



**Moruba**

CONSULTANTS & ACTUARIES

**Political Office-Bearers Pension Fund**

**Statutory Actuarial Valuation**

as of 31 March 2023





## TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
EXECUTIVE SUMMARY .....	3
INTRODUCTION .....	6
DEVELOPMENTS IN THE INTER-VALUATION PERIOD .....	8
VALUATION DATA.....	11
FUND ASSETS.....	12
ANALYSIS OF FINANCIAL PROGRESS .....	14
VALUATION RESULTS .....	20
CONCLUSION .....	23
APPENDIX A: SUMMARY OF BENEFITS AND CONDITIONS .....	24
APPENDIX B: MEMBERSHIP STATISTICS .....	27
APPENDIX C: INVESTMENT RETURN DECLARATIONS .....	28



## 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 statutory actuarial valuation of the Fund as of 31 March 2023 ("the valuation date"). The last statutory actuarial valuation conducted as of 31 March 2020 ("the previous valuation date") revealed that the Fund was financially sound and was accepted by the Financial Sector Conduct Authority ("the FSCA" or "the Authority").

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	(29)
New entrants	134	5	61
Less: Transferred to Deferred	(5)	0	0
Deaths	(40)	0	0
Retirements	(23)	(2)	0
Withdrawals	(72)	(2)	0
Transfer out	0	0	(6)
<b>Closing Value</b>	<b>918</b>	<b>29</b>	<b>330</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	108 795	15 866	124 660
Actual utilisation	(149 236)	(18 064)	(167 299)
<b>Excess / (Shortfall)</b>	<b>(40 441)</b>	<b>(2 198)</b>	<b>(42 639)</b>
<b>Expenses as % of Salaries</b>	<b>-1.78%</b>	<b>-0.10%</b>	<b>-1.88%</b>



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

ES5. The Fund transferred asset-liability mismatch profits from the Data and Processing Error Reserve Account to the Risk Reserve Account. This was to strengthen the Risk Reserve to be able to afford a significant increase in insurance premiums for death benefits by insurers in response to the impact of the Covid-19 pandemic on mortality.

Fin. Year	Amount (R'000)	Account From	Account To	Reason / Purpose
2023	7 000	Data Reserve	Risk Reserve	AL Mismatch funding risk benefit premiums
2021	14 361	Data Reserve	Risk Reserve	AL Mismatch funding risk benefit premiums

ES6. The Fund resolved to reduce risk benefits effective from 1 January 2023. The death benefit was reduced from 5x of member annual pensionable salary to 3.5x.

### *Financial Soundness*

ES7. 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 23
Adjusted Net Assets	3 230 000	4 853 462
Member Liabilities (Pending Exits)	(213 329)	(262 173)
Member Liabilities (Non-Current)	(2 194 292)	(3 394 263)
Employer Surplus Accounts	(763 444)	(1 120 760)
Excess Assets over Liabilities before Reserves	58 936	76 267
Contingency Reserves	(58 936)	(76 267)
Excess of Assets over Liabilities and Reserves	(0)	(0)
Funding level before Reserves	101.9%	101.6%
Funding level after Reserves	100.0%	100.0%

### *Recommendations*

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.

ES9. The Fund resolved to reduce risk benefits from 1 January 2023. Additionally, premiums for risk benefits started reducing in July 2023 from peak levels following the Covid-19 pandemic, such that at reduced benefits, there will no longer be a negative strain on the Risk Reserve. The Data Reserve is more than its target level.

I recommend that in the financial year following the valuation date, a transfer from the Data Reserve to the Risk Reserve of R11 million be made so that the Risk Reserve is restored to its target level.

#### *Financial Soundness After Recommendations*

ES10. The recommendation above relates to a transfer between contingency reserves and therefore does not impact on the financial soundness of the Fund as at the valuation date nor does it impact on the future allocation of contributions.

#### *Actuarial certification*

ES11. I certify that the Fund was in a sound financial condition as of 31 March 2023 and is likely to be so for a foreseeable future, in that:

- a) The assets of the Fund were sufficient to cover liabilities, and there were sufficient excess assets for adequate levels of contingency 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) Insurance arrangements to provide for risk benefits are appropriate.

**R Mothapo, FASSA**

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

**2 November 2023**



## 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 statutory actuarial valuation was performed as of 31 March 2020 (“the previous valuation date”) and was submitted to the Financial Sector Conduct Authority (“FSCA” or “the Authority”). This report is therefore a statutory actuarial valuation of the Fund as of 31 March 2023 (“the valuation date”) and must be submitted to the FSCA before 31 March 2024.
3. The period from the previous statutory valuation date of 31 March 2020 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 contingency reserve accounts;
  - c) to analyse the change in the financial position of the Fund since the previous statutory 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 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 on 31 March 2021, 31 March 2022 and 31 March 2023. These 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 <sup>1</sup>	(1)	0	(29)
New entrants	134	5	61
Less: Transferred to Deferred	(5)	0	0
Deaths	(40)	0	0
Retirements	(23)	(2)	0
Withdrawals	(72)	(2)	0
Transfer out	0	0	(6)
<b>Closing Value</b>	<b>918</b>	<b>29</b>	<b>330</b>

### *Benefits*

11. Due to significant, unaffordable insurer premium adjustments following the Covid-19 pandemic, the Fund had to resort to reducing risk benefits. Effective from 1 January 2023, the death benefit was reduced from 5x of member annual pensionable salary to 3.5x. This change in benefit did not require a rule amendment as the level of death benefits is not defined in the rules.

### *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.

<sup>1</sup> Unclaimed benefits members: An exercise was carried out to verify the schedule of unpaid Additional Service Benefits and Equalisation benefits received from the previous administrator, prior to a former member tracing exercise. This identified that some members had in fact already been paid, and so the amounts for these members were removed from the list of unclaimed benefits. There were also duplicate records that were identified and deleted.

Active members: The adjustment is due to a deletion of a duplicate member record.





### *Rule Amendments*

14. There were rule amendments registered with the FSCA. None of these have a bearing on the financial soundness of the Fund.

### *Investment Returns Declared*

15. 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 earned in the main portfolio. A detailed history of the investment return declaration is included in the appendix.

Portfolio	31 Mar 2021	31 Mar 2022	31 Mar 2023	Average
Main Portfolio	23.13%	11.04%	9.88%	14.53%
Money Market Portfolio	4.40%	4.17%	6.44%	5.00%
Government Bond Portfolio <sup>2</sup>	N/A	N/A	5.89%	5.89%

### *Investment Strategy*

16. At the request of the Employer, the Fund created a third investment portfolio for investment of funds in the employer surplus accounts with effect from 1 April 2022. These investments are invested in government bonds and are managed by the Public Investment Corporation. The objective of this investment portfolio is to have the employer surplus fund the participating employer and being managed by the Employer's investment management division.
17. The Fund experiences a significant number of exits following general elections. Generally, the Fund's investment strategy in respect of member funds transitions into a predominately money market strategy towards elections and reverts to a medium to long-term strategy after the elections. The Fund's investment strategy in respect of member funds is unchanged from the last statutory valuation date.

### *Transfers Between Accounts*

18. The transfers between accounts were implemented following valuator recommendations as set out in the following table. The transfer of R14.361 million from the Data Reserve 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 driven by the impact of the Covid-19 pandemic on mortality. A

<sup>2</sup> Introduced effective 1 April 2022

further transfer from the Data Reserve to the Risk Reserve of R7.000 million was made in 2023.

Fin. Year	Amount (R'000)	Account From	Account To	Reason / Purpose
2023	7 000	Data Reserve	Risk Reserve	AL Mismatch funding risk benefit premiums
2021	14 361	Data Reserve	Risk Reserve	AL Mismatch funding risk benefit premiums



## VALUATION DATA

### *Member liabilities*

19. 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 on an administration system.
20. 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.
21. 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.
22. I have placed reliance on the audited data as provided by the administrator.

### *Investment Returns*

23. 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.
24. I perform the allocation of investment returns to other Fund accounts annually, the allocation of which is reviewed by external auditors.

### *Financial Statements*

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

### *Opinion of valuation data*

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

## FUND ASSETS

### Net Assets

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

Net Assets (R'000)	31 Mar 2023
Investment Assets (With Asset Managers)	4 803 098
Cash at bank	52 565
<b>Total Financial Assets</b>	<b>4 855 663</b>
Add: Contributions receivable	0
Accounts Receivable	3 579
Less: Accounts Payable / Provisions	(5 780)
<b>Total</b>	<b>4 853 462</b>

### Asset Allocation

28. The below tables show a split of the Fund's financial assets / investments by currency and asset class:

Assets per currency (R'000)	31 Mar 2023	Allocation
Local Currency Assets	3 655 519	75%
Foreign Currency Assets	1 200 144	25%
<b>Total</b>	<b>4 855 663</b>	<b>100%</b>

Assets per asset class (R'000)	31 Mar 2023	Allocation
Listed Equities	1 386 879	29%
Listed Debt securities (Bonds)	2 505 215	52%
Bank deposits (Money Market)	278 806	6%
Properties	263 209	5%
Commodities	4 418	0%
Unlisted Equities	98 818	2%
Unlisted Debt securities	299 732	6%
Hedge funds	18 587	0%
<b>Total</b>	<b>4 855 663</b>	<b>100%</b>

### Asset and Liability Matching

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

Accounts	Portfolio
Benefits Payable	Money Market, Cash at Bank
Surplus Account(s)	Government Bond Portfolio
All Other Accounts	Main Portfolio

30. 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:

- a) The assets backing Benefits Payable are invested in a Money Market portfolio that earns interest that is often higher than the Benefits LPI.
- b) 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.
- c) 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.

31. The suitability of the investment portfolios 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 investing these in the Main Portfolio is expected to provide better returns in the long-term and enhance the levels of the 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)	Government Bonds	Fund participating employer	Yes

32. 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 de-risk those members that are approaching retirement. The Fund has traditionally de-risked the investment strategy towards a potential bulk exit of members that happens at national general elections.

33. 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

34. 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

35. The practice of the Fund over the inter-valuation period is in line with the rules.

### Member General Account

36. 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.
37. 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 relate to death benefits from the Risk Reserve as well as equalisation and additional serve benefits paid from Employer Surplus Accounts:

Member General Account (R'000)	31 Mar 2021	31 Mar 2022	31 Mar 2023	Full Period
<b>Opening Balance</b>	<b>2 193 227</b>	<b>2 771 352</b>	<b>3 104 948</b>	<b>2 193 227</b>
Plus: Member Contributions	55 831	55 606	58 623	170 060
Employer Contributions	126 655	127 006	133 271	386 932
From Reserve Accounts	78 279	59 799	19 245	157 322
Investment Returns	510 649	298 129	308 236	1 117 015
Transfers In	638	601	0	1 239
Less: To Benefits Payable	(196 824)	(209 144)	(230 061)	(636 029)
Plus: Other Investment Returns	2 897	1 600	0	4 497
<b>Closing Balance</b>	<b>2 771 352</b>	<b>3 104 948</b>	<b>3 394 263</b>	<b>3 394 263</b>

### *Member Unallocated Funds*

38. Member Unallocated Funds refers to those amounts that must 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*

39. The Administration (Expense) Reserve account is held as a cushion if operational expenses exceed the allocation of the contribution for Fund operational expenses.

40. 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.

41. 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).

42. 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	31 Mar 2023	Full Period
<b>Opening Balance</b>	<b>3 712</b>	<b>4 154</b>	<b>3 422</b>	<b>3 712</b>
Plus: Employer Contributions Expenses	5 202	5 187	5 476	15 866
Net investment income	817	398	321	1 536
Paid-up Member Fees			196	196
Transfer from Other Accounts	0	70	70	139
Less: Administration Expenses	(5 578)	(6 386)	(6 100)	(18 064)
<b>Closing Balance</b>	<b>4 154</b>	<b>3 422</b>	<b>3 385</b>	<b>3 385</b>

  

<b>Excess / (Shortfall) in Contributions</b>	<b>(375)</b>	<b>(1 199)</b>	<b>(623)</b>	<b>(2 198)</b>
<b>As % of Salaries</b>	<b>-0.05%</b>	<b>-0.16%</b>	<b>-0.08%</b>	<b>-0.10%</b>

43. The balance in the Administration (Expense) Reserve account amounted to R3.385m. Comparing this with R6.465m budgeted expenses for the 12 months following the valuation date, the balance in the reserve account is less than the targeted nine months of these expenses at 6.3 months.

44. 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.



45. 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*

46. 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.

47. The allocation of contributions to risk benefits, including those provided by the Employer through the Fund, was unchanged in the inter-valuation period and is 4.8% of pensionable salaries that forms part of the Employer contributions.

48. The target level for the Risk Reserve account was unchanged in the inter-valuation period and is 2% of pensionable salaries.

49. 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>31 Mar 2023</b>	<b>Full Period</b>
<b>Opening Balance</b>	<b>15 688</b>	<b>33 623</b>	<b>21 299</b>	<b>15 688</b>
Plus: Employer Contributions	35 672	35 571	37 552	108 795
Net investment income	3 624	2 894	1 227	7 745
Transfer from Other Accounts	14 361	0	7 000	21 361
Less: Reinsurance premiums	(28 339)	(42 100)	(52 329)	(122 768)
Unapproved benefit premiums	(7 383)	(8 689)	(10 396)	(26 468)
<b>Closing Balance</b>	<b>33 623</b>	<b>21 299</b>	<b>4 353</b>	<b>4 353</b>
<b>Target Balance</b>	<b>14 861</b>	<b>14 811</b>	<b>15 646</b>	<b>15 646</b>
<b>Contributions as % of Salaries</b>	<b>4.80%</b>	<b>4.80%</b>	<b>4.80%</b>	<b>4.80%</b>
<b>Premiums as % of Salaries</b>	<b>4.81%</b>	<b>6.86%</b>	<b>8.02%</b>	<b>6.59%</b>
<b>Excess / (Shortfall)</b>	<b>-0.01%</b>	<b>-2.05%</b>	<b>-3.22%</b>	<b>-1.78%</b>
<b>Excess / (Shortfall) Amount</b>	<b>(50)</b>	<b>(15 218)</b>	<b>(25 173)</b>	<b>(40 441)</b>

50. The contributions for risk benefits were at 4.80% of pensionable salaries and the actual premiums for risk benefits were 6.49% of pensionable salaries. There was a significant shortfall that arose in the inter-valuation period (in particular financial years ending in 2022 and 2023) that amounted to R40.411 million.
51. The Fund experienced significant increases in premiums for death benefits since 1 July 2021. Since the allocation of contributions is fixed in the Rules, but the level of death benefits is not specified in the rules, the Fund reduced death benefits. Effective from 1 January 2023, the death benefit was reduced from 5x of member annual pensionable salary to 3.5x.
52. 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 Reserve to the Risk Reserve to strengthen the Risk Reserve to be able to afford increases in insurance premiums for death benefits. There were further asset-liability mismatch profits of R14.132m identified in 2022, and R7.000m from this was approved by the Trustees to be transferred to the Risk Reserve in the 2023 financial year.
53. Post the valuation date, premiums for risk benefits started reducing from 1 July 2023 from peak levels following the Covid-19 pandemic such that at reduced benefits, there will no longer be a negative strain on the Risk Reserve.
54. The balance in the Risk Reserve account is meant to cover potential increases in risk benefit premiums by 2.0% of salaries before management actions could be implemented. This target is applicable in instances where the risk benefit premiums are met by the risk contributions. Given there is no longer a strain on the Risk Reserve, the level of the Risk Reserve account maybe restored to the target level so that the Fund can cope with potential future increases in risk benefit premiums whilst investigating implementation of sustainable management actions.
55. I recommend that in the financial year following the valuation date, an amount of R11 million be transferred from the Data Reserve to the Risk Reserve to address the shortfall of approximately R11.293 million in the target level of the Risk Reserve. This transfer, if adopted by Trustees, will have no bearing on the level of the Risk Reserve as at the valuation date.

### Data Reserve

56. The Data Reserve account holds assets that are used to absorb financial strains caused by data and processing errors, including asset-liability mismatches.
57. The target level for the Data Reserve account has been 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.
58. 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	31 Mar 2023	Full Period
<b>Opening Balance</b>	<b>39 536</b>	<b>48 682</b>	<b>68 188</b>	<b>39 536</b>
Plus: Net investment income	9 146	5 375	6 383	20 903
Less: Transfer to Other Accounts	(14 361)	0	(7 000)	(21 361)
Data Errors	0	0	0	0
AL Mismatch	14 361	14 132	958	29 450
<b>Closing Balance</b>	<b>48 682</b>	<b>68 188</b>	<b>68 529</b>	<b>68 529</b>

59. The Data Reserve account amounts of 1.9% of member liabilities which is more than the stated target.
60. The level of the Data Reserve is expected to reduce as member shares increase due to contributions over time. However, this is for another year post the valuation date to the next national general elections. I recommend that in the financial year following the valuation date, an amount of R11 million be transferred from the Data Reserve to the Risk Reserve. Following the transfer, the level of the Data Reserve will be closer to target of 1.5% of member liabilities. This transfer, if adopted by Trustees, will have no bearing on the level of the Data Reserve as at the valuation date.

### Employer Surplus Accounts

61. 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.

62. 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 R1 120.760 million as at the valuation date.

ESA1 (R'000)	31 Mar 2021	31 Mar 2022	31 Mar 2023	Full Period
<b>Opening Balance</b>	<b>502 409</b>	<b>618 633</b>	<b>684 903</b>	<b>502 409</b>
Plus: Net investment income	116 224	68 194	40 608	225 026
Transfer from Other Accounts	0	4 546	0	4 546
Less: Transfer to Member Accounts/Benefits	0	(6 470)	1 500	(4 971)
<b>Closing Balance</b>	<b>618 633</b>	<b>684 903</b>	<b>727 010</b>	<b>727 010</b>

ESA2 (R'000)	31 Mar 2021	31 Mar 2022	31 Mar 2023	Full Period
<b>Opening Balance</b>	<b>186 791</b>	<b>229 807</b>	<b>266 392</b>	<b>186 791</b>
Plus: Net investment income	43 196	25 943	15 803	84 942
Transfer from Other Accounts	0	11 816	0	11 816
Less: Transfer to Member Accounts/Benefits	(181)	(1 174)	4 067	2 712
<b>Closing Balance</b>	<b>229 807</b>	<b>266 392</b>	<b>286 261</b>	<b>286 261</b>

ESA3 (R'000)	31 Mar 2021	31 Mar 2022	31 Mar 2023	Full Period
<b>Opening Balance</b>	<b>74 244</b>	<b>91 418</b>	<b>101 511</b>	<b>74 244</b>
Plus: Net investment income	17 175	10 093	5 977	33 245
<b>Closing Balance</b>	<b>91 418</b>	<b>101 511</b>	<b>107 488</b>	<b>107 488</b>



## VALUATION RESULTS

### Financial Soundness

63. 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 23
<b>Adjusted Net Assets</b>	<b>3 230 000</b>	<b>4 853 462</b>
<b>Member Liabilities (Pending Exits)</b>	<b>(213 329)</b>	<b>(262 173)</b>
Unclaimed Benefits	(143 555)	(118 467)
Benefits Payable	(69 774)	(143 706)
<b>Member Liabilities (Non-Current)</b>	<b>(2 194 292)</b>	<b>(3 394 263)</b>
Active Member Accounts	(2 115 055)	(3 264 026)
Paid-up Member Accounts	(78 172)	(130 237)
Unallocated to Records	(1 065)	0
<b>Employer Surplus Accounts</b>	<b>(763 444)</b>	<b>(1 120 760)</b>
<b>Excess Assets over Liabilities before Reserves</b>	<b>58 936</b>	<b>76 267</b>
<b>Contingency Reserves</b>	<b>(58 936)</b>	<b>(76 267)</b>
Risk Reserve	(15 688)	(4 353)
Data Reserve	(39 536)	(68 529)
Expense Reserve	(3 712)	(3 385)
<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>101.6%</b>
<b>Funding level after Reserves</b>	<b>100.0%</b>	<b>100.0%</b>

64. Based on the above, the Fund is financially sound, with a funding level of 101.6% 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 are adequate for the desired level of contingency reserves.

### Analysis of change in excess assets

65. 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	31 Mar 2023	Full Period
<b>Opening Balance</b>	<b>58 936</b>	<b>86 459</b>	<b>92 909</b>	<b>58 936</b>
Expense experience gain / (strain)	(375)	(1 129)	(554)	(2 059)
Risk contributions excess / (shortfall)	(50)	(15 218)	(25 173)	(40 441)
Investment profit / (loss)	13 587	8 666	7 931	30 184
Asset-Liability Mismatch profit / (loss)	14 361	14 132	958	29 450
Miscellaneous <sup>3</sup>	0	0	196	196
<b>Closing Balance</b>	<b>86 459</b>	<b>92 909</b>	<b>76 267</b>	<b>76 267</b>

### Contribution Allocation

66. As per the below table, the contribution allocated to fund risk benefits of 4.8% of pensionable salaries has not been sufficient. This depleted the Risk Reserve, which was funded by transfers of asset-liability mismatch profits from the Data Reserve. The Fund reduced benefits effective from 1 January 2023. Further, premium rates reduced effective 1 July 2023 such that at reduced benefits, the contribution allocated for risk benefits is sufficient. The Fund is urged to continue putting competitive pressure on insurers to ensure premiums reduce to pre-Covid 19 pandemic levels to enable death benefits to be improved.

Contribution allocation to Risk Benefits (R'000)	31 Mar 2021	31 Mar 2022	31 Mar 2023	Full Period
Employer Contributions	35 672	35 571	37 552	108 795
Less: Reinsurance premiums	(28 339)	(42 100)	(52 329)	(122 768)
Unapproved benefit premiums	(7 383)	(8 689)	(10 396)	(26 468)
<b>Excess / (Shortfall)</b>	<b>(50)</b>	<b>(15 218)</b>	<b>(25 173)</b>	<b>(40 441)</b>

<b>Contributions as % of Salaries</b>	<b>4.80%</b>	<b>4.80%</b>	<b>4.80%</b>	<b>4.80%</b>
<b>Premiums as % of Salaries</b>	<b>4.81%</b>	<b>6.86%</b>	<b>8.02%</b>	<b>6.59%</b>
<b>Excess / (Shortfall)</b>	<b>-0.01%</b>	<b>-2.05%</b>	<b>-3.22%</b>	<b>-1.78%</b>

<sup>3</sup> Relates to legal fee expenses recovered from a third party.

67. As per the below table, the contribution allocated to fund expenses of 0.7% of pensionable salaries has been insufficient by 0.10% of pensionable salaries 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	31 Mar 2023	Full Period
Employer Contributions	5 202	5 187	5 476	15 866
Less: Actual Expenses	(5 578)	(6 386)	(6 100)	(18 064)
<b>Excess / (Shortfall)</b>	<b>(375)</b>	<b>(1 199)</b>	<b>(623)</b>	<b>(2 198)</b>

Contributions as % of Salaries	0.70%	0.70%	0.70%	0.70%
Premiums as % of Salaries	-0.75%	-0.86%	-0.78%	-0.80%
<b>Excess / (Shortfall)</b>	<b>-0.05%</b>	<b>-0.16%</b>	<b>-0.08%</b>	<b>-0.10%</b>

### *Recommendations*

68. 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. The shortfall in contribution to cover expenses is marginal and not cause for management action.

69. The Fund resolved to reduce risk benefits from 1 January 2023. Additionally, premiums for risk benefits started reducing in July 2023 from peak levels following the Covid-19 pandemic, such that at reduced benefits, there will no longer be a negative strain on the Risk Reserve. The Data Reserve is more than its target level. I recommend that in the financial year following the valuation date, a transfer from the Data Reserve to the Risk Reserve of R11 million be made so that the Risk Reserve is restored to its target level. This transfer, if adopted by Trustees, will have no bearing on the Fund's funding level as at the valuation date.



## CONCLUSION

70. The Fund is 101.6% funded before setting contingency reserves and is 100% funded after the contingency reserves have been set.
71. The Fund has appropriately managed the shortfall in risk contributions caused by increase in insurance premiums in response to the Covid-19 pandemic by combination of reduction in benefits, use of contingency reserves and applying competitive pressures on insurers. I am satisfied that the insurance arrangements put in place to fund risk benefits as of the valuation date are appropriate and sustainable.
72. I am satisfied with the aggregate level of the contingency reserve accounts, as well as the build-up and transfers that have been made in the inter-valuation period. I recommend a transfer of R11 million from the Data Reserve to the Risk Reserve in the financial year following the valuation date to restore the Risk Reserve to its target level. This recommendation relates to a transfer between contingency reserves and therefore does not impact on the financial soundness of the Fund as at the valuation date.
73. 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.
74. I therefore certify that the Fund was in a sound financial condition as of 31 March 2023 and is likely to be so for a foreseeable future, in that:
- a) The assets of the Fund were sufficient to cover liabilities, and there were sufficient excess assets for adequate levels contingency 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) Insurance arrangements to provide for risk benefits are appropriate.

**R Mothapo, FASSA**

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

**2 November 2023**



## 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. The benefit was 5x annual pensionable salary until 31 December 2022 and has been 3.5x annual pensionable salary since 31 January 2023.
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	24.5726	1	772 028	872 379	3.8603
25	30	28.3297	9	814 091	5 698 196	2.9863
30	35	32.6803	34	700 369	27 028 903	3.5707
35	40	37.9030	71	736 921	77 727 659	4.1356
40	45	42.2735	115	827 258	193 886 837	4.9123
45	50	47.5716	126	809 090	254 737 052	5.6290
50	55	52.7171	150	838 931	457 899 462	6.4595
55	60	57.4605	165	821 469	823 033 540	8.5545
60	65	62.5696	144	849 259	766 597 713	9.1522
65		69.2169	105	887 304	665 151 984	9.9637
<b>AGGREGATE (2023-3-31)</b>		<b>53.2636</b>	<b>920</b>	<b>823 976</b>	<b>3 272 633 726</b>	<b>7.1059</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	31 Mar 2023
Apr	7.32%	1.57%	0.38%
May	1.61%	1.00%	0.36%
Jun	1.66%	0.80%	-2.82%
Jul	0.74%	1.37%	3.66%
Aug	1.03%	1.47%	-0.21%
Sep	-1.51%	-0.35%	-2.09%
Oct	-1.20%	2.07%	3.07%
Nov	5.31%	1.22%	3.16%
Dec	1.95%	3.24%	0.07%
Jan	1.98%	-1.03%	4.68%
Feb	2.06%	0.33%	0.31%
Mar	0.37%	-1.09%	-0.81%
Average	23.13%	11.04%	9.88%

### 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	31 Mar 2023
Apr	0.66%	0.32%	0.38%
May	0.51%	0.33%	0.41%
Jun	0.39%	0.32%	0.40%
Jul	0.36%	0.34%	0.39%
Aug	0.34%	0.35%	0.52%
Sep	0.30%	0.33%	0.49%
Oct	0.29%	0.34%	0.54%
Nov	0.28%	0.34%	0.57%
Dec	0.29%	0.36%	0.64%
Jan	0.30%	0.36%	0.68%
Feb	0.27%	0.33%	0.61%
Mar	0.32%	0.39%	0.63%
Average	4.40%	4.17%	6.44%

### C3. Government Bond Portfolio Returns

- The Government Bond Portfolio is intended to invest funds belonging to the employer surplus accounts. At the request of the Employer, the portfolio is managed by the Public Investment Corporation. The objective of this investment portfolio is to have employer surplus fund the Employer and being managed by the Employer's investment management division. The portfolio was established with effect from 1 April 2023.

Money Market Portfolio	31 Mar 2023
Apr	-1.40%
May	0.94%
Jun	-3.02%
Jul	2.41%
Aug	0.36%
Sep	-2.13%
Oct	1.06%
Nov	3.97%
Dec	0.62%
Jan	2.81%
Feb	-0.89%
Mar	1.26%
Average	5.89%