# NJMPF
# Fund Insight
## Your news update

### RESIGNATION BENEFITS VS PRESCRIBED MINIMUM BENEFITS (SUPERANNUATION AND RETIREMENT FUNDS)

### WHAT IS THE RESIGNATION BENEFIT?

The resignation benefit in the two defined benefit funds is a return of your contributions plus interest, but subject to a minimum value which is set out in the Pension Funds Act.

This minimum value is calculated as the value now (at the calculation date) of the estimated retirement benefit that the member would receive at normal retirement age (NRA).

As the benefit is determined at the calculation date, it means that only pensionable service up to date of calculation and your pensionable salary at date of calculation is used.

### HOW IS THE PRESCRIBED MINIMUM BENEFIT (PMB) CALCULATED?

In terms of the Regulations of the two funds, the retirement benefit is a pension plus a gratuity.

The prescribed benefit is therefore based on a fixed formulae as follows:

**PENSION (SUPERANNUATION FUND)**

2.2% x final average salary (over last year) x pensionable service x capital factor at NRA x discount factor from NRA to current age

plus

**GRATUITY (SUPERANNUATION FUND)**

8.25% x final average salary (over last year) x pensionable service x discount factor from NRA to current age

These two components estimate the current value of the pension and gratuity that a member will receive at NRA (for service up to now).

For the Retirement Fund the pension is calculated by using 2.1 instead of the 2.2 used above for the Super-annuation Fund, and for the gratuity value, 5.5 instead of 8.25.

### WHY DOES THE BENEFIT NOT ALWAYS INCREASE FROM YEAR TO YEAR?

Since the benefit is based on salary and service, it would make sense that the benefit should increase from one year to the next as the member would have one extra year of service and there would potentially have been a salary increase given.

This is true, were it not for the discount factor that must be applied to the benefit. Since this factor is directly linked to the investment markets on the calculation date, it can go either up or down during the year. If the increase in salary and service is less than the fall in the discount factor in any given period, the benefit would reduce rather than increase over that period.

Since markets cannot be predicted, a member's resignation value will therefore only be known with certainty at his/her actual date of resignation.

## PRACTICAL EXAMPLE

#### Annual pension at Normal Retirement Age (NRA):

⇒ In terms of the Act this is based on current salary and service

⇒ The pension is then 2.2% x 500 000 x 15 = 165 000

#### Capital factor at Normal Retirement Age (NRA):

⇒ This is the value of an annuity from age 65 to pay this pension plus pension increases for life plus a spouse's pension in terms of the Regulations

⇒ This factor is based on long term interest and mortality assumptions and hence does not change frequently, the factor is calculated based on the assumptions used in the last statutory valuation of each fund. Statutory valuations are done every three years.

⇒ In the example above this factor would be 13

#### Discount factor from Normal Retirement Age (NRA) to current age:

⇒ The discount factor takes the capitalised value of the pension at NRA above (the 165 000 x 13 = 2 145 000)

⇒ And discounts it to current age by applying a discount factor

⇒ This factor is applied for the number of years that the member is younger than the NRA age (65-45=20 in the example above)

⇒ The discount factor is based on rates that is published monthly by the Financial Sector Conduct Authority which is directly related to interest rates and market performance

⇒ This factor therefore changes monthly as the market changes

#### GRATUITY

#### Gratuity at Normal Retirement Age (NRA):

⇒ This is again based on current salary and service

⇒ The gratuity is then 8.25% x 500 000 x 15 = R618 750

⇒ No capital factor is required here as this is a once off lumpsum payment and therefore not payable for life

#### Discount factor from Normal Retirement Age (NRA) to current age:

⇒ The same factor as for the pension is applied

#### PRESCRIBED BENEFIT

⇒ Let us assume that the published discount factor taken into account for the 20 years between 45 and 65 is currently 0.61 (this may increase OR decrease next month depending on the move of the market)

⇒ The Prescribed Benefit is then the pension plus the gratuity – both discounted: (2 145 000 + 618 750)*0.61 = R1 686 000