



**NATIONAL TREASURY
REPUBLIC OF SOUTH AFRICA**

PENSIONS ADMINISTRATION

Memo

23 November 2004

TO: B Green S Barnard	FROM: J Jansen Secretary to Dr F le Roux Office of the Head: GEPP
	TELEPHONE: 012 – 319 1047/88 ROOM NO: C205
	SECTION: Management

INTEREST RATE COMMUNICATION

Attached please find copy of Office Circular for your records.

Thank you



NATIONAL TREASURY
REPUBLIC OF SOUTH AFRICA

PENSIONS ADMINISTRATION
Office of the Head: GEPF

OFFICE CIRCULAR

23 November 2004

TO: ALL GEPF EMPLOYEES

INTEREST RATE COMMUNICATION

Introduction

The Minister of Finance (in his capacity as Interim Trustee of the GEPF) approved a new interest rate policy for the GEPF on the 7 May 2004. The new interest rate policy introduces significant changes from the old methodology, primarily in the following two aspects:

- 1) There were previously six different categories of interest rates applicable. This has now been reduced to just two categories – interest applicable where money is owed to the Fund (four of the six previous categories), and interest applicable where the Fund owes money (two of the previous six categories).
- 2) Where previously the Fund had to approach the Trustee each time a revision of interest rates was necessary, the new policy links the interest rate applicable to the two categories to the repo rate. This allows the GEPF to change the interest rates each time the Monetary Policy Committee of the Reserve Bank changes the repo rate. At inception of the policy, the repo rate was 8.00%. In August 2004, it was adjusted down to 7.5%.

The policy has been successfully implemented as from 1 June 2004, and updated as at 1 September 2004. The delay in this communication was in anticipation of legal interpretations pertaining to the TEPF and AIPF.

New Rates

Category 1 (Previous categories 1 and 4)

This rate covers all situations where the Fund owes money, and is calculated as follows:

1 June 2004

$$\begin{aligned}\text{Rate payable} &= \text{repo rate} \times (1 - \text{RFT}^* \text{ rate}) \\ &= 0.08 \times (1 - 0.18) \\ &= 0.08 \times (0.82) \\ &= 0.0656 \\ &= 6.56\%\end{aligned}$$

*RFT: Retirement Fund tax, currently 18%

1 September 2004

$$\begin{aligned}\text{Rate payable} &= \text{repo rate} \times (1 - \text{RFT}^* \text{ rate}) \\ &= 0.075 \times (1 - 0.18) \\ &= 0.075 \times (0.82) \\ &= 0.0615 \\ &= 6.15\%\end{aligned}$$

*RFT: Retirement Fund tax, currently 18%

Category 2 (Previous categories 2, 3, 5 and 6)

This rate covers all situations where the Fund is owed money, and is calculated as follows:

1 June 2004

$$\begin{aligned}\text{Rate receivable} &= \text{repo rate} + 3\% \\ &= 0.08 + 0.03 \\ &= 0.11 \\ &= 11\%\end{aligned}$$

1 September 2004

$$\text{Rate receivable} = \text{repo rate} + 3\%$$

$$\begin{aligned}
 &= 0.075 + 0.03 \\
 &= 0.105 \\
 &= 10.5\%
 \end{aligned}$$

Special Category (For purposes of NSF)

For the purposes of the NSF project, the Minister has agreed to a special interest rate dispensation in order to calculate retrospectively the rolling up of the cost of the purchase of service between 31 May 2000 (or exit if earlier), and the date of recognition.

For the purposes of the NSF project the rate applicable will be the repo rate (or bank rate pre-1999), applied retrospectively.

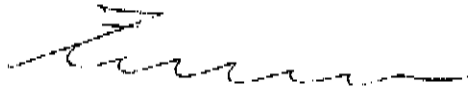
Implementation

- 1) The new interest rate policy was implemented as from 1 June 2004. It was adjusted on 1 September 2004 to reflect the change in the repo rate during August (8.00% to 7.50%).
- 2) With the exception of the NSF project, there is no retrospective application of the policy. The two new dispensations are applicable from 1 June 2004, and all calculations that are dated prior to 1 June 2004 will be required to use the interest rate applicable to the previous dispensations for the period prior to 1 June 2004.
- 3) The Interest rate policy is applicable to the GEPF, AIPF and the TEPF in so far as late payment interest is concerned (the AIPF and TEPF regulations do not specify rates for late payment interest). For all specified rates in the TEPF and AIPF regulation (purchase of service), the specific rates remain applicable until the regulation is changed (GEPF legal section is addressing this issue).
- 4) For future changes in the repo rate or in the rate applicable to retirement funds tax, the effective date of change for calculation purposes for the business will be the first day of the month after the applicable rate has been adjusted. The Fund's actuaries will be requested to inform BSS of such a change, and BSS will be responsible for implementing such rate changes throughout the business.
- 5) A development project has been initiated in order to:
 - o Simplify the current system requirements for updating the six different categories to the new two-category system.

- o Adjust the calculation methodology of the system to charge or pay interest according to the rate applicable for each period during which interest accrues (as opposed to the current basis of charging the interest applicable on liability date for the full period).

For calculation purposes in the new methodology, a series of seven historical indices have been produced to reflect the rates applicable for each of the previous six categories of interest rates. The indices will be loaded on the Civpen system and once tested and implemented, all future interest calculations will be based on the indices.

For more information or details pertaining to the indices, please direct your queries to Business Support Services.



DR F LE ROUX
HEAD: GOVERNMENT EMPLOYEES PENSION FUND (GEPF)