



Newsletter for pensioners of the Government Employees Pension Fund

MARCH 2010

GEPF PENSIONS INCREASE BY 5.6% AS FROM 1 APRIL 2010

The Board of Trustees has announced that GEPF pensioners will receive an increase of 5.6 percent on their monthly pensions from 1 April 2010. In addition, catch-up increases will be paid to pensioners whose pensions have lost value since their retirement because of inflation.

In making its decision on the 2010 increases, the Board took various factors into account, including the Rules of the Fund and increases in the cost of living. The Board also considered the investment performance of the Fund.

What do the Fund Rules say about increases?

According to the Fund Rules, the basic annual pension increase must be at least 75 percent of the average increase in the Consumer Price Index (CPI) during the previous year. The increase being paid from 1 April 2010 meets this requirement. From 1 December 2008 to 30 November 2009, the average increase in CPI was 7.4 percent. Thus, the 2010 pension increase of 5.6 percent amounts to 75 percent of the average increase in the CPI for the stipulated period.

Another GEPF rule that has to be taken into account when deciding on pension increases is that on the minimum funding level. According to this rule, there must be enough money in the Fund at all times to cover at least 90 percent of the GEPF's liabilities.

The most recent statutory actuarial valuation (as at 31 March 2008) showed that the GEPF's funding level was 100 percent. By awarding an average pension increase of 5.6 percent from April 2010, the Board is ensuring that the funding level stays above the 90 percent requirement.

The Board also considered the impact of the recent global financial turmoil and its effect on the South African economy. Like other pension funds, the GEPF's investment income was adversely affected by the financial crisis. Bearing this in mind, as well as the prudent use of the Fund's assets, the Board decided that no additional increases over and above the basic 5.6 percent increase and the catch-up increase would be granted.

How will the increase be applied to different pensioners?

- The increase will be applied on a sliding scale starting at 5.6 percent for pensioners who retired on or before 1 April 2009.
- Pensioners who retired after 1 April 2009 will receive 0.47 percent for each month since date of retirement to 31 March 2010, which is a proportionate share of 5.6 percent.
- Pensioners whose annuities have fallen below 100 percent of the amount paid at retirement adjusted for full inflation to date, will receive a catch-up increase to compensate for the effect of inflation.

Our commitment to our pensioners

We would like to assure pensioners that the financial position of the Fund is sound and that the Board of Trustees is committed to act in your best interest at all times. Members should also remember that the GEPF is a defined benefit pension fund, which means that benefits are guaranteed and that any investment risk vests not in the pensioner, but in the sponsoring employer.

FREQUENTLY ASKED QUESTIONS ON PENSION INCREASES

1) What is the percentage increase for both the basic increase and the catch-up increase?

The basic increase that will be applied to pensioners who retired prior to 1 April 2009 will be 5.6 percent. Pensioners who retired after 1 April 2009 will receive a pro-rata increase. The amounts paid for catch-up increases will differ and will depend on increases awarded during each members period on retirement. Please see the answer to question 5 for more details.

2) Who decides on these increases?

The Fund's actuary evaluates the financial position of the Fund and presents various options for the Trustees to consider relative to their impact on the financial position of the Fund. The Trustees then decide on an increase based on the affordability as determined by the impact of the increase on the financial position of the Fund. The Trustees must also ensure that the increase complies with the Pension Increase Policy and the Funding Level Policy of the Fund. (The Funding Level Policy stipulates a minimum percentage that the Fund's assets must bear to the Fund's liabilities both at a particular point in time and over a long-term period.) The Minister of Finance is then notified of the level of increase decided on by the Trustees and may make comments where he sees fit. Although the Trustees may take account of the anticipated general increase in public service salaries or increases in social grants, the main criterion in deciding on the level of the pension increase is how much the Fund can afford.

3) Who determines the percentage increase and how is it calculated?

The Fund's actuary investigates what the Fund can afford and what the possible options for the increases are. Thereafter the Trustees make a decision based on the actuary's investigation and advice. The basic increase effective from 1 April is determined as 75 percent of the average percentage increase in CPI over the year to the previous 30 November. The catch-up increase is determined as the pension at the date of retirement which is adjusted with the increase in the CPI from the date of retirement to the previous 30 November. This number is then divided by the

current actual pension increased with the current basic increase granted on 1 April. This is an example of a 100 percent catch-up. However, sometimes the Trustees will declare a catch-up that is below 100 percent depending on its affordability.

4) When does a member qualify for the catch-up increase?

A pensioner will qualify for a catch-up increase if his/her current pension (after applying the basic increase and any further inflation related increase) as at the most recent 30 November is less than the original pension as at the date of retirement accumulated with increases in the consumer price index (CPI) up to the same 30 November. The idea is to ensure that over time the purchasing power of pensions (as measured by the CPI) is fully maintained, but without compromising the Fund's financial position.

5) Why are there different percentages for the catch-up increase?

Each pensioner's catch-up increase depends on the date of retirement and the increases awarded (relative to CPI) over the period from the date of retirement up to the previous 30 November. For example, there may have been a period where the Trustees declared increases that were less than the increase in the CPI for that period. Pensioners who were affected by this lower increase may be awarded a catch-up increase at a later stage (depending on the Fund's financial position) in an effort to equalise the increase in their pensions with the increases in the CPI since their date of retirement. Other pensioners may not have been affected to the same extent by the lower declaration (e.g. because they retired after this period) and therefore will not qualify for a catch-up increase.

Another reason why the basic increase (and also the catch-up increase) differs in other cases is because members who retired after 1 April 2009 only receive a pro-rata increase. This is fair because a pensioner who has only been retired for a few months cannot expect to get a full year's increase. As an example, a pensioner who retired on 31 December 2009, will receive a pro-rata increase for the three months he/she has been in retirement, i.e. 3 divided by 12 times the increase of 5.6 percent.

6) Why don't we apply a flat rate to all pensioners instead of categorising them according to termination dates?

This would be unfair, because some pensioners could have received full inflationary increases during their

period of retirement, whereas it may not be the case with others. As such, those that didn't receive full inflationary increases will qualify for catch-up at some future date when the Trustees are confident that the cost of any catch-up increase will not compromise the Fund's financial position. In declaring pension increases, the Trustees try to maintain the purchasing power of pensions. Ideally all pensions should therefore be increased with full inflationary increases. At times the Fund may, however, be constrained by an unfavourable economic environment that impacts negatively on the affordability of increases. On the other hand, when the economy grows and the Fund receives relatively high investment incomes, the Trustees aim to declare higher pension increases. For example, the pension increase effective from 1 April 2005 was approximately 480 percent of the CPI increase during the year to 30 November 2004.

7) Why do pensioners not get a bonus in their birthday month?

Different pension funds have different pension increase policies. For example, the GEPF has 4 levels of increases that the Trustees can declare: the basic increase, a further inflationary increase, a catch-up increase and a supplementary increase. Other funds have different policies and may pay a bonus in a birthday month together with a lower general pension increase. Whatever the approach taken, the different methods of paying pensions must be affordable for the specific pension fund.

In terms of the GEPF Pension Increase Policy (as approved by the Trustees in consultation with the Minister of Finance), the Trustees may, over and above the basic increase and the catch-up increase, also declare a supplementary increase which is not related to inflation. However, such an increase also depends on the Fund's financial position (or the ratio that the Fund's assets bear to the Fund's liabilities) at that specific point in time).

8) When is the effective date for the increase?

1 April each year.

9) How much is the increase in money terms?

The rand value of the increase depends on the pensioner's current pension. For example, if the pensioner is currently receiving R1000 a month and the pension increase is 5.6 percent effective 1 April 2010, the increased monthly pension will amount to R1056.00 from 1 April.

10) Can the increase be linked directly to the CPI?

The increase is linked to the average percentage changes in CPI in an effort to maintain the purchasing power of pensions.

11) Why are pensioners getting a smaller increase compared to salary increases of government employees (active members)?

The starting point for the Trustees is to determine a pension increase that would be affordable for the Fund. If the Fund had a sufficient surplus (excess of assets over liabilities), then the Trustees could have considered matching the increases in civil servant salaries. However, due to the recent economic crisis and the uncertainties about the robustness of the economic recovery, the Trustees took a prudent and responsible approach by resolving that only a basic increase of 5.6 percent plus a catch-up increase are affordable for this year.

It must also be pointed out that the April 2010 pension increase should not be compared with the July 2009 (9 months earlier) salary increases granted to civil servants, but to the increase that will be awarded in July 2010. The April 2009 increase in pensions and the July 2009 salary increase for civil servants are more comparable and do not differ significantly.



Find a GEPF office near you

Gauteng

Pretoria (Head Office):
34 Hamilton Street, Arcadia

Johannesburg: 2nd Floor, Lunga House, 124
Marshall Street (Cnr Marshall & Eloff – Gandhi Square
Precinct), Marshalltown

Limpopo

Polokwane: 87 Bok Street

Mpumalanga

Nelspruit: 19 Hope Street, Ciliata Building, Block A,
ground floor

KwaZulu-Natal

Durban: 8th Floor, Salmon Grove Chambers, 407
Smith Street

Pietermaritzburg: 3rd Floor, Brasfort House, 262
Langalibale Street

North West

Mmabatho: Office 4/17, 2nd Floor, West Gallery, Mega
City

Eastern Cape

Bisho: No. 12, Global Life Building,
Circular Drive

Port Elizabeth: Ground floor, Kwantu Towers, Vuyisile
Mini-Square, next to City Hall

Mthatha: Office 53, 8th Floor, PRD Building,
Sutherland Street

Western Cape

Cape Town: 21st floor, No 1 Thibault Square, Long
Street

Northern Cape

Kimberley: Ground Floor, 11 Old Main Road

Free State

Bloemfontein: 2 President Brand Street

Web address: www.gepf.co.za

Postal address: GEPF Private Bag X63,
Pretoria, 0001

Toll free no: **0800 117 669**