



**KWAZULU-NATAL JOINT MUNICIPAL
PROVIDENT FUND (12/8/32588/1)
REPORT ON THE INTERIM ACTUARIAL
VALUATION AS AT 31 MARCH 2008**

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**REPORT TO THE COMMITTEE OF THE
KWAZULU-NATAL JOINT MUNICIPAL PROVIDENT FUND
ON THE INTERIM ACTUARIAL VALUATION
AS AT 31 MARCH 2008**

INTRODUCTION

- 1 We have performed an interim actuarial valuation of the Kwa-Zulu Natal Joint Municipal Provident Fund (the “Fund”) as at 31 March 2008 (“the valuation date”). This valuation complies with the requirements of the Financial Services Board and the Actuarial Society of South Africa.
- 2 This report is addressed to the Fund’s Committee of Management (“Committee”). Any other party placing reliance on this report is encouraged to firstly consult with the Committee and ourselves.
- 3 The previous interim actuarial valuation was performed as at 31 March 2007 (the “previous valuation date”). The period between 31 March 2007 and 31 March 2008 is referred to as the “valuation period”.
- 4 The previous statutory valuation was performed as at 31 March 2006 and the next statutory valuation is due as at 31 March 2009. A copy of this report on the interim valuation does not need to be submitted to the Financial Services Board.

PURPOSE OF THE VALUATION

- 5 The purpose of the valuation is to determine whether:
 - 5.1 The Fund is in a position to continue meeting the benefits and other commitments in terms of its rules;
 - 5.2 A further bonus should be declared in respect of the year;
 - 5.3 The available contributions are sufficient to meet the costs of the death benefits and of administration.

OPERATIONS SINCE LAST ACTUARIAL VALUATION

- 6 Investment earnings are credited to members’ Full Benefits by means of interim monthly bonuses and supplementary bonuses, on a smoothed bonus approach. The same level of bonuses applies to all members. When a member leaves the Fund, the Full Benefit is adjusted for the Investment Reserve Account at the date of exit; the Investment Reserve is also set on a smoothed approach.

- 7 The level of the interim monthly bonus and the Investment Reserve Account are determined quarterly in advance by the Committee of Management on the advice of the Actuary. The interim monthly bonuses and adjustment for the Investment Reserve Account over the valuation period have been as follows:

	Interim bonus p.m.	Investment Reserve
Month	%	%
April 2007	3,0	7,0
May 2007	1,0	7,0
June 2007	1,0	7,0
July 2007	1,0	7,0
August 2007	0,0	7,0
September 2007	0,0	7,0
October 2007	0,0	7,0
November 2007	1,0	7,0
December 2007	1,0	7,0
January 2008	1,0	7,0
February 2008	0,0	7,0
March 2008	0,0	7,0

- 8 No supplementary or final bonuses were granted during the valuation period.
- 9 The annualised return credited to members' Full Benefits during the valuation period and in the previous year are set out below. The actual investment return earned is included for comparative purposes.

Year ending	Annual return credited	Annual return earned
	%	%
31/03/2007	26,6	29,6
31/03/2008	9,3	7,0

- 10 I am satisfied that the methodology used by the Fund to smooth the investment proceeds that are allocated to members' Full Benefits is reasonable. I also consider the current asset allocation of the Fund (see Appendix 3) to be appropriate for a fund that manages its liabilities through the allocation of smoothed investment returns.

PARTICULARS SUPPLIED

- 11 Particulars were supplied of –
- 11.1 audited financial statements (Appendix 1);
 - 11.2 assets held by the Fund at the valuation date (Appendix 3);
 - 11.3 members of the Fund at the valuation date (Appendix 4); and
 - 11.4 conditions governing the payment of benefits in terms of the rules of the Fund (Appendix 5).
- 12 At the valuation date and at the previous valuation date the Fund covered the following membership:

	31 March 2007		31 March 2008	
	Number	Annual emoluments R'000	Number	Annual emoluments R'000
Males	4 014	302 670	4 755	390 382
Females	<u>1 694</u>	<u>143 693</u>	<u>1 935</u>	<u>174 661</u>
Total	<u>5 708</u>	<u>446 363</u>	<u>6 690</u>	<u>565 043</u>

- 13 The particulars were reconciled with each other and with the financial statements and tests were applied to check for reasonableness and consistency. We are satisfied that the particulars provided by the Fund are sufficiently accurate for purposes of this valuation.

ASSETS

- 14 According to the audited financial statements the market value of the Fund's assets was R 604 725 000 at the valuation date. We have adjusted the figure to allow for the following:
- 14.1 A duplicate benefit of R 124 000 had been allowed for. This amount has been added to the assets, giving total assets of R 604 849 000.
- 14.2 We are advised that the breakdown of the benefit payments shown in the statements is incorrect. We have restated the breakdown of benefit payments based on the data supplied (Appendix 1).

Members' Share Account

- 15 The Share Account comprises the total of the Members' Full Benefits at the valuation date. The audited financial statements reflect the total Share Account to amount to R560 429 000. We have made adjustments to this value, as follows.
- 15.1 The statements include a duplicate benefit payment of R124 000. In the 2007 financial statements an amount of R 16 000 had been deducted from the Risk Reserve Account instead of the Share Account. We have added the net adjustment of R 108 0000 to the Share Account, and have added R 16 000 to the Risk Reserve.

- 15.2 During the current and previous valuation periods a number of members transferred into the Fund. Because the Fund maintains an Investment Reserve, a portion of the transfer amounts should be allocated to the Investment Reserve Account. For some members who had transferred in the allocation had not been made, so that the Share Account was overstated by R 415 000. In a few cases there was an over deduction, totaling R 16 000. We are advised that these allocations have been corrected subsequently to the valuation date. For purposes of the valuation we have therefore reduced the Share Account by the net figure of R 399 000.
- 15.3 One of the recommendations in our 31 March 2007 valuation report was that active and exited members receive a bonus of 5,1% and 2,9% respectively as at 30 September 2007. The recommendation in respect of active members had been implemented by the valuation date; however exited members were still to be paid and the amount due to them was included in the Share Account shown in the financials; we have therefore reduced the Share Account by R 2 022 000.
- 16 Allowing for the above, the revised value of the Share Account shown in the financial statements is taken to be R 558 115 000, as follows:

31 March 2008

	R'000
Members' Share Account: Per financials	560 429
Paragraph 15.1	108
Paragraph 15.2	(399)
Paragraph 15.3	<u>(2 022)</u>
	<u>558 115</u>

- 17 Of the figure of R 399 000 mentioned in paragraph 15.2, R 125 000 relates to overpayments to members who have exited the Fund. Of this R 16 000 has been recovered, leaving a balance of R 99 000. The Committee agreed to write-off R 99 000 in this regard last year. We recommend that the write-off be implemented, which will cover the overpayments. We are advised that the member records have been rectified subsequent to the valuation date so that further write-offs, if any, should be small.
- 18 The actual valuation data provided for the valuation shows a Share Account of R558 037 000 which is only slightly lower than the figure of R 558 115 000 for the adjusted financial statements. The difference of R 78 000 is explained below.

	R'000
Difference between data and financial statements 31.03.2007	347
Difference between earned and declared bonuses	(437)
Adjustments to Share Account	486
Adjustments to benefits due	<u>(317)</u>
Total	<u><u>78</u></u>

- 19 The difference of R 78 000 is not material for the purposes of this valuation. For purposes of the valuation, we have therefore taken the value of the Share Account to be equal to the adjusted figure from the audited financial statements of R 558 115 000, as shown in paragraph 16.
- 20 It is thus seen that there are very material differences between the Share Account reflected in the financial statements and the Share Account per the data. The primary reason for the difference relates to members who have transferred into the Fund but whose transfer amounts have not yet been received pending the Financial Services Board approval for the assets to be transferred. We recommend that the Fund's Audit Committee and Legal Advisor review the Rules and Regulations of the Fund with a view to aligning the value of the Share Account reflected in the financial statements and the data.

RESULTS OF VALUATION

Risk Reserve Account

- 21 The Fund self-insures its risk benefits in excess of the Full Benefit. It therefore maintains a Risk Reserve Account as a measure of protection against volatility in claims experience. The amount of the Risk Reserve Account has been determined in accordance with paragraph 4.4 of the Financial Services Board's Circular PF117.
- 22 On this basis, an amount of R 8 891 000 is required to be held in the Risk Reserve Account.

Investment Reserve Account

- 23 In order to provide a cushion against volatility in the investment markets, the Fund holds an Investment Reserve Account. The level of this Reserve is reviewed quarterly by the Committee of Management, taking into account market conditions.
- 24 At the valuation date the Investment Reserve was equal to 7% of the members' Full Benefits. The required Investment Reserve Account was therefore taken as 7,0% of R558 115 000, or R 39 068 000, as at the valuation date.
- 25 Benefits paid to members who exit the Fund include an equitable portion of the Investment Reserve Account, in accordance with the minimum benefits prescribed for defined contribution funds in the Pension Funds Act.

Results

- 26 Allowing for the above, the liabilities of the Fund exceeded the assets, resulting in a small deficit (or “unallocated assets”) at the valuation date of R 3 247 000, as follows:

	31 March 2007	31 March 2008
	R'000	R'000
Share Account	472 501	558 115
Investment Reserve Account (7,0%)	33 025	39 068
Risk Reserve Account	7 520	8 891
2,9% bonus to exits (paragraph 15.3)	1 767	2 022
Interim bonus April 2007 (3%)	15 167	-
Unallocated assets (deficit)	<u>26 541</u>	<u>(3 247)</u>
Total market value of assets	<u>556 571</u>	<u>604 849</u>

- 27 It is thus seen that the liabilities exceeded the assets by R 3 247 000, or about 0,5% of assets. This is a feature of the smoothed bonus approach followed by the Fund. Given the small deficit, we recommend that no final bonus be declared on members' Full Benefits for the year to 31 March 2008.
- 28 The deficit of R 3 247 000 will be met from future investment earnings.
- 29 The Investment Reserve Account far exceeds the deficit, so that the Fund is financially sound as at the valuation date.

Adequacy of Contribution rate

- 30 Each member can elect to contribute to the Fund at either 5%, 7% or 9,25% of his/her pensionable emoluments. The employer contributes 1,95 times the member's contributions.
- 31 Of the contribution by the Employer, 3,75% of pensionable emoluments is applied to meeting the cost of the risk benefits and expenses.
- 32 The Fund self-insures the lump sum death benefit in excess of the Full Benefit. The actual cost of the self-insured portion of the death benefit was as follows since 1 April 2006:

Year ending	% of emoluments
31/03/2007	1,93%
31/03/2008	2,70%

- 33 The one year trend would appear to indicate a significant worsening in the mortality experience. This will be monitored closely in future valuations.

34 The mortality assumptions used to determine the self-insured death benefit contributions have been left unchanged for the current valuation. We last reviewed the mortality assumptions as at 31 March 2006 based on a detailed mortality investigation. The next such investigation will take place with the next statutory actuarial valuation of the Fund as at 31 March 2009.

35 Assuming that the age profile of the membership remains the same, the expected contribution required to provide death benefits for one year following 31 March 2008 is estimated to be equal to 2,52% of pensionable emoluments. This is less than the actual cost of 2,7% for year to 31 March 2008 due to the higher than expected number of deaths during the valuation period. In the previous year the amount of the actual deaths was less than expected.

36 The table below sets out the administration fees as a percentage of emoluments since 1 April 2006.

Year ending	% of emoluments
31/03/2007	0,91%
31/03/2008	0,89%

37 The expected cost of the risk benefits and expenses in the year following the valuation date is thus 3,41% (2,52% plus 0,89%) of pensionable emoluments. This is covered by the available contribution of 3,75%, so that in the coming year the contribution is expected to be sufficient to meet the risk benefit costs and expenses.

38 The adequacy of the contribution rate and any possible reduction in risk benefits is investigated during each annual valuation.

CONCLUSIONS

39 The market has been very volatile over the past year. Bonuses that have been credited to members' Full Benefits have been slightly higher than the investment earnings over the year. The net result is a small deficit of R 3 247 000. This is a feature of the smoothed bonus policy followed by the Fund. Given that the shortfall is not material (0,5% of assets) and is smaller than the Investment Reserve, I recommend that it be recouped from future investment earnings. Thus the Investment Reserve should remain at 7%.

40 I further recommend that no final bonus be declared on the members' Full Benefits for the year to the valuation date.

41 Relating to the financial statements, I recommend that:

41.1 The write-off of R 99 000 be implemented (paragraph 17); and

41.2 The Fund's Audit Sub-Committee and Legal Advisor consider steps to align the values of the Share Account reflected in the financial statements and the data (paragraph 20).

- 42 The contribution rate allocated towards risk benefits and expenses in the year following the valuation date is sufficient to cover the cost of these benefits and expenses.
- 43 The Fund self-insures the risk benefits. The amount in the Risk Reserve Account provides a cushion against fluctuations in claims experience.
- 44 During the valuation period the Fund wrote back unclaimed benefits of R 1,2 million to the unallocated assets. This has been distributed to the Full Benefit through bonus declarations. In this regard I point out that the Registrar of Pension Funds has issued Circular PF126 which prohibits the writing back of unclaimed benefits from 1 April 2007 so that unclaimed benefits after this date must be retained, with interest, as a creditor in the books of the Fund. We recommend that an adjustment be made in next year's financial statements of the Fund in respect of any unclaimed benefits that have been written back after the latter date.
- 45 I am satisfied that the assets of the Fund are appropriate given the liabilities.
- 46 I certify that the Fund was in a sound financial condition as at 31 March 2008.

AR ELS (FIA CFP)
VALUATOR

In my capacity as valuator to the KwaZulu-Natal Joint Municipal Provident Fund and as an employee of Arthur Els & Associates.

24 November 2008

APPENDIX 1

ACCOUNTS OVER VALUATION PERIOD

The audited financial statements show the following:

	R'000	R'000
Fund at 31 March 2007 (at market value)		556 571
Income		155 561
Expenditure		(107 407)
Fund at 31 March 2008 (at market value)		<u>604 725</u>

We have been advised that the breakdown of benefit payments shown in the audited statements is incorrect. We have restated the breakdown of benefit payments based on the data supplied. Allowing for the latter, we have based the valuation on the following figures.

	R'000	R'000
Fund at 31 March 2007 (at market value)		556 571
Income		155 561
member contributions	33 131	
employer contributions	64 605	
transfers from other funds	12 565	
investment proceeds	44 454	
other income	76	
unclaimed benefits	<u>730</u>	
Expenditure		(107 283)
lump sums on retirement	(25 659)	
lump sums on death	(28 394)	
lump sums on withdrawal	(35 910)	
general administration expenses	(4 627)	
investment administration expenses	(3 705)	
retirement fund taxation	(0)	
transfers paid	<u>(8 988)</u>	
Fund at 31 March 2008 (at market value)		<u>604 849</u>

We are satisfied that the data provided is consistent with the above statements.

APPENDIX 2

ASSETS

2.1 The total market value of the assets was R 604 849 000, as follows:

	Market value R'000
Stocks	48 263
Ordinary shares	432 686
Derivative Market Instruments	(21 200)
Collective Investment Schemes:	
- inside the Republic	16 425
- outside the Republic	71 617
Other	10 709
Deposits	76 005
Cash at bank	1 532
Current assets	<u>25 539</u>
	661 576
Less: Current liabilities	<u>(56 851)</u>
Total as per Financial Statements	604 725
Adjustment in respect of transfers out	<u>124</u>
Total	<u>604 849</u>

3.2 The total market value of the assets in the audited financial statements was apportioned to the various accounts by crediting and debiting the various income and expenditure items to the various accounts. The amounts of the accounts were as follows:

	Market value R'000
Members' Share Account*	558 115
Unallocated Reserve Account	(3 247)
Risk Reserve Account	8 891
Investment Reserve Account (balance of assets)	<u>41 090</u>
	<u>604 849</u>

* See main report - adjustment in respect of one member's withdrawal benefit and one member's transfer value.

3.3 In Appendix 6, the above reserve and account balances are reconciled to the valuation reserves and accounts.

APPENDIX 3

MEMBERSHIP

- 4.1 The number of members at the valuation date, their pensionable emoluments and their Full Benefits including interim bonuses up to that date were as follows:

MALES

Age	Number	Pensionable Emoluments (R)	Full Benefit (R)	Average per member	
				Pensionable Emoluments (R)	Full Benefits (R)
< 23	72	4 447 576	716 095	61 772	9 946
23 - 27	568	41 236 489	9 501 252	72 599	16 728
28 - 32	989	84 079 829	36 206 384	85 015	36 609
33 - 37	968	84 209 443	54 573 895	86 993	56 378
38 - 42	640	51 318 442	45 154 194	80 185	70 553
43 - 47	540	45 746 165	53 352 189	84 715	98 800
48 - 52	431	36 525 061	61 327 354	84 745	142 291
53 - 57	288	22 543 529	57 183 899	78 276	198 555
58 - 62	210	16 793 268	45 250 184	79 968	215 477
63 +	49	3 482 537	12 728 045	71 072	259 756
Total	4 755	390 382 339	375 993 491	82 099	79 073

FEMALES

Age	Number	Pensionable Emoluments (R)	Full Benefit (R)	Average per member	
				Pensionable Emoluments (R)	Full Benefits (R)
< 23	20	1 027 161	104 272	51 358	5 214
23 - 27	273	22 848 713	7 179 107	83 695	26 297
28 - 32	461	43 515 929	23 178 800	94 395	50 279
33 - 37	405	38 763 296	32 507 056	95 712	80 264
38 - 42	249	22 093 919	23 401 135	88 731	93 980
43 - 47	200	17 332 683	22 647 460	86 663	113 237
48 - 52	150	13 394 347	26 194 819	89 296	174 632
53 - 57	101	8 271 292	21 836 644	81 894	216 204
58 - 62	66	6 272 374	18 068 483	95 036	273 765
63 +	10	1 141 294	3 366 152	114 129	336 615
Total	1 935	174 661 008	178 483 928	90 264	92 240

4.2 **MEMBERSHIP RECONCILIATION PER DATA**

Membership at 31 March 2006		5 708
Adjustment to opening balance ¹		(2)
New Members		1 411
Transfers In		114
Exits		(541)
Retirements	(33)	
Ill-health	(18)	
Deaths	(124)	
Resignations	(288)	
Dismissals	(38)	
Deferred	(1)	
Transfers	(39)	
Membership at 31 March 2008²		<u>6 690</u>

1. Duplicate records deleted

2. Includes 2 deferred pensioners

4.3 Members are able to choose to contribute at different rates. At the valuation date members were contributing as follows:

Member's rate of contribution (% of pensionable emoluments)	No. of members
5%	3 933
7%	1 348
9,25%	1 409

BENEFITS AND CONDITIONS

5.1 The principal benefits and conditions of the Fund at the valuation date are described below.

Member's contributions	Until 30 June 2000 each member contributed 5% of pensionable emoluments. With effect from 1 July 2000 members have the option of contributing at either 5%, 7% or 9,25% of pensionable emoluments.
Local authorities' contributions	An amount equal to 1,95 times the contributions paid by the members. Of this amount, 3,75% is used to meet the cost of the risk benefits and expenses of administration, and the balance is allocated to the members' Full Benefits.
Full Benefit	Initial transfer plus member's contributions plus local authorities' contributions for Full Benefits plus interim, special and final bonuses.
Pension age	65 years
Earliest retirement age	58 years
Benefit on retirement after earliest retirement age	Full Benefit
Benefit on retirement because of ill-health	Full Benefit
Benefit on death in service	Full Benefit plus 0,7% of annual pensionable emoluments for each month from date of death to the date on which the member would have attained the pension age (subject to a maximum of 2,1 times annual pensionable emoluments).
Withdrawal	Full Benefit.

VALUATION ASSUMPTIONS FOR MEMBERS - DEATH

Age	Average annual rate of death (per cent) between age stated	
	Males	Females
	%	%
20	0,71	0,50
25	0,95	0,75
30	1,19	1,00
35	1,55	1,25
40	1,90	1,05
45	2,26	1,35
50	2,62	2,10
55	3,21	2,10
60	4,05	2,10
65		

**RESERVE ACCOUNT BUILD-UP
FROM 31.03.2007 TO 31.03.2008 (R'000)**

	Full Benefit	Risk Reserve Account	Unallocated/ Investment Reserve	Total
Balance as at 31/03/2007 per accounts	472 878	11 519	72 174	556 571
Adjustment made to accounts	- 16	- 3 999	4 015	
Balance as at 31/03/2007 per actuarial	472 863	7 520	76 188	556 571
INFLOW				
Contributions				
- Member	33 131			33 131
- Employer retirement	45 028			45 028
- Employer risk and expenses		19 577		19 577
Transfer received	11 463		1 102	12 565
Other Income		76		76
Unclaimed Benefits			730	730
Investment Income			44 454	44 454
OUTFLOW				
Administration expenses		- 4 627		- 4 627
Investment manager's fees			- 3 705	- 3 705
Retirement Fund Tax				
Lump sums on death	- 11 019	- 15 200	- 2 175	- 28 394
Lump sums on retirement	- 23 208		- 2 451	- 25 659
Lump sums on withdrawal	- 32 518		- 3 392	- 35 910
Transfers paid	- 7 107		- 1 881	- 8 988
Investment Income Allocated	69 881		- 69 881	
2.9% revisiting of exits from last year	2 022		- 2 022	
Balance as at 31/03/2008	560 536	7 346	36 967	604 849
Increase of Risk Reserve		1 545	- 1 545	
Interim bonus April 2008				
Adj. for Investment Reserve on transfers	- 399		399	
Further Bonus				
2.9% revisiting of exits from last year	- 2 022		2 022	
Balance as at 31/03/2008 as per valuation¹	558 115	8 891	37 843	604 849

1. We would recommend that the financial statements for the 2008 / 2009 year include an actuarial adjustment item to reflect the above balances for the Share Account, Unallocated Reserve Account and Investment Reserve Account.

- 7.1 The required Investment Reserve Account is 7,0% of R 558 115 000 or R 39 068 000. The balance in the Investment Reserve Account shown above is R 37 843 000. Of this, R 2 022 000 is needed for the 2.9% revisiting of exits of last year leaving only R 35 821 000 in the Investment Reserve Account i.e. a shortfall of R 3 247 000 (R 39 068 000 – R 35 821 000). This shortfall can either be met by reducing the Investment Reserve Account or future interim bonuses (see paragraph 28 in the main report).

LIMITATIONS TO USE OF REPORT

This report has been prepared for the Committee of Management of the KwaZulu-Natal Joint Municipal Provident Fund. Its contents and conclusions should not be used by any other party, as the purpose for which this report has been prepared may not be appropriate for other uses.

A third party who wishes to use the information, conclusions, recommendations or any other aspects of this report should contact the Committee of Management of the KwaZulu-Natal Joint Municipal Provident Fund who will in turn obtain written comment from Arthur Els & Associates on whether this report is appropriate for the intended use.

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