

## Cape Joint Pension Fund

### Summary of the Actuarial Valuation as at 30 June 2012

#### 1. Objectives of the valuation

The main objectives of the actuarial valuation are to:

- Determine the financial condition of the Fund by comparing the actuarial value of the assets to the value of past service benefits as at the valuation date;
- Calculate the future service contribution rate required to fund benefits in the defined benefit (DB) section;
- Determine the level of pension increases that may be afforded;
- Determine the appropriate contingency reserves to protect the Fund; and
- Confirm the final bonus rate to be applied to Members' Shares in the defined contribution (DC) section.

The previous valuation was performed as at 30 June 2011.

#### 2. Membership statistics

	30 June 2012	30 June 2011
<b>Active members (DB Section)</b>		
Number	1 119	1 222
Annual pensionable salaries (Rm)	170.6	173.2
Salary weighted average age (years)	50.0	49.6
Salary weighted average service (years)	22.7	21.6
<b>Paid-up members (DB Section)</b>	2	2
<b>Active members (DC Section)</b>		
Number	741	751
Annual pensionable salaries (Rm)	113.7	108.2
Salary weighted average age (years)	47.3	47.0
Salary weighted average service (years)	16.8	17.0

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JC van Reenen M Vilakazi Company secretary: FD Jooste Reg. No. 1904/002186/06 Underwritten by Metropolitan Life Limited Reg. No. 1949/032491/06  
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<b>Pensioners (DB Section)</b>		
Number	4 933	5 070
Annual pension (Rm)	202.8	205.98
Average pension (R)	41 108	40 627
Pension weighted average age (years)	73.7	73.3

### 3. Financial condition of the Fund

#### DB Section

<b>Financial condition</b>	<b>30 June 2012</b>	<b>30 June 2011</b>
<b>DB Section</b>	<b>R 000</b>	<b>R 000</b>
Market value of assets*	3 014 878	3 039 127
Less investment reserve	0	67 977
<b>Actuarial value of assets</b>	<b>3 014 878</b>	<b>2 971 150</b>
<b>Past service liabilities</b>	<b>3 033 165</b>	<b>3 030 085</b>
Active service members	1 151 245	1 129 771
Paid-up members	261	239
Pensioner liability	1 881 659	1 900 075
Optimal solvency reserve	562 879	391 380
Reduction	(562 879)	(391 380)
Solvency reserve	0	0
<b>Surplus / (deficit)</b>	<b>(18 287)</b>	<b>(58 935)</b>
<b>Funding level (DB Section)</b>	<b>99.4%</b>	<b>98.1%</b>

\* The value of the assets includes the value of the Rule 17(5) claim as reflected in the financial statements.

The funding level of the DB Section is determined by dividing the actuarial value of the assets by the total of the past service liabilities and the solvency reserve.

The funding level increased from 98.1% at the previous valuation date to 99.4% at the current valuation date. The financial condition of the Fund improved by R40.6 million over the financial year.

## DC Section

<b>Financial condition DC Section</b>	<b>30 June 2012 R 000</b>	<b>30 June 2011 R 000</b>
	<b>Declared 9.58% p.a.</b>	<b>Declared 4.0% p.a.</b>
Assets of the DC Section	421 900	386 570
DC Section Members' Shares	400 669	371 285
Investment Reserve	21 231	15 285
<b>Funding level (DC Section)</b>	<b>105.3%</b>	<b>104.1%</b>

The funding level of the DC Section represents the ratio of the assets to the past service liabilities. The Investment Reserve in the DC Section is used to smooth interest declared each year. The Trustees revised the investment strategy for the DC section. With effect from 1 December 2011, the full investment return earned on the DC Section assets is allocated to Member's Shares.

#### 4. Future service contribution rate

The recommended total contribution rate of 35.62% of pensionable salaries is required to meet the future service costs. Members currently contribute at a rate of 9% of pensionable salaries. The Local Authorities are thus recommended to contribute at a rate of 26.62% of pensionable salaries. This exceeds the current Local Authority contribution of 23.06% of salaries in the DB Section. This shortfall translates to about R6.1 million a year based on DB Section active member salaries at the valuation date.

In view of the proposed conversion of the defined benefit active members to a defined contribution arrangement, the current Local Authority contribution rate of 23.06% is sufficient to meet the current cost of earning benefits. The required contribution rate will be reviewed after the next actuarial valuation as at 30 June 2013.

## 5. Conclusions

- The DB Section of the Fund had a funding level of 99.4% at 30 June 2012.
- The Fund cannot afford to hold any solvency reserve. This leaves the Fund exposed to adverse conditions.
- A final interest rate of 9.58% p.a. was declared in the DC Section for the year ending 30 June 2012.
- A pension increase of 3% on 1 January 2013 was awarded.
- A pensioner bonus of 30% of monthly pension was paid in December 2012.
- If the recommended contribution rate is adopted for the DB Section, the Fund in the normal course of events will be funded on sound actuarial principles.

### **Sean Neethling BSc CFP® FIA FASSA**

Fellow of the Actuarial Society of South Africa  
in my capacity as Actuary to the Fund and  
as an employee of Metropolitan Life Limited

10 May 2013