GEPF NEWS

PENSION INCREASE

THE GEPF ANNUAL PENSION INCREASE CONSIDERATIONS

Every year, the Government Employees Pension Fund (GEPF) Board of Trustees works hard to provide fair pension increases for our pensioners and beneficiaries. This is a key responsibility outlined in the Government Employees Pension (GEP) Law of 1996. We know many of you have questions about why increases sometimes seem low, especially when the Fund reports strong investment returns. You might wonder why we use November's year-on-year CPI figure, or why pension increases don't match salary hikes for current public servants. This article aims to explain our approach in a clear, straightforward way. Our goal is to build trust by showing how we balance protecting your retirement income with keeping the Fund strong for the long term.

WHAT GUIDES OUR DECISIONS?

The GEPF is guided by the GEP Law and its rules. These ensure that any increase we approve won't harm the Fund's current or future financial health. Our independent actuary (an expert who analyses the Fund's finances) advises us on what's affordable.
At its core, pension increases are made up of four possible elements, as defined in our law and policies. We don't always grant all of them, it depends on what the Fund can sustain without risks. The easiest way to understand them is to think of them as four "layers" that may be added depending on what the Fund can afford.

The "first layer" is the basic increase. When you joined the GEPF, your contributions (together with your employer's contributions) were set at a level that targets pension increases of 75% of inflation over the long term. This is not a random number; it is the foundation that contributions are designed to support. The GEP Law provides for this basic inflation protection, and it is the starting point each year.

The "second layer" is the further inflation-related increase. The Fund recognises that, in real life, prices tend to rise broadly in line with inflation. That is why, where it is affordable, the Board strives to grant increases closer to 100% of CPI. The "extra" above the basic 75% is the further inflation-related increase. This is the part that often brings the total increase closer to inflation but only if it is sustainable and affordable.

The "third layer" is the catch-up increase (making up for earlier shortfalls, when possible). The economy and investment markets move in cycles, there are strong periods and weaker periods. In some years, the Fund may not be able to grant increases fully aligned with 100% of inflation. When that happens, pensioners can fall behind what they would have received if full inflation had been granted every year. The catch-up layer is meant to help address that sometimes increases that are more than 100% of inflation are required but only when the Fund can afford it based on investment returns earned over time. This is an important point. A catch-up is not "automatic", It can only be granted when long-term affordability allows for it.

The "fourth layer" is the supplementary increase. This is essentially an additional top-up. This is any additional increase the Board may decide to grant that is not directly linked to inflation. As with everything else, it is always subject to affordability and must not weaken the Fund's long-term financial position.

WHY INCREASES SOMETIMES FEEL LOW?

We are currently in a low-inflation environment, which means price rises for everyday goods and services are modest. This is actually good news as it keeps your costs down overall. When inflation is low, our pension increases naturally reflect that to stay aligned with real-world price changes. For example, if CPI is only 3%, a 100% increase would be 3%, which might seem small but matches the slower rise in expenses.

We understand some pensioners worry about higher costs in areas like medical care or food, which can inflate faster than average. That's valid, but CPI is a weighted average based on typical spending patterns across households. It accounts for how much people spend on different items. As retirees, you might spend less on things like work transport or saving for retirement, which can offset higher costs in other areas. This weighting helps make CPI a fair benchmark for protecting your buying power.

GREAT INVESTMENT RETURNS, SO WHY NOT MORE THAN 100% OF CPI?

It's true that the Fund has seen excellent returns in recent years. However, increases aren't just about one year's performance. When you joined GEPF as a member, your contributions (along with your employer's) were set to fund a pension that grows at 75% of inflation over the long term, assuming expected investment returns. If everything goes as planned, that's what the Fund can afford without strain.

When returns beat expectations, the Fund uses that extra to grant higher increases, often reaching 100% of CPI. To hit 100% consistently, returns need to be about 33% higher than projected over time. But the Fund doesn't hand out all the surplus from a good year right away. Instead, we hold some back as a buffer for tougher times, like market downturns. This "smoothing" approach keeps increases steady and reliable. Without it, pensioners would see big swings, high increases in boom years, but possibly below 75% in bad ones. That's not ideal for planning your retirement and protecting the purchasing power of your pensions.

WHY NOVEMBER'S YEAR-ON-YEAR CPI IS USED TO SET INCREASES

We use the CPI change from December 1 to November 30 of the previous year because the increase takes effect on April 1. This earlier cutoff gives time for our governance processes, like Board reviews, communications, and system updates. It is not about picking a low number, it's practical.

Some have suggested November CPI is often lower than the yearly average, disadvantaging pensioners. But data shows the opposite: Over the last 10 years, November's figure was higher than the annual average 60% of the time. On balance, it's fair and doesn't shortchange anyone.

WHY PENSION INCREASES ARE NOT ALIGNED TO PUBLIC SERVANTS' SALARY HIKES?

Pensioners often compare their pension increases to the salary hikes granted to active public servants, which can sometimes appear higher. However, this comparison overlooks a fundamental difference: the sources of funding are completely separate.

Public servants' salaries are paid from the national budget, which is funded by current and future tax revenues. The government can adjust budgets, allocate funds, or make policy decisions to support higher salary increases.

In contrast, the GEPF is a self-funded pension fund. Its only sources of money are:

- contributions collected from members (7.5% of salary) and employers (typically 13%) during working years, and
- investment returns earned on those contributions over time.

The Fund does not sell products, raise prices, collect taxes, or receive ongoing budget allocations from government to cover higher payments. It can only pay benefits from the assets it already holds, no more, no less. Your contributions when you were working were calculated to support pension increases of 75% of inflation over the long term (the legal minimum), assuming expected investment returns. They were never designed to fund increases that match full salary progression or above-inflation hikes seen in public sector wages.

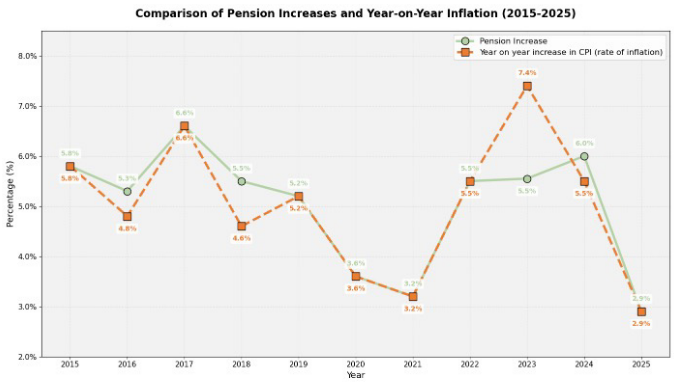
If pension increases were aligned with salary growth (which often exceeds inflation due to policy and negotiation factors), the Fund's liabilities would rise significantly. To cover that without risking sustainability, the Fund would need:

- much riskier investment strategy to support higher investment returns;
- additional external funding (which isn't available), or
- higher contributions during working years, which would have meant lower take-home pay for you and other members back then.

Granting increases beyond what's affordable from contributions and returns could erode the Fund's reserves, threatening long-term security for current pensioners and those still contributing. That's why pension increases focus on protecting your purchasing power through cost-of-living (inflation-linked) adjustments, rather than tracking salary growth. This approach keeps the Fund stable and ensures fair, sustainable benefits for everyone, past, present, and future members.

A LOOK AT RECENT INCREASES

Here's how we've performed over the past 11 years, often exceeding the 75% minimum: As can be seen, we have hit or exceeded 100% of CPI in 9 out of 11 years, thanks to smart investing and careful planning.



OUR COMMITMENT TO YOU

At GEPF, we are dedicated to helping you maintain a dignified retirement. Your contributions were designed for 75% of inflation, but through strong performance, a prudent approach, saving surpluses for rainy days, we have delivered closer to 100% most of the time. We carefully weigh recent gains against long-term needs to treat current and future pensioners equitably.

The GEPF remains dedicated to serving the best interests of our pensioners, ensuring they continue to enjoy a secure and dignified retirement.