State pension fund squeeze

Wobbles in the state of the GEPF have more than civil-service pensioners worried

BL PREMIUM

12 May 2019 - 00:15 ASHA SPECKMAN

Abel Sithole. Picture: FREDDY MAVUNDA

Concerns about the funding and governance of state pensions continue to plague the Government Employees Pension Fund (GEPF), leaving members and pensioners anxious and throwing a spotlight on implications for the economy.

This week, Adamus Stemmet, spokesperson for the Association of Monitoring and Advocacy of Government Pensions (AmaGP), said conflicting statements from the GEPF about the certainty of long-term funding were "creating a lot of anxiety".

In April, the GEPF assured pensioners of the fund's stability - but this month it acknowledged the possibility that the pensioners may lose their increases.

The long-term funding shortfall is an estimated R583bn, meaning the fund level would be at 75.5%. Trustees aim to maintain the long-term funding level at or above 100%, which is the current status of the fund. The GEPF's definition of "long term" is based on the life expectancy of its youngest member, 75 years.

The AmaGP, which was established in 2016 and has more than 7,000 members, is in discussions with the public protector about how civil servants' pension monies are invested, said Stemmet.

The Public Investment Corporation (PIC) invests money on behalf of the GEPF in listed equities, unlisted investments and offshore.

AmaGP say it has raised concerns over questionable investments and a lack of transparency with the fund and the PIC in several letters since 2016, to which there has been either no or inadequate responses.

The GEPF said it "is already in talks with the public protector" on the complaint lodged by AmaGP.

Abel Sithole, the GEPF's principal executive officer, said despite a decline in long-term funding levels, the fund was not in danger of a depletion of its assets. "We are nowhere close to that."

He said a high number of resignations, a drop in investment returns for the first time in four years that is affecting solvency reserves, and pension increases are among the factors affecting funding levels.

The GEPF, which has 1.2-million members and 400,000 pensioners and beneficiaries, making it the largest pension fund in SA, received R70.4bn in contributions in 2018 and paid out R95bn in benefits.

Sithole said the GEPF is considering options to improve the projected funding shortfall. These include paying below-inflation pension increases, which the GEPF trustees are reluctant to do. Another option is for the government and unions to agree to lower wage settlements, or to ask the government to contribute more than 14.4%.

The GEPF is also in talks with the National Treasury about raising its threshold for offshore investments from 10%. Private fund managers can invest up to 30% externally. The GEPF also wants to invest more in unlisted companies.

Stemmet said the AmaGP will "support any investment as long as the aim is a good return for the pension fund and it is not politically motivated. Our experience is that too many of these investments are underperforming, as [former PIC CEO] Dr Dan Matjila said on 17 October 2017."

The GEPF is the custodian of R1.8-trillion of state pensions, which excludes those for staff employed by Transnet, Eskom and municipalities. It accounts for a large share of the capital and savings in the economy and is seen as one of the factors protecting SA's ailing economy from volatility.

Michael Sachs, an adjunct professor in the Southern Centre for Inequality Studies at Wits University, said: "In the absence of a GEPF fund . we could see ourselves becoming more vulnerable to global shocks.

"You have this huge fund which backstops government borrowing. A significant share of the deficit is funded by the GEPF. Probably an even greater share of state-owned company debt is funded by the GEPF. It makes a difference to borrowing conditions faced by state-owned companies; it makes a difference to borrowing conditions faced by the fiscus, and I would say a very large difference."

But the fund as a state asset base is not monitored by international ratings agencies.

"If I were to advise them I'd be telling them that they should be," Sachs said.

"Nobody looks at the assets of the government; they only look at the liabilities, which is the debt. Whether they look at that explicitly, it implicitly defines the behaviour of the macro economy in a way that will feed through. So you would have less macroeconomic volatility, which would feed through into the rating."

In recent times civil servant pensions have also been eyed to potentially bail out struggling SOEs, but eroding the GEPF asset base to solve such a problem creates long-term funding challenges, said Sachs, who is a former budget head at the National Treasury.

Though he doesn't think "there's an immediate danger of the GEPF being destabilised", there could be

consequences for the macro economy "if, over time, you kind of open the door to the spending of those assets".
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