Association for Monitoring and Advocacy of Government Pensions (AMAGP)
NPO Registration No: 198-822
SEMPER VIGILANS

The Association for Monitoring and Advocacy of Government Pensions: An independent group of pensioners and civil servants concerned about the long term viability of the GEPF and sustainability of its return on investments.

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GEPF your investment, your future

# NEWSLETTER NO 5 of 2020

AMAGP – Association for Monitoring and Advocacy of Government Pensions
BOT – Board of Trustees [of the GEPF]
FSCA – Financial Sector Conduct Authority [previously the FSB]
GEPF - Government Employees' Pension Fund
PEO – Primary Executive Officer
PIC – Public Investment Corporation
PSA – Public Servants' Association
ROI – return on investment
SC – state capture
SCOF – Standing Committee on Finance
SCOPA - Standing Committee on Public Accounts
SOE – state owned entities

*"The GEPF now has R1,8 trillion assets under management, up 8,3% (R1,7 trillion) from 2017. There are 1 273 125 active members, and 450 322 pensioners and beneficiaries." Moneyweb, 10 December 2018*
*[R1,87 trillion, GEPF Annual Report 2018/19]*

**The Editor's Word**

This newsletter focuses on the GEPF Annual Report for the year 2018/19, which was mentioned in passing in the previous newsletter. Our very competent auditor, Christo van Dyk, worked through the report and delivered this view of the AR. Up to now there hasn't been any real comment on the report in the media. However, this analysis should be sufficient to bring tears to your eyes.

**NEWS NUUS NEWS**

*Synopsis*
**GEPF ANNUAL REPORT 2018/19 15 FEBRUARY 2020**

**FINANCIAL RESULTS 2018/19: POSITIVE PERFORMANCE DESPITE POOR ECONOMIC CONDITIONS**

Herewith the GEPF's snapshot summary of its 2018/19 financial results taken from its Twitter account.

The GEPF makes the claim that the financial results serve as example of the Fund's "positive performance despite poor economic conditions in South Africa".

IN OPENING, I WILL PROVIDE CONTEXT THAT CHALLENGES THE CLAIM OF POSITIVE PERFORMANCE MADE BY THE GEPF

The stifled growth in the investment portfolio is more attributable to inadequate risk diversification (90% invested in SA) AND delayed decision making (not revising the blueprint in 2016 already) AND not backing up an objective (achieve 100% recommended reserves) with a visible action plan THAN any other external factor.

The "positive performance" message conveyed by the GEPF is glossing over long standing red flags such as the declining funding rates, the Net Income % [NI%] not even matching the Consumer Price Index [CPI], cash generated on investments THAT CANNOT cover benefit payments ANYMORE, AND the cash generated from operations that moved from being a healthy positive to negative for the last 4 years already.

1. TESTING THE GEPF'S CLAIM OF POSITIVE PERFORMANCE AGAINST OTHER AVAILABLE INFORMATION

Let's start with the last comment i.e. the positive performance despite the poor economic conditions in SA.

The poor economic conditions in SA

1.1 It's interesting that asset managers, when very good returns and yields are in evidence, will attribute this to internal factors (such as business acumen, superior decision making and investment selections) YET when results are poor they attempt to attribute it to External factors (such as the economy, tough trading conditions, acts of God, natural disasters, etc). By reference to the economic conditions in SA, the GEPF is trying to blame-shift the poor financial results to an external factor. In this case the SA Economy. Unfortunately, the SA Economy is not empowered with fiduciary duties and accountability, the Trustees are.

1.2. The decision to remain 90% invested in the SA economy is one taken by the Independent Trustees. They are not forced to do so. We operate in a free market system. The GEPF Act allows the Trustees the freedom to invest anywhere globally. The prescripts and restrictions of Regulation 28 is not applicable to the GEPF, as the Fund falls outside the reach of the Pension Fund Act (PFA).

The Trustees opted to voluntary apply the guidance contained in Regulation 28. They can reverse their prior decision, for instance to increase foreign investments to what Regulation 28 actually allows. This in an effort to mitigate the overconcentration of investments in a single country.

The independent actuary valuation of 2016 and 2018 lists other factors that the Trustees and the employers should consider, which included for instance the following: "The Fund holds a lower percentage of foreign assets than might otherwise be suggested purely in terms of the risk diversification of assets."

In addition to improved diversification, the returns on overseas markets compared to the JSE has been superior for a number of years already. Because of delayed response, what is the opportunity cost?

Still, the 2018/19 AR confirms the Trustees have opted not to actively pursue increased investments opportunities outside the SA economy to reduce the country diversification risk.

What is interesting is that, notwithstanding the declining funding rates, Net Investment returns [NI%] not even matching CPI AND cash generated on investments cannot cover benefit payments, the GEPF continues to maintain the viewpoint that their Blueprint works. The NI returns started declining in 2013 when returns were still double the inflation rate, to 2016 when it dipped below the inflation rate, with the trend remaining below inflation.

It's interesting that up to FY2014 investments generated enough cash to cover benefit payments. So the investments portfolio was constructed fit for THAT purpose up to then. In 2014 the benefits paid annually exceeded the interest/income the first time and remained so up to now. Interestingly just after the 2013 NI return dip.

What happened since FY2014? It appears that real reason (root cause) for the substandard results in 2018/19 is to be found in INTERNAL factors. The single most important investment decision that pension trustees can make is the asset allocation determination. The GEPF commissioned an Asset Liability Modelling [ALM] study in 2016. That is two years after cash returns on investments started to be less than benefits.

According to the bid documentation [Bid 6/2016], the key deliverables and outputs expected from the service provider were the following:

"• An optimal strategic asset allocation including tactical asset allocation ranges and the structure of each asset class.
• Possible options for the asset allocation based on the above and any other considerations.
• A proposed transition to the recommended portfolio structure.
• Consultation with the GEPF Board of Trustees to obtain approval for the strategic asset allocation.

- Consultation with the Minister of Finance to obtain approval for the strategic asset allocation”

Following this study, the Minister of Finance was consulted in 2016. That was 4 years ago.

The continued delay with the finalisation of this matter has material consequences to the Fund. The finalisation and implementation of this, as it’s in the hands of Those Charged with Governance of the Fund, is an internal factor.

A FINAL POINT

Regarding the delay with this matter, when compared with the purpose and definitions of the Promotion of Administrative Justice Act [PAJA], is this another example of non-compliance with existing legislation which is NOT DISCLOSED by the Trustees?

The definitions to PAJA include the case where there is ”any failure to take a decision”, As the Minister has not done so for years, is PAJA not applicable?

2. THE GEPF’s CLAIM – OUR BLUEPRINT WORKS!

If proof of the success of the GEPF’s Blueprint was linked to the single indicator of the “growth” of the investment portfolio, then the Blueprint has in fact worked.

BUT This SINGLE criterion is rather simplistic AND creates a false positive because the GEPF does collect contributions (in 2018/19 it was R75 billion), which should be invested. So, all things being equal, the investment portfolio should automatically “grow”, courtesy of the annual contributions being invested.

The degree to which the GEPF’s investment portfolio can be regarded as sufficient is actually reflected in:

- the extent to which assets covers liabilities at all times;
- the extent to which the excess of assets over liabilities creates a contingency reserve to safeguard the Fund;
- the extent to which the assets are productive to generate cash to cover in year benefit payments.

Furthermore, does the Fund not follow a liability driven approach to determine its assets? Surely these factors are the ones we should consider to determine if the Blueprint actually works?

3. THE 2018/19 ANNUAL REPORT FINANCIAL RESULTS

In a similar vein to the original Blueprint claim, the 2018/19 AR emphasises the following “positive performance”:

- Investment portfolio R1,82 trillion;
- 11,2% Average rate of growth over the past 11 years; AND
- the Funding rate being 108% in 2018 vs a 72% in 1996.

Context is everything.

Discussed below is an expanded view of performance where not only assets but also pension liabilities and reserves are considered together.

3.1 THE FUND’s SOLVENCY

The Fund is deemed to be solvent as long as assets exceeds pension liabilities. The difference between the value of assets and liabilities on a particular date is regarded as the “Actual Reserve”. This is also described as affordable reserves or contingency reserves.

The recommended reserve is calculated by the actuary and is based on the wishes of the Trustees to create contingency reserves to protect the fund in the case of adverse investment performance, improvements in pensioner mortality, and ensuring pension increases of a 100% of CPI.

The funding policy of the GEPF also states that the Trustees should strive to maintain the long-term funding level at or above 100%. This implies that the Actual Reserve is equal to the Recommended Reserves.

In 2018/19 its estimated that the Pension Liabilities is almost equal to the Assets, my own calculation based on trends and available information. If true, this implies that there is zero contingency reserve compared to the recommended reserve of R720bn.

In my view this, the affordability of the recommended reserves, is the best indicator of how well the Blueprint has in fact served its purpose. Unfortunately, the end result is anything but positive.

Analysis indicates the actual reserve is declining over the years. The trend up to 2018 cannot be in dispute as it's based on the actual actuary valuations. These actual reserves and recommended reserve trends never intersect. In fact, there is no indication that it ever will. To the contrary, the Actual Reserve is moving further away from the Recommended Reserves and has been doing so since 2007.

Surely this must be an indicator that the blueprint, in its current form, has not enabled the trustees to make good on managing the fortunes of the Fund to make steady progress towards a 100% affordability of the recommended reserves?

And the concept of BUILDING UP a FUND? This implies a steady and progressive INCREASE in the build-up of the investment portfolio RELATIVE to the pension liabilities, not so?

Below is a calculation using the 2014 funding rate as basis.

| What should investments be if 121,5% was maintained? [Rbn] | | FY2018 | FY2019 PROJ |
|---|---|---|---|
| Liabilities balance | A | 4 663 | 1 788 |
| Assets on 121,5% level | B | 2 020 | 2 172 |
| Actual Assets | C | 1 800 | 1 819 |
| Assets Shortfall | B-C | 220 | 353 |

So the R1,8trillion investment portfolio at the end of 2018/19, IF THE GEPF's Blueprint actually worked, should have been R2,1 trillion already, an amount of R353 billion more!

At this asset level the reserves would actually have been maintained since 2014 AND the 100% affordability of the Recommended Reserves would not be A DREAM without real action.

3.2 THE ACTION PLAN TO ACHIEVE THE RECOMMENDED RESERVES

The current Blueprint has NOT assisted the Trustees to pursue this dream. The articulation of an action plan with annual objectives to achieve this vision is the responsibility of the Trustees (an INTERNAL factor). In the absence of anything visible, we must assume that such an action plan, with regular milestones to move the Fund towards achieving the 100% Recommended Reserves, does not exist. If such a plan existed, the Trustees should have measured their progress against it AND shared that information with members in a transparent manner and as required in S10(2)(b) of the GEPF Act, as part of the 2018/19 AR. Simply reporting on the status at a point in time is not the same as reporting against predetermined objectives.

So, unless there is a radical overhaul of the Blueprint, the achievement of the 100% Long-term Funding [LTF] level is highly unlikely to happen.

NB! The last time the LTF level was achieved was in 2006.

Still not convinced about the inadequacy of the Blueprint in its current form? Please consider the following.

The GEPF indicated in their Investment Policy that they expect certain Real Returns in the range of CPI plus 4,5% to 5,5%. This % difference, representing the REAL RETURN excluding CPI, can then be compared directly against the Investment Policy ranges mentioned above. We basically exclude the effects of CPI this way.

In 7 of the last 13 years the actual result is less than 5%, the midpoint between 4,5% and 5,5%. More importantly, the result is below 5% in the most recent 4 years. Even with the global financial crisis in 2008/9, the duration of the below 5% results lasted for two years. The current situation, without a global crisis in evidence, is already twice as long AND there is no end in sight.

This below expected result is mirrored in the declining funding level and erosion of the affordable contingency reserves as discussed above.

AGAIN, monitoring the results against expectation and adapting as needed is an INTERNAL factor. Did the Trustees respond timely to the indicators and deviations to ensure improved outcomes? The indication is that this did not happen.

In this instance the mountain is represented by the ever increasing amount of the recommended reserves. The average increase per year is 8,29% or ±R45billion.

When we consider that the Pension Liabilities currently increase on average by R125billion p.a,, it follows that for the Blueprint to retain the Long-Term Funding rate, assets need to increase ("grow") by R170 billion per annum (R45bn+R125bn). Over the last 13 years, this has happened on only three occasions (FY2013, FY2014 AND FY2015)

The average actual "growth" of the assets balance p.a over the last 4 years (FY2016 to FY2019) was R55bn.

Based on the calculation above, the inadequacy of this level of asset "growth" is short by ±R115bn (170-55) p.a.

According to the Actuary's MOST RECENT THREE Valuations, the confirmed shortfalls between the actual and recommended reserves range between R292bn AND R581bn. At a time when the Actual Contingent Reserves need to increase to safeguard the Fund, it is decreasing. If risk management is a process whereby risks are mitigated, this is a good example of HOW NOT TO TAKE CONTROL OF THE mitigating factors.

The degree in which the Blueprint has failed to move the Fund's contingent reserves to the level which the Trustees are supposed to "strive" towards. The trend (shortfall in reserves) is actually an indicator of the unmitigated risk to the Fund. This risk has not been successfully curtailed by the Trustees since 2014. Considering that it (the shortfall in reserves) is currently at its highest rand value level EVER, it contradicts the GEPFs assertion that member's pensions are safer than ever. This assertion is increasingly dependent on the so called "government guarantee" and not on the actual financial position of the Fund when viewed on its own.

THE R581Billion SHORTFALL

It should be noted that the shortfall is a moving target which is increasing unabated. In my estimation it may actually be in excess of R720bn. But let's work with the R581bn as the amount is in the Actuary's most recent valuation.

Based on the "success" of the Blueprint as claimed by the GEPF, HOW LONG will it take for the Assets to exceed the Pension Liabilities* by this amount?

DOES THE GEPF HAVE SUCH A PLAN AND PROJECTIONS ON FILE SOMEWHERE? IF SO - THOSE PROJECTIONS, CAN MEMBERS PLEASE BE INFORMED WHAT THEY ARE?

Based on the trends and analysis done, plus the economic growth forecasts for the country, I can't see this happening very soon (if at all).

The GEPF BLUEPRINT, in its current form, has outlived its purpose. Its overhaul is LONG overdue.

However, the GEPF's claims of "positive performance", when placed in context with other information contained in the AR, provides a different, and not so "positive", picture.

BENEFITS RELATED
- Total benefits paid reach a new high,
- annual pension increases match CPI,
- unpaid benefits have increased by 29% or Rm196,
- late payments of benefits,
- average increases - pension vs trustees,
- the issue of a 13th cheque,
- the GEPF Ombudsman capacity.

4. POSITIVE PERFORMANCE - Benefits paid R95bn

The GEPF regards the fact that the Pension Fund actually paid benefits amounting to R95billion in 2019 as a "positive performance".

But first – some context of the customers of the pension fund the CURRENT beneficiaries.

On page 48 of the GEPF 2019 Annual Report the following is stated:

"The GEPF provided benefits to 1 265 421 active members and 464 138 pensioners and beneficiaries as at 31 March 2019. The figure below depicts the changes in the membership and beneficiaries of the Fund over the past five years. The increase in pensioners and spouses is integral to an aging fund such as the GEPF. The Fund also expects an increase in the number of orphans receiving a benefit from the Fund due to the recent Rule change that changed the definition of an orphan."

The following snapshot with selected statistics comes from page 52 of the Annual report …

| | | | | |
|---|---|---|---|---|
| 44 324 New members | 23 424 New pensioners | 49% Members between 41 and 50 years in age | 28% Members reside in Gauteng | 60 Average retirement age |
| 48% No of members with less than 10-years of service | 59% Pensioners receive a monthly pension of less than R10 000 | 91.5% Spouses receive a monthly pension of less than R10 000 | 61 – 70 Majority of pensioners and spouses age | 2 273 Pensioners over 90 years of age |

It's interesting that on average 59% of beneficiaries receive UP TO R10 000 per month (R120 000 per year).

SO LET'S REMEMBER THIS AMOUNT..

It's important to note when we look at the other financial parts of the Fund, the majority of the pensioners and their surviving spouses ARE NOT the recipients of millions of Rands in pensions.

The majority need to live on LESS than R10 000 per month. SO it follows that for these pensioners, his/her materiality threshold, i.e. the Rand value where matters affecting the Fund is perceived to be financially important, IS R10 000 [TEN THOUSAND RAND].

5. THE PAYMENT OF BENEFITS AND THE MISSION OF THE GEPF

The Mission of the GEPF is to:

- ensure the sustainability of the Fund; [already discussed above]
- provide for efficient delivery of benefits; and
- empower our beneficiaries through effective communication

Let's not only deal with the overall value of benefits paid out per year but also the efficiencies of the process, and to what extent beneficiaries are indeed empowered through the effective communication from the GEPF and/or its agents in this process.

Total benefits paid in 2019 was R95billion (2018: R87billion).

The GEPF 2019 Annual Report on page 11 states:

"BENEFITS PAID
The GEPF awards benefits upon a member's resignation, retirement, or death. The Pension Fund also pays funeral benefits when applicable.
The amount of total benefits paid during the year under review increased by R8bn (2018: R8,3bn) which represents an 8,4% increase, mainly due to the increase in pension payments which accounted for 45,8% of the total increase. The increase in the pension payments were driven by the 5,5% monthly increase granted to pensioners from 1 April 2018 and a 3% increase in the number of pensioners."

The total benefits for 2019, according to the Audited Financial statements was R102,5bn (2018: R94,8bn).

So translated, the total benefits paid in 2019 is R102bn which is R8bn more than in 2018 when it was R94bn. The increase in amount relates to the number of pensioners that increased AND thanks to a 5,5% pension increase given to existing pensioners.

**Annual pension increase - 100% of CPI**

The fact that pension increases have been done on a 100% of CPI basis (the Act guarantees 75% of CPI) is very much appreciated by ALL BENEFICIARIES.

This particular issue relates closely to the GEPF's Funding level AS WELL as the affordability of the 100% CPI Contingency Reserve.

The 2018 Actuary report explains the following:

"3.4 In addition, the pension increase policy states that the trustees may approve a pension increase recommendation provided that, after the recommended increase, the fund's funding level is higher than the minimum funding level, or where the employer has committed to paying such amounts as will increase the funding level to the minimum funding level, after the recommended increase, within the next three years.

3.5 In order to allow the trustees greater discretion in granting pension increases of 100% of CPI at times when they may not be affordable and also not to create the unreasonable expectation that pension increases will always be 100% of CPI, an additional reserve has been established."

And this is why the rapidly declining funding ratio and the decreased affordability of the Contingency Reserves is of such importance to pensioners.

The continued decrease of the funding ratios and the actual reserves threatens the financial security which 100% CPI increases provide beneficiaries [already discussed above]. This sharing of investment risk by pensioners is acknowledged in the GEPF's Investment Policy Statement par 11.

"11. Members are not exposed to investment risks prior to their retirement because of the defined benefit nature of the fund. Once they are in receipt of a pension, pensioners, or survivors enjoying dependants' pensions after the death of a member, are exposed to investment risks to the extent that such risks may adversely impact the Fund's ability to afford pension increases above the minimum set out in the pension increase policy."

Unfortunately, a lot of analysts and highly paid executives as well as the asset managers either discount or choose to ignore this fact.

**Pensioners and the issue of a 13th cheque**

Although the GEPF Act makes provision for such a payment, the Board of Trustees has never announced such a 13th cheque payment.

WHY?

Comparatively, the Eskom Pension Fund, a much smaller Defined Benefit Fund, has done so for a number of years now.

HOW IS IT POSSIBLE FOR THE BIGGEST PENSION FUND IN AFRICA NOT TO BE ABLE TO DO THIS? WHAT DOES THAT R1,82TRILLION IN ASSETS THEN REALLY MEAN TO THE ORDINARY PENSIONER?

During the lead up to the most recent elections of Trustees (the pensioners elected Trustee) one of the candidates reaffirmed his commitment to pursue this issue tirelessly as part of his election manifesto. This candidate has been a Trustee for a number of years already.

In the absence of any reference in the 2018/19 AR or via the GEPF newsletters, it does appear as though the purposeful pursuit of this issue (the 13th Cheque) was just plain electioneering. Hopefully pensioners and their surviving spouses will remember this with the next election comes around.

**Trustee remuneration and pension increases**

Now let's look at the financial reality faced by the elected Trustees who are acting on behalf of these pensioners.

The GEPF 2019 AR on page 110 discloses the details of Trustee remuneration. The COMBINED TOTAL Trustee remuneration of SPECIFICALLY the pensioner elected Trustee and his alternate for 2018/9 was R933 704.

17.6 TRUSTEE REMUNERATION 2018/19

**Name - Meeting attendance fee - Retainer fee - Subsistence and travel - Total paid**

Ms Lindy Bodewig – – R17 454 R17 454
Mr Corn Booyens* – R11 954 – R11 954
Mr Sibonelo Cele R420 960 R84 757 R13 244 R518 961
Mr Terrence Chauke R443 762 R82 479 R13 518 R539 759
Col Johan Coetzer R499 648 R84 757 R22 221 R606 626
<u>Maj Gen Dries de Wit R342 352 R47 814 R13063 R403 229</u>
Dr Vuyo Dyantyi R293 644 R65 744 R3 118 R362 507
Mr Themba Gamedze R443 549 R108 664 R15 916 R568 129
Mr Kenny Govender – – – –
Brig Johan Griesel R219 136 R47 814 R647 R267 597
Ms Jenny Jeftha R468 838 R59 639 R13 689 R542 166
Ms Jennita Kandailal R420 760 R84 757 R20 604 R526 121
Mr Edward Kekana R605 566 R200 648 R17 699 R823 913
Mr Sidney Kgara – – R10 145 R10 145
Ms Thandi Khoza R241 052 R47 814 R10 904 R299 770
Dr Barry Kistnasamy* – – R647 R647
Mr Mpho Kwinika* – R21 189 – R21 189
<u>Dr Frans Le Roux R460 204 R69 545 R727 R530 475</u>
Mr James Maboa* – R11 954 R966 R12 920
Ms Mantuka Maisela R325 341 R69 947 R21 464 R416 752

NB! This is almost a million rand between the two Trustees AND this is on top of their normal monthly pensions.

It's interesting that there appears to be no problem for Trustee remuneration to continually increase at a rate FAR IN EXCESS of inflation BUT its virtually an impossible task to improve the lot of the majority of pensioners and spouses, especially those at the lower end of the monthly receipts table (REMEMBER THE LESS THAN R10K P.M. GROUP), by means of a 13th cheque.

| GEPF TRUSTEE ANNUAL INCREASE | |
|---|---|
| FY2016 | 5% |
| FY2017 | 40% |
| FY2018 | 27% |
| FY2019 | 15% |

Pensioner increase remains at about 5% annually.

Surely the Trustees also live and work in the "poor economic conditions in South Africa"? The above certainly provides a clear picture as to the distortions and inequality between the increases allocated to the Trustees vs what pensioners receive.

It also illustrates that those REALLY in need of an additional cheque, are in fact not on the receiving end of it. The people who apparently benefit the most from the Fund are those charged with governance.

On top of this, the Trustees, as the custodians of corporate governance of the Fund, apparently cannot take the time out to participate in an annual Board assessment as required by the various corporate best practice codes. Since 2016 there has been no such assessment and the only consequence appears to be increased stipends and reappointment of certain trustees.

Can this situation be regarded as fair, equitable, and right?

How do ordinary members change this?

SOME SIMPLE SOLUTIONS

REMUNERATION ISSUE

The PSA, in a media statement on 6 June 2019, proposed that Board members should actually NOT ACCEPT the "lucrative payments for their services". The union pointed out that such a step would provide the Trustees with another opportunity to take the moral high ground and "show that the GEPF and its Board has the interest of public servants at heart". Do we take the silence and the continuation of the established practice as a sign that there is no desire to take the moral high ground?

Another way to address the Trustee remuneration issue would be for the Fund to accept the principle that annual increases for all parties working for and trading with the Fund SHOULD BE CAPPED at the rate of increase given to the beneficiaries. This should apply to the Trustees, the executive managers, staff on payroll etc.

[NB. This does not imply an end to a proper reward system for above average performance. Such a system should remain in place for genuine performance excellence.

BOARD ASSESSMENTS

Trustees that have not participated in all annual assessments in the previous 4 years should not be eligible for reappointed or re-election as the case may be. They should disqualify themselves from a next term because of their own ethical convictions and acceptance of personal accountability for failing in a basic requirement of good corporate governance.

6. EFFICIENCIES OF THE BENEFITS PAYMENT PROCESS

New beneficiaries:

In 2019, the GPAA reported that in 80% (2018: 71%) of new beneficiaries received their benefits on time. This implies that in 2019 there was 1 out of 5 (20%) of new cases NOT PAID within the legal time frame of 60 days. [GEPF Act section 26(1)]

The GPAA processed 35 931 cases (2018: 35 571) of new retirements.

So, over the course of two financial years a total of 17 502 cases of retiring members had the misfortune of going through a stressful period of trying to get their money, after a lifetime of saving, when legally due to them. This is not what a REPUTABLE PENSION FUND DOES.

The calculations supporting the above are below:
*My calculations assumes that once beneficiaries are on the GPAA payment system, late payments will not be an issue, it only relates to new cases.

| | FY2019 | FY2018 | TOTAL 2yrs |
|---|---|---|---|
| Members retiring | 35 931 | 35 571 | 71 502 |
| %Paid out on time | 80% | 71% | |
| %Paid out LATE | 20% | 29% | |
| Nr of Late payments | 7 186 | 10 316 | 17 502 |

An important question comes to mind, and this is ….

How many government employees, should they be allowed a free choice to join any pension fund, would choose the GEPF, based on this payment history?

NB! This material fact, the non-compliance with Section 26(1) of the GEPF Act is NOT disclosed in the GEPF annual report. Needless to say, it does not make the grade to be regarded as a "positive performance" by the GEPF's public relations machinery.

Apart from the CONTINUED non-compliance with their own Act, the late payments resulted in interest payments, which then becomes an additional and an unnecessary drain on the Fund. Interest payments to members increased from R2,2bn to R6,8bn, an INCREASE of R4,6bn or 309%. The AR disclosure does not provide a detailed breakdown of this amount to allow deeper analysis to, among others, clarify why there was an increase in amount BUT there was a reduction in the number of late payment cases since 2018.

LASTLY it does appear as if the TRUSTEES DID NOT KNOW ABOUT THIS.

WHY do I say this?

Well, the Trustees sign off their Statement of Responsibility, included in the Annual report on page 60, stating clearly that:

They have not BEEN aware of any non-compliance to any applicable act.

The only way this representation can be TRUE is if the Trustees did indeed not know about this non-compliance.

Does this sound plausible CONSIDERING the Trustees' duties in terms of internal controls and proper monitoring?

# STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

for the year ended 31 March 2019

## RESPONSIBILITIES

The Board of Trustees (the Board) believes that, during the year under review, in the execution of its duties it:

- ensured that proper registers, books and records of the fund were kept, inclusive of proper minutes of all resolutions passed by the Board;
- ensured that proper internal control systems were implemented by or on behalf of the Fund;
- ensured that adequate and appropriate information was communicated to the members of the Fund, informing them of their rights, benefits and duties in terms of the rules of the Fund;
- took all reasonable steps to ensure that contributions, where applicable, were paid in a timely manner to the Fund;
- obtained expert advice on matters where it required additional expertise;
- ensured that the rules, operation and administration of the Fund complied with the applicable laws;
- was not aware of non-compliance with any applicable legislation; and
- ensured that investments of the Fund were made and maintained in accordance with the Fund's investment strategy.

However, as can be seen from the information above, this representation is not consistent with the available facts AND prior communication of this issue.

**Unclaimed benefits**

The balance of unclaimed benefits increased from R667m to R863m since 2018. This represents an INCREASE of R96m [29%] in one year.

And the number of cases involved? That increased by 8,24% since 2018.

This balance and the number of cases should actually reduce over time as the GEPF gains more control over this matter. Clearly, in view of the increasing balance, this is not happening

| UNCLAIMED BENEFITS [Rmillion] | FY2019 | FY2018 | Y-ON-Y Movement % |
|---|---|---|---|
| Balance | 863,1 | 667,9 | 29,23% |
| No cases | 17 513 | 16 180 | 8,24% |
| Ave Rand value per case | 49 283 | 41 279 | 19,39% |

7. BENEFICIARIES EMPOWERMENT AND COMMUNICATION

The Mission Statement also includes endeavours to "empower our beneficiaries through effective communication"

**The GEPF's Ombudsman**

The current status: GEPF members still do not have access to an ombudsman or independent complaints tribunal; this notwithstanding that this initiative was started way back in 2015.

The GEPF correctly identified the absence of access to an ombudsman as a dis-empowering obstacle to GEPF Members exercising their rights.

This extract from the GEPF's 2015/16 annual report refers:

> GEPF members and pensioners currently do not have access to an independent ombudsman to assist them in resolving complaints they may have against the Fund. Some of the complainants turn to the courts to resolve matters between them and the GEPF, which is a very costly and time-consuming process. The Board approved in principle the establishment of an independent complaints handing mechanism. Local, as well as international benchmarking was done and the implementation of this structure should take place during the 2016/2017 financial year.

Well the 2016/17 financial year has come and gone AND we are almost two years later and still - THERE IS NOTHING IN PLACE!.

Not only was this expectation not delivered on BUT those charged with governance have gone silent. No progress reports, no apology, no accountability accepted.

The Independent Pension Fund Adjudicator in his 2018/19 Annual Report, highlights the issue as well. Complaints about the GEPF, as received by his office, need to be channelled back to the GEPF.

Below an excerpt from page 17 of the Pension Fund Adjudicator Annual Report 2018/19 (my underlining):

"Complaints referred
The matters deemed out of jurisdiction were as follows: 1 355 complaints were referred to other entities. 54,2% of these were referred to the FSCA <u>and 26,5% to the GEPF</u>…….
<u>AND</u>
<u>…….</u> Again, this is a heartening statistic which shows that consumers are largely aware of where to lodge complaints <u>whilst the GEPF and the Transnet Pension Fund need to invest in an impartial, independent complaints' tribunal that is advertised to their members</u>."

Considering the time delay, and the current silence by Those Charged With Governance, what should GEPF members read into this?

It does appear that the Trustees are not really committed to INVEST in an impartial Ombud. If they were, surely the function would have been in place by now?

Delivery and a good reputation start with keeping your word. In the ombud example this has not been done.

<u>WOULD THE FOLLOWING BE A FAIR SUMMARY OF THIS SECTION?</u>
AT THE GEPF OUR TRUSTEES OVER PROMISE AND UNDER DELIVER YET ARE PAID INCREASED STIPENDS TOTALLY OUT OF SYNC WITH THE "POOR ECONOMIC CONDITIONS IN SA"! THEY SET STANDARDS FOR OTHERS TO ADHERE TO BUT THEN FAIL TO DO SO THEMSELVES.
ON TOP OF THIS, THEY ARE NOT VERY SUCCESSFUL WITH THEIR INTERNAL INVESTMENTS I.E. IN PROCESSES, PRODUCTS AND PEOPLE THAT CAN BENEFIT THE CURRENT MEMBERS AND PENSIONERS.
IF THEY WERE, ALL BENEFITS WOULD BE PAID ON TIME AND IN FULL AND COMPLAINTS WOULD BE DEALT WITH BY THE INDEPENDENT TRIBUNAL [OMBUDSMAN]

ENQUIRIES? PLEASE EMAIL to: x2vandyk@gmail.com

Note by Christo
Please note all the commentary above is based on the valuation basis used by the GEPF, namely the risk premium approach. The 2018 Actuary Valuation Report (p46 and 47) indicates the pension liabilities values ito the bond-based approach. This is as per the guidance of the FSCA. This valuation is more conservative and ito it, the Pension Liabilities was VALUED AT R2,1bn and the minimum funding rate calculated as 83,4%.

**IMPORTANT NOTICE. PLEASE READ**

**OR READ AGAIN IF YOU HAVE ALREADY**

**Please take a while or two or three to consider what the all-volunteer AMAGP is all about and is actually and continuously achieving. Our Facebook page has more than 28 000 members and continually growing; we must be doing something**

**right. We need you to inform and motivate all the civil servants, policemen, soldiers, correctional services members, etc, you know to join the AMAGP to strengthen our voice when promoting the sustainability of your pension. We need many more AMAGP members, not just the Fb page. Of which there are already over 2 160, but not enough yet if we consider over a million GEPF members. Keep in mind we have just less than 2 million members, of which about 450 000 are pensioners and the other about 1 380 000 are still working but contributing members of our Fund.**

## - ROLE OF THE FACEBOOK PAGE - GEPF WATCHDOG/WAGHOND

This Facebook page is the social media platform of the non-profit organisation "The Association for the Monitoring and Advocacy of Government Pensions" (AMAGP). The AMAGP has only one agenda point – safeguarding the GEPF against looting and mismanagement.

Most of our GEPF members are content with the fact that pensioners still get their monthly pension (and some increases annually), and they are convinced by GEPF newsletters and ambitious briefings by the GEPF Board of Trustees that our Pension Fund is in a super condition. There is, however, another side to the coin!

As a member of the GEPF (working or retired), this Facebook page will keep you updated about any developments affecting the health of YOUR Pension Fund. It also provides you with the opportunity to participate in the debate and raise issues of concern. Although it is not part of the core business of this page, you may also raise matters regarding the day to day management of your pension administration, which we will gladly refer to the Government Pensions Administration Agency (GPAA). Please read the articles that are posted on the wall, BUT also read items saved under "Announcements" and "Files". You can get further information on our website – there is no reason to be in the dark regarding our Pension Fund, and what you must do as a member.

This page will only have any value for you if you join the AMAGP. Kindly take note that you do not have to pay membership fees, or do any work for the AMAGP if you do not wish to do so – BUT your membership will add one more brick to the wall that the AMAGP is building to protect our money. You can complete the online registration form under "Announcements" (English and Afrikaans) at the top of the Facebook page, or you can visit our website at www.AMAGP.co.za, and complete the online application form that you will find under "Membership". There are also registration forms in English and Afrikaans that you can print, complete and return to us under "Files" on the Facebook page.

The AMAGP does not want any GEPF member to leave the Fund, because it still is the best pension fund in the RSA – BUT, we as members and owners of the Fund have to protect it against abuse.

Welcome to our page – please help us to get thousands more GEPF members to join this page and the AMAGP, so that we will have the required bargaining power. We are the owners of the GEPF, and we have the right and the power to force the GEPF Board of Trustees, and the Public Investment Corporation (PIC), to manage and invest OUR money in a responsible and profitable way.

Newsletter. While the information contained within the Newsletter is periodically updated, no guarantee is given that the information provided in the Newsletter is correct, complete, and up to date.

Although the AMAGP Newsletter may include links providing direct access to other internet resources, including other websites, the AMAGP is not responsible for the accuracy or content of information contained in these resources or websites.