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Pension Increase Policy

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Document Versions

Version	Revision Date	Prepared / Revised by	Business Unit	Status
1	23 August 2006	Benefits and Administration Committee		
2	16 August 2012	Benefits and Administration Committee		

Document Reference Library

Document File Name	Context and Relevance
Pension Increase Policy	The policy guides the board of trustees in the determination of the pension increase applicable from 1 April of each year.

Business Areas Impacted By This Policy

Name Business Unit / Area	Context and Relevance
Board of Trustees	The policy guides the board of trustees in the determination of the pension increase applicable from 1 April of each year
Pensions Administration	The pension increase must be implemented in time for pensioners to receive their 1 April increase.

Glossary of Terminology

Abbreviation/Terminology	Description
<i>Basic Increase</i>	<p>In respect of a pensioner who had retired on or before the previous 1 April, the increase that is defined under Rule 23, namely</p> <ul style="list-style-type: none">(a) at least 75% of the year-on-year increase in the Consumer Price Index to the previous 30 November, plus(b) any additional amount, after the increase in (a), necessary to maintain the purchasing power of at least 75% of the pension at retirement¹ <p>provided the increase can be afforded (see paragraph 11).</p> <p>Where the pensioner has retired after the previous 1 April, the pensioner will receive only a pro-rata increase.</p>

¹ That is, any additional amount needed to increase the pension so that it equals 75% of the pension at retirement increased by 100% of the change in the Consumer Price Index from date of retirement to the previous 30 November.

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Abbreviation/Terminology	Description
<i>Catch-up Increase</i>	In respect of a pensioner who had retired on or before the previous 1 April, an amount which will increase pensions, after the award of the <i>Basic Increase</i> and any <i>Further Inflation Related Increase</i> , to the original pension on retirement increased by 100% of the change in the Consumer Price Index from date of retirement to the previous 30 November, or such lower amount as the Fund can afford in excess of 75%. The amount of the increase will vary according to date of retirement.
<i>Funding Level</i>	The ratio of the actuarial value of the assets to the value of the accrued liabilities of the Fund (that is, the present value of the Fund's obligations towards its members in respect of their past service), as determined by the actuaries.
<i>Further Inflation Related Increase</i>	In respect of a pensioner who had retired on or before the previous 1 April, an inflation related increase in excess of 75% of the increase in the Consumer Price Index over the year to the previous 30 November. Where the pensioner has retired after the previous 1 April, the pensioner will receive only a pro-rata increase.
<i>Long Term Funding Target</i>	As defined in the Funding Policy. Broadly speaking, assets at fair value are expected to match or exceed liabilities determined on realistic assumptions with realistic (as opposed to conservative) contingency and solvency reserves.
<i>Minimum Funding Level</i>	As defined in the Funding Policy. Broadly speaking, a temporary drop below this level may be experienced, but this should be corrected within a relatively short period either by market growth or additional employer contributions.
<i>Notional Pensioner Account</i>	a notional build-up of assets attributable to pensioners (taking into account investment performance, expenses, pension payments, capital from retiring members, etc.) and will be determined by the actuaries.
<i>Supplementary Increase</i>	Any increase determined by the Board of Trustees which is not an inflation related increase (i.e. the <i>Basic Increase</i> or <i>Further Inflation Related Increase</i>) or <i>Catch-up Increase</i> .

Policy Overview

- 1 Section 25 of the GEP Law requires the Board of Trustees to regularly increase pensions in order to ensure that the value of pensions is maintained by means of fair adjustments within the financial constraints of the Fund, and acting on the advice of the actuary. Rule 23 obliges the Board of Trustees to grant pension increases with effect from 1 April of each year. No guidance is provided in the Rules as to the level of increase other than the specification of the minimum increase that the Fund must provide so long as the minimum increase is affordable. No guidance is provided as to what “within the financial constraints of the Fund” or “so long as the minimum increase is affordable” means.
- 2 The Board of Trustees have adopted the following pension increase policy (“the Policy”) in order to give effect to Section 25 of the GEP Law and Rule 23, to establish what is affordable, and to guide them in their determination of pension increases each year.
- 3 In particular, the Policy is designed to:
 - 3.1 protect pensioners against inflation, provided the increase can be afforded by the Fund or the employer pays the cost of any increase in excess of the amount the Fund can afford;
 - 3.2 ensure consistency in the pension increases granted from year to year;
 - 3.3 facilitate communication with active members, pensioners and the employer concerning the Board of Trustees’ intention with regard to pension increases.

Purpose

- 4 The Policy guides the Board of Trustees with regard to the pension increase to be granted each 1 April.

Policy Statement

- 5 The Board of Trustees is responsible, after consultation with the Minister of Finance, for
 - 5.1 approving and amending this Policy; and
 - 5.2 approving the pension increases to be granted.
- 6 Once the pension increase has been determined, the Board of Trustees is responsible for approving the communication to pensioners of the pension increase to be granted.
- 7 The Board of Trustees delegates the responsibility for administering this Policy to the Benefits and Administration Committee ("B&A Committee").
- 8 The B&A Committee is responsible for:
 - 8.1 developing, and proposing any changes to, this Policy;
 - 8.2 recommending pension increases to the Board of Trustees in accordance with this Policy, after consultation with the Fund's actuaries.
 - 8.2.1 In making this recommendation,
 - 8.2.1.1 The B&A Committee will recommend an inflation related increase, comprising the *Basic Increase* and, possibly, a *Further Inflation Related Increase*. In considering the Further Inflation Related Increase, the B&A Committee may take account of the National Treasury's forward estimate of inflation, or increases in pensioner inflation, the difference between the average CPI increase and the year on year CPI increase, or increases in social grants, as well as the balance in the Notional Pensioner Account.

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8.2.1.2 If the full *Basic Increase* cannot be granted because of the affordability provision in 11 below, a proportionate share will be granted.

8.2.1.3 The B&A Committee may recommend one or more of a *Catch-up Increase* and a *Supplementary Increase*, in addition to the inflation related increase in 8.2.1.1.

8.2.2 In deciding whether to award a *Catch-up Increase*, or a *Supplementary Increase* (or a combination) the B&A Committee will normally use the following order of priority:

8.2.2.1 give a *Catch-up Increase*, and then, possibly,

8.2.2.2 give a *Supplementary Increase*.

8.3 drafting the communication of the pension increase for transmission to the pensioners. In doing this the B&A Committee must strive to retain the pensioners' expectations of future increases within what can reasonably be expected from the future investment performance of the Fund and the actuaries' assumptions regarding the determination of the pensioner liabilities.

8.4 recommending action be taken by the Board of Trustees where the B&A Committee finds itself unable to grant the pension increases that would protect pensioners against inflation on a sustained basis.

Limitations and Conditions

- 9 The Rules of the Fund will take precedence in the event of any apparent conflict with the Policy as set out below.
- 10 The Board of Trustees may amend this Policy after consultation with the Fund's actuaries and the employer.

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- 11 The Board of Trustees may approve a pension increase as recommended by the B&A Committee in terms of 8.2. provided that:-

11.1 after the recommended increase, the *Funding Level* is higher than the *Minimum Funding Level* as defined in the *Funding Level Policy*, or

11.2 the employer has committed to paying such amounts as will increase the *Funding Level* to the *Minimum Funding Level*, after the recommended increase, within the next three years,

and, in either case,

there is a reasonable prospect of achieving, or maintaining, the *Long Term Funding Target* over a time frame determined by the Board of Trustees. That is, if the *Funding Level* is currently below the *Long Term Funding Target*, the Board of Trustees must have approved a scheme or arrangement aimed at increasing the *Funding Level* to the *Long Term Funding Target* over this time frame, after including the recommended increase.

Approval



MAJOR GENERAL AL DE WIT

CHAIRPERSON: BENEFITS AND ADMINISTRATION COMMITTEE

DATE: 19 September 2012

Approved / Not approved / Comments



MR KA MOLOTO

CHAIRPERSON: BOARD OF TRUSTEES

DATE: 19 SEPTEMBER 2012
