



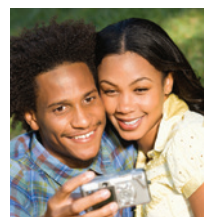
# **MGF**

***Your best WEALTH  
CREATOR by far***



**Competition for kids!!!  
– Colour and WIN**

**P12**



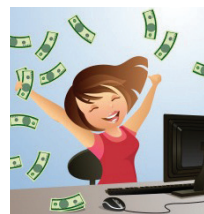
**NEW! Immediate  
Needs Death Benefit**

**P14**



**How will my death  
benefit be distributed?**

**P15**



**Meet the winners of  
our survey competition**

**P26**

# ***MGF Journal 2013***

## ***Municipal Gratuity Fund***

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# A message from the Chairperson

Despite global and local instability in the investment markets, the **MGF has been blessed in the past year not only with good returns, but also strong administration and exceptional support structures.**

## Your Board of Trustees

With regards to the Board of Trustees, we have seen the retirement of one of our great stalwarts, our previous Chairperson, Mr. Gerald Fourie towards the end of 2012. Gerald was a member of the Board of Trustees for 16 years, of which 15 years serving on the Executive Committee and Chairperson of the Fund for 5 years. He will be remembered for his unconditional commitment to the Fund, his knowledge of Fund and financial matters and thorough preparation for meetings, and outside of the Fund for his love and broad knowledge of wildlife and game in general. The members of the Board will dearly miss him!

However, members of the Fund can be proud of and thankful to the members of the Board of Trustees for their continued dedication. The combined knowledge and experience of the Committee has served the members of the Fund well, as illustrated by the returns generated by the Fund in the past year (see the returns elsewhere in this edition). It could also not have been possible without the hard work and dedication of the Fund staff under the competent leadership of Mr. Dewald Jacobsohn, our Chief Executive Officer, also the staff from Coris Capital (Sanlam Employee Benefits) and the guidance and advice provided by our asset consultants from SMMI, as well as our brilliant actuary, Ms. Gerda Grobler from Alexander Forbes Financial Services.

At the Annual Meeting of the General Committee, the terms of office of three employee representatives and one employer representative expired. All four of these representatives were re-elected to the Board of Trustees. This reflects the strong faith and trust of the General Committee members in the work of the Board of Trustees. With the retirement of Mr. Fourie, another employee vacancy occurred that needed to be filled and Mr. John Hall from Ekurhuleni was elected to this position. John has in previous annual meetings displayed a sharp investment mind and we are looking forward to his contributions.

## Economic Overview

On the economic and investment side, the 2011/2012 financial year was dominated by concerns of a double-dip recession as economic data disappointed across a broad front, both in the USA and the Eurozone. Despite recent global growth downgrades by the International Monetary Fund (IMF), market sentiment has improved somewhat pointing to a gradual recovery in 2013 in global economic activity from current depressed levels.

In South Africa, economic growth has been revised lower to some 2.3% in 2012 due largely to man-days lost because of strike action in the mining and transportation sectors. The loss of production and more importantly foreign exchange earnings has highlighted the country's vulnerability to capital flight following net inflows into the bond and equity markets of some R70 billion this year. The rand remains very vulnerable to a change in foreign investor sentiment.

Given the above-mentioned concerns and the recent increase in inflation expectations, the door is effectively closed to further interest rate cuts in the current growth cycle. With private sector fixed investment likely to remain subdued given an uncertain policy environment, public sector spending will partially compensate for this milder investment as infrastructure spend eventually gains traction over the coming years. Above inflation wage settlements and social welfare grants up to some 15 million people are also expected to underpin consumption expenditure helping to partially offset the drag on disposable incomes from rising food, fuel and utility prices.

## Fund Investments

With regards to investments, the Investment Policy Statement (IPS) was implemented during 2005 with the objective of generating sufficient returns so that a member should be able to buy a pension rendering about 75% of salary at retirement after a membership term of approximately 35 years. It then consisted of three life stage portfolios namely the Aggressive Portfolio (AP), the Moderate Portfolio (MP) and the Conservative Portfolio (CP). A fourth portfolio, the Protected Portfolio (PP) was added to these three investment portfolios in August 2011, the purpose of which is capital protection during the last two years before reaching retirement age at 65. This model has once again during the last year proven to effectively add value to the individual portfolios in the various life stage portfolios.

In terms of the actuarial valuation done for the period 1 July 2011 to 30 June 2012, it shows that the Fund membership at that point was totalling 30 455 members with assets just under R13 billion. Since then, assets have



grown further and are currently in excess of R18 billion. The Board of Trustees is humbled by this exceptional performance and must bring praise to Him who provides for all. According to the latest data in the records of the Registrar of Pension Funds the Fund is still the biggest retirement fund in the municipal arena both with regards to membership and asset value. The size of the Fund stands it in good stead to render a very cost effective service to its members because of the advantage of economies of scale. It renders good leverage to negotiate competitive prices with service providers including asset managers and the fund administrator.

## Housing Loans

On the housing loans side, it was previously reported that the Fund negotiated with another player in this field and that First National Bank (FNB) was subsequently engaged at a discount of 1,25% to the prime lending rate. Unfortunately, the tempo at which the municipalities have been signing the agreement with FNB to deduct the monthly instalment is disappointing. Almost 65% of the members now also have access to the FNB Smart Housing facility. Despite various efforts by FNB and the Fund, the take on by some municipalities is very slow. Currently there are still about 60 municipalities representing 25% of the membership outstanding. Having regard to the competitive pricing by FNB these members are deprived from an excellent opportunity to stretch their monies.

The Standard Bank scheme has not been replaced by the FNB scheme. The two schemes will exist alongside each other and members can choose which to use but may not have loans with both banks' pension backed lending facilities. If a member takes up a loan with FNB Smart Housing, the Standard Bank loan must be transferred to FNB and vice versa. Please revert to the article, elsewhere in the edition, about the current challenges regarding SB loans.

**The current rates and fees of the two banks are as follows:**

	Initial fee	Monthly admin fee	Interest rate
Standard Bank	R450	R29.50	Prime minus 0.25%
FNB	Nil	R5.70	Prime minus 1.25%

## Conclusion

Finally, enjoy the contents of this MGF Journal. The Fund has been blessed but also acknowledges that everything is not always running 100%. Alas, we don't live in a perfect world – at least not yet. Please raise those issues and concerns, so that the Fund can continuously improve and serve you better.

**I wish you a wonderful time and God bless!**

**Piet Venter**  
Chairperson



# Investments – Your Savings Working for You



When saving money for retirement, it is important to earn as much interest or returns as possible. Therefore, your money in the Fund has to be invested in the right portfolio/s to suit your needs. The Trustees of the Fund are always going out of their way to ensure they cater for the needs and requirements of the majority of the members. One of the ways in which they do this, is to provide members with a **range of investment portfolios** to suit their different needs. These portfolios are not just chosen randomly and involve a lot of research, constant monitoring and making adjustments where necessary. The Trustees are aided by industry and investment experts.

**Let's take a closer look at the Fund's investments.**

Quick guide to portfolio names:	
Life Stage Model	LSM
Aggressive Portfolio	AP
Moderate Portfolio	MP
Conservative Portfolio	CP
Protected Portfolio	PP
Guaranteed Portfolio	GP

## The Life Stage Model (LSM)

Just to refresh everyone's memory; the Board of Trustees implemented the Investment Policy Statement (IPS) during 2005 with the objective to generate sufficient returns that a member should be able to buy a pension rendering about 75% of salary at retirement after a membership term of approximately 35 years. To achieve this, the Life Stage Model (LSM) was introduced during July 2005. It then consisted of three life stage portfolios namely the Aggressive Portfolio (AP), the Moderate Portfolio (MP) and the Conservative Portfolio (CP). A fourth portfolio, the Protected Portfolio (PP) was added to these three investment portfolios during August 2011, the purpose of which is capital protection during the last two years before reaching retirement age at 65.

### Life stage portfolios: AP, MP, CP and PP

The four life stages of the LSM are designed that a member's funds are invested in higher risk investments (AP) in his/her younger years up to 50. It is thereafter transferred to the lower risk portfolios (MP and CP) in the years closer to retirement. Then finally it is transferred to a capital protection portfolio (PP) during the final stage until retirement. Members are automatically transferred from one life stage to the next as they reach the relevant age. This transfer is however not done at once when reaching the transfer ages, that is 50 (MP), 60 (CP) or 63 (PP). 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 in four quarterly batches starting one year ahead, thus smoothing any extra ordinary market event.

The returns of the life stage portfolios for 2011/12 and 2012/13 were as follows:

#### 2011/12

	Jul -11	Aug -11	Sep -11	Oct -11	Nov -11	Dec -11	Jan - 12	Feb -12	Mar -12	Apr -12	May -12	Jun -12	2011/2012 Annualized
AP	-0.74%	0.35%	0.33%	4.81%	0.89%	-0.57%	2.77%	0.67%	-0.05%	1.32%	-0.69%	0.83%	10.23%
MP	-0.54%	0.56%	0.20%	3.56%	0.89%	-0.14%	2.28%	0.50%	0.55%	1.21%	-0.61%	-0.89%	9.68%
CP	-0.18%	0.44%	-0.46%	2.51%	0.94%	0.33%	1.84%	1.02%	0.69%	1.06%	-1.15%	1.31%	8.63%
PP	N/A	N/A	0.27%	0.43%	0.45%	0.51%	0.55%	0.47%	0.54%	0.55%	0.54%	0.56%	6.01%

	Jul -12	Aug -12	Sep -12	Oct -12	Nov -12	Dec -12	Jan - 13	Feb -13	Mar -13	Apr -13	May -13	Jun -13	Year to date
AP	1.48%	1.75%	1.36%	2.62%	1.37%	1.39%	3.99%	-0.93%	1.74%	-1.35%	6.56%	-4.28%	16.43%
MP	1.34%	1.53%	1.13%	2.20%	1.27%	1.07%	3.17%	0.04%	1.44%	-0.73%	5.27%	-3.88%	14.49%
CP	0.93%	1.01%	1.34%	1.23%	0.77%	1.73%	1.49%	0.29%	0.98%	-0.04%	2.13%	-1.81%	10.46%
PP	0.64%	0.47%	0.49%	0.52%	0.48%	0.64%	0.61%	0.32%	0.48%	0.79%	0.21%	0.16%	5.96%

The fluctuating monthly returns are evidence of the volatility in the investment environment during the 2011/12 period. The defensive nature of the Moderate Portfolio and the Conservative Portfolio is illustrated in the returns reflected in the table above. It can be seen that during the months that the Aggressive Portfolio was under pressure the MP and CP outperformed the AP. In the end the AP slightly outperformed the MP by 0.55% and the MP outperformed the CP by 1.05%. Due to a more subdued investment market during 2011/12, the difference between these 3 portfolios is smaller than in previous years but it is still in line with the objective of the IPS. In order to attain the objective of the IPS to accumulate enough wealth for a member over about 35 years of service to be able to buy a pension equal to about 75% of the last year's salary, there are annual return targets set for the three risk profiled portfolios. Over the past financial year all three these portfolios outperformed their respective benchmarks and all three are still ahead of benchmark since inception during July 2005.

**The annualized returns for the past eight years since the inception of the LSM during July 2005 are as follows:**

AP	MP	CP	GP	CPI
13.34%	12.12%	11.08%	9.22%	6.29%

This annualized outperformance of the CPI (inflation) is quite significant in ensuring the IPS objective are reached in the long run.

### Guaranteed Portfolio (GP)

The GP, being a low risk investment with specific capital protection guarantee and even a minimum guaranteed return, will underperform the more risky investments during good or moderate equity market conditions. This was again the case during 2011/12. The 5.48% return of the GP compares to the money market returns of 5% to 6%. Members are however again cautioned that the GP and similar conservative investment vehicles are not for the young and brave with long investment horizons. The lag in returns over the long term will result in under provision at retirement age. The GP is rather for the matured member who is getting close to the end of his career and cannot afford to take any investment risks. A young member with a long investment horizon should rather be invested in the applicable age related life stage portfolio than in a conservative portfolio such as the GP.

## Member Investment Choices

The IPS is developed for the average member; however provision was also made for individual circumstances by allowing for 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.

- Fund credits may be split between the five portfolios (AP, MP, CP, GP and PP) to a maximum of two portfolios.
- Members cannot invest in more than two investment portfolios simultaneously.
- Members who exercised a member investment choice will remain invested accordingly until written notification to the Fund otherwise.
- Member investment choices in respect of the AP, MP, CP and PP may be done at any time. Member investment choices in respect of the GP (in or out) can only be done once a year, usually no later than 31 May of each year. The exact date may change slightly from year to year.

## How do the 5 portfolios compare?

Criteria	Aggressive Portfolio (AP)	Moderate Portfolio (MP)	Conservative Portfolio (CP)	Protected Portfolio (PP)	Guaranteed Portfolio (GP)
Risk Profile	High risk	Medium risk	Low risk	Low risk	Low risk with capital protection
Market Exposure (number of shares)	Yes, high	Yes, but limited	Yes, but down side protected	No	No
Suitable for members	Members more than 7 years to retirement	Between 2 and 7 years to retirement	Members who wish to have capital protection and are close to retirement	Less than 2 years to retirement, or members who plan to resign within next few months	Less than 2 years to retirement

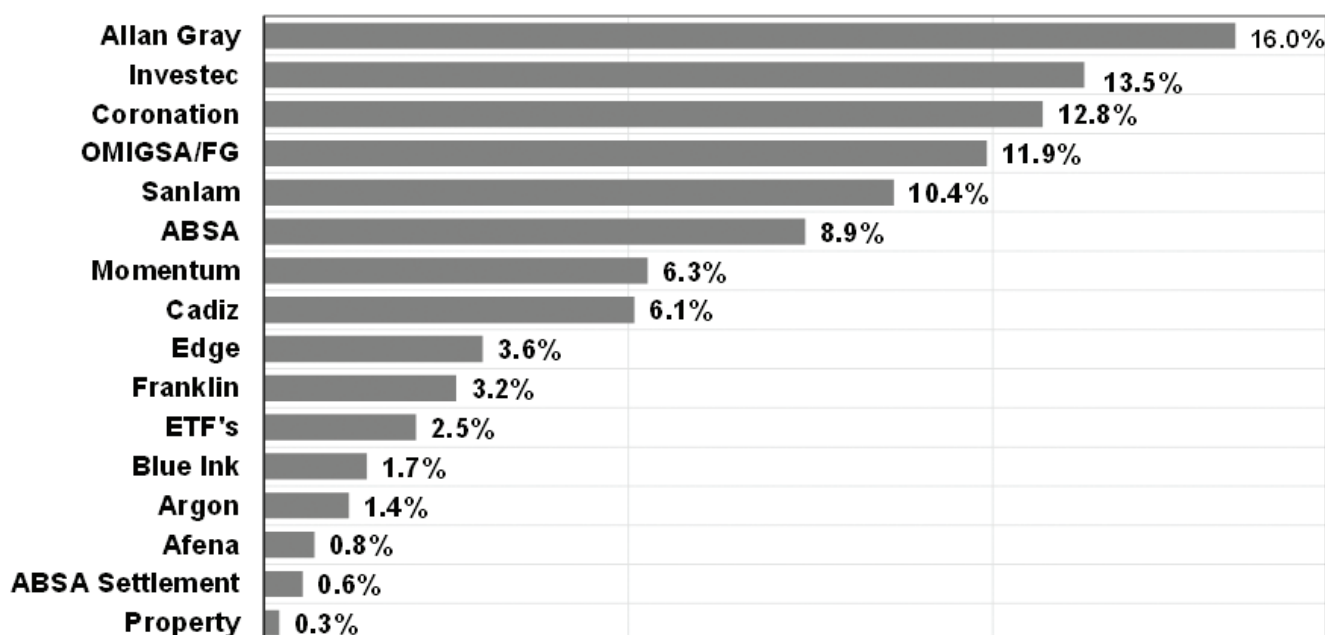
# Asset Managers – Meet the Experts who invest your money

The Board of Trustees is ultimately responsible for all the Fund's investment decisions, assisted by Investment Consultants. The Board of Trustees is responsible for the selection and appointment of the asset managers.

The asset managers choose which assets to invest in, buy and sell the actual stocks (shares), trade in bonds etc. The asset manager selection reflects a healthy combination of established, large asset management firms, as well as specialist asset managers with unique investment capabilities.

The graph below lists the asset managers (based on the percentages of assets as at 31 December 2012) that they are responsible for:

**Market Value % per Investment Manager as at 31/03/2013  
for all the investment Portfolios in Aggregate**



# Portfolio Structure

## Life stage 1: Aggressive Portfolio (AP)

### Portfolio Profile

This portfolio is for members 50 years and younger.

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.

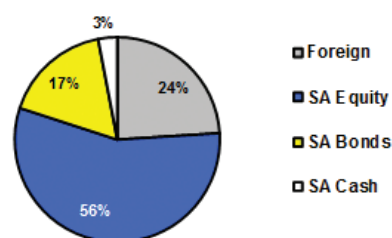
Market Value as at 31/03/2013 R 6 636 735 159

Investment objective: Inflation + 5%

### Asset allocation limits:

SA Cash	3% - 10%
SA Equity	45% - 70%
SA Bonds	10% - 25%
Foreign	0% - 25%

### Aggressive Portfolio: Asset Allocation as at 31/03/2013



### Asset managers used

SA Cash	Cadiz and OMIGSA / Futuregrowth
SA Equity	ABSA, Afena, Allan Gray, Argon, Investec and Momentum
SA Bonds	Investec, Sanlam and Futuregrowth
Foreign	Coronation, Orbis, Franklin and Investec

Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	2011 / 2012
-0.74%	0.35%	0.33%	4.81%	0.89%	-0.57%	2.77%	0.67%	-0.05%	1.32%	-0.69%	0.83%	10.23%
Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	2012 / 2013
1.48%	1.75%	1.36%	2.62%	1.37%	1.39%	3.99%	-0.93%	1.74%	-1.35%	6.56%	-4.28%	16.43%

## Life stage 2: Moderate Portfolio (MP)

### Portfolio Profile

This portfolio is for members 50 to 60 years of age.

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.

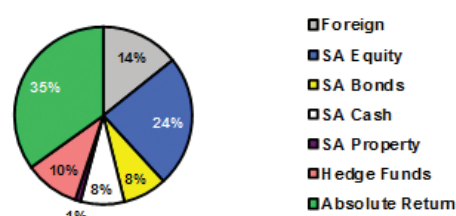
Market Value as at 31/03/2013 R 4 767 567 194

Investment objective: Inflation + 4.5%

### Asset allocation limits:

SA Cash	3% - 20%
SA Equity	10% - 30%
SA Bonds	5% - 20%
SA Property	0% - 8%
Foreign	0% - 20%
Hedge Funds	5% - 15%
Absolute Return Funds	25% - 45%

### Moderate Portfolio: Asset Allocation as at 31/03/2013



### Asset managers used

SA Cash	Cadiz and OMIGSA / Futuregrowth
SA Equity	ABSA, Afena, Allan Gray, Argon, Investec and Momentum
SA Bonds	Investec and Sanlam
Foreign	Coronation, Orbis, Edge and Franklin
Hedge Funds	Blue Ink and Edge
Absolute Return Funds	Coronation and Sanlam

Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	2011 / 2012
0.54%	0.56%	0.20%	3.56%	0.89%	-0.14%	2.28%	0.50%	0.55%	1.21%	-0.61%	0.89%	9.68%
Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	2012 / 2013
1.34%	1.53%	1.13%	2.20%	1.27%	1.07%	3.17%	0.04%	1.44%	-0.73%	5.27%	-3.88%	14.49%



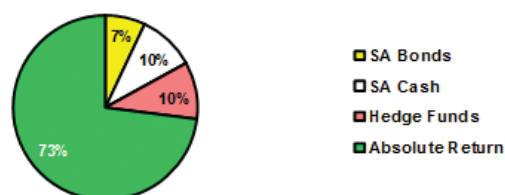
### Life stage 3: Conservative Portfolio (CP)

#### Portfolio Profile

This portfolio is for members between 60 and 63 years of age.

These members cannot be exposed to any risk and therefore their money will be invested in fixed income investments, structured products and cash with no equities (shares) in order to protect capital.

#### Conservative Portfolio: Asset Allocation as at 31/03/2013



Market Value as at 31/03/2013 R 1 116 765 022

Investment objective: Inflation + 3%

Asset allocation limits:

SA Cash	10% - 30%
Hedge Funds	10% - 20%
Absolute Return Funds	40% - 80%
SA Bonds	5% - 15%

#### Asset managers used

SA Cash	Cadiz and OMIGSA / Futuregrowth
Hedge Funds	Blue Ink and Edge
Absolute Return Funds	Coronation and Sanlam
SA Bonds	Futuregrowth

Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	2011 / 2012
-0.18%	0.44%	-0.46%	2.51%	0.94%	0.33%	1.84%	1.02%	0.69%	1.06%	-1.15%	1.31%	8.63%
Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	2012 / 2013
0.93%	1.01%	1.34%	1.23%	0.77%	1.73%	1.49%	0.29%	0.98%	-0.04%	2.13%	-1.81%	10.46%

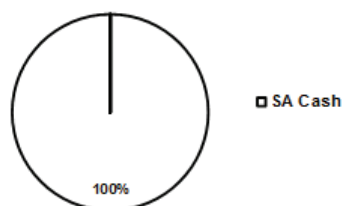
### Life stage 4: Protected Portfolio (PP)

#### Portfolio Profile

This portfolio is for members between 64 and 65 years of age.

These members cannot be exposed to any risk and therefore their money will be invested in money market instruments in order to protect capital.

#### Protected Portfolio: Asset Allocation as at 31/03/2013



Market Value as at 31/03/2013 R 392 905 417

Investment objective: Cash

Asset allocation limits:

SA Cash	100%
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#### Asset managers used

SA Cash	OMIGSA / Futuregrowth
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Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	2011 / 2012
n.a.	n.a.	0.27%	0.43%	0.45%	0.51%	0.55%	0.47%	0.54%	0.55%	0.54%	0.56%	4.98% (10 month return) 6.00% (annualised)
Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	2012 / 2013
0.64%	0.47%	0.49%	0.52%	0.48%	0.64%	0.61%	0.32%	0.48%	0.79%	0.21%	0.16%	5.96%

## Guaranteed Portfolio

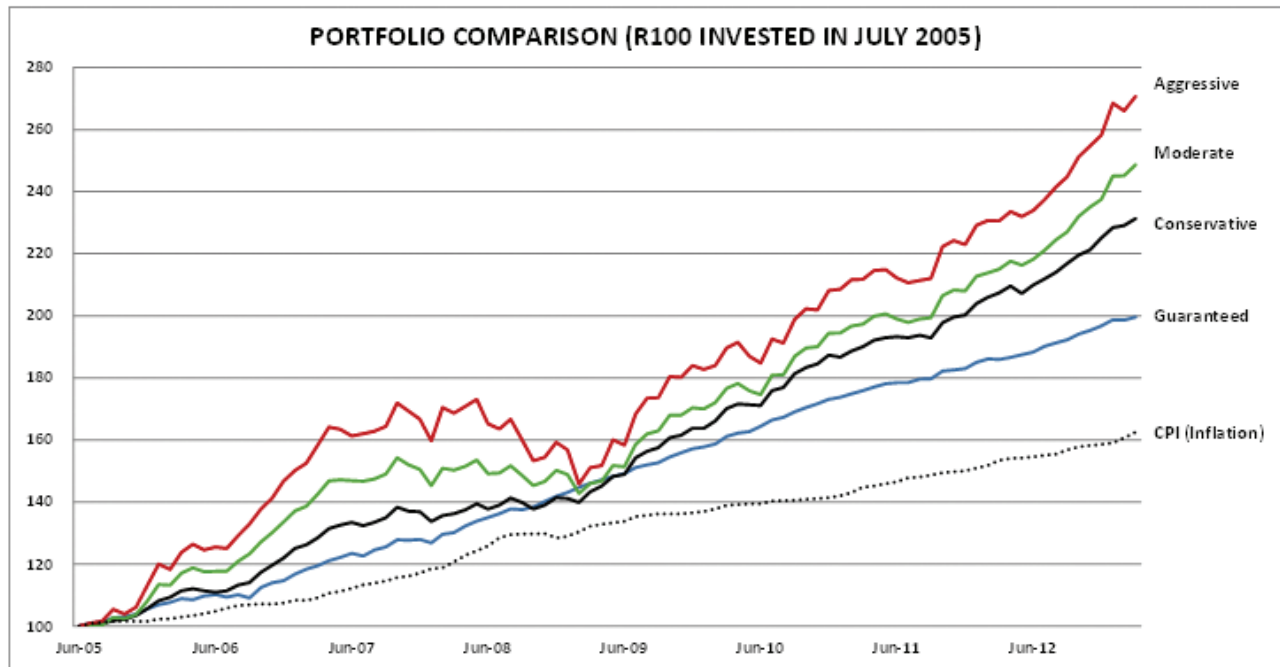
The Guaranteed Portfolio for 2012/13 delivered a return of 7.06%. Taking into account the risk free nature of the GP the 7.06% was a smooth ride for the members invested in the Guaranteed Portfolio as they were protected against the fluctuating investment markets.

#### • The GP return parameters for 2013/14 are as follows:

Maximum guaranteed return:	4,0%
Maximum possible additional return:	3,0%
Total possible maximum return :	7,0%

## Comparison of Investment Returns for the period ending 31 December 2012

The life stage model was implemented during July 2005. The returns of the LSM investment portfolios as well as that of the Guaranteed Portfolio and inflation (CPI) are reflected by the following graph. It is clear that we had seven fat years. Let's hope it is not followed by the biblical seven lean years.



## Meet your Board of Trustees

Name	Category
Mr. Piet Venter - Chairperson/ Exco member	Member
Cllr. Welheminah Molubi - Vice-chairperson/ Exco member	Employer
Mr. Joe Modiga - Exco member	Member
Mr. Gideon van Zyl - Exco member	Independent
Mr. Eddie Alberts	Independent
Mr. Jannie Venter	Independent
Mr. Johan Grobbelaar	Member
Mr. Ern� Smal	Member
Cllr. Speed Mashilo	SALGA
Mr. Roja Ramare	Member
Mr. Dan Mogakabe	Member
Cllr Lisbeth Mothata	Employer
Mr. John Hall	Member



### Executive Committee

Welheminah Molubi, Gideon van Zyl, Joe Modiga, Piet Venter

The terms of office of Messrs. Piet Venter, Joe Modiga and Roja Ramare as well as that of Cllr Lisbeth Mothata expired 30 November 2012, however they were unanimously re-elected to the Board. With the retirement of Mr. Gerald Fourie, another employee vacancy occurred. **Mr. John Hall** from Ekurhuleni Metropolitan Municipality was elected to this position. He is educated in law, having completed a B.Proc degree through Unisa in 1985. He was in the employment of the Benoni City Council for a number of years and is currently the Regional Manager: Properties and Estates in the Department: Corporate Legal Services of Ekurhuleni for the Eastern Region. His knowledge and skills will come in handy in the regulated environment in which the Fund operates.



*Mr. John Hall*



# Competition for the kids – Colour and WIN

Help your kids to save by sticking this **My Savings** kiddie saver tool onto your fridge or their bedroom cupboard. Let your child colour in the picture and submit it to: MGF Colour Competition, The Municipal Gratuity Fund, Private Bag X1190, Bedfordview, 2008 before 31 October 2013 and they can win R500 towards their savings account.

## MY SAVINGS

Name: \_\_\_\_\_

What am I saving for? (Draw us a picture)



What does it cost?

R \_\_\_\_\_



Colour me in as I fill up

How much I have:

R \_\_\_\_\_

How much I have:

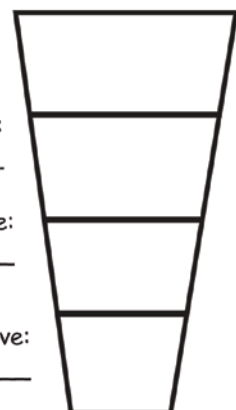
R \_\_\_\_\_

How much I have:

R \_\_\_\_\_

How much I have:

R \_\_\_\_\_





# How to teach your kids to save money



Your kids will learn about saving money from watching what you do. You will have to teach them to save from a young age.

The best way to teach them how to save is to let them save for something they really want. Encourage them to set aside a portion of their pocket money each week for future use.

**Step 1:** To motivate your kids to save, ask them to make a list of the things they'd like to buy.

*TIP: For little kids, suggest they draw a picture of the item that they're saving up for or they can cut one out of a magazine.*

**Step 2:** Help them to find out how much the item costs. For older kids, this can be a valuable experience in shopping around and comparing prices. Make sure the goals are realistic. If it takes them too long to save up for something, they will lose interest.

**Step 3:** Draw up a simple savings plan. Help them work out an amount of pocket money to put aside each week and how long it will take them to reach their savings goal.

**Step 4:** Keep the money in a clear container so they can see the amount is getting bigger each week. They might like to count it regularly, too.

**Step 5:** Put a chart in their rooms to remind them of their goal, how much money they need to save and how close they are to reaching that amount. It will help to keep them focused on saving when they are tempted to splurge on sweets instead.

**Step 6:** Once the savings goal is reached, take your kids shopping to get the item they've saved up to buy. Let them handover the money to pay for it.

**Step 7:** Congratulate them on becoming a successful saver!

## **Opening a bank account for your kids**

Opening a bank account for your kids is one of the best ways to help them learn about saving for the future. Set aside a portion (no matter how small) of their pocket money every month and help them deposit this amount into their bank account. To encourage saving you can teach older kids about earning interest on the money that's in a savings account.

*TIP: Check the account balance regularly so your kids can see the amount of money they've saved gradually getting bigger!*

# Fund Administrator

**"Apart from the Coris branding making way for the Sanlam branding, it will be business as usual."**



**Wisani Ngobeni, Nondumiso Tom, Gerald Langa, Mphephu Sathekge, Johanet Venter, Christine Seierlein, Thabang Moshoeshoe, Sinovuyo Stuurman, Michael Kadiaka, standing Elsabe Lochner, Santhan Pillay**

Just to briefly recap on the historical development of the member administration. When the Fund was established on 1 January 1994 the member administration was done by its sister fund in Benoni, the Joint Municipal Pension Fund (JMPF).

During 1999/2000 the reliability of the old main frame computer system became so dodgy that the implementation of a new modern administration system could no longer be postponed. The off-the-shelf solutions were not suitable for the funds administered by the JMPF. A software developer, MIP, was engaged to develop a tailor made solution. The staff of the Fund was intimately involved in this exercise to ensure that it would meet the criteria and requirements of the Fund. The result was a stable robust and dedicated employee benefit administration system. It was such a successful system, that MIP introduced it to the pension industry at large. During 2002, when the JMPF could not proceed with the administration service due to regulatory and other considerations the Fund had to scout the market for an alternative fund administrator. At that stage the MIP system has become known in the market for its reliability and innovative applications and three fund administrators have already started to convert their systems to the MIP system. Due to the importance of a reliable system and the confidence in the MIP system the Fund asked tenders from all three administrators who used the MIP system. Eventually Coris Capital Limited was appointed as administrator, effective 1 October 2002. Although a young company, created by privatizing the in-house administration of the Iscor retirement funds, the staff had extensive experience in fund administration.

The rest is now history; how Sanlam investigated the market for a reliable administrator to take over their administration platform of about 350 000 members and that a full survey of the administrators' market resulted in Coris as the provider of choice both because of the integrity of the very robust MIP system as well as that of the human capital which included a high ratio of chartered accountants. It was previously reported how this business model developed with Sanlam firstly bought 50% and how the Fund and its members reap the benefits of a strong capital base behind the administration. Throughout this development during the past 3 years the Coris administration license with the Financial Services Board was maintained in order to avoid any uneasiness that members could have about these changes. The Board of Trustees is very wary of the strong branding which the Coris name carries and it is important to the trustees that the stability and trust associated to this brand not be disrupted from a member's perspective. However, due to the excessive cost to maintain the Coris Capital licence with the FSB alongside the existing Sanlam Employee Benefits (SEB) license and since the transfer has been completed seamlessly in the interim, it was resolved that the Coris administration license could now be cancelled and that the Fund be administered under the existing SEB license. **Apart from the Coris branding making way for the Sanlam branding it will be business as usual.** The systems, people, services and physical location will remain the same. It is an explicit condition of the cession of the administration contract from Coris to Sanlam that the staff allocated to the Fund's administration shall remain as is. It was in any event a strategic decision by Sanlam right from the word go to keep two main operations; the Cape Town operation for the southern clients and the Centurion operation for the Gauteng clients.

## When Death Happens

When a loved one dies, there are many decisions to take and arrangements to make, which is difficult in a time of grief.

## Are your insurance policies, will and funeral wishes in one easily accessible, safe place?

To help your family/loved ones through the process of death as smoothly as possible make sure that your affairs are in order, thus take a moment and:

- Put all your policy documents, last will and any other important papers together in a safe place where it is easily accessible.
- If you prefer to be cremated, make a note and keep it with your policy documents, so that the family is aware of your wishes. Including a note in your will won't help as the will is normally read after the funeral.
- As there are no fixed rules on how a funeral/cremation should be held, special instructions or wishes about the funeral should also be noted and kept with your policy documents.

## What to do when a loved one dies?

**The family/loved ones who are left behind should do the following in the event of a death:**

- Phone SAPS and your nearest paramedics when a person dies at home.
- As soon as a person is declared legally dead as a result of natural causes, contact the funeral parlour of choice to remove the body (the family should ensure that they know with whom the deceased has a funeral policy).
- If a person dies of unnatural causes, SAPS will send the body to the State Morgue and the family may claim the body from there once the investigation has been completed.
- Notify the family relatives, friends, school, employer and regular place of worship.
- Register the death at Home Affairs if the Funeral Parlour does not do it.
- Find the will and contact the appointed Executor of the deceased's estate.
- Begin funeral arrangements and take the following to the Funeral Parlour: deceased birth certificate, ID Book/passport, marriage certificate, any funeral policy documentation and the deceased's last will or any written instructions with regards to special wishes for the funeral.
- Also contact the relevant tax office, insurance companies, medical aid fund, the bank, credit- and store card providers, Telkom/DStv/SABC/internet/cell phone companies and clubs/trade unions for cancellation of membership.
- Most importantly make sure the employer (municipality) notifies the MGF or its administrator.

# How will my death benefit be distributed?



Your benefit in the Fund will become payable to your beneficiaries in the event of your death (see the Summary of Benefits section on the back of this journal for more information on your benefits). The Fund will consider your nomination of beneficiary form and the requirements of the Pension Funds Act when paying your death benefit. To make this process as easy as possible, the Fund needs as much information about all your dependants and nominees as you can provide (this is only an indication of the wishes of the deceased).

Your **Nomination of Beneficiary** Form is an important tool available to you to assist the Fund in distributing the benefit.

## What is a Nomination of Beneficiary Form?

The Nomination of Beneficiary Form is a form on which you indicate to whom you wish your death benefit be paid.

## Who are my beneficiaries?

**Your beneficiaries can be divided into two groups:**

Dependants	Dependants include a spouse, life partner, children and anyone else who may be financially dependent on you.
Nominees	Nominees are beneficiaries who are not necessarily financially dependent on you, such as parents (not staying with you), aunts, uncles, nephews, friends, organisations such as the SPCA etc. as mentioned on your nomination form. It may however include dependents.

## How will my benefit be distributed?

Section 37C of the Pension Funds Act and the rules of the Fund state that in the event of your death, your benefit in the Fund should be distributed as follows:

- To dependants; or
- Dependants and independent nominees in certain circumstances; or
- If there are no dependants, to independent nominees; (but any deficit in your estate first has to be settled); or
- If there are no dependants or nominees, to your estate.

## Who do I list on my form?

The Trustees of the Fund has to ensure, by law, that all your financial dependants are first taken care of, before any money is paid to your nominees. Financial dependants include also adopted children and any spouses. When you have children or a spouse or have people (including children) who are financially dependent on you, they should be nominated as beneficiaries on your nomination form.

**The Fund must first trace all your dependant/s**, and listing them on your form, makes this process easier for the Fund.

Our lives are constantly changing. Did you get married or have any children since you joined the Fund? Perhaps you adopted a child or now have a person who is financially dependent on you who was not when you initially joined the Fund? Maybe you have lost a child or a spouse or got divorced since becoming a member of the Fund?



**Please note:** If your circumstances change and you have new dependants (a mother coming to live with you or another child), please list them on your Nomination of Beneficiary form as beneficiaries.

## What happens if I have no dependants?

You still need to complete the Nomination of Beneficiary Form. In the event that there are no dependents you will therefore not list any dependants on the form, but only independent nominees.

## Where do I get the form?

From your Human Resources department or from the Fund at (011) 450-1224 or the Fund Administrator at (012) 683-3900 , toll-free 0800 118 334.

## The process

The administrator of the Fund (SEB) will require certain other documentation in order to finalise a death claim: Your HR will be able to provide your family members with the list of required documents.

Once a final distribution has been made, the beneficiaries will be informed in writing of the decision of the Fund.

# Retirement Age Confirmed

## Normal Retirement Age

It is re-iterated that the normal retirement age of the Fund is 65 years of age and that **there is no legislation requiring the Fund to decrease it to 60**. Members may go on early retirement from 50 years of age onwards.

The trustees of the Fund will never be so irresponsible to change the age unilateral to 60 or any age less than the existing 65. A decrease in compulsory retirement age has a severe damaging effect on the member's financial position. It means fewer years of employment with fewer income generating years, which means fewer years to save for retirement and more years dependent on the retirement savings.



# Fraudulent Divorce Claims

Since the legislation has been amended to allow for early withdrawal to meet a divorce claim, it appears as if there is a significant increase in these claims. The industry is concerned that not all these claims are bona fide and that it cannot be excluded that some couples go through an amicable divorce only to get access to their retirement savings. Although the Fund shares this concern it cannot prevent such practice. The only way to prevent it is to successfully pursue a criminal case of fraud. The chance of success is extremely slim taking into account that neither of the husband or wife will testify against each other if they were in cahoots.

Although it is appreciated that such extreme action to go through a divorce to get access to one's retirement savings is driven by desperation due to financial strain, members need to be cautioned that the consequences of prematurely depleting one's retirement provision can be equally disastrous as one's current financial dilemma. In fact it can even be worse as it will hit you at a more vulnerable life stage with little or no alternative source of income or ability to create such source due to old age. Members are sincerely and purely in their own interest, urged to think twice before reverting to such practice to get hold of their retirement savings.

## Housing Loans

### Direct housing loans from fund credits

Since June 2007 no housing loans have been granted to members funded directly from their fund credits. The total balance of all the direct loans on the Fund's books was then R552 million. As members terminate membership or transfer their direct loans to Standard Bank or FNB, the balance is constantly decreasing. The balance as at 30 June 2013 decreased by about 80% to R125 million.

Members are reminded that in the event of direct housing loans, the instalment paid by each member is directly allocated to such member's fund credit. This means that all interest levied as required by the Pension Funds Act is allocated to that member and that member only. The interest rate has been reduced from the fixed rate of 15% per annum. It is now a floating rate linked to the repo rate as determined by the Reserve Bank plus 5.5%. With the repo rate currently sitting at 5% the interest rate for direct housing loans funded for fund credits is therefore 10.5% per annum.

Although the position regarding direct home loan arrears did improve slightly it remains a concern. Members are urged to keep their loan accounts up to date. Accumulated arrears have a negative tax impact upon exit from the Fund because although the capital owing is reversed against the fund credit, the accumulated interest is regarded as income by the Revenue Services and is therefore added to the retirement benefit for purposes of tax calculation.

### Pension Backed Lending

As mentioned in the message of the Chairperson pension backed housing loans are provided by Standard Bank and FNB. Lately Standard Bank is experiencing some challenges to make funds available for pension backed lending (PBL) to fund members.

The Fund has to apply from time to time to Standard Bank to make funds available for the PBL facility. In the beginning (2007) batches of R50 million would be released by the Bank from their reserves for PBL loans which increased to R100 million at a time. Since June 2007 the PBL loan book of Standard Bank in respect of members of the MGF grew from zero to R750 million. Before the latest approved limit of R750 million was reached, the Fund applied on 6 November 2012 that a further batch of funding be made available and that the limit be raised.

Since then, it became clear that there were certain internal challenges within Standard Bank to get this approval. Standard Bank recently informed the Fund that due to the magnitude of the facility, it has to be approved at a higher level. The arrears on the PBL loan book of Standard Bank is currently at 3,44% to book value. The previous level of approval authority of Standard Bank was satisfied as long as the arrears were under 5%. The higher level of approval authority currently requires an arrears amount not exceeding 2,5%. Apparently no further loans will be approved until such time as the credit control section of the Bank has brought the arrears down to 2,5%.

Rumours are doing the round that Standard Bank cannot grant loans because the Fund has solvency problems. Members are assured that there is no substance in the rumour that the Fund has solvency problems and cannot meet its obligations towards Standard Bank. The PBL loans are solely funded by Standard Bank and not by the Fund at all. The inconvenience caused to members is regrettable but this matter is beyond the control of the Fund.

In view of the current inability of Standard Bank to grant PBL loans, members are advised to submit their loan applications to FNB in terms of their Smart Housing Plan. In the event of members at those municipalities which have not yet signed the Letter of Undertaking (LoU) with FNB to make the Smart Housing facility available to members, such members should please urge the management of their municipality to sign the LoU with FNB to make salary deductions in respect of loan repayments.

# Annual Meeting of the General Committee

The informative annual meeting of the General Committee held on 30 November 2012 at Centurion was well attended by the employee and employer representatives representing 30 455 members.

Various matters were considered, amongst others the financial statements for the year ended 30 June 2012, rule amendments and the investment returns. The presentations made by the investment consultant and also that made by the actuary was well received.

## The General Committee in session:



## Rule Amendments

### Account structure and other miscellaneous matters

The Fund Rules have been amended to provide for the structuring of the Fund accounts in order to comply with the requirements of the Chief Actuary of the Financial Services Board as well as for other miscellaneous matters including the following:

- Amendment of various definitions.
- Provision that a death benefit may be transferred to a retirement annuity if elected by the beneficiary of a deceased member.
- Provision that an unclaimed benefit can still be claimed after two years.

### Funeral Benefit and Immediate Needs Death Benefit

It was previously reported that the Registrar declined the Fund's request to increase the funeral benefit because it is not a pension benefit authorized by the Pension Funds Act. It was then undertaken that further discussion would be engaged with the Registrar of Pension Funds in an effort to resolve the matter. Extensive correspondence and meetings with the Registrar ensued, to no avail. The Registrar informed the Fund that the current funeral benefit may not be increased because it exceeds the R7 500 per person level allowed by the Long Term Insurance Act. However as the current R10 000 cover is already included in the Fund Rules the Fund may continue to apply it, but no increase would be allowed.

As mentioned, this is because the Act does not allow a funeral benefit as a pension benefit. The Act does however allow for a death benefit. The Board of Trustees subsequently amended the Fund Rules to allow for additional death benefits to be payable and an amount of R20 000 has been added to the existing death benefit since 1 September 2012. This is referred to as an **immediate needs death benefit**. It is payable upon death of the **member only** and will be payable to the dependents of the member upon his death to cater for immediate needs including funeral expenses. The reason why it is only payable in the event of the death of the member and not also upon the death of his/her family is to comply with the Act.

**This does not replace the existing funeral benefits but is paid in addition to the family funeral plan.** The immediate needs death benefit may only be paid to a beneficiary of the deceased member and will be paid within 48 hours upon receipt of the prescribed application form together with the supporting documentation. This must be submitted to the Fund Administrator, Sanlam Employee Benefits: RFA. The application form can be obtained from Sanlam Employee Benefits: RFA on (012) 683-3900 / 0800 118 334 or from the Fund's office on (011) 450-1224.

## Term of Office of Representatives and Trustees

In order to enhance continuity the Board of Trustees resolved to amend the Fund Rules to extend the term of office of representatives on the General Committee from 2 to 4 years. This rule amendment has recently been registered by the Registrar of Pension Funds which means that the current representatives will hold office until November 2016.

The Fund Rules have also been amended to allow a trustee to complete his/her existing 4-year term of office even though he/she may not be designated by his/her municipality to be a representative on the General Committee. This will enhance the retaining of skills on the Board of Trustees.

## Death and disability benefit limited for members who join the Fund at age 60 or older

The Fund is experiencing an increase in the number of new members joining the Fund in the 60+ age group. This has a potentially negative impact on the Fund's risk benefits costs. The risk benefits are structured to accommodate the cost of risk benefits according to the usual risk profile. The age group 60+ presents a higher risk profile than the younger age groups. It can be expected that an abnormal inflow of members in the 60+ age group will increase the cost of risk benefits. Currently the disability benefit scales down monthly pro rata from 4 times salary at 55 to 2 times salary at 65. This means that the disability benefit is still 3 times salary at 60, tapering down monthly to the minimum of 2 times salary at 65.

In the majority of cases a member passing away at this age belonged to the Fund for a number of years and contributed to the Risk Account for some time. Members joining the Fund at 60 attract a higher risk to the Fund while not having contributed to the Risk Account for a prolonged period. In order to counter this negative impact the Board of Trustees, after consultation with the actuary, resolved to limit the risk benefits (death and disability) to one times salary for those joining at age 60 or older. **This does not apply to existing members.** The Fund Rules have been amended accordingly and registered by the Registrar of Pension Funds.

## Extended retirement age of 69

Requests were received that the Fund Rules be amended to provide for an extended retirement age, such as 69 on condition that the employer and member may mutually agree accordingly. This would allow members whose employers wish to keep experience in service a bit longer to still continue with their existing retirement arrangement. The Fund Rules have been amended accordingly.

**More details about any of these rule amendments are available from the offices of the Fund.**

# Financial Statements

## A summary of the financial statements for the year ending 30 June 2012

The independent external auditors, Deloitte & Touche, are satisfied that the financial statements, in all material respects, fairly represent the result of the financial activities of the Fund for the 2011/12 year. The Fund again received a clean unqualified independent audit report. The external auditors also confirmed in writing that the existence of the Fund's assets has been verified.

It will be noticed from the financial statements that about R1¼ billion accrued in contributions and R940 million was paid in benefits to exiting members. The investment income was about R1 billion and the total asset value R13 billion. Indeed, the Fund is no small operation at all. It matured not only into the biggest retirement fund in the municipal playing field but also to a significant player in the retirement industry in South Africa at large, being in the top 20.

### Statement of Net Assets and Funds as at 30 June 2012

	30 June 2012 R	30 June 2011 R
<b>ASSETS</b>		
<b>Non-current assets</b>	13,004,629,943	11,587,525,281
Property, plant and equipment	39,804	47,253
Investments (including investment property)	12,841,140,611	11,375,637,153
Housing loan facilities	163,449,528	211,840,875
<b>Current assets</b>	197,033,565	197,306,834
Accounts receivable	25,165,027	42,979,948
Contributions receivable	32,680,207	19,471,829
Cash at bank	139,188,331	134,855,057
<b>Total assets</b>	<b>13,201,663,508</b>	<b>11,784,832,115</b>
<b>FUNDS AND LIABILITIES</b>		
<b>Members' funds</b>		
Members' individual accounts	12,460,385,094	11,165,675,955
Amounts to be allocated	91,837,712	92,045,189
	12,552,222,806	11,257,721,144
<b>Reserves</b>		
Reserve accounts	258,644,368	198,557,221
<b>Total funds and reserves</b>	<b>12,810,867,174</b>	<b>11,456,278,365</b>
<b>Non-current liabilities</b>	1,673,333	1,667,057
Provisions: Audit fees	513,000	513,000
Unclaimed benefits	1,160,333	1,154,057
<b>Current liabilities</b>	389,123,001	326,886,693
Benefits payable	380,285,755	313,762,841
Accounts payable	8,837,246	13,123,852
<b>TOTAL FUNDS AND LIABILITIES</b>	<b>13,201,663,508</b>	<b>11,784,832,115</b>



## Statement of Changes in net Assets and Funds for the period ended 30 June 2012

	Total Current Period	Total Previous Period
	R	R
Contributions received and accrued	1,251,508,003	1,161,479,355
Net investment income	1,032,821,086	1,344,181,401
Less:	(31,798,919)	(30,427,130)
Re-insurance premiums	(6,954,081)	(6,852,794)
Administration expenses	(24,844,838)	(23,574,336)
<b>Net income before transfers and benefits</b>	<b>2,252,530,170</b>	<b>2,475,233,626</b>
<b>Transfers and benefits</b>	<b>(897,941,361)</b>	<b>(793,128,823)</b>
Transfer from other funds	43,829,556	20,944,229
Benefits	(941,770,917)	(814,073,052)
<b>Net income after transfers and benefits</b>	<b>1,354,588,809</b>	<b>1,682,104,803</b>
<b>Funds and reserves</b>		
Balance at beginning of period	11,456,278,365	9,774,173,562
Transfer between reserve accounts	-	-
<b>Balance at end of period</b>	<b>12,810,867,174</b>	<b>11,456,278,365</b>

# Retirement Reform

## At Central Government level

Ten years have lapsed since the first announcement was made in the national budget speech on 26 February 2003 about the retirement reform. Very little transpired during the ten years. Early 2011 National Treasury indicated that a discussion document would have been released in September 2011 paving the way for government to put legislation in place which will make it harder for members to take their pension benefits in cash when they change jobs. This forms part of government's plan to introduce a compulsory pension system which will force people to save for retirement and reduce their dependence on the state when they retire. Olana Makhubela, National Treasury's chief director for financial investments and savings, then said that the legislation could be in place before the end of June 2012, after government has engaged in extensive public consultation.

Contrary to what was indicated by government, nothing transpired in this regard during 2011. The first was the announcement of intention in the 2012 national budget on 23 February 2012. This was eventually followed by the public release on 14 May 2012 by National Treasury of a document titled Strengthening Retirement Savings: Overview of the 2012 Budget Proposals. This document was merely a historical overview document without any specific proposals. It indicated that the following five discussion documents would be released between June and October 2012:

- Paper A *Retirement fund costs – Reviews the costs of retirement funds and measures proposed to reduce them. Paper due to be released by October 2012.*
- Paper B *Providing a retirement income – Reviews retirement income markets and measures to ensure that cost-effective, standardised and easily accessible products are available to the public. Paper due to be released by June 2012.*
- Paper C *Preservation, portability and uniform access to retirement savings – Gives consideration to phasing in preservation on job changes and divorce settlement orders, and harmonising annuitisation requirements. The aim is to strengthen retirement provisioning, long-term savings and fund governance. Paper due to be released by June 2012.*

Paper D *Savings and fiscal incentives* – Discusses how short- to medium-term savings can be enhanced, and dependency on excessive credit reduced, through tax-preferred individual savings and investment accounts. It also discusses the design of incentives to encourage savings in lower-income households. Paper due to be released by August 2012.

Paper E *Uniform retirement contribution model* – Proposes harmonising tax treatment for contributions to retirement funds to simplify the tax regime around retirement fund contributions. Paper due to be released by August 2012.

Papers B and C were released on 21 September 2012 with papers D and E following on 4 October 2012. Paper A is still to be released. The contents of these papers are briefly summarised as follows:

**Paper B: Enabling a Better Income in Retirement**, deals with the position when a person is already in retirement. Its focus is on the existing products on offer that will provide an income after retirement and it provides an overview of the current annuities market. Its main emphasis is on living annuities compared to life annuities. It favours living annuities because of the guaranteed income with the potential to decrease the financial burden on government. The paper does not present specific proposals but it is suggesting various options that will be tested with the industry and Nedlac before proposals are formulated. This paper also does not deal with costs of retirement products, which will be dealt with in a separate paper to be released by the end of October 2012, namely Paper A: *Retirement Fund Costs*. **Although Paper B is informative it does not have an impact on the Fund at this stage.** In time to come as it goes through the different stages to the proposal stage there may be a proposal that all retirement funds should include an arrangement for members to have access to a cost effective retirement annuity, be it created in the fund itself or be it an arrangement with an external provider of annuities. This should not be problematic for the Fund to implement if and when the time comes.

**Paper C: Preservation, Portability and Governance**, deals with the preservation of retirement savings until actual retirement. Again no firm proposals are put forward but various options are suggested which will be the basis for further discussion with industry, including Nedlac. It is however again re-iterated that vested rights will be protected. The vested rights are however a bit more clearly described. The intention is that a restricted approach will be followed. The existing fund credit of a member as at a future date when a new dispensation is implemented will be excluded from the new dispensation. However the future growths of the then existing fund credit together with the new contributions will be subject to the new dispensation. The fund credit as at implementation date will thus be frozen and treated according to the old dispensation at date of exit of the member. The alternative approach would be that the growth on the frozen fund credit also be excluded from the new dispensation. This is however not canvassed by government because of its complexity, as mentioned during a discussion. With modern day technology it would not be complex to calculate the growth separately and it is suggested that the restricted approach is rather a policy than practical principle. Government gave an assurance at the initial stage (27 June 2008) that vested rights would be protected and they cannot deviate from that. However if the alternative approach is followed it would take many more years to reach the ultimate goal of government, hence the direction that the growth on the existing fund credit will not be ring fenced.

It is envisaged that all retirement funds will in future be required to create a preservation fund or provide for deferred membership in the event of members who has not made arrangements for the preservation of their retirement savings when exiting a fund prior to retirement. **This should not be problematic for the Fund as the Fund Rules already provide for deferred membership.** These are still early days and once firm proposals have crystallized it will be submitted to all stakeholders for inputs before legislation is passed.

**Paper D: Incentivising Non-retirement Savings**, contains proposals for a non-retirement savings product supported by tax incentives. It expands the current tax-free interest income regime by replacing it with wider investment options. It suggests tax free returns, growth and withdrawals by limiting contributions to R30 000.00 per year and R500 000.00 over a lifetime with acceleration options if older than 45. This paper has no impact on the business of the Fund.

**Paper E: Improving Tax Incentives for Retirement Savings**, proposes to simplify the current tax regime through a uniform tax treatment of contributions to retirement funds. The matter about one maximum percentage allowance for employer and employee contributions is addressed in this paper. As reported previously two categories are proposed namely the 22.5% and 27.5% limit together with a monetary threshold. The proposal for 44 years and younger is a maximum of 22.5% of salary, capped at R250 000.00 of taxable income and for 45 years and older it is 27.5% of salary, capped at R300 000.00 of taxable income. A minimum of R20 000.00 will also apply to provide for low income earners to contribute more than the percentage limits. The percentages will be applied to the higher of the "taxable income" or "remuneration". However it must still be determined whether the percentages will be applied to "taxable income" or "remuneration" as currently defined in the

Act or whether an adjusted "taxable income" or "remuneration" will be used. Discussions with the public are scheduled for the latter part of 2012 to accommodate the proposed effective date of 1 March 2014 for the implementation of the percentages. **These percentages will not have a direct impact on the Fund but the direct impact on the members may have an indirect impact on the Fund.** The majority of members currently contribute at a rate of 29.5% which is fully tax deductible. The lower tax deductibility (22.5% and 27.5%) will reduce the take home pay of members. The difference between the actual contribution rate and the cap will be allowed as a tax deduction at retirement.

No further public announcements were made by Government since the release of the five discussion papers during September and October 2012 except for the announcement in the national budget speech on 27 February 2013 and the release of the draft proposals of same date. In general the direction given by government in the draft proposals is more lenient and will have a softer immediate impact on members.

These are as follows:

- Re-assurance was given that vested rights will be protected. Contrary to the previous position it is not only the lump sum which will be protected but also the future growth on such lump sum.
- The implementation date will be on or after 2015.
- A member older than 55 years of age at implementation date will be exempted from the proposed arrangement of a maximum one-third lump sum payment and the balance in monthly payments. In essence members 53 years and older today need not be concerned at all as this will not be applicable to such members.
- Tax deductible contributions to retirement funds, inclusive of the risk benefit and administrative cost contributions, will be limited to 27.5% of the greater of remuneration and taxable income. A ceiling of R350 000.00 per annum will apply. Although the majority of members' total contribution is 29.5% (7.5% + 22%) the 2% difference (29.5% – 27.5%) will have such a small impact that it should not be a concern at all. In most cases, depending on the salary level and possible contribution to private annuity retirement funds, this arrangement may have a slight positive effect because the employer contribution is first added to the remuneration which gives a 22% higher base amount on which the 27.5% is calculated.
- The means test of the state old age grant will be phased out by 2016. This means that everyone 60 years and older will qualify for it irrespective of income level or assets owned. Of course this will be added to one's taxable income. The tax rebates will be adjusted over the same time to rebalance the outcome.

**In summary** there is no reason for members to panic that government will lay their hands on their hard earned savings. Any changes envisaged will be introduced gradually without effecting existing savings and vested rights. From various discussions attended it is clear that National Treasury, which has been appointed as custodian of this huge project has a clear understanding of the extent of the exercise and that it is a long term project of 15 to 20 years.

If one considers that the first announcement on retirement reform was made during the national budget speech on 26 February 2003 followed by the first discussion document released by National Treasury on 15 December 2004 and that the first phase only is scheduled for implementation on 1 March 2014, one has to acknowledge that ample prior warning signals went out to the public. Adding the undertaking that **vested rights will be protected and any new arrangements will not be applicable to existing savings but only to new money** the impact on existing members is greatly reduced. It is clear from the 27 February 2013 release that government is aware of the importance of protecting vested rights to prevent the possible rush to cash in on retirement savings by concerned workers. The following extract from the latest draft proposals confirms such:

***"The vested rights of workers to access their retirement savings should be protected. This will ensure that workers who have made plans based on their retirement savings will be able to realise those plans, and would prevent disruption if workers rushed to 'cash in' their savings before any proposal came into effect."***  
***The draft retirement reform proposals are available on [www.treasury.gov.za](http://www.treasury.gov.za)***

The draft retirement reform proposals are available on [www.treasury.gov.za](http://www.treasury.gov.za)

## At Local Government level

The latest (27 July 2012) collective wage agreement of the South African Bargaining Council includes the following provisions about retirement funds (clause 9):

- From 1 August 2012 newly appointed employees may only join a defined contribution retirement fund. The Fund qualifies in this regard.
- From 1 July 2012 newly appointed employees will receive an 18% employer contribution towards a retirement fund. The rules of the Fund are compliant to accommodate this arrangement.
- The parties will conclude a collective agreement on the rationalization of retirement funds no later than 31 December 2012 or a later date agreed upon. Apparently a process of accreditation of retirement funds such as with the medical funds will be followed. MGF, being the biggest retirement fund in the municipal playing field, both in respect of asset value and membership should qualify for accreditation.

# Summary of Benefits

## Contributions

Members' contributions	Members contribute to the Fund at a minimum rate of 7.50% of pensionable salary.
Employers' contributions	For existing members the standard contribution rate of employers is 22% of a member's pensionable income. For new members it is 18%, 4.45% is utilised to finance risk benefits and 0.55% is utilised for administration costs. 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.

## My Fund Credit



The Fund is a defined contribution fund (DC fund) where the member will always, even upon resignation, receive at least all his contributions plus the contributions of the employer after the premiums for risk benefits and administration cost have been deducted plus the growth allocated in terms of bonuses. This, all together, is referred to as the **Fund Credit** of the member. The benefits listed below will be paid to members as follows:

## Benefits

- **Resignation, Retirement and Dismissal:**

The member's total Fund Credit.

- **Redundancy or Retrenchment:**

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 equals the Fund Credit.

- **Medical disability**

A member who qualifies for a medical disability 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' service and is declared medically unfit 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 before he/she became a member of the Fund will be entitled to the greater of two times annual salary or Fund Credit.

### • **Death in service**

#### **Members with more than 5 years' service:**

Four times annual salary plus Fund Credit.

#### **Members with less than 5 years' service:**

- **Unnatural causes:** Four times annual salary plus Fund Credit.
- **Natural causes:** Two times annual salary plus Fund Credit.
- **Immediate death benefit:** R20 000

### • **Members joining at 60 years or older:**

See note 3 below.

### • **Family Funeral Plan**

Members and the HR staff are reminded that family funeral plan claims must be submitted to Old Mutual from 1 April 2013 and not to Momentum (Metropolitan) any more.

The email address for submission of claims is [gapbpu@oldmutual.com](mailto:gapbpu@oldmutual.com) and the fax number is (021) 509-4669. For more detail refer to the 15 February 2013 news flash.

Family funeral cover is paid at no further cost to members at the following cover limits:

Member	R10 000
Spouse	R10 000
Children (14 - 21 years)	R 8 000
Children (1 - 13 years)	R 3 000
Children (0 - 1 year)	R 1 500



#### **Please note:**

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 Management Committee (Board of Trustees) to make adjustments timeously. Enquiries should be made to verify whether any changes were made in this regard since publication of this MGF Journal.
2. 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.
3. In the event of a member joining the Fund 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 herein before.

# Articles

## Survey Competition Winners!

**Congratulations to the winners of our 2012 survey competition:**



- M.C. Venter, Tshwane Metropolitan Municipality
- R.D. Mashiloane, Capricorn District Municipality
- L.N. Mabasa, Joburg Roads Agency
- M.J. van Zyl, Randfontein Local Municipality
- N.D. Monyeki, Modimolle Local Municipality
- S.P. Kgaphola, Johannesburg Metropolitan Municipality
- L.J. Masiteng, Ekurhuleni Metro Municipality

## The Art of Family Budgeting

A family budget will help you manage your finances more accurately.

**Here are a few pointers on how to set up a budget and start saving:**

- Figure out the amount of money you spend each week and what you spend it on. Write it down somewhere. This will show you where your money goes and where you will be able to save.
- Dedicate a time-frame for your budget (a week, a month, a year). This may depend on the type of financial goals you would like to set.
- Work out your family's income after tax and include any extra income you may receive.
- Work out your family's living expenses (what you need and what you want)
- **Needs** include: housing, utilities, transport, food, education and medical expenses.
- **Wants** include: anything that is not a necessity for you to live e.g. newer cars or a bigger TV.
- Work out the difference between your income and your expenses. If you have money left over each month, this can be added to savings. If you are over budget, it means that it is time for you to change the way you spend your money. One way to save is to stop buying items you don't need.
- Update your budget. Whenever you get a raise or if circumstances change, you will need to update your budget.

## News Flash

### Formula C tax-free calculation (pre March 1998)

It is important to note that the tax-free formula C calculation on the benefit statement reflects the tax-free benefit should you take the entire benefit in cash without transferring any portion to a retirement annuity or preservation fund. A number of incidents occurred where a broker calculated the formula C incorrectly for members who transferred a portion of their benefit to a retirement annuity. In these instances the members had to pay an additional amount of tax. To avoid this the Fund had to redo the exit process and obtain a new tax directive. The SARS is reluctant to cancel and re-issue tax directive in these instances. Hence it is important for members to note that the formula C is only applicable on the amount taken in cash. The portion of the benefit which is transferred to a retirement annuity or preservation fund must **NOT** be included in the formula C calculation. The amount transferred to a retirement annuity or preservation fund is a tax-free benefit, thus the reason for excluding it from the formula C calculation. It is important for the member's broker to fully understand the calculation of the formula C and it is advisable to rather contact the Administrator if in doubt. Christine Seierlein may be contacted at (012) 683-3823. Please note that the Administrator may not give financial advice, but will assist the brokers in understanding the calculation of the formula C tax-free benefit.

### Do we have your personal address details?

Members are again requested to furnish the Fund with a personal postal address for communication purposes. Municipalities are becoming increasingly reluctant to distribute benefit statements to members.

# Nomination of Beneficiary Form

NAME OF MEMBER:	
DATE OF BIRTH:	
PENSION NUMBER:	
LOCAL AUTHORITY:	

1. Please name your husband/wife and any further spouse, or a partner you consider to be your husband/wife.
2. Please name all your children (including illegitimate children, and irrespective of their ages).
3. Name any other legal dependants, for example a divorced husband/wife or a child from a previous marriage for whom you pay maintenance.
4. Name any other person(s) whom you maintain or whom you wish to receive benefits.
5. State the percentage you wish the above-mentioned persons to receive. Write "nil" in the "portion" space if you wish a person(s) on your list to receive no benefit.
6. Attach certified identity documents of the beneficiaries and any other relevant documents e.g. trust certificates, etc.

NAME AND SURNAME	ADDRESS	CONTACT NUMBER	DATE OF BIRTH	RELATIONSHIP	PORTION %
				TOTAL	100%

Please address any special comments hereunder, or in a separate letter, attached hereto.

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If you established a testamentary trust, please attach hereto a copy of the relevant part of your will.

If you have a last will and testament, please attach it hereto.

I request the Board of Trustees of the Fund to take my wishes as set out herein into consideration when paying death benefits in terms of the Rules of the Fund however I am aware that the Board of Trustees is compelled to adhere to the provisions of the Pension Funds Act regarding dependency.

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SIGNATURE

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DATE

SEB, Private Bag X14, Highveld Park, 0169  
Tel (012) 683-3900, Fax: 086 613 5034  
e-mail: [pension.info@coriscapital.com](mailto:pension.info@coriscapital.com)

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CREATOR by far***