

**KWAZULU-NATAL JOINT MUNICIPAL
PROVIDENT FUND (12/8/32588/1)
REPORT ON THE INTERIM ACTUARIAL
VALUATION AS AT 31 MARCH 2011**

Prepared by

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Johannesburg**

30 November 2011

**KWAZULU-NATAL JOINT MUNICIPAL PROVIDENT FUND
REPORT ON THE INTERIM ACTUARIAL VALUATION
AS AT 31 MARCH 2011**

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PART A: EXECUTIVE SUMMARY

1. We have performed an interim valuation of the Kwa-Zulu Natal Joint Municipal Provident Fund (the "Fund") as at 31 March 2011 ("the valuation date"). The previous statutory valuation was performed as at 31 March 2009 (the "previous valuation date"). The period between 31 March 2009 (when the last statutory valuation was performed) and 31 March 2011 is referred to as the "valuation period".
2. At the valuation date and at the previous statutory valuation date the Fund covered the following membership:

	31 March 2009		31 March 2011	
	Number	Annual emoluments R'000	Number	Annual emoluments R'000
Males	5 697	507 216	6 693	753 900
Females	<u>2 280</u>	<u>218 343</u>	<u>2 849</u>	<u>336 851</u>
Total	<u>7 977</u>	<u>725 559</u>	<u>9 542</u>	<u>1 090 751</u>

3. The market value of the Fund's assets was R 1 056 207 088 at the valuation date before any adjustments. Adjustments were made as detailed in Appendix 1. The market value of the Fund's assets for purpose of the valuation was taken as R 1 055 632 628.
4. The valuation results in respect of service accrued up to the valuation date, and at the previous valuation date, were as follows:

	31 March 2009	31 March 2011
	R'000	R'000
Member Share Account - As per financials	575 459	929 405
- Adjustment*	<u>(742)</u>	<u>24 156</u>
	574 717	953 561
Reserve Accounts	<u>(765)</u>	<u>102 072</u>
Market value of assets	<u>573 952</u>	<u>1 055 633</u>

* 31 March 2009: Adjustment in respect of incorrect breakdown of benefits between the Member Share Account, Risk Reserve Account and Investment Reserve Account and an incorrect provision in respect of transfer values receivable and payable.

5. The adjustment made to the Member Share Account as reflected in the financials was due to:
 - (1) Benefits accrued during the financial year ending 31 March 2011 were not split between the Member Share Account and the Investment Reserve Account in the financial statements, resulting in an over-deduction from the Member Share Account and no reduction from the Investment Reserve Account. This means that the value reflected in the financial statements does not agree to the value reflected on the administration system (adjustment of some R8 million);

- (2) No account was taken in the financial statements of the supplementary bonus of 1% declared by the Committee of Management as at 31 March 2011 (adjustment of R9,4 million);
 - (3) Some 165 incorrect administration records were adjusted (adjustment of negative R1,2 million); and
 - (4) Some 40 records were updated with transfer values receivable that were not updated on the administration system due to taxation problems (adjustment of some R7,8 million).
6. We recommend that adjustments be made to the financial statements so that the statements reflect the correct values in the Member Share Account, Risk Reserve Account and Investment Reserve Account. This matter should be brought to the attention of the Fund's Audit Committee.
 7. The administration department has undertaken to correct the records on the administration system. We recommend that the Committee of Management allocate additional resources to ensure the success of the process put in place to resolve data issues after the valuation date. Accuracy of administration records will expedite the completion of the annual valuations and lead to a reduction in future costs for correcting the data.
 8. The Fund self-insures its risk benefits and holds a Risk Reserve as a measure of protection against volatility in claims experience. Circular PF117 from the Financial Services Board sets out the standards required of actuarial valuations. In terms of PF117, the balance required to be held in the Risk Reserve Account was determined to be R 15 072 000. We recommend that the Risk Reserve Account be set at this amount.
 9. In order to provide a cushion against volatility in the investment markets, the Fund declares investment earnings on a smoothed basis and thus holds an Investment Reserve. The level of this Reserve is reviewed quarterly by the Committee of Management, taking into account market conditions. At the valuation date the Investment Reserve was equal to 7% of the Member Share Account.
 10. Benefits paid to members who exit the Fund include an equitable portion of the Investment Reserve, in accordance with the minimum benefits prescribed for defined contribution funds in the Pension Funds Act.
 11. A complete reconciliation of the build-up of the Member Share, Risk and Investment Reserve Accounts can be found in Appendix 7.
 12. The total returns earned during the year ending 31 March 2011 amounted to 11,78%. Adjusting this for the unallocated assets at 31 March 2010 of approximately 2%, the assets available were approximately 13,55% over the year to 31 March 2011. Interim and supplementary bonuses credited to Members' Full Benefits over the year to 31 March 2011 amounted to a total cost of 11,54%. The interim bonus for April 2011 was 2%. Taking this into account the Fund had a small deficit of 0,02%.



13. Allowing for the above, the financial position of the Fund at the valuation date was as follows:

	R'000
Member Share Account	953 561*
Investment Reserve (7%)	68 085
Risk Reserve	15 072
Interim bonus – April 2011 (2%)	19 071
Unallocated Assets	<u>(156)</u>
Total market value of assets	<u>1 055 633</u>

* Including all monthly and supplementary bonuses to 31 March 2011, but before any final bonus

14. There was a small deficit of R156 000 at the valuation date and hence no final bonus can be declared as at 31 March 2011.
15. The assets exceeded the liabilities and reserves before the declaration of the April 2011 bonus, and only showed a small deficit if the April 2011 bonus is included in the liabilities. This is not material and no further action is required as this position will automatically be corrected via the smoothed bonus approach of the Fund.
16. 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.
17. Members are able to choose a rate of contribution between 5% and 9,25% of pensionable salaries. We note that 57% of members have chosen the lowest rate of contribution, which reduces their expected retirement benefit. We believe that it is in the long-term interest of members to save as much as possible towards retirement and to this end we recommend the following:
- (1) That the Committee implements an education programme for members on the longer term benefit of increasing their rate of contribution; and
 - (2) That the default rate of contribution be set at 9,25% (the highest rate). This rate will then apply to each new employee unless he/she actively chooses to contribute at a lower rate. Behavioral Finance studies show that most new employees accept the default option, which is to their benefit in the longer term.
18. I am satisfied that the assets of the Fund are appropriate given the liabilities, and that the self-insurance of the death lump sum benefit is appropriate.
19. Subject to the comments in paragraphs 6 and 15, I certify that the Fund was in a sound financial condition as at 31 March 2011.



A R ELS (FASSA FIA)
VALUATOR

In my capacity as valuator to the Fund and as an employee of Arthur Els & Associates
30 November 2011

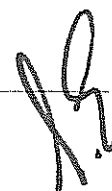
**MAIN REPORT
TO THE COMMITTEE OF THE
KWAZULU-NATAL JOINT MUNICIPAL PROVIDENT FUND
ON THE INTERIM ACTUARIAL VALUATION
AS AT 31 MARCH 2011**

INTRODUCTION

1. This interim actuarial valuation of the KwaZulu-Natal Joint Municipal Provident Fund (the "Fund") was performed as at 31 March 2011. This valuation complies with the requirements of the Financial Services Board and the Actuarial Society of South Africa.
2. The last statutory valuation was performed as at 31 March 2009.
3. The period between 31 March 2009 (when the last statutory valuation was performed) and 31 March 2011 is referred to as the "valuation period".
4. This report is addressed to the Committee of Management. Any other party placing any reliance on this report is encouraged to firstly consult with the Committee and ourselves.

PREVIOUS VALUATION REPORTS

5. The 31 March 2009 statutory actuarial valuation report recommended that:
 - (1) The negative value of the Unallocated Assets be recouped in the following year by declaring lower monthly bonuses than actual investment returns earned;
 - (2) No final bonus be declared on the members' Full Benefits as at 31 March 2009;
 - (3) The Fund's Audit Committee review the procedures of the Fund with a view to aligning the value of the Member Share Account reflected in the financial statements and the data; and
 - (4) The Committee consider implementing an education programme to members on the longer term benefit of increasing members' rate of contribution.
6. The first two recommendations were implemented by the Committee of Management. The last two recommendations are under consideration, in conjunction with the implementation of a new administration system.
7. The 31 March 2010 interim actuarial valuation report recommended that:
 - (1) No final bonus be declared on the member's Full Benefits at 31 March 2010;
 - (2) The Committee implements an education programme for members on the longer term benefit of increasing their rate of contribution and set the default contribution rate for new members at 9,25% (the highest rate); and
 - (3) The Fund's Audit Committee review the procedures of the Fund with a view to aligning the value of the Member Share Account reflected in the financial statements and the data.



8. The first recommendation was adopted, but the last two recommendations are still being considered by the Committee.

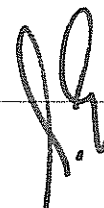
PURPOSE OF THE VALUATION

9. The purpose of the valuation is to consider the financial soundness of the Fund in terms of the funding objectives laid down by the Actuarial Society of South Africa and as required by the Registrar of Pension Funds.
10. This requires that the following be determined:
- (1) Whether the existing assets of the Fund are sufficient to cover the Fund's accrued liabilities towards its members for service prior to the valuation date;
 - (2) Whether the nature of the assets of the Fund is suitable to match the nature of the liabilities of the Fund;
 - (3) Whether the Fund is in a position to continue meeting the benefits and other commitments in terms of its rules;
 - (4) Whether a further bonus should be declared; and
 - (5) Whether the available contributions are sufficient to meet the costs of the death benefits and administration expenses.

CHANGES SINCE LAST STATUTORY VALUATION

11. (1) 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 at the date of exit. The Investment Reserve is also determined on a smoothed approach.
- (2) The level of the interim monthly bonus and the balance of the Investment Reserve 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 over the valuation period have been as follows:

	Interim bonus p.m.	Investment Reserve
Month	%	%
01/04/2009 to 31/07/2009	0.0	0.0
01/08/2009 to 31/10/2009	1.5	0.0
01/11/2009 to 30/11/2009	6.0	0.0
01/12/2009 to 31/01/2010	1.0	7.0
01/02/2010 to 31/03/2010	0.0	7.0



	Interim bonus p.m.	Investment Reserve
Month	%	%
01/04/2010 to 30/04/2010	0.0	7.0
01/05/2010 to 31/07/2010	1.0	7.0
01/08/2010 to 31/10/2010	0.0	7.0
01/11/2010 to 31/01/2011	1.0	7.0
01/02/2011 to 31/03/2011	2.0	7.0

- (3) Supplementary and final bonuses have been credited during the valuation period as follows:

Date	Supplementary %	Final %
31/03/2010	1.5	0.0
31/03/2011	1.0	0.0

- (4) The annualised returns credited to members' Full Benefits during the valuation period are set out below. The actual investment returns earned are included for comparative purposes.

Year ending	Annual return credited %	Annual return earned %
31/03/2010	14.8	27.8
31/03/2011	11.5	11.8

- (5) The total returns earned during the year ending 31 March 2010 amounted to 27,8%. Unallocated assets amounted to -2,42% of the Member Share Account at the previous statutory actuarial valuation date and this shortfall was recouped out of the investment returns during the year. The total return credited to members' Full Benefits during the year amounted to 14,8% (inclusive of all supplementary and final bonuses). Taking into account the reinstatement of the Investment Reserve of 7%, the total income available at 31 March 2010 was therefore some 2%.
- (6) The total returns earned during the year ending 31 March 2011 amounted to 11,78%. Adjusting this for the unallocated assets at 31 March 2010 of approximately 2%, the assets available were approximately 13,55% over the year to 31 March 2011. Interim and supplementary bonuses credited to Members' Full Benefits over the year to 31 March 2011 amounted to a total cost of 11,54%.
- (7) The interim bonus for April 2011 was 2%. Taking this into account, the total income available at 31 March 2011 was therefore approximately -0,2% $[(1 + 0,1355) \div (1 + 0,1378) - 1]$. As detailed in paragraph 26, the Fund had a small deficit of 0,02%. The difference between the 0,2% shown here and the 0,02% as detailed in paragraph 26 is not materially significant and no further action is needed.



- (8) Amendment 6 to the Regulations of the Fund was approved by the Financial Services Board during the valuation period. This amendment abolishes the practice that unclaimed benefits revert back to the assets of the Fund after a certain period.

PARTICULARS SUPPLIED

12. Particulars were supplied of –

- (1) audited financial statements (Appendix 1);
- (2) the assets held by the Fund at the valuation date (Appendix 2);
- (3) the members of the Fund at the valuation date (Appendix 4); and
- (4) the conditions governing the payment of benefits in terms of the rules of the Fund (Appendix 5).

13. At the valuation date and at the previous statutory valuation date the Fund covered the following membership:

	31 March 2009		31 March 2011	
	Number	Annual emoluments R'000	Number	Annual emoluments R'000
Males	5 697	507 216	6 693	753 900
Females	<u>2 280</u>	<u>218 343</u>	<u>2 849</u>	<u>336 851</u>
Total	<u>7 977</u>	<u>725 559</u>	<u>9 542</u>	<u>1 090 751</u>

14. The particulars were reconciled with each other as discussed in Appendix 3. We are satisfied that the particulars provided by the Fund are sufficiently accurate for purposes of this valuation, subject to the adjustments stated below.

RESULTS OF VALUATION

Assets

15. The market value of the Fund's assets was R 1 056 207 088 at the valuation date before any adjustments. Adjustments were made as detailed in Appendix 1. The market value of the Fund's assets for purpose of the valuation was taken as R 1 055 632 628. The composition of the assets is detailed in Appendix 2.

Member Share Account

16. The Member Share Account comprises the total of the Members' Full Benefits at the valuation date. The total Member Share Account in the audited financial statements amount to R929 404 845. The Member Share Account from the administration data amount to R936 890 296. We could not obtain an explanation for the difference from either the



administrators or auditors, but we believe the reason to be that benefits which accrued during the last financial year were not accurately split between the different accounts. We have, for the valuation, therefore used the Member Share Account value from the administration system as it is both consistent with previous data provided and reconciles if built up from the closing balance as at 31 March 2010 plus contributions plus declared bonuses.

- (1) We have adjusted this value by some R6,6 million to allow for some 165 incorrect administration records (adjustment of minus R1,2 million) and some 40 records where transfers reflected as receivable in the financial statements have not been updated on the administration records (adjustment of R7,8 million).
 - (2) We have also updated the Member Share Account with the supplementary bonus of 1% credited to member records as at 31 March 2011; i.e. and adjustment of some R9,4 million.
 - (3) Allowing for the above, the revised value of the Member Share Account is taken to be R 953 560 700 for purposes of the valuation.
17. We recommend that adjustments be made to the financial statements so that the statements reflect the correct values in the Member Share Account, Risk Reserve Account and Investment Reserve Account. This matter should be brought to the attention of the Fund's Audit Committee.
 18. The administration department has undertaken to correct the records on the administration system. We recommend that the Committee of Management allocate additional resources to ensure the success of the process put in place to resolve data issues after the valuation date. Accuracy of administration records will expedite the completion of the annual valuations and lead to a reduction in future costs for correcting the data.

Risk Reserve

19. 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. Circular PF117 from the Financial Services Board sets out the standards required of actuarial valuations.
20. In terms of PF117, the balance required to be held in the Risk Reserve Account was determined to be R 15 072 000. We recommend that the Risk Reserve Account be set at this amount.



Investment Reserve

21. In order to provide a cushion against volatility in the investment markets, the Fund holds an Investment Reserve. The level of this Reserve is reviewed quarterly by the Committee of Management, taking into account market conditions.
22. We have determined the Investment Reserve on the basis of what the Fund's investment risk is for the year ending 31 March 2011. By investment risk we mean the risk that a negative bonus declaration will have to be made in any given month in the foreseeable future. At the valuation date the Investment Reserve was equal to 7% of the members' Full Benefits.
23. 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.

Unallocated assets

24. A complete reconciliation of the build-up of the Member Share, Risk and Investment Reserve Accounts can be found in Appendix 7.
25. The Unallocated Assets represent the remaining assets of the Fund after allowing for all Accounts and Reserves as set out above. The balance of the Unallocated Assets is available for final interest allocations to the Member Share Account and to the Risk Reserve.
26. Allowing for the above, the financial position of the Fund at the valuation date can be detailed as follows:

	31 March 2009	31 March 2011
	R'000	R'000
Member Share Account	574 717	953 561*
Investment Reserve Account	0	68 085
Risk Reserve Account	13 165	15 072
Final bonus at valuation date	0	0
Interim bonus (April following valuation date)	0	19 071
Unallocated Assets (deficit)	<u>(13 930)</u>	<u>(156)</u>
Total market value of assets	<u>573 952</u>	<u>1 055 633</u>

* Including all monthly and supplementary bonuses to 31 March 2011, but before any final bonus

27. There was a small deficit of R156 000 at the valuation date and hence no final bonus can be declared as at 31 March 2011. At the previous statutory valuation there was a somewhat larger deficit. This volatility in the Unallocated Assets is a feature of the smoothed bonus approach followed by the Fund.

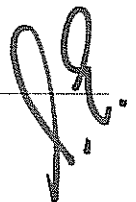
Contribution rate assessment

28. Each member can elect to contribute to the Fund at either 5%, 7% or 9,25% of his/her pensionable emoluments (See Appendix 5). The employer contributes 1,95 times the member's contributions.
29. Of the contribution by the Employer, 3,75% of pensionable emoluments is applied to meeting the cost of the risk benefits and expenses.
30. The fund self-insures the lump sum death benefit in excess of the Full Benefit. The average actual cost of the self-insured portion of the death benefit was 1,48% of pensionable emoluments during the valuation period (1,54% for the year ending 31 March 2010 and 1,42% for the year ending 31 March 2011).
31. The average administration fees amounted to 0,88% of pensionable emoluments during the valuation period (0,96% for the year ending 31 March 2010 and 0,81% for the year ending 31 March 2011).
32. 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 2011 is estimated to be equal to 2,58% of pensionable emoluments. This was determined using the mortality assumptions for the 2006 statutory valuation of the Fund (the last statutory valuation approved by the Financial Services Board).
33. The expected cost of the risk benefits and expenses in the year following the valuation date is thus 3,46% (2,58% plus 0,88%) of pensionable emoluments. This is covered by the available contribution of 3,75%, so that in the coming year the available contribution is expected to be sufficient to meet the risk benefit costs and expenses.
34. Any excess contributions over the expected cost of risk benefits and expenses is held in the Risk Reserve and becomes part of the Unallocated Assets in the Fund at year end.
35. Over the longer term, the adequacy of the available 3,75% contribution to cover the cost of risk benefits and expenses depends on the age distribution and actual mortality experience of the Fund. The adequacy of the contribution rate and any possible reduction in risk benefits is investigated during each annual valuation.



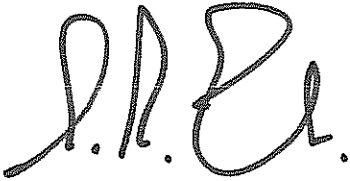
CONCLUSIONS AND RECOMMENDATIONS

36. The market value of the assets approximately equaled the liabilities and reserves at the valuation date. The assets exceeded the liabilities and reserves before the declaration of the April 2011 bonus, and only showed a small deficit if the April 2011 bonus is included in the liabilities. This is not material and no further action is required as this position will automatically be corrected via the smoothed bonus approach of the Fund.
37. The market remains volatile. This necessitates the use of an Investment Reserve to assist with a smoothed bonus approach in order to reduce the impact of the poor investment earnings on bonuses credited to the Member Share account.
38. The Fund self-insures the risk benefits. The rate of contribution to the Fund is sufficient to meet the cost of the risk benefits and the cost of administration. The amount in the Risk Reserve provides a cushion against fluctuations in claims experience.
39. Subsequent to the valuation date, the investment markets have remained very volatile and fluctuations in asset values can be expected.
40. We experienced problems with the data provided to us, but this has been adjusted and we are satisfied that the adjusted data is satisfactory for the purposes of performing an actuarial valuation. There are however material differences between the Member Share Account reflected in the financial statements and the Member Share Account from the data.
- (1) We recommend that adjustments be made to the financial statements so that the statements reflect the correct values in the Member Share Account, Risk Reserve Account and Investment Reserve Account. This matter should be brought to the attention of the Fund's Audit Committee; and
 - (2) The administration department has undertaken to correct the records on the administration system. We recommend that the Committee of Management allocate additional resources to ensure the success of the process put in place to resolve data issues after the valuation date.
41. Members are able to choose a rate of contribution between 5% and 9,25% of pensionable salaries. We note that 57% of members have chosen the lowest rate of contribution, which reduces the expected retirement benefit. We believe that it is in the long-term interest of members to save as much as possible towards retirement and to this end we recommend the following:
- (1) That the Committee implements an education programme for members on the longer term benefit of increasing their rate of contribution; and
 - (2) That the default rate of contribution be set at 9,25% (the highest rate). This rate will then apply to each new employee unless he/she actively chooses to contribute at a lower rate. Behavioral Finance studies show that most new employees accept the default option, which is to their benefit in the longer term.



ACTUARIAL CERTIFICATE

42. I certify that:
- (1) I am satisfied that the assets of the Fund are appropriate given the liabilities.
 - (2) The self-insurance by the Fund of the risk benefits, is appropriate.
 - (3) The contribution rate allocated towards risk benefits and expenses in the year following the valuation date is expected to be sufficient to cover the cost of these benefits and expenses.
43. Subject to the comments in paragraph 36, I certify that the Fund was in a sound financial condition as at 31 March 2011.



A R ELS (FASSA FIA)
VALUATOR

In my capacity as valuator to the Fund and as an employee of Arthur Els & Associates
30 November 2011

APPENDICES

APPENDIX 1

ACCOUNTS OVER VALUATION PERIOD

The audited financial statements show the following:

	R'000	R'000
Fund at 31 March 2009 (at market value)		569 868
Income		649 330
Expenditure		<u>(162 991)</u>
Fund at 31 March 2010 (at market value)		<u>1 056 207</u>

Our investigation of the administration data revealed that some benefits were underpaid. We have therefore adjusted the audited financial statements by some R574 000 in respect of benefits payable. Allowing for this adjustment, we have based the valuation on the figures reflected on the next page.



	R'000	R'000
Fund at 31 March 2009 (at market value)		569 868
Income		662 322
member contributions	119 491	
employer contributions	235 649	
transfers from other funds	16 612	
investment proceeds	<u>290 570</u>	
Expenditure		(176 557)
lump sums on retirement	(32 640)	
lump sums on death	(58 132)	
lump sums on withdrawal	(54 377)	
divorces	(801)	
general administration expenses	(16 497)	
investment administration expenses	(8 552)	
retirement fund taxation	(853)	
transfers paid	<u>(4 705)</u>	
Fund at 31 March 2011 (at market value)		<u>1 055 633</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 1 055 633 000 as at 31 March 2011, as follows:

	Market value R'000	Percentage
Fixed Interest Stocks	173 639	16.45%
Ordinary shares:		
- inside the Republic	551 218	52.22%
- outside the Republic	22 728	2.15%
Collective Investment Schemes:		
- inside the Republic	30 741	2.91%
- outside the Republic	50 858	4.82%
Other	143 417	13.59%
Deposits	126 484	11.98%
Cash at bank	16 730	1.58%
Current assets	<u>20 517</u>	<u>1.94%</u>
	1 136 332	107.64%
Less: Current liabilities	<u>(80 125)</u>	<u>(7.59%)</u>
Total as per Financial Statements	1 056 207	100.05%
Adjustment iro transfers and contributions	<u>(574)</u>	<u>(0.05%)</u>
Total	<u>1 055 633</u>	<u>100.00%</u>

2.2 The total market value of the assets 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:

	R'000
Member Share Account	953 561*
Investment Reserve (7%)	68 085
Risk Reserve	15 072
Interim bonus – April 2011 (2%)	19 071
Unallocated Assets	<u>(156)</u>
Total market value of assets	<u>1 055 633</u>

* Adjusted as explained in paragraphs 16 to 18 of the main report.



- 2.3 The table below provides a summary of bonuses declared for the year ended 31 March each year since 2006:

Year ending 31 March	Bonuses declared	Investment Reserve
2006	45,9%	7%
2007	26,4%	7%
2008	14,9%	7%
2009	(3,9%)	0%
2010	14,8%	7%
2011	11,5%	7%



APPENDIX 3

CHECKING OF DATA

The following lists are applied to ensure the accuracy and completeness of the information received from the administrator.

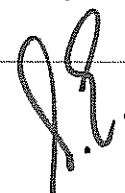
1. Testing the reasonability of all dates, i.e. 1193/02/02 is not accepted as a date of birth.
2. Checking the reasonability of each member's age. That is, there are no active members less than 18 or older than the normal retirement age (late retirement age if applicable).
3. Checking the reasonability of each member's past service. That is, there are no active members with an age at entry below 18 or an exit date prior to the date of entry.
4. Performing a membership build-up. This entails ensuring that all members present at the current valuation were either present at the previous valuation or are members with entry dates after 31 March 2009. All members present at the last valuation must either be present at the current valuation or have exit dates within the valuation period.
5. Checking that the number of active members in the data reconciles with the financial statements and failing this, that the discrepancy can be adequately explained.
6. Checking that the Members' Full Benefits in the data reconcile with the Member Share Account in the financial statements and failing this, that the discrepancy can be adequately explained.

The data provided at the valuation date did not agree to the Member Share Account in the financial statements as benefits accrued during the financial year ending 31 March 2011 were not split accurately between the Member Share Account and the Investment Reserve Account in the financial statements, resulting in an over-deduction from the Member Share Account and no reduction from the Investment Reserve Account. We have made adjustments to the Member Share Account as detailed in Appendix 7 to accurately reflect the correct value of the Full Benefit for all members at the valuation date.

7. Checking that, for each individual member, the Full Benefit in the data is consistent with the value of the individual's Full Benefit as at the last valuation plus contributions during the period, accumulated at the declared bonus rates during the period.

The data provided for the valuation did not accurately reflect the sum of the Members' Full Benefits. Adjustments had to be made to the data due to:

- (1) Members who transferred into the Fund and whose records were not updated for the transfer values due to outstanding tax certificates or where the transfer values were updated on the records at incorrect dates; and
- (2) Incorrect administration records on the new administration system employed by the Fund.



We are satisfied that the data provided to us by the administrators are reasonable for purposes of this valuation subject to the adjustments made to the Full Benefits iro administration errors on the new administration system and accounting errors in the financial statements as stipulated above and in Appendix 1.

We recommend that adjustments be made to the financial statements so that the statements reflect the correct values in the Member Share Account, Risk Reserve Account and Investment Reserve Account. This matter should be brought to the attention of the Fund's Audit Committee.

The administration department has undertaken to correct the records on the administration system. We recommend that the Committee of Management allocate additional resources to ensure the success of the process put in place to resolve data issues after the valuation date. Accuracy of administration records will expedite the completion of the annual valuations and lead to a reduction in future costs for correcting the data.

A handwritten signature in black ink, consisting of stylized initials and a surname, located on the right side of the page.

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)
< 25	223	21 168 262	5 629 018	94 925	25 242
25 - 30	1136	121 147 411	45 069 196	106 644	39 674
30 - 35	1446	168 487 750	94 384 670	116 520	65 273
35 - 40	1342	158 396 036	115 113 708	118 030	85 778
40 - 45	888	95 270 289	86 457 719	107 286	97 362
45 - 50	682	78 489 785	89 039 336	115 088	130 556
50 - 55	485	55 306 794	86 235 192	114 035	177 805
55 - 60	313	34 110 220	66 412 624	108 978	212 181
60+	178	21 523 660	58 560 095	120 919	328 989
Total	6 693	753 900 205	646 901 558	112 640	96 653

FEMALES

Age	Number	Pensionable Emoluments (R)	Full Benefit (R)	Average per member	
				Pensionable Emoluments (R)	Full Benefits (R)
< 25	136	13 702 694	2 925 265	100 755	21 509
25 - 30	528	60 534 792	25 324 483	114 649	47 963
30 - 35	694	83 581 066	52 127 751	120 434	75 112
35 - 40	543	69 190 681	62 385 288	127 423	114 890
40 - 45	352	40 558 312	40 178 288	115 222	114 143
45 - 50	257	28 980 208	40 286 363	112 763	156 756
50 - 55	175	20 571 314	37 465 425	117 550	214 088
55 - 60	102	11 872 399	23 289 493	116 396	228 328
60+	62	7 859 341	22 676 791	126 764	365 755
Total	2 849	336 850 808	306 659 147	118 235	107 637

4.2 AVERAGE MEMBERSHIP STATISTICS

	Males	Females
<u>Weighted by pensionable emoluments:</u>		
Age (years)	36y 3m	35y 0m
Service (years)	5y 7m	5y 7m

4.3 MEMBERSHIP RECONCILIATION PER DATA

Membership at 31 March 2009		7 977
New Members		2 531
Exits		(966)
Resignations	(492)	
Dismissals	(95)	
Deaths	(238)	
Ill-health	(28)	
Retirement	(78)	
Transfers	(23)	
Adjustments	(12)	
Membership at 31 March 2011¹		<u>9 542</u>

1. Includes 1 deferred pensioner

4.4 CONTRIBUTION RATES

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%	5 405
7%	2 026
9,25%	2 111

APPENDIX 5

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 (55 years if more than 10 years continuous service)
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.



APPENDIX 6

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		

* The mortality table reflected above is the one applied in the 31/03/2006 statutory actuarial valuation of the Fund (last statutory valuation approved by the Financial Services Board). An experience analysis will be performed at the next statutory valuation of the Fund to determine if these rates are still applicable to the growing membership of the Fund.

APPENDIX 7

RESERVE ACCOUNT BUILD-UP FROM 31/03/2009 TO 31/03/2011 (R'000)

The different reserve accounts build up as follows over the valuation period:

	Full Benefit	Risk Reserve	Unallocated/ Investment Reserve	Total
Balance as at 31/03/2009	574 717	13 165	(13 930)	573 952
INFLOW				
Contributions				
- Member	119 491			119 491
- Employer retirement	165 198			165 198
- Employer risk and expenses		70 451		70 451
Transfer received	10 103		2 573	12 676
Investment Income Earned/Allocated	191 194	3 316	96 060	290 570
OUTFLOW				
Administration expenses		(16 497)		(16 497)
Investment manager's fees			(8 552)	(8 552)
Retirement Fund Tax			(853)	(853)
Lump sums on death	(21 624)	(27 636)	(8 656)	(57 916)
Lump sums on retirement	(30 232)		(2 408)	(32 640)
Lump sums on withdrawal ¹	(50 206)		(4 435)	(54 641)
Divorces	(800)			(800)
Transfers paid	(4 280)		(526)	(4 806)
Balance as at 31/03/2011	953 561	42 799	59 273	1 055 633
Release of Risk Reserve		(27 727)	27 727	
Interim bonus April 2011	19 071		(19 071)	
Balance as at 31/03/2011	972 632	15 072	67 929	1 055 633

1 Adjustment in respect of benefits payable included in this amount.



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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