



Natal Joint Municipal Pension
KwaZulu-Natal Joint Municipal
Provident Funds

"Your Fund, Your Savings, Your Future"

ALL COMMUNICATIONS TO BE ADDRESSED TO THE CEO/PRINCIPAL OFFICER

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23 JUNE 2017

ATTENTION: *Municipal Manager*
Cc: Human Resources / Payroll Officer
Cc: Director of Corporate Services
Cc: Members

CIRCULAR FROM SALGBC REGARDING RESTRUCTURING OF MUNICIPAL RETIREMENT FUNDS

The Trustees of the Natal Joint Municipal Funds (NJMPF) have received a circular dated 21 April 2017 from the South African Local Government Bargaining Council (SALGBC). The circular has been sent to all municipal retirement funds in the country and sets out various proposals for "restructuring" the retirement and other benefits of municipal employees.

Proposals

The Trustees have studied the proposals in depth and are of the view that, should these be implemented, the NJMPF members and pensioners will be severely prejudiced. For example, amongst the changes being considered by the SALGBC are the following:

1. A "compulsory conversion from a defined benefit to a defined contribution scheme for future service".
 - This would mean that NJMPF members in the Superannuation Fund and the Retirement Fund will lose, for their future service, the guaranteed retirement benefit that they currently enjoy in the NJMPF.
2. A consolidation of all existing defined benefit funds into a single defined benefit fund. The SALGBC circular states: "the lower benefits on retirement in such a fund when compared to the local authority funds will help to make the merger affordable for even the weakest funded funds."
 - Such a consolidation is thus likely to lead to a reduction in benefits for NJMPF members in the Superannuation Fund and the Retirement Fund.
3. The transfer of all pensioners to separate pensioner-only funds.
 - NJMPF pensioners have a guarantee that their annual pension increases will not be less than 75% of inflation; if pensioners are transferred as proposed, it is possible that they will lose this guarantee.
 - Furthermore, as noted in the SALGBC circular, the employers are likely to "lose interest" in pensioner-only funds and to turn their backs on the pensioners because there will no longer be a link with the employer through the active member component.

- Clearly the NJMPF pensioners (and other pensioners) will be severely prejudiced if this proposal is implemented.
4. A portion of the pensioner assets should be used to fund shortfalls in respect of active members.
- In the NJMPF any shortfall that the Fund's Actuary identifies in respect of contributing members is funded by a surcharge that is paid by the employers; the SALGBC proposal would result in part of the pensioner assets being used for the benefit of the employers – this is completely contrary to the stance taken by the NJMPF.
 - In addition, the surplus that has been accumulated in the pensioner memorandum accounts has arisen from good investment performance on the pensioner assets and will be used to fund future pension increases. In fact, this surplus has enabled the NJMPF to give its pensioners full inflation increases over the past two years despite very low investment earnings in those years.
 - Clearly, this proposal has very negative implications for the NJMPF pensioners.

Your Trustees have discussed the proposals with the Fund's Actuary, Mr Arthur Els, and all parties agree that the proposals can severely prejudice the interests of NJMPF members and pensioners. The Trustees have therefore advised the SALGBC that the NJMPF does not support the proposals.

Mr Jeremy Andrew

The SALGBC circular enclosed a report dated 26 January 2017 from an actuary who is assisting the SALGBC task force, Mr Jeremy Andrew. Mr Andrew is familiar with the NJMPF since he has, for many years, been the independent peer reviewer of the NJMPF actuarial valuation reports that are prepared by the Funds Actuary.

In his report for the SALGBC, Mr Andrew expands on the SALGBC proposal, mentioned above, that pensioner assets be used to meet deficits in respect of contributing members. He specifically refers to the Superannuation Fund and the Retirement Fund by name and provides values of how much of the pensioner assets can, in his view, be extracted from the memorandum accounts.

The Trustees, and the Fund's Actuary disagreed with this part of Mr Andrew's report as not only is the proposal contrary to the NJMPF regulations but it is also in direct conflict with the way that the NJMPF operates and has operated for many years. The Fund's Actuary believes that the excess assets in the memorandum accounts are needed for future pension increases; he points out that it has been precisely this surplus that has enabled the NJMPF to give its pensioners full inflation increases over the last two years despite very low investment returns. If, in 2015, the surplus in the memorandum accounts had been reduced to the level suggested by Mr Andrew, the Fund's Actuary Mr Els has calculated that pensioners would have received lower increases in subsequent years than have actually been granted and the NJMPF pensioners would have been prejudiced. The Trustees reassure the NJMPF pensioners that they would not allow any future pension increases to be prejudiced.

Further the Trustees and the Fund's Actuary believed that Mr Andrew's proposals were detrimental to the NJMPF in that he was implying that assets in the Memorandum Account (Pensioners Account) in excess of the past service obligations on a risk-free investment basis could be used to meet a deficit in relation to the active members. In other words that such excess may be available for distribution. Such an action would prejudice the interests of pensioners and active members of the Funds.

The Trustees reiterate that together with the Fund's Actuary Mr Els, have gone out of their way to ensure NJMPF pensioners that the pensioner assets are protected and that what was proposed by Mr Andrew would potentially undo many years of hard work, and wish to assure the NJMPF pensioners that they will at all times be treated fairly and equitably. In addition there would be potential for pressure to be exerted on the employer trustees to reduce employer contributions, and to use pensioner assets to for this purpose. This will disrupt the harmonious working relationship that exists between the NJMPF Trustees.

The Trustees have engaged with Mr Andrew on the concerns mentioned earlier in this circular and his original report, and are pleased to advise that he now has retracted his original report and which has been replaced. The sections causing concern accordingly no longer appear in the revised report. Mr Andrew has issued an "apology" to the members and pensioners of the NJMPF in respect of any harm and prejudice that his initial report may have caused, and which the Trustees believe appropriate in the circumstances. A copy of the apology/ circular issued by Mr Andrew is attached.

The NJMPF Trustees again assure all NJMPF members and pensioners that the Trustees will take all the necessary steps to ensure that their benefits and interests are well protected

Yours faithfully,

A handwritten signature in blue ink, appearing to be 'S. Camilleri', with a long horizontal flourish extending to the right.

Sam Camilleri
CEO/PRINCIPAL OFFICER

CIRCULAR

SOUTH AFRICAN LOCAL GOVERNMENT BARGAINING COUNCIL: RESTRUCTURING OF DEFINED BENEFIT FUNDS FACILITATOR'S PROPOSAL 17 FEBRUARY 2017

To all Members and Pensioners of the Natal Joint Municipal Pension Fund (Superannuation) and the Natal Joint Municipal Pension Fund (Retirement)

Discussions on a proposed restructuring of retirement funds in the local authority sector are presently being facilitated in the South African Local Government Bargaining Council ("SALGBC"). The discussions have been ongoing for some considerable time and during the course of the negotiations a facilitator's proposal dated the 17th February 2017 on the way forward was prepared and circulated to interested parties. Attached to the Facilitator's Report was a report by myself as consultant to the Pensions Task Team of the SALGBC. During the course of my functions I was mandated to prepare an actuarial report on certain of the proposals which had been ventilated at the various workshops convened by the Pensions Task Team and my report, dated 26 January 2017, was attached to the Facilitator's Report of 17th February 2017.

In that report dated 26th January 2017 I used information which I had obtained when peer reviewing the interim actuarial valuation reports for the Funds prepared by the Funds' actuaries, Argen Actuarial Solutions (Arthur Els), specifically the relationship between the actuary's valuation of the past service obligations on a best-estimate basis and his valuation of those obligations on a basis that makes provision for risk-free investments, separately for active members and for pensioners. I used this information to estimate the minimum level of assets at which funds across the local authority sector would be able to satisfy their past service obligations on a risk-free basis.

The Funds' Committees of Management and the actuary, Arthur Els, have expressed concern that:-

- I was implying that assets in the Memorandum Account (Pensioners Account) in excess of the past service obligations on a risk-free investment basis could be used to meet a deficit in relation to the active members. In other words that such excess assets may be available for distribution; and
- Such an action would prejudice the interests of pensioners and active members of the Funds.

It was not my intention either directly or indirectly, express or implied, to cause any harm or prejudice to the members of the Funds by the preparation of my report nor to breach any trust or confidentiality relationship existing between myself and Argen Actuarial Solutions as the Funds' actuaries by disclosing information which I obtained through the peer review of the interim valuation reports prepared by Argen Actuarial Solutions.

To this end I have revised the report, without relying on any information obtained when peer reviewing the Funds.

Dated at London this 23rd day of June 2017.

Jeremy Andrew: Consulting Actuary