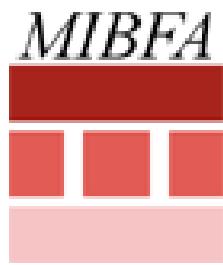


**Engineering
Industries
Pension Fund**

***Surplus Apportionment Information
Booklet***



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Engineering Industries Pension Fund (“the EIPF”) (12/8/5040)

Surplus apportionment scheme as at 1 April 2008

Report by the Trustees

1. Introduction

The Pension Funds Second Amendment Act, 2001 (the Act) requires all pension funds to allocate any surplus on a basis as set out in the Act. The surplus apportionment date for the Engineering Industries Pension Fund (also referred to as “the EIPF”) is 1 April 2008.

The purpose of this document is to inform all stakeholders on the surplus apportionment scheme, as approved by the Trustees.

2. History of the EIPF

A fund known as the “Metal Industries Group Life and Provident Fund” (also referred to as “the MIGLPF”) was established effective 29 July 1957. During 1975 the fund converted to a defined benefit structure. On 31 March 1990 the MIGLPF changed its name to the Engineering Industries Pension Fund (EIPF).

On 1 May 1991 the Metal Industries Provident Fund (MIPF) was established as a defined contribution provident fund. EIPF members were given the option to transfer to the MIPF during the period 1 October 1993 to 28 February 1994. A large number of the members of the EIPF elected to transfer to the MIPF.

A separate fund, known as the Metal Industries Group Pension Fund (also referred to as the “MIGPF”) was established effective 7 February 1966. Members of the MIGPF were given the option to transfer to the MIPF with effect from 1 May 1991. A large number of the members of the MIGPF elected to transfer to the MIPF.

On 1 January 1995 the remaining members of the MIGPF were transferred into the EIPF and the MIGPF ceased to exist. In terms of the law, former members of the MIGPF who exited before 1 January 1995 (the date when the MIGPF merged into the EIPF) are not regarded as stakeholders in the surplus apportionment scheme for the EIPF as they never contributed and belonged to the EIPF.

3. Stakeholders

The following parties are considered as “stakeholders” in terms of the Act and must be included in the surplus apportionment scheme as at 1 April 2008:

- Former members of the EIPF [a total of **202 810** qualifying former members]

These are all members who left the EIPF (previously known as the MIGLPF) over the period 1 January 1980 (the date specified in the Act) until 31 March 2008 and who previously received a benefit from the EIPF, that is, all withdrawals, transfers and retirements during this period.

- Active members as at 31 March 2008 [a total of **30 536** active members]

These are all members who were members of the EIPF as at 31 March 2008. If any of these members withdrew, died or retired on/after 1 April 2008 they are still taken into account as active members.

- Pensioners as at 31 March 2008 [a total of **41 236** pensioners]

These are all persons as at 31 March 2008 who receive a pension income from the EIPF.

- Paid-up members as at 31 March 2008 [a total of **1 478 474** paid-up members]

These are all members who left the EIPF before 31 March 2008 whose benefits have not yet been claimed and/or paid. Some of these members will only become entitled to their accumulated fund benefits at a future date (once they reached retirement age). Others have already become entitled to benefits, but have not claimed the benefits as such.

In the actuarial valuations the value of the paid-up members’ benefits are reserved for as part of the liabilities of the EIPF.

- The various participating Employers

The following parties are legally not regarded as stakeholders of the EIPF and have been excluded from the surplus apportionment scheme.

- All former members who died before or on 31 March 2008.
- All former members who exited before 1 January 1980 (date specified in the Act) and received their benefits in terms of the Rules of the EIPF.
- All pensioners who died before or on 31 March 2008.
- All members who entered the EIPF on or after 1 April 2008.

The Trustees have appointed **Mr David Levy** as Former Member Representative to represent the interests of former members in the discussions regarding the surplus apportionment scheme.

4. Actions by the Board of Trustees to obtain all the former member data

MIBFA, the Administrator of the EIPF, provided the membership data as recorded on their systems. The Trustees also placed advertisements in various newspapers, both on a national and regional level, to invite former members to come forward and register as a stakeholder in the surplus apportionment scheme. Similarly, broadcasts were made on several community radio stations to make people aware of the surplus apportionment exercise. Posters and pamphlets were distributed to the various participating employers and unions. A special Surplus Call Centre was established to deal with all the surplus enquiries and registrations.

The Unions will be hosting information sessions to inform member stakeholders of the surplus apportionment scheme. Please contact your Union representative to get more detail in this regard.

5. Financial position of the EIPF prior to the surplus apportionment

An actuarial valuation of the assets and the liabilities of the EIPF was completed as at 1 April 2008. The valuation indicated a total surplus of R 24 479 million, prior to the investigation of any “improper use” of surplus by the employers (refer to Section 6 of this booklet) and prior to the establishment of any contingency reserves (refer to Section 7 of this booklet).

6. Surplus deemed “improperly utilised by the employer”

Section 15B(6) of the Act stipulated four instances of utilisation of surplus which are deemed as being “improperly utilised” and requires all pension funds to investigate such usages of surplus. An investigation into the financial history of the EIPF over the period 1 January 1980 (date specified in the Act) up to the surplus apportionment date of 1 April 2008 was done with the aim of determining whether any surplus was utilized improperly by the employers, as defined in Section 15B(6) of the Act.

No cases of improper use of surplus on the part of the employers could be identified.

7. Contingency reserves

The Act allows the establishment of contingency reserves to protect the EIPF against specific contingencies. The Registrar of Pension Funds limited the use of such reserves with the issue of a special information circular. The contingency reserves are subject to the Registrar’s approval.

After careful consideration the Board of Trustees, on recommendation of the EIPF’s Valuator and taking into account the financial position of the EIPF as at the surplus apportionment date, have decided on the following reserves:

7.1 Surplus Cost Reserve

The EIPF conducted a complete budget process in order to determine the expected costs of a full surplus apportionment exercise for the EIPF. An amount of **R 35 million** is reserved for the expected expenditure. This implies an average cost provision of approximately R 20 per member stakeholder. Any savings on the surplus cost budget will, within practical limits, be added to the surplus available for apportionment before the approved scheme is implemented.

7.2 Solvency Reserve

The purpose of the solvency reserve is to protect the EIPF against the risk of insolvency as a result of adverse future experience for which no provision was made in the valuation.

The value of the Solvency Reserve amounts to **R 1 744 million** and was calculated on the method as prescribed by the Registrar.

7.3 Contribution Reserve

The levels of member and employer contributions have been negotiated by the employer and trade union parties in terms of a collective agreement through the Metal and Engineering Industries Bargaining Council. These contributions are not sufficient to provide for the defined benefits described in the Rules of the Fund. A Contribution Reserve of **R 604 million** was set aside to cover the expected shortfall in future contributions for a three year period following the surplus apportionment date.

7.4 Data Error Reserve

The purpose of this reserve is to protect the EIPF against the risk that the surplus is over-estimated because of data errors and omissions in the actuarial valuation and the extensive surplus apportionment exercise.

An amount of **R 472 million** (approximately 2% of the liabilities as at 1 April 2008) was therefore allocated to a Data Error Reserve.

8. Surplus available for apportionment

The surplus available for apportionment as at 1 April 2008 is as follows:

	1 April 2008
8.1 Value of assets	R 48 065 million
8.2 Value of liabilities	R 23 586 million
(a) Active members	4 350 million
(b) Pensioners	10 435 million
(c) Paid-up members	8 801 million
8.3 Total actuarial surplus prior to the establishment of contingency reserves [calculated as 8.1 minus 8.2]	R 24 479 million
	1 April 2008

8.4 Contingency reserve accounts (a) Surplus Cost Reserve (b) Solvency Reserve (c) Contribution Reserve (d) Data Error Reserve	R 2 855 million <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> 35 million 1 744 million 604 million 472 million </div>
Surplus available for apportionment as at 1 April 2008 [calculated as 8.3 minus 8.4]	R 21 624 million

The Act determines that former members and pensioners have first right to the distributable surplus, but only to the extent that the benefits already paid to them (as determined in terms of the Rules of the EIPF) are lower than the prescribed minimum benefit (as determined by the Act). [Refer to Sections 9 and 10 of this booklet for more detail on the calculation of the minimum benefits for former members and pensioners.]

Thereafter, any remaining surplus must be equitably distributed between the different stakeholders (various member stakeholder groups and the employers) taking into account the financial history of the EIPF. [Refer to Section 11 of this booklet for more detail on the apportionment of the remaining surplus.]

9. Prescribed minimum benefits : Former members

The Act requires that all members who left the EIPF after 1 January 1980 should be considered in the calculations.

Definition of prescribed minimum benefit:

The Act defines the minimum individual reserve (MIR) (the minimum benefit) for a defined benefit fund as the greater of:

- a) The accumulated value of member contributions and vested employer contributions at the date of exit; and
- b) The present value on the date of exit of the member's deferred pension calculated on a prescribed basis. The prescribed basis for the calculation of the minimum individual reserve (MIR) is explained in Board Notice 35 by the Registrar.

Method:

The prescribed minimum benefit was determined in respect of each former member. The minimum benefit was then compared with the benefit actually paid. The positive difference (if any) between the minimum benefit and the benefit actually paid, is accumulated with the actual net fund interest earned from the date of exit to the surplus apportionment date.

Results:

146 270 of the 202 810 former members who left the EIPF during the period from 1 January 1980 until 31 March 2008 qualify for a top-up payment. The benefits received by the remaining former members complied with the minimum benefits requirements of the Act.

In total an amount of R 6 169 million is required on the surplus apportionment date to top-up the benefits of former members to the prescribed minimum level. This amount was calculated assuming that all the former members were still alive at the surplus apportionment date. A former member only qualifies as a stakeholder if he/she was alive as at 31 March 2008. The results of a recent mortality investigation were used to estimate the expected number of deaths between the date of exit and the surplus apportionment date. By applying this probability to the calculated amounts a lower amount of **R 3 854 million** has been set aside to meet the minimum benefit requirements of the Act. **A traced former member, that was still alive at the surplus apportionment date, will however be paid his/her full calculated minimum top-up amount.**

10. Prescribed minimum benefits : Pensioners

The pension increases granted to pensioners have been tested against the prescribed minimum increases.

Definition of prescribed minimum pension increases:

The prescribed minimum pension increase as stated in Section 14B(4) of the Act, is the greater of:

- a) Increase as determined by the pension increase policy; and
- b) Smaller of:
 - A sufficient increase in order for a pension to keep pace with the increase in the consumer price index (CPI) over the period since retirement, and
 - The increases which the EIPF can afford (determined by an notional build-up of accounts of all pensioners since retirement, in other words the entire group of pensioners as a whole).

According to the Act estimated calculations may be performed if the Board consider the calculation per individual pensioner as unpractical.

Results:

The investigation indicated that the increases granted to pensioners over the history of the EIPF until the surplus apportionment date complied with the minimum pension increases, as set out in the Act (except in the case of a small number of pensioners that retired close to the surplus apportionment date). An amount of **R 5 million** is required as top up benefits in respect of this small group of Pensioners.

11. Remaining surplus

The remaining surplus available for distribution, after the amount required to top-up the benefits received by former members and Pensioners to the prescribed minimum, amounts to R 17 765 million (that is the R 21 624 million less the R 3 859 million required for the minimum benefit top-up to former members and pensioners].

The apportionment of the remaining surplus of R 17 765 million was negotiated between the parties i.e. Labour and Employers. The Board of Trustees unanimously approved the agreed apportionment at their meeting held on 15 February 2011. The apportionment of the remaining surplus amongst the various stakeholders can be summarised as follows:

- a) Active members as at 31 March 2008: 30% enhancement of each member's actuarial reserve value (subject to a minimum of R 1 000 per active member).
- b) Former members and members with paid-up benefits as at 31 March 2008: 30% enhancement of each member's benefit (subject to a minimum of R 1 000 per member).
- c) Pensioners as at 31 March 2008: 30% enhancement to the value of the liability in the Fund. This will be applied to provide for a special bonus payment of approximately 18 months' of the pensioner's 2008 pension and a once-off pension increase of approximately 15%.
- d) In order to ensure the long term financial sustainability of the EIPF, the Trustees decided to convert the active member section of the EIPF from a defined benefit to a defined contribution dispensation with effect from 1 April 2012. The conversion will have no impact on the current pensioners of the EIPF. Pensioners will continue to receive their pensions and future pension increases from the EIPF.

The active members who convert to the defined contribution dispensation will receive an enhancement of 45% of their actuarial reserve value at the conversion date (excluding the enhancements referred to in sub-paragraph (a) above). A portion of the surplus at the surplus apportionment date is earmarked for this purpose.

Active members of the EIPF will receive a separate booklet explaining the conversion and the impact thereof on their benefits.

- e) The remaining balance will be reserved in a Contribution Increase Program Reserve Account (CIPRA). The purpose of this reserve is to subsidise increased member and employer contribution rates as set out in the final agreement:
 - The total contributions to the EIPF is currently 13,2% of salaries (that is, 6,6% by members and 6,6% by employers). The total contribution rate will be increased to 18,0% of salaries (that is, 7,5% by members and 10,5% by employers) from the Contribution Increase Program Commencement Date. The latter commencement date can only be a date after receiving the approval of the proposed scheme from the Registrar of Pension Funds.

- Instead of increasing the actual contributions immediately, the CIPRA will be used to subsidise the difference between the higher contribution rates and the actual contribution rates. That is, the members will benefit from the higher contributions immediately but it will only be required that members and employers pay these higher rates over a phased period until the CIPRA is depleted.
- The parties agreed to the following phased increases in the actual contribution rates:

Effective Date	Member contributions	Employer contributions
From 1 July 2012	6,7%	6,7%
From 1 July 2013	6,8%	6,8%
From 1 July 2014	6,9%	6,9%
From 1 July 2015	7,0%	7,0%
From 1 July 2016	7,1%	7,1%
From 1 July 2017	7,2%	7,2%
From 1 July 2018	7,3%	7,3%
From 1 July 2019	7,4%	7,4%
From 1 July 2020	7,5%	7,5%

The increase of the actual employer contribution rate from 7,5% to 10,5% will be effected over a further period of 14 years or until the CIPRA is depleted.

- Should the EIPF not be able to afford the contribution increase program, at any point in time (that is, when the CIPRA is depleted), the subsidy will cease and the contribution rates will then be set at the actual total member and employer contributions effective at that time.
- The participation in the CIPRA of new members and employers who join the EIPF after the surplus apportionment date will be considered on a case by case basis by the Board of Trustees.
- The intention is to treat the members of the EIPF and the MIPF (Metal Industries Provident Fund) on equal terms and if necessary there will be transfers between the EIPF and the MIPF in respect of CIPRA via the mechanisms allowed for in the Act.

12. Summary of the apportionment as at 1 April 2008

The apportionment of surplus in terms of Section 15B can be summarised as follows:

Stakeholder Groups		Amount	% of Total
First Tier:	Minimum benefits to Former Members & Pensioners	R 3 859 million	17,9%
Second Tier:	Active members as at 31 March 2008	1 309 million	6,0%
	Amount reserved for the conversion of active members to a defined contribution dispensation on 1 April 2012	1 957 million	9,1%
	Pensioners as at 31 March 2008	3 066 million	14,2%
	Former members and members with paid-up benefits as at 31 March 2008	1 564 million ¹	7,2%
	Allocation to CIPRA	9 869 million	45,6%
Total surplus apportioned in terms of Section 15B		R 21 624 million	100,0%

13. Statements by the Former Member Representative

The Former Member Representative made the following statements in his report to the Trustees:

"I am satisfied that the Trustees have taken the necessary steps to include former members and treated them on a similar basis as active members and pensioners in the surplus apportionment;

I am satisfied that the surplus apportionment scheme allows for the former members of the EIPF with regard to the payment of minimum benefits in accordance with the statutory guidelines as well as a share in the remaining surplus;

After due consideration of all relevant and related aspects I have concluded that the surplus apportionment scheme is fair and equitable. I, therefore, support the proposed scheme."

The full report by the Former Member Representative is available on request.

¹ The amount set aside for the payment of the surplus enhancements to former members and members with paid-up benefits is based on the crude assumption that 25% of these members will be traced to make a payment.

14. Application of surplus allocation amounts

The surplus apportionment scheme may only be implemented once it has been approved by the Registrar of Pension Funds. The surplus apportionment amounts will be applied as follows:

Stakeholder Groups	Treatment
All former members	Payment in cash. [Only payable if they claim within 5 years after the date of approval by the Registrar ² .]
Pensioners	Payment in cash of approximately 18 months' of the pensioner's 2008 pension as well as a special pension increase of approximately 15%.
Paid-up Members	In case of <u>deferred pensioners</u> placed as a special surplus credit on the members' records to be applied to purchase an additional pension benefit when they become entitled to pension benefits from the EIPF. In case of <u>unpaid and unclaimed members</u> , payment in cash. [Only payable if they claim within 5 years after the date of approval by the Registrar ² .]
Active members as at 1 April 2008 <ul style="list-style-type: none"> • Members still active on the implementation date • Members who have resigned, been retrenched or transferred from the EIPF between 1 April 2008 and the implementation date. • Members who have died subsequent to 1 April 2008 	Will be added to their individual fund records and will hence form part of their future benefits from the EIPF. [No cash payment is allowed by law.] Payment in cash Payment in cash to either their beneficiaries or their estate, as per the relevant legislative requirements. Refer to Annexure 1 for more detail.

Fund returns, as earned on the surplus assets, will be added from the surplus apportionment date until the date of implementation.

² The Trustees may extend this period at their discretion.

15. In summary

The Trustees and the Former Member Representative are satisfied that the surplus apportionment scheme complies with the requirements of the Act.

Any queries relating to or objections against the surplus apportionment scheme must be directed in writing and all objections must be properly motivated to the Board of Trustees within 12 weeks of the distribution of the member communication, i.e. **before 29 July 2011**.

The address details are as follows: **The Surplus Committee; Engineering Industries Pension Fund; Private Bag X11; MARSHALLTOWN; 2107.**

The information can also be e-mailed to **surplus@mibfa.co.za** or faxed to **(011) 688 3094**. For any general queries regarding the surplus apportionment scheme, you can also contact the MIBFA surplus call centre telephonically at **0861 50 44 55**. Queries will be dealt with as soon as possible.

During this period of 12 weeks the Trustees will finalise the documents for submission to the Registrar of Pension Funds. It is planned that the final surplus apportionment scheme be submitted to the Registrar by 31 August 2011. The surplus apportionment scheme can only be implemented after approval by the Registrar.

16. Next steps required from stakeholders

Step 1: Stakeholders, who have not yet registered as a surplus stakeholder, are requested to complete the attached registration form and return it to MIBFA. The address details are indicated on the form.

Step 2: Qualifying stakeholders will then be posted an individual surplus statement, containing their personal details as well as their preliminary calculated surplus benefit information to their home or postal address details provided on the registration form. Such individual surplus statement will be issued as soon as practically possible after MIBFA has processed the registration form and verified the person's membership details from their records. In some circumstances MIBFA may request the member for additional information. This is to ensure that the calculations are based on the correct member information.

Stakeholders are requested to ensure that their personal details as indicated on the surplus statement are correct. If any errors are identified, please bring it under the attention of MIBFA, as this may possibly influence the determination of the minimum benefits and other surplus benefits. **Supporting documents must be provided.**

Step 3: Qualifying former members as well as members that were active at 31 March 2008 but subsequently exited from the EIPF, will need to supply their banking details. **Keep in mind surplus payments can only be made after receiving the necessary approval from the Registrar of Pension Funds. The "bank mandates" will therefore only be requested after receiving such approval.**

The Principal Officer
Engineering Industries Pension Fund

Approved on 15 March 2011

Annexure 1 – Deaths on or after 1 April 2008

All qualifying member stakeholders **who died on or after 1 April 2008** will be treated as follows:

a) Former members who died on or after 1 April 2008:

The accumulated surplus will be paid to the member's estate. If no estate exists a next of kin should register an estate with the Master of the High Court. If there is no next of kin the accumulated surplus will be paid to the Master of the High Court.

b) Active members at 1 April 2008 who died subsequently while they were still in active service:

The reason for exit from the EIPF for such a member was his/her death on or after 1 April 2008.

The accumulated surplus will be paid in terms of Section 37C of the Act. This implies that the Board of Trustees need to decide on the distribution of the accumulated surplus amongst the legal beneficiaries.

In these cases there will be a prior Section 37C distribution but additional investigations need to be done by the Trustees e.g. some of the beneficiaries in the prior Section 37C distribution may have died in the interim and such a beneficiary's distribution should be paid to his/her estate

c) Active members at 1 April 2008 who exited the EIPF after the surplus apportionment date and who died after they exited from the EIPF:

The reason for these members' exit from the EIPF was for example: resignation, retrenchment or transfer to another fund. They then passed away after such event.

The accumulated surplus will be paid to the member's estate. If no estate exists a next of kin should register an estate with the Master of the High Court. If there is no next of kin the accumulated surplus will be paid to the Master of the High Court.

Note: If the deceased member retired from the EIPF on or after 1 April 2008 and he/she died after retirement, the surplus benefits will be applied similar to the original retirement benefits. Please contact the Administrator (MIBFA) if the deceased member falls in this category.