

**REPORT TO THE TRUSTEES OF THE
KWA-ZULU NATAL JOINT MUNICIPAL
PROVIDENT FUND (12/8/32588)
ON THE INTERIM ACTUARIAL VALUATION
AS AT 31 MARCH 2014
(Based on audited Financial Statements)**



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EXECUTIVE SUMMARY

1. At the request of the Fund's Trustees, we have performed an interim actuarial valuation of the Kwa-Zulu Natal Joint Municipal Provident Fund ("the Fund") as at 31 March 2014 ("the valuation date").
2. The previous statutory actuarial valuation of the Fund was performed as at 31 March 2012 and was accepted by the Financial Services Board ("FSB") on 27 March 2013. An interim valuation was also performed at 31 March 2013 ("the previous valuation date").
3. We are satisfied that the data, financial information and other supporting information are suitable for the purposes of this report. The data are summarised as follows:

	31 March 2014	31 March 2013	Difference
Number	11 448	10 579	869
Annual salary:			
- Total (R'000s)	1 639 607	1 389 094	18.0%
- Average (R's)	143 222	131 307	9.1%
Full Benefits:			
- Total (R'000s) ¹	1 871 782	1 433 788	30.5%
- Average (R's)	163 503	135 532	20.6%
Salary weighted average:			
- Age (years)	39.00	38.95	0.05
- Service (years)	5.79	6.09	- 0.30

¹ Full Benefits shown for active members only. Total Member Share Account value includes adjustments for exited members.

4. The market value of the Fund's assets was R 2 151 950 000 at the valuation date.
5. Members are able to choose to contribute at different rates. At the valuation date, and at the previous valuation date, members and local authorities were contributing as set out below. The contribution rates have not changed since the previous statutory valuation of the Fund.

	Category A	Category B	Category C
Retirement contributions			
Member contributions	5.00%	7.00%	9.25%
Employer contributions	<u>6.00%</u>	<u>9.90%</u>	<u>14.25%</u>
Total	11.00%	16.90%	23.50%
Risk contributions			
Employer:	3.75%	3.75%	3.75%
Percentage of members contributing at these rates:			
31 March 2014	49.98%	25.46%	24.55%
31 March 2013	54.04%	24.07%	21.89%
31 March 2012	55.43%	22.61%	21.96%

6. It is seen that, although the bulk of the members have chosen to contribute at the lowest rate, there has been a pleasing increase in the percentage of members contributing at the highest rates. This aspect is addressed further in the main report.
7. The financial position of the Fund as at the valuation dates is summarised in the following table:



	31 March 2014 R'000	31 March 2013 R'000
Total assets per Financial Statements	2 151 950	1 652 181
Actuarial adjustment	0	- 787
Actuarial value of assets	2 151 950	1 651 394
Liabilities:		
<u>Member Share Account:</u>		
As per Financial Statements	1 876 309	1 426 077
Actuarial adjustment	- 3 597	8 799
Bonus for April following valuation date	<u>28 091</u>	<u>28 698</u>
Subtotal	1 900 803	1 463 574
Reserves and Accounts:		
Risk & Expense Reserve	21 123	18 897
Investment Reserve	<u>133 056</u>	<u>102 450</u>
Subtotal	154 179	121 347
Total liabilities, reserves and accounts	2 054 982	1 584 921
Unallocated assets	96 968	66 473
Funding level	104.7%	104.2%

8. 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 Trustees, taking into account market conditions. At the valuation date the Investment Reserve was equal to 7% of the Member Share Account.
9. The value of the liabilities includes all interim bonuses to 31 March 2014. Due to the smoothing mechanism, a portion of the investment return to 31 March 2014 has been applied to fund the interim bonus for April 2014. The cost of the bonus of 1.5% as at 30 April 2014 has therefore also been included in the value of the liabilities.
10. Unallocated assets amounted to some 4.7% of liabilities and reserves. At the previous interim valuation unallocated assets amounted to some 4.2% of liabilities and reserves. This volatility in the unallocated assets is a feature of the smoothed bonus approach followed by the Fund.



11. The key findings and recommendations in the report are:
- 11.1 The assets exceeded the liabilities and reserves. Unallocated assets amounted to 4.7% of the market value of assets. No further action is required as this position has automatically been corrected via the smoothed bonus approach of the Fund in the months following the valuation date. I therefore do not recommend that any final bonus be declared at the valuation date.
 - 11.2 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.
 - 11.3 The Fund self-insures its death benefits and disability benefits. We are satisfied that, given the recommended Risk Reserve Account, the arrangement is appropriate for the Fund.
 - 11.4 I am satisfied that the asset composition on the valuation date is appropriate to the nature of the liabilities and that the investment strategy of the Fund is suitable for the Fund.
 - 11.5 Members are able to choose a rate of contribution between 5% and 9.25% of pensionable salaries. We note that 50% 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:
 - 11.5.1 That the Trustees continue with the education programme for members on the longer term benefit of increasing their rate of contribution. This is producing fruit, since the percentage of members who are contributing at the highest rate has increased from 22% to 25%; and
 - 11.5.2 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.
12. In my view the Fund is in a sound financial position as at the valuation date.



**AR EL S (FIA FASSA CFP® CFA CERA)
VALUATOR**

My primary professional regulator is
the Actuarial Society of South Africa

In my capacity as an employee of
ARGEN Actuarial Solutions

October 2014



**RIA VAN DER MERWE
ACTUARIAL CONSULTANT**

In my capacity as an employee of
ARGEN Actuarial Solutions

INTRODUCTION

1. At the request of the Fund's Trustees, we have performed an interim actuarial valuation of the Kwa-Zulu Natal Joint Municipal Provident Fund ("the Fund") as at 31 March 2014 ("the valuation date").
2. This report is addressed to the Fund's Trustees. Any other party placing any reliance on this report is encouraged to firstly consult with the Trustees and ourselves.
3. The previous statutory actuarial valuation of the Fund was performed as at 31 March 2012 and was accepted by the Financial Services Board ("FSB") on 27 March 2013. An interim actuarial valuation was also performed as at 31 March 2013 ("the previous valuation date")
4. The one year period between the valuation dates is referred to as the valuation period.
5. The Fund is registered in terms of the Pension Funds Act and approved by the South African Revenue Services for Income Tax purposes.
6. This report has been peer reviewed by an independent Consulting Actuary, Mr Jeremy Andrew, and his feedback has been taken into account.

Previous interim actuarial valuation report

7. The 31 March 2013 interim actuarial valuation report made the following recommendations:
 - 7.1 That the unallocated assets at each year end be used for the smoothing of bonuses in the following year by declaring lower/higher monthly bonuses than actual investment returns earned; and
 - 7.2 That the Trustees continue with the education programme to members on the longer term benefit of increasing members' rate of contribution.
8. The above recommendations were accepted by the Fund's Trustees and implemented in the inter-valuation period.

Purpose of the actuarial valuation

9. The purpose of this interim actuarial valuation is:
 - 9.1 To assess 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;
 - 9.2 To analyse the change in the financial position of the Fund during the valuation period;
 - 9.3 To determine if the current contribution rate is sufficient to meet the cost of risk benefits and expenses;
 - 9.4 To review the requirement for the contingency reserve accounts and assess whether these accounts are appropriately funded and to review the build up thereof;
 - 9.5 To assess whether the Fund's reinsurance arrangements are appropriate;
 - 9.6 To recommend the allocation of investment earnings to member accounts and the management of any investment smoothing accounts; and

- 9.7 To assess whether the nature of the assets of the Fund is suitable to match the nature of the liabilities of the Fund and whether the investment strategy is appropriate.
10. This report is an interim actuarial valuation report and as such a copy of this report does not have to be submitted to the Registrar of Pension Funds.

Developments during and subsequent to the valuation period

11. Investment earnings are credited to members' Full Benefits (in the Member Share Account) by means of interim monthly bonuses and supplementary bonuses, on a smoothed bonus approach.
12. The same level of bonuses applies to all members. When a member leaves the Fund, the benefit paid to the member includes an allowance for the Investment Reserve at the date of exit. The Investment Reserve is also determined on a smoothed approach.
13. The level of the interim monthly bonus and the balance of the Investment Reserve are determined quarterly in advance by the Trustees on the advice of the actuary. The interim monthly bonuses and adjustment for the Investment Reserve over the valuation period have been as follows:

Month	Interim bonus	Investment Reserve
April 2013	2.0%	7.0%
May 2013	1.0%	7.0%
June 2013	1.0%	7.0%
July 2013	1.0%	7.0%
August 2013	1.0%	7.0%
September 2013	1.0%	7.0%
October 2013	1.0%	7.0%
November 2013	3.0%	7.0%
December 2013	3.0%	7.0%
January 2014	3.0%	7.0%
February 2014	1.5%	7.0%
March 2014	1.5%	7.0%

14. An interim bonus of 1.5% as at 30 April 2014 was also agreed to by the Trustees. This bonus is funded from the investment earnings for the year ended 31 March 2014 and has been included in the liabilities for purposes of the valuation.
15. The total investment returns earned during the year amounted to 21.65%. Unallocated assets amounted to 4.2% of the Member Share Account at the previous interim actuarial valuation date. The total earnings available for bonuses was therefore approximately 26.8% over the year to 31 March 2014.
16. The total bonuses credited to members' Full Benefits (in the Member Share Account) during the year amounted to 23.1% (inclusive of the interim bonus at 30 April 2014).
17. After allowing for the release from the Risk Reserve Account (see paragraph 57) as well as adjustments to benefits from prior years and late payment interest, the unallocated

investment earnings at 31 March 2014 amounted to 4.7%. This has been distributed to members subsequent to the valuation date, bringing the total distribution for the year to approximately 26.1%, i.e. close to the available investment earnings of 26.8%.

18. The Investment Policy Statement of the Fund was reviewed in line with an asset liability modelling exercise performed as at 30 September 2012.
19. The average salary increase for members who were present as at both valuation dates was 11.4% per annum.

Regulations and amendments

20. Since the last valuation date the Fund has undertaken a mandatory Rationalisation of its Regulations project. The Fund is governed by Regulations that is both promulgated by the provincial authorities and registered by the FSB. The Rationalisation project is in its final stages and it is expected that the revised Regulations will be submitted for promulgation and registration in the period after the valuation date.
21. The key benefits and conditions set out in the regulations are summarised in Appendix 1.

Professional guidance

22. This report adheres to the Standard of Actuarial Practice SAP201 of the Actuarial Society of South Africa and the relevant Board Notices issued by the Financial Services Board.

A handwritten signature in black ink, appearing to be 'J.G.', located in the lower right quadrant of the page.

FUND STRUCTURE

23. The Fund is governed by its regulations as approved by the Registrar of Pension Funds and promulgated by the provincial legislature of Kwa-Zulu Natal.
24. The Fund is a provident fund and consists of members entitled to benefits of a defined contribution nature.
25. Members can select to contribute at one of three contribution rates (5%, 7% or 9.25%). Members may elect to move from one contribution category to another every 5 years.
26. The local authorities contribute at 1.95 times member contributions. A total of 3.75% of pensionable salary is deducted from the contributions made by local authorities to fund the cost of risk benefits and expenses. These contributions are allocated to the Risk and Expense Reserve Account. The remainder is allocated to the member's Full Benefit in the Member Share Account.
27. Given the Fund's benefit structure, it is not expected that significant surpluses or deficits will arise over time. The Fund's regulations allow for the Fund to hold a Risk and Expense Reserve and an Investment Reserve Account.
28. A member's benefit on retirement or withdrawal is equal to the member's Full Benefit. The Full Benefit consists of:
 - 28.1 Their transfer value (if any) from a previous fund;
 - 28.2 Contributions towards retirement benefits by members and local authorities; and
 - 28.3 Bonuses credited by the Trustees on a smoothed approach.
29. On death the member's beneficiaries receives his Full Benefit plus a lump sum benefit based on pensionable service and salary. The lump sum benefit is funded from the Risk and Expense Reserve.



VALUATION INFORMATION

30. The Fund is self-administered. The Fund's administrators supplied the necessary valuation data and information.
31. To carry out this valuation, we were provided with the following information:
- 31.1 The audited financial statements of the Fund for the year ending 31 March 2014;
- 31.2 The member data as at 31 March 2014.
- 31.3 A copy of the Fund's Investment Policy Statement; and
- 31.4 A copy of the Fund's regulations and all amendments up to 31 March 2014.
32. The results of the valuation depend critically on the accuracy of the data supplied. The data has been tested for general consistency (see Appendix 2). In our view the data and information provided to us is adequate for the key purposes of this valuation. The valuation was based on the audited financial statements of the Fund.

Membership data

33. The member data as at the valuation dates are summarised as follows:

	31 March 2014	31 March 2013	Difference
Females			
Number	4 538	4 146	392
Annual salary:			
- Total (R'000s)	659 325	552 019	19.4%
- Average (R's)	145 290	133 145	9.1%
Salary weighted average:			
- Age (years)	37.50	37.39	0.12
- Service (years)	5.66	5.85	- 0.19
Males			
Number	6 910	6 433	477
Annual salary:			
- Total (R'000s)	980 282	837 075	17.1%
- Average (R's)	141 864	130 122	9.0%
Salary weighted average:			
- Age (years)	40.01	39.99	0.02
- Service (years)	5.87	6.26	- 0.39

34. A summary of the membership particulars is provided in Appendix 3.

Revenue account

35. The Fund's income and outgo after allowing for the actuarial adjustments are summarised as follows during the valuation period:

	Member Share Account	Risk and Expense Reserve Account	Investment Reserve Account	Total assets
	R'000	R'000	R'000	R'000
Actuarial value of assets at 31 March 2013	1 434 877	18 897	197 621	1 651 395
Reverse actuarial adjustment	260	562	- 36	786
Value of assets at 31 March 2013 as per AFS	1 435 137	19 459	197 585	1 652 181
Income				
- Member contributions	102 150	0	0	102 150
- Employer contributions to retirement	140 542	0	0	140 542
- Employer contributions to risk and expenses	1 536	58 233	0	59 769
- Transfers from other funds	1 799	0	136	1 935
- Investment income	<u>323 114</u>	<u>10 016</u>	<u>38 301</u>	<u>371 431</u>
	569 141	68 249	38 437	675 827
Outgo				
- Administration fees	0	- 8 886	0	- 8 886
- Actuarial fees	0	- 663	0	- 663
- Audit fees	0	- 495	0	- 495
- Consulting fees	0	- 1 174	0	- 1 174
- Board member fees	0	- 897	0	- 897
- General Expenses	0	- 461	0	- 461
- Retirement lump sums	- 29 613	0	- 2 527	- 32 140
- Withdrawal benefits	- 61 523	0	- 5 445	- 66 968
- Death benefits	- 13 450	- 17 815	- 2 058	- 33 323
- Disability benefits	- 3 640	0	- 300	- 3 940
- Divorce benefits	- 1 621	0	- 92	- 1 713
- Adjustments to prior year benefits	146	709	- 1 017	- 162
- Transfers to other funds	<u>- 21 865</u>	<u>0</u>	<u>- 3 371</u>	<u>- 25 236</u>
	- 131 566	- 29 682	- 14 810	- 176 058
Assets at 31 March 2014	1 872 712	58 026	221 212	2 151 950

36. Over the valuation period, the Fund earned 21.65% on its assets taken at market value.

Assets per financial statements

37. The assets of the Fund, as set out in the audited financial statements, are summarised in the following table:

Asset class	Value (R'000)	Percentage
Local		
Bills, Bonds and Securities	429 509	20.0%
Property	74 464	3.5%
Equities	1 105 827	51.4%
Cash and Deposits	<u>202 074</u>	<u>9.4%</u>
	1 811 874	84.2%
Foreign		
Equities	449 271	20.9%
Bills, Bonds and Securities	<u>996</u>	<u>0.0%</u>
	450 267	20.9%
Net assets	17 210	0.8%
Net liabilities	- 93 282	-4.3%
Unclaimed Benefits & Provisions	<u>- 34 119</u>	<u>-1.6%</u>
	- 110 191	-5.1%
Total assets	2 151 950	100.0%

Investment strategy

38. The Fund has a detailed investment strategy which takes into account the results of the asset liability modelling exercise as at 30 September 2012 that was completed in March 2013. The Fund's strategic asset allocation in terms of this exercise was as set out below. The strategic allocation is the structure that is suitable for the liabilities, taking a long term view. Based on advice from the Fund's asset consultant regarding the short term outlook for property, the Trustees agreed to adopt an interim tactical allocation that excludes property investments over the shorter term, as set out below:



Asset class	Asset allocation	
	Strategic	Tactical
Equities	50.0%	50.0%
Fixed interest	17.0%	30.0%
Cash	3.0%	0.0%
Property	10.0%	0.0%
Offshore equity	20.0%	20.0%

39. The investment strategy of the Fund targets an investment return of headline inflation plus 5% over any rolling 5 year period.
40. The results of the asset liability modelling exercise were used to determine the strategic benchmarks of the Fund as well as the ranges around the benchmarks. The actual asset allocation at valuation date is within the permissible ranges, as set out in the investment mandates given to the Fund's asset managers.
41. The assets underlying the Member Share Account, Risk and Expense Reserve Account and Investment Reserve Account are invested in the general assets of the Fund and no separate allocation is made for any specific group of members.



VALUATION METHOD AND ASSUMPTIONS

42. In order to value the Fund's liabilities an actuarial valuation method and valuation assumptions are required.

Valuation method

43. The valuation method consists of a past service component (service up to the valuation date) and a future service component (service after the valuation date).

Past service

44. The Member Share Account comprises the total of the Members' Full Benefits at the valuation date.
45. The total Member Share Account in the audited financial statements amount to R 1 876 309 000. The Member Share Account according to the administration data amount to R 1 867 086 000.
46. We have, for the valuation, 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 2013 plus contributions plus declared bonuses.
47. We have adjusted this value by some R5 626 000 to allow for some incorrect administration records, records where transfers reflected as receivable in the financial statements have not been updated on the administration records, and some understated benefits.
48. Allowing for the above, the revised value of the Member Share Account is taken to be R 1 872 712 000 for purposes of the valuation.
49. Additionally, the cost of the bonus for April 2014 is met from investment earnings to 31 March 2014 and has therefore been included in the Member Share Account balance for valuation purposes. The total Member Share Account balance is therefore taken to be R 1 900 803 000.
50. We have therefore adjusted the closing balances in the audited financial statements of the Fund to reflect the above totals as at 31 March 2014. Further detail is given in paragraph 63 below.

Risk and Expense Reserve

51. The Fund self-insures its risk benefits in excess of the Full Benefit. It therefore maintains a Risk and Expense Reserve Account as a measure of protection against volatility in claims experience. The Financial Services Board's Circular PF117 sets out a standard for determining such a reserve. A fund may hold a "Risk Reserve" equivalent to the capital that would be required from an insurance company undertaking the business.
52. In the case of the Fund, the "Risk Reserve" amounts to R 20 999 000 calculated in accordance with paragraph 4.4 of Circular PF117 using a current cost method of valuation. It is prudent that the Fund retains a "Risk Reserve" in order to give protection against fluctuations in mortality. We have adjusted this amount by the prior

year understatement of lump sum death benefits to R 21 123 000 and we recommend that the Risk and Expense Reserve Account be maintained at the latter amount. This will result in a release from the Risk And Expense Reserve Account of some R36 903 000.

53. Given the size of the membership of the Fund and provided the recommended amount is held in the Risk and Expense Reserve Account, self insurance is appropriate for the Fund.
54. The amount that was released from the Risk and Expense Reserve Account was credited to the unallocated assets of the Fund as set out below in paragraph 57.

Minimum Benefits

55. The Act prescribes minimum benefits to a member who leaves the Fund. Upon exit from the Fund, a member receives his/her Full Benefit from the Fund. In addition to his/her Full Benefit, a member also receives a proportionate share of the Investment Reserve Account upon exit.

Investment Reserve

56. 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 Trustees, taking into account market conditions. At the valuation date the Investment Reserve was equal to 7% of the members' Full Benefits.

Income Statement and Accounts

57. The effect of the release from the Risk and Expense Reserve and the adjustments to the Member Share Account on the balances of the accounts are as follows:

	Member Share Account	Risk and Expense Reserve Account	Investment Reserve Account & Unallocated assets	Total assets
	R'000	R'000	R'000	R'000
Actuarial value of assets at 31 March 2014 (prior to year end adjustments)	1 872 712	58 026	221 212	2 151 950
- Release from Risk&Expense Reserve	0	- 36 903	36 903	0
- April 2014 bonus (1.5%)	28 091	0	- 28 091	0
Actuarial value of assets at 31 March 2014 (final values after adjustments)	1 900 803	21 123	230 024	2 151 950

Valuation assumptions

58. The valuation assumptions used to determine the death lump sum liabilities for purposes of the "Risk Reserve" calculation are consistent with the "best estimate" assumptions set out in the Financial Services Board's Circular PF 117.
59. The mortality assumptions are set out in Appendix 4. At each statutory triennial valuation the Fund's actual experience is compared to the valuation assumptions and where necessary, the assumptions are revised. For this interim valuation, the assumptions used in the statutory valuation as at 31 March 2012 were retained.
60. The actual experience of the Fund is likely to differ from the assumptions made, and the actual cost of the liabilities will depend on the actual financial and demographic experience of the Fund. The valuation method and assumptions have no direct bearing on the ultimate cost of the defined benefits (the cost of the lump sum death benefit); they only determine how this cost is recognised over time.

Assets

61. The assets for this valuation have been taken at market value and amounted to R 2 151 950 000.
62. This method of placing a value on the assets of the Fund is consistent with the method used to value the liabilities (Full Benefits) of the members.



VALUATION RESULTS

Accrued assets and liabilities

63. The results of the valuation are summarised below:

	31 March 2014 R'000	31 March 2013 R'000
Total assets per Financial Statements	2 151 950	1 652 181
Actuarial adjustment	0	- 787
Actuarial value of assets	2 151 950	1 651 394
Liabilities:		
<u>Member Share Account:</u>		
As per Financial Statements	1 876 309	1 426 077
Actuarial adjustment	- 3 597	8 799
Bonus for April following valuation date	<u>28 091</u>	<u>28 698</u>
Subtotal	1 900 803	1 463 574
Reserves and Accounts:		
Risk & Expense Reserve	21 123	18 897
Investment Reserve	<u>133 056</u>	<u>102 450</u>
Subtotal	154 179	121 347
Total liabilities, reserves and accounts	2 054 982	1 584 921
Unallocated assets	96 968	66 473
Funding level	104.7%	104.2%

64. The results set out above reveal that the Fund has unallocated assets of 4.7% as at 31 March 2014. At the previous interim valuation unallocated assets amounted to some 4.2% of liabilities and reserves. This volatility in the unallocated assets is a feature of the smoothed bonus approach followed by the Fund.
65. The unallocated assets represent the remaining assets of the Fund after allowing for all the above Accounts and Reserves. No further action is required as this position has automatically been corrected via the smoothed bonus approach of the Fund in the months following the valuation date. I therefore do not recommend that any final bonus be declared at the valuation date.



CONTRIBUTION RATE

Members

66. Each member can elect to contribute to the Fund at either 5%, 7% or 9.25% of his/her pensionable salaries. The local authorities contributes a multiple of the member's contribution to the Fund as follows:

	Category A	Category B	Category C
Retirement contributions			
Member contributions	5.00%	7.00%	9.25%
Employer contributions	<u>6.00%</u>	<u>9.90%</u>	<u>14.25%</u>
Total	11.00%	16.90%	23.50%
Risk contributions			
Employer:	3.75%	3.75%	3.75%
Percentage of members contributing at these rates:			
31 March 2014	49.98%	25.46%	24.55%
31 March 2013	54.04%	24.07%	21.89%
31 March 2012	55.43%	22.61%	21.96%

67. 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 1.10% of pensionable salaries during the valuation period.
68. The average administration fees amounted to 0.80% of pensionable salaries during the valuation period.
69. 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 2014 is estimated to be equal to 2.58% of pensionable salaries, using a current cost method of valuation. This was determined using the mortality assumptions set out in Appendix 4.
70. The expected cost of the risk benefits and expenses in the year following the valuation date is thus 3.38% (2.58% plus 0.80%) of pensionable salaries. This is covered by the available contribution of 3.75%, so that the available contribution is expected to be sufficient to meet the risk benefit costs and expenses until the next statutory valuation of the Fund as at 31 March 2015.
71. Any excess contributions over the expected cost of risk benefits and expenses is held in the Risk and Expense Reserve Account and may be released to the unallocated assets at each year end if the balance of the assets in the Risk Reserve Account was more than what was needed in terms of PF117.
72. 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.

EXPERIENCE ANALYSIS

73. At each statutory triennial valuation the reasons for the change in the surplus/shortfall is investigated. No such analysis is usually performed for an interim valuation.

A handwritten signature in black ink, consisting of stylized, cursive letters that appear to be 'J.H.' or similar initials.

RECOMMENDATIONS

Investment Reserve

74. I recommend that the balance in the Investment Reserve be maintained at 7.0% of the Member Share Account at the valuation date and hence that the balance in the Investment Reserve be set at R 133 056 000 at the valuation date.

Risk and Expense Reserve

75. I recommend that a Risk and Expense Reserve of R 21 123 000 be retained in line with PF117.

Bonus rates

76. The market value of the assets exceeds the liabilities and reserves at the valuation date by some 4.7%. No further action is required as this position has automatically been corrected via the smoothed bonus approach of the Fund in the months following the valuation date. I therefore do not recommend that any final bonus be declared at the valuation date.

Contribution rates

77. Members are able to choose a rate of contribution between 5% and 9.25% of pensionable salaries. We note that 50% 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:
- 77.1 That the Trustees continue with the education programme for members on the longer term benefit of increasing their rate of contribution. This is producing fruit, since the percentage of members who are contributing at the highest rate has increased from 22% to 25%; and
- 77.2 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.



CONCLUSION

78. We have performed an interim actuarial valuation of the Fund as at 31 March 2014. Our recommendations are summarised in paragraphs 74 to 77.
79. The valuation reveals that the Fund is 104.7% funded as at the valuation date.
80. 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.
81. I am satisfied that the asset composition on the valuation date is appropriate to the nature of the liabilities and that the investment strategy of the Fund is suitable for the Fund.
82. The Fund self-insures its death benefits and disability benefits. We are satisfied that, given the recommended Risk Reserve Account, the arrangement is appropriate for the Fund.
83. In my opinion the Fund is in a financially sound position as at the valuation date.

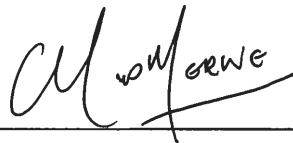


**AR ELS (FIA FASSA CFP® CFA CERA)
VALUATOR**

My primary professional regulator is
the Actuarial Society of South Africa

In my capacity as an employee of
ARGEN Actuarial Solutions

October 2014



**RIA VAN DER MERWE
ACTUARIAL CONSULTANT**

In my capacity as an employee of
ARGEN Actuarial Solutions

APPENDICES

APPENDIX 1: SUMMARY

A1.1. The key benefits and conditions of the Fund are summarised below. Importantly, this is only a summary of the Fund's regulations and in the event of any dispute the registered regulations will be the sole point of reference.

Definitions

Full Benefit

A1.2. Initial transfer plus member's contributions plus local authorities' contributions for Full Benefits plus interim, supplementary and final bonuses.

Pension Age

A1.3. The date on which a member attains the age of 65 years.

Normal retirement benefits

A1.4. Full Benefit.

Early retirement benefits

A1.5. Members may retire up to seven years prior to the pension age and receive their Full Benefit.

Death in service prior to normal retirement age

A1.6. Full Benefit plus 0.7% of annual pensionable salary 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 salaries).

Withdrawal benefits

A1.7. Full Benefit.

Ill Health retirement

A1.8. Full Benefit.

Contributions

A1.9. Members have the option of contributing at either 5%, 7% or 9.25% of pensionable salaries.

A1.10. The local authorities contribute 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.

Expenses

A1.11. The administration fees and related expenses are met from the Risk and Expense Reserve Account.

Prescribed minimum benefit

A1.12. On all forms of exit, the member or his beneficiaries receive a proportionate share of the Investment Reserve Account in addition to the Full Benefit (in line with minimum benefits prescribed by the Pension Funds Act).

A handwritten signature in black ink, appearing to be 'J.R.', located on the right side of the page.

APPENDIX 2: DATA VERIFICATION

Data checks

A2.1. The following data checks were carried out by us:

- Reconciling the active membership during the valuation period;
- Testing for very high, low, nil or negative salary increases of individual members over the valuation period.
- Testing whether the ages and pensionable salaries of individual members were within a reasonable range.
- Ensuring that the age and past service of each member did not conflict with the minimum entry age.
- Checking for changes in the membership details over the valuation period.
- Identifying any missing or invalid data fields.
- Reconciling the valuation data with the financial statements.
- 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 2014 were not split accurately between the Member Share Account and the Investment Reserve Account in the financial statements. We have made adjustments to the Member Share Account as detailed in the main report to accurately reflect the correct value of all accounts at the valuation date.
- 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 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 for incorrect administration records.

Findings

- A2.2. We are satisfied that the data provided to us by the administrators are reasonable for purposes of this valuation subject to the adjustments that we made to the Full Benefits as stipulated above.
- A2.3. We recommend that adjustments be made to the financial statements so that the statements reflect the correct values in the Member Share Account, Risk and Expense Reserve Account and Investment Reserve Account.



- A2.4. The administration department has undertaken to correct the records on the administration system.
- A2.5. We would like to thank the administrator for attending to our data queries in an efficient and prompt manner.

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APPENDIX 3: VALUATION DATA

A3.1. The membership data as at 31 March 2014 is summarised in the tables below.

Age band	Members	Annual Salary		Member Shares		Service (years)
		Total (R'000)	Average (R')	Total (R'000)	Average (R')	
Females						
20 - 25	127	14 926	117 528	2 878	22 661	1.2
26 - 30	867	122 316	141 080	56 979	65 720	2.8
31 - 35	1 062	163 615	154 063	136 986	128 989	4.8
36 - 40	941	144 823	153 903	162 730	172 933	6.1
41 - 45	623	90 643	145 494	119 267	191 440	6.9
46 - 50	386	52 086	134 938	83 328	215 876	7.9
51 - 55	307	41 487	135 137	78 056	254 254	8.4
56 - 60	142	17 810	125 423	49 603	349 317	10.0
61 - 65	<u>83</u>	<u>11 619</u>	<u>139 988</u>	<u>40 286</u>	<u>485 373</u>	<u>11.2</u>
	4 538	659 325	145 290	730 113	160 889	5.7
Males						
20 - 25	156	16 493	105 724	3 959	25 378	1.5
26 - 30	882	118 147	133 954	56 803	64 402	2.9
31 - 35	1 406	198 268	141 016	153 505	109 179	4.5
36 - 40	1 466	216 167	147 454	229 960	156 862	5.9
41 - 45	1 145	163 946	143 184	203 483	177 714	6.7
46 - 50	736	104 487	141 966	148 358	201 573	6.7
51 - 55	567	84 136	148 388	154 832	273 072	8.0
56 - 60	349	49 352	141 410	107 372	307 656	8.7
61 - 65	<u>203</u>	<u>29 286</u>	<u>144 266</u>	<u>83 397</u>	<u>410 823</u>	<u>10.3</u>
	6 910	980 282	141 864	1 141 669	165 220	5.9
Total	11 448	1 639 607	143 222	1 871 782	163 503	5.8

A3.2. We have reconciled the number of active members as follows during the valuation period:

Active members: 1 April 2013	10 579
New	1 455
Resignations	- 281
Dismissals	- 72
Ill Health retirements	- 8
Deaths	- 93
Retirements	- 55
Transfer to Superannuation	- 50
Transfer to KZN Pension Fund	- 27
Active members: 31 March 2014	11 448



APPENDIX 4: VALUATION ASSUMPTIONS

General

- A4.1. To assess the financial position of the Fund, it is necessary to make a realistic long-term estimate regarding each factor that affects the Fund.
- A4.2. The assumptions used for the valuation take into account the 31 March 2012 valuation assumptions, the experience of the Fund and the experience of similar funds.
- A4.3. The actual long-term cost of the benefits depends on the actual experience of the Fund and not on the assumptions adopted. While the assumptions can affect the timing of the emerging cost in the short-term, they have little impact on the long-term cost.
- A4.4. The assumptions underlying the valuations are set out and motivated below.

Mortality

- A4.5. Mortality assumptions are needed for members to determine the "Risk Reserve" in terms of Pension Fund Circular 117.
- A4.6. The previous statutory valuation assumptions were retained.
- A4.7. Sample mortality rates are set out in the table below.

Table: Mortality

Age group	Rate: Males	Rate: Females
22	0.714%	0.500%
27	0.952%	0.750%
32	1.190%	1.000%
37	1.547%	1.250%
42	1.904%	1.050%
47	2.261%	1.350%
52	2.618%	2.100%
57	3.213%	2.100%
62	4.046%	2.100%



APPENDIX 5: LIMITATIONS TO USE OF REPORT

This report has been prepared for the Trustees of the Kwa-zulu 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 Trustees of the Kwa-zulu Natal Joint Municipal Provident Fund who will in turn obtain written comment from ARGEN Actuarial Solutions on whether this report is appropriate for the intended use.

ARGEN Actuarial Solutions
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Craighall
2024

A handwritten signature in black ink, appearing to be 'J.R.', located to the right of the contact information.