Association for Monitoring and Advocacy of Government Pensions (AMAGP)

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SEMPER VIGILANS

COMMENTS

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THE PIC IS THE READY SOLUTION TO S A 'S DEBT CRISIS.. REALLY. ???

The article, THE PIC IS THE READY SOLUTION TO S A 's DEBT CRISIS in Business Day of 2 November 2018 by Dick Forslund, as can be seen below, has reference.

It must be admitted that the subtitle - " Govt borrowing from fund instead of the IMF makes for a win-win situation" made us think that the writer was either joking or that we are dealing with fake news/article. Reading the full article, however, we became convinced that the author was dead serious.

We at the AMAGP asked one of our collaborators, a retired auditor, for his views.

His comments herewith:

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My comments focus on the solution related to the GEPF in the following article:

https://www.businesslive.co.za/bd/opinion/2018-11-02-the-pic-is-the-ready-solution-to-sas-debt-crisis/?fbclid=IwAR0_gJaCIDG5MNRhWKQZA36GJkPrvAHB8x4EuXFYEMp8SErdcUZ3qiJDASc

The GEPF is a fully funded defined benefit pension fund. It is not a public fund.

The Fund invests with a purpose. That purpose is simply to continue to provide benefits for its members, today, tomorrow and in future. The Law making provision for this is very clear.

<u>It is not there to solve the problems of government nor to reduce the burden of tax.</u>

The mere fact that public servants contributes and save money into the GEPF does not transfer the duty to balance the Governments budget onto them or to fund infrastructure .

If this was the case, ESKOM's employees' pension should have been used to address the financial woes of that entity. This is a preposterous idea and similarly, the proposals directly impacting the use of the GEPF as per the article.

As such, if you are not a GEPF member, go elsewhere to receive benefits or to redirect investments to the SA Government. GEPF members only constitute 10% of all South Africans who are members of retirement funds, how about approaching the other 90% with your solution? **After all, they will in terms of overall numbers, benefit the most from the ideas mentioned, so why should they be excluded from the initiative?**

And just to confirm, the GEPF already <u>invests about a quarter of its Funds </u>in the SA Government, notwithstanding its poor governance record. As members we are concerned about this level of concentration of investments and the risk this presents to the FUND. How many of the other retirement funds have this level of exposure to the SA government and parastatals? Mr Forslund, please inform us, we would like to know.

Then the mere fact that there is talk of swopping debt for equity is a clear indication that the entity, Eskom, is in financial distress. A prudent investor cannot in good faith plough more money into such an enterprise. A pension fund definitely not. How many retirement funds will follow such a course of action and be able to claim that they acted in good faith? Will their members allow this?

The article clearly makes the point that the benefits due to public servants will still be paid regardless of the Funding level and interest on investments ie. NO MORE NO LESS.

Courtesy of the GEPF's funding level and the receipt of all interest and dividends over years, the FUND can and could provide additional benefits to its members. This includes granting 100% CPI pension adjustments for the last 10 years at least.

These add-ons will be lost should interest not be forthcoming and contributions reduced. This WILL ensure that the FUND will swiftly move from being fully funded to UNFUNDED.

<u>So the contention that members wont lose anything is nonsense and rejected.</u>
If you don't believe us, ask any current GEPF pensioner the impact on their quality of life of these add-ons.

The use of a calculator, spreadsheet and a percentage to redirect investments does not constitute a proper study nor will it fit in with the principles of proper risk management from a pension fund point of view. So respectfully, we prefer to use the calculations and projections of the independent actuary as it is more credible and done by a qualified professional who has been trained specifically for that task. We also await the GEPF's Annual Report for 2018 to see if the FUND'S operational cash flows remained negative. This situation already placed the FUND under strain, something we expect the actuary's 2018 valuation to comment on.

Then the PIC! The PIC is not a FUND but merely an asset manager. The value of its own assets is negligible and a mere pittance in the context of what the article wishes to achieve. The PIC's existence is overly reliant on it receiving an investment mandate from the GEPF. The article seems to ignore this fact and assume that the PIC can do as it pleases with the Funds at its disposal. The class of assets the PIC invests in on behalf of the GEPF is carefully determined by means of study to achieve a specific goal as mentioned earlier.

What the article also clearly brings home is that it's always easier to spend or manage someone else's money.

We already referred to the 90% other retirement fund members but perhaps the writer of the article can approach his own pension fund and convince them to redirect investments to the SA Government or to Eskom at the rates he proposed. Let's see how that works out for him and his fellow retirement fund members. We look forward to hear his positive feedback on this initiative in say 4 -5 years' time.

THE ROAD TO HELL IS PAVED WITH GOOD INTENTIONS , is a proverb of aphorism.

Even Einstein would have agreed with this, especially where an intent has unintended consequences OR the collateral damage which will fall on the shoulders of GEPF members notwithstanding the claims of the article. The harm that will be done is clear.

Christo van Dyk

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The **AMAGP AGREES WITH THESE VIEW**S

Therefore , Mr Forslund, leave our pension fund alone !!

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BusinessDay

The PIC is the ready solution to SA's debt crisis

Government borrowing from the fund instead of the IMF makes for a win-win situation

02 November 2018 - 05:04 Dick Forslund

GEPF's annual surpluses have been about R50bn. This huge amount, let it be emphasised, is after all benefits have been paid. This is why the PIC is growing, says the writer. Picture: ISTOCK

Albert Einstein defined madness as expecting different results after repeating the same action. A definition of Einsteinian sanity would thus be the need to do something completely different to achieve something never before achieved.

The Public Investment Corporation (PIC) manages assets of R2.084-trillion (March 2018), 87% of which belongs to the Government Employees Pension Fund (GEPF). The government-controlled PIC has invested R488.4bn of the GEPF's money in interest-bearing bonds — that is, loans to the government and state-owned companies.

With 50% of GEPF's assets held in shares, the fund was good for R1.673bn in March 2017. Another 8% of the funds managed by the PIC belongs to the Unemployment Insurance Fund (UIF). With unemployment being so shockingly — and persistently — high, the UIF has nonetheless somehow managed to accumulate a surprisingly large sum of R180bn in assets which, along with the GEPF, is similarly managed by the PIC.

The UIF allows for an easy implementation of Einstein's "doing something different" wisdom. All waged/salaried employees pay 2% of their earnings into the UIF (half of it indirectly via the employers). This amounts to about R22bn-R23bn per year. After the UIF has paid out its insurance benefits, the surplus is handed over to the PIC. For many years the surplus has been R6bn-R8bn. Today it is R2bn.

> **" The only 'but' is whether the GEPF could afford to lose some between R8bn to R10bn in annual interest income that would otherwise come from Eskom. Yes it can. "**

These numbers allow for an easy innovation. As it happens, the widely reviled VAT increase to 15% is expected to raise R23bn a year. A moratorium on UIF contributions would cover this VAT increase which is, additionally, a factor behind the "technical" recession. No less importantly, it would immediately be enormously popular and stimulate economic demand. It would, in other words, be an exceedingly rare instance of a "win-win" situation.

What would be so completely different to please even Einstein? One interesting — though disregarded — suggestion was to convert the R84bn in loans from the **GEPF to Eskom into shares** that pay no dividends. That would immediately remove interest payments on the R84bn. The only "but" is whether the GEPF could afford to lose between R8bn to R10bn in annual interest income that would otherwise come from Eskom. Yes it can.

The GEPF is a "defined benefit" pension fund. The members get what they are entitled to according to the rules, no less and no more. There is, thus, no need to maximise the size of the fund. It needs only to be big enough to safeguard the pension payments and meet other obligations to members. It could therefore safely use the rest of the money in the fund to maximise value to society, instead of hoarding it and maximising its return on investment.

This wouldn't hurt its members. Extending this financially prudent logic, GEPF should lend most of its funds to the government. Doing so would safeguard SA's policy independence from the IMF, China, or any one of the other creditors who impose conditions on loans and dictate economic policy to safeguard their investments in our debts. The corrupted deals at Transnet and Eskom amount to tens of billions of rand.

And just as many have argued about the $3.75bn loan from the World Bank in 2005 to Eskom's financially and ecologically disastrous coal adventure at Kusile and Medupi, it could very well be argued that a large chunk of some of the loans from

Chinese institutions — to trains and harbour cranes — should be renegotiated as odious debt. But this cannot happen if we are asking to borrow R400bn more from China.

The GEPF has in fact already lent the government R324bn, Eskom R84bn and Transnet R25bn. We can only guess that the government right now pays interest of between 6% and 9%. On this basis, the GEPF's holding of the government and parastatal bonds should mean it gets between R20bn and R30bn per year in interest income from these investments in public debt.

GEPF's annual surpluses have been about R50bn. This huge amount, let it be emphasised, is after all benefits have been paid. This is why the PIC is growing. Even if the GEPF were to give the government and parastatals an interest moratorium, it would today still harvest a surplus of between R20bn and R30bn per year.

The data from budget reviews and the annual reports of the GEPF show that the annual rate of return on its investments has been around 4.5% for successive years. We measure this like the Treasury measures it, without considering the erratic value changes of shares and bonds on the market. Compared to the GEPF's 4.5% income growth from its investments, the government is paying an average of 6.5% per year on its R2.8-trillion debt, according to the 2018 budget review. Every half percentage point the government can save in debt service cost would save R13.8bn per year. A reduction from the 6.5% it is now paying, to 4.5% if it borrowed from the GEPF, would reduce the debt service cost by R55bn a year.

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The GEPF would not lose any income. The pensions of the GEPF pensioners would not be threatened. The only losers from the PIC reallocating sizeable investments would be the JSE and the elite beneficiaries serviced by the PIC's largesse. We should not worry about that. With a market capitalisation of about 300% to GDP, the JSE is still one of the most overvalued stock markets in the world. And to the extent that the PIC has been used to build a black business class, this minority project is destroying the ANC.

It is manifestly in the broad public interest that the government does as much of its borrowing as possible from funds that are neither controlled by profit-maximising financial institutions nor in foreign currencies. There is just such a fund available. It is called the PIC. Some 95% of its assets belong to two other public funds. The investigation of corruption in the PIC should be a signal to completely change the management of public debt in SA. There is a ready-at-hand solution to the debt crisis. There is no need for austerity.

Forslund is senior economist at Alternative Information and Development Centre.

With Thanks from https://www.businesslive.co.za/bd/opinion/2018-11-02-the-pic-is-the-ready-solution-to-sas-debt-crisis/?fbclid=IwAR0_gJaCIDG5MNRhWKQZA36GJkPrvAHB8x4EuXFYEMp8SErdcUZ3qiJDASc