

# Consolidated Retirement Fund for Local Government

## Summary of the Actuarial Valuation as at 30 June 2019

### 1. Introduction

This summary reflects the results of the actuarial valuation of the Consolidated Retirement Fund for Local Government (the Fund) carried out as at 30 June 2019, the valuation date.

The objectives of the valuation are to:

- (a) determine the financial condition of the Pensions Account, Preservation Pension Account and the Member Share Account by comparing the value of the assets to the value of the liabilities for the respective accounts;
- (b) review the investment return allocations for active and deferred members;
- (c) determine the balances of the respective Fund Accounts;
- (d) review the allocation of contributions towards retirement benefits and
- (e) recommend the level of pension increases for pensioners.

### 2. Benefits

The Fund provides defined contribution benefits to its active members and deferred members. The benefit payable on exit of a member is the Member's Share. This is broadly equal to the contributions (after costs) with the addition of investment returns.

Members have different options with respect to insured death and disability benefits (payable in addition to the Member's Share), with corresponding differences in the contributions allocated towards Members' Shares.

The Fund pays monthly pensions to pensioners with target pension increases of 100% of price inflation.

### 3. Membership

At the valuation date there were 47 400 active and deferred members and 550 pensioners, including 154 disability pensioners.

#### **4. Assets**

The total value of the net assets of the Fund was R26 215 million at the valuation date. After deducting the Risk Reserve Account of R60.1 million, the Living Annuity Account of R4.4 million and the Data Reserve Account of R22.8 million, the combined assets of the Member Share Account, Processing Reserve Account, Preservation Pension Account and Pensions Account amounted to R26 128 million as at 30 June 2019.

#### **5. Growth Portfolio**

Investment returns are allocated to Members' Shares based on the actual net investment returns earned on the Growth Portfolio. An effective investment return of 5.2% per annum was allocated to the Growth Portfolio for the year ended 30 June 2019.

#### **6. Money Market Portfolio**

The Fund provides the Money Market Portfolio for members aged 50 years and older. The aim of the portfolio is to provide protection against market volatility particularly for members closer to retirement age. The investment return for members who elected the portfolio amounted to 8.3% per annum for the year ending 30 June 2019.

#### **7. Moderate Portfolio**

Members over age 50 have the option of investing in the Moderate Portfolio. Members over age 50 years may invest 25%, 50%, 75% or 100% of their Member's Share in the portfolio. The assets of the Moderate Portfolio are limited to between 18% and 56% in equity investments and are managed on a "life-stage" basis depending on the member's age. The investment return for members who elected the Moderate Portfolio amounted to 5.3% per annum for the year ending 30 June 2019.

#### **8. Shari'ah Portfolio**

The Fund introduced the Shari'ah Portfolio on 1 September 2016 for members that wish their investments to meet the requirements of Shari'ah law and the principles for Islamic finance. The investment return for members who elected the portfolio amounted to 4.8% per annum for the year ending 30 June 2019.

#### **9. Pensioner Portfolio**

The assets of the Pensioner Portfolio are invested to broadly match the term and nature of the pensioner liabilities. The return on the Pensioner Portfolio was 5.0% per annum for the year ending 30 June 2019.

## 10. Pension increase and bonus

A pension increase of 4.6% was granted to pensioners effective 1 March 2019.

A 100% of monthly pension discretionary bonus was awarded, payable in December 2018, as well as a discretionary bonus of nine months pension was awarded, payable in September 2019.

## 11. Fund Accounts

The financial condition of the Fund Accounts at 30 June 2019 was as follows:

| <b>Member Share Account and Processing Reserve Account</b> | <b>R 000</b>  |
|--|---------------|
| Assets   | 25 389 735    |
| Members' Shares  | (25 323 959)  |
| Processing Reserve Account <sup>1</sup>                    | 65 776        |
| <i>Funding level</i>                                       | <i>100.3%</i> |

| <b>Preservation Pension Account</b> | <b>R 000</b>  |
|-------------------------------------|---------------|
| Assets                              | 90 702        |
| Members' Shares                     | (90 702)      |
| Surplus                             | 0             |
| <i>Funding level</i>                | <i>100.0%</i> |

| <b>Pensions Account</b>                  | <b>R 000</b>  |
|--|---------------|
| Assets                                   | 647 516       |
| Pensioner liability                      | (480 719)     |
| Solvency Reserve                         | (13 012)      |
| Provision for special bonus <sup>2</sup> | (24 823)      |
| Surplus                                  | 128 962       |
| <i>Funding level</i>                     | <i>124.9%</i> |

<sup>1</sup> The Trustees decided to distribute part of the Processing Error Reserve Account following the presentation of the 30 June 2018 valuation. The distribution amounted to 0.3% of the Members' Shares in the Growth Portfolio as at 30 June 2018 for those still active at the date of distribution. This distribution was implemented in October 2019.

<sup>2</sup> A provision has been made for a special pension bonus of nine times monthly pension granted by Trustees in June 2019 to distribute a portion of the surplus of the Pensions Account. This bonus has been paid to pensioners in September 2019.

## 12. Composition of contribution rates

| Contributions as a percentage of salary | Category     |              |              |              |              |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|   | Total        | A            | B            | C            | D            | E            | F            | G            |
| Employer contribution <sup>1</sup>      | 18.00        | 18.00        | 18.00        | 18.00        | 18.00        | 18.00        | 18.00        | 18.00        |
| Less:                                   |              |              |              |              |              |              |              |              |
| Risk costs and expenses                 | (4.13)       | (3.63)       | (5.63)       | (2.63)       | (0.68)       | (3.58)       | (3.63)       | (1.23)       |
| Net Employer contribution               | 13.87        | 14.37        | 12.37        | 15.37        | 17.32        | 14.42        | 14.37        | 16.77        |
| Plus: Member contribution <sup>1</sup>  | 9.00         | 9.00         | 9.00         | 9.00         | 9.00         | 9.00         | 9.00         | 9.00         |
| <b>Available for retirement</b>         | <b>22.87</b> | <b>23.37</b> | <b>21.37</b> | <b>24.37</b> | <b>26.32</b> | <b>23.42</b> | <b>23.37</b> | <b>25.77</b> |

1. For Contract Employees and Councillors, the member contribution rate is 7.5% of salary and the Participating Employer contribution rate is 7.5% or 19.5% of salary (total contribution rate of 15.0% or 27.0% of salary).

Normal members and Municipal Managers may elect to contribute at 7.5% or 9.0% (total contribution rate of 25.5% or 27.0% of salary). For *New Employees* the Participating Employer contribution rate may change.

## 13. Financial Condition

The Fund is in a sound financial condition at the valuation date.

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Fellow of the Actuarial Society of South Africa

in my capacity as Actuary to the Fund and

as an employee of Momentum Consultants and Actuaries (Pty) Ltd

The Actuarial Society of South Africa is the primary regulator in my professional capacity.

17 March 2020