



**Moruba**

CONSULTANTS & ACTUARIES

**Political Office-Bearers Pension Fund**

**Interim Actuarial Valuation**

as of 31 March 2022





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## EXECUTIVE SUMMARY

### *Introduction*

ES1. This report has been prepared for the Board of Trustees of the Political Office-Bearers Pension Fund ("the Fund") on the interim actuarial valuation of the Fund as of 31 March 2022 ("the valuation date"). The last statutory actuarial valuation was conducted as of 31 March 2020 ("the previous valuation date") by Moruba Consultants & Actuaries and revealed that the Fund was financially sound.

ES2. The Fund operates as a pure defined contribution fund. The accumulated value of the member account is paid as a lump-sum on death and permanent disability. In addition, a lump-sum benefit that is a multiple of member salaries is paid on death, with the Fund acting as a conduit for the permanent disability income benefit, spouses' insurance cover as well as the funeral assistance benefit.

### *Summary of Membership Data*

ES3. The movement in the membership of the Fund across its various categories of membership between the current and previous valuation date is as follows:

Membership Movements	Active	Deferred	Unclaimed
<b>Opening Value</b>	<b>925</b>	<b>28</b>	<b>304</b>
Add: Opening Adjustments	(1)	0	(22)
New entrants	70	4	61
Less: Transferred to Deferred	(4)	0	0
Deaths	(34)	0	0
Retirements	(12)	(2)	0
Withdrawals	(37)	(2)	0
Transfer out	0	0	(6)
<b>Closing Value</b>	<b>907</b>	<b>28</b>	<b>337</b>

### *Contributions Allocation*

ES4. The allocation of contributions towards risk benefits and expenses since the previous valuation has been as follows:

Contribution Allocation (R'000)	Risk Benefits	Expenses	Total
Allocated Contributions	71 243	10 390	81 633
Actual utilisation	(86 511)	(11 964)	(98 475)
<b>Excess / (Shortfall)</b>	<b>(15 268)</b>	<b>(1 574)</b>	<b>(16 842)</b>
<b>Expenses as % of Salaries</b>	<b>-1.03%</b>	<b>-0.11%</b>	<b>-1.14%</b>

### *Developments in the inter-valuation period*

ES5. The most significant development over the inter-valuation period were the recommended transfer positive asset-liability mismatches from the Data and Processing Error Reserve Account to the Risk Reserve Account. This is to strengthen the Risk Reserve to be able to afford a significant increase in insurance premiums for death benefits as instituted by insurers in response to impact of the Covid-19 pandemic on mortality, and thus avoid a reduction death benefits.

Fin. Year	Amount (R'000)	Account From	Account To	Reason / Purpose
2023 <sup>1</sup>	7 000	Data Reserve	Risk Reserve	Processing error (AL Mismatch)
2021	14 361	Data Reserve	Risk Reserve	Processing error (AL Mismatch)

### *Financial Soundness Before Recommendations*

ES6. The table below sets out the financial position of the Fund as at the previous valuation date and as at the current valuation date:

Financial Soundness Results (R'000)	31 Mar 20	31 Mar 22
Adjusted Net Assets	3 230 000	4 487 373
Member Liabilities (Pending Exits)	(213 329)	(236 709)
Member Liabilities (Non-Current)	(2 194 292)	(3 104 948)
Employer Surplus Accounts	(763 444)	(1 052 806)
Excess Assets over Liabilities before Reserves	58 936	92 909
Contingency Reserves	(58 936)	(92 909)
Excess of Assets over Liabilities and Reserves	(0)	(0)
Funding level before Reserves	101.9%	102.1%
Funding level after Reserves	100.0%	100.0%

### *Recommendations*

ES7. Although the Fund has already resolved to reduce risk benefits effective from 1 January 2023, further restructuring in the arrangements for provision of risk benefits is required, and I recommend that the Fund investigates these further such that there is no shortfall in risk contribution funding for risk benefits.

ES8. The allocation of contributions is set in the rules. There are no recommendations made in respect of changes to the allocation of contributions as risk benefits could be adjusted lower if the contribution is insufficient.

<sup>1</sup> Subsequent event disclosure.

### *Financial Soundness After Recommendations*

ES9. The recommendations do not impact on the financial soundness of the Fund as at the valuation date nor do they impact on the future allocation of contributions.

### *Actuarial certification*

ES10. I certify that the Fund was in a sound financial condition as of 31 March 2022 and is likely to be so for a foreseeable future, in that:

- a) The assets of the Fund were sufficient to cover liabilities including the recommended reserve accounts;
- b) The allocation of contributions and investment returns was appropriate;
- c) The asset and liability matching of the Fund is adequate; and
- d) Though insurance arrangements to provide for risk benefits are a strain to the Fund, there is leeway for management actions to remedy the situation.

**R Mothapo, FASSA**

in my capacity as Valuator and as a Director of  
Moruba Consultants and Actuaries

**3 November 2022**



## INTRODUCTION

### *Background*

1. The Political Office-Bearers Pension Fund (“the Fund” or “POBPF”) was established on 13 November 1998, with retrospective effect from 27 April 1994, as a defined benefit fund. With effect from 1 March 2016, the Fund operated as a pure defined contribution fund.
2. Section 16 of the Pension Funds Act, 1956 (as amended) (“the Act”) stipulates that a statutory actuarial valuation of a fund must be performed at least once every three years. The previous actuarial valuation was performed as of 31 March 2020 (“the previous valuation date”) constituted a statutory actuarial valuation and was submitted to the Financial Sector Conduct Authority (“FSCA”). This report is therefore an interim actuarial valuation of the Fund as of 31 March 2022 (“the valuation date”).
3. The period from the previous statutory valuation date of 31 March 2020 date to the Valuation Date is referred to as the “inter-valuation period”.

### *Purpose and Objectives*

4. This valuation has been carried out with the following major objectives:
  - a) to compare the value of the Fund’s assets with the value of its liabilities in order to determine whether the Fund is in a sound financial position;
  - b) to comment on the need for, build-up and adequacy of the Fund’s reserve accounts;
  - c) to analyse the change in the financial position of the Fund since the previous valuation;
  - d) to analyse the source of any surplus or deficit that has arisen over the inter-valuation period and apportionment thereof in terms of Section 15C of the Act;
  - e) to comment on the adequacy of the Employer’s contribution rate towards risk benefits and Fund expenses;
  - f) to comment on the appropriateness of the arrangements for provision of risk benefits; and
  - g) to comment on the appropriateness of the investment strategy in place at the valuation date.



### *Scope and Limitations*

5. This report is prepared with reference to the Standards of Actuarial Practice issued by the Actuarial Society of South Africa, the provisions of the Pension Funds Act and, where relevant, the guidance provided by Pension Fund Circulars published by the Financial Sector Conduct Authority ("FSCA") and the erstwhile Financial Services Board ("FSB") has been considered.
6. The actuarial valuation exercise reported on in this report places reliance on the audited financial statement and member data for the Fund's financial year ending 31 March 2022 which were provided by the Fund's administrators.
7. In compiling this report, we have relied upon the accuracy and completeness of information made available to us by the Fund and its administrators and, except where expressly stated in the report, we have not independently verified the accuracy of the facts or the bases of the information supplied to us.
8. This report particularly speaks to the financial position of the Fund as at the valuation date and not for any subsequent period. Reference must be made to the scope and limitation of this report and purpose for which it is prepared.
9. This report may not be disclosed to or relied upon in whole or in part by any person other than the addressee or quoted in any other context. Any persons, other than the persons to whom this report is addressed, who receives a draft or copy of this report (or any part of it) or discusses it (or any part of it) or any related matter with us or any third party, does so on the basis that they acknowledge the source of this report and accept that they may not rely on it for any purpose whatsoever and that we owe a duty of care only to the Board of Trustees of the Fund. Any portion of this report, if reproduced or transmitted, must include a reference to the full report and to this clause.



## DEVELOPMENTS IN THE INTER-VALUATION PERIOD

### *Membership Movements*

10. The movement in the membership of the Fund across its various categories of membership over the inter-valuation period is as follows:

Membership Movements	Active	Deferred	Unclaimed
<b>Opening Value</b>	<b>925</b>	<b>28</b>	<b>304</b>
Add: Opening Adjustments	(1)	0	(22)
New entrants	70	4	61
Less: Transferred to Deferred	(4)	0	0
Deaths	(34)	0	0
Retirements	(12)	(2)	0
Withdrawals	(37)	(2)	0
Transfer out	0	0	(6)
<b>Closing Value</b>	<b>907</b>	<b>28</b>	<b>337</b>

### *Benefits*

11. There were no changes to the benefits provided by the Fund. The level of risk benefits provided remain uncertain due to significant, unaffordable insurer premium adjustments following the Covid-19 pandemic.

### *Contributions*

12. There were no changes to the Employer and Member contributions.

### *Contribution Allocation*

13. The allocation of contributions towards Fund expenses and risk benefits is set out in the rules of the Fund. There were no changes to the allocation of contributions.

### *Investment Returns Declared*

14. Investment returns were declared monthly (net of investment management fees) and the annual rates of return are summarised as per the below table. Members were allocated the full returns of the main portfolio. A detailed history of the investment return declaration is included in the appendix.

Portfolio	31 Mar 2022
Main Portfolio	11.04%
Money Market Portfolio	4.17%



### *Investment Strategy*

15. There was no change in the investment strategy of the Fund since the previous valuation. The investment strategy had reverted to the medium-term strategy upon completion of processing exists and acceptance of new members following the 2019 elections.
16. After the valuation date, the Fund created a third investment portfolio for investments of funds in the employer surplus accounts. These investment are invested in government bonds and are managed by the Public Investment Corporation.

### *Transfers Between Accounts*

17. The transfers between accounts were implemented following valuator recommendations as set out in the below table. The recommended transfer of R14.361 million from the Data Reserves to the Risk Reserve in 2021 was intended to strengthen the Risk Reserve to be able to afford a significant increase in insurance premiums for death benefits as instituted by insurers in response to impact of the Covid-19 pandemic on mortality, and thus avoid a reduction death benefits. A further transfer from the Data Reserve to the Risk Reserve of R7.000 million was approved by the after the valuation date.

Fin. Year	Amount (R'000)	Account From	Account To	Reason / Purpose
2023 <sup>2</sup>	7 000	Data Reserve	Risk Reserve	Processing error (AL Mismatch)
2021	14 361	Data Reserve	Risk Reserve	Processing error (AL Mismatch)

<sup>2</sup> Subsequent event disclosure.



## VALUATION DATA

### *Member liabilities*

18. Member liabilities depend on the accumulation of contributions and other transfers to member accounts with investment returns and deduction for expenses where applicable. These are calculated and maintained by the Fund administrator using an administration system.
19. The accuracy of the administrator data is reviewed annually by the external auditors of the Fund and through other risk assessment and assurance measures of the Fund. More specifically, the system balances and benefits paid/payable in respect of members accounts are reviewed.
20. Alexander Forbes were the appointed administrators to the Fund over the inter-valuation period and as at the valuation date, and therefore provided the data in relation to member liabilities.
21. I have placed reliance on the audited data as provided by the administrator. Additionally, I have independently on a sample basis reviewed the calculations accuracy of the administrator data.

### *Investment Returns*

22. Investment returns that are put into the administration system for purposes of accumulating specific member accounts are calculated by the Fund's investment consultant, Willis Towers Watson. These are reviewed annually by external auditors.
23. I perform the allocation of investment returns to other Fund accounts annually, the allocation of which is reviewed by external auditors.

### *Financial Statements*

24. Reliance is also placed on the Fund's audited financial statements.

### *Opinion of valuation data*

25. I am satisfied that the data used, as set out above, is reliable for the purposes of this valuation.



## FUND ASSETS

### Net Assets

26. Details regarding the Fund's assets have been taken from the Fund's investment statements and audited financial statement as at the valuation date. The net assets at their fair value are as follows:

Net Assets (R'000)	31 Mar 2022
Investment Assets (With Asset Managers)	4 393 018
Cash at bank	97 694
<b>Total Financial Assets</b>	<b>4 490 712</b>
Add: Contributions receivable	0
Accounts Receivable	3 415
Less: Accounts Payable / Provisions	(6 754)
<b>Total</b>	<b>4 487 373</b>

### Asset Allocation

27. The below tables show a split of the Fund's investments by asset class:

Total Assets (R'000)	31 Mar 2022	Allocation
Local Assets	3 491 826	78%
Foreign Assets	998 886	22%
<b>Total</b>	<b>4 490 712</b>	<b>100%</b>

Local Assets (R'000)	31 Mar 2022	Allocation
Listed Equities	824 696	24%
Listed Debt securities (Bonds)	1 425 434	41%
Bank deposits (Money Market)	760 245	22%
Properties	147 511	4%
Commodities	3 589	0%
Unlisted Debt securities	330 195	9%
Other	155	0%
<b>Total</b>	<b>3 491 826</b>	<b>100%</b>

Foreign Assets (R'000)	31 Mar 2022	Allocation
Listed Equities	665 703	67%
Listed Debt securities (Bonds)	119 161	12%
Bank deposits (Money Market)	173 687	17%
Properties	20 134	2%
Commodities	0	0%
Unlisted Debt securities	785	0%
Other	19 416	2%
<b>Total</b>	<b>998 886</b>	<b>100%</b>



### Asset and Liability Matching

28. The Fund's assets are invested according to the following pools:

Accounts	Portfolio
Benefits Payable	Money Market, Cash at Bank
All Other Accounts	Main Portfolio

29. Benefits Payable as well as Unclaimed Benefits before 1 March 2019 earn late payment interest ("Benefits LPI") that is equivalent to the interest earned by the Fund's Cash at Bank. There is a mismatch in the investment return earned by the assets and that which accrues on these liabilities, which is managed as follows:

- The assets backing Benefits Payable are invested in a Money Market portfolio that earns interest that is often higher than the Benefits LPI.
- A cash management policy is in place allocating Cash at Bank to Benefits Payable liabilities and optimising investment returns by keeping the Cash at Bank to some minimum amount.
- The allocation of Funds between the Main Portfolio and portfolio for Benefits Payable is tracked to make sure an appropriate allocation is maintained so that mismatches are minimised. Where mismatches arise in the context of this management, they are managed through the investment return declaration process whereby active members take the risk for mismatches (i.e. active member returns are enhanced if funds for exiting members are retained in the Main Portfolio and it performs better than the Benefits LPI, or active member returns could be diminished if the Main Portfolio performs poorer than the Benefits LPI).

30. The suitability of the Main Portfolio for the various accounts is assessed as set out in the below table. There may be an opportunity to invest the Risk and Expense reserves in the Money Market portfolio, but it may be that it is not practicable to do so. The mismatches in these accounts could be managed by holding sufficient levels of reserves.

Account	Portfolio	Ideal Objective	Suitable
Member Share	Main Portfolio	Maximise long-term real return	Yes
Unclaimed Benefits	Main Portfolio	Maximise long-term real return	Yes
Risk Reserve	Main Portfolio	Preserve, match salary growth	May be
Expense Reserve	Main Portfolio	Preserve, match expense inflation	May be
Data Error Reserve	Main Portfolio	Align to member shares	Yes
Surplus Account(s)	Main Portfolio	Maximise long-term real return	Yes



31. In respect of members approaching retirement age, the nature of work of the members of the Fund is such that they may continue to work well beyond the normal retirement age, and as such it would be difficult to try to derisk those members that are approaching retirement. The Fund has traditionally derisked the investment strategy towards a potential bulk exit of members.
32. Based upon the analysis above, I am satisfied that the structure of the assets of the Fund as well as the matching of the assets to the nature of the liabilities of the Fund is adequate.



## ANALYSIS OF FINANCIAL PROGRESS

### Introduction

33. The practice of the Fund is to maintain the accounts as set in the below table. The analysis of the changes in these accounts over the inter-valuation period is outlined in the rest of this section.

Account	Description / Purpose
Member General	Accumulates funds for member specific savings
Risk Reserve	(+) Receives risk contributions, insurance proceeds. (-) Pays insurance premiums, risk benefits
Expense Reserve	(+) Receives portion of contributions for expenses. (-) Pays operational expenses
Data Reserve	(+/-) Debited/Credited with data & processing errors
Surplus Account(s)	(1) Funds terminal gratuities/benefit equalisation by Employer (historic) (2) Funds additional service benefits by Employer (historic) (3) Section 15E surplus apportioned to Employer

34. The practice of the Fund is in line with the approved rules.

### Member General Account

35. As from 1 March 2016, the Member's Fund Credits included each member's Additional Service Benefit, Equalisation Amount and Terminal Gratuity benefits which were vested on that date when the Fund converted to a pure defined contribution fund.
36. The aggregate build-up of the amounts in the specific accounts maintained in respect of active and paid-up members is set out in the below table. Transfers from reserve accounts in current year are R59.799m and R7.644m from Risk Reserve and Employer Surplus Accounts respectively in respect of benefits:

Member General Account (R'000)	31 Mar 2021	31 Mar 2022
<b>Opening Balance</b>	<b>2 193 227</b>	<b>2 771 352</b>
Plus: Member Contributions	55 831	55 606
Employer Contributions	126 655	127 006
From Reserve Accounts	78 279	59 799
Investment Returns	510 649	298 129
Transfers In	638	601
Less: To Benefits Payable	(196 824)	(209 144)
Plus: Other Investment Returns	2 897	1 600
<b>Closing Balance</b>	<b>2 771 352</b>	<b>3 104 948</b>

### *Member Unallocated Funds*

37. Member Unallocated Funds refers to those amounts that have to be allocated to specific members but are yet to be allocated as at the valuation date. As at the valuation date, there were no such unallocated amounts.

### *Administration (Expense) Reserve*

38. The Administration (Expense) Reserve account is held as a cushion if operational expenses exceed the allocation of the contribution for Fund operational expenses.
39. The allocation of contributions to fund operational expenses was unchanged in the inter-valuation period and is 0.7% of pensionable salaries that forms part of the Employer contributions.
40. The target level for this reserve account was unchanged in the inter-valuation period and is 9 months' expenses (i.e., 75% of expenses for the next year).
41. The build-up of the assets of the Administration (Expense) Reserve account in the inter-valuation period is as follows:

Administration (Expense) Reserve (R'000)	31 Mar 2021	31 Mar 2022
<b>Opening Balance</b>	<b>3 712</b>	<b>4 154</b>
Plus: Employer Contributions to Expenses	5 202	5 187
Net investment income	817	398
Transfer from Other Accounts	0	70
Less: Administration Expenses	(5 578)	(6 386)
Transfer to Other Accounts	0	0
<b>Closing Balance</b>	<b>4 154</b>	<b>3 422</b>

  

<b>Excess / (Shortfall) in Contributions</b>	<b>(375)</b>	<b>(1 199)</b>
<b>As % of Salaries</b>	<b>-0.05%</b>	<b>-0.16%</b>

42. The balance in the Administration (Expense) Reserve account amounted to R3.422m. Comparing this with R6.400m budgeted expenses for the 12 months following the valuation date, the balance in the reserve account covers just under the targeted nine months of these expenses at 6.4 months (down from 8.75 months a year ago).

43. There has been a shortfall in contributions due to increases in salaries being lower than the increase in expenses over time, even before the valuation period.
44. Although the balance of the Administration (Expense) Reserve account is less than the target, and there is a shortfall in contributions to the Administration Reserve account, I believe the levels of both the Administration Reserve account and contribution allocation thereto remains sufficient and thus no management action is necessary at this stage.

#### *Risk Reserve*

45. The Fund does not self-insure any portion of the risk benefits. The Risk Reserve is used to fund the premiums for insured risk benefits, including those that are provided outside the Fund for which the Fund acts as a conduit for. The balance in the Risk Reserve account is therefore held to cushion the Fund against increases in premiums in the short-term before contribution allocation adjustments are implemented or benefits are reduced.
46. The allocation of contributions to fund risk benefits was unchanged in the inter-valuation period and is 4.8% of pensionable salaries that forms part of the Employer contributions.
47. The target level for the Risk Reserve account was unchanged in the inter-valuation period and is 2% of pensionable salaries.
48. The build-up of the assets of the Risk Reserve account in the inter-valuation period is as follows:

<b>Risk Reserve (R'000)</b>	<b>31 Mar 2021</b>	<b>31 Mar 2022</b>
<b>Opening Balance</b>	<b>15 688</b>	<b>33 623</b>
Plus: Employer Contributions	35 672	35 571
Net investment income	3 624	2 894
Transfer from Other Accounts	14 361	0
Less: Reinsurance premiums	(28 339)	(42 100)
Unapproved benefit premiums	(7 383)	(8 689)
<b>Closing Balance</b>	<b>33 623</b>	<b>21 299</b>
<b>Target Balance</b>	<b>14 861</b>	<b>14 811</b>
<b>Contributions as % of Salaries</b>	<b>4.80%</b>	<b>4.80%</b>
<b>Premiums as % of Salaries</b>	<b>4.81%</b>	<b>6.86%</b>
<b>Excess / (Shortfall)</b>	<b>-0.01%</b>	<b>-2.05%</b>
<b>Excess / (Shortfall) Amount</b>	<b>(50)</b>	<b>(15 218)</b>



49. Based on valuation data, the contributions for risk benefits were at 6.86% of pensionable salaries and the actual premiums for risk benefits were 4.80% of pensionable salaries. There was a significant shortfall of 2.05% that amounted to R15.218 million.
50. The Fund experienced significant increases in premiums for death benefits that would be effective on 1 July 2021. Since the allocation of contributions is fixed in the Rules, the Fund is faced with a prospect of reducing death benefits.
51. There has been an asset-liability mismatch profit of R14.361m that arose in the Data Reserve in 2021 which was transferred from the Data Reserves to the Risk Reserve to strengthen the Risk Reserve to be able to afford increases in insurance premiums for death benefits and thus avoid a reduction death benefits in the 2022 financial year. There were further asset-liability mismatch profit of R7.191m identified in 2022. Subsequent to the valuation date, an amount of R7.000m from this was approved by the Trustees to be transferred to the Risk Reserve in the 2023 financial year.
52. The balance in the Risk Reserve account amounted to R21.299m, being more than the target level of R14.811m. The adopted target level is 2.0% of salaries, was meant to cover potential increases in risk benefit premiums by 2.0% of salaries. This target is therefore useful if the risk benefit premiums are met by the risk contributions. Given the shortfall since 1 July 2021 that is expected to worsen, over the 2023 financial year, it is expected that risk reserve will be depleted. Funding the shortfall in risk contributions from reserves is not sustainable. Reduction in benefits or increase in risk contributions to be a more sustainable level is required.
53. Given the current shortfall in risk contributions to cover premiums for risk contributions, I am therefore not satisfied at the level of the Risk Reserve as at the Valuation Date. I recommend a review of the arrangements for provision of risk benefits with a view of achieving sustainability.

### Data Reserve

54. The Data Reserve account holds assets that are used to absorb financial strains caused by data and processing errors.
55. The target level for the Data Reserve account has is unchanged in the inter-valuation period. The Fund target Data Reserve account to be in a range of between 1.0% to 1.5% of total member liabilities.
56. The build-up of the assets of the Data Reserve account in the inter-valuation period is as follows:

Data Reserve (R'000)	31 Mar 2021	31 Mar 2022
<b>Opening Balance</b>	<b>39 536</b>	<b>48 682</b>
Plus: Net investment income	9 146	5 375
Transfer from Other Accounts	0	0
Miscellaneous	0	6 941
Less: Utilisation for Data Errors	0	0
Transfer to Other Accounts	(14 361)	0
AL Mismatch	14 361	7 191
<b>Closing Balance</b>	<b>48 682</b>	<b>68 188</b>

57. In addition to the asset-liability mismatch explained in paragraph 29 of R7.191m, there is an excess of R6.941m in Fund assets that could not be explained and was allocated to the Data Reserve account. The Data Reserve account amounts of 2.0% of member liabilities which is more that the stated target. Since these asset-liability mismatch risk is taken by active members. Investigations will continue to establish the source of the excess assets of R6.941m.
58. The level of the Data Reserve is expected to reduce as member shares increase due to contributions over time. I am therefore satisfied at the level of the balance in the Data Reserve account, and do not recommend further releases as this stage.

### Employer Surplus Accounts

59. The following accounts have surplus that has been allocated to the Employer:

- a) Employer Surplus Account 1 and Employer Surplus Account 2 have historic employer contributions to fund terminal gratuities for benefit equalisation and additional service benefits respectively when the Fund was a defined benefit fund. Upon conversion to a defined contribution fund, Member General Accounts were credited with vested values of benefit equalisations and additional service benefits. The Rules provide that, on the request in writing of the Minister of Finance (as Principal Employer), the balances remaining in these accounts may be used to fund any Employer contributions payable in terms of the Rules.
- b) Employer Surplus Account 3, which has the surplus due to the Employer in terms of Section 15E of the Act.

60. The below tables set out the changes in each of the employer surplus accounts in the inter-valuation period. The employer surplus accounts had a combined balance totalling R939.858m as at the valuation date.

ESA1 (R'000)	31 Mar 2021	31 Mar 2022
<b>Opening Balance</b>	<b>502 409</b>	<b>618 633</b>
Plus: Net investment income	116 224	68 194
Transfer from Other Accounts	0	4 546
Less: Transfer to Member Accounts/Benefits	0	(6 470)
<b>Closing Balance</b>	<b>618 633</b>	<b>684 903</b>

ESA2 (R'000)	31 Mar 2021	31 Mar 2022
<b>Opening Balance</b>	<b>186 791</b>	<b>229 807</b>
Plus: Net investment income	43 196	25 943
Transfer from Other Accounts	0	11 816
Less: Transfer to Member Accounts/Benefits	(181)	(1 174)
<b>Closing Balance</b>	<b>229 807</b>	<b>266 392</b>

ESA3 (R'000)	31 Mar 2021	31 Mar 2022
<b>Opening Balance</b>	<b>74 244</b>	<b>91 418</b>
Plus: Net investment income	17 175	10 093
<b>Closing Balance</b>	<b>91 418</b>	<b>101 511</b>



## VALUATION RESULTS

### Financial Soundness

61. The table below sets out the financial position of the Fund as at the previous valuation date and as at the current valuation date:

Financial Soundness Results (R'000)	31 Mar 20	31 Mar 22
<b>Adjusted Net Assets</b>	<b>3 230 000</b>	<b>4 487 373</b>
<b>Member Liabilities (Pending Exits)</b>	<b>(213 329)</b>	<b>(236 709)</b>
Unclaimed Benefits	(143 555)	(118 207)
Transfers Payable	0	0
Benefits Payable	(69 774)	(118 502)
<b>Member Liabilities (Non-Current)</b>	<b>(2 194 292)</b>	<b>(3 104 948)</b>
Active Member Account	(2 115 055)	(2 998 719)
Dormant/Paid-up Member	(78 172)	(106 230)
Unallocated to Records	(1 065)	0
Returns still to be allocated	0	0
<b>Employer Surplus Accounts</b>	<b>(763 444)</b>	<b>(1 052 806)</b>
<b>Excess Assets over Liabilities before Reserves</b>	<b>58 936</b>	<b>92 909</b>
<b>Contingency Reserves</b>	<b>(58 936)</b>	<b>(92 909)</b>
Risk Reserve	(15 688)	(21 299)
Data Reserve	(39 536)	(68 188)
Expense Reserve	(3 712)	(3 422)
<b>Excess of Assets over Liabilities and Reserves</b>	<b>0</b>	<b>(0)</b>
<b>Funding level before Reserves</b>	<b>101.9%</b>	<b>102.1%</b>
<b>Funding level after Reserves</b>	<b>100.0%</b>	<b>100.0%</b>

62. Based on the above, the Fund is financially sound, with a funding level of 102.1% before establishing contingency reserves and 100.0% funded when contingency reserves are taken into account, i.e., assets are sufficient to cover its liabilities and recommended reserves.

### Analysis of change in excess assets

63. The analysis of change in excess assets since the previous statutory valuation is as set out below. This is in respect of excess assets used to establish contingency reserves.

Analysis in Change in Excess Assets (R'000)	31 Mar 2021	31 Mar 2022
<b>Opening Balance</b>	<b>58 936</b>	<b>86 459</b>
Expense experience gain /(over-run)	(375)	(1 199)
Risk contributions excess / (shortfall)	(50)	(15 218)
Investment profit / (loss)	13 587	8 666
Asset-Liability Mismatch profit/(loss)	14 361	7 191
Transfer (to)/from Member Accounts	0	70
Miscellaneous	0	6 941
<b>Closing Balance</b>	<b>86 459</b>	<b>92 909</b>

### Contribution Allocation

64. As per the below table, the current contribution allocated to fund risk benefits of 4.8% of pensionable salaries is not sufficient. This was anticipated and a transfer of the 2021 asset-liability mismatch profits were made from the Data Reserve to fund the shortfall. A transfer was made from the Data Reserve of the 2022 asset-liability mismatch profits to fund the shortfall over the 15 months following the valuation date, assuming benefit reductions from 1 January 2023.

Contribution allocation to Risk Benefits (R'000)	31 Mar 2021	31 Mar 2022
Employer Contributions	35 672	35 571
Less: Reinsurance premiums	(28 339)	(42 100)
Unapproved benefit premiums	(7 383)	(8 689)
<b>Excess / (Shortfall)</b>	<b>(50)</b>	<b>(15 218)</b>

<b>Contributions as % of Salaries</b>	<b>4.80%</b>	<b>4.80%</b>
<b>Premiums as % of Salaries</b>	<b>4.81%</b>	<b>6.86%</b>
<b>Excess / (Shortfall)</b>	<b>-0.01%</b>	<b>-2.05%</b>

65. As per the below table, the contribution allocated to fund expenses of 0.7% of pensionable salaries has been insufficient in the current period by 0.16% of the allocated amount due to increases in salaries generally being lower than the increase in expenses over time, including the time before the valuation period.

Contribution allocation to Expenses (R'000)	31 Mar 2021	31 Mar 2022
Employer Contributions	5 202	5 187
Less: Actual Expenses	(5 578)	(6 386)
<b>Excess / (Shortfall)</b>	<b>(375)</b>	<b>(1 199)</b>

<b>Contributions as % of Salaries</b>	<b>0.70%</b>	<b>0.70%</b>
<b>Premiums as % of Salaries</b>	<b>-0.75%</b>	<b>-0.86%</b>
<b>Excess / (Shortfall)</b>	<b>-0.05%</b>	<b>-0.16%</b>

### *Recommendations*

66. Although the Fund has already resolved to reduce risk benefits effective from 1 January 2023, further restructuring in the arrangements for provision of risk benefits is required, and I recommend that the Fund investigates these further such that there is no shortfall in risk contribution funding for risk benefits.
67. The allocation of contributions is set in the rules. There are no recommendations made in respect of changes to the allocation of contributions as risk benefits could be adjusted lower if the contribution is insufficient.

## **CONCLUSION**

68. The Fund is 102.1% funded before setting contingency reserves and is 100% funded after the contingency reserves have been set.
69. I am not satisfied that the insurance arrangements put in place to fund risk benefits are appropriate as the shortfall in risk contributions that was thought to be temporary seems to be persisting. Given the mortality risk and subsided risk of the Covid-19 pandemic, I am not convinced the current arrangements are in line with members' best interests and their reasonable benefit expectations. Considerations needs to be made to the full use of insurers to provide the benefits.

70. Other than for the Risk Reserve, I am satisfied with the levels of each of the contingency reserve accounts as well as the build-up and recommended releases of excesses that have been made in the inter-valuation period.

71. I am satisfied that the structure of the assets of the Fund as well as the matching of the assets to the nature of the liabilities of the Fund is adequate.

72. I therefore certify that the Fund was in a sound financial condition as of 31 March 2022 and is likely to be so for a foreseeable future, in that:

- a) The assets of the Fund were sufficient to cover liabilities including the recommended reserve accounts;
- b) The allocation of contributions and investment returns was appropriate;
- c) The asset and liability matching of the Fund is adequate; and
- d) Though insurance arrangements to provide for risk benefits are a strain to the Fund, there is leeway for management actions to remedy the situation.

**R Mothapo, FASSA**

in my capacity as Valuator and as a Director of  
Moruba Consultants and Actuaries

**3 November 2022**



## APPENDIX A: SUMMARY OF BENEFITS AND CONDITIONS

### A1. Membership Eligibility and Definitions

#### *Eligibility*

Membership of the Fund is compulsory for all Political Office-Bearers who are defined as follows:

- an Executive Deputy President
- a Minister or Deputy Minister
- a member of the National Assembly or National Council of Provinces
- the Premier or a member of the Executive Council of a province
- a member of a Provincial Legislature
- a diplomatic representative of the Republic of South Africa who is not a member of the public service
- any other person recognised as a Political Office-Bearer for the purposes of Section 190A of the Interim Constitution of 1993, which in turn requires that such persons be recognised for this purpose by an Act of Parliament. (There are no members falling in this category.)

#### *Important Definitions*

- Pensionable Salary : Pensionable salaries are 60% of members' total remuneration packages.

### A2. Contributions (As detailed in Rules of the Fund)

#### *Employee / Members Contributions*

- Members contribute to the Fund at the rate of 7.5% of his/her Pensionable Salary p.a. After a Member has been in service for 15 (fifteen) years, he/she may apply to exercise a once off, irrevocable option to cease contributing if the payroll system allows for it.
- Members may apply to make additional voluntary contributions at a regular rate and/or frequency of payment as may be agreed with the Fund. The Employer is however under no obligation to match these additional contributions.

#### *Employer Contributions*

- With effect from 1 May 1999, the Employer contributes to the Fund 4.75% of the member's Pensionable Salary in respect of the member's service, PLUS 12.25% of the member's Pensionable Salary in respect of the member's past service (i.e. 17% p.a.).
- The employer also contributes as follows:



- 4.8% of the Pensionable Salary of a Member, to be credited to the Risk Reserve Account, less the cost of the disability arrangement, funeral benefits and spouse's life insurance cover;
- 0.7% of the Pensionable Salary of a Member, to be credited to the Administration Reserve Account; and
- For a Disability Member, contributions shall continue to be paid from the disability arrangement to the Fund in respect of him/her for such time that he/she remains a Disability Member.

### A3. Benefits (As detailed in Rules of the Fund)

Benefit	Description
Retirement	A Member may retire on the last day of the month on or after reaching their Minimum Retirement Date (50 years of age).
Member General Account	The Member General Account reflects the value of the assets that the Fund holds backing the Members' Fund Credits at any date. It is made up of contributions by the Member and Employer, vested amounts from Employer Surplus Accounts No. 1 and No. 2, transfers received in respect of the Member, insured amounts received in respect to deceased Member (if applicable), amounts transferred from Reserve accounts and fund interest.
Pension on retirement	The Member's share of the Member General Account shall be used to purchase a pension annuity from a registered insurer, after which the Fund shall have no further liability in respect to the Member. The Member may also elect to take one-third of their Fund Credit as a lump sum benefit.
Benefit on withdrawal	The Member's share of the Member General Account is payable. This applies to Members who cease to be a Political Office-Bearer via circumstances other than on death or retirement.
Disability benefit	For Members below the age of 65 years, the Fund has an externally provided insured disability income benefit. This benefit has a 6-month waiting period, is currently 75% of the member's pensionable salary (with a maximum of

Benefit	Description
	R200 000 per month) and contains a waiver benefit of 22.5% of the member's pensionable salary (with a maximum of R50 000 per month) after the 6-month waiting period. Members who do not qualify for this benefit and have become permanently incapable of efficiently carrying out their duties may be granted an early retirement on grounds of ill-health, on the discretion of the Trustees. The benefit payable for these Members is their share from the Member General Account.
Benefit on death in service for Active Member	The Member's share of the Member General Account is payable. In addition, the member also receives an insured lump sum death benefit of 5x their annual pensionable salary.
Benefit on death for Deferred Member	The Member's share of the Member General Account is payable.



## APPENDIX B: MEMBERSHIP STATISTICS

### B1. Distribution of active members

- For a defined contribution fund the distribution of members' funds across age categories is useful in assessing the asset-liability management in respect of those members that are approaching retirement age. Since the Fund does not, in practice, have a specific retirement age, the distribution of member funds per age would not be of use, but is nonetheless included.
- For a defined contribution fund the distribution of members' earnings across age categories is useful in assessing the cost of risk benefits provided by the fund. The average age is therefore salary weighted.

Age Band (Lower)	Age Band (Upper)	Average Age (Yrs)	Number	Average Pensionable Salary (R')	Fund Credit (R')	Average Service (yrs)
	25	24.1740	2	705 176	1 140 733	2.8603
25	30	28.1993	8	715 201	4 256 128	2.7182
30	35	32.7179	36	676 181	28 530 504	3.5278
35	40	38.0734	87	767 346	91 990 849	3.9452
40	45	42.5582	106	797 876	165 895 885	4.5113
45	50	47.3569	131	786 289	272 042 474	5.3821
50	55	52.5696	150	843 196	470 382 096	6.3309
55	60	57.2466	172	830 149	733 078 735	7.6646
60	65	62.3854	135	837 817	740 806 628	8.9302
65		69.1309	88	844 167	521 779 912	9.4067
<b>AGGREGATE (2021-3-31)</b>		<b>52.5618</b>	<b>915</b>	<b>811 442</b>	<b>3 029 903 945</b>	<b>6.6113</b>
<b>AGGREGATE (2020-3-31)</b>		<b>50.6917</b>	<b>925</b>	<b>840 468</b>	<b>2 116 220 032</b>	<b>5.6583</b>



## APPENDIX C: INVESTMENT RETURN DECLARATIONS

### C1. Main Portfolio Returns

- The Main Portfolio is intended to invest member retirement savings. Returns are declared on monthly basis based on actual returns. The Fund does not have a policy to smooth or adjust investment returns.

Main Portfolio	31 Mar 2021	31 Mar 2022
Apr	7.32%	1.57%
May	1.61%	1.00%
Jun	1.66%	0.80%
Jul	0.74%	1.37%
Aug	1.03%	1.47%
Sep	-1.51%	-0.35%
Oct	-1.20%	2.07%
Nov	5.31%	1.22%
Dec	1.95%	3.24%
Jan	1.98%	-1.03%
Feb	2.06%	0.33%
Mar	0.37%	-1.09%
<b>Average</b>	<b>23.13%</b>	<b>11.04%</b>

### C2. Money Market Portfolio Returns

- The Money Market Portfolio is intended to invest benefits payable to members once disinvested from the Main Portfolio. Returns are declared on monthly basis based on actual returns. The Fund does not have a policy to smooth or adjust investment returns.

Money Market Portfolio	31 Mar 2021	31 Mar 2022
Apr	0.66%	0.32%
May	0.51%	0.33%
Jun	0.39%	0.32%
Jul	0.36%	0.34%
Aug	0.34%	0.35%
Sep	0.30%	0.33%
Oct	0.29%	0.34%
Nov	0.28%	0.34%
Dec	0.29%	0.36%
Jan	0.30%	0.36%
Feb	0.27%	0.33%
Mar	0.32%	0.39%
<b>Average</b>	<b>4.40%</b>	<b>4.17%</b>