

**ACTUARIAL VALUATION  
OF THE  
CHURCH OF THE PROVINCE OF  
SOUTHERN AFRICA: PROVINCIAL  
PENSION FUND**

**as at**

**1 JANUARY 2016**

**FSB Number : 12/8/6435**



**LIBERTY CORPORATE**  
Consultants and Actuaries

# Table of contents

		Page
1.	<b><u>EXECUTIVE SUMMARY</u></b>	2
2.	<b><u>ACTUARY'S REPORT</u></b>	
1.	Introduction	3
2.	Objectives	5
3.	Reliance and limitations	6
4.	Valuation method and assumptions	7
5.	Membership	10
6.	Developments since the previous valuation	11
7.	Valuation results	14
8.	Conclusion and recommendations	17
3.	<b><u>APPENDICES</u></b>	
1.	Financial summary	19
2.	Actuarial basis	25
3.	Results	33
4.	Benefits and contributions	35
5.	Membership statistics	37
6.	Analysis of surplus	41
7.	Rule Amendment number 4	46

## Executive Summary

Financial Position	1 January 2013 R'000	1 January 2016 R'000
Actuarial value of assets	910,678	1,190,378
Less:		
Accrued liabilities	823,448	1,043,433
Employer surplus account	-	9,552
Solvency reserve	65,276	84,375
<b>Surplus</b>	<b>21,954</b>	<b>53,018</b>
<b>Funding level</b>	<b>102.47%</b>	<b>104.66%</b>

Recommended Contribution Rate	1 January 2013 % of salary	1 January 2016 % of salary
Members	7.50%	7.50%
Employer		
Future service	27.70%	33.65%
Risk benefits (self-insured)	11.92%	8.91%
Management fee*	1.30%	4.83%
<b>Total employer</b>	<b>40.92%</b>	<b>47.39%</b>

*\*The management fee at the current valuation includes the expenses of the employer's staff administering the fund, auditors' fee, asset manager's fee, actuarial fee and fidelity insurance. These are in addition to the management fee of 1.3% of total salaries charged by Liberty as administrator.*

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.

Membership	1 January 2013	1 January 2016
Number of active members	661	535
Total annual fund salary	R62,336,262	R63,737,906
Salary weighted average age	50 yrs 7 mnths	53 yrs 1 mnth
Salary weighted average past service	16 yrs 5 mnths	19 yrs
Number of pensioners	491	482
Total annual pensions	R25,860,025	R31,034,435
Number of paid-up members	223	215



# Actuary's report

## 1. Introduction

### 1.1 Valuation date

We are pleased to present the following statutory actuarial valuation report on the Church of the Province of Southern Africa: Provincial Pension Fund (*"the Fund"*) as at 1 January 2016 (*"the valuation date"*). The previous actuarial valuation of the Fund was completed as at 1 January 2013 (*"the previous valuation date"*). 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 closed the Fund to new members with effect from 1 January 2011.

### 1.3 The previous valuation

The previous actuarial valuation of the Fund was completed as at 1 January 2013. At that date, there were 491 pensioners, 661 active members and 223 paid-up members (active members who have left the Fund, but have not yet retired). The actuarial value of the assets was 102.47% of the value of the accrued liabilities. The employer's recommended contribution rate (as a percentage of salary roll) was:

Recommended Contribution Rate	% of salary
Retirement benefits and management fees	29.00%
Risk benefits (self-insured)	11.92%
<b>Total employer contribution rate</b>	<b>40.92%</b>

We submitted the previous report to the Financial Services Board ("FSB") and answered associated queries. We are awaiting the approval of the report by the Financial Services Board.

### 1.4 Solvency reserve

The valuation allows for a solvency reserve (as contemplated by PF Circular 117) to be held by the Fund to increase the security in providing fully for the Members' accrued benefits.

The solvency reserve would provide some protection against the risk of future adverse market movements and make some provision for pensioners living longer than anticipated in the best-estimate basis.

The Solvency Reserve Account was established at the Fund's Surplus Apportionment Date (1 January 2004) and has been maintained at this valuation.

The rules of the Fund are in the process of being amended to allow for this account.



Full details of the solvency reserve have been provided under Section 3 of Appendix 2.

Appendix 6 shows how the solvency reserve has changed over the period since the previous valuation date.

#### 1.5 Member Surplus Account and Employer Surplus Account

The current Rules of the Fund do not allow for the establishment of a Member Surplus Account or Employer Surplus Account. The rules of the Fund are in the process of being amended to allow for these accounts.

We confirm that there is no existing Member Surplus Account.

An Employer Surplus Account was established during the inter-valuation period.

#### 1.6 Report preparation

This report has been prepared in my capacity as the Valuator to the Fund, and as an employee of Liberty Group.

The report has been prepared in accordance with the requirements of Section 16 of the Act; Board Notice 149 of 2010; and the Registrar of Pension Funds' guidelines. It also complies with the Standard of Actuarial Practice Note 201 (SAP 201) and APN 204: Actuarial Discretion In Terms Of Retirement Fund Rules, issued by the Actuarial Society of South Africa (ASSA).

## 2. Objectives

The objectives of the valuation are:

- a) To establish the Fund's financial position at the valuation date;
- b) To recommend a future contribution rate;
- c) To comply with the statutory requirements of the Pension Funds Act;
- d) To determine whether the assumptions made at the previous valuation in calculating the cost to provide fund benefits were borne out in practice. The examination of how the actual experience since the previous valuation date has differed from the experience anticipated in terms of those assumptions, is described in the Analysis of Surplus, attached as Appendix 6;
- e) 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. Reliance and limitations

This report and the results and opinions contained herein are subject (though, not exclusively) to the following reliance and limitations.

#### 3.1 Reliance

In developing this report Liberty has relied extensively on a substantial body of information. This includes both published and unpublished information.

Reliance is placed on, but not limited to, the accuracy of the following:

- Financial statements for the calendar years 2014 (audited) and 2015 (draft);
- Asset statements for the year ending 1 January 2016;
- Cash flow statements for the period 1 January 2013 to 1 January 2016;
- Computer files of in-force business; and,
- Reports (current and previous) issued by Liberty Group Limited (and hence the data on which they were based).

#### 3.2 Limitations

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

All our recommendations are based on the active membership and movement data of the Fund as at 1 January 2016. The validity of this data was checked as a part of this exercise.

Our specific assumptions and other reliance and limitations, are documented in the following sections and supporting appendices. These sections and appendices are an integral part of this report. 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.



## 4. 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 combined 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 combined value of the accrued liabilities and reserve account, is at least 100%, the Fund should be able to meet all its accrued liabilities as they arise.

### 4.1 Accrued liabilities

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.

### 4.2 Future service 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 valuation 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. Self-insurance of the risk benefits is more appropriate than reinsurance for a fund of this size in light of the law of large numbers as the cost of any reinsurance premiums is likely to exceed that of self-insurance due to profit and contingency loadings allowed for by insurers. The future contributions recommended for the death and ill-health retirement benefits are calculated on the current cost method to cover the cost of these self-insured benefits going forward and are expressed as a percentage of total pensionable salaries. The valuator has recommended that the financial position of the fund be determined annually and the board has agreed to this. This will include monitoring the appropriateness of the fund's self-insurance and as part of this the valuator may in future recommend that additional contingency reserves be held to smooth experience in this regard to protect the financial health of the fund.

The Fund is closed to new members. The future service and risk benefit contribution rate is expected to increase at the next valuation on 1 January 2019 due to the increase in the salary weighted average age of the active membership.



#### 4.3 Actuarial assumptions

Appendix 1 includes a description of the actuarial valuation of the Fund's assets.

The actuarial assumptions used in determining the liabilities of the Fund are described in Appendix 2 of this report. Changes made to the actuarial assumptions from those used in the previous valuation (1 January 2013) are also outlined.

Appendix 2 also details the assumptions used to determine the solvency reserve and the decrement tables used in the determination of the risk premiums.

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

#### 4.4 Minimum Pension Increases

The Pension Funds Act requires that, within six months of the Fund's Surplus Apportionment Date, and at least once every three years thereafter, the Board grants a pension increase to pensioners and deferred pensioners which shall not be less than the minimum pension increase.

The minimum pension increase is the increase required to provide the pension equal to the greater of:

1. The pension, had an increase in line with the Fund's pension increase policy been granted at the last pension increase date just before the current valuation date.
2. The lesser of
  - a. the pension, had increases been granted in line with the increase in the Consumer Price Index (CPI) since the pensioner's date of retirement; and,
  - b. the pension, as could have been afforded with reference to the Notional Pensioner Accumulation Account (NPAA).

If the application of the minimum pension increase causes the Fund to become financially unsound, the board may limit the increases to such amount as will not cause the Fund to be in a financially unsound condition.

The NPAA is a theoretical build-up of the assets backing the pensioner liabilities. It is an accumulation of the assets held in respect of pensioners at their respective dates of retirement, with fund returns, allowing for any cash payments at retirement and subsequent pension payments.

Instead of calculating the NPAA for each pensioner, the increase required was calculated in a way that maintains the NPAA's principles – that is, the increase that can be afforded out of the actual returns earned on the pensioner assets. The Pension Funds Act allows the above increases to be approximated, so long as the approximation method maintains the principles behind the calculation.

The Fund has granted regular annual pension increases lower than the inflation rate over the three years since the previous valuation. Therefore, an adjustment to pension increases is required to comply with the Minimum Pension Increase in terms of the Pension Funds Act.

Section 7.5 detailed the recommendation to bring the annual pension increases granted in line with the Minimum Pension Increase.

## 5. Membership

We have used the membership data held by Liberty Corporate to value the liabilities in respect of the members of the Fund. Several data integrity checks were performed and we are satisfied with the accuracy of the data for the purposes of the valuation. However, the data is ultimately the responsibility of the Trustees who should check it for correctness.

The Principal Officer and person managing the business of the Fund have confirmed, in writing, that the information furnished to the Valuator for the purposes of the report was, to the best of their knowledge and belief, correct and complete in every material respect.

We have attached a summary of Membership and Salary statistics for the Fund covering the period since the previous valuation as Appendix 5.



## 6. Developments since the previous valuation

The main changes to the scheme since the previous valuation at 1 January 2013 are set out below:

### 6.1 New entrants

The trustees closed the Fund to new members with effect from 1 January 2011. Rules will need to be amended to reflect this.

### 6.2 Revised rules with the FSB

A revised set of rules, effective 1 January 2011, is in the process of registration with the FSB. Among other things, the revised rules consolidate the old rules and subsequent amendments and make provision for the establishment of a Member Surplus Account, Employer Surplus Account and Solvency Reserve Account.

### 6.3 Rule amendment number 4

On 16 May 2005, the Board of Trustees ("BoT") of the Fund resolved to amend the rules through Amendment 4. The amendment was registered on 17 December 2013.

However, in 2015 it came to the attention of the valuator and the BoT that Amendment 4 has a number of errors.

As a result, the administrator (Liberty) wrote to the FSB, on behalf of the BoT, to request that Amendment 4 be retracted in its entirety as it has a number of errors as highlighted below:

1. Amendment 4 was submitted to the Registrar for registration without being signed by the valuator.
2. Death after Retirement Benefit - the amendment grants a more favourable benefit to all members at retirement. This unintended enhancement has immediate adverse implications on the fund's financial position and the employer's required contribution rate.
3. Death in Service before Normal Retirement Date Benefit - the amendment grants a more favourable benefit to all members at retirement. This unintended enhancement has immediate adverse implications on the fund's financial position and the employer's required contribution rate.
4. Ill-health Retirement Benefit - the amendment in the current form has the unintended consequences of reducing member benefits without their consent.

Appendix 7 describes the impact of the amendments in more detail. It also includes how the past service valuation results and future service recommended contribution rate disclosed in the current valuation report would change if Amendment 4 is implemented.

Furthermore, the Board has already engaged with the FSB to repeal Amendment 4, and will be writing to the FSB to have this done.

#### 6.4 Employer Surplus account

During the inter-valuation period, the employer has contributed 30% of pensionable salary until 30 June 2015 and 33% of pensionable salary thereafter, to fund the balance of cost of retirement benefits, risk benefits and management fees. With effect from 1 January 2016, the Employer is contributing at 36% of pensionable salary.

The effect of the under-contribution to the Fund is shown in the table below.

	Contribution rates Prior to 1 July 2015	Contribution rates After 1 July 2015
Actual Contribution Rate	30.00%	33.00%
Future service cont (% of salary)	(27.70%)	(27.70%)
Insured benefit (% of salary)		
Death in service	(3.24%)	(3.24%)
Ill-health pension	(8.68%)	(8.68%)
Management fee (% of salary)	(1.30%)	(1.30%)
<b>Total Under-Contribution</b>	<b>(10.92%)</b>	<b>(7.92%)</b>

This implies a partial contribution holiday which is effectively being funded by the Employer Surplus Account. In accordance with the BoT resolution, all surplus arising post the Surplus Apportionment Date will be allocated to the Employer Surplus Account, and can be used to fund contribution holidays.

## 6.5 Pension Increases

Discretionary pension increases and bonus increases over the inter-valuation period are shown in Appendix 5.

The Fund has granted regular annual pension increases lower than the inflation rate over the three years since the previous valuation. Therefore, an additional increase of 4.0% to pensioners is required to comply with the Minimum Pension Increase in terms of the Pension Funds Act.

Section 4.4 and 7.5 detailed the recommendation to bring the annual pension increases granted in line with the Minimum Pension Increase.

## 7. Valuation results

7.1 A summary of the current and previous valuation results is given below:

	Valuation at 1 January 2013 R'000	Valuation at 1 January 2016 R'000
Actuarial value of assets	910,678	1,190,378
Less:		
Accrued liabilities	823,448	1,043,433
Employer surplus account	-	9,552
Solvency Reserve Account	65,276	84,375
<b>Surplus</b>	<b>21,954</b>	<b>53,018</b>
<b>Funding level</b>	<b>102.47%</b>	<b>104.66%</b>

The Board has resolved on 31 May 2011 that any surplus arising post Surplus Apportionment Date will be allocated to the Employer Surplus account.

7.2 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 2016
Members	7.50%	7.50%
Employer		
(a) Benefits accruing (three years)	27.70%	33.65%
(b) Management fee	1.30%	4.83%
<b>Sub-total</b>	<b>29.00%</b>	<b>38.48%</b>
(c) Risk benefits (self-insured)		
- Ill-health retirement	8.68%	6.10%
- Death	3.24%	2.81%
<b>Employer contribution rate</b>	<b>40.92%</b>	<b>47.39%</b>

*\*The management fee at the current valuation includes the expenses of the employer's staff administering the fund, auditors' fee, asset manager's fee, actuarial fee and fidelity insurance. These are in addition to the management fee of 1.3% of total salaries charged by Liberty as administrator.*

In view of the higher level of expenses experienced during the inter-valuation period, the recommended contribution rate for management fees has increased to 4.83% of total salaries.

The management fee at the current valuation includes the expenses of the employer's staff administering the fund, auditors' fee, asset manager's fee, actuarial fee and fidelity insurance. These are in addition to the management fee of 1.3% of total salaries charged by Liberty as administrator.

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

### 7.3 Solvency Reserve Account

A solvency reserve was set up as at the previous valuation and has been maintained as at the current valuation. The solvency reserve amounted to R84 375 000 as at the current valuation, which represents 100% of the full theoretical solvency reserve. Full details of the solvency reserve assumptions are provided under Section 3 of Appendix 2. A build-up of the Solvency Reserve Account over the inter-valuation period is shown below.

#### **Build-up of Solvency Reserve Account from 1 January 2013 to 1 January 2016**

	R'000
<b>Opening balance as at 1 January 2013</b>	<b>65,276</b>
Plus: Investment return	22,414
Less: Release as at 1 January 2016	(3,315)
<b>Closing balance as at 1 January 2016</b>	<b>84,375</b>

### 7.4 Employer Surplus account

During the inter-valuation period, the Employer was on 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 2016**

	R'000
<b>Opening balance as at 1 January 2013</b>	<b>-</b>
Allocation of surplus as at 1 January 2013	21,953
<b>Opening balance after allocation of surplus</b>	<b>21,953</b>
Plus: Investment growth for inter-valuation period	6,835
Less: Partial contribution holiday	(19,236)
<b>Closing balance as at 1 January 2016 before allocation of surplus</b>	<b>9,552</b>

With effect from 1 January 2016, the Employer is contributing at 36% of pensionable salary.



## 7.5 Minimum Pension Increases

Pension increases are required to comply with the minimum pension increase in terms of the Pension Funds Act. The regular annual pension increases granted are lower than the increases that are affordable, based on the returns achieved during the inter-valuation period. An additional increase of 4.0% is required to bring the pension increases granted to 100% of the increases in CPI from the previous valuation date to the current valuation date.

The cost of granting these increases is R17.1 million. This includes the cost of the increase in the solvency reserves as a result of the higher pensions. The pensioner liability and solvency reserve shown in the valuation results include the cost of granting these increases.

## 7.6 Comments on the results

The recommended contribution rate for funding retirement benefits for future service has increased by 5.95% (33.65% less 27.70%) of total salaries. This is mainly due to the fact that the valuation assumptions at the current valuation date are stronger. The salary-weighted average age has increased by approximately two years and six months over the inter-valuation period and this would also be the cause of a higher recommended rate for funding future retirement benefits..

The recommended contribution rate for management fees has increased by 3.53% of total salaries in view of the higher level of expenses experienced during the inter-valuation period.

The recommended contribution rate for risk benefits (self-insured) has decreased by 3.01% (11.92% less 8.91%) of total salaries. Various factors such as the higher actuarial reserves held and the revision of the ill health rates led to the lower cost of risk benefits. We have used ill health rates similar to those underlying the Group Income Protection policies administered by the Liberty Group.

The total increase in the recommended contribution rate for funding retirement benefits for future service and risk benefits has therefore increased by 6.47% (5.95% plus 3.53% less 3.01%) of total salaries.

## 8. Conclusion and recommendations

- 8.1 The investigation reveals that the Fund has a surplus of R53.018 million and a corresponding funding level of 104.66%.

**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.

- 8.2 The employer should contribute at a rate of 38.48% of total salaries to finance the benefits expected to accrue over the three-year period commencing 1 January 2016 as well as covering the cost of management expenses. The employer should further contribute a rate of 8.91% of total salaries to cover the costs of the self-insured risk benefits.

The total recommended employer contribution rate is thus 47.39%.

The Employer is currently contributing 36% of total salaries and the balance of the total recommended employer contribution rate will be funded from the Employer Surplus Account.

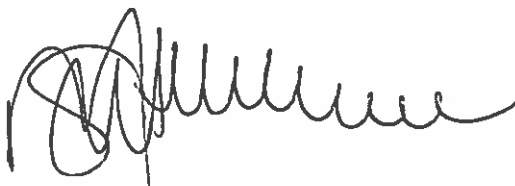
- 8.3 We certify that the balance in the Solvency Reserve Account is not greater than the provision that is reasonably required in terms of the contingency in respect of which the account has been established. We further certify that the overall amount set aside in the Solvency Reserve Account is not 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.

- 8.4 In accordance with the Prudential Investment Guidelines of Regulation 28 of the Pension Funds Act, 1956, we certify that the assets comply with the various investment limits specified and that we are satisfied with the structure of the assets of the Fund and that the asset structure is appropriate to the nature of the liabilities.
- 8.5 The Fund has granted regular annual pension increases lower than the inflation rate over the three years since the previous valuation. Therefore, an additional increase of 4.0% is required to bring the pension increases granted to 100% of the increases in CPI from the previous valuation date to the current valuation date. This is needed in order to comply with the Minimum Pension Increase in terms of the Pension Funds Act.
- Bonus pension payments equal to one month's pension were made in December 2013, December 2014 and December 2015.
- 8.6 The trustees closed the Fund to new members with effect from 1 January 2011. Rules will need to be amended to reflect this.
- 8.7 The revised benefits as per Amendment 4 were not valued in the preparation of this report. However, Appendix 7 describes the impact of the amendments in more detail. Furthermore, the Board has already engaged with the FSB to repeal Amendment 4, and will be writing to the FSB to have this done.
- 8.8 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.



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



**M LIM**  
In my capacity as Assistant to the  
Valuator for Liberty Group Limited

**22 December 2016**



# Appendix 1 : Financial summary

## 1. ASSETS OF THE FUND

### 1.1 Value of Fund's assets

At the current valuation date, the Fund's assets were invested as follows:

Portfolio	Asset Value R'000	% of Fund
Allan Gray Segregated	591,705	48.3%
Mayibentsha Fund of Funds	100,154	8.2%
Futuregrowth Infrastructure Bond	65,872	5.4%
Liberty Corporate Liquid Assets	1,021	0.1%
Standard Bank Institutional Money Market Proposition	10,917	0.9%
Colourfield Liability Solutions	11,000	0.9%
Housing loans to members	24,979	2.0%
Investec Contrarian Equity	144	0.0%
BOE Sortino Fund	100,137	8.2%
Direct property investment	3,850	0.3%
Bank Account	2,158	0.2%
Money Market Call Account	30	0.0%
Novare Global Balanced Institutional Fund	150,788	12.3%
Bishops Court Trust loan account	1,000	0.1%
Food Equity Fund	162,007	13.1%
<b>Totals</b>	<b>1,225,762</b>	<b>100.0%</b>

### 1.2 Asset classes

Over the period 1 January 2013 to 1 January 2016 the Fund achieved a return on investments of 14.9% per annum net of investment management fees.

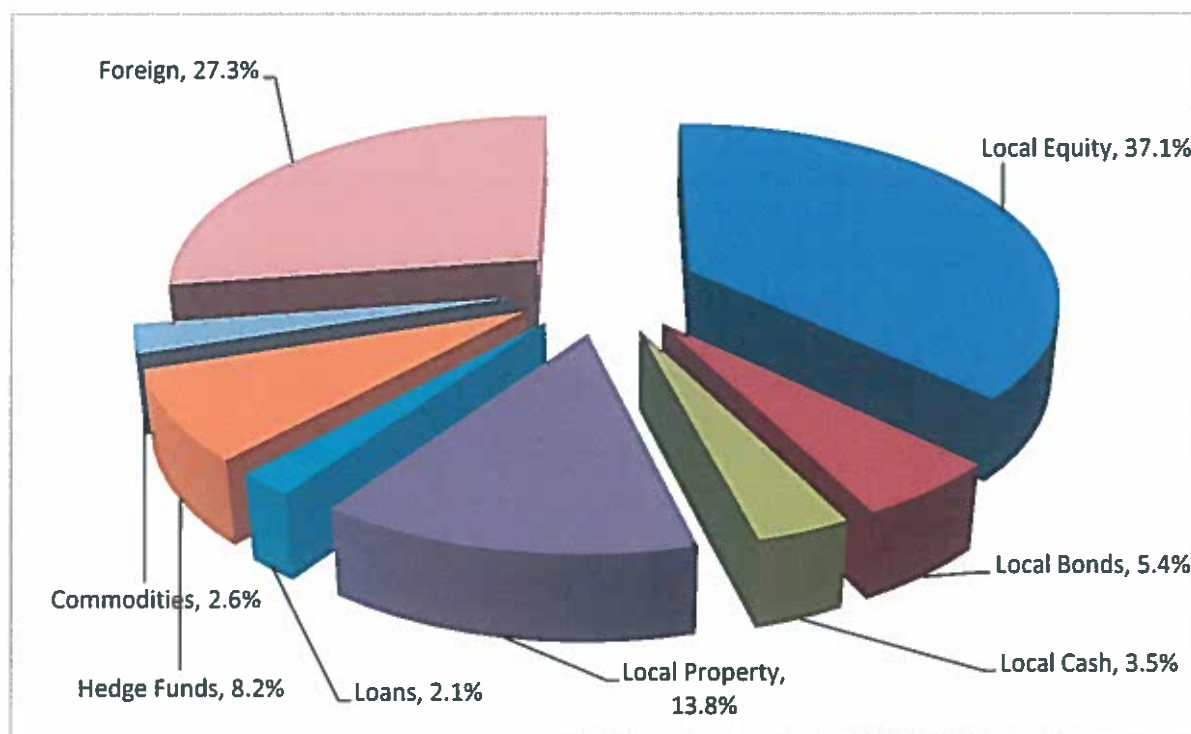
A breakdown of the assets of the Fund by sector is as follows:

Asset Class	Asset Value R'000	% of Fund
Local Equity	454,572	37.1%
Local Bonds	65,792	5.4%
Local Cash	42,713	3.5%
Local Property	169,379	13.8%
Loans	25,979	2.1%
Hedge Funds	100,154	8.2%
Commodities	32,189	2.6%
Foreign	334,984	27.3%
<b>Total invested assets</b>	<b>1,225,762</b>	<b>100.0%</b>



## Appendix 1 : Financial summary

A graphic display of the above table is as follows:



### 1.3 Compliance with Regulation 28

The assets of the Fund are compliant with assets class limits defined by Regulation 28 of the Pension Funds Act (1956), as can be seen from the table below.

Regulation 28 to the Pension Funds Act defines the percentage limits that may be held in various classes of investment. Regulation 28 further defines percentage limits down to issuer level and individual member level. Compliance at this level was not assessed for this report. The most significant aspects are:

## Appendix 1 : Financial summary

	Limits	Total
<b>Asset Class</b>		
<b>Cash</b>		<b>100%</b>
Per issuer	25%	
Per foreign bank	5%	
<b>Debt instruments (bonds)</b>		<b>As per individual limits</b>
Guaranteed by SA government	100%	
Per foreign government	10%	
Issued or guaranteed by SA bank	75%	
Corporate Debt	50%	
Other debt	25%	
<b>Equities</b>		<b>75%</b>
Listed on exchange	75%	
Not listed on exchange	10%	
<b>Immovable property</b>		<b>25%</b>
Listed property	25%	
Unlisted property	15%	
<b>Commodities</b>		<b>10%</b>
Gold	10%	
Per commodity other than gold	5%	
<b>Hedge funds, private equity and other</b>		<b>15%</b>
Hedge funds	10%	
Private equity	10%	
Other assets	2.5%	
<b>Foreign assets</b>		<b>Up to 30%, based on individual limits</b>
Foreign assets (Excluding Africa)	25%	
Foreign assets (Including Africa)	30%	
<b>3(f) of Regulation 28</b>		<b>35%</b>
Sum of other unlisted debt, unlisted equity and unlisted property		
<b>3(g) of Regulation 28</b>		<b>15%</b>
Sum of unlisted equity and private equity funds		

# Appendix 1 : Financial summary

## 1.4 Actuarial value of assets

The actuarial value of assets has been taken as the market value. This method of valuation of the assets is consistent with the value placed on the liabilities.

The value of the assets shown above is their unadjusted market value. The value of the assets stated in the valuation results in section 7 of the main report is the net market value of assets after allowing for late payments and money purchase benefits. Full details of this adjustment are given below.

## 1.5 Appropriateness of asset mix to the Fund's liabilities

The investment strategy is currently in a state of transition and is expected to be fully implemented as from 1 July 2016. Pensioners' liability will be managed according to their cash flow requirements and will have a distinct strategy from the balance of the Fund's liability.

In accordance with the strategy as at the valuation date, the assets are invested in a range of market value portfolios with many different asset managers across all the major asset classes.

The liabilities of the Fund are related to salary and price inflation. Equities and property are required to ensure a real long-term rate of return in relation to salary increases granted to active members and pension increases granted to pensioners. These investments protect the erosion of the financial position of the Fund due to inflation. Foreign assets provide diversification and extra returns if the Rand depreciates. The other sectors can be expected to provide reasonable and secure returns in the short term.

A balanced portfolio is required for prudence, with a spread of investments over asset classes, sectors and geographical locations.

In the light of the above, we feel that the asset mix of the Fund is appropriate for a fund of this size given the nature of the Fund's liabilities and the current financial position.



# Appendix 1 : Financial summary

## 2. FUND ACCOUNT

A summary of the transactions on the assets held by the Fund during the inter-valuation period is as follows:

<b>Fund's assets</b>	<b>R'000</b>
Value of assets as at 1 January 2013	930,306
Adjustment due to debtors and creditors	-
<b>Value of invested assets (A)</b>	<b>930,306</b>
<b>Plus income</b>	
Bequests	4,325
Gross contributions	71,093
<b>Total income (B)</b>	<b>75,418</b>
<b>Less expenditure</b>	
Lump sum benefits	
Withdrawal	18,154
Death	31,416
Retirement	15,081
Pension payments	90,218
Administration expenses	2,400
Other management expenses	9,693
<b>Total expenditure (C)</b>	<b>166,962</b>
<b>Investment income (D)</b>	<b>387,001</b>
<b>Value of invested assets as at 1 January 2016 (A+B-C+D)</b>	<b>1,225,762</b>
<b>Adjustments to total assets (E)</b>	<b>(35,384)</b>
<b>Total adjusted net assets (A+B-C+D+E)</b>	<b>1,190,378</b>

The other management expenses relate to investment consultancy fee, auditors and accounting fee and staff expenses at the church in the main.

The adjustment to total net assets (E) of R 35,384,000 is made up as follows:

- a) A negative adjustment of R 35,384,000 at the current valuation date is in respect of the benefits due to members but not reflected in the financial statements.

For the purposes of this valuation, the assets were taken into account at R 1,190.378 million.



## Appendix 1 : Financial summary

### Adjustment to the asset value

Certain adjustments must be made to the Fund's asset values to take account of outstanding creditors and debtors at the valuation date.

The following adjustment was made to the market value of assets in order to obtain the actuarial value of assets for the purposes of the valuation.

	R'000
Total Investments	1,225,762
<b>Sundry Debtors</b>	
Contributions receivable	-
<b>Sub-total (B)</b>	-
<b>Sundry Creditors</b>	
Benefits due	35,384
<b>Sub-total (C)</b>	35,384
<b>Total net assets (A+B-C)</b>	<b>1,190,378</b>

For the purposes of this valuation, the assets were taken into account at R 1,190.378 million.



## Appendix 2 : 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

10.67% per annum, compound (previously 10.34% per annum was used).

10.17% per annum, compound for the investment solvency reserve.

b) Post-retirement investment return

10.67% per annum, compound (previously 10.34% per annum was used).

10.17% per annum, compound for the investment solvency reserve.

c) Rate of salary inflation

8.98% per annum, compound (previously 7.65% per annum was used).

d) Pension increases

6.38% 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.

h) Death in service risk premium

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

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

## Appendix 2 : Actuarial basis

i) 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.

j) Spouses' benefit

Husbands are three years older than their wives.

The same assumption was used previously.

k) Early retirement

Nil.

The same assumption was used previously.

l) Ill-health retirement

Nil.

The same assumption was used previously.

m) Ill-health risk premium

Ill health rates for the calculation of the risk premiums were revised. We have used ill health rates similar to those underlying the Group Income Protection policies administered by the Liberty Group.

The following tables were used in determining the ill-health risk premium:

Age	Rate used as at previous valuation	Rate used as at current valuation
Younger than 35	0.05%	0.04%
35 to 39	0.10%	0.06%
40 to 44	0.15%	0.10%
45 to 49	0.33%	0.19%
50 to 54	0.74%	0.42%
55 to 59	1.46%	0.86%
60 to 64	2.60%	1.60%

## Appendix 2 : Actuarial basis

### n) Minimum benefits

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 1.98%. 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 2.03% at 1 January 2016.

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 : Actuarial basis

### 2. COMMENTARY ON ASSUMPTIONS

The actuarial assumptions adopted for the purposes of this valuation adhere to the requirements of PF Circular 117 issued by the FSB, which requires the assumptions to be best estimate.

The following section discusses the actuarial basis at the valuation date as well as any changes that have been made to the basis since the previous valuation.

Both the economic assumptions about the investment return and real yield have been changed so as to reflect market conditions at the date of the valuation.

#### 2.1 Price inflation

The current price inflation assumption is calculated as the difference between the nominal yield as per the Besa yield curve and real yield published by the FSB.

A price inflation assumption of 7.98% pa has therefore been used; this is different from that of the previous valuation when an assumption of 6.65% pa was used.

#### 2.2 Net real yield

The real return used in this valuation is based on the Index Linked Gilt (ILG) yield, as published by the Financial Services Board.

In terms of Board Notice 35 of 2003 the ILG yields required to calculate the discount rate applicable prior to retirement in terms of section 14B (2)(a)(i) (bb) of the Act is published with effect from the end of the first month after the commencement date of the Second Amendment Act, on a monthly basis by the Registrar of Pension Funds by notice in the Gazette and on the website of the Financial Services Board ("[www.fsb.co.za](http://www.fsb.co.za)").

These rates have been calculated on the following bases:

ILG - this is the average annualised yield to maturity (weighted by the size of the amount on issue) of all government index-linked gilts (i.e. R189, R197, R198 and R202) provided the gilt had been issued and the term to maturity was at least 10 years at the required date. New gilts will be added as and when issued in the future.

The published ILG yield at the valuation date was 1.98%.



## Appendix 2 : Actuarial basis

### 2.3 Salary inflation

The salary inflation assumption has been derived from the price inflation. The price inflation assumption has been increased by 1.0% pa to obtain the salary inflation rate assumption as economic studies have shown that salary increases exceed price inflation by an average rate of 1.0% pa.

A salary inflation assumption of 8.98% pa has therefore been used; this is different from that of the previous valuation when an assumption of 7.65% pa was used.

This change (considered in isolation) has the effect of increasing the liability.

### 2.4 Pension increase

The pension increase assumption reflects the pension increase policy of the Fund. Consistent to that policy of a target pension increase of 80% of inflation, a pension increase assumption of 6.38% pa has been assumed.

A pension increase assumption of 5.32% pa was used at previous valuation.

This change (considered in isolation) has the effect of increasing the liability.

### 2.5 Valuation interest rate

#### 2.5.1 Pre-retirement valuation interest rate

Based on the underlying bonds described in paragraph 2.2, the effective yield used is 10.12% per annum, as per the nominal bond yield curve as at the valuation date. We have anticipated that the overall investment performance of the Fund would include an equity risk premium of 55 basis points over and above the bond yield in the long term, due to the characteristics of the riskier higher yielding equity asset class. We have thus assumed a pre-retirement valuation interest rate of 10.67% pa.

The pre-retirement investment return assumption of 10.67% pa used is different from that of the previous valuation when an assumption of 10.34% was used.

This change (considered in isolation) has the effect of decreasing the liability.

However, the nominal value of the assumption is not important in itself; what is of importance is the difference between this assumption and the rate of salary inflation (i.e. the pre-retirement real rate of interest).

The pre-retirement real rate of interest decreased from 2.50% pa to 1.55% pa and this change would have the effect of an increase in the liability.

## Appendix 2 : Actuarial basis

### 2.5.2 Post-retirement valuation interest rate

The post-retirement valuation interest rate has been assumed to be the same as the pre-retirement valuation interest rate mentioned under 2.5.1.

The post-retirement investment return assumption of 10.67% pa used is different from that of the previous valuation when an assumption of 10.34% pa was used.

This change (considered in isolation) has the effect of decreasing the liability.

However, the nominal value of this assumption is not important in itself; what is of importance is the difference between this assumption and the pension increase assumption (i.e. the post-retirement real rate of interest).

The post-retirement real rate of interest was changed from 4.77% at the previous valuation to 4.03% at the current valuation and this change would have the effect of an increase in the liability..

### 2.6 Promotion and merit salary increases

Consistent with the previous valuation, no promotional scale is included in the current valuation.

The effect of a promotional salary scale is only potentially significant for the older portion of a fund's population. At the older ages however, promotional increases are either very low or zero. The absence of the promotional scale thus makes very little difference to liabilities. No reliable information exists to accurately forecast promotional increases.

### 2.7 Withdrawals

No withdrawal assumptions are used in this valuation, as there is no reliable information that exists to accurately forecast withdrawal rates. The effect of adding in a withdrawal scale would in any case be minimal due to minimum benefits now being paid on withdrawal.

This is consistent with the assumption from the previous valuation.

### 2.8 Pre-retirement mortality

Consistent with the previous valuation, the SA(85/90) South African Mortality Table (with no HIV/Aids adjustment) has been used for a pre-retirement mortality decrement. The effect of adding HIV/Aids allowance would be minimal and no readily usable HIV/Aids table is available.

## Appendix 2 : Actuarial basis

### 2.9 Post-retirement mortality

The PA (90) Pensioners' Table (rated down two years) has been assumed for the post-retirement mortality. This is considered best estimate and is based on a study done by a large administrator with input from various reinsurers. No allowance for future mortality improvement is made due to the lack of reliable information in this regard.

This is consistent with the previous valuation assumption.

### 2.10 Age difference

The valuation assumes males are three years older than females. This is the same as the previous valuation assumption. No reliable data for the age difference exists. The three-year age difference has been the approach used historically and is a generally accepted approach in the industry. It constitutes our best estimate in the absence of any other reliable information

### 2.11 Early retirement

The rules of the Fund allow members to retire early at any time within a period of 10 years prior to normal retirement age. The pension will be calculated in the same way as if retirement were at the normal retirement age based on the actual service completed and the Fund salary at the actual date of retirement, but reduced by 1/3% for each month that the pension is paid early.

As the liabilities have been calculated assuming that the pension is only payable from normal retirement age and it is anticipated that more payments will be made to a member who retires early, the pension reduction is applied to eliminate the potential strain caused by members retiring early.

We have assumed that there will be no early retirements from the Fund.

### 2.12 Ill-health risk premium

As a result of favourable experience, Ill health rates for the calculation of the risk premiums were revised. We have used ill health rates similar to those underlying the Group Income Protection policies administered by the Liberty Group. The rates used are net of allowances made for profit loadings and expenses.



## Appendix 2 : Actuarial basis

### 3. ASSUMPTIONS TO DETERMINE CONTINGENCY RESERVES

#### 3.1 Solvency reserve

The valuation results include a reserve additional to those calculated as per the assumptions above. This additional solvency reserve (as contemplated by PF Circular 117) is calculated using the stronger assumptions described below.

Both the pre- and post-retirement valuation interest rate assumptions were adjusted by deducting 0.5% to allow for implementation and investment manager costs as discussed in Ant Lester's paper "Determining Investment Solvency Reserve" – September 2003.

A provision was made for pensioners living longer than anticipated in the best estimate basis by changing the post retirement mortality assumptions from PA(90) minus 2 years to 85% of the a(90) mortality tables.

The assumption of 85% of the a(90) mortality tables is justified by "Mortality Investigation – 2003" relating to retirement fund business and by Liberty Life Group Actuarial investigations on their annuity experience.

The revised accrued liability calculated on this basis was differenced from the accrued liability calculated on the base assumptions specified in Section 2 above to obtain the solvency reserve.



## Appendix 3 : Results

### 1. VALUATION RESULTS IN RESPECT OF PAST SERVICE

	1 January 2013 R'000	1 January 2016 R'000
<b>Assets</b>		
Value of fund assets	930,306	1,225,762
Plus: Contribution still to be invested/received	4 880	-
Less: Outstanding benefits	24,508	35,384
<b>Adjusted asset value (A)</b>	<b>910,678</b>	<b>1,190,378</b>
<b>Liabilities</b>		
Normal retirement benefits	354,748	500,525
Death benefits	8,339	11,409
Minimum benefit top-up	103,064	55,012
Paid-up members	24,132	35,580
Pensioner liability(including minimum pension increase)	331,917	439,587
Additional voluntary contributions	1,248	1,319
<b>Sub-total (B)</b>	<b>823,448</b>	<b>1,043,432</b>
<b>Reserves</b>		
Employer Surplus Account		9,552
Solvency reserve	65,276	84,375
<b>Sub-total (C)</b>	<b>65,276</b>	<b>93,927</b>
<b>Surplus (A-B-C)</b>	<b>21,954</b>	<b>53,018</b>
<b>Funding level</b>	<b>102.47%</b>	<b>104.66%</b>

## Appendix 3 : Results

### 2. FUTURE SERVICE CONTRIBUTION RATE

	1 January 2013	1 January 2016
	R'000	R'000
<b>Value of future service benefits</b>	<b>56,689</b>	<b>66,740</b>
<b>Less: Member contributions</b>	<b>12,079</b>	<b>12,164</b>
<b>Balance to be funded by the employer</b>	<b>44,610</b>	<b>54,576</b>
Value of 1% of salary roll over next three years	1,611	1,622
<b>Required employer contribution rate</b>	<b>27.70%</b>	<b>33.65%</b>

This contribution rate does not include management expenses or the self-insured risk benefit costs.

## Appendix 4 : Benefits and contributions

A summary of the principal benefits valued and as intended by the BoT 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 actuarial 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.**

## Appendix 4 : Benefits and contributions

**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 R2,000.**

**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.**

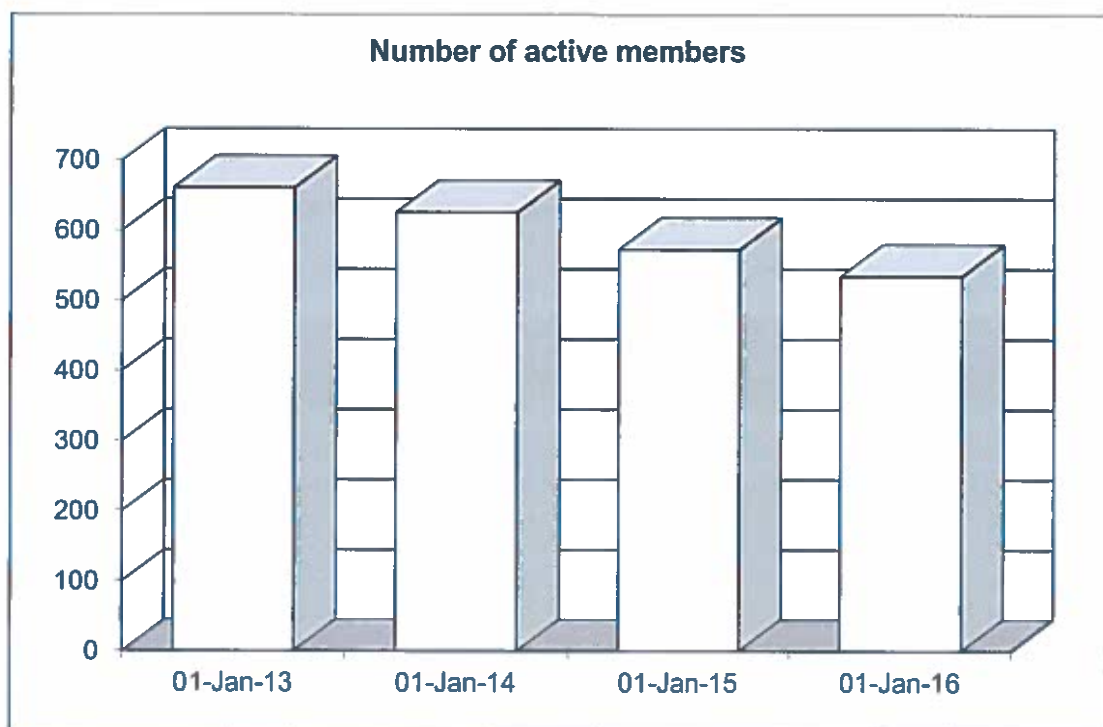


## Appendix 5 : Membership statistics

### 1. MEMBERSHIP STATISTICS FOR THE PERIOD 1 JANUARY 2013 TO 1 JANUARY 2016

#### 1.1 Active members

Renewal date	In force at renewal date	New entrants	Retirees	Withdrawals	Deaths
1 January 2013	661		(14)	(15)	(6)
1 January 2014	626		(14)	(35)	(4)
1 January 2015	573		(22)	(12)	(4)
1 January 2016	535				
			(50)	(62)	(14)



## Appendix 5 : Membership statistics

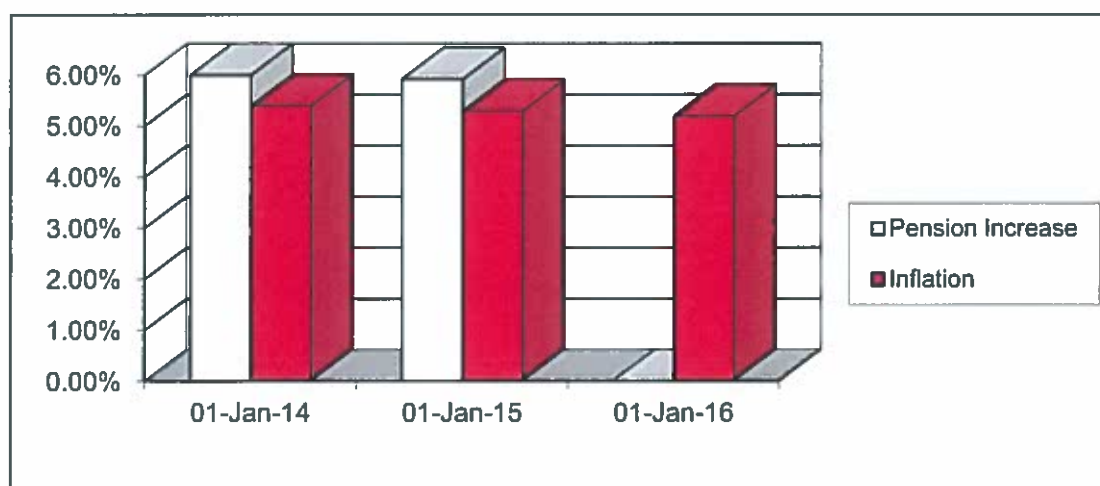
### 1.2 Pensioners

Date	In force at renewal date	New retirees	Deaths	Annual Pensions R
1 January 2013	491	62*	(71)	25,860,025
1 January 2016	482			31,034,435

\* 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 2014	6.00%	5.4%	111%
1 January 2015	5.92%	5.3%	111%
1 January 2016	0.00%	5.2%	0.0%
Inter-valuation period	3.93%	5.3%	74%



Bonus pension payments equal to one month's pension were made in December 2013, December 2014 and December 2015.

## Appendix 5 : Membership statistics

The annual compound rate of growth in pensions over the three review dates was 3.9% pa which corresponds to 74% of the annualised change in CPI.

The Fund has granted regular annual pension increases lower than the inflation rate over the three years since the previous valuation. Section 4.4 and 7.5 detailed the recommendation to bring the annual pension increases granted in line with the Minimum Pension Increase. An additional 4.0% increase to pensions is required to comply with the Minimum Pension Increase in terms of the Pension Funds Act.

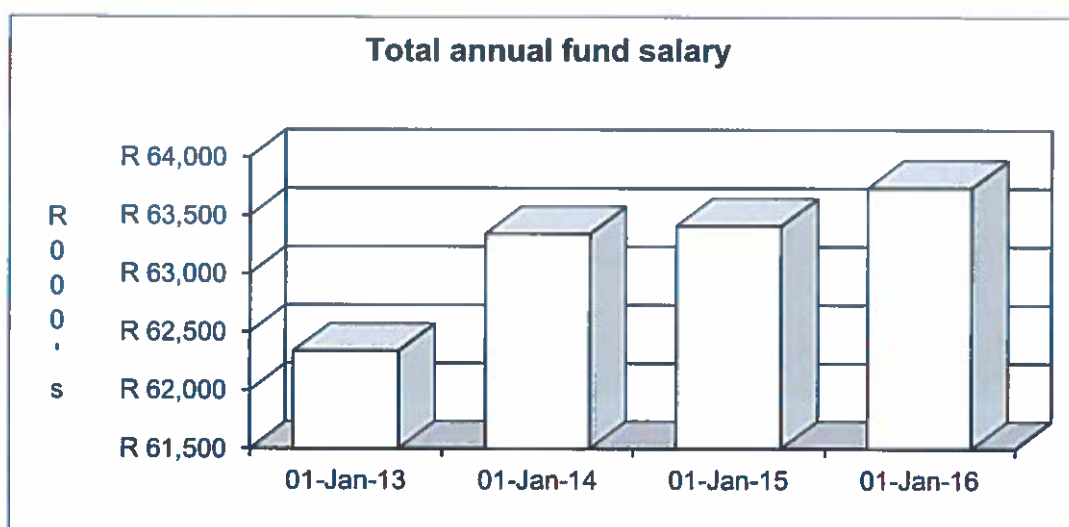
### 1.3 Paid-up members

Date	In force at renewal date	New Paid-ups	Withdrawals	Liability R
1 January 2013	223	-	(8)	24,132,223
1 January 2016	215	-	-	35,579,991

## 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 2016	535	63,737,906	119,136





## Appendix 5 : Membership statistics

The annual compound rate of growth in the average annual fund salary was 8.1% pa.

### 2.2 Members who were in the Fund at both 1 January 2013 and 1 January 2016

Of the 661 members at 1 January 2013, 535 members remained in service at 1 January 2016.

Valuation Date	Actual/ expected	Average annual salary R
At 1 January 2013	Actual	95,929
At 1 January 2016	Actual	119,136
At 1 January 2016	Expected	119,672

The annual compound rate of growth in the average annual salary was 7.5%, whereas 7.65% per annum was expected on the basis of the actuarial assumptions.

### 2.3 Salary weighted average age

The salary weighted average age of the active members is shown below:

As at 1 January 2013	<b>50 years and 7 months</b>
As at 1 January 2016	<b>53 years and 1 month</b>

The salary weighted average age of the active members has increased by two years and six months over the investigation period.

### 2.4 Salary weighted average past service

The salary weighted average past service of the active members is shown below:

As at 1 January 2013	<b>16 years and 5 months</b>
As at 1 January 2016	<b>19 years</b>

The salary weighted average past service of the active members has increased by two years and seven months over the investigation period.

## Appendix 6 : Analysis of surplus

An analysis of the various sources of surplus or strain that have arisen over the inter-valuation period has been completed. The extent to which the actual experience has diverged from that anticipated on the basis of the actuarial assumptions, together with the financial effect of this divergence, is given below.

### 1. ECONOMIC ITEMS

#### a) Investment return

The net investment return achieved on the assets of the Fund has averaged 14.9% per annum over the investigation period. This rate should be contrasted with the assumed rate of 10.34% per annum. The difference between the investment return achieved and the rate assumed resulted in a surplus to the Fund of R58.815 million.

#### b) Salary increases

The average rate of salary increase in respect of active members at the current and previous valuations amounted to 7.5% per annum. This should be compared with an expected rate of increase of 7.65% per annum on average, and resulted in a surplus to the Fund of R447 000.

### 2. FUND CONSTITUTION

#### a) Surplus brought forward

The surplus at the previous valuation date amounted to R21.954 million. The amount, together with interest at the valuation rate, has been entered into the analysis as an item of surplus of R29.492 million.

#### b) Basis change

Both the assumptions underlying the basis and the ILG yield, as per the ILG method to value minimum benefits, as used to perform the current investigation, differed from those used in the previous valuation. This basis change, as described in Appendix 2, caused a strain of R2.444 million at the current valuation date.

#### c) Employer surplus account

The surplus brought forward, as per paragraph (a), was wholly allocated to the Employer Surplus Account to finance a partial contribution holiday. This produced an item of strain of R29.492 million.

#### d) Solvency reserve

The solvency reserve has been maintained at the current valuation date to provide for certain specific contingencies or as protection for the Fund against adverse future experience. The basis for the establishment of these reserves is discussed in Appendix 2.

## Appendix 6 : Analysis of surplus

The reserve at the previous valuation date, accumulated with the assumed rate of return of 10.34%, was more than the recalculated reserve at the current valuation date. This resulted in a surplus to the Fund of R3.316 million.

e) Management expenses

The Fund incurred management expenses of R12.093 million over the inter-valuation period. However, it received a lower amount of R 2.4 million over the same period.

The additional expenses resulted in a strain item of R11.235 million, inclusive of interest, at the current valuation date.

### 3. MOVEMENTS

a) Deaths

The contribution rate calculated at the previous valuation included an estimate to fund death claims occurring during the three year period leading up to this valuation. A lower number of death claims was paid out than expected over the period, resulting in a surplus of R 2.386 million.

b) Ill-health retirements

The contribution rate calculated at the previous valuation also included an estimate to fund the ill-health claims occurring during the three year period leading up to this valuation. There were fewer ill-health claims than expected, resulting in a surplus of R12.346 million.



## Appendix 6 : Analysis of surplus

### 4. PENSIONERS

#### a) Pension increases

The average rate of pension increase in respect of pensioners at the current and previous valuations amounted to 3.9% per annum. This should be compared to the expected rate of increase of 5.32% per annum on average and resulted in a surplus to the Fund of R15.974 million.

In addition, bonus pension payments equal to one month's pension were made in December 2013, December 2014 and December 2015. These resulted in a strain of R7.574 million to the Fund.

The Fund has granted regular annual pension increases lower than the inflation rate over the three years since the previous valuation. Therefore, an adjustment to pension increases is required to comply with the Minimum Pension Increase in terms of the Pension Funds Act. This resulted in a strain of R15.995 million to the Fund.

#### b) Pensioner mortality

Fewer pensioners died during the inter-valuation period than expected. This has been entered into the analysis as an item of strain amounting to R6.253 million.

### 5. MISCELLANEOUS

There are various other sources of surplus and strain that, together with differences caused by some of the methods of approximation used in calculating the above sources, constitute the balancing surplus of R3.235 million. These items have not been quantified separately.

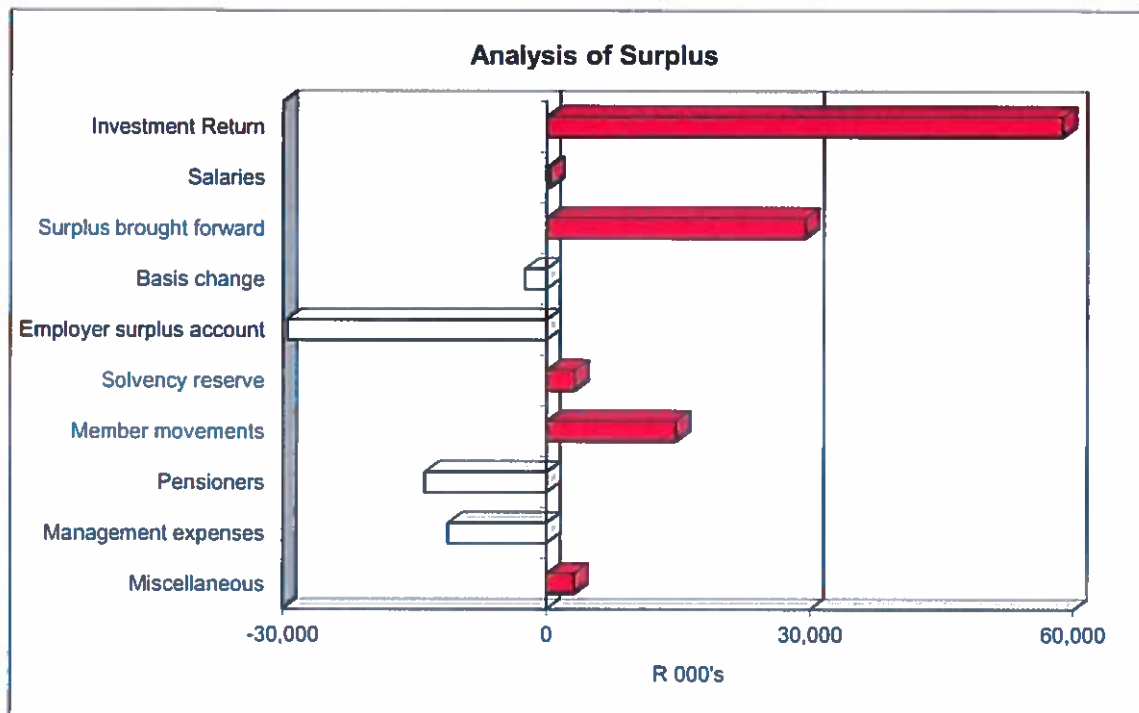
## Appendix 6 : Analysis of surplus

### 6. SUMMARY OF THE ANALYSIS OF SURPLUS

The results of the analysis of surplus can be summarised as follows:

Item	Surplus R'000	Strain R'000
1. Investment return	58,815	
2. Salary increases	447	
3. Surplus brought forward	29,492	
4. Basis change		2,444
5. Employer surplus account		29,492
6. Solvency reserve	3,316	
7. Member movements		
Deaths	2,386	
Ill-health retirements	12,346	
8. Pensioners		
Increases		7,595
Deaths		6,253
9. Management expenses		11,235
10. Miscellaneous	3,235	
<b>Totals</b>	<b>110,037</b>	<b>57,019</b>
<b>Actual Surplus</b>	<b>R53.018 million</b>	

## Appendix 6 : Analysis of surplus



## Appendix 7 : Rule Amendment number 4

On 16 May 2005, the Board of Trustees ("BoT") of the Fund resolved to amend the rules through Amendment 4. A brief background to the issues that were supposed to be addressed through this amendment is as follows:

### 1. Death after Retirement Benefit

In terms of the Death after Retirement benefit effective 1 October 2003 (registered Amendment 3), 'on the death of a pensioner there shall be payable a benefit equal to seven times the member's fund salary immediately preceding retirement increased at the same rate as the pension has been increased since retirement.'

The Board of Trustees ("BoT") of the Fund resolved to provide an option for the **present value** of this benefit to be used to secure an additional pension at retirement in order to cater for those members who retired without a spouse.

In order to achieve the BoT's intention, the rules were supposed to be amended in such a way that retiring members would be indifferent between whether the option was exercised or not. This would have been achieved by defining the option in terms of the actuarial present value of the existing benefit such that the fund's financial condition was not adversely affected.

However, the option was defined in Amendment 4 in terms of an 'Additional Benefit' relating to the existing benefit but without reference to the actuarial present value such that the option becomes more favourable to all members at retirement. This unintended enhancement has immediate adverse implications on the fund's financial position and the employer's required contribution rate as further explained in section 7 below.

### 2. Death in Service before Normal Retirement Date Benefit

In terms of the Death in Service before Normal Retirement Date benefit effective 1 October 2003 (registered Rule Amendment 3), on the death of a member in service, 'there shall be payable an amount equal to the sum of the following:

- A. Optional contributions made by the MEMBER accumulated with FUND INTEREST
- B. Compulsory contributions made by the MEMBER accumulated with FUND INTEREST
- C. The MEMBER TRANSFER CREDIT accumulated with FUND INTEREST
- D. Ten times the MEMBER'S FUND SALARY'

The benefit is subject to various payment options which are not included here so as to focus on the main issue. The BoT intended to amend the rules to make the above benefit subject to each member's minimum individual reserve in line with the provisions of the Pension Funds Act.

The rules were amended incorrectly resulting in the death benefit being changed to the sum of:

- A. The MEMBER'S RESERVE VALUE, subject to the MINIMUM BENEFIT
- B. Ten times the MEMBER'S FUND SALARY



## Appendix 7 : Rule Amendment number 4

This unintended enhancement has immediate adverse implications on the employer's required contribution rate relating to the cost of self-insurance of the Death in Service benefit as further explained below.

### 3. Ill-health Retirement Benefit

In terms of the SCHEDULE in the registered Revised Rules of the Church of the Province of Southern Africa: Provincial pension Fund effective 1 June 2000, 'a MEMBER who is unable to continue working due to ill-health may, on the production of medical evidence acceptable to the MANAGEMENT COMMITTEE, retire from service at any time before his NORMAL RETIREMENT DATE in which case he shall receive a benefit as calculated under the Normal Retirement Benefit above but based on PENSIONABLE SERVICE up to NORMAL RETIREMENT DATE and FUND SALARY at the date of actual retirement.'

Though the intention in Amendment 4 was to revise this benefit to allow for the Death after Retirement benefit option, the benefit was also revised to reduce the Pensionable Service taken into account to be the service 'up to actual retirement date' instead of 'up to Normal Retirement Date'. This amendment in the current form has the unintended consequences of reducing member benefits without their consent.

4. In addition to and in relation to the above highlighted benefits other problems in Amendment 4 relate to some of the effective dates used and payment options under various benefits that appear to have been excluded. These have varying degrees of impact on the fund's financial position but are likely to be smaller in comparison to the impact of 1 and 2 above.
5. Amendment 4 was first submitted to the Registrar for registration on and was registered on 17 December 2013.
6. It was only in 2015 that that it came to the attention of Liberty and the BoT that Amendment 4 does not reflect the true resolution of the BoT.



## Appendix 7 : Rule Amendment number 4

Apart from the fact that Amendment 4 does not reflect the true intentions of the BoT as highlighted above, there are other reasons which cause the BoT to hold the view that Amendment 4 was registered in error. These are:

- When the Amendment 4 was submitted to the Registrar's Office for registration, it was not accompanied by the valuator's certificate or a statement by the BoT confirming that the Fund will remain in a financially sound condition once the amendment is registered and implemented, as required by section 12 (3) of the Act. The importance of this is indicated in the following points;
- The employer which sponsors the Fund is struggling to catch-up their actual contribution rate to the required contribution as recommended by the valuator which will continue to increase because the fund is closed to new members.
- Given the above and the fact that the employer is a non-profit religious organization it will not be able to pay in any additional monies to replenish solvency reserves (or fund any deficit that may have arisen) to bring the Fund to a financially sound condition, let alone pay for unintended 'enhancements' to benefits; and
- To date, the revised benefits described in 1, 2 and 3 above, as introduced by Amendment 4, have never been implemented by the Fund.

The BoT is therefore of the view that Amendment 4 was registered by the Registrar in error as the Registrar was not apprised of the full circumstances surrounding the rule amendment, more specifically, the non-compliance with section 12 (3) of the Act. Furthermore, the Board has already engaged with the FSB to repeal Amendment 4, and will be writing to the FSB to have this done.

## Appendix 7 : Rule Amendment number 4

The revised benefits as per Amendment 4 were not valued in the preparation of this report. The following table shows how the past service valuation results and future service recommended contribution rates disclosed in the current valuation report would change if Amendment 4 is implemented.

### VALUATION RESULTS IN RESPECT OF PAST SERVICE

	1 January 2013	1 January 2016	1 January 2016 (Including Amendment 4)
	R'000	R'000	R'000
<b>Assets</b>			
Value of fund assets	930,306	1,225,762	1,225,762
Plus: Contribution still to be invested/received	4 880	-	-
Less: Outstanding benefits	24,508	35,384	35,384
<b>Adjusted asset value (A)</b>	<b>910,678</b>	<b>1,190,378</b>	<b>1,190,378</b>
<b>Liabilities</b>			
Normal retirement benefits	354,748	500,525	590,068
Death benefits	8,339	11,409	11,409
Minimum benefit top-up	103,064	55,012	57,655
Paid-up members	24,132	35,580	35,580
Pensioner liability	331,917	439,587	439,587
Additional voluntary contributions	1,248	1,319	1,319
<b>Sub-total (B)</b>	<b>823,448</b>	<b>1,043,432</b>	<b>1,135,618</b>
<b>Reserves</b>			
Employer Surplus Account		9,552	9,552
Solvency reserve	65,276	84,375	45,208
<b>Sub-total (C)</b>	<b>65,276</b>	<b>93,927</b>	<b>54,760</b>
<b>Surplus (A-B-C)</b>	<b>21,954</b>	<b>53,018</b>	<b>-</b>
<b>Funding level</b>	<b>102.47%</b>	<b>104.7%</b>	<b>100.0%</b>

## Appendix 7 : Rule Amendment number 4

### FUTURE SERVICE CONTRIBUTION RATE

	Valuation at 1 January 2013	Valuation at 1 January 2016	Valuation at 1 January 2016 (Including Amendment 4)
Members	7.50%	7.50%	7.50%
Employer			
(a) Benefits accruing (three years)	27.70%	33.65%	43.81%
(b) Management fee	1.30%	4.83%	4.83%
<b>Sub-total</b>	<b>29.00%</b>	<b>38.48%</b>	<b>48.64%</b>
(c) Risk benefits (self-insured)			
- Ill-health retirement	8.68%	6.10%	4.17%
- Death	3.24%	2.81%	10.90%
<b>Employer contribution rate</b>	<b>40.92%</b>	<b>47.39%</b>	<b>63.71%</b>

In respect of past service, rule amendment 4 will therefore cost the Fund R93.6 million, if implemented.

In respect of future service, rule amendment 4 will therefore imply an increase in the Employer's rate of contribution of 16.32% of total salaries, if implemented.

