FUNDING CHECK
OF THE

ANGLICAN CHURCH OF SOUTHERN AFRICA: PROVINCIAL PENSION FUND

as at

1 JANUARY 2014

FSB Number : 12/8/6435

LIBERTY CORPORATE
Consultants and Actuaries

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Actuary's report

1. Introduction

1.1 Valuation date

We are pleased to present the following funding check on the Anglican Church of Southern Africa: Provincial Pension Fund *("the Fund")* as at 1 January 2014 *("the valuation date")*. The previous actuarial valuation of the Fund was completed as at 1 January 2013 *("the previous valuation date")* and was a triennial statutory valuation. The period between the current and the previous valuation date is referred to as the *"inter-valuation period"*.

1.2 Brief history of the Fund

The Fund is a defined benefit pension fund that commenced on 1 January 1967. The trustees have closed the Fund to new members as from 1 January 2011.

1.3 Membership data

The accuracy of any values quoted in this report and the conclusions reached are limited to the accuracy of the underlying data and information on which this report is based.

All our recommendations are based on the membership data of the fund as at the valuation date. The validity of this data was checked as a part of this exercise.

The trustees of the Fund should confirm that the data and benefit summaries outlined in the appendices correspond with the Fund's actual situation and history.

Appendix 3 details the membership data used in determining the liabilities of the Fund.

2. Objectives

The objectives of the valuation are:

a) To establish the Fund's financial position at the valuation date; and,

b) To recommend a future contribution rate;

c) If any contingency reserve accounts are held, to give advice to the Board of Trustees on the necessity for and the level of those accounts.

3. Valuation method and assumptions

The Fund operates on defined benefit principles. The net assets of the Fund consist of the market value of invested assets plus any current assets less any current liabilities.

The value of the assets should ideally be equal to, or greater than the value of the accrued liabilities. So long as the Funding level, the ratio of the value of the assets to the value of the accrued liabilities, is at least 100%, the Fund should be able to meet all its accrued liabilities as they arise.

3.1 Financial position in respect of past service

At the valuation date, the value of the assets is compared with the value of the accrued liabilities in respect of the active members' service up to the valuation date and pensioner liabilities at the valuation date.

These two items are calculated as the present value of:

- benefits that active members have earned in respect of past service, allowing for assumed future investment returns, salary increases up to retirement, pension increases after retirement as well as anticipated deaths; and

- payments due to pensioners, allowing for assumed future investment returns, pension increases and anticipated deaths.

3.2 Employer contribution rate

In terms of the rules of the Fund, members contribute to the Fund at a rate of 7.50% of fund salaries. The employer meets the balance of the cost of the Fund.

The Funding method used for this exercise is known as the Projected Unit Method with a control period of three years. Under this method, the employer's future service contribution rate, expressed as a percentage of fund salary, is calculated as the contribution rate required to fund the benefits being earned over the three years following the funding check date. Future service contribution rates are derived using assumed investment returns, future salary and pension increases, and anticipated deaths.

The risk benefits offered by the Fund are self-insured within the Fund. The contribution rate needed for the risk benefits has been calculated as the expected cost to the Fund resulting from members dying in service or retiring due to ill-health over the next year, expressed as a percentage of total pensionable salaries.

3.3 Actuarial assumptions

The specific actuarial assumptions used in determining the liabilities of the Fund are documented in Appendix 1 of this report.

It is important to note that the return on assets invested and increases granted to pensioners tend to move in sympathy with inflation. The most important aspect about these two economic items is their relationship to one another.

4. Valuation results

4.1 Past service valuation results

A summary of the current valuation results is given below:

	1 January 2013 Previous R'000	1 January 2014 Current R'000
Assets		
Value of fund assets	930 306	1 056 720
Plus: Contributions Receivable	4 880	9 335
Less: Outstanding Benefits	24 508	24 488
Adjusted asset value (A)	**910,678**	**1 041 567**
Liabilities		
Active Member Liabilities	467 399	504 654
Pensioner Liabilities	331 917	371 247
Paid-Up Member Liabilities	24 132	27 942
Sub-total (B)	**823 448**	**903 843**
Solvency / Contingency Reserves		
Solvency Reserves	65 276	88 086
Employer Surplus Account	-	18 700
Sub-total (C)	**65 276**	**106 786**
Total surplus/(deficit) (A-B-C)	**21 954**	**30 938**

4.2 A summary of the present and previous future service contribution rates (expressed as a percentage of salary roll) is given below:

	Valuation at 1 January 2013	Valuation at 1 January 2014
Members	**7.50%**	**7.50%**
Employer		
(a) Benefits accruing (three years)	**27.70%**	**34.54%**
(b) Management fee	**1.30%**	**1.30%**
Sub-total	**29.00%**	**35.84%**
(c) Risk benefits (self-insured)		
- Ill-health retirement	**8.68%**	**9.62%**
- Death	**3.24%**	**2.68%**
Employer contribution rate	**40.92%**	**48.14%**

The death risk premium was based on the expected cost to the fund, namely 10 times pensionable salary, plus accumulated member contributions minus actuarial reserve.

4.3 Comment on Results

The recommended contribution rate for funding retirement benefits for future service has increased by 6.84% (34.54% less 27.70%) of total salaries. One of the main reasons for this increase is the salary-weighted average age which has increased by approximately eleven months over the inter-valuation period. Since the Fund was closed to new members as from 1 January 2011, the salary-weighted average age is expected to increase further over time. This is expected to result in an increasing future service contribution rate over time.

The recommended contribution rate for risk benefits (self-insured) has increased by 0.38% (12.30% less 11.92%) of total salaries.

The total increase in the recommended contribution rate for funding retirement benefits for future service and risk benefits has therefore increased by 7.22% (6.84% plus 0.38%) of total salaries.

During the inter-valuation period, the Employer contributed at a rate of 30% of total salaries. This reflects an under-contribution to the Fund as is shown in the table below.

Actual Contribution Rate		30.00%
Future service cont (% of salary)		(27.70%)
Insured benefit (% of salary)		
	Death in service	(3.24%)
	Ill-health pension	(8.68%)
Management fee (% of salary)		(1.30%)
Total Under-Contribution		**(10.92%)**

The total under-contribution for the period 1 January 2013 to 1 January 2014 was R6.691m and was calculated as the difference between the expected contribution for the period based on the recommended contribution rate at the start of the period and the actual contribution received and expenses made for the period.

This implies a partial contribution holiday which is effectively being funded by the Employer Surplus Account. A build-up of the Employer Surplus Account over the inter-valuation period is shown below.

Build-up of Employer Surplus Account from 1 January 2013 to 1 January 2014

	R'000
Allocation of surplus as at 1 January 2013	21,953
Opening balance after allocation of surplus	**21,953**
Plus: Investment growth for inter-valuation period	3,438
Less: Partial contribution holiday	(6,691)
Closing balance as at 1 January 2014 before allocation of surplus	**18,700**
Plus: Surplus revealed as at 1 January 2014	30,938
Employer Surplus Account as at 1 January 2014 after allocation of surplus	**49,638**

For the purposes of calculating the investment growth over the inter-valuation period, it was assumed that the Employer Surplus Account was invested in accordance with the investment strategy of the Fund. It is important that the Board formalise an investment strategy for the Employer Surplus Account.

Before allocation of the surplus revealed as at 1 January 2014, the Employer Surplus Account balance is R18.7m and is expected to have been depleted by 1 January 2017. While the surplus revealed as at 1 January 2014 increases the Employer Surplus Account to R49.6m, the Fund should bear the following in mind:

1. The future service contribution rate is expected to increase over time as explained above. Hence the partial contribution holiday is expected to increase over time should the Employer not be able to contribute more than the 30% of salaries that it is currently contributing. Based on the current valuation results the under contribution will increase from 10.92% to 18.14% of salaries. This will cause further draw down on the Employer Surplus Account.
2. The Fund is considering de-risking by moving to a more matched investment strategy, particularly in respect of pensioners. This would reduce the potential of future surpluses arising.
3. Past surpluses have been used to grant increases at 100% of CPI in spite of the pension-increase-policy target of 80% of CPI and provide pensioners with a 13^{th} cheque. As at 1 January 2014, the cost of the former to the Fund was approximately R4.2m and the cost of the latter to the Fund was approximately R2.3m. This may have created reasonable benefit expectations with the pensioners and should it be continued will reduce future surpluses or draw down on the Employer Surplus Account.
4. Going forward the Fund should consider holding a Risk Reserve to better monitor the Fund’s self-insurance approach and as a buffer against poorer than expected experience. This would increase the Fund’s liabilities and reduce the future surpluses revealed.

So while the current valuation revealed a small surplus and a commensurate increase to the Employer Surplus Account, the impact of the above factors could threaten the sustainability of the Fund’s financial soundness in the short to medium term.

5. Conclusion and recommendations

5.1 The investigation reveals that the Fund has a surplus of R 30 937 629 and a funding level of 103%.

This result makes allowance for the provisions of the Second Amendment to the Pension Funds Act, 1956 and is based on the best estimate assumptions standards set out in PF Circular 117.

The Board has resolved that any surplus arising post Surplus Apportionment Date will be allocated to the Employer Surplus Account. The Rules of the Fund are being amended to allow for the Employer Surplus Account.

5.2 The employer should contribute at a rate of 35.84% of total salaries to finance the benefits expected to accrue over the three-year period commencing 1 January 2014 as well as covering the cost of management expenses. The employer should further contribute a rate of 12.30% of total salaries to cover the costs of the self-insured risk benefits.

The total recommended employer contribution rate is thus 48.14%. The Employer has contributed 30% of total salaries over the period since the previous statutory valuation.

5.3 We certify that the balance in the solvency reserve account is not greater than the provision that is reasonably required in terms of the contingency in respect of which the account has been established. We further certify that the overall amount set aside in the solvency reserve account is not unreasonable. The rules of the Fund are being amended to allow for the solvency reserve account.

Whilst the value of the liabilities is based on best estimate assumptions and the solvency reserve established by the Trustees on our advice, but subject to the restrictions of PF circular 117, allow for some fluctuations in asset values and / or unexpected changes in liabilities, there is no guarantee that this reserve will prove sufficient in practice. Conversely, it is possible that the reserve may prove to be more than sufficient.

If the reserve proves to be inadequate, management action will be required to rectify the position. This may involve a reduction in the Employer Surplus Account or, in the event of liquidation of the Fund, the possibility of a debt to the employer. If the reserve proves to be more than sufficient then a portion may be released to increase the Employer Surplus Account.

The uncertainty of the adequacy or otherwise of the reserve held is unavoidable and the actual outcome can only be determined when the Fund ceases to have any further liabilities.

5.4 The Fund does not currently have an investment strategy for the Employer Surplus Account. It is important that the Board formalise its investment strategy for the Employer Surplus Account.

5.5 The Rules of the Fund make no provision for a Pensioner Reserve Account which would be required in light of the Fund's proposed revision to its investment strategy that considers assets backing pensioners and actives separately. In this case it would be important that the Rules be amended to allow for a Pensioner Reserve Account and the Board formalises its investment strategy for the Pensioner Reserve Account.

5.6 Going forward the Fund should hold a Risk Reserve to better monitor the Fund's self-insurance approach and as a buffer against poorer than expected experience. It is important that the Rules be amended to allow for a Risk Reserve Account and the Board formalises its investment strategy for the Risk Reserve Account.

5.7 We confirm that the Fund is in a sound financial condition as at the valuation date in terms of section 16 of the Pension Funds Act and in terms of the rules and legislation in force at that date. However, the impact of the factors highlighted in Section 4.3 could threaten the sustainability of the Fund's financial soundness in the short to medium term.

M SITHOLE
Fellow of the Actuarial Society of South Africa in my capacity as Valuator for Liberty Group Limited

E HOOSEN
In my capacity as Assistant to the Valuator for Liberty Group Limited

03 September 2014

Appendix 1 : Actuarial basis

1. ACTUARIAL ASSUMPTIONS

The actuarial assumptions used in determining the liabilities of the Fund at the current valuation date are as follows (the assumptions used previously are shown in brackets):

a) Pre-retirement investment return

9.12% per annum, compound (previously 10.34% per annum was used).

8.62% per annum, compound for the investment solvency reserve.

b) Post-retirement investment return

9.12% per annum, compound (previously 10.34% per annum was used).

8.62% per annum, compound for the investment solvency reserve.

c) Rate of salary inflation

7.34% per annum, compound (previously 7.65% per annum was used).

d) Pension increases

5.07% per annum, compound (previously 5.32% per annum was used).

e) Salary increases due to promotion and merit

Nil.

The same assumption was used previously.

f) Withdrawal rates

Nil.

The same assumption was used previously.

g) Mortality – Pre-retirement

SA 85/90 Tables (with no allowance for HIV/Aids deaths).

The same assumption was used previously.

The same assumption was used in determining the death in service risk premium.

h) Mortality – Post-retirement

PA(90) Tables for Pensioners minus two years (Ultimate Rates).

The same assumption was used previously.

85% of a(90) tables for the post-retirement mortality solvency reserve.

i) Spouses' benefit

Husbands are three years older than their wives.

The same assumption was used previously.

j) Early retirement

Nil.

The same assumption was used previously.

k) Ill-health retirement

Nil.

The same assumption was used previously.

The following table was used in determining the ill-health risk premium:

Age	Rate
Younger than 35	0.05%
35 to 39	0.10%
40 to 44	0.15%
45 to 49	0.33%
50 to 54	0.74%
55 to 59	1.46%
60 to 64	2.60%

l) <u>Minimum benefits</u>

The Pension Funds Act prescribes that minimum benefits must be paid to all exits within 12 months from a fund’s surplus apportionment date.

We have adopted the ILG method, being one of the two approaches allowed to value minimum benefits in terms of FSB Regulations. The Trustees have chosen this basis for determining minimum benefits.

The ILG yield at the valuation date was 2.10%. In terms of Board Notice 37 of 2003 an adjustment is made to the published ILG yield of +0.05%. This gave a discount rate of 2.15% at 1 January 2014.

The minimum prescribed benefits were valued by placing a value on the deferred pension based on service to the valuation date. The deferred pension was capitalised at the member’s normal retirement age and discounted to the present at the abovementioned real rate of return, with no allowance for pre-retirement decrements.

Appendix 2 : Benefits summary

A summary of the principal benefits valued is given below. Full details are contained in the registered rules of the Fund. Where there are special bases or benefits for particular members, these have been taken into account:

1. Member's contribution rate:	**7.50% of fund salary.**
2. Employer's contributions:	**Balance of cost plus management expenses and risk costs.**
3. Normal retirement age:	
Bishops and members who joined after 1 January 2003	**65 years.**
Other members	**66 years.**
4. Pension on retirement at normal retirement age:	
Bishops joining prior to 1 January 2003	**4 and 2/7% of fund salary at retirement for each year of pensionable service, payable monthly in arrear, without any guarantee.**
Other members	**3 and 3/4% of fund salary at retirement for each year of pensionable service, payable monthly in arrear, without any guarantee.**
	Pensionable service is increased by two years for members who are not bishops and who joined before 1 January 2003.
5. Withdrawal benefit:	**Member's reserve value.**
6. Ill-health retirement pension:	**Same pension as under normal retirement, but based on pensionable service until normal retirement date and fund salary at the date of actual retirement.**
7. Death In service benefit:	**10 times fund salary plus compulsory member contributions, member transfer credits and voluntary contributions, accumulated with fund interest.**

8. Death after normal retirement:	**7 times fund salary at retirement, increased by the same rate as the pension has been increased since retirement, provided that the benefit is not less than 2 times the annual pension prior to commutation.** **Members receiving a pension since before 1 April 1998 receive an additional lump sum of R 2,000.**
9. Voluntary early retirement:	**Same pension as under normal retirement, but based on pensionable service and fund salary at the date of actual retirement, reduced by 1/3% for each month by which retirement precedes age 65.**
10. Late retirement:	**Same pension as under normal retirement, but based on pensionable service and fund salary at the date of actual retirement, increased by 0.2% for each month after the normal retirement date.**

Appendix 3 : Membership statistics

1. MEMBERSHIP STATISTICS FOR THE PERIOD 1 JANUARY 2013 TO 1 JANUARY 2014

1.1 Active members

Renewal date	In force at renewal date	New entrants	Retirees	Withdrawals	Deaths
1 January 2013	661	0	14	15	6
1 January 2014	626				
		0	**14**	**15**	**6**

1.2 Pensioners

Date	In force at renewal date	New retirees	Deaths	Ceased	Annual Pensions R
1 January 2013	491	18*	26	0	25,860,025
1 January 2014	483	-	-		27,393,253

* Includes dependants added during the period

The table below shows the increases granted to the pensions in payment during the inter-valuation period (the change in CPI is also shown):

Date	Pension increase	Change in CPI	% of change in CPI
1 January 2013	7.65%	5.76%	132.81%
1 January 2014	6.00%	5.40%	111.11%

The Fund has granted pension increases at least equal to the inflation rate over the year since the previous valuation and for the period from the Surplus Apportionment Date. Additionally, bonus pension payments equal to one month's pension were made in December 2013. Therefore, no adjustment to pension increases is required to comply with the Minimum Pension Increase in terms of the Pension Funds Act.

1.3 Paid-up members

Date	In force at renewal date	New Paid-ups	Withdrawals	Liability R
1 January 2013	223	0	4	24,132,223
1 January 2014	219	-	-	27,941,559

2. SALARY STATISTICS

2.1 Total active membership

Valuation date	Number of members	Total annual fund salary R	Average annual salary R
1 January 2013	661	62,336,262	94,306
1 January 2014	626	63,341,794	101,185