

VERKLARING NO 6/19

Uitgereik deur: A P Stemmet
Namens: Die AMAGP
Kaapstad

17 Maart 2019

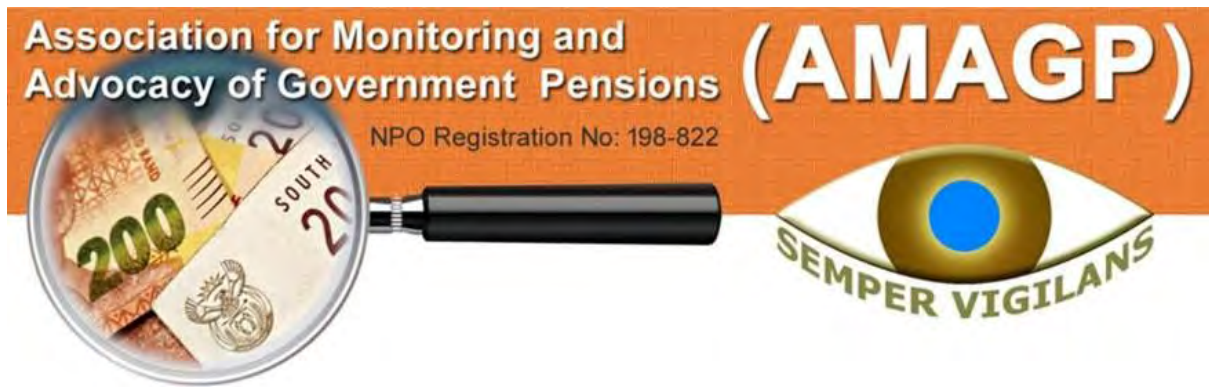
AKTUARIELE VERSLAG 201

Die aktuariele verslag van die Staatsdienspensioenfonds wat die feitelike situasie van die bates teenoor die pensioenverantwoordelikhede soos op 31 Maart 2018 weergee, toon 'n sombere afwaartse prentjie wat ongetwyfeld sedertdien nog verder versleg het.

Ons heg vir u inligting ons afgetrede ouditeurskollega se oorhoofse kommentaar op die verslag en ander verbandhoudende dokumente hierby aan en lig slegs die volgende uit :

1. Dit is onteenseglik duidelik dat die pensioenfonds op 'n styl afdraande pad is en as dit onbeheerd voortgaan die druk op die pensioenfonds om sy langtermynverpligtinge na te kom sal toeneem. In die vorige aktuariele verslag van 2016 is reeds aangetoon dat die regering in die nabye toekoms verplig sal wees om sy skaal van bydraes te verhoog. Die aktuaris beveel nou die volgende verhogings van die staat se bydraes aan; Dienslede van 16% tot 18,9% en gewone lede van 13% tot 14,4% van hul maandelikse salaris. Die las van die belastingbetaler word dus groter;
2. Die ongesonde situasie is nou bereik waar die inkomste op beleggings nie meer voldoende is om die lopende betalings aan pensionarisse asook die totale koste van die fonds te dek nie. Administrasiekoste en veral beleggingskoste het tot 'n onaanvaarbare vlak die hoogte in geskiet vanaf 2014. Tans word slegs 59% van die bydraes van dienende lede van die pensioenfonds vir hul pensioen wanneer hulle aftree na die Obk gekanaliseer om bele te word, vir daardie doel. Tussen 2015 en 2018 is bydraes vir die bedrag van R107 biljoen nie bele nie. Dit is verbasend dat vakbonde en personeelverenigings hierdie wanaanwending van pensioenbydraes blykbaar gelate aanvaar; en
3. Dit is duidelik dat die regering nie langer toegelaat moet word om die pensioenfonds as sy se spaarvarkie te gebruik nie. Politici kan gerus ook ophou om funksies uit te dink wat nie by 'n pensioenfonds tuishoort nie. Roekelose beleggings en spekulatiewe avonture soos Independent Media en Ayo moet summier beëindig word.

Die vraag ontstaan of daar nie ernstig na die aanspreeklikheid van verliese deur die beleggingsbestuurder asook lede van die Raad van Trustees gekyk moet word nie. Die pensioenfonds kan nie meer uitspattighede soos Steinhoffs, African Banks, VBS Banks en ander bekostig nie.



STATEMENT 6/19

Issued by A P Stemmet
On behalf of : The AMAGP
Cape Town

17 March 2019

GEPF : ACTUARIAL REPORT. 2018

The actuarial report of the GEPF which reflects the actual position of the assets vs the pension liabilities as on 31 March 2018 reveals a worry some downward trend which no doubt has since deteriorated even further.

We enclose the comments of our retired auditor colleague on this report as well as on other related documents. We wish to draw attention to the following:

It is abundantly clear that the pension fund is on a steep down road spiral and if the trend continues unchecked the strain on the fund to honour its long term responsibilities will continue to increase. In the previous actuarial report in 2016 it was indicated already that the government will, in the near future, have to increase its contribution rate to the pension fund. The actuary now recommends the following increases by the government; Services from 16% to 18,9% and others from 13% to 14,4% of monthly salaries. The burden of the taxpayer will, therefore, grow.

1. The unhealthy situation has now been reached where the income on investments is not sufficient to provide for current pensions being paid as well as the total costs of the pension fund. Administration costs and especially investment costs have increased to an unacceptable level since 2014. At present only 59% of the contributions by serving members of the pension fund for their pensions when they retire have been channelled tot the PIC to be invested for that purpose. Between 2015 and 2018 contributions collected to the amount of R107 billion was not invested. Strangely enough the labour unions and staff organisations do not object to this situation, and

2. It is clear that the government should not be allowed any longer to use the GEPF as its piggy bank. Politicians should also please stop thinking up new functions which do not belong in a pension fund. Reckless investments and speculative adventures like Independent Media and Ayo should also stop summarily.

Perhaps it is high time that the accountability of asset managers and members of the Board of Trustees of the GEPF should receive serious attention. The pension fund cannot afford more Steinhoffs, African Banks, VBS banks and other extravagances.

GEPF AND ITS ACTUARIAL VALUATIONS

ITS STRONGLY SUGGESTED THAT THE 2018 ACTUARY'S VALUATION REPORT BE READ TOGETHER WITH THE GEPF'S ANNUAL REPORT. AT THE END OF THIS DOCUMENT THERE IS A LIST OF WEB-LINKS TO THE SOURCES USED IN THIS REPORT.

HEREWITH A SUMMARY OF THE BIANNUAL VALUATIONS DONE SINCE 2006. THE PURPOSE OF THIS TABLE IS PRIMARILY TO REFLECT THE FUNDING LEVELS:

GEPF FUNDING LEVELS

<u>Rbn</u>	<u>2 006</u>	<u>2 008</u>	<u>2 010</u>	<u>2 012</u>	<u>2 014</u>	<u>2 016</u>	<u>2 018</u>
Total best estimate liabilities	436,6	621,1	736,7	1 011,6	1 173,5	1 407,2	1 662,6
Recommended reserves	99,8	217,7	344,9	464,2	541,4	647,0	720,9
Total best estimate liabilities & reserves	536,4	838,8	1 081,6	1 475,8	1 714,9	2 054,2	2 383,5
NET ASSETS	545,5	715,5	801,0	1 038,9	1 425,7	1 629,9	1 800,1
Minimum funding level	128,2%	115,2%	108,7%	102,7%	121,5%	115,8%	108,3%
Long term funding level	101,7%	85,3%	74,1%	70,4%	83,1%	79,3%	75,5%
Excess assets > liabilities	108,9	94,4	64,3	27,3	252,2	222,7	137,5
Excess assets %	24,9%	15,2%	8,7%	2,7%	21,5%	15,8%	8,3%
Recommended reserves shortfall/ (surplus)	-9,1	123,3	280,6	436,9	289,2	424,3	583,4

OVERALL TRENDS

BOTH THE FUNDING LEVELS CONTINUED ITS DECLINE SINCE 2014,

THE MINIMUM FUNDING LEVEL IS NOW AT ITS SECOND LOWEST POINT OVER THE 12 YEARS ANALYZED. (THIS ALSO APPLIES TO THE EXCESS ASSETS OVER LIABILITIES %),

THE LONGTERM FUNDING SHORTFALL HAS BREACHED THE HALF A TRILLION MARK! (THE 2018 SHORTFALL IS R583 BILLION)

AND FINALLY, VIA THE 2018 ACTUARY'S REPORT ITS NOW OFFICIAL AND CONFIRMED, **FOR THE 12TH YEAR IN A ROW, THE LONGTERM FUNDING (LTF) RATIO IS LESS THAN 100%, THE GEPF BOT'S OWN TARGET.**

RECAP OF THE SUSTAINABILITY ISSUE

EARLIER IN THE YEAR A REVIEW WAS PERFORMED ON THE 2018 ANNUAL REPORT WITH SPECIFIC FOCUS ON THE SUSTAINABILITY. THAT REVIEW'S HIGH LEVEL SUMMARY IS HEREWITH..

IN SUMMARY - SUSTAINABILITY OF THE GEPF

THE LONGTERM FUNDING RATIO IS LESS THAN 100% FOR 12 YEARS IN A ROW

PENSION LIABILITIES INCREASES CANNOT BE QUANTIFIED BECAUSE THE 2018 ACTUARY VALUATION WAS NOT COMPLETED IN TIME (*)

THE PRODUCTION CAPACITY OF INVESTMENTS HAS REDUCED

INTEREST ON INVESTMENTS HAS NOT KEPT PACE WITH THE GROWTH OF INVESTMENTS OVERALL

ESCALATING INVESTMENT EXPENSES VS REDUCED RETURNS...

THE ACTUARY REGARDED THE BELOW EXPECTED INVESTMENT RETURNS IN 2016 ALREADY AS A SIGNIFICANT STRAIN TO THE FUND

IT DOES APPEAR THAT THE INVESTMENTS HAS ALREADY REACHED THE POINT OF DIMINISHING RETURNS

THE NET PRE RETIREMENT DISCOUNT RATE WAS REDUCED AGAIN, THIS IMPACTS (INCREASES) PENSION LIABILITIES

(*) REPORT RECEIVED 21 FEBRUARY 2019

AN UPDATE OF PENSION FUND LIABILITIES INCREASES

HEREWITH A SUMMARY OF THE PENSION LIABILITIES:

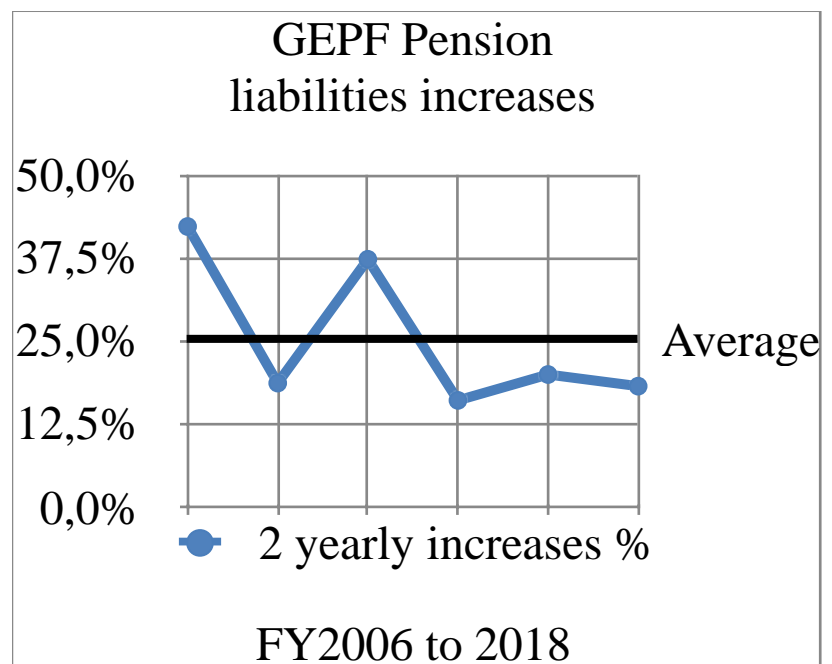
GEPF PENSION LIABILITIES

Rbn	2 006	2 008	2 010	2 012	2 014	2 016	2 018
Total best estimate liabilities	436,6	621,1	736,7	1 011,6	1 173,5	1 407,2	1 662,6
2 yearly increases	0	184,5	115,6	274,9	161,9	233,7	255,4
2 yearly increases %		42,3%	18,6%	37,3%	16,0%	19,9%	18,2%

AND A GRAPH SHOWING THE TRENDS OF THESE INCREASES.

WHAT THIS GRAPH INDICATES IS THAT THE PENSION LIABILITIES IS INCREASING, BUT THAT THE INCREASES BETWEEN 2014 AND 2018 IS LESS THAN THE OVERALL AVERAGES.

THIS SHOULD ACTUALLY BE GOOD NEWS AND ASSIST WITH THE IMPROVEMENT OF BOTH FUNDING RATIOS....BUT THAT DOESN'T HAPPEN.****

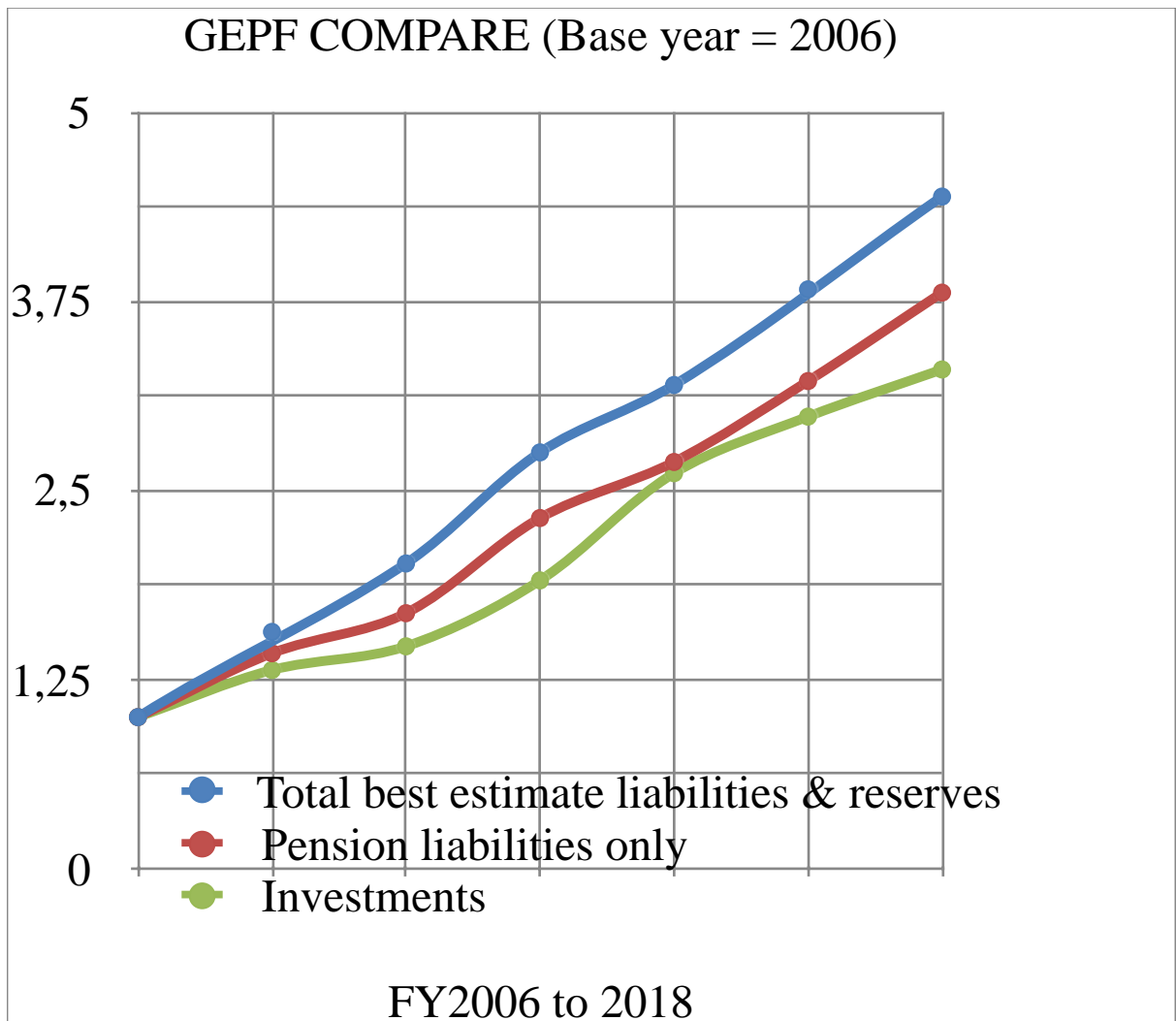


THE REASON FOR THIS IS THAT THE ASSETS (INVESTMENTS) AT NO POINT OUTGROWS THE LIABILITIES AND/ OR THE COMBINED LIABILITIES & RESERVES OVER THE BIENNIAL PERIODS.

THE GEPF AND THE PIC, VIA THEIR MEDIA RELEASES, THE ANNUAL REPORTS AND ON THE GEPF'S WEBSITE FOCUS ON THE INVESTMENTS MAINLY....



USING THE ACTUARY’S INFORMATION AND COMPARING THE GROWTH IN BALANCES SINCE 2006, THE FOLLOWING PICTURE EMERGES...



THE GREEN LINE (INVESTMENTS) REPRESENTS THE “GOOD NEWS” AS ALSO HIGHLIGHTED AND EMPHASIZED ON THE GEPF WEBSITE. NOTE THE MODEST, BUT IN PROPORTION, INCREASES DEPICTED IN THE GRAPH. COMPARE THIS TO THE ONE ON THE GEPF WEBSITE.

WHEN THE ACTUAL PURPOSE OF THE FUND IS ADDED TO THE PICTURE TO PROVIDE CONTEXT, NAMELY FOR THE GEPF TO PROVIDE FOR THE PENSION LIABILITIES AND TO SAFEGUARD THIS VIA ADEQUATE RESERVES IN FUTURE, THINGS LOOK A BIT DIFFERENT - NOT SO?

CHANGE IN THE FINANCIAL POSITION

THE EXTENT TO WHICH ASSETS EXCEEDS THE PENSION LIABILITIES PROVIDES A BUFFER AND CREATES A LEEWAY FOR THE FUND TO ABSORB MARKET VOLATILITY AMONGST OTHERS. IT “INSURES” THE FUND AND PROVIDES THE PLATFORM TO THE LONGTERM SECURITY AND SUSTAINABILITY OF THE FUND.

IT TAKES TIME TO BUILD UP THIS RESERVE AND THEREFORE ANY DETERIORATION SHOULD REQUIRE DECISIVE ACTION.

THE FOLLOWING INDICATES THE DETERIORATION THAT HAS ESCALATED PER THE MOST RECENT VALUATION:

Change in financial position (Billion)	<u>2 014</u>	<u>2 016</u>	<u>2 018</u>
Excess assets > liabilities	252,2	222,7	137,5
Deterioration		-29,5	-85,3
Deterioration %		-12%	-38%

SO IN SUMMARY, THE TOTAL DETERIORATION SINCE THE START OF 2015 UP TO THE END OF 2018 AMOUNTS TO R114,8 BILLION. (29,5 + 85,3)

SOME CONTEXT TO THE RAND VALUES OF THE DETERIORATION IS THAT TOTAL BENEFITS PAID IN 2018 AMOUNTS TO R95 BILLION.

IF THIS RATE OF DETERIORATION CONTINUES, WHAT WOULD THE LEVEL OF RESERVES BE IN TWO YEARS TIME?

PLEASE DO THE MATH.

FACTORS THAT NEGATIVELY IMPACTS THE FUNDING RATIOS

THE FACTORS ARE SUMMARIZED ABOVE AND FOR MOST PART IMPACTS THE ASSET SIDE OF THE FUNDING RATIO CALCULATION.

CENTRAL TO THE ASSETS, IS THE ACTUAL PRODUCTION CAPABILITY OF THOSE INVESTMENTS.

THE 2016 VALUATION DID **PROVIDE FOREWARNING** IN SO FAR AS THE ACTUARY REPORTED THE AREAS THAT CAUSE STRAIN TO THE FUND. IN THE 2016 VALUATION REPORT, THE HIGHEST RAND VALUE OF STRAIN ON THE FUND CAME FROM TWO ISSUES NAMELY THE INVESTMENT RETURNS AND ECONOMIC ASSUMPTIONS.

IN THE 2018 VALUATION, THE INVESTMENT RETURNS REMAINED AS THE SINGLE BIGGEST FACTOR THAT CAUSES STRAIN TO THE FUND.

SUBSTANTIAL STRAIN TO THE FUND : INVESTMENT RETURNS

ACCORDING TO THE ACTUARY, A “SUBSTANTIAL STRAIN” TO THE FUND RELATES TO THE BELOW EXPECTED INVESTMENT RETURNS.

HEREWITH THE COMBINED STRAIN PER THE 2016 AND 2018 ACTUARY VALUATIONS:

Substantial strain on the fund	Investment income Rbn
Actuary 2016 report	62,8
Actuary 2018 report	225,2
Total Strain 2016 + 2018	287,9

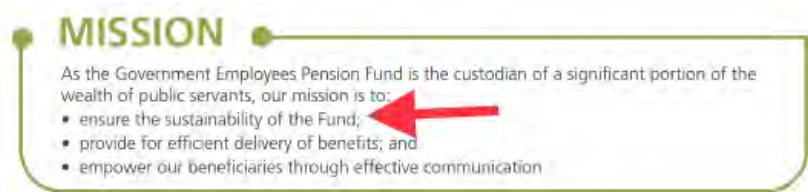
AS FAR BACK AS IN 2016 ALREADY, THE ACTUAL INVESTMENT RETURNS WERE LESS THAN THE ASSUMED AND EXPECTED RATES USED TO UNDERPIN THE ACTUARY’S VALUATIONS.

BASED ON IN YEAR INDICATORS, IT WAS FORESEEN THAT THE 2018 ACTUARIAL REPORT WILL REPEAT THIS OBSERVATION, WHICH IN FACT IT DID.

IN THE 2018 VALUATION, THE ACTUARY INDICATED THAT THE FUND EARNED APPROXIMATELY 6.49% PER ANNUM ON THE MARKET VALUE OF ASSETS. THE ACTUARY'S ASSUMPTIONS WAS THAT THE ASSETS WOULD EARN 12.5% PER ANNUM. AS A RESULT, OVER THE 2018 VALUATION PERIOD, A SUBSTANTIAL STRAIN ON THE FUND OF R225 BILLION WAS THE RESULT. (ACTUARY REPORT 2018 PAGE 52)

THE NEXT FOUR YEARS

BECAUSE OF THE TIMING OF THE RELEASE OF THE VALUATION, THE CURRENT BOARD EFFECTIVELY HAS ONLY THREE MORE YEARS TO ADDRESS THE DETERIORATION OF THE FUND AND TO RESTORE THE SUSTAINABILITY RATIO TO ITS 2014 LEVEL.



THE BOY SCOUT MOTTO IS TO LEAVE THE CAMPSITE IN A BETTER CONDITION THAT YOU FOUND IT.

CONSIDERING THAT THE MAJORITY OF THE CURRENT BOARD MEMBERS IS IN OFFICE SINCE 2015, ITS ONLY FAIR TO EXPECT THEM TO RESTORE THE FUNDING RATIO TO ITS LEVEL AT THAT TIME (PERHAPS ADD A MODEST 1% TO LEAVE THE FUND IN SLIGHTLY BETTER SHAPE THAN IN 2015)

THIS GIVES US A MINIMUM FUNDING RATE TARGET OF 122,5% (121,5 PLUS 1%)

AS CAN BE SEEN, AT THIS TIME, BECAUSE OF THE LAST 4 YEARS, ANY HOPE OF PROGRESSING TOWARDS ACHIEVING THE LONG TERM FUNDING LEVEL HAS BEEN ABANDONED.

WEB-LINKS

[HTTP://WWW.GEPF.CO.ZA/UPLOADS/
POLICYDOCUMENTSUPLOADS/
GEPF STATUTORY ACTUARIAL VALUTION 31 MARCH 2018
.PDF](http://www.gepf.co.za/uploads/policydocuments/uploads/gepf_statutory_actuarial_valuation_31_march_2018.pdf)

[HTTP://WWW.GEPF.GOV.ZA/UPLOADS/
POLICYDOCUMENTSUPLOADS/
ACTUARIAL_VALUATION_AS_AT_20160331_-
_ACTUARIES_REPORT_FINAL.PDF](http://www.gepf.gov.za/uploads/policydocuments/uploads/actuarial_valuation_as_at_20160331_-_actuarial_report_final.pdf)

[HTTP://WWW.GEPF.GOV.ZA/INDEX.PHP/ANNUAL REPORTS](http://www.gepf.gov.za/index.php/annual_reports)