

Questions & Answers

MIPF & EIPF Surplus Scheme

These are typical questions that stakeholders may ask. The purpose of this document is to supply a list of such questions and answers to the Surplus Call Centre (and also to the Unions that are going to do presentations to the members), to assist them to provide relevant responses to these questions.

1. **Question:** Why is the Surplus Apportionment date 1 April 2008?

Answer: The MIPF & EIPF were previously not registered under the Pension Funds Act (PFA), but under the Labour Relations Act (LRA). Changes to the Pension Funds Act require that all Funds should register under the Pension Funds Act. One of the requirements of the amended Pension Funds Act is that every Fund that is registered for the first time should undergo a surplus apportionment exercise, as at the first Fund anniversary after registration. The application for registration of the MIPF & EIPF was submitted prior to 1 April 2008 (although the final registration was at a later date). The Trustees decided that this date (1 April 2008) will be taken as the surplus apportionment date, as this is the first financial year-end of the funds, following the changes to the PFA.

2. **Question:** What is Surplus?

Answer: The Surplus in a Fund is the excess of the assets over the monies owed to members, in terms of the Rules, and after allowance for special contingency reserves as allowed by the Pension Funds Act.

3. **Question:** How much is the surplus?

Answer:

Description	MIPF	EIPF
Total assets	R 25 009 m	R 48 065 m
Less: Total liabilities	R 15 509 m	R 23 586 m
Total surplus before contingency reserves	R 9 500 m	R 24 479 m
Less: Contingency reserves	R 4 067 m	R 2 855 m
(a) Surplus cost reserve	30 m	35 m
(b) Investment smoothing reserve	3 882 m	-
(c) Data error reserve	155 m	472 m
(d) Solvency reserve	-	1 744 m
(e) Contribution reserve	-	604 m
Total distributable surplus	R 5 433 m	R 21 624 m

4. **Question:** What are the special contingency reserves and what are they needed for?

Answer:

Surplus Cost Reserve	In terms of the Act, the total cost in respect of the Surplus Apportionment Exercise, must be paid from the surplus. A complete budget process was undertaken, and the Trustees approved a Surplus Cost Reserve of R30m and R35m for MIPF and EIPF respectively. Once the exercise had been completed, any remaining balance in the Surplus Cost Reserve will be added to the surplus for distribution.
Investment Smoothing Reserve (MIPF only)	The fund interest rate declared from time to time, is “smoothed” to ensure that members will not suffer negative returns. This is done by saving part of the investment returns (in years of exceptionally high returns), in the Investment Smoothing Reserve. In years of low or negative returns, part of this Investment Smoothing Reserve, is used to subsidise the returns allocated to members.
Data Error Reserve	The Data Error Reserve is set aside to enable the payment of benefits in cases where the data held by the administrator is either incorrect or incomplete.
Solvency Reserve (EIPF only)	In terms of the Act, the Solvency Reserve is created to protect the Fund, and the members, in case of adverse experience. For example, an unexpected drop in the market value of the assets or or pensioners living longer than expected may lead to inadequate assets to meet liabilities.
Contribution Reserve (EIPF only)	The contribution rate payable by the members and the employers is fixed in the rules of the Fund, as well as the industrial agreement, i.e. there is no obligation on the members or the employers to increase their contributions, if the fund becomes underfunded. In terms of the Act a Contribution Reserve can be set aside, to safeguard the solvency of the Fund and the benefits of the members for the period until the conversion of the EIPF in 2012. A contribution reserve was set aside, as the required contribution rate is higher than that currently paid.

5. **Question:** Who are the stakeholders and how are they determined?

Answer:

Active members	These are only members that were still active members as at 31 March 2008. Members that joined the Funds on or after 1 April 2008 are excluded.
Pensioners (EIPF only)	These are all pensioners that received a pension from the EIPF as at 31 March 2008.
Former members as well as members with unclaimed and unpaid benefits	In terms of the Act a former member in the case of the EIPF is defined as, any member that exited the Fund between 1 January 1980 and 31 March 2008, and between 1 May 1991 and 31 March 2008 in the case of MIPF. In terms of the Act the proviso is that a former member must still be alive as at 31 March 2008, to qualify as a "surplus stakeholder". This means that any former member that passed away before 1 April 2008 does not qualify for surplus.
Various Employers	All Employers that contribute to the funds on behalf of members.

6. **Question:** What is the situation regarding the MIGPF?

Answer:

- Members who exited the MIGPF between 1 January 1980 and 31 December 1994 are excluded as the MIGPF ceased to exist as of 31 December 1994. The Act does not permit special treatment of these members.
- The active members, pensioners and unclaimed members that were in the MIGPF as at 31 December 1994 were transferred to the EIPF as at 1 January 1995. These members therefore became members of the EIPF as at 1 January 1995, and qualify for surplus from the EIPF.

7. **Question:** What is the situation with regards to members who transferred from the EIPF to the MIPF?

Answer:

- Members that transferred from the EIPF to the MIPF are included as former members of the EIPF.
- Members that transferred from the EIPF to the MIPF, and who exited the MIPF before 1 April 2008, are also included as former members from MIPF.
- Members that transferred from the EIPF to the MIPF, and were still active in the MIPF as at 31 March 2008, are included as active members of the MIPF.
- This implies that members, who transferred from the EIPF to the MIPF, may receive surplus from both the EIPF and MIPF.

8. **Question:** What is the situation with regards to disability members?

Answer: There is no surplus for distribution in the PDS. However, disability members in receipt of benefits from the PDS are still active contributing members of the Funds. They are included as active members of those funds for surplus.

9. **Question:** Who elected the former member representatives?

Answer: As required by the Act, the Board of Trustees appointed the former member representatives. These former member representatives look after the interests of former members only.

10. **Question:** What is priority surplus?

Answer: In terms of the Act some stakeholders have a first claim on the surplus.

- Former members to the extent that the benefits paid at exit were less than the prescribed minimum benefit in terms of the Act.
- Pensioners to the extent that their pension increases were less than inflation (CPI).

11. **Question:** What is the difference between paid-up members and deferred pensioners?

Answer:

- Paid-up members are members who resigned but did not take their withdrawal benefit.
- Deferred pensioners are members who resigned, and had more than 4 years of continuous service (10 years of continuous service if they left before 1993). In terms of the rules of the EIPF, these members were not allowed to claim a withdrawal benefit when they left, and can only claim a retirement benefit when they reach retirement age.

12. **Question:** How do we register?

Answer: Surplus booklets that explain the complete surplus process were distributed from the beginning of May 2011. Each booklet contains a registration form which should be completed and sent back to MIBFA. Alternatively, members can contact the Surplus Call-centre at 011 688 3094 or surplus@mibfa.co.za and request that a registration form be e-mailed, faxed or posted to them.

13. **Question:** Should we register for each period as a former member?

Answer: Only one registration form should be used to register. If you have more than one period of service all these service periods should be filled in on this form. If the available space on the form is not enough, list the periods at the bottom of the form.

14. **Question:** What do we do if we have multiple ID numbers?

Answer: The registration form allows for multiple ID numbers. If the available space on the form is not enough, list the ID numbers at the bottom of the form.

15. **Question:** Why do we need to provide our ID, date of birth etc.?

Answer: This information is used to identify you on the administrators records and to compare with the information on MIBFA's records. If any differences are identified, a recalculation of surplus benefits may need to be done.

16. **Question:** Why do we need to send the original documents?

Answer: You should not send original documents. Certified copies of the documents are fine (you will see this on the registration form).

17. **Question:** How much is my surplus?

Answer:

- The calculations for the distribution of surplus were done on an individual basis, based on the information as supplied by MIBFA, as at 1 April 2008.
- These calculations may need to be revised, if it turns out that the information supplied by MIBFA, was incorrect.
- The calculations can only be regarded as final, once the Registrar approved the surplus scheme.
- After members have registered, their details will be checked, and they will only then be supplied with an individual surplus statement.

18. **Question:** How will I be paid?

Answer: The surplus can only be implemented after approval by the Registrar.

Note:

- Payments will only be made to members, after confirmation that the members had been duly registered. It is therefore important that the registration forms are sent to MIBFA as soon as possible.
- In the case of members that were active as at 31 March 2008 and still active at the implementation date, the surplus will be recorded as an enhancement to the existing benefit (in terms of the Act these members are not allowed to receive it in cash). The surplus apportionment amount will then form part of future benefits the member will receive from the funds.
- In the case of pensioners part of the surplus will be paid in cash, and the balance will be used to increase the existing pension.
- In the case of members that were active as at 31 March 2008, but who have resigned, been retrenched or transferred from the Funds, before the implementation date, they will be paid in cash.
- In the case of former members the surplus will be paid in cash.
- In the case of deaths after the surplus apportionment date, the surplus benefits will be either paid in cash to the beneficiaries or their estate, as per the relevant legislative requirements.

19. **Question:** When can we expect to be paid?

Answer: The following processes need to be completed before payments can commence:

- The 12 week period for objections ends 31 July 2011.
- Any objections will be properly considered and the final surplus scheme documentation will be completed and lodged with the Registrar by 31 August 2011.
- The scheme needs to be approved by the Registrar. We expect this by 28 February 2012.
- The bank account information needs to be collected by MIBFA, which will take time.
- Providing the Registrar approves the scheme by 28 February 2012, we expect that payments may commence in May 2012.
- The payments will be a long process, due to the number of payments to be made. (We estimate that approximately 1 million payments need to be made).
- **If the Registrar rejects the proposed surplus scheme, a revised surplus scheme needs to be negotiated and this will materially delay the process.**

20. **Question:** How do we object?

Answer: The objection process will work as follows:

- Any objection against the scheme must be done **in writing**.
- The objection must be **properly motivated**, and set out reasons why the surplus scheme should be changed.
- The objection should be sent to MIBFA.
- The Trustees will respond in writing.
- If you are not satisfied with the response, the Trustees should be informed in writing.
- Any unresolved objections will be submitted with the surplus scheme to the Registrar.
- The Registrar will approve the surplus scheme, if they are of the opinion that the unresolved objections are not material.
- If the Registrar is of the opinion that the unresolved objections are material, they will not approve the scheme, and revert it back to the Trustees, to rework the scheme.

21. **Question:** What will happen if some of the employers object to the surplus scheme?

Answer:

- Any objections from employers will be handled on exactly the same basis, as objections from members, pensioners and former members.

22. **Questions:** Why is the process taking so long to conclude?

Answer: The Surplus Apportionment Exercise entails a number of processes that had to be followed i.e.:

- December 2001: Pension Fund Second Amendment Act passed, but did not apply to the Funds as they fell under the Labour Relations Act.
- August 2007: Pension Funds Act amended to also cover bargaining council funds such as the EIPF and the MIPF.
- 1 April 2008: Surplus apportionment date of the funds.
- 2009: Actuarial valuations and other surplus related work completed.
- 2010: Negotiations between the trustees as to the distribution of the surplus.
- 15 February 2011: Agreement reached.
- 1 May 2011: Consultation process begins.

23. **Question:** Why do EIPF active members receive 45% more?

Answer:

- With the surplus apportionment exercise, the surplus will be allocated to the stakeholders. As a result there will be no surplus left in the Fund on 1 April 2008 (the surplus apportionment date).
- Without the surplus to ensure benefits can be paid the fund may become underfunded, especially as the current contributions are lower than those required to provide for the accrual of benefits
- The Trustees therefore unanimously agreed that the benefits of the EIPF be converted to a defined contribution basis and that the value of these benefits must be enhanced by 45% to compensate members for giving up certain formula driven benefits and taking on the risk inherent in a defined contribution fund.
- These risks are as follows:
 - The risk of poor investment returns due to poor performance of the market, or poor performance by Fund managers. The risk of higher salary increases closer to retirement, without adequate time to save for a higher income in retirement.
 - The risk of living longer than expected when one retires.
 - The risk of higher inflation when one is retired.
 - The potential costs of buying an annuity in the Fund or outside the Fund.
- However, given the risks taken by members, members also secure the full investment returns which result in a Defined Contribution arrangement. In the past five years, the MIBFA funds have achieved returns in excess of inflation + 5% per annum. Please take care to note that past investment performance is not a predictor of future performance.
- The value of the 45% enhancements will initially be held in a reserve in the fund, as the conversion to defined contribution will only take place effective 1 April 2012. Members who leave before this date will not receive the enhancement.

- The conversion will be done automatically for all members, provided that no serious objections are received from those members who convert.

24. **Question:** Why use surplus for CIPRA?

Answer:

- Members and employers currently contribute at 6,6% of pensionable salaries.
- The contribution rate in respect of members will increase from 6,6% to 7,5% i.e. an increase of 0,9%.
- The current contribution rate in respect of employers will increase from 6,6% to 10,5% i.e. an increase of 3,9%.
- Part of the surplus is allocated to CIPRA to subsidise the increase in contributions over a period so that the contributions actually paid by members and employers increase on a phased basis.
- This will assist the cash flow position of both members and employers as higher contributions result in a reduction of take-home pay to members and to minimise the immediate cost impact to employers in consequent negative implications for job security.
- The CIPRA also ensures that each member immediately enjoys an 18% contribution rate, and hence higher benefits, than could be afforded, if contributions were gradually phased up.

25. **Question:** Why should we allow MIPF members to benefit from the surplus in the EIPF?

Answer:

- A substantial part of the surplus in the EIPF already existed, while the members that transferred from the EIPF to the MIPF in 1991, were still members of the EIPF. The transfer values transferred to the MIPF, did not necessarily include a pro rata share of the surplus at that stage.
- Furthermore, the intention is to treat the members in both funds on a consistent basis with respect to the level of the contribution rates, to ensure fairness, equality and social solidarity.

26. **Question:** Why should we allow new members that entered after 1 April 2008 to have higher contributions?

Answer:

- The purpose of the increased contribution rates is to provide better benefits for all members of the EIPF and the MIPF, irrespective of when they joined their fund.
- All members, namely those that joined before and after 1 April 2008, will pay the same contribution rate with any balance up to 7.5% funded from the CIPRA.
- In this way, new entrants to the industry also participate in the CIPRA.