

# NATAL JOINT MUNICIPAL FUNDS

## PRESENTATION TO THE MEMBERS' INFORMATION MEETING

14 JUNE 2019



**Tommie Doubell**

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# NATAL JOINT MUNICIPAL FUNDS

## Agenda

- Provident Fund
- Superannuation Fund
- Retirement Fund

# KWA-ZULU NATAL JOINT MUNICIPAL PROVIDENT FUND

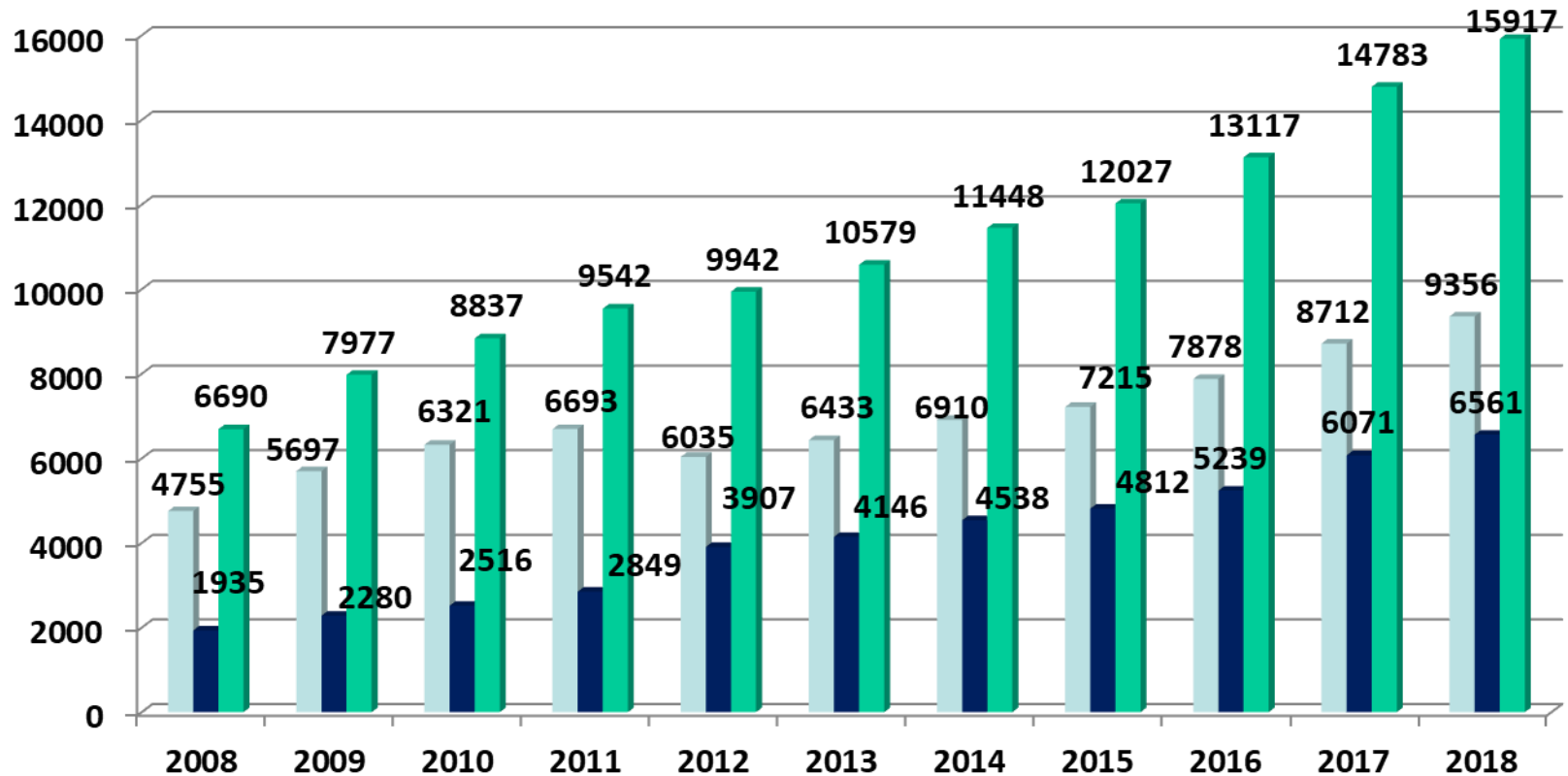
**Statutory** actuarial valuation  
**As at 31 March 2018**



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# KWA-ZULU NATAL JOINT MUNICIPAL PROVIDENT FUND

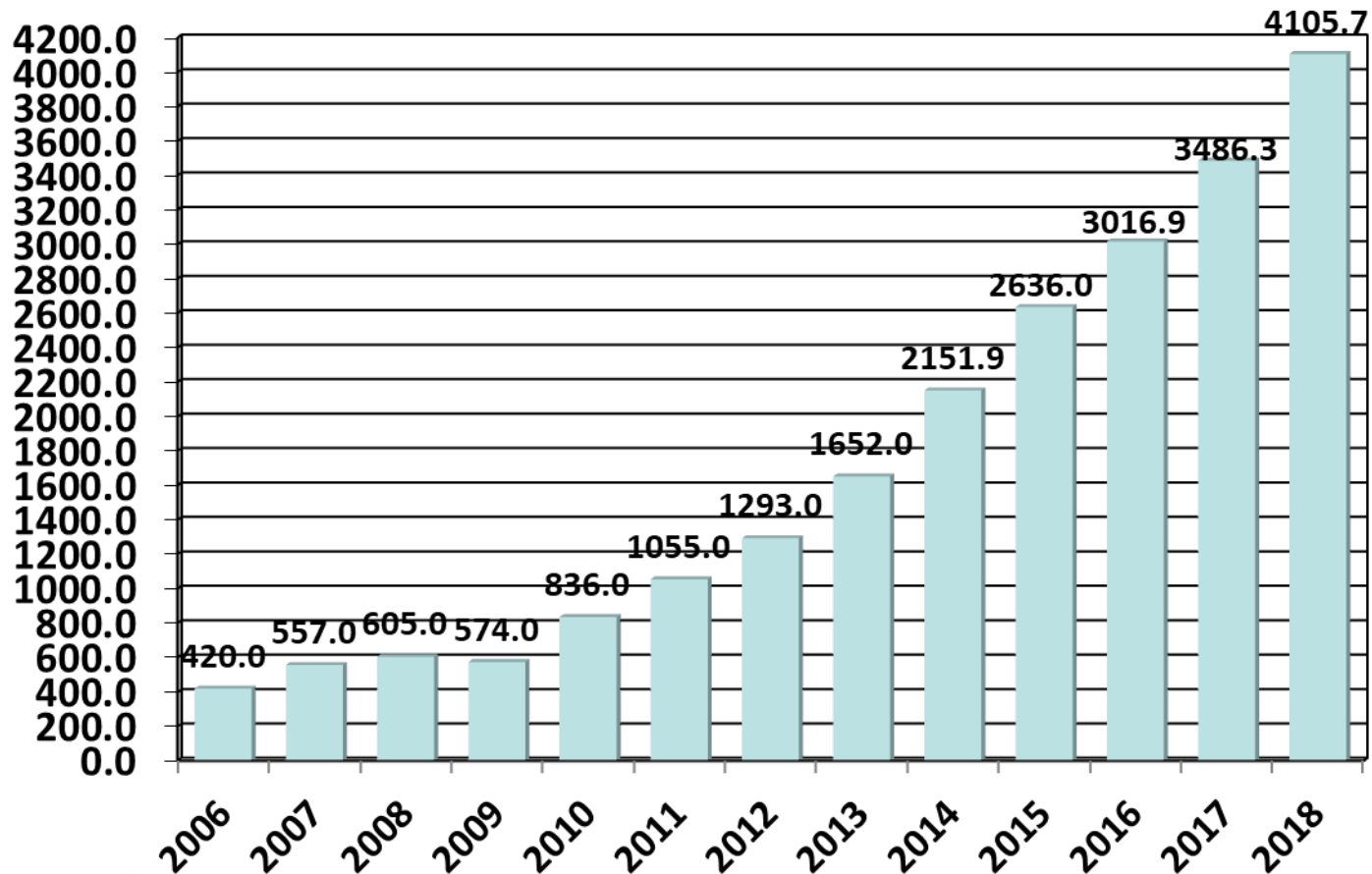
## Membership



■ Males ■ Females ■ Total

# KWA-ZULU NATAL JOINT MUNICIPAL PROVIDENT FUND

## Assets R'000



# KWA-ZULU NATAL JOINT MUNICIPAL PROVIDENT FUND

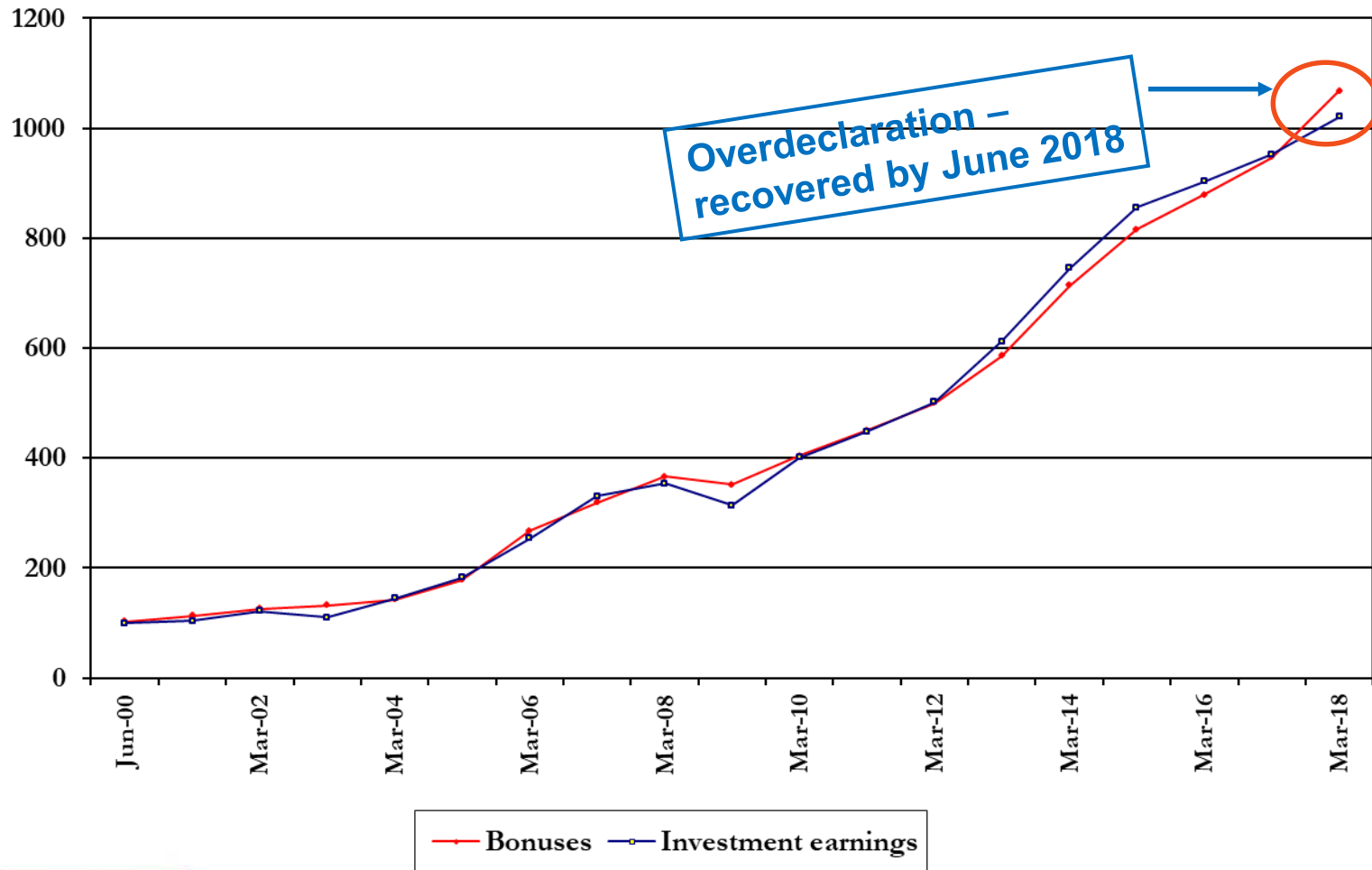
## Bonuses declared 2017/18

Month	Interim bonus	Investment Reserve
April 2017 <sup>1</sup>	0.0%	7.0%
May 2017	1.0%	7.0%
June 2017	1.0%	7.0%
July 2017	1.0%	7.0%
August 2017	0.0%	7.0%
September 2017	0.0%	7.0%
October 2017	0.0%	7.0%
November 2017	1.5%	7.0%
December 2017	1.5%	7.0%
January 2018	1.5%	7.0%
February 2018	1.5%	7.0%
March 2018	<u>1.5%</u>	7.0%
Subtotal <sup>2</sup>	<b>10.99%</b>	

1. Actual earnings over year = 6.9%

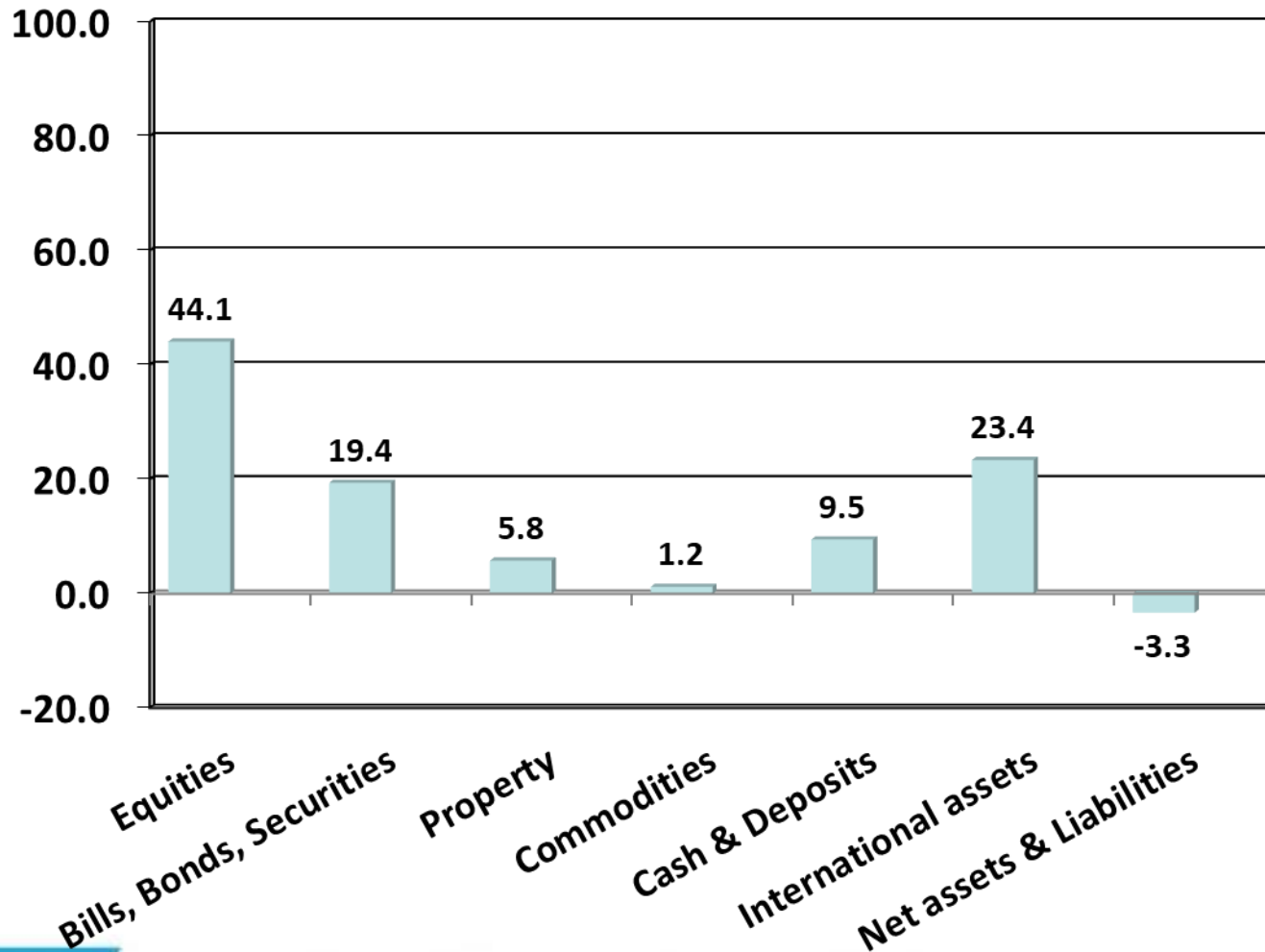
# KWA-ZULU NATAL JOINT MUNICIPAL PROVIDENT FUND

## Returns earned vs bonuses from 2000 to 2018



# KWA-ZULU NATAL JOINT MUNICIPAL PROVIDENT FUND

## Asset composition (%)





# KWA-ZULU NATAL JOINT MUNICIPAL PROVIDENT FUND

## Valuation Results - statutory

	31 March 2018 R'000	31 March 2015 R'000
<b>Total assets per Financial Statements</b>	<b>4 105 682</b>	<b>2 636 064</b>
<b>Liabilities:</b>		
Member Share Account:		
As per Financial Statements	3 831 071	2 251 337
Actuarial adjustment <sup>1</sup>	- 1 782	1 536
Bonus for April following valuation date	<u>57 439</u>	<u>22 529</u>
Subtotal	3 886 728	2 275 402
<b>Reserves and Accounts:</b>		
Risk & Expense Reserve	23 071	18 927
Investment Reserve	<u>272 071</u>	<u>159 278</u>
Subtotal	295 142	178 205
<b>Total liabilities, reserves and accounts</b>	<b>4 181 870</b>	<b>2 453 607</b>
<b>Unallocated assets</b>	<b>- 76 188</b>	<b>182 457</b>
<b>Funding level</b>	<b>98.2%</b>	<b>107.4%</b>

# KWA-ZULU NATAL JOINT MUNICIPAL PROVIDENT FUND

## Contribution Rate

	Category A	Category B	Category C
<b>Retirement contributions</b>			
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%
<b>Risk and expense contributions</b>			
Employer:	3.75%	3.75%	3.75%
<b>Percentage of members contributing at these rates:</b>			
31 March 2018	31.28%	19.65%	49.07%
31 March 2017	35.00%	21.09%	43.91%
31 March 2016	41.20%	23.41%	35.39%
31 March 2015	46.24%	24.56%	29.20%

# KWA-ZULU NATAL JOINT MUNICIPAL PROVIDENT FUND

## Risk Reserve sufficiency

	Year following 31 March 2018
Risk and expense contributions	3.75%
Less:	
Death benefit cost	1.62%
Expenses	<u>1.00%</u>
Excess contribution	1.13%

Available contributions sufficient to meet risk benefit costs and expenses

# KWA-ZULU NATAL JOINT MUNICIPAL PROVIDENT FUND

## Recommendations

- No final bonus at the valuation date.
- Investment Reserve to remain at 7%
- Continue education programme on benefit of higher contributions towards retirement

# KWA-ZULU NATAL JOINT MUNICIPAL PROVIDENT FUND

## Conclusion

- Fund **not** financially sound at valuation date – but function of smoothing, returned to sound position by 30 June 2018
- Contribution to risk and expenses **sufficient**
- Asset composition **appropriate** to the nature of liabilities.
- Investment strategy **suitable** for the Fund
- Fund self insurance arrangement **appropriate** given Risk Reserve

# KWA-ZULU NATAL JOINT MUNICIPAL PROVIDENT FUND

**Questions?**

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# NATAL JOINT MUNICIPAL PENSION FUND (SUPERANNUATION)

**Interim** actuarial valuation  
**As at 31 March 2018**



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# NJMPF – SUPERANNUATION FUND

## Developments during valuation period

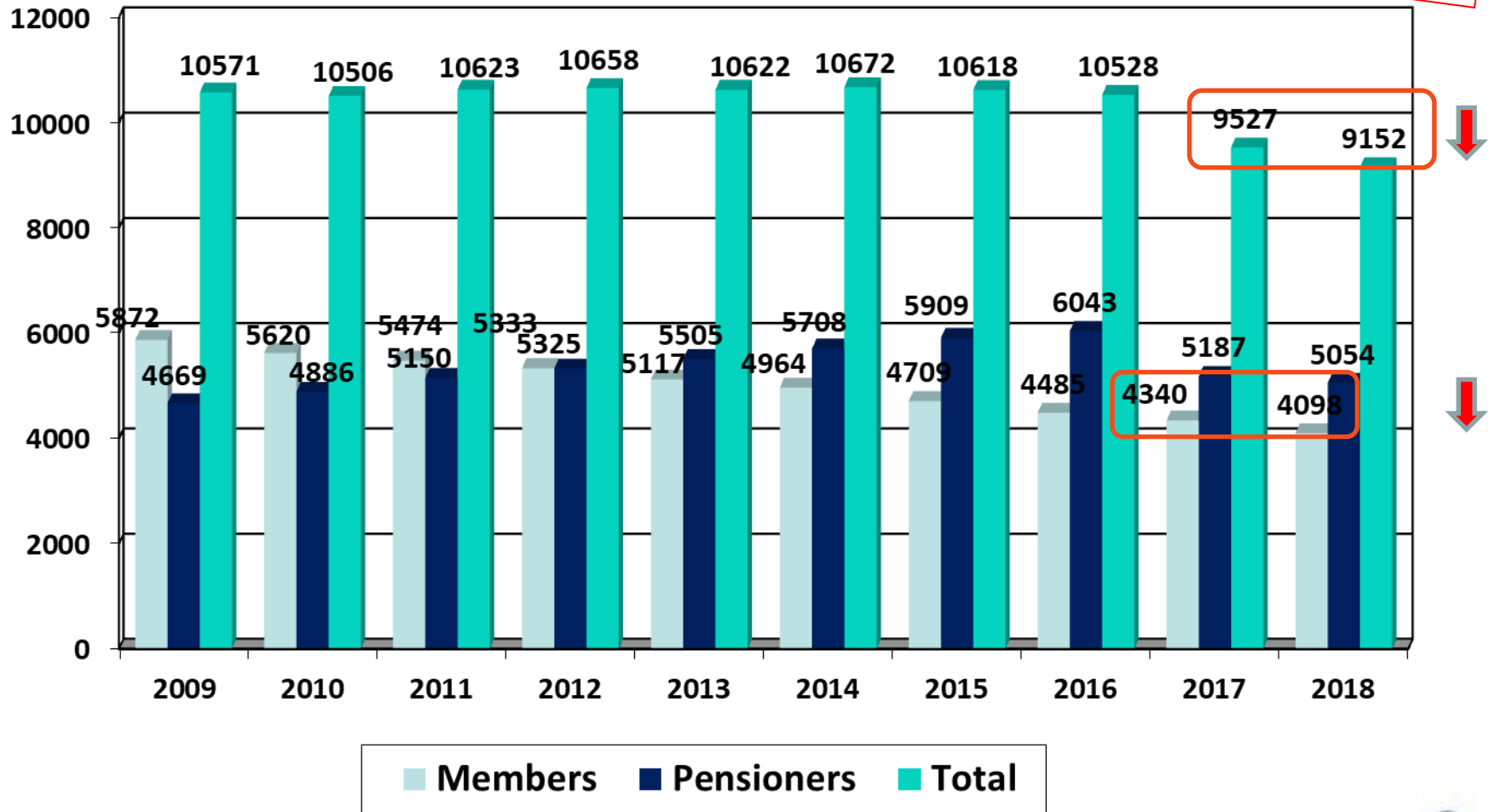
- Surcharge reduced to offset increased surcharge in Retirement Fund
- Investment return of 7.74%
- Average salary increases 9.3%
- Pension increases:
  - 1.7.2017: 6.84%
  - 1.7.2018: 4.68%
  - Plus bonuses of 50% in Nov 2017, 2018



# NJMPF – SUPERANNUATION FUND

## Membership

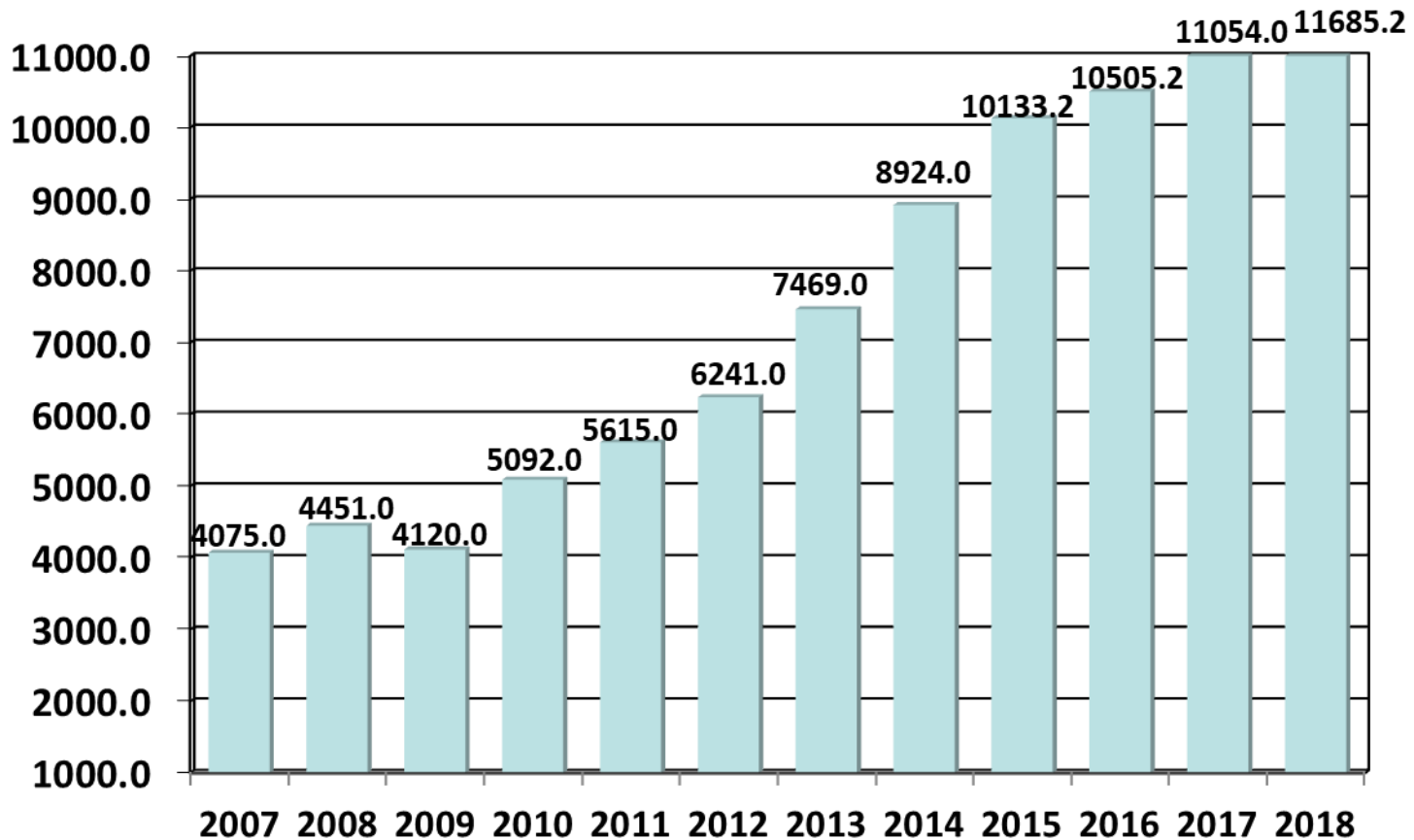
Plan to merge this Fund with Ret F in approx 2021



# NJMPF – SUPERANNUATION FUND

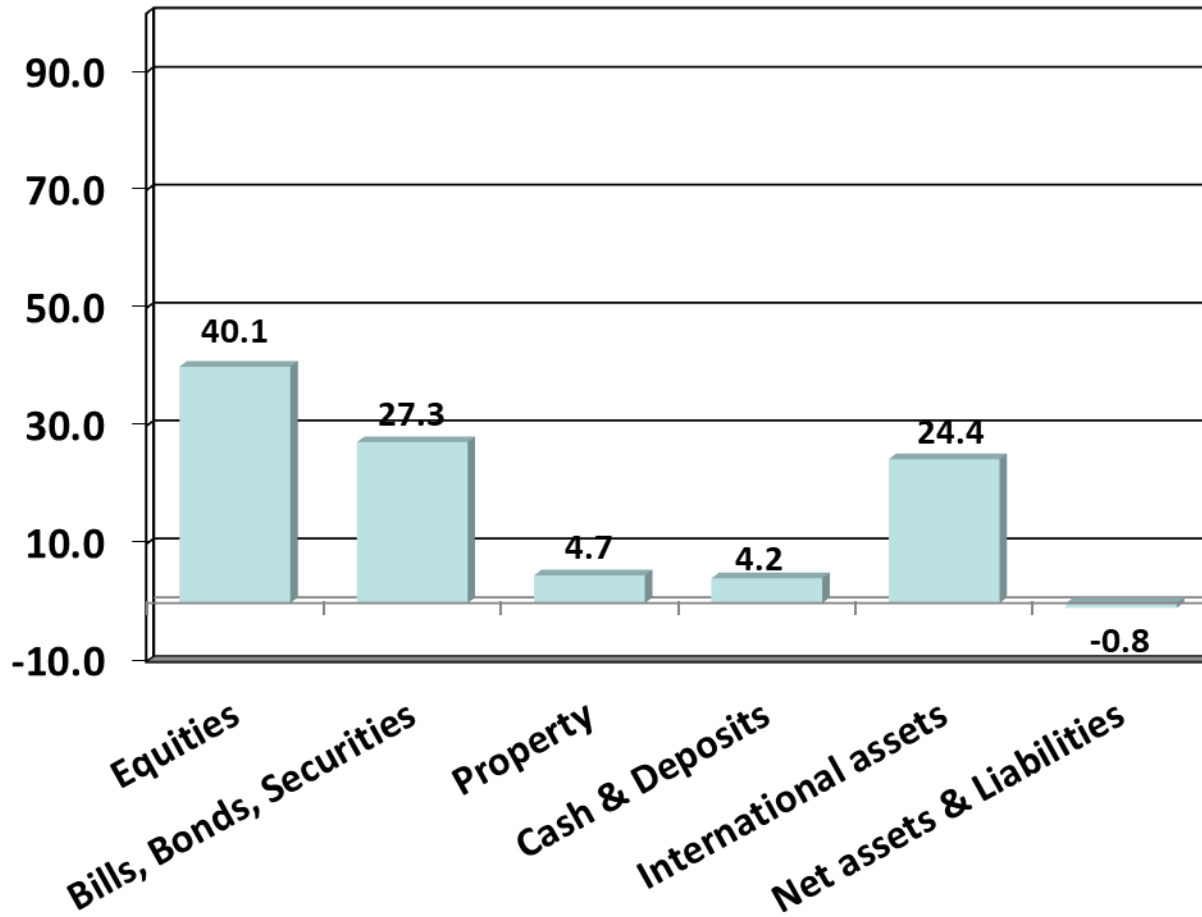
## Assets

R'000



# NJMPF – SUPERANNUATION FUND

## Asset composition (%)



# NJMPF – SUPERANNUATION FUND

## Results: Pensioner Memorandum Account

	31 March 2018 R'000	31 March 2017 R'000
<b><u>Memorandum Account: Pensioners</u></b>		
<b>Assets:</b>	<b>5 528 350</b>	<b>5 245 567</b>
<b>Liabilities and Reserves:</b>		
Accrued liability <sup>1</sup>	4 600 700	4 253 217
Solvency Reserve	732 980	612 357
Risk Reserve	102 805	93 484
Balance of assets	<u>91 865</u>	<u>286 509</u>
	<b>5 528 350</b>	<b>5 245 567</b>
<b>Funding level</b>	<b>101.7%</b>	<b>105.8%</b>

# NJMPF – SUPERANNUATION FUND

## Recommendations: Pensioners

- Memorandum Account fully funded after allowing for Risk Reserve and Solvency Reserve
- Balance of assets in the Memorandum Account used to fund the Solvency Reserve in respect of pensioners as well as towards future pension increases

# NJMPF – SUPERANNUATION FUND

## Financial Position: Active members

	31 March 2018 R'000	31 March 2017 R'000
<b><u>Active members</u></b>		
<b>Assets:</b>	<b>6 156 900</b>	<b>5 431 090</b>
<b>Liabilities and Reserves:</b>		
Accrued liability	5 397 113	5 011 966
Risk Reserve	71 677	68 430
Contribution reserve	31 834	21 221
Prescribed minimum benefits	319 725	382 436
Solvency Reserve: Active members	<u>336 551</u>	<u>324 418</u>
	<b>6 156 900</b>	<b>5 808 471</b>
<b>Funding level</b>	<b>100.0%</b>	<b>100.0%</b>

Lower than recommended

# NJMPF – SUPERANNUATION FUND

## Required rate of contribution

	31 March 2018	31 March 2017
<b>Required rate</b>		
Future service benefits	30.00%	29.90%
Expenses	<u>1.20%</u>	<u>1.20%</u>
Total	31.20%	31.10%
<b>Actual rate</b>		
Local Authorities	21.63%	21.63%
Members	<u>9.25%</u>	<u>9.25%</u>
Total	30.88%	30.88%
Shortfall/excess in contributed rate	-0.32%	-0.22%

*Covered by Contribution Reserve*

# NJMPF – SUPERANNUATION FUND

## Surcharge

- Fund has insufficient assets for Full Solvency Reserve
- No Solvency Reserve means Fund has little protection against adverse experience
- Recommend that Trustees hold a Solvency Reserve at full theoretical level
- Local authorities are paying surcharge to build up Solvency Reserve for active members (0% to 9.5%)



# NJMPF – SUPERANNUATION FUND

## Recommendations: Active members

- Trustees to aim to build up the Solvency Reserve in respect of active member liabilities to full theoretical value
- Current surcharge continue to be paid in order to build up Solvency Reserve for protection of the Fund

# NJMPF – SUPERANNUATION FUND

## Conclusion

- Fund fully funded **before** Solvency Reserve but **not** fully funded on the financial soundness basis incorporating full Solvency Reserve
- Asset composition on valuation date **appropriate** to nature of the liabilities
- Investment strategy **suitable** for the Fund
- Fund's reinsurance arrangements **appropriate**

# NJMPF – SUPERANNUATION FUND

**Questions?**

# NATAL JOINT MUNICIPAL PENSION FUND (RETIREMENT)

**Statutory** actuarial valuation  
As at 31 March 2018



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# NJMPF – RETIREMENT FUND

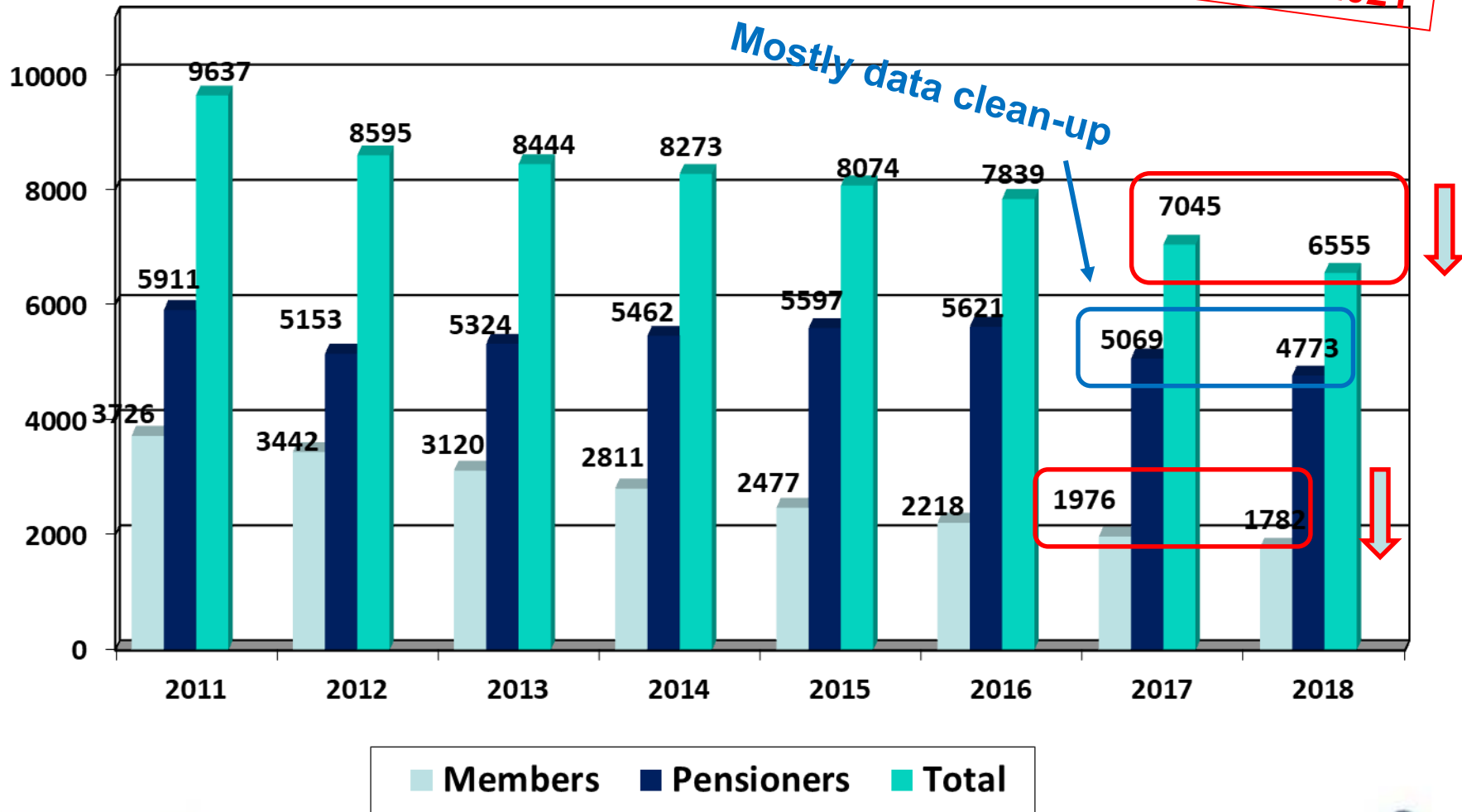
## Developments during 3-year valuation period

- 13<sup>th</sup> pension cheque payable over 12 months wef 1.1.2016 (special 8.33% increase)
- Total surcharge increased to 21.65% wef 1 Jan 2017
  - Offset by reduction in Super Fund surcharge

# NJMPF – RETIREMENT FUND

## Membership

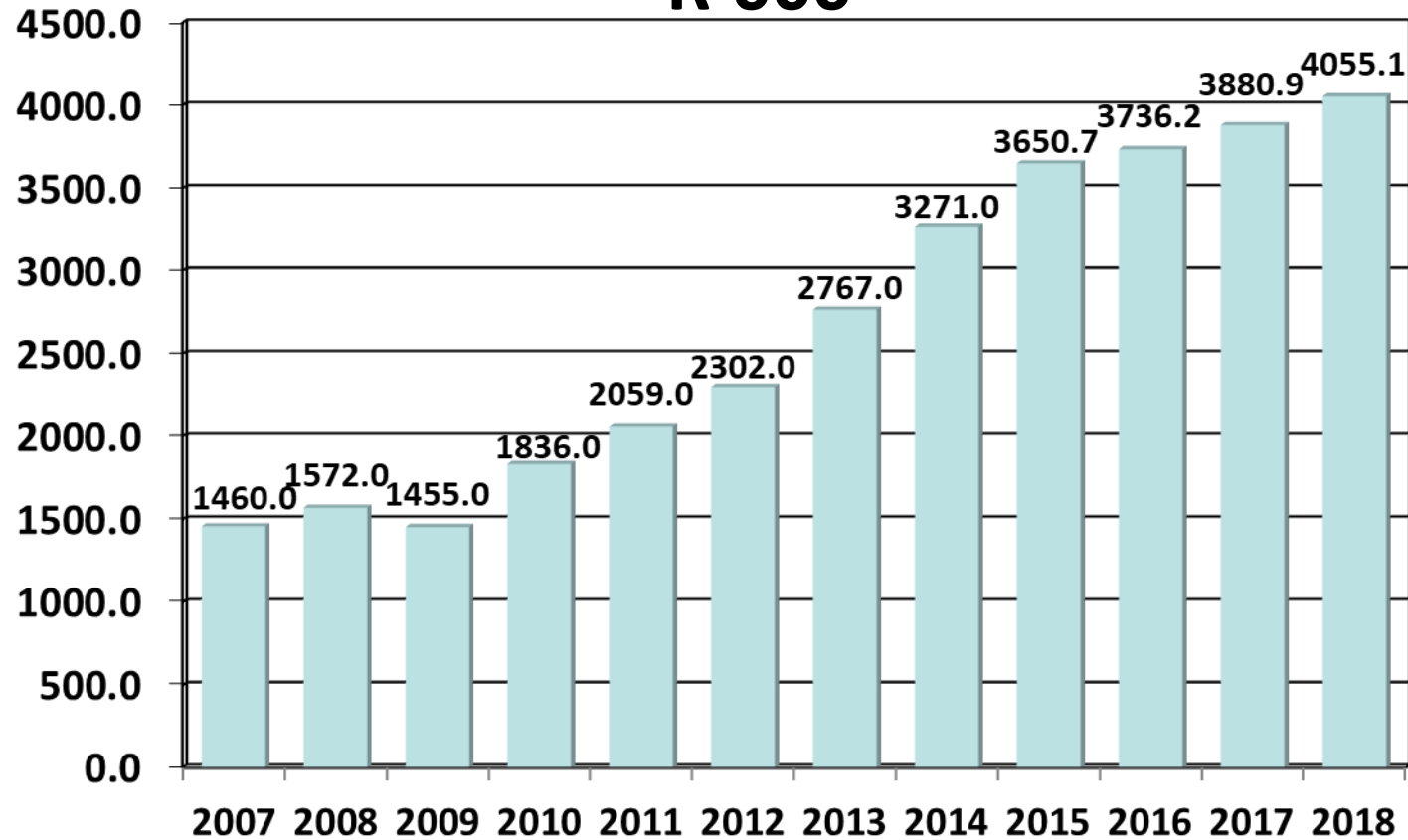
Plan to merge this Fund with Super F in approx 2021



# NJMPF – RETIREMENT FUND

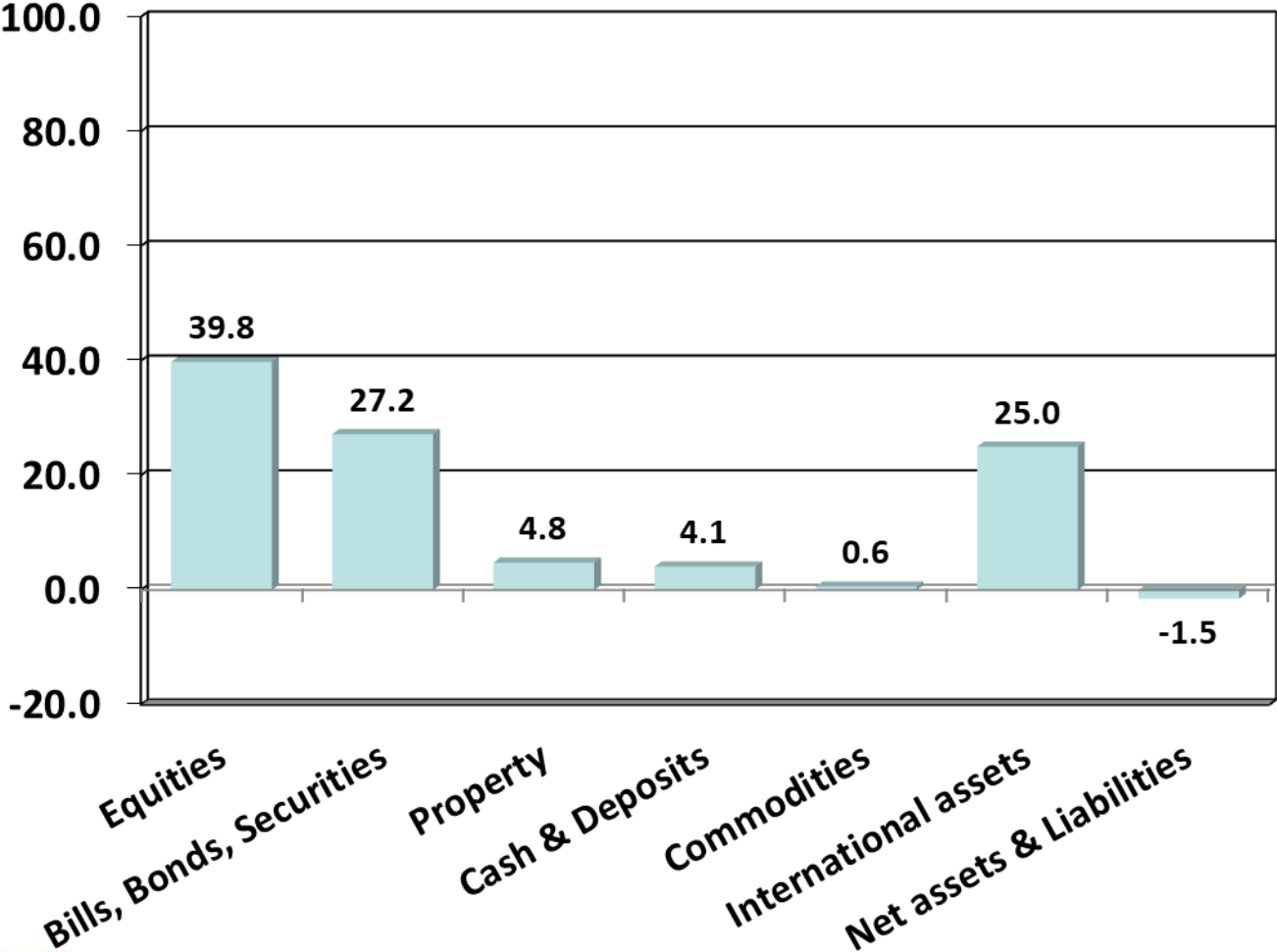
## Assets

R'000



# NJMPF – RETIREMENT FUND

## Asset composition (%)





# NJMPF – RETIREMENT FUND

## Pension increases

Date	Pension Increase	CPI for year to 31 March	Average CPI for year to previous 31 Dec
1 July 2015 <sup>2</sup>	6.07%	4.0%	6.07%
1 January 2016 <sup>1</sup>	8.33%		
1 July 2016	4.68%	6.3%	4.58%
1 July 2017	6.84%	6.1%	6.76%
1 July 2018 <sup>3</sup>	4.68%	3.8%	4.70%

### Plus bonuses of 50% in Nov 2017, 2018

1. Special once off increase
2. Included in the liabilities for the previous statutory valuation
3. Headline CPI over the previous calendar year rounded up to be divisible by 12. Cost included in liabilities

# NJMPF – RETIREMENT FUND

## Results: Pensioner Memorandum Account

	31 March 2018 R'000	31 March 2015 R'000
<b><u>Memorandum Account: Pensioners</u></b>		
<b>Assets:</b>	<b>2 514 080</b>	<b>2 134 320</b>
<b>Liabilities and Reserves:</b>		
Accrued liability <sup>1</sup>	2 005 653	1 733 956
Risk Reserve	48 590	36 327
Solvency Reserve	343 917	239 152
Balance of assets	<u>115 921</u>	<u>124 885</u>
	<b>2 514 081</b>	<b>2 134 320</b>
<b>Funding level</b>	<b>104.8%</b>	<b>106.2%</b>

# NJMPF – RETIREMENT FUND

## Conclusion: Pensioners

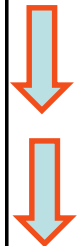
- Memorandum Account **fully funded**
- Recommend **grant Prescribed Minimum Pension Increase** to qualifying pensioners

# NJMPF – RETIREMENT FUND

## Results: Active Members

	31 March 2018 R'000	31 March 2015 R'000
<b><u>Active members</u></b>		
<b>Assets:</b>	<b>1 541 041</b>	<b>1 516 456</b>
<b>Liabilities and Reserves:</b>		
Accrued liability	1 415 999	1 455 872
Mortality reserve	0	0
Risk Reserve	33 850	29 334
Prescribed minimum benefits	<u>252 008</u>	<u>179 944</u>
	<b>1 701 857</b>	<b>1 665 150</b>
<b>Surplus/(Deficit)</b>	<b>- 160 816</b>	<b>- 148 694</b>
<b>Funding level</b>	<b>90.6%</b>	<b>91.1%</b>

**Must be funded within 2 years  
– need to increase surcharge**



# NJMPF – RETIREMENT FUND

## Required Rate of Contribution

	31 March 2018	31 March 2015
<b>Required rate</b>		
Future service benefits	23.40%	24.04%
Expenses	<u>1.20%</u>	<u>1.20%</u>
Total	24.60%	25.24%
<b>Actual rate</b>		
Local Authorities	18.37%	18.37%
Members	<u>7.00%</u>	<u>7.00%</u>
Total	25.37%	25.37%
Shortfall/excess in contributed rate	0.77%	0.13%
<b>Surcharge</b>		
Local Authorities	20.00%	15.85%
Members	<u>1.65%</u>	<u>1.65%</u>
Total	21.65%	17.50%

# NJMPF – RETIREMENT FUND

## Surcharge (1)

- Surcharges payable i.t.o. “Scheme to Eliminate Deficiency”
- Surcharge to local authorities increased from 15.85% to 20% wef 1.1.2017
  - Increase to Ret F met by reduction in SF surcharge
  - Overall surcharge per local authority unchanged
- Expenses more than expected – also funded from surcharge

# NJMPF – RETIREMENT FUND

## Surcharge (2)

- Current surcharge insufficient to meet deficit by 2020
- Recommend increase in surcharge from 21.65% to 35%
  - Meet increase to Ret F by reduction in SF surcharge
  - Overall surcharge per local authority unchanged

# NJMPF – RETIREMENT FUND

## Recommendations: Active members

- Increase surcharge to Local authorities from 20% to 33.35% wef 1.11.2018



# NJMPF – RETIREMENT FUND

## Conclusion

- Fund **not** in a sound financial position but increased surcharge expected to eliminate deficit by 2020
- Asset composition **appropriate** to the nature of the liabilities
- Investment strategy **suitable** for the Fund
- Fund's reinsurance arrangements **appropriate**

# NJMPF – RETIREMENT FUND

**Questions?**

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