalisation of the SAS and used to increase the surplus benefit payments to stakeholders.

## **6.7 Incorrect benefit payments**

In July 2001, the Fund attempted to convert from a defined benefit to a defined contribution arrangement with enhancements to members' reserves on conversion.

This conversion was not recognised by the Financial Services Board as the rules allowing these changes were never registered. The Fund was administered on the unapproved defined contribution rules and as a result, benefits were not paid in accordance with the rules. From the documentation reviewed, the financial impact of this error was quantified by Alexander Forbes to be R2,062,808. I have not been in a position to confirm that this calculation is accurate or that it includes all incorrect payments.

Any additional assets recovered from this source must therefore be added to the distributable surplus on finalisation of the SAS and used to increase the surplus benefit payments to stakeholders.

## **6.8 Contingency Reserves**

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



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.

I recommend that the Liquidator approves a data reserve of R466,910 at the valuation date, being 2% of the liabilities (excluding purchased pensioners) at the valuation date. This is to make allowance for items including:

- The valuation being based on draft financial statements and the uncertainty around some outstanding net current liabilities;
- Data not being available to fully reconcile the benefit payments to the members exit payments, especially for new entrant members that exited during the period 1 July 2002 to 30 June 2004; and
- It being assumed that there are no unclaimed benefits for any members who left the Fund.

In addition, based on the circumstances of the Fund, I recommend that the Liquidator approves a contingency reserve in order to cover the expenses related to the surplus apportionment exercise. Expenses of R648,676 have been incurred up to 15 September 2010 and the outstanding expenses as at 15 September 2010 have been estimated to be R1,764,868 as at 15 September 2010. A detailed current estimate of the items making up the amount outstanding is provided in Annexure IV.

We have deducted the discounted value of these reserves 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.

## 7. Valuation Results

### 7.1 Results of the previous valuation as at 30 June 1999

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

|                                                          | <b>Previous<br/>Valuation<br/>30.6.1999<br/>(R'000)</b> |
|----------------------------------------------------------|---------------------------------------------------------|
| <b>Total Value of Assets</b>                             | <b>26,086</b>                                           |
| Past service liabilities in respect of active members    | 17,880                                                  |
| Liabilities held in respect of deferred pensioners       | 498                                                     |
| Liabilities held in respect of pensions paid by the Fund | 1,376                                                   |
| Contingency reserves: Self Insured Fluctuation Reserve   | 290                                                     |
| <b>Total Value of Liabilities</b>                        | <b>20,044</b>                                           |
| <b>Surplus</b>                                           | <b>6,042</b>                                            |
| Funding level (including Contingency Reserve)            | 130%                                                    |

The Fund was thus in a sound financial position as at the previous valuation date of 30 June 1999.

### 7.2 Summary of discounted values as at 30 June 2002

The following table provides a summary of the discounted values:

|                                                    | <b>Gross<br/>amounts<br/>(R'000)</b> | <b>Actuarial<br/>value<br/>30.6.2002<br/>(R'000)</b> |
|----------------------------------------------------|--------------------------------------|------------------------------------------------------|
| Asset values:                                      |                                      |                                                      |
| Actuarial value of rectification by Lucas          | 13,980                               | 6,062                                                |
| Provision for rectification adjustment by Lucas    | 2,923                                | 1,376                                                |
| Actuarial value of D&L repayment i.r.o. pensioners | -11,710                              | -5,201                                               |
| Provision for recoupment of D&L i.r.o. pensioners  | 1,204                                | 566                                                  |
| Provision for closure and liquidation expenses     | -836                                 | -393                                                 |
| Actuarial value of other future transactions       | -5,146                               | -1,998                                               |
| Liability values:                                  |                                      |                                                      |
| Liability i.r.o. in-service members                | -23,120                              | -20,384                                              |
| Liabilities held i.r.o. pensions paid by the Fund  | -4,293                               | -2,303                                               |
| Liabilities held i.r.o. deferred pensioners        | -1,403                               | -659                                                 |
| Data Reserve                                       | -992                                 | -467                                                 |
| Surplus Apportionment Expense Reserve              | -1,765                               | -830                                                 |



### 7.3 Results of the current valuation as at 30 June 2002

The results of the current valuation are set out below.

|                                                                               | <b>Actuarial value<br/>30.6.2002<br/>(R'000)</b> |                |
|-------------------------------------------------------------------------------|--------------------------------------------------|----------------|
| Old Mutual Purchased Pensions                                                 | 9,911                                            |                |
| Actuarial value of other assets                                               | 29,675                                           |                |
| Actuarial value of rectification by Lucas Fund                                | 6,062                                            |                |
| Provision for rectification adjustment by Lucas Fund                          | 1,376                                            |                |
| Actuarial value of D&L repayment i.r.o. pensioners                            | -5,201                                           |                |
| Provision for recoupment of D&L i.r.o. pensioners                             | 566                                              |                |
| Actuarial value of other future transactions                                  | -2,391                                           |                |
| <b>Total Value of Assets</b>                                                  |                                                  | <b>39,998</b>  |
| Liabilities held in respect of purchased pensions                             | -9,911                                           |                |
| Liability in respect of in-service members including minimum benefit upgrades | -20,384                                          |                |
| Liabilities in respect of pensioners paid by the Fund                         | -2,303                                           |                |
| Liabilities in respect of deferred pensioners                                 | -659                                             |                |
| Data reserve                                                                  | -467                                             |                |
| Surplus Apportionment Expense Reserve                                         | -830                                             |                |
| <b>Total Value of Liabilities</b>                                             |                                                  | <b>-34,554</b> |
| <b>Surplus</b>                                                                |                                                  | <b>5,444</b>   |
| Funding level (including Contingency Reserve)                                 |                                                  | <b>116%</b>    |

The Fund is in a sound financial condition as at 30 June 2002 having taken into account all transactions subsequent to the valuation date up to 15 September 2010 and discounted them to the valuation date.



## 8. 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 Prestolite Pension Fund.

The Fund is currently in liquidation and an annuity policy has been purchased to match the liability in respect of most of the pensioners. The other assets are currently more than adequate to meet the pensioner liability in respect of pensions paid from the Fund. However, pensions should be purchased from an Underwriter before surplus payments are made.

The only other assets as at 15 September 2010 represent surplus which will be allocated to stakeholders in terms of a surplus scheme to be submitted in terms of the Surplus Act. The assets invested in the Guaranteed Fund may be paid out at less than book value in terms of the policy conditions in adverse market conditions, which will then impact on the fund return paid to stakeholders.

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. It is recommended that a revised investment policy be adopted for the surplus payout period.



## 9. Certification of Financial Soundness

---

As at 30 June 2002 the actuarial value of the Fund's assets exceeded the liabilities by R5,444,000 and the Fund is financially sound.

Since all members have left the Fund subsequent to the valuation date and allowance has been made for the payment of their full benefit, including the minimum benefit in terms of the Act, it is not necessary to recommend a future contribution rate, or to consider the reassurance of death benefits.

The majority of the pensioner liabilities are assumed to be matched by the annuity policy purchased from Old Mutual and 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 additional amounts 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 data reserve of R467,000 and a surplus apportionment expense reserve of R830,000 as at 30 June 2002.

The position will be reviewed at the next valuation due as at 30 June 2005.

---

**Gavin 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

---

**Carrie-Anne Kropman**  
**B.Comm.(Hons), FASSA**  
**Fellow of the Institute of Actuaries**

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

November 2010



## ANNEXURE I – Present Benefit Structure

---

A summary of the present benefit structure is given below. This is not intended to be a definitive description of the Fund benefits and members should refer to the Rules of the Fund to ascertain the benefits due to them. In the event of a dispute, the Rules shall be binding.

### ELIGIBILITY CONDITIONS

All employees who are under the normal retirement age on the full-time permanent staff of the Employer.

### NORMAL RETIREMENT AGE

Senior Executives: 62 and 6 months

Males: 65

Females: 65

Female members who participated under the Fund prior to 1 August 1985 had the option to elect a normal retirement age of 60.

### RETIREMENT BENEFIT

i. Annual pension benefit on normal retirement

1/50th of the average annual salary over the last 2 years before retirement for each year of pensionable service.

The pension above shall be reduced by the value of any benefit retained in the U.K. Fund.

ii. Annual pension benefit on early retirement

A member may retire early if he/she is within 10 years of the normal retirement age and has completed 5 years of continuous service. The Employer may waive the service requirement. The pension accrued up to the early retirement date shall be reduced by 4% per annum for the each year between the early and normal retirement dates.

iii. Annual pension benefit on ill-health retirement

A member may retire early at any age for ill-health reasons. The pension will accrue as if the member had remained in the Employer's service until the normal retirement date, but shall be based on final average salary as at the ill-health retirement date

iv. Annual pension benefit on late retirement

The pension accrued up to the late retirement date.

### PENSION INCREASES

Pensions paid by the Fund will be increased in terms of the Pension Increase Policy which aims to provide increases of 70% of CPI subject to affordability. Every three years the pensioners will be entitled to a minimum pension increase in terms of the Surplus Act subject to affordability.



#### DEATH AFTER RETIREMENT

The balance (if any) of the first 60 monthly pension instalments 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. (Members who elected a normal retirement age of 60 are not eligible for this benefit.)

#### DEATH BEFORE RETIREMENT

##### i. Cash benefits

A lump sum life assurance benefit of three times annual salary of ordinary members and five times annual salary for senior executives will be payable

PLUS

in the case of a member ineligible to receive spouse's and children's pension benefits, a return of twice the member's accumulated contributions (including interest).

##### ii. Spouse's and Children's pension benefits

The spouse of a married member will be entitled to an annual pension equal to 60% of the pension to which the member would have been entitled at normal retirement age, the pension being based on annual salary at the date of death and service up to the normal retirement age.

Each child (subject to a maximum of 3 children) will be entitled to a pension equal to 20% of the spouse's pension payable to age 18 or later if a full-time student. If there is no spouse or on the subsequent death of the spouse, the children's pensions will increase to 2.5 times their benefit payable if there had been a spouse.

#### WITHDRAWAL BENEFIT

##### i. Cash

A return of the member's own contributions plus 4% per annum compound interest thereon up to 31 January 2000 and 8% per annum compound interest thereafter.

OR

##### ii. Pension

For members with more than 5 years' service, the greater of the following amounts can be preserved:

- a. the pension that can be provided by the amount in (i) above, and
- b. the pension accrued up to the date of withdrawal.

With effect from no later than 30 June 2003, the withdrawal benefit is subject to the minimum benefit in terms of Section 14B(1) of the Surplus Act.

#### RETRENCHMENT BENEFIT

Twice the cash amount provided for in (i) above plus an additional two weeks' wages for each completed year of service for the first four years plus one week's wages for each completed year of service for the next eight years.



With effect from no later than 30 June 2003, the retrenchment benefit is subject to the minimum benefit in terms of Section 14B(1) of the Surplus Act.

CONTRIBUTION RATE

6.5% of annual pensionable salary



## ANNEXURE II – Membership Statistics

### A. ACTIVE MEMBERS

#### Number of members

|                                          | Males | Females | Total |
|------------------------------------------|-------|---------|-------|
| Existing as at 30 June 1999              | 151   | 97      | 248   |
| Existing as at 30 June 2002 <sup>1</sup> | 128   | 110     | 238   |

#### Total annual pensionable salaries (R'000)

|                             | Males | Females | Total  |
|-----------------------------|-------|---------|--------|
| Existing as at 30 June 1999 | 8,566 | 2,962   | 11,528 |
| Existing as at 30 June 2002 | 7,123 | 4,037   | 11,160 |

#### Salary Weighted Average Age

|                    | Years | Months |
|--------------------|-------|--------|
| As at 30 June 1999 | 42    | 3      |
| As at 30 June 2002 | 42    | 6      |

#### Salary Increases for Sustaining Members

|                                          | Total   |
|------------------------------------------|---------|
| Number of sustaining members             | 164     |
| Average annual salary as at 30 June 1999 | R38,299 |
| Average annual salary as at 30 June 2002 | R47,410 |
| Annual rate of increase                  | 7.4%    |

<sup>1</sup> This includes one late notification of withdrawal.



## B. PENSIONERS

### Deferred Pensioners

|                             | Number | Pension<br>(per annum) |
|-----------------------------|--------|------------------------|
| Existing as at 30 June 1999 | 3      | R 52,175               |
| Existing as at 30 June 2002 | 3      | R 65,820               |

### Pensions paid from the Fund

|                             | Number | Value of the<br>Pensions |
|-----------------------------|--------|--------------------------|
| Existing as at 30 June 1999 | 6      | R 1,375,532              |
| Existing as at 30 June 2002 | 3      | R 91,673                 |

In addition there are 41 pensioners whose pensions have been reinsured with Old Mutual by the purchase of annuity policies. The value of these policies as at 30 June 2002 was R9,911,226.

## ANNEXURE III – Revenue Statement

### Revenue Statement for the period 1 July 1999 to 30 June 2002

|                                                                 | R          | R                 |
|-----------------------------------------------------------------|------------|-------------------|
| <b>Opening balance as per previous Valuation Report</b>         |            | <b>26,085,505</b> |
| Reversal of adjustment for pseudo pension payments <sup>1</sup> |            | 10,000            |
| Adjustment for purchased pensions <sup>2</sup>                  |            | 23,931,258        |
| <b>Market Value as per Financials at 30 June 1999</b>           |            | <b>50,026,763</b> |
| Income                                                          |            | 26,345,188        |
| Contributions received                                          | 2,243,877  |                   |
| Reinsurance Recoveries                                          | 699,505    |                   |
| Demutualisation proceeds                                        | 8,516,559  |                   |
| Change in pension policies                                      | 2,255,261  |                   |
| Investment income                                               | 12,629,986 |                   |
| Expenditure                                                     |            | -13,173,528       |
| Insured benefit premiums                                        | -713,320   |                   |
| Pension benefits                                                | -632,792   |                   |
| Withdrawal benefits                                             | -7,516,699 |                   |
| Death Benefits                                                  | -714,883   |                   |
| Retirement benefits                                             | -1,307,894 |                   |
| Administration expenses                                         | -1,215,868 |                   |
| Investment fee                                                  | -287,631   |                   |
| Taxation on retirement funds                                    | -784,441   |                   |
| <b>Market Value as per Financials at 30 June 2002</b>           |            | <b>63,198,423</b> |

<sup>1</sup> The reversal of the adjustment made to the previous valuation assets in respect of pension payments made by the Fund that were still due to be paid at 30 June 1999.

<sup>2</sup> The amount is in respect of the asset value of the purchased pensions as at 30 June 1999.



## Revenue Statement for the period 1 July 2002 to 31 August 2006

|                                                             | R           | R                 |
|-------------------------------------------------------------|-------------|-------------------|
| <b>Market Value as per Financials at 30 June 2002</b>       |             | <b>63,198,423</b> |
| Adjustment for purchased pensions                           |             | -32,188,537       |
| Income                                                      |             | 8,670,187         |
| Contributions received                                      | 1,673,203   |                   |
| Reinsurance Recoveries                                      | 131,056     |                   |
| Other income                                                | 14,998      |                   |
| Change in pension policies                                  | -1,907,565  |                   |
| Investment income                                           | 8,758,495   |                   |
| Expenditure                                                 |             | -27,179,540       |
| Insured benefit premiums                                    | -509,592    |                   |
| Pension benefits                                            | -778,897    |                   |
| Withdrawal benefits                                         | -21,638,888 |                   |
| Death Benefits                                              | -303,129    |                   |
| Retirement benefits                                         | -1,985,436  |                   |
| Administration expenses                                     | -1,839,389  |                   |
| Investment fee                                              | -260,687    |                   |
| Taxation on retirement funds                                | -469,780    |                   |
| <b>Market Value as per draft accounts at 31 August 2006</b> |             | <b>12,500,533</b> |



Revenue Statement for the period 1 September 2006 to 15 September 2010

|                                                                | R           | R                 |
|----------------------------------------------------------------|-------------|-------------------|
| <b>Market Value as per draft accounts at 31 August 2006</b>    |             | <b>12,500,533</b> |
| Adjustment for net current liabilities                         |             | 240,990           |
| <b>Market Value as per Financials at 1 September 2006</b>      |             | <b>12,741,523</b> |
| Income                                                         |             | 20,334,012        |
| Rectification by Lucas Fund                                    | 13,979,907  |                   |
| Net investments                                                | -176,050    |                   |
| Investment income                                              | 6,530,155   |                   |
| Expenditure                                                    |             | -17,444,540       |
| Demutualisation repayment                                      | -11,710,278 |                   |
| Pension benefits                                               | -770,877    |                   |
| Liquidator fees                                                | -3,969,637  |                   |
| Administration expenses                                        | -696,547    |                   |
| Legal costs                                                    | -85,931     |                   |
| Investment fee                                                 | -211,270    |                   |
| <b>Market Value as per draft accounts at 15 September 2010</b> |             | <b>15,630,995</b> |
| Adjustment for additional accruals                             |             | -391,555          |
| <b>Market Value as per valuation (excluding pensioners)</b>    |             | <b>15,239,440</b> |



## ANNEXURE IV –Surplus Apportionment Expense Reserve

The outstanding surplus apportionment expense reserve of R1,764,868 as at 15 September 2010 is made up as follows:

| Item                                              | Estimated costs   |
|---------------------------------------------------|-------------------|
| (a) Quantification of improper Use                | R20,000           |
| (b) Surplus valuation                             | R251,802          |
| (c) Former member data analysis and consolidation | R28,962           |
| (d) Minimum Benefit Upgrade calculations          | R45,000           |
| (e) Call Centre                                   | R7,710            |
| (f) Tracing                                       | R55,965           |
| (g) Development of SAS                            | R50,000           |
| (h) Prepare & Submit SAS in prescribed format     | R20,000           |
| (i) FSB Levy                                      | R16,000           |
| (j) Communication to stakeholders                 | R23,677           |
| (k) Data investigations                           | R106,958          |
| (l) Communication to non qualifying stakeholders  | R1,700            |
| (m) Dealing with objections                       | R20,000           |
| (n) Surplus benefit payments                      | R681,912          |
| (o) Former member representative                  | R30,000           |
| (p) Consulting and surplus related services       | R190,410          |
| <b>TOTAL EXCLUDING VAT</b>                        | <b>R1,550,095</b> |
| VAT                                               | R214,773          |
| <b>TOTAL INCLUDING VAT</b>                        | <b>R1,764,868</b> |



## 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, active 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. The value of any improper use(s) of surplus must be added to the surplus to be apportioned as per this report.

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 Plan.

### **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. Further, the Fund's investment in the insurance policy has surrender penalties which may apply depending on market conditions.

## **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.