



Transnet Second Defined Benefit Fund

Actuarial valuation as at 31 March 2019

Prepared by Alexander Forbes Financial Services

August 2019

Contents

	Page
Executive summary	3
1. Introduction.....	4
2. History of the fund	6
3. Developments since the previous valuation date	7
4. Member data	8
5. Assets	9
6. Valuation method and basis	11
7. Valuation results	15
8. Summary and recommendations	17

Appendices

	Page
Appendix 1: Summary of benefits and contributions	18
Appendix 2: Summary of data	19
Appendix 3: Analysis of change in financial position	22
Appendix 4: Funding level comparison	23

EXECUTIVE SUMMARY

Present value of pensioner liabilities

1. The present value of the liabilities in respect of pensioners as at 31 March 2019 was as follows:

	31 March 2018 (R million)	31 March 2019 (R million)
Pensioners	4 727	4 127
Widow(er)s	5 903	5 403
Children	21	22
Total liability	10 651	9 552

Summary of results

2. Comparing the value of the assets with the past service liabilities produced the following results:

	31 March 2018 (R million)	31 March 2019 (R million)
Total net assets	14 669	13 346
Total liabilities	10 651	9 552
Solvency reserve	471	305
Surplus/(Deficit)	3 547	3 489
Funding level	131.9%	135.4%

Conclusion

3. I confirm that, based on the information available, the fund was in a sound financial condition as at the valuation date, i.e. the assets of the Transnet Second Defined Benefit Fund exceed the fund's liabilities and recommended contingency reserves as at the valuation date.
4. I am satisfied that the assets of the fund adequately matched the liabilities.

1. INTRODUCTION

I am pleased to present to the trustees of the Transnet Second Defined Benefit Fund (*"the fund"*) this actuarial valuation as at 31 March 2019 (*"the valuation date"*). This report sets out the results of the actuarial valuation of the fund as at 31 March 2019 and includes an analysis of the financial progress of the fund since 31 March 2018 (*"the previous valuation date"*). The period between the previous valuation date and the current valuation date is referred to hereinafter as the valuation period.

Registration and operation

- 1.1 The fund now known as the Transnet Second Defined Benefit Fund was established on 1 November 2000 and all pensioners of the Transnet Pension Fund transferred to the fund on 1 November 2000. The fund was in a financially sound condition at its inception.

Objectives

- 1.2 This actuarial valuation has been carried out as at 31 March 2019 with the following objectives:
- to assess the **financial soundness** of the fund, by comparing the value of liabilities accrued to the valuation date with the value of the assets held as at that date;
 - to investigate and report on **actual experience of the fund** since the previous valuation;
 - to review the **assumptions used** in light of actual experience;
 - to assess the necessity for, and quantum of, any **contingency reserves**;
 - to assess the **suitability of the assets** in relation to the liabilities of the fund; and
 - to meet **statutory requirements**.

Valuation data

- 1.3 In compiling this report, I have relied upon the accuracy and completeness of information made available to me by the administrators, Momentum Retirement Administrators, and external parties. Except where expressly stated in the report, I have not independently verified the accuracy of the facts or the basis of the information supplied to me.
- 1.4 The results of the valuation depend on the accuracy of:
- the membership data;
 - the information on the assets, as supplied by the relevant sources; and
 - the audited financial statements for the valuation period.
- 1.5 Reasonability checks have been performed on the above and I am satisfied with the general accuracy and completeness of the data provided and with its suitability for purposes of this actuarial valuation. Further information regarding the reasonability checks performed is set out in appendix 2.

Capacity, brief and professional guidance

- 1.6 This report has been prepared by Alexander Forbes Financial Services (Pty) Ltd ("*Alexander Forbes*") solely for the benefit of trustees of the Transnet Second Defined Benefit Fund and the Minister of Public Enterprises and the Minister of Finance, and is prepared in accordance with the instructions given by the trustees of the fund. The trustees are charged by the Transnet Pension Fund Act 62 of 1990 ("the Act") to investigate the financial condition of the fund and report thereon to the Minister of Public Enterprises and the Minister of Finance.
- 1.7 In terms of rule 18(2)(b) of the fund, the fund shall be valued by the Actuary at intervals not exceeding three years, to determine whether the fund is in a position to pay the benefits provided for in the rules. The current practice is to perform annual actuarial valuations of the fund. The trustees appointed Alexander Forbes to perform this valuation.
- 1.8 Throughout this report any values that have been determined are, except where otherwise stated, in accordance with our view of the most probable future experience. Our specific assumptions and other reliances and limitations are documented in the following sections and supporting appendices. These sections and appendices are an integral part of this report.
- 1.9 This report complies with the relevant Guidance Notes of the UK Actuarial Profession and the Professional Guidance Notes of the Actuarial Society of South Africa.
- 1.10 Alexander Forbes does not accept any liability to any persons, other than the trustees, in connection with this report or its related enquiries. I accept no liability in respect of any matter outside the scope and limitations of this report and purpose for which it is prepared.
- 1.11 This report may not be disclosed and / or relied upon in whole or in part to / by any person other than the trustees or quoted in any other context without prior written consent. Any person, other than the trustees to whom this report is addressed, who receives a draft or copy of this report (or any part of it) or discusses it (or any part of it) or any related matter with me or any third party, does so on the basis that they acknowledge the source of this report and accept that they may not rely on it for any purpose whatsoever and that I owe a duty of care only to the trustees. Any portion of this report, if reproduced or transmitted, must include a reference to the full report and to this clause.
- 1.12 This report has been prepared as at 31 March 2019 and covers the valuation period given above. Unless specifically stated to the contrary, it does not take into account any events subsequent to the valuation date.

2. HISTORY OF THE FUND

2.1 A summary of the history of the fund's funding level is shown in the following table:

	Assets (R million)	Liabilities (R million)	Funding Level %
1 November 2000*	19 911	17 878	111.4%
31 March 2001*	16 502	20 140	81.9%
31 March 2002*	16 048	18 992	84.5%
31 March 2003*	13 243	18 370	72.1%
31 March 2004*	15 095	18 537	81.4%
31 March 2005	16 369	21 898	74.8%
31 March 2006	19 204	22 197	86.5%
31 March 2007**	21 570	20 414	105.7%
31 March 2008**	19 850	17 873	111.1%
31 March 2009**	19 614	17 919	109.5%
31 March 2010**	19 662	16 827	116.8%
31 March 2011**	18 852	16 119	117.0%
31 March 2012**	18 339	15 993	114.7%
31 March 2013**	18 313	16 146	113.4%
31 March 2014**	17 218	14 235	121.0%
31 March 2015**	16 757	13 612	123.1%
31 March 2016**	15 630	11 823	132.2%
31 March 2017**	15 241	11 307	134.8%
31 March 2018**	14 669	11 122	131.9%
31 March 2019**	13 346	9 857	135.4%

* These figures are drawn from the actuarial valuation reports prepared by NBC Consultants and Actuaries.

** Liabilities include any contingency reserves held.

3. DEVELOPMENTS SINCE THE PREVIOUS VALUATION DATE

Pension increases

- 3.1 Pensions in course of payment are increased by 2% per annum in terms of the rules of the fund.

Bonus payments

- 3.2 With effect from 31 March 2007 the rules of the fund were amended to allow the trustees to grant ad hoc bonus payments to pensioners if the value of the fund's assets is in excess of its liabilities. Such bonuses may only be granted with the approval of the Board of Directors of Transnet.
- 3.3 All pensioners received ad hoc bonuses of 10% of annual pension in April 2018, 15% in October 2018 and a further 15% in December 2018. The bonus paid in April 2018 was accounted for in the previous valuation.

Administration and actuarial services

- 3.4 The fund was administered by Momentum Retirement Administrators during the valuation period.
- 3.5 Alexander Forbes are the appointed actuaries to the fund.

4. MEMBER DATA

The valuation of the fund at 31 March 2019 was based on the membership detailed below. Further statistics, including a reconciliation of the current membership with that present at the previous valuation, are provided in appendix 2.

Pensioners

- 4.1 Details of the pensioners and annual pension statistics at the valuation date are provided in the table below:

		31 March 2019	
	Number	Total annual pensions (R'000)	Average annual pensions (R)
Pensioners			
- Male	13 375	615 993	46 056
- Female	623	23 346	37 472
Widow(er)s			
- Male	71	2 293	32 297
- Female	32 760	867 892	26 492
Children	126	2 310	18 336
Total	46 955	1 511 834	32 198

- 4.2 We note that the number of pensioners is lower than that shown in the financial statements, which show a higher number of new beneficiaries than were present in the valuation data.
- 4.3 The corresponding statistics at the previous valuation date have been provided for comparison:

		31 March 2018	
	Number	Total annual pensions (R'000)	Average annual pensions (R)
Pensioners			
- Male	14 826	662 182	44 664
- Female	661	23 749	35 929
Widow(er)s			
- Male	69	2 165	31 378
- Female	34 229	890 693	26 022
Children	123	2 143	17 423
Total	49 908	1 580 932	31 677

- 4.4 The valuation data includes 54 pensioners in terms of Railways and Harbours Pensions Amendment Act No. 26 of 1941 (49 male pensioner and 5 female pensioners), compared to 59 at the last valuation.

5. ASSETS

- 5.1 This section sets out the value placed upon the fund's assets. It first deals with the matched cash flow portfolio and then with the fund's assets in aggregate.

Matched cash flow portfolio

- 5.2 The liabilities of the fund are entirely nominal and the trustees have targeted a strategy that will match the cash flows of approximately 85% of these liabilities. I am satisfied that the matched portfolio, currently at 87.6% of the fund's liabilities as reported by the fund's asset consultants, is appropriate. This is a decrease from 93.3% at the previous valuation.

Unmatched portfolio

- 5.3 The fund, together with its asset consultants, devised an investment policy in respect of the remainder of the fund's assets. This policy follows a more aggressive investment strategy than that of the matched portfolio. In my opinion this is appropriate as the unmatched portion is primarily intended to cover the balance of the unmatched liabilities and the "reserves" which would be used to fund future pension bonuses, as affordable. Given that the balance of unmatched liabilities are long-term liabilities, and that the pension bonus reserve would look to maximise the assets in this reserve in order to maximise future bonuses, I am satisfied with the approach followed in setting this investment policy.

Fund assets

- 5.4 The composition of the fund's assets at market value, as reported in the audited annual financial statements, is set out in the following table:

	Market value (R million)	Allocation %
Cash and deposits	1 737	13.1
Commodities	94	0.7
Debt Instruments	6 509	49.1
Equities	4 144	31.3
Collective investment schemes	12	0.1
Hedge funds	(5)	0.0
Private equity funds	332	2.5
Derivative market investments	(261)	(2.0)
Investing in participating employer	688	5.2
Total investments	13 250	100.0
Plus: Current assets	171	
Less: Current liabilities*	(75)	
Total assets for valuation purposes	13 346	

* Includes unclaimed benefits

Valuation of assets

- 5.5 For purposes of this actuarial valuation, the assets have been taken into account at 100% of fair (or market) value and no investment margin has been set aside. Therefore the assets of the fund have been taken into account at R 13 346 million as at the valuation date. This is consistent with asset valuation methodology applied to the valuation of the fund's liabilities.

Fund returns

- 5.6 The assets of the fund earned approximately 4.90% per annum during the valuation period, based on the audited financial statements and assuming that cash flows for each year occurred in the middle of that year. This investment return is net of investment management fees.
- 5.7 This return should be considered in the context of the 8.37% per annum assumed in the previous actuarial valuation report.

Appropriateness of assets

- 5.8 I am satisfied that the current investment strategy provides an appropriate match of the fund's liabilities.

6. VALUATION METHOD AND BASIS

The valuation has been conducted on the basis of the benefits and other provisions of the rules as at 31 March 2019. The liabilities of the fund are entirely nominal. Assets are reflected at market value.

Valuation approach

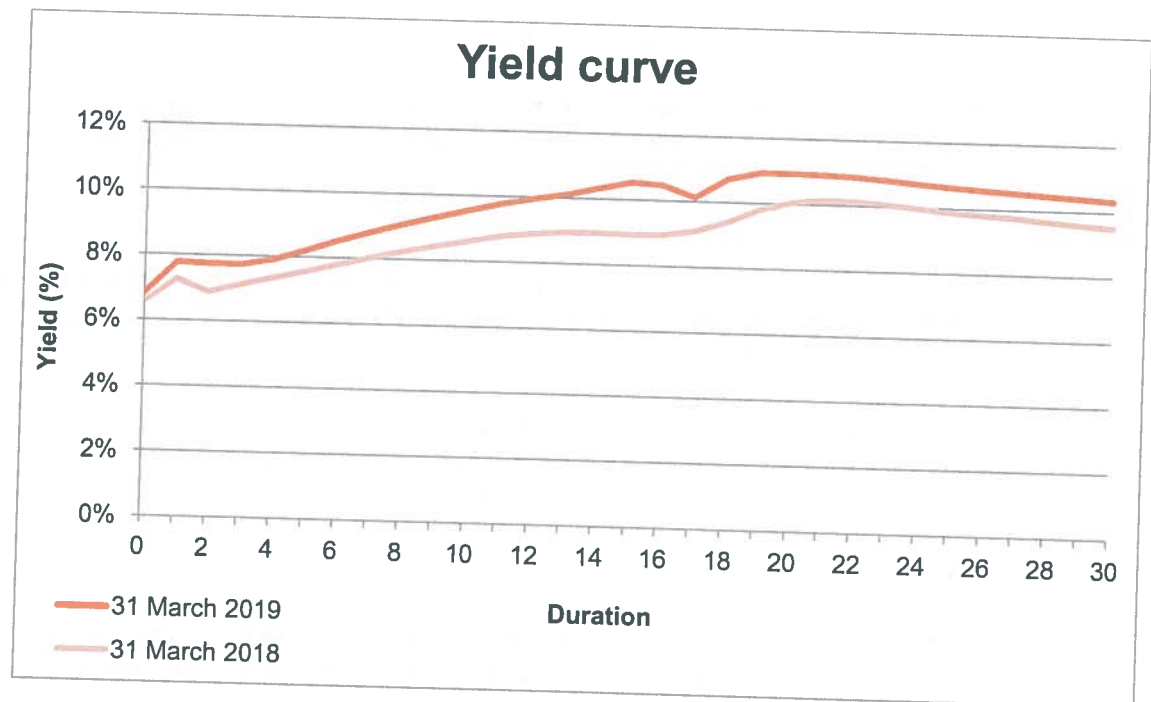
- 6.1 The liabilities are calculated as the present value of projected future pension payments at the date of valuation. The future pension payments and pension increases are discounted to the valuation date using the valuation discount rate.
- 6.2 The in-force future pension payments were calculated by applying a best-estimate probability basis to future pension payments, allowing for future pension increases in terms of the rules of the fund. This method is appropriate for a fund with a membership of only pensioners.

Principal actuarial assumptions

- 6.3 In setting the assumptions to be used for estimating the liabilities of the fund current actuarial principles and the Alexander Forbes best practice "house view" have been followed.
- 6.4 Current practice is for these assumptions to be "best-estimate" assumptions. Therefore, no deliberate margins of conservatism would be included in the assumptions and the assumptions would generally be motivated by reference to the experience of the fund, statistical evidence and yields on government or corporate bonds.
- 6.5 In addition, the assumptions should be reasonable both independently and combined. The assumptions used to value the liabilities must be consistent with those used to value the assets.
- 6.6 The actuarial assumptions used in the valuation of the liabilities are detailed below:

Yield curve

- 6.7 The gross discount rates are determined with regard to the all bond yield curve on 31 March 2019. I believe an appropriate matched investment strategy for the fund would reflect an asset profile of primarily bond investments. I have therefore used the yield curve as the discount rate, as implied by the efficient market hypothesis. The graph below compares the yields as at 31 March 2019 and 31 March 2018:



- 6.8 As in the previous valuation, the expected future cash flows at each duration have been discounted using the yield implied by the yield curve at each specific duration.
- 6.9 The average discount rate which produces equivalent results is 8.35% p.a. compared to 8.37% in the previous valuation.
- 6.10 The fund's liabilities have duration of approximately 5.4 years, compared to approximately 5.8 years in the previous valuation.
- 6.11 No provision for asset management fees has been made, since the out-performance over the benchmark produced by active asset management should exceed the asset management fee.

Inflation

- 6.12 A future inflation assumption can be derived at each duration on the yield curve by subtracting the yield on inflation-linked government bonds from a similar duration fixed-coupon bond yield. The fund's liabilities have duration of approximately 5.4 years, corresponding to an inflation estimate of 4.97%, compared to 5.70% at the last valuation.
- 6.13 This assumption is not used in the determination of any of the liabilities in the fund and should be used purely as a comparative.

Mortality assumptions

- 6.14 The mortality assumptions have, at this stage, remained unchanged from the previous valuation.
- 6.15 The fund-specific Transnet Pensioner Mortality Tables have been retained to represent the expected mortality of all pensioners.

Category	Average pension weighted age	
	31 March 2018	31 March 2019
Male pensioners	77.8 years	79.4 years
Female pensioners	76.5 years	78.3 years
Male spouses (Widowers)	63.1 years	65.7 years
Female spouses (Widows)	75.3 years	76.7 years

6.16 The fund-specific Transnet Pensioner Mortality Table can be summarised as follows:

Age	Average annual death rate in the stated age band	
	Female (%)	Male (%)
20 to 24	0.26	0.79
25 to 29	0.34	1.03
30 to 34	0.42	1.27
35 to 39	0.52	1.51
40 to 44	0.63	1.75
45 to 49	0.74	1.99
50 to 54	0.87	2.24
55 to 59	1.06	2.48
60 to 64	1.40	2.72
65 to 69	2.02	3.35
70 to 74	3.14	4.95
75 to 79	5.17	7.80
80 to 84	8.88	11.89
85 to 89	14.66	17.36
90 to 94	22.40	24.80
95 and older	30.88	33.14

Remarriage liability

- 6.17 The rules of the fund were previously amended so that only a spouse who was married to a pensioner on or before 31 March 2007 would be eligible to claim a benefit on the death of the pensioner. This was allowed for in the valuation by assuming that 80% of pensioners are currently married and that all male pensioners are 5 years older than their spouses.
- 6.18 The actual marital statuses of pensioners and their spouses' details are not reliable in the data received. The administrators continue to update this information where possible.

Solvency reserve basis

- 6.19 I have determined the level of the solvency reserve using the discontinuance matched approach. The solvency reserve is made up of three components, namely: solvency reserve on matched liabilities, solvency reserve on unmatched liabilities and a mortality improvement reserve.
- 6.20 The assumptions that differ from the best-estimate valuation assumptions are:
- Discount rates: This is the yield curve, as discussed in section 6.7, but adjusted for the reasonable cost of maintaining an investment strategy of matching such assets to the liabilities of the fund (0.5% for unmatched), but taking into account the current matching and associated reduced risks (0.25% for matched).
 - Post-retirement mortality: The Transnet Mortality tables were again rated down by a ½ year to allow for possible future mortality improvements.

7. VALUATION RESULTS

- 7.1 In order to determine the level of solvency of the fund, it is necessary to compare the total assets of the fund with the total liabilities. The fund is solvent when the value of the assets exceeds the value of the liabilities, i.e. a funding level of 100% or greater. The funding level is the ratio of the value of the assets to the value of the liabilities of the fund at the valuation date.

Value of liabilities

- 7.2 The present value of the liabilities in respect of pensioners, as at 31 March 2019, is given in the table below. The values as at 31 March 2018 are given for comparative purposes:

	31 March 2018 (R million)	31 March 2019 (R million)
Pensioners	4 727	4 127
Widow(er)s	5 903	5 403
Children	21	22
Total liabilities	10 651	9 552

Value of assets

- 7.3 For valuation purposes, the value of the assets is R 13 346 million.

Value of solvency reserve

- 7.4 The trustees accepted and implemented a solvency reserve to afford protection against investment and mortality risk. This reserve is calculated on the difference between the fund's liabilities on the valuation basis and the liabilities on the solvency basis.
- 7.5 As per the previous section, this reserve has three components:
- The Transnet Pensioner Mortality tables were rated down by a ½ year to allow for possible future mortality improvements. An amount of R 168 million will need to be set aside to allow for this.
 - A reserve of R 32 million is required in respect of the unmatched portion of the liabilities. This was calculated by reducing the best-estimate bond yield by 0.5% to allow for the reasonable cost of maintaining the investment strategy of the fund.
 - On the basis that a margin arose on the implementation of the cash flow matching strategy, there is expected to be an additional level of assets that provide a margin of protection and which would release over time. On this basis the solvency reserve in respect of the matched liabilities portion was calculated by reducing the best-estimate bond yield by only 0.25%. The reserve required for the matched portion of the liabilities amounts to R 105 million.
- 7.6 The total recommended solvency reserve as at 31 March 2019 amounts to R 305 million compared to R 471 million as at 31 March 2018.

Funding level

- 7.7 Comparing the value of the assets with that of the past service liabilities produces the following results:

	31 March 2018 (R million)	31 March 2019 (R million)
Total net assets	14 669	13 346
Total liabilities	10 651	9 552
Solvency reserve	471	305
Surplus / (deficit)	3 547	3 489
Funding level	131.9%	135.4%

- 7.8 The fund's assets exceed its liabilities. As at the valuation date I am able to confirm that the fund is financially sound (i.e. the fund has a funding level of 100% or greater).

Comment in terms of APN 205

- 7.9 Whilst the value of the liabilities is based on best estimate assumptions, where relevant, and the solvency and other contingency reserves established by the trustees on my advice allow for some fluctuations in asset values and / or unexpected changes in liabilities, there is no guarantee that these reserves will prove sufficient in practice. Conversely, it is possible that the reserves may prove to be more than sufficient.
- 7.10 If the reserves prove to be insufficient, management action will be required to rectify the position. The uncertainty of the adequacy or otherwise of the reserves held is unavoidable and the actual outcome can only be determined when the fund ceases to have any further liabilities.

8. SUMMARY AND RECOMMENDATIONS

- 8.1 The fund does not receive regular contribution income and all the benefits are payable from a combination of investment income and the sale of assets. This will result in the fund's assets reaching a point where they start to reduce over time. The market value of the fund's assets is very important and has a direct impact on the financial position of the fund.
- 8.2 The actuarial valuation of the Transnet Second Defined Benefit Fund revealed a surplus of R 3 489 million after allowing for a solvency reserve of R 305 million, and a funding level of 135.4% as at the valuation date.
- 8.3 Based on the results, as expanded in appendix 4 to reflect the impact of continuing annual bonuses, the fund can afford two 13th cheques per annum for the foreseeable future.
- 8.4 While the valuation results show a strong financial position, it would be useful for the trustees to bear in mind that, should there be a move to target inflationary pension increases, there would need to be a change in the fund's reserving policy and asset structure. For information purposes only, I have included under appendix 4 an illustration of the funding position had inflation been the fund's target. This has no bearing on the financial position of the fund and should be used for management information purposes only.
- 8.5 Although the improvements in pensioner longevity are not yet significant, I have also shown in appendix 4 the impact of allowing for mortality improvements of 0.5% per year going forward.
- 8.6 I am able to confirm that the fund was in a sound financial condition as at the valuation date.
- 8.7 I am satisfied that the current investment strategy is appropriate and that the assets adequately match the liabilities.



A R Pienaar

Fellow of the Actuarial Society of South Africa
and Fellow of the Institute of Actuaries
in my capacity as the valuator of the fund
and as an employee of
Alexander Forbes Financial Services (Pty) Ltd

For the purposes of professional regulation the primary professional regulator of the signatories to this report is the Actuarial Society of South Africa.

August 2019

APPENDIX 1: SUMMARY OF BENEFITS AND CONTRIBUTIONS

A summary of the main benefits is given below. Full details are contained in the registered rules of the fund. Where there are special cases or benefits for particular members, these have been taken into account in the valuation.

Spouse's pension on death

In terms of the rules of the fund a pension equal to 70% of the member's pension immediately prior to his death. If the pensioner dies before the normal retirement age, the pension is increased by the ratio of pensionable service plus service from date of death to normal retirement age over pensionable service.

If the spouse is the result of a marriage after retirement, and is more than five years younger than the deceased pensioner, the benefit is reduced.

Only spouses who were married to principal pensioners at 31 March 2007 are entitled to this benefit.

Dependent children's pensions on death

In terms of the rules of the fund on the death of a pensioner a dependent child receives a pension at the discretion of the fund and on a basis determined by the fund, but not more than 80% of the spouse's pension.

If dependants are children, the pension is normally payable to age 18. This may be extended up to age 26 by the trustees in cases where children remain dependent after age 18.

Pension increases

The rules provide for a pension increase of 2% per annum on the anniversary of the retirement date.

APPENDIX 2: SUMMARY OF DATA

Membership reconciliation

	Pensioners	Spouses	Children & other dependants	Total
Membership 31 March 2018	15 487	34 298	123	49 908
Adjustment	-	2	4	6
Revised	15 487	34 300	127	19 914
New pensioners	-	753	8	761
Exits (deaths and terminations)	(1 489)	(2 222)	(9)	(3 720)
Membership 31 March 2019	13 998	32 831	126	46 955

We note that the number of pensioners is lower than that shown in the financial statements, which show a higher number of new beneficiaries than were present in the valuation data.

The adjustments shown above are generally the result of changes in member numbers on the administration system.

Member statistics

Pensioners		Male		Female		
Age	Number	annual pension (R'000)	Average pension (R)	Number	annual pension (R'000)	Average pension (R)
45 - 49	3	45	15 091	-	-	-
50 - 54	43	831	19 329	4	70	17 405
55 - 59	255	6 140	24 078	33	650	19 684
60 - 64	695	18 855	27 130	78	1 772	22 712
65 - 69	1 001	33 160	33 127	87	2 688	30 900
70 - 74	1 901	96 838	50 940	75	3 190	42 540
75 - 79	3 181	166 980	52 493	102	3 978	39 003
80 - 84	3 366	155 464	46 187	115	3 969	34 512
85 - 89	1 967	95 814	48 711	86	4 475	52 032
90 - 94	725	33 991	46 884	32	1 546	48 320
95 - 99	200	7 051	35 254	11	1 008	91 604
100 - 104	32	778	24 306	-	-	-
105 - 109	4	31	7 850	-	-	-
110 - 114	1	7	7 130	-	-	-
115 - 119	1	8	7 743	-	-	-
Total	13 375	615 993	46 056	623	23 346	37 472

Widow(er)s		Male		Female		
Age	Number	annual pension (R'000)	Average pension (R)	Number	annual pension (R'000)	Average pension (R)
35 - 39	-	-	-	5	86	17 295
40 - 44	1	7	6 827	42	978	23 289
45 - 49	4	153	38 157	237	5 346	22 558
50 - 54	6	173	28 931	800	17 585	21 981
55 - 59	12	447	37 290	1 820	40 462	22 232
60 - 64	10	382	38 192	2 949	66 362	22 503
65 - 69	14	424	30 291	4 196	89 291	21 280
70 - 74	12	316	26 348	5 306	124 703	23 502
75 - 79	4	140	34 898	6 255	158 877	25 400
80 - 84	3	86	28 541	5 395	164 434	30 479
85 - 89	3	105	35 125	3 619	121 609	33 603
90 - 94	1	18	18 168	1 675	63 182	37 721
95 - 99	1	42	41 659	397	13 598	34 251
100 - 104	-	-	-	54	1 203	22 284
105 - 109	-	-	-	9	169	18 750
110 - 114	-	-	-	1	7	7 265
Total	71	2 293	32 297	32 760	867 892	26 492

Children & other dependants		Male			Female	
Age	Number	annual pension (R'000)	Average pension (R)	Number	annual pension (R'000)	Average pension (R)
10 – 14	1	2	2 267	3	8	2 922
15 – 19	2	14	6 814	4	25	6 319
20 – 24	3	16	5 238	4	42	10 394
25 – 29	1	6	6 443	1	10	10 248
30 – 34	5	57	11 521	3	45	14 855
35 – 39	-	-	-	3	44	14 715
40 – 44	8	194	24 272	9	1150	16 630
45 – 49	8	123	15 333	8	265	33 193
50 – 54	7	134	19 112	3	111	37 058
55 – 59	15	269	17 917	8	128	16 012
60 – 64	7	167	23 811	4	172	42 906
65 - 69	1	17	16 912	9	148	16 469
70 - 74	-	-	-	6	115	19 183
75 - 79	-	-	-	2	39	19 598
80 - 84	-	-	-	-	-	-
85 - 89	-	-	-	1	8	8 497
Total	58	998	17 218	68	1 312	19 290

Reasonability checks performed

A large number of tests on the reasonability and consistency of the data were carried out, including the following:

- reconciling the number of pensioners at the valuation date and the previous valuation date, with the movements in membership reported
- reasonability tests on the pension amounts, and the various dates (dates of birth, dates of pension commencement and dates of exit)
- identifying any missing or invalid data fields
- identifying changes in membership details
- reviewing the fund's annual financial statements
- calculation of the fund's investment returns

I am satisfied with the general accuracy and completeness of the data provided and with its suitability for purposes of this valuation.

APPENDIX 3: ANALYSIS OF CHANGE IN FINANCIAL POSITION

The valuation at 31 March 2019 disclosed a surplus in assets of some R 3 489 million after taking into account the recommended solvency reserve. The previous valuation at 31 March 2018 showed a surplus of some R 3 547 million on the market value of assets. The factors that led to a change of approximately R 58 million have been analysed according to source and the results of this analysis are given in the following table.

Item	R million
Valuation surplus as at 31 March 2018	3 547
Interest on valuation surplus	297
Investment return	(464)
Change of best estimate assumptions	418
Ad hoc bonus payments*	(464)
Change in solvency reserve	206
Mortality profit/(loss)	(44)
Miscellaneous	(7)
Valuation surplus as at 31 March 2019	3 489

* This figure excludes the bonus amount that was paid in April 2018 as this amount was already allowed for in the surplus as at 31 March 2018.

Interest on valuation surplus

Interest at the assumed valuation rate on the previous surplus produced a profit of R 297 million over the valuation period.

Investment return

The investment return achieved on the assets (approximately 4.90%) was lower than that anticipated on the previous valuation basis of 8.37%. This resulted in an investment loss of R 464 million over the valuation period.

Change of best estimate assumptions

Since the previous valuation, changes in bond yields have resulted in a net decrease of R 418 million in the assessed value of the liabilities, from R 9 970 million to R 9 552 million.

Ad hoc bonus payments

The fund granted pensioners ad hoc bonus payments of 15% of annual pensions in October 2018 and 15% in December 2018. This was funded out of the fund's surplus. The result was a strain of approximately R 464 million.

Change in solvency reserve

A change in the solvency reserve has resulted in a release of R 206 million.

Mortality profit/(loss)

The actual mortality experience was lighter than expected, which produced a strain of R 44 million.

Miscellaneous

There was a miscellaneous loss of R 7 million arising from various individually insignificant sources.

APPENDIX 4: FUNDING LEVEL COMPARISON

This section is for the trustees' information purposes only, to assist in understanding the relative strength of the fund and its change in financial position over the previous financial period, relative to inflation. I have also illustrated the impact of possible future mortality improvements.

While the valuation results show a strong financial position, it would be useful for the trustees to bear in mind that, should there be a move to target inflationary pension increases, there would need to be a change in the fund's reserving policy and asset structure.

Annual bonus payments

The following table illustrates the funding position at 31 March 2019 should the fund target an annual bonus equal to a 13th cheque payable in November, or alternatively, two such bonuses each year payable in April and November. This has no bearing on the actual reported financial position of the fund and should be used for management information purposes only.

	One bonus p.a. (R million)	Two bonuses p.a. (R million)
Total net assets	13 346	13 346
Total liabilities	10 334	11 183
Solvency reserve*	339	374
Surplus/(Deficit)	2 673	1 789
Funding level	125.0%	115.5%

* Includes estimated increase in solvency reserve as a result of bonus payments

Inflationary pension increases

The following table considers the funding position if the fund were to target inflationary pension increases, including an annual bonus equal to a 13th cheque payable in November. This has no bearing on the actual reported financial position of the fund and should be used for management information purposes only.

As set out in the previous sections, the market's expectation of inflation at the valuation date is 4.97% based on best estimate assumptions (5.70% at 31 March 2018).

	75% CPI (including one bonus p.a.) (R million)
Total net assets	13 346
Total liabilities	11 348
Solvency reserve	391
Surplus/(Deficit)	1 607
Funding level	113.7%

Please note that the above results are based on the assumption that an appropriate inflation-linked cash flow matching strategy is implemented for future pension payments. If this is not done, the level of solvency reserve desired will be higher than that shown above. No allowance has been made for the potential cost of the restructuring of the fund's existing assets to such a possible arrangement.

Annual improvements in future mortality

The following table illustrates the funding position should the fund experience mortality improvements of 0.5% p.a. into the future. This has no bearing on the actual reported financial position of the fund and should be used for management information purposes only.

	Current mortality (R million)	0.5% p.a. mortality improvements (R million)
Total net assets	13 346	13 346
Total liabilities	9 552	9 645
Solvency reserve	305	310
Surplus/(Deficit)	3 489	3 391
Funding level	135.4%	134.1%