Natal Joint Municipal Pension Fund

(RETIREMENT)

PENSION INCREASE POLICY

(with effect from 1 August 2016)

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NATAL JOINT MUNICIPAL PENSION FUND (RETIREMENT)

PENSION INCREASE POLICY DOCUMENT
(EFFECTIVE 1 AUGUST 2016)

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PENSION INCREASE POLICY
(with effect from 1 August 2016)

This document sets out the Pension Increase Policy of the Natal Joint Municipal Pension Fund (Retirement) and records the issues considered by the Board of Trustees of the Fund in establishing an appropriate Policy for the Fund.

This version of the Policy is effective from 1 August 2016 and replaces all previous versions.

1. INTRODUCTION

The Natal Joint Municipal Pension Fund (Retirement) ("the Fund") provides benefits to members and former members of the Fund, including payment of pensions to retired members and their dependants. It is the policy of the Trustees to increase pensions in payment, and deferred pensions, on a regular basis. This document has been prepared to record the Trustees' policy for determining the pension increases and for granting bonus payments to pensioners from time to time.

1.1. The Pension Increase Policy takes into account legislative requirements, including the Pension Funds Act.

1.2. The factors which the Trustees have considered in establishing the Policy are recorded in the body of this document.

1.3. This Policy has been developed by having regard to the Fund's liability towards the stakeholders in the Fund as discussed below, and in conjunction with the Actuary of the Fund.

2. NATURE OF THE FUND

The Fund is a defined benefit pension fund and has the following characteristics:

2.1. The Fund provides pensions to retired members, and to eligible spouses of both members who die in the service and pensioners upon their death after retirement. The Fund self-insures the death and disability benefits and also bears the longevity risk in respect of its pensioners; it therefore maintains a "Risk Reserve" in terms of the Financial Services Board's Circular PF117, in order to give some protection against fluctuations in mortality and morbidity experience of the members and pensioners.

2.2. Pensions are paid monthly in arrears.

2.3. Subject to the legislation and the Regulations of the Fund, pensions are increased annually by the Trustees in terms of the Regulations of the Fund, after consultation with the Actuary of the Fund. Pension increases are funded for during the working life of a member.

2.4. The assets underlying the pension liabilities are notionally set aside in a Memorandum Account. Pension increases are paid from the Memorandum Account in the Fund.

2.5. Each year the Trustees consider and approve an increase to pensions with effect from 1st July, based on this Policy and in consultation with the Actuary of the Fund.

2.6. Regulation 21A of the Fund determines that pensions will be increased annually by at least of 75% of inflation, taking into account the investment return earned on the assets in the Memorandum Account.

2.7. Regulation 21A stipulates that the maximum increase is the lowest of

- 100% of inflation:
- the increase affordable from investment earnings; or
- the average of the previous two items.

2.8. Regulation 31 provides that the Trustees may grant further special pension increases in consultation with the Actuary of the Fund which includes granting a bonus payment to pensioners in November of a year if this is affordable.

2.9. If a pension has been in payment or deferment for less than a year at the Fund's financial year-end (31 March), the pension increase and any bonus payment is on a pro-rata basis.

2.10. The Fund is subject to triennial statutory actuarial valuations, at which time it is necessary to report on the Fund's financial condition to the Financial Services Board.

3. LIABILITIES OF THE FUND

The Fund has a responsibility in respect of the following stakeholders:

3.1. Contributory Members

Contributory members will receive benefits from the Fund in the future when they either withdraw from the Fund, or retire. Benefits are also payable on the death or disablement of a member prior to retirement. The benefits which these members will receive are set out in the Regulations of the Fund. The Trustees understand the expectations of the contributory members to be that sufficient assets exist in the Fund to secure their benefits when they become due.

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3.2. Pensioners

Pensioners receive lifelong monthly pensions from the Fund for the balance of their lives and the lives of eligible spouses, where applicable. These pensions should be increased from time to time in recognition of the reduction in purchasing power caused by inflation. The Trustees understand the expectation of the pensioners to be primarily that sufficient assets exist in the Fund to secure their pensions as they become due and that such increases be as regular as possible and reflect the full effects of inflation, as far as possible.

3.3. The Employer

The Employer underwrites the liabilities of the Fund and is responsible for paying the balance of cost, after member contributions, for providing benefits in terms of the rules.

In the case of the pensioners the Employer underwrites the Fund's ability to continue payment of pensions at their current level as well as a guarantee in respect of future increases – these increases will be not less than 75% of inflation in terms of Regulation 24A.

4. LEGISLATION

4.1. Section 14B (3) of the Pension Funds Act ("the Act") requires each Board of Trustees to establish and implement a Pension Increase Policy. In this regard the Board is required to do the following:

- Establish and implement a Policy regarding increases to be granted to pensioners and deferred pensioners. That Policy must provide for a targeted increase at a percentage of the rate at which CPI has increased or some other measure of price inflation considered suitable by the Board;
- Set the frequency with which increases will be considered in accordance with the Policy: Increases must be considered at least once a year and compared to the prescribed minimum pension increase at least every three years; and
- Communicate the Policy to pensioners and deferred pensioners when it is established and whenever it is changed.

4.2. The Act requires that, at least every three years, increases must be compared with the minimum pension increase defined in the Act and a special increase be granted where past increases have been less than the minimum pension increase.

4.3. The minimum pension increase in terms of the Act is the lower of:

- The increase that can be afforded by applying the assets in the Memorandum Account towards pensioners; and

- Increases at the full rate of Headline Inflation since retirement;

subject to a minimum of the pension increases that have been granted in terms of the Pension Increase Policy.

4.4. The primary duty of the Trustees is to ensure that the Fund is financially sound, that is, that it has sufficient assets to meet its obligations in terms of its Regulations. If the Trustees agree to increase pensions when it is foreseeable that the increase will result in the Fund becoming underfunded, the Trustees will have acted negligently and may be held personally liable for such losses arising as a consequence of their conduct.

5. PENSION INCREASE POLICY

Taking account of the nature of the Fund, its liabilities and Regulations, as well as legislation, the Trustees have adopted the following Pension Increase Policy:

5.1. Pensions (in payment and deferred pensions) shall be increased with effect from 1 July 2016 and thereafter on 1 July of each year, as follows:

- The increase shall be at least 75% of the rate of inflation;

- Taking into account the investment return on the assets underlying the Memorandum Account, and in consultation with the Actuary of the Fund, the Trustees may decide to grant an increase greater than 75% of inflation, of up to 100% of the rate of inflation; provided that the investment return shall exclude any surcharges as stipulated in Regulation 21A(3)(b).

5.2. The Trustees will review the level of pensions from time to time and may, subject to affordability and on the advice of the Actuary of the Fund, grant special increases in addition to the increases in the preceding paragraph.

5.3. For purposes of this Policy the "rate of inflation" shall mean the year-on-year increase in the Headline Consumer Price Index over the twelve months to 31 December immediately preceding the date of the increase.

5.4. A pensioner who has been in receipt of his or her pension for less than a year at the Fund's financial year-end (31 March) that precedes the date of the increase, shall have his or her pension increased on a pro-rata basis. Similarly, a deferred pension will be increased pro rata if it has not been deferred for a full year at the preceding financial year-end.

5.5. It is noted that, when a member retires in the Fund, the calculation of his/her pension already incorporates an allowance for future investment earnings of 5%. Thus only the investment returns in excess of 5% are available for granting pension increases. As an example, if the investment earnings in a year are 11%, an increase of up to 6% (11% less 5%) can be afforded.

5.6. It should be noted that pension increases in any given year may be less than the rate of inflation, depending on several factors including investment returns, prior year deficits and the building up of a reserve to offset years with poor or negative returns.

6. BONUS PAYMENTS

6.1. The Trustees may, based on advice of the Actuary of the Fund, grant a bonus payment (of at most a 13^{th} cheque) to each pensioner in November of any year, subject to affordability. The pro-rata provisions of paragraph 5.4 above will also apply to the bonus payment.

- The above bonus payment is "affordable" if both the cost of the bonus payment and the pension increase granted in that year can be afforded out of the investment returns on the assets underlying the Memorandum Account in the year to 31 March preceding the date of the bonus payment, and the Memorandum Account remains fully funded after the deduction of these costs.

6.2. Should a bonus payment not be "affordable" as envisaged in 6.1 above then, based on the advice of the Actuary, a special payment can be declared to the pensioners as a once-off payment as a result of there being surplus in the Memorandum Account.

7. GENERAL

This Policy is always subject to the provisions of the Regulations of the Fund and relevant legislation, and affordability. In the event of any conflict between this document and the Regulations, the Regulations will prevail.

8. REVIEW OF POLICY

The Trustees will review the Fund's Pension Increase Policy from time to time, but at least triennially.

The Trustees will also review the Policy whenever there is a material change to the Fund. A material change would include, but not be limited to, the following:

- A significant change in the membership of the Fund; or
- A significant change in the benefit structure of the Fund; or
- A significant change in asset or liability values resulting from a major market move, or transfer of members; or
- A material change in taxation treatment of the Fund; or
- A relaxation of foreign exchange control.

9. COMMUNICATION OF POLICY

The Trustees will communicate the Pension Increase Policy to the Fund's pensioners and retiring members. Any changes to the Policy will also be communicated to those who stand to be affected thereby.

10. SIGNATORIES

This document represents the Pension Increase Policy Document of the Natal Joint Municipal Pension Fund (Retirement), effective from 1 August 2016.

D XOLANI **CHAIRPERSON**	30/09/2016 DATE
S CAMILLERI **PRINCIPAL OFFICER**	30/9/16 DATE

I hereby confirm that I am satisfied that the pension increase strategy recorded above is consistent with the objectives of the Natal Joint Municipal Pension Fund (Retirement) and the management of the risks to which the Fund is exposed, and that this strategy will result in an appropriate relationship between the assets and the liabilities of the Fund.

AR ELS **ACTUARY**	3/10/2016 DATE

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