

# SABLE INDUSTRIES PENSION FUND

## Actuarial Valuation Report

as at

30 June 2003

(P.F. 12/8/20317)



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## 1. Executive Summary

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We have pleasure in presenting the statutory actuarial valuation report of the Sable Industries 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

| <b>Pensioners</b>           | <b>Number</b> | <b>Annual Pensions (R'000)</b> |
|-----------------------------|---------------|--------------------------------|
| Existing as at 1 July 1994  | 147           | 1,741                          |
| Existing as at 30 June 2003 | 111           | 2,501                          |

### 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.

|                                                   | <b>Actuarial value<br/>30.6.2003<br/>(R'000)</b> |        |
|---------------------------------------------------|--------------------------------------------------|--------|
| Old Mutual Purchased Pensions                     | 31,759                                           |        |
| Actuarial value of other assets                   | 31,657                                           |        |
| <b>Total Value of Assets</b>                      |                                                  | 63,416 |
| Liabilities held in respect of purchased pensions | 31,759                                           |        |
| Provision for closure and liquidation expenses    | 2,066                                            |        |
| Surplus Apportionment Expense Reserve             | 964                                              |        |
| <b>Total Value of Liabilities</b>                 |                                                  | 34,789 |
| <b>Surplus</b>                                    |                                                  | 28,627 |
| Funding level (including Contingency Reserve)     |                                                  | 182%   |

### 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 recoveries made by the Fund subsequent to the valuation date up to 15 September 2010 and discounted them to the valuation date, as hereinafter fully described.



## 2. Introduction

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### 2.1 Background

The Fund which is a defined benefit pension Fund was established on 1 January 1986 and it later became known as the Sable Industries Pension Fund ("the Fund").

Based on documentation available to us and as advised by the Administrator and Curator:

- On 1 July 1994 there was a transfer of 212 members from the Fund to the Suzuki Pension Fund (now known as the Sukhulu Holdings Pension Fund ("Sukhulu Fund")). On 1 April 1995, a further 158 members were transferred to the Cadac Pension Scheme ("Cadac Fund"). An ongoing investigation in respect of the latter transfer is being conducted as an excessive amount of assets may have been included in this transfer to the Cadac Fund.
- With effect from 1 August 1995 the last 4 remaining active members were destined to transfer together with some R61 million of assets to the Lifecare Group Holdings Pension Fund ("Lifecare Fund"). This transaction was contrary to the provisions of the approved transaction and became the subject matter of the Financial Services Board ("FSB") investigation and the consequent curatorship. Some of these assets were utilised to purchase an Optiplus Category IV annuity policy from Old Mutual for some R25.1 million on 1 February 1996.
- Pursuant to the wrongful implementation of the transfer of business, the Fund was purportedly deregistered with the FSB on 22 January 1999. During an inspection into the past activities of the Fund by the FSB, it was found that a number of the past transactions related to the Lifecare Fund were suspect or incorrect. The Fund was placed under curatorship on 6 June 2006.

This report summarises the outcome of the transactions concluded by the Curator 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 Financial Services Board. (Refer Section 5 and 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 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.



The previous valuation report on the Fund was conducted as at 1 July 1994. An application for exemption from subsequent valuations has been submitted to the Financial Services Board. A summary of the present benefit structure in terms of the Rules is given in Annexure I.

The Fund has had no members (save for the outsourced pensioner members not transferred) or deferred pensioners since 1995. There have therefore been no member or employer contributions since that date and this report clearly does not need to consider any future contribution rates for pension or death benefits. 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. As agreed with the FSB on 26 March 2010, it includes allowances for the impact of the curatorship and other 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. I am satisfied that the report is adequate for the purpose of determining the surplus to be distributed, given that there are no members or deferred pensioner liabilities and the only assets are the net recoveries from other parties, allowing for expenses incurred.

### **2.3 Method**

The Fund has had no members (save for the outsourced pensioner members not transferred) or deferred pensioners since 1995 so there are no liabilities for these members at the valuation date.

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.

For the purposes of the valuation, I have discounted all asset recoveries (after the valuation date up to 15 September 2010) back to the valuation date by fund return. Fund return has been derived as follows:

- In respect of recoveries made by the Curator up to 15 September 2010: The interest rate expected to be recovered by the Curator, which is the net investment return<sup>1</sup> 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.

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<sup>1</sup> I 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 recoveries received during a month I have interpolated between the relevant monthly returns.



- In respect of all other cash flows (after the valuation date up to 15 September 2010), the actual net investment returns on the assets has been used.

The average fund return was calculated to be 16.1% 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.

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 4.2).



## 3. Data

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### 3.1 Section 16(8) of the Act

For valued funds, the Registrar requires the Curator 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 Curator 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 members and deferred pensioners present at the previous valuation as at 1 July 1994 subsequently purportedly transferred out of the Fund.

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 recovered after the valuation date, I have used the draft accounts supplied by the Fund Accountant for the period 1 July 2005 to 15 September 2010. 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 annuity policy purchased.

I have taken into account all expenses and recoveries as reflected in the draft accounts provided to me by the Curator's office and Administrator as at 15 September 2010.

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



## 4. Pension Increases

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### 4.1 Pension increases

With profit annuities were purchased from Old Mutual to back the pensioner liabilities and pension increases have been granted as follows since the previous valuation:

| Date of Increase | Pension increases (per annum) | CPI <sup>1</sup> |
|------------------|-------------------------------|------------------|
| 1.1.1995         | 11.0%                         | 9.9%             |
| 1.1.1996         | 9.0%                          | 6.9%             |
| 1.1.1997         | 12.0%                         | 9.3%             |
| 1.1.1998         | 11.6%                         | 6.3%             |
| 1.1.1999         | 1.2%                          | 8.9%             |
| 1.1.2000         | 5.6%                          | 2.2%             |
| 1.1.2001         | 9.1%                          | 7.0%             |
| 1.1.2002         | 6.1%                          | 4.5%             |
| 1.1.2003         | 5.2%                          | 12.4%            |
| 1.1.2004         | 1.2%                          | 0.4%             |
| 1.1.2005         | 4.2%                          | 3.3%             |
| 1.1.2006         | 7.1%                          | 3.6%             |
| 1.1.2007         | 10.1%                         | 5.8%             |
| 1.1.2008         | 10.1%                         | 9.0%             |
| 1.1.2009         | 5.1%                          | 9.5%             |
| 1.1.2010         | 3.2%                          | 6.3%             |
| <b>Average</b>   | <b>7.0%</b>                   | <b>6.6%</b>      |

### 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.

The pensions of pensioners have been purchased and therefore no minimum pension increase will become due in terms of the Surplus Act.

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



## 5. Assets

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### 5.1 Pensioner assets

At the valuation as at 1 July 1994 all pensioners were paid by the Fund and the liability was then determined to be R18.0 million. An interim valuation as at 1 April 1995 revealed liabilities of R19.3 million, which increased to R23.7 million after a change in the valuation basis by the Valuator.

An Optiplus Category IV annuity policy was purchased from Old Mutual for some R25.1 million on 1 February 1996.

The Underwriter has determined that the value of the pensioner annuity policy was R31,759,489 as at 30 June 2003.

### 5.2 Other Assets

At the previous valuation as at 1 July 1994 the Fund's assets of R95.2 million were invested in market linked investment policies underwritten by Sanlam ("100 Plus" and "200 Plus"); Liberty Life ("Managed Fund") and Momentum Life ("Indexplus") which were invested in balanced portfolios. There was a surplus of R59.1 million (264% funding level) based on market values.

Assets of R17.9 million transferred to the Sukhulu Fund as at 1 July 1994. I have estimated that surplus of some R9.2 million (using a 208% funding level) was included in the transfer.

An interim valuation was performed on the Fund at 15 September 1995 after these transfers which revealed total assets of R76.6 million. There was a surplus of R48.2 million (270% funding level) which reduced to R42.0 million (222% funding level) after a change in the valuation basis by the Valuator.

Assets to the value of R28.3 million purportedly to be inclusive (as at 1 April 1995) of fund return were transferred to the Cadac Fund. Surplus of some R8.2 million (based on a 176% funding level<sup>1</sup>) and a contingency reserve of some R1.8 million was included in the transfer. This transaction is the subject matter of further investigation by the Curator. According to the FSB inspection report, the assets of some R400,000 in respect of the 4 remaining members were apparently transferred via the Lifecare Fund to the Cadac Fund, and I have been advised that an amount of R36 million was wrongfully and unlawfully paid to the Lifecare Fund.

The Fund thus had no assets at this valuation, but the Curator has subsequently been pursuing the recovery of assets from other parties (refer Section 6 below).

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<sup>1</sup> As stated by the Valuator in the Section 14 application as at 1 April 1995. The Funding level of the Fund was evidently 227.5% at the time.



## 6. Significant Post Valuation Events

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### 6.1 Demutualisation Shares

The Fund was allocated 387,200 shares as a result of the demutualisation and listing of Old Mutual, as a consequence of its ownership of the pensioner annuity policy.

I have been informed by the Administrator that these shares were claimed and were subsequently transferred out of the Old Mutual nominee company on 2 August 2000.

I have not been supplied with any evidence that these shares were allocated to the pensioners and they currently do not form part of the assets of the Fund. Should the Curator recover any amounts, they will be added to the amount of surplus to be apportioned.

### 6.2 Recovery of Surplus assets and legal expenses

The Curator is pursuing all claims on behalf of the Fund aimed, inter alia, at recovering the surplus assets of some R36 million that were moved to the Lifecare Fund as at 1 August 1995 and subsequently acquired by the Employer and other parties, together with interest and legal expenses.

The Curator recovered amounts of R6,316,647 on 18 June 2008, R12,479,408 on 17 July 2009 and R103,214,311 on 30 August 2010.

### 6.3 Provision for Fund closure and liquidation expenses

The Curator is seeking to recover further amounts which will be added to the amount of surplus to be apportioned. I have therefore allowed for the following associated costs of these recoveries estimated by the Fund Accountant and Administrator until the Fund is liquidated:

|                               | <b>Total<br/>(R'000)</b> |
|-------------------------------|--------------------------|
| Legal costs                   | 5,508                    |
| Administration fees           | 274                      |
| Actuarial and consulting fees | 285                      |
| <b>TOTAL</b>                  | <b>6,067</b>             |

I 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.

### 6.4 Current Asset structure and returns

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 1 July 1994 are set out in the table below:



|                                  | Account Balances |      |           |      |
|----------------------------------|------------------|------|-----------|------|
|                                  | 1.7.1994         |      | 15.9.2010 |      |
|                                  | (R'000)          | %    | (R'000)   | %    |
| Sanlam 100+                      | 46,600           | 49%  | 0         | 0%   |
| Liberty Life Managed Fund        | 28,554           | 30%  | 0         | 0%   |
| Momentum Life                    | 10,838           | 11%  | 0         | 0%   |
| Sanlam 200+                      | 9,175            | 10%  | 0         | 0%   |
| Investec CCM Call Accounts       | 0                | 0%   | 93,420    | 100% |
| Nedbank                          | 0                | 0%   | 45        | 0%   |
| Trust account                    | 0                | 0%   | (68)      | 0%   |
| Net current assets/(liabilities) | 0                | 0%   | (413)     | 0%   |
| Value of assets                  | 95,167           | 100% | 92,984    | 100% |

The assets recovered since June 2008 have been invested in interest bearing accounts with Investec Private Client Securities (predominantly), ABSA (for a short period) and Nedbank (a relatively small amount). The average net return on these assets has been 7.1% per annum. The balance of the assets was held in the Trust account of Mostert Attorneys.

A revenue statement from 1 July 1994 to 15 September 2010 is given in Annexure III.

## 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. No instances of improper use of surplus were found.

## 6.6 Contingency Reserves

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



Based on the circumstances of the Fund, I recommend that the Curator approves a contingency reserve in order to cover the expenses related to the surplus apportionment exercise. The outstanding expenses have been estimated to be R2,831,515 as at 15 September 2010 (refer Annexure IV).

I 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.

## 7. Valuation Results

### 7.1 Actuarial value of assets as at 30 June 2003

The following table provides a summary of the discounted values (excluding the annuity policy in respect of pensioners):

|                                                | Gross amounts | Actuarial values<br>30.6.2003 |
|------------------------------------------------|---------------|-------------------------------|
|                                                | (R'000)       | (R'000)                       |
| Value of assets before provisions and reserves | 92,984        | 31,657                        |
| Provision for closure and liquidation expenses | (6,067)       | (2,066)                       |
| Surplus Apportionment Expense Reserve          | (2,831)       | (964)                         |
| Value of assets after provisions and reserves  | 84,086        | 28,627                        |

### 7.2 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<br>30.6.2003<br>(R'000) |        |
|---------------------------------------------------|-----------------------------------------|--------|
| Old Mutual Purchased Pensions                     | 31,759                                  |        |
| Actuarial value of other assets                   | 31,657                                  |        |
| <b>Total Value of Assets</b>                      |                                         | 63,416 |
| Liabilities held in respect of purchased pensions | 31,759                                  |        |
| Provision for closure and liquidation expenses    | 2,066                                   |        |
| Surplus Apportionment Expense Reserve             | 964                                     |        |
| <b>Total Value of Liabilities</b>                 |                                         | 34,789 |
| <b>Surplus</b>                                    |                                         | 28,627 |
| Funding level (including Contingency Reserve)     |                                         | 182%   |

The Fund is thus in a sound financial position as at the valuation date of 30 June 2003, having taken into account net recoveries made by the Fund subsequent to the valuation date up to 15 September 2010 and discounted them to the valuation date.



## 8. Certification of Asset/Liability Matching

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The Curator 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 Sable Industries Pension Fund.

The Fund is currently still under curatorship and the annuity policy remains in place to match the liability in respect of pensioners.

The only other assets 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 are 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. However, in light of the recent substantial recoveries made, it is recommended that a revised investment policy be adopted relating to the surplus assets recovered.



## 9. Certification of Financial Soundness

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As at 30 June 2003 the actuarial value of the Fund's assets exceeded the liabilities by R28,627,000 and the Fund is financially sound .

The value of the pensioner liabilities is assumed to be matched by the annuity policy purchased from Old Mutual and the contingency reserves and provisions established by the Curator 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 Curator 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 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 Curator approve a surplus apportionment expense reserve of R964,000 as at 30 June 2003.

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

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**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

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**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

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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 currently only pensioner members who are in receipt of pensions. In the event of a dispute, the Rules shall be binding.

### NORMAL RETIREMENT AGE

|                    |    |
|--------------------|----|
| Senior Executives: | 60 |
| Executives:        | 63 |
| Other members:     | 65 |

### RETIREMENT BENEFIT

i. Annual pension benefit on normal retirement

2% of the highest average annual salary (over any 18 consecutive months during the last 5 years preceding retirement) for each year of pensionable service.

5 years supplementary service is granted to Senior Executives and 2 years to Executives.

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 0,5% for each month of retirement earlier than the member's normal retirement date.

For Senior Executives and Executives, the supplementary service will be reduced by one month for every 2 months by which such a member retires before normal retirement date.

iii. Annual pension benefit on ill-health retirement

A member may be retired early at any age for ill-health reasons by the Employer. The pension accrued to the member's ill-health retirement date will be payable (without reduction) if the member does not receive a benefit from the Disability Income Scheme.

iv. 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 (120 payments in respect of the former members of the D&M (Padaanleg) Pension Fund) 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.

#### DEATH BEFORE RETIREMENT

i. Cash benefits

A lump sum life assurance benefit of twice the member's annual pensionable salary, plus a refund of the member's own contributions prior to 1 April 1979 to the Bonuskor Group Pension Fund, with interest

ii. Widow's and Children's pension benefits

A widow's pension equal to 40% of annual pensionable salary as well as a children's pension in respect of a maximum of four qualifying children, equal to 10% of pensionable salary per child. If no widow exists, the children's pension is doubled.

#### WITHDRAWAL BENEFIT

- (i) A return of the member's own contributions to the Fund plus interest; or
- (ii) A deferred pension payable from normal retirement date which can be purchased by the cash amount above, increased by 10% for each completed year of pensionable service in excess of 5 years, subject to a maximum increase of 100%. The member may request that this benefit be transferred to an approved retirement annuity fund.
- (iii) If a member is dismissed due to staff retrenchment, an amount equal to the value of the member's actuarial reserve, subject to a maximum of twice the benefit in (i) above, can with the consent of the Trustees be utilised as a single premium annuity, or to purchase a deferred pension payable from the normal retirement date of the member. If the member already qualifies for early retirement benefits, the reduction factor is changed from 0,5% to 0,25% per month of early retirement.

#### CONTRIBUTION RATE

6.5% of annual pensionable salary



## ANNEXURE II – Membership Data

### A. IN-SERVICE MEMBERS

#### Number of in-service members

|                                                           | Total |
|-----------------------------------------------------------|-------|
| Existing as at 1 July 1994 <sup>1</sup>                   | 387   |
| 1 July 1994 transfer to the Sukhulu Fund                  | 212   |
| 1 April 1995 transfer to the Cadac Fund                   | 158   |
| 1 August 1995 purported transfer to the Lifecare Fund     | 4     |
| Other net movements between 1 July 1994 and 1 August 1995 | 13    |
| Existing as at 30 June 2003                               | -     |

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

|                             | Senior Executives | Executives | Males  | Females | Total  |
|-----------------------------|-------------------|------------|--------|---------|--------|
| Existing as at 1 July 1994  | 1,106             | 319        | 14,198 | 4,808   | 20,431 |
| Existing as at 30 June 2003 | -                 | -          | -      | -       | -      |

#### Salary Weighted Average Age

|                    | Years | Months |
|--------------------|-------|--------|
| As at 1 July 1994  | 43    | 6      |
| As at 30 June 2003 | -     | -      |

### B. PENSIONERS

#### Pensioners

|                             | Number | Annual Pensions <sup>2</sup> (R'000) |
|-----------------------------|--------|--------------------------------------|
| Existing as at 1 July 1994  | 147    | 1,741                                |
| Existing as at 30 June 2003 | 111    | 2,501                                |

<sup>1</sup> The split of members into categories was not available after 1 July 1994.

<sup>2</sup> The annual pension paid to pensioners as at 30 June 2003 has been estimated since it is exactly matched by the pension receipts from the annuity policy and it is thus not material to the valuation.

## ANNEXURE III – Revenue Statement

### Revenue Statement for the period 1 July 1994 to 15 September 2010

|                                                             | R           | R                 |
|-------------------------------------------------------------|-------------|-------------------|
| <b>Market value at 1 July 1994</b>                          |             | <b>95,167,000</b> |
| Transactions at 1 July 1994, 1 April 1995 and 1 August 1995 |             | -95,167,000       |
| Opening balance after transactions at 1 August 1995         |             | 0                 |
| <b>Income</b>                                               |             | 123,369,871       |
| Asset recoveries                                            | 122,010,366 |                   |
| Investment income                                           | 1,359,505   |                   |
| <b>Expenditure</b>                                          |             | 30,385,455        |
| Curator fees (inclusive of VAT)                             | 23,386,070  |                   |
| Legal costs (inclusive of VAT)                              | 6,386,378   |                   |
| Administration, actuarial and consulting expenses           | 613,007     |                   |
| <b>Market Value as at 15 September 2010</b>                 |             | <b>92,984,416</b> |



## ANNEXURE IV –Surplus Apportionment Expense Reserve

The Surplus Apportionment Expense Reserve of R2,831,515 for the outstanding items as at 15 September 2010 is made up as follows:

| Item                                                      | Estimated costs (R) |
|-----------------------------------------------------------|---------------------|
| (a) Surplus valuation (PF 117)                            | 188,700             |
| (b) Former member data extracts                           | 5,000               |
| (c) Former member data analysis & consolidation           | 100,000             |
| (d) Minimum pension increase calculations                 | 50,000              |
| (e) Minimum Benefit Upgrade Calculations                  | 50,000              |
| (f) Call Centre                                           | 3,460               |
| (g) Tracing                                               | 241,072             |
| (h) Development of SAS                                    | 50,000              |
| (i) Communication to stakeholders (pre-objection period)  | 3,500               |
| (j) Communication to stakeholders (post-objection period) | 13,520              |
| (k) Dealing with objections                               | 5,000               |
| (l) Prepare & Submit SAS in prescribed format             | 25,000              |
| (m) FSB Levy <sup>1</sup>                                 | 16,000              |
| (n) Communication to non qualifying stakeholders          | 3,904               |
| (o) Former member benefit payments                        | 1,545,984           |
| (p) Former member representative                          | 30,000              |
| (q) Surplus consulting and investigations                 | 154,610             |
| <b>TOTAL EXCLUDING VAT</b>                                | <b>2,485,750</b>    |
| VAT                                                       | 345,765             |
| <b>TOTAL INCLUDING VAT</b>                                | <b>2,831,515</b>    |

<sup>1</sup> VAT not applicable



## ANNEXURE V – Other Considerations

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### **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 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.