

MGF



MGF Brochure

YOUR WEALTH CREATOR

MUNICIPAL GRATUITY FUND



**Celebrating 20 YEARS of
SUPERIOR RETIREMENT BENEFITS
1994 - 2014**

18th Edition
June 2014

MISSION

The Municipal Gratuity Fund (MGF) is committed to provide employees of municipalities with optimum financial security at retirement and superior related benefits.

The business of the MGF is to:

- Manage financial contributions and assets with the purpose of maximising returns.
- Create and protect wealth for members.
- Render prompt and excellent service.

VALUES

Our members are our most valued asset and are treated with:

- | | | |
|-------------|----------------|-------------|
| - Integrity | - Transparency | - Respect |
| - Equality | - Empathy | - Sincerity |

MEMBERSHIP

The MGF is a dynamic defined contribution fund with an asset value exceeding R12 billion and with more than 30 000 members employed by municipalities of Mpumalanga, - Gauteng, - North West and Limpopo Provinces.

- Employees older than 16 and younger than 65 years of age employed by a participating municipality may join.
- No proof of medical fitness is required.
- Once a member has joined the MGF there is a 3 month cooling off period during which such member may reverse his choice and leave the MGF. However after such period the member can only leave the MGF upon termination of service with the municipality.

GOVERNANCE

Members at each participating municipality democratically elect member representatives and each municipal council appoints an employer representative. These employer- and member representatives constitute the General Committee of the Fund which meets annually. At these annual meetings of the General Committee the member- and employer representatives respectively elect members of the Management Committee. The Management Committee is the governing body of the Fund in accordance with the Pension Funds Act and the Rules of the Fund. The Management Committee is constituted as follows:

- 7 Member representatives
- 2 Employer representatives
- 1 Representative appointed by SALGA
- 3 Independent persons with special expertise in municipal matters, the pension fund industry or economic- and financial matters, appointed by the other members of the Management Committee.

The fund is registered in terms of the Pension Funds Act, under registration number 12/8/29256/2. The offices of the Fund are situated in Bedfordview with a limited staff component of 6 people. This front office is responsible for strategic communication, assistance to members in special circumstances, trustee services, secretarial services and monitoring of service providers.

COMPLAINTS PROCEDURE

A member may lodge a written complaint with the Fund in terms of section 15(3) in terms of the rules of the Fund. The contact person is the Principal Officer of the Fund: MJD Jacobsohn, Tel no (011) 450-1224, Fax (011) 450-1454. If the member is not satisfied with the outcome of the complaint or has not received the reply within 30 days such member may then lodge a written complaint with the Pension Funds Adjudicator (PFA). The contact details of the PFA are: enquiries@pfa.org.za Tel no (012) 346-1738, Fax no (086) 693 7472. Address: Riverwalk Office Park, 41 Matroosberg Road, Ashlea Gardens, 0081.

FUND ADMINISTRATION

The Management Committee of the Fund outsourced the administration of the Fund to Coris Capital, which was later bought out by Sanlam Employee Benefits (SEB), a registered retirement fund administrator. They are responsible for all administrative functions with reference to the receipt and processing of contributions, payment of benefits, housing loans and updating member information.

Members can direct their enquiries regarding administrative matters to SEB (Coris Capital) at telephone (012) 683-3900 or toll-free 0800118334. They can also be visited at **Lords Estates, Office Block 6, 276 West Avenue, Centurion.**

INVESTMENT POLICY STATEMENT (IPS)

Being a defined contribution Fund investment risk is carried by the member. This means that the benefits levels are effected by market risks and members may sometimes experience negative return for short periods. In order to manage such risks the MGF adopted a Life Stage Model.

LIFE STAGE MODEL (LSM)

The MGF adopted an **Investment Policy Statement** in terms of which the investment objective is to generate sufficient returns, based on 40 years membership, in order to enable a member to buy a pension equal to 75% of pensionable salary at retirement. To reach this objective a long term investment approach is taken, resulting in **four life stage** portfolios, namely the **Aggressive-, Moderate- Conservative- and Protective Portfolio**. All assets of the Fund are invested in the standard asset classes namely equities (shares), fixed income, cash and properties. The combination of asset classes within each portfolio will differ according to the performance objective of the specific portfolio. Members are automatically allocated to the applicable life stage portfolio according to their age. The characteristics of the four life stage portfolios are as follows:

Life stage 1: Aggressive Portfolio (AP)

This portfolio is for members younger than 50 years of age. *See note on automatic transfer (next page paragraph in green).

This is an aggressive investment portfolio. More money is invested in equities (shares) and less in fixed income investments and property. A greater return can therefore be expected **but** at an equally higher risk. A member, however, who is a long way from retirement, can tolerate such higher risk, as there is enough time to recover possible losses and create wealth.

Life stage 2: Moderate Portfolio (MP)

This portfolio is for members 50 to 59 years of age. *See note on automatic transfer (next page paragraph in green).

A more moderate investment approach is followed. Less money is invested in equities (shares) and more in fixed income investments and property. The return may be less but the risk is also lower. It is suitable for older members closer to retirement who should not be exposed to the higher risks of the Aggressive Portfolio.

Life stage 3: Conservative Portfolio (CP)

This portfolio is for members 60 to 62 years of age. *See note on automatic transfer (next page paragraph in green).

These members cannot be exposed to much risk and therefore their money will be invested in fixed income investments, cash, structured products, hedge funds and absolute return products with no direct exposure to equities (shares) in order to protect their capital. It should be noted that structured products, hedge funds and absolute return products do have exposure to equities albeit hedged to a certain extent.

Life stage 4: Protected Portfolio (PP)

This portfolio is for members 63 to 65 years of age. *See note on automatic transfer (next page paragraph in green).

Members should not be exposed to investment risks during their last two years. The PP is invested in money market investments with almost no risk of capital loss but usually with low returns. The PP has no exposure to equities.

*Automatic transfer between the life stages (LSM default)

Members are automatically transferred without prior notice, from one life stage to the next as they reach the relevant age. This transfer is however not done at once when reaching the relevant age as the investment markets may be very low on such one specific day with negative results for a member migrating from the more aggressive to the more conservative next phase portfolio. To prevent such single day event, members are switched from the AP to the MP, from the MP to the CP and from the CP to the PP in four quarterly batches starting one year ahead. However new members being of the relevant age to be switched automatically when joining the Fund will not be phased in but will be allocated fully to the next LSM portfolio. As alluded to below, a member may always exercise in writing, a choice contrary to the automatic LSM default.

The Exit Portfolio (EP)

An Exit Portfolio, invested in cash, is used to protect the members' fund credits upon termination of membership until payment of benefits. As soon as a Termination of Membership form (MGF exit form) is received for a member the Fund Credit of such member is transferred to the Exit Portfolio. This does not form part of the member investment choices.

The Guaranteed Portfolio (GP)

The Guaranteed Portfolio is a low risk investment product. It renders a capital guarantee plus a guaranteed return which is annually determined during May for the next financial year. Apart from the guaranteed return a further maximum (capped) additional return (final bonus) may be allocated at the end of the financial year depending on the performance of the equity market. Such final bonus is also paid to members who have left the Fund before it has been declared, subject to certain conditions and deduction of an administration fee, about which more information is available on request. Members interested in the GP must enquire annually at the beginning of May about the expected returns for the ensuing financial year.

MEMBER INVESTMENT CHOICES

The Fund Credits of members are automatically invested in the relevant life stage portfolio according to age. However members may, subject to certain conditions, exercise a written choice if they wish to invest contrary to the applicable life stage (AP, MP, CP or PP) or if they wish to invest in the GP. Investment according to the life stage portfolios is an integrated investment model in accordance with the IPS (Investment Policy Statement). The probability is good to obtain the targeted return over a long term. Members should therefore be very cautious to chase short-term returns by electing contrary to the life stage portfolios, with possible disastrous results. Younger members' should be careful not to be over conservative and forfeit returns in the long run. Member Fund Credit may be split between the five portfolios (AP, CP, MP, PP and GP) to a maximum of two portfolios. Members are therefore not allowed to be invested in more than two investment portfolios at any one stage. Members who exercised a member investment choice will remain invested accordingly until written notification to the Fund otherwise. If a member elects to split her/his investment between two portfolios, the different returns of each investment portfolio will cause a drift from the chosen percentages split. Members' Fund Credits will not automatically be rebalanced to the original chosen percentage split between the two portfolios. A new option form must be submitted when a member wants such rebalance.

Member investment choices may be done at any time in respect of the AP, MP, CP and PP. **Member investment choices in respect of the GP can only be done once a year, usually not later than 31 May of each year.** The exact date may change slightly from year to year. One choice per year is free of charge but subsequent choices require a switching fee.

A member investment choice is usually implemented within three to five business days from receipt, except in the event of the GP. The underlying investment for the GP is usually purchased in the first week of July and implementation is effected approximately the second week of July. This may however vary from year to year.

CONTRIBUTIONS

- **Members**

Members contribute at a minimum rate of 7.5% of their annual salary which contribution is allocated in total to the member's Fund Credit.

- **Employers**

For members who joined before 1 July 2012 the standard contribution rate of employers is 22% of a member's pensionable income. For members joining after July 2012 it is 18%. In total 5% is utilised to finance risk benefits (approximately 4.25%) and administration costs (approximately 0.75%). The balance of the employer's contribution is credited directly to the member's Fund Credit. Employers may, with the consent of members and the Management Committee, contribute at a lower or higher rate, subject to such conditions as imposed by the Management Committee.

- **Contract Appointments (total cost to council)**

Such members may structure their contributions according to their requirements but subject to the following minima:

5% (minimum) employer contribution.

7.5% (minimum) employee contribution.

There are other options that may be more tax efficient but such members are advised to contact the Fund Administrator or a tax expert to give them the necessary assistance.

THE COMPOSITION OF THE MEMBER ACCOUNTS

FUND CREDIT

All monthly contributions, excluding contributions to risk benefits and administration costs plus all bonuses be it positive or negative, are allocated to the Fund Credit account of members. Members will be able to see the value of their Fund Credit on a daily basis once they have registered on the website.

Although contributions accumulate in the member's Fund Credit account, it remains a Fund asset and accrues to the member only on termination of membership.

RETIREMENT AGE **See also notes further on.**

- Normal retirement age is 65 years.
- Members may voluntarily retire from age 50.
- An extended retirement age up to 69, on condition that the employer and member mutually agree accordingly, is allowed. The usual contributions will remain.

Although the benefit does not differ whether a member retires or resigns it may be tax efficient to retire rather than to resign. More information is available on request.

BENEFITS

The MGF is a defined contribution retirement fund (DC fund) where the member will always, even upon resignation, be entitled to at least all member contributions plus the contributions of the employer after the contributions for risk benefits and administration cost have been deducted plus or minus the net return.

The benefits are as follows:

- **RESIGNATION AND DISMISSAL**
 - A lump sum equal to the member's total Fund Credit.
- **RETIREMENT**
 - On retirement a member will become entitled to an annuity obtained by appropriation of the Fund Credit on that date less any amount he elects to take as a lump sum. Such annuity must be arranged with an external insurer. A member may elect to take any portion, even 100%, of the Fund Credit as a lump sum payment.
- **DEATH OF A MEMBER** *See also notes further on.*
 - **Members with more than 5 years' membership:**
 - A lump sum equal to **four** times annual salary **PLUS** Fund Credit
 - **Members with less than 5 years' membership:**
 - **Unnatural causes:** A lump sum equal to **four** times annual salary **PLUS** Fund Credit
 - **Natural causes:** A lump sum equal to **two** times annual salary **PLUS** Fund Credit
 - **Immediate needs death benefit:**
 - R20 000 to cover immediate needs upon death of a member only.
Please phone SEB (Coris Capital) at (012) 683-3900 or toll free 0800 118 334 to obtain application form.
Completed application form and listed documents to be send to:
mgf.death@coriscapital.com or fax no. 012 683-3994
- **FAMILY FUNERAL PLAN**

Family funeral cover is paid to members and their families as follows:

Member and Spouse each	R10 000
Children (14 and above)	R 8 000
Children (1 - 13 years)	R 3 000
Children (Stillborn - 1 year)	R 1 500

The above benefit is obtainable from Old Mutual scheme number 94728. The email address for submission of claims is gapbpu@oldmutual.com and fax number is (021) 509-4669.

The Fund applied to the Registrar of Pension Funds to allow the Fund to increase the amounts above but it was declined.

- **MEDICAL DISABILITY** *See also notes further on.*

A member who qualifies for a medical disability benefit will be entitled to four times annual salary or Fund Credit whichever is the greater up to the age of 55 after which the benefit scales down monthly up to the age of 65 to two times annual salary or Fund Credit whichever is the greater.

HOWEVER

a member who has less than five years' membership and qualifies for a medical disability benefit due to an injury, illness or condition which he/she:

- **knew about or could reasonably be expected to know about;**
- **was diagnosed with;**
- **was treated for; or**
- **displayed symptoms of**

within twelve months preceding the commencement of membership of the Fund, shall be entitled to the greater of two times annual salary or Fund Credit.

NOTES:

- 1) Risk benefits (death and disability) are subject to adjustment depending on the claims experience. The actuary of the Fund monitors this on a continuous basis to advise the Management Committee (Board of Trustees) to make adjustments timeously. Enquiries should be made to verify whether any changes were made in this regard since the date of the brochure.
- 2) **In the event of a member joining the Fund after 26 April 2013 at the age of 60 or older the death and disability benefits will be limited to 1 times salary and not 2 times salary or 4 times salary as mentioned hereinbefore.**
- 3) The benefit accrues as an annuity but the member may by prior notification to the Fund elect to take any portion, even 100% of the benefit as a lump sum payment.
- 4) In the event of a member staying on after 65, no contribution will be made in respect of risk benefits and therefore no risk benefits (funeral, death & disability) will be payable. The total contribution made by the member and an employer after 65, will be allocated to the member's fund credit except the portion utilized for the administrative costs, approximately 0.75 percent.

- **REDUNDANCY OR RETRENCHMENT**

A member who becomes redundant or is retrenched is entitled to the member's total Fund Credit plus an additional amount financed by the employer. Payment of the relevant benefit is subject to receipt of the employer's contribution. The additional amount is determined according to years prior to normal retirement. The **maximum** additional amount payable is equal to the Fund Credit.

Retrenchment benefits for members appointed on contract may vary in terms of the contract entered into between employer and employee.

HOME LOANS

The MGF used to grant home loans from the member's fund credit. This direct home loan scheme has been replaced from 1 June 2007 by a pension-backed home loan scheme. Standard Bank and First National Bank (FNB) have been appointed as service providers in this regard. A member may apply for a home loan with Standard Bank and First National Bank (FNB) up to a maximum of 50% of the member's Fund Credit. The loan is granted against the security of the member's fund credit. Members must comply with all the requirements of the National Credit Act to qualify for such loan. Loan applications must be lodged with Standard Bank telephone no. 0861 009 429 or FNB at 0860 762 278.

Members with existing housing loans granted directly from their Fund Credits in terms of the previous dispensation may maintain such direct loans or transfer them to Standard Bank or FNB. A member may only have a pension home loan with either Standard Bank or FNB and not with both. Loans may be transferred between Standard Bank or FNB.

NOMINATION FORMS

Members should complete the prescribed nomination of beneficiaries form and submit it together with copies of I.D or birth certificates. If available to mgfbeneficiary@sanlam.co.za or fax to (012) 683-3996. This will expedite the payment of death benefits. Please make sure that the total percentage equals 100%.

FINANCIAL ADVICE

The MGF and its employees are not registered as financial advisors and are by law prohibited from giving any financial advice. It may only furnish factual information. If members need financial advice they should obtain it from registered financial advisors. The Fund can be approached for contact details of financial advisors.

MGF STAFF AT THE REGISTERED OFFICE OF THE FUND:

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Linda Blignaut
Hester van Rensburg
Eleanor Moteni

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Personal Assistant
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FUND ADMINISTRATOR:

SANLAM EMPLOYEE BENEFITS (SEB) CORIS CAPITAL

Lords Estate, Office Block 6, 276 West Avenue, Centurion, 0157
Private Bag X14, Highveld Park, 0169
Tel: (012) 683-3900 or 0800 118 334 toll free • Fax: (012) 683-3994
Website: www.coriscapital.com

HOME LOANS:

All enquiries about pension-backed housing loans must be directed to Standard Bank at telephone number 0861 009 429
or

First National Bank at telephone number 0860 762 278

Indemnity Statement

The MGF does not accept liability for any loss, damage or expense that may be incurred as a direct result or consequence of reliance upon the information in this document. If there is any conflict between the information in this document and the actual Rules of the Fund the Rules of the Fund will prevail.