MIBFA

Metal Industries Provident Fund

Surplus Apportionment Information Booklet

Index

Metal Industries Provident Fund (“the MIPF”)
(12/8/25718)

Surplus apportionment scheme as at 1 April 2008

Report by the Trustees

1. Introduction

The Pension Funds Second Amendment Act, 2001 (the Act) requires all pension funds to allocate any surplus on a basis as set out in the Act. The surplus apportionment date for the Metal Industries Provident Fund (also referred to as “the MIPF”) is 1 April 2008.

The purpose of this document is to inform all stakeholders on the surplus apportionment scheme, as approved by the Trustees.

2. History of the MIPF

The Metal Industries Provident Fund (MIPF) was established as a defined contribution provident fund with effect from 1 May 1991.

Members of the Metal Industries Group Pension Fund (also referred to as the “MIGPF”) were given the option to transfer to the MIPF with effect from 1 May 1991. A large number of the members of the MIGPF elected to transfer to the MIPF.

Members of the Engineering Industries Pension Fund (also referred to as the “EIPF”) were also given the option to transfer to the MIPF during the period 1 October 1993 to 28 February 1994. A large number of the members of the EIPF elected to transfer to the MIPF.

3. Stakeholders

The following parties are considered as “stakeholders” in terms of the Act and must be included in the surplus apportionment scheme as at 1 April 2008:

- Former members of the MIPF [a total of **403 015** qualifying former members]

  These are all members who left the MIPF over the period 1 May 1991 (inception date of the MIPF) until 31 March 2008 and who previously received a benefit from the MIPF, that is, all withdrawals, transfers and retirements during this period.

- Active members as at 31 March 2008 [a total of **322 643** active members]

  These are all members who were members of the MIPF as at 31 March 2008. If any of these members withdrew, died or retired on/after 1 April 2008 they are still taken into account as active members.

- Members with unclaimed and unpaid benefits as at 31 March 2008 [a total of **233 716**]

These are all members who left the MIPF before 31 March 2008 whose benefits have not yet been claimed and/or paid. In the actuarial valuations their unpaid benefits are reserved for as part of the liabilities of the MIPF.

- The various participating Employers

The following parties are legally not regarded as stakeholders of the MIPF and have been excluded from the surplus apportionment scheme.

- All former members who died before or on 31 March 2008.
- All members who entered the MIPF on or after 1 April 2008.

The Trustees have appointed **Mr Bangizwe Mathenjwa** as Former Member Representative to represent the interests of former members in the discussions regarding the surplus apportionment scheme.

4. Actions by the Board of Trustees to obtain all the former member data

MIBFA, the Administrator of the MIPF, provided the membership data as recorded on their systems. The Trustees also placed advertisements in various newspapers, both on a national and regional level, to invite former members to come forward and register as a stakeholder in the surplus apportionment scheme. Similarly, broadcasts were made on several community radio stations to make people aware of the surplus apportionment exercise. Posters and pamphlets were distributed to the various participating employers and unions. A special Surplus Call Centre was established to deal with all the surplus enquiries and registrations.

The Unions will be hosting information sessions to inform member stakeholders of the surplus apportionment scheme. Please contact your Union representative to get more detail in this regard.

5. Financial position of the MIPF prior to the surplus apportionment

An actuarial valuation of the assets and the liabilities of the MIPF was completed as at 1 April 2008. The valuation indicated a total surplus of R 9 500 million, prior to the investigation of any “improper use” of surplus by the employers (refer to Section 6 of this booklet) and prior to the establishment of any contingency reserves (refer to Section 7 of this booklet).

6. Surplus deemed “improperly utilised by the employer”

Section 15B(6) of the Act stipulated four instances of utilisation of surplus which are deemed as being “improperly utilised” and requires all pension funds to investigate such usages of surplus. An investigation into the financial history of the MIPF over the period 1 May 1991 (inception date of the MIPF) up to the surplus apportionment date of 1 April 2008 was done with the aim of determining whether any surplus was utilized improperly by the employers, as defined in Section 15B(6) of the Act. **No cases of improper use of surplus on the part of the employers could be identified**.

7. Contingency reserves

The Act allows the establishment of contingency reserves to protect the MIPF against specific contingencies. The Registrar of Pension Funds limited the use of such reserves with the issue of a special information circular. The contingency reserves are subject to the Registrar's approval.

After careful consideration the Board of Trustees, on recommendation of the MIPF's Valuator and taking into account the financial position of the MIPF as at the surplus apportionment date, have decided on the following contingency reserves:

7.1 Surplus Cost Reserve

The MIPF conducted a complete budget process in order to determine the expected costs of a full surplus apportionment exercise for the MIPF. An amount of **R 30 million** is reserved for the expected expenditure. This boils down to an average cost provision of approximately R 30 per member stakeholder. Any savings on the surplus cost reserve will, within practical limits, be added to the surplus available for apportionment before the approved scheme is implemented.

7.2 Investment Smoothing Reserve

The Trustees have a policy of smoothing investment returns that are passed on to members in the MIPF. This implies that members will not be hugely affected by the volatility of the underlying investment returns. Currently a final fund interest is declared at the end of each financial year. An interim rate is declared for calculation of benefits of members leaving during the following year. The interim rate is revised on a regular basis to ensure that members leaving the fund and those staying behind are treated fairly.

The Investment Smoothing Reserve was set at an initial value of 10% of the liabilities as at 1 April 2005 (that is, three years prior to the surplus apportionment date). The value of the Investment Smoothing Reserve amounts to **R 3 882 million** at the surplus apportionment date and was calculated using a retrospective build-up since 2005.

7.3 Data Error Reserve

The purpose of this reserve is to protect the MIPF against the risk that the surplus is over- or under-estimated because of data errors and omissions in the actuarial valuation and the extensive surplus apportionment exercise. An amount of **R 155 million** (approximately 1% of the liabilities as at 1 April 2008) was therefore allocated to a Data Error Reserve.

8. Surplus available for apportionment

The surplus available for apportionment as at 1 April 2008 is as follows:

			1 April 2008
8.1	Value of assets		R 25 009 million
8.2	Value of liabilities		R 15 509 million
	(a)	Active members	12 465 million
	(b)	Members with unclaimed and unpaid benefits	1 329 million
	(c)	Liability in respect of the payment of uninsured lump sum Death Benefits[1]	1 715 million
8.3	Total actuarial surplus prior to the establishment of contingency reserves [calculated as 8.1 minus 8.2]		R 9 500 million
8.4	Contingency reserve accounts		R 4 067 million
	(a)	Surplus Cost Reserve	30 million
	(b)	Investment Smoothing Reserve	3 882 million
	(c)	Data Error Reserve	155 million
Surplus available for apportionment as at 1 April 2008 [calculated as 8.3 minus 8.4]			**R 5 433 million**

The Act determines that former members, including pensioners, have first right to the distributable surplus, but only to the extent that the benefits already paid to them (as determined in terms of the Rules of the MIPF) are lower than the prescribed minimum benefit (as determined by the Act). [Refer to Section 9 of this booklet for more detail on the calculation of the minimum benefits.]

Thereafter, any remaining surplus must be equitably distributed between the different stakeholders (various member stakeholder groups and the employers) taking into account the financial history of the MIPF. [Refer to Section 10 of this booklet for more detail on the apportionment of the remaining surplus.]

[1] The Rules of the MIPF provide for the payment of a lump sum death benefit of 3 times salary in addition to the deceased member's accumulated fund credit.

9. Prescribed minimum benefits : Former members

The Act requires that all members who left the MIPF after 1 May 1991 should be considered in the calculations.

Definition of prescribed minimum benefit:

For a defined contribution fund, the prescribed minimum benefit implies the payment of a member's full fund credit at his/her date of exit.

Prior to 1 January 2003 the MIPF applied a 4-year vesting scale to the portion of the member's total fund credit represented by the net employer's contributions (net after allowance for expenses and other costs). When a member with less than 4 years continuous service exited the MIPF due to resignation or dismissal, the unvested portion of the employer's contributions remained in the MIPF.

With effect from 1 January 2003 the full fund credit is payable at all instances of withdrawal from the MIPF.

Method:

The prescribed minimum benefit was determined in respect of each former member. The minimum benefit was then compared with the benefit actually paid. The positive difference (if any) between the minimum benefit and the benefit actually paid, is accumulated with the actual net fund interest earned from the date of exit to the surplus apportionment date.

Results:

95 369 of the 403 015 former members who left the MIPF during the period from 1 May 1991 until 31 March 2008 qualify for a top-up payment. The benefits received by the remaining former members complied with the minimum benefits requirements of the Act.

In total an amount of R 224 million is required on the surplus apportionment date to top-up the benefits of former members to the prescribed minimum level. This amount was calculated assuming that all the former members were still alive at the surplus apportionment date. A former member only qualifies as a stakeholder if he/she was alive as at 31 March 2008. The results of a recent mortality investigation were used to estimate the expected number of deaths between the date of exit and the surplus apportionment date. By applying this probability to the calculated amounts a lower amount of **R 191 million** has been set aside to meet the minimum benefit requirements of the Act. **A traced former member, that was still alive at the surplus apportionment date, will however be paid his/her full calculated minimum top-up amount**.

10. Remaining surplus

The remaining surplus available for distribution, after the amount required to top-up the benefits received by former members to the prescribed minimum, amounts to R 5 242 million (that is, R 5 433 million less the R 191 million required for the minimum benefit top-up to former members].

The apportionment of the remaining surplus of R 5 242 million was negotiated between the parties i.e. Labour and Employers. The Board of Trustees unanimously approved the agreed apportionment at their meeting held on 15 February 2011. The apportionment of the remaining surplus amongst the various stakeholders can be summarised as follows:

a) Active members as at 31 March 2008: 30% enhancement of each member's Fund Credit as at 31 March 2008 (subject to a minimum of R 1 000 per active member).

b) Former members and members with unclaimed and unpaid benefits as at 31 March 2008: 30% enhancement of each member's accumulated benefit as at 31 March 2008 (subject to an overall minimum of R 1 000 per former member).

c) The remaining balance will be reserved in a Contribution Increase Program Reserve Account (CIPRA). The purpose of this reserve is to subsidise increased member and employer contribution rates as set out in the final agreement:

- The total contributions to the MIPF is currently 13,2% of salaries (that is, 6,6% by members and 6,6% by employers). The total contribution rate will be increased to 18,0% of salaries (that is, 7,5% by members and 10,5% by employers) from the Contribution Increase Program Commencement Date. The latter commencement date can only be a date <u>after receiving the approval of the proposed scheme from the Registrar of Pension Funds</u>.

- Instead of increasing the actual contributions immediately, the CIPRA will be used to subsidise the difference between the higher contribution rates and the actual contribution rates. That is, the members will benefit from the higher contributions immediately but it will only be required that members and employers pay these higher rates over a phased period until the CIPRA is depleted.

- The parties agreed to the following phased increases in the <u>actual contribution rates</u>:

Effective Date	Member contributions	Employer contributions
From 1 July 2012	6,7%	6,7%
From 1 July 2013	6,8%	6,8%
From 1 July 2014	6,9%	6,9%
From 1 July 2015	7,0%	7,0%
From 1 July 2016	7,1%	7,1%

Effective Date	Member contributions	Employer contributions
From 1 July 2017	7,2%	7,2%
From 1 July 2018	7,3%	7,3%
From 1 July 2019	7,4%	7,4%
From 1 July 2020	7,5%	7,5%

The increase of the actual employer contribution rate from 7,5% to 10,5% will be effected over a further period of 14 years or until the CIPRA is depleted.

- Should the MIPF not be able to afford the contribution increase program, at any point in time (that is, when the CIPRA is depleted), the subsidy will cease and the contribution rates will then be set at the actual total member and employer contributions effective at that time.
- The participation in the CIPRA of new members and employers who join the MIPF after the surplus apportionment date will be considered on a case by case basis by the Board of Trustees.
- The intention is to treat the members of the MIPF and the EIPF (Engineering Industries Pension Fund) on equal terms and if necessary there will be transfers between the EIPF and the MIPF in respect of CIPRA via the mechanisms allowed for in the Act.

11. Summary of the apportionment as at 1 April 2008

The apportionment of surplus in terms of Section 15B can be summarised as follows:

Stakeholder Groups		Amount	% of Total
First Tier:	Minimum benefits to Former Members	R 191 million	3,5%
Second Tier:	Active members as at 31 March 2008	3 819 million	70,3%
	Former members and members with unclaimed & unpaid benefits	1 255 million[2]	23,1%
	Allocation to CIPRA	168 million	3,1%
Total surplus apportioned in terms of Section 15B		R 5 433 million	100,0%

[2] The amount set aside for the payment of the surplus enhancements to former members and members with unclaimed and unpaid benefits is based on the crude assumption that 20% of these members will be traced to make a payment.

12. Statements by the Former Member Representative

The Former Member Representative made the following statements in his report to the Trustees:

"I am satisfied that the Trustees have taken the necessary steps to include former members and treated them on a similar basis as active members in the surplus apportionment;

I am satisfied that the surplus apportionment scheme allows for the former members of the MIPF with regard to the payment of minimum benefits in accordance with the statutory guidelines as well as a share in the remaining surplus;

After due consideration of all relevant and related aspects I have concluded that the surplus apportionment scheme is fair and equitable. I, therefore, support the proposed scheme."

The full report by the Former Member Representative is available on request.

13. Application of surplus allocation amounts

The surplus apportionment scheme may only be implemented once it has been approved by the Registrar of Pension Funds. The surplus apportionment amounts will be applied as follows:

Stakeholder Groups	Treatment
All former members as well as members with unclaimed and unpaid benefits as at 31 March 2008	Payment in cash. [Only payable if they claim within 5 years after the date of approval by the Registrar[3].]
Active members as at 31 March 2008	
• Members still active on the implementation date	Will be added to their individual fund records and will hence form part of their future benefits from the MIPF. [**No cash payment is allowed by law.**]
• Members who have resigned, been retrenched, transferred from or retired from the MIPF between 1 April 2008 and the implementation date	Payment in cash
• Members who have died subsequent to 1 April 2008	Payment in cash to either their beneficiaries or their estate, as per the relevant legislative requirements. Refer to Annexure 1 for more detail.

Fund returns, as earned on the surplus assets, will be added from the surplus apportionment date until the date of implementation.

[3] The Trustees may extend this period at their discretion.

14. In summary

The Trustees and the Former Member Representative are satisfied that the surplus apportionment scheme complies with the requirements of the Act.

Any queries relating to or objections against the surplus apportionment scheme must be directed **in writing and all objections must be properly motivated** to the Board of Trustees within 12 weeks of the distribution of the member communication, i.e. **before 29 July 2011.**

The address details are as follows: **The Surplus Committee; Metal Industries Provident Fund; Private Bag X11; MARSHALLTOWN; 2107.**

The information can also be e-mailed to **surplus@mibfa.co.za** or faxed to **(011) 688 3094.** For any general queries regarding the surplus apportionment scheme, you can also contact the MIBFA surplus call centre telephonically at **0861 50 44 55**. Queries will be dealt with as soon as possible.

During this period of 12 weeks the Trustees will finalise the documents for submission to the Registrar of Pension Funds. It is planned that the final surplus apportionment scheme be submitted to the Registrar by 31 August 2011. The surplus apportionment scheme can only be implemented after approval by the Registrar.

15. Next steps required from stakeholders

Step 1: Stakeholders, who have **not yet registered** as a surplus stakeholder, are requested to complete the attached registration form and return it to MIBFA. The address details are indicated on the form.

Step 2: Qualifying stakeholders will then be posted an individual surplus statement, containing their personal details as well as their preliminary calculated surplus benefit information to their home or postal address details provided on the registration form. Such individual surplus statement will be issued as soon as practically possible after MIBFA has processed the registration form and verified the person's membership details from their records. In some circumstances MIBFA may request the member for additional information. This is to ensure that the calculations are based on the correct member information.

Stakeholders are requested to ensure that their personal details as indicated on the surplus statement are correct. If any errors are identified, please bring it under the attention of MIBFA, as this may possibly influence the determination of the minimum benefits and other surplus benefits. **Supporting documents must be provided**.

Step 3: Qualifying former members as well as members that were active at 31 March 2008 but subsequently exited from the MIPF, will need to supply their banking details. **Keep in mind surplus payments can only be made after receiving the necessary approval from the Registrar of Pension Funds. The "bank mandates" will therefore only be requested after receiving such approval.**

The Principal Officer
Metal Industries Provident Fund **Approved on 15 March 2011**

Annexure 1 – Deaths on or after 1 April 2008

All qualifying member stakeholders **<u>who died on or after 1 April 2008</u>** will be treated as follows:

a) Former members who died on or after 1 April 2008:

The accumulated surplus will be paid to the member's estate. If no estate exists a next of kin should register an estate with the Master of the High Court. If there is no next of kin the accumulated surplus will be paid to the Master of the High Court.

b) Active members at 1 April 2008 who died subsequently <u>while they were still in active service</u>:

The reason for exit from the MIPF for such a member was his/her death on or after 1 April 2008.

The accumulated surplus will be paid in terms of Section 37C of the Act. This implies that the Board of Trustees need to decide on the distribution of the accumulated surplus amongst the legal beneficiaries.

In these cases there will be a prior Section 37C distribution but additional investigations need to be done by the Trustees e.g. some of the beneficiaries in the prior Section 37C distribution may have died in the interim and such a beneficiary's distribution should be paid to his/her estate

c) Active members at 1 April 2008 who exited the MIPF after the surplus apportionment date and <u>who died after they exited from the MIPF</u>:

The reason for these members' exit from the MIPF was for example: resignation, retrenchment, transfer to another fund or retirement. They then passed away after such event.

The accumulated surplus will be paid to the member's estate. If no estate exists a next of kin should register an estate with the Master of the High Court. If there is no next of kin the accumulated surplus will be paid to the Master of the High Court.