

**NATAL JOINT MUNICIPAL PENSION / KWAZULU-NATAL  
JOINT MUNICIPAL PROVIDENT FUNDS  
ANNUAL GENERAL MEETING - 27 NOVEMBER 2015  
REPORT OF THE CHAIRPERSON TO  
THE GENERAL COMMITTEE ON THE ACTIVITIES OF THE FUNDS FOR THE  
YEAR ENDED 31ST MARCH 2015**

**INTRODUCTION**

Sanibonani

Molweni

Dumelang

Goeie more

Namaste

Salaam manikom

Shalom

Greetings Ladies and Gentlemen

Welcome to our 73<sup>rd</sup> Annual General Meeting.

This is my second term in my capacity as Chairperson of the Natal Joint Municipal Pension/Provident Funds and it gives me great pleasure to present the Chairperson's Annual Report for the year ended 31 March 2015.

As an introduction to the proceedings, we will be playing a short video about the Fund, please enjoy.

The year under review has once again been a challenging one for the retirement industry. The economic conditions both locally and more especially, internationally continues to be challenging, making it increasingly difficult for individuals to save and retain enough capital on which to live off when they can no longer draw a salary.

The global recovery is still uncertain, the Eurozone is still faltering, growth in China has slowed dramatically causing increased volatility in global equity markets whilst in the United States the economy seems to be recovering at a slow pace. We clearly are living in uncertain times.

The Fund has been aware of these economic challenges and therefore continually reviews its investment strategy to address the Funds needs and as you can see from the Financial Statements, the Funds investment assets remain diversified having both local and offshore exposure, which have produced excellent returns for the period under review. I will be discussing the Funds' good investment performance a little later in my presentation.

In this report I am going to comment on events which are common to all three Funds and thereafter concentrate on matters which are specific to each individual Fund. Some of the matters include the Funds recent achievements, National Treasury's reform proposals, investment performance and member benefits.

### **THE FUNDS MISSION:**

Our mission is to serve the best interests of the members by ensuring a high standard in retirement services to provide financial security. This mission is accomplished through the Funds responsibilities, which include pension administration, the collection, reconciliation and sound investment of contributions through prudent investment risk parameters.

Be assured that the Committee of Management and the Management will continue to do everything possible to ensure that the Funds maintain "world's best practises" in their administration and compliance procedures.

To this end I am proud to announce that the Funds were one of the few government enterprises to receive a clean and unqualified audit report from the Auditor General

for the year ending 31 March 2015. The Fund has received more than a decade of clean audits from the Auditor General.

Further in ensuring the maintenance of good governance the Funds have subscribed to the Institute of Directors Governance Assessment Instrument. The Institute of Directors in Southern Africa is the convener of the King Committee and the custodian of the King Reports. This Institute has developed the Governance Assessment Instrument, which is an automated web-based tool that serves as both a measure and an enabler of good corporate governance structures, policies and procedures. The assessment criteria are based on the principles and recommendations contained in King III. I am once again proud to announce that the Funds have achieved an overall result of AAA, which is the highest score achievable.

I would like to express our appreciation to the Director, Staff, Audit Sub-Committee and Committee of Management for these achievements.

#### **FUNDS RECOGNITION:**

In September 2015, the Natal Joint Municipal Pension/Provident Funds attended the Africa Investor summit in New York. Africa Investor is a leading international investment and communications group.

At the Africa Investor Capital Market Index Series Awards NJMPF was announced as the Winner for “African Pension Fund Initiative of the year”. Some of the sponsors included the New York Stock Exchange, World Bank, Thompson Reuters, Office of the Special Advisor on Africa and the World Pension Council. Also in attendance were the African Presidents, Leaders and delegates of the United Nations Summit, 70<sup>th</sup> Session, New York 2015. The purpose of these awards is to profile African Capital Market success stories to the global investment community. This is truly a great achievement for Kwa-Zulu Natal and South Africa!

In addition the NJMPF won two “imbasa yegolide” awards at the recent Council of Retirement Funds South Africa (Batseta) conference. One award was for Communication in Financial Control and the other for Communication in Financial

Knowledge & Understanding .This reflects the high priority that the Funds place on communication with stakeholders of the Funds.

Also at the Institute of Retirement Funds Africa a non-political body which represents and promotes the interests of the retirement industry in Southern Africa, recently announced its Best Practices Industry Awards, at its annual conference held at the Cape Town Convention Centre in July 2015.

At the Best Practices Industry Awards ceremony for 2015, the Natal Joint Municipal Pension Fund was awarded five awards in the following areas:

- Stakeholder Communication Project,
- Trustee Development,
- Treating Customers Fairly: Internal Training Programme,
- Trustee Training at Nomination stage and Candidate motivation of on appointment, and
- Alignment of previously disadvantaged Fund with previously advantaged Fund.

These accolades received by the Fund show the continued commitment by the NJMPF to strive for excellence and exceed expectations in the retirement funding industry. It shows the Fund's continued commitment to providing superior retirement service for our stakeholders in all activities affecting the Fund.

## **SAVING FOR RETIREMENT**

The majority of South African consumers have inadequate long-term savings strategies in place. Reasons for poor long-term saving include unemployment and poverty, low life expectancy, poor financial literacy and a fondness for consumption expenditure.

A proliferation of credit options in recent years, mortgages and hire-purchase agreements resulted in the household debt-to-income ratio surging close to 80% of income.

Experts say that as few as one in 10 people are making adequate provision for retirement, hence Government desire regarding Retirement Reform. Developments in this regard are discussed later in my address.

There are three golden rules to making adequate capital provisions. The first is to save 15%, as a minimum of your gross salary consistently over your working life. The second is to preserve your pension benefits each time you change employment. And the third is to secure the services of a competent financial adviser before retirement.

We as a Fund have committed ourselves to embark on an education programme to encourage members in the Provident Fund to contribute at higher rates, thus ensuring adequate savings on retirement. To this end we will be proposing an amendment to regulations of the Provident Fund to ensure that the employer contribution is fixed at 18% irrespective of the employee contribution being either 5%, 7% or 9.25%.

It is self-evident that an increase in the employer rate of contribution in the Fund to 18% for all members, irrespective of the contribution rate by members will result in a significant improvement in benefits for many members.

### **RETIREMENT REFORM:**

As we have all read and heard Government is proposing a number of important retirement benefit reforms that it wishes to implement.

Over the past 24 months, members have been expressing concern over the possible effects of changes by Government (National Treasury) to current retirement fund legislation. In particular, members assume that any new legislation will restrict them from accessing their retirement funds when they retire or resign.

Retirement reform is an on-going process which will take some time to be completed. Treasury has stated on numerous occasions **that vested rights will be protected.**

The retirement reform policy proposals were to encourage preservation, to improve fund governance by trustees, to encourage annuitisation by insisting that all funds have a default annuity for members on retirement, to simplify the taxation of retirement contributions, to encourage discretionary non retirement savings, to improve the

annuities market and to reduce costs. Treasury has also been working hard to publish the social security reforms in the current year.

The Committee of Management is mindful of the impact that any changes to pension fund legislation might have on member benefits and vested rights, and thus will continue to monitor developments and keep the membership informed.

## **INVESTMENT PERFORMANCE**

Over the year under review the index returns for domestic equities, bonds and cash were 17.7%, 12.4% & 6.2% respectively, whilst offshore equities, in rand terms returned 22.8%.

These returns have reflected in the combined assets of the three Funds increasing by 14.3% over the previous year from R 14.3 billion to R16.4 billion as at 31 March 2015.

The Funds' investment returns this year relative to the investment markets and the long term benchmarks set by the Committee of Management and the Actuary have continued to perform well.

As a result I am pleased to report that all the Funds have achieved their long term investment objectives to outperform their constructed benchmarks. For many fund managers their hurdle is benchmark + 2% over 5 years, whilst for the Funds, the aim is to achieve CPI + 5% over the last 5 years.

The 5 year investment returns to 31 March 2015 were 16.4% p.a. for the Superannuation Fund, 16.5% p.a. for the Retirement Fund and 16.6% for the Provident Fund, this compares to benchmark returns of 15.9% for the Superannuation and the Retirement Funds and 16.6% for the Provident Fund.

The Fund handsomely beat its objective by achieving returns well above the 10.1%, which represents the CPI + 5% over the 5 years ended 31 March 2015.

Year	*CPI + 5%	Superannuation Fund % Return	Retirement Fund % Return	Provident Fund % Return
5 years to 31 <sup>st</sup> March 2014	10,2	16,4	16,5	16,6

Source: Alexander Forbes

\* The investment objective prior to 1/4/2011 was CPI + 4.5%

This year the Fund was able to approve a significant increase to both Superannuation and Retirement Fund pensioners.

- A full CPI increase of **6.07%** with effect from the 1st of July 2015 and
- A thirteen cheque payable in November and
- A special increase of **8.33%** is proposed for January 2016

In our Provident Fund **R1 million** invested since 1 January 2000 has grown to **R8.5 million** by 31 March 2015. The Fund is ranked in the Top Quartile of investment performance surveys.

## **RATIONALISATION PROJECT**

As a background to this project that has been undertaken by the Fund and the Department of Co-operative Governance & Traditional Affairs, the KwaZulu–Natal Office of the Premier commenced a Rationalisation of Law Project affecting all Provincial legislation to ensure compliance with “new order” regulations.

An important objective of the Rationalisation Project was that the categories of benefits in the two defined benefit funds, namely the Superannuation and Retirement Funds be the same and no form of historical discrimination remains, between the two funds particularly within the Retirement Fund. To this end once the Bills are promulgated member benefits will improve significantly.

I am delighted to inform the General Committee that the MEC has approved the Bills which have been passed on for translating. Once translated the Bills will be published for public comment and thereafter submitted to the State Law Advisor for certification. The State Law Advisor will then participate in the consultation process with any

interested parties and once this process has been completed the certified Bills will be furnished to the Provincial Cabinet for approval to submit to the Provincial Legislature. It is intended that promulgation of the rationalised regulations should take place before the 31 March 2016.

Further information about the Rationalisation Project has been included in today's agenda of the Annual General meeting.

### **The Superannuation Fund**

Membership decreased by 5.14% from 4964 to 4709. The main reason being that, employing Municipalities, as a result of SALGA's requests, continue to admit new employees exclusively, to the Provident Fund. The number of pensioners, quite naturally, continues to increase albeit very slightly this year. The number of Pensioners increased from 4097 to 4200 (inclusive of widows, child pensioners and deferred pensioners) or an increase of 2.51%

The assets of the fund at market value have increased from R8.92 billion to R10.11 billion. Over the financial year, the Fund earned approximately 14.9% on its assets taken at market value.

The actuarial valuation at 31 March 2015 reveals that the Fund is fully funded before allowance for a Solvency Reserve, but that it is not fully funded on the "financial soundness" basis incorporating the full Solvency Reserve. There is no legal requirement to carry on paying the surcharge whilst the Fund is 100% funded on the best estimate valuation basis; however this basis gives the Fund little protection against adverse experience. The actuary therefore recommends that the current surcharge of 9.5% pensionable salaries continues to be paid towards establishing a Solvency Reserve to protect the Fund against adverse experience on the active member liabilities and assets.

The funding level in respect of the active members improved from 104.2% to 116.6% before allowance for the Solvency Reserve over the valuation period. If the full Solvency Reserve is incorporated, the funding level in respect of the active members was only some 76.7%.

The Fund holds a Memorandum Account in respect of pensioners.

Over the period to 31 March 2015 the Fund earned higher than expected investment returns, however due to significant payments being made to pensioners, the cost of the proposed special pension increase of 8,33% with effect from 1 January 2016, and an additional allowance for suspended pensioners the funding level of the Memorandum Account slightly decreased from 132,9% at 31 March 2014 to 128,5% as at 31 March 2015. The balance of R1.1 million is retained as a contingency reserve to provide for future minimum pension increases as prescribed by legislation and incorporated in the Fund's Regulations.

### **The Retirement Fund**

In line with the trend of the Superannuation Fund, and for exactly the same reasons, membership of the Retirement Fund continues to fall. This year it is down by 11.88 % over last year; down from 2811 to 2477 members.

The number of pensioners, since 31 March 2014 have increased from 3993 (including widows and deferred pensioners) to 4113 or by 3.01%. The asset value of the Fund during the past twelve months at market value has increased from R3.3 billion to R3.7 billion, an increase of 11.6%.

The 2015 actuarial valuation disclosed that, in respect of the liabilities for service to the valuation date, the overall Fund was 96.1% funded, this is a significant improvement compared to 31 March 2012 when the Fund was 90.6% funded.

The improvement in the financial position of the Fund was a result of better than expected investment earning on assets as well as the continued payment of the surcharge by the Municipalities.

The funding level in respect of the active members improved from 82.0% to 91.1%.

The Fund holds a Memorandum Account in respect of pensioners.

The funding level of the Memorandum Account increased from 127,8% as at 31 March 2014 to 129,8% as at 31 March 2015. This is after allowing for the cost of the proposed special increase of 8,33% to pensions with effect from 1 January 2016. The surplus in the Memorandum Account is retained as a contingency reserve to provide for future minimum pension increases as prescribed by legislation and incorporated in the Fund's Regulations

### **The Provident Fund**

And finally, let me deal with the Provident Fund.

This is a growing Fund as, in line with SALGA's request, all new employees are being admitted to the Provident Fund. Membership has increased during the year from 11448 to 12028 a 5.07% increase.

The assets of the Fund at market value have increased from R2.151 billion to R2.63 billion; representing a growth of some 20.5% per annum..

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.

The valuation reveals that the Fund is 107.4% funded as at the valuation date.

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.

The Fund is in a financially sound position as at the valuation date.

## **STAFF**

At this juncture I would like, on behalf of the Board of Trustees, to express our sincere gratitude to our CEO/Principal Officer, Mr Sam Camilleri for his astute leadership in the management of the Funds and providing definitive guidance to the Committee of Management in various matters affecting the Funds.

To the rest of the staff I thank you for having served the organisation well through the year and I look forward to your loyalty and dedication in the ensuing year.

To my Deputy Chairperson, Mrs Mavimbela, thank you for all your support and the loyalty you afforded me during your term of office with the Fund.

To my fellow Trustees: thank you for your support, contribution and guidance in our deliberations over the past year during which I have been Chairperson. For those standing for re-election as Trustees today, all the very best.

Furthermore, I would like to record my sincere appreciation to a long standing fellow trustee of the Superannuation Fund, Mr. Peter Bailey who finished his term in office in 2015, having served as a trustee for 15 years

To you, Members of the General Committee, thank you for your attendance today and I trust that you would also continue to show a keen interest in the affairs of our Funds and its future.

I thank you.

**Mr Dube**

**CHAIRPERSON**

**27 November 2015**