Eskom Pension and Provident Fund

Invested in our *members*

Commutation and Money Purchase Conversion Factors

Member handbook

June 2016

Notice of new implementation date: 1 September 2016

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Dear EPPF member,

At its meeting held on the 27th of May 2016, the Board of Trustees of the EPPF took a decision to amend the date of implementation of the Commutation Factors (CF) and Money Purchase Conversion Factors (MPCF) from the 1st of July 2016 to the **1st of September 2016**. The change in implementation date has been adjusted to accommodate further engagements with stakeholders of the Fund.

Note: The revised CF and MPCF affect Retirement Benefit Options only.

The CF and MPCFs are used to calculate the Retirement lump sum on statutory pensions and monthly pension payments on voluntary or deferred pensions respectively. The calculation of these values/amounts needs to make a realistic allowance for the average life expectancy of EPPF pensioners. The CFs and MPCFs have been designed to ensure that the benefits of members accurately reflect EPPF pensioner life expectancies. The changes taking place on 1 September 2016 are based on a recent, comprehensive analysis of pensioner life expectancy.

The Board of Trustees is entrusted with ensuring:

- the sustainability of the EPPF so that members can continue to reap the benefits of having a financially sound pension fund.
- fair and impartial treatment of all members and beneficiaries.

Therefore, any changes that the Board makes are based on ensuring that the EPPF can meet those two main responsibilities.

We are committed to serving you in a manner that is transparent and we will take you through this journey over the next few months.

We have also developed this Commutation and Money Purchase Conversion Factors Handbook to better explain the following:

- The changes that will take place when the revised CFs and MPCFs are implemented; and
- Why there is a need to make changes to the CFs and MPCFs.

Navigating the handbook

Definitions and explanations of pension industry jargon

The movement of your money from contributions to retirement payments

The EPPF processes that will be followed during the implementation of the updated commutation factors

Eskom Pension and Provident Fund

Unpacking your pension at retirement

Your total pension benefit is best described in terms of Pension A and Pension B.

Your total pension benefit = Pension A + Pension B

The table below describes the make up of each pension, how the benefits are calculated as well as the demographic and mortality factors that are used to determine the benefits.

	Pension A	Pension B
Description	This is your statutory pension which factors in your years of service and average salary in your last 12 months of employment, in order to determine the amount that you are entitled to receive as an annual pension. You may elect to receive your entire Pension A in monthly payments or to receive your pension partially as a lump sum, and the remainder as a monthly pension.	This is your secondary pension (money purchase scheme) which is made up of deductions from your performance bonuses and additional voluntary contributions, with interest. You may elect to receive your entire Pension B in monthly payments or to receive your pension partially as a lump sum, and the remainder as a monthly pension.
Lump sum calculation	1/3 of Pension A x Commutation Factor	1/3 of total of Pension B account
Factor/s used to calculate the lump sum	A Commutation Factor which accounts for life expectancy is used in calculating the lump sum on Pension A. **The Commutation Factor will be changed to reflect current life expectancy.**	There is no factor used in calculating the lump sum. A total of 1/3 of Pension B is received at retirement.
Monthly pension calculation	A calculation takes 2/3 (or 3/3 if no cash lump sum is taken) of Pension A and divides it by 12 (months) to determine your monthly pension	A calculation that takes 2/3 of Pension B and factors in your gender, your age and your spouse's age, in order to determine the amount that you should receive as a monthly pension. The Money Purchase Conversion Factor is for this purpose. The Money Purchase Conversion Factor will be changed to reflect current life expectancy. New Money Purchase Conversion Factors will be introduced for members who are single.

The EPPF member's journey to retirement

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Stage 1 - saving

Working adult making contributions to build up a pension nest egg. At retirement your salary and service determine your benefit

EPPF safe guards your pension savings for the day you retire.

Stage 2 – retirement

EPPF calculates your benefit based on salary, service and a factor to determine the pension you are entitled to receive at retirement. If you die, your dependants are catered for as outlined in the rules.

Pensioner or dependants living on the retirement benefit.

You are eligible for retirement between ages 55 to 65.

At retirement you have the option to **commute a portion of your retirement into a cash lump sum o**r you can elect not to commute any of your pension and instead have the full amount paid out as a monthly pension. **The Commutation Factors (CF) changes only affect you if you elect to commute a portion of your pension at retirement**.

Money Purchase Conversion Factors (MPCF) impact you at retirement if you have pension savings in a money purchase scheme (additional voluntary contributions or deferred pension – pension B).

Commutation Factor
Commutation Factors are based on life expectancy and are used in the calculation of a lump sum benefit on your statutory pension at retirement.

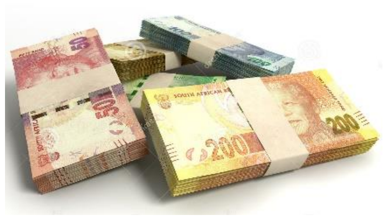
Money Purchase Conversion Factor
Money Purchase Conversion Factors are based on life expectancy and are used in the calculation to convert the balance of your money purchase scheme into a monthly pension benefit.

Stage 1 - saving

Your pension saving options:

Compulsory monthly contributions are **deducted from your salary.** Salary and service make up your main retirement pension (**Pension A**).

Pension A



Contributions are deducted from your performance bonuses and you have the option to make **additional voluntary contributions** (AVC). The sum of these makes up your additional pension (**Pension B**).

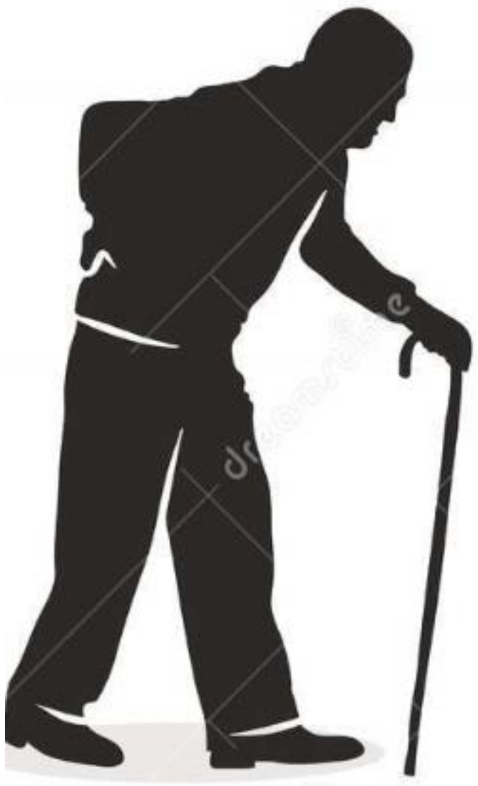
Pension B is designed to help you supplement your future retirement income. It is saved in what is known as a **money purchase account**. This is where deferred pensions are also saved.

Pension B

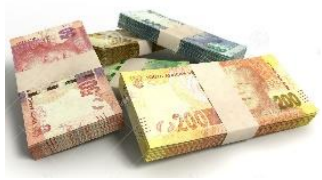
Stage 2 – retirement

You have been saving for retirement throughout your working life and now you need to live on your pension benefit as you will no longer be able to receive a salary. You will be entitled to Pension A and Pension B.

Between the ages 55 and 65 you submit your **retirement application.**



Pension A (statutory pension)



1) I need a monthly pension to live on while I am retired.

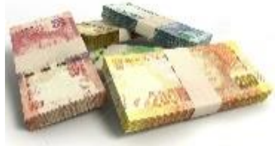
EPPF calculates the amount that I am entitled to receive as an annual pension based on my salary and years of service.

1) We use a formula that is based on the average salary from your final 12 months of employment and the number of years that you have worked at Eskom and/or its subsidiaries. **This calculation will not be affected by Commutation Factor changes.**

2/3 (or 3/3 if no cash lump sum is taken) of pension A is divided by 12 gives you your monthly pension.

2) I would like to commute/convert approximately 1/3 of my pension as cash.

Upon your elected choice EPPF then commutes a maximum of 1/3 into cash using a **Commutation Factor.**



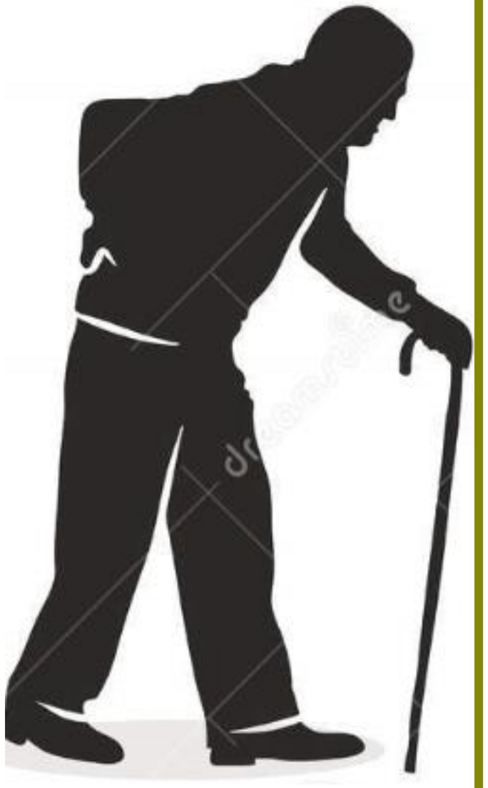
2) To determine how much of your money you can draw from **Pension A** as upfront cash, we take 1/3 of Pension A and apply the Commutation Factor.

The Commutation Factor ensures that you receive fair value for your 1/3 pension that you surrender for a cash lump sum

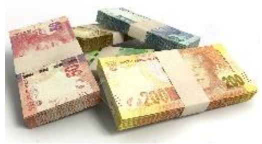
Stage 2 – retirement

You have been saving for retirement throughout your working life and now you need to live on your pension benefit as you will no longer be able to receive a salary.
You will be entitled to Pension A and Pension B.

Between the ages 55 and 65 you submit your **retirement application.**

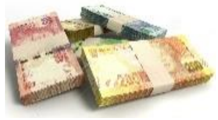


Pension B (total performance bonus contributions/additional voluntary contributions (AVC)/deferred pension)



1) I would like to commute/convert 1/3 of my additional pension in cash

EPPF calculates 1/3 of your total pension from pension B to determine your cash lump sum



1) EPPF pays out 1/3 of your total **Pension B** value into your bank account as an upfront cash lump sum. **A lump sum on Pension B is not based on a factor, so this calculation is not affected by the changes.**

2) I will receive a monthly income from my additional savings, to supplement my statutory pension income.

EPPF converts the balance of my additional savings into a monthly pension using a Money Purchase Conversion Factor.

2) We use a Money Purchase Conversion (MPCF) to convert the balance of your additional pension **(Pension B)** into a monthly pension.

We do this so that we can guarantee your monthly pension payments for as long as you are a retired EPPF pensioner.

Will the changes affect my savings?

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Let us demonstrate how you will retain your savings after the changes in Commutation and Money Purchase Conversion Factors using the two stages demonstrated above

Stage 1 - saving

1) Working adult entrusting EPPF to safe guard your pension benefit for retirement. Your annual benefit statements show you how much pension you are accumulating. We also update you each time the Board declares the interest rate so you know how much interest is added to your benefit during your membership.

2) You retire between the ages 55 to 65. The EPPF calculates your monthly and lump sum pension amounts on Pension A and Pension B.

3) EPPF discloses the value of your total pension benefit at retirement. **Commutation Factors** are used to calculate the lump sum on Pension A. **Money Purchase Conversion Factors** are used to calculate the monthly pay out on Pension B.

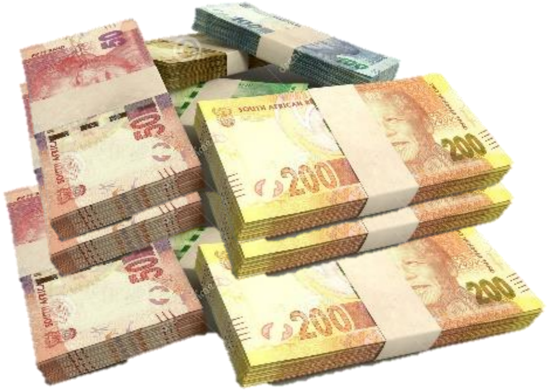
4) Now that you know the total value of your pension benefit, you may take a decision on whether you would like to receive lump sum/upfront cash as part of your pension or whether you would like to receive your pension as monthly payments only, excluding any lump sum payments.

Call 0800 11 45 48 to request an estimate at requirement or visit www.eppf.co.za to generate your own retirement estimate.

5) EPPF pays you a monthly pension. If you elected to commute/convert a cash lump sum on Pension A, that portion is calculated using the new **Commutation Factors** and gets paid into your bank account.

Stage 2 – retirement

6) You are now an EPPF pensioner who is living on your retirement benefit and/or the cash lump sum you withdrew when you retired.



Stage 2 continued…

We will pay you a monthly pension until death. Your pension is guaranteed, and if you should die before exhausting your minimum benefit from Pension A which was calculated at retirement, the remaining amount will be paid to your dependants and beneficiaries at a reduced percentage. If none exist then it will be paid into your estate and
will be distributed according to the instructions on your will, if you have one.

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Example: early retirement due to ill health

Male (age = 55, spouse = 5 years younger)	Female (age = 55, spouse = 5 years younger)
Assumptions: • Early retirement due to ill-health at **55**: • His accrued service is **32 years**. • His future potential service is **10 years**. • His **final average pensionable emoluments = R400 000** • His **AVC and PB balance = R350 000** **Formula pension (Pension A)** = 2.17% (Pension accrual rate) Rule 22 x 400 000 x (32 + 75% x 10) = **R342 860** Spouse's pension = 60% x 342 860 = **R205 716** Pension after one-third commutation = 2/3 x 342 860 = **R228 573** **One-third commutation on formula pension (Pension A)** Old factors: 1/3 x 342 860 x **11.244** = R1 285 039 New factors: 1/3 x 342 860 x **11.263** = R1 287 211 **AVC/PB pension (Pension B)**: One-third commutation = 1/3 x 350 000 = R116 667 Pension - old factors: (2/3 x 350 000) / **15.240** = R15 311 Spouse's pension (on death of pensioner) – old factors = 60% x 15 311 = R9 187 Pension – new factors: (2/3 x 350 000) / **16.012** = R14 572 Spouse's pension (on death of pensioner) – new factors = 60% x 14 572 = R8 743 **Total** Old factors: pension = R 243 884 (R228 573 + R15 311) and cash lump sum = R 1 401 706 **New factors: pension = R 243 145 (R228 573 + R14 572) and cash lump sum = R 1 403 877**	**Assumptions:** • Early retirement due to ill-health at **55**: • Her accrued service is **32 years.** • Her future potential service is **10 years**. • Her **final average pensionable emoluments = R400 000** • Her **AVC and PB balance = R350 000** **Formula pension (Pension A)** = 2.17% (Pension accrual rate) Rule 22 x 400 000 x (32 + 75% x 10) = **R342 860** Spouse's pension = 60% x 342 860 = **R205 716** Pension after one-third commutation = 2/3 x 342 860 = **R228 573** **One-third commutation on formula pension (Pension A)** Old factors: 1/3 x 342 860 x **11.244** = R1 285 039 New factors: 1/3 x 342 860 x **14.406** = R1 646 414 **AVC/PB pension (Pension B)**: One-third commutation = 1/3 x 350 000 = R116 667 Pension - old factors: (2/3 x 350 000) / **14.580** = R16 004 Spouse's pension (on death of pensioner) = 60% x 16 004 = R9 602 Pension – new factors: (2/3 x 350 000) / **16.545** = R14 103 Spouse's pension (on death of pensioner) = 60% x 14 103 = R8 462 **Total** Old factors: pension = R 244 577 (R 228 573 + R 16 004) and cash lump sum = R 1 401 706 **New factors: pension = R 242 676 (R 228 573 + R 14 103) and cash lump sum = R 1 763 081**.

Example: normal retirement at age 65

Married male retiree

Assumptions:

- He retires at **normal retirement age 65:**
- His accrued service is 42 years.
- His final average pensionable emoluments = R400 000
- His AVC and PB balance = R350 000

Formula pension (Pension A) = 2.17% (Pension accrual rate) Rule 22 x 400 000 x 42 = R364 560
Spouse's pension = 60% x 364 560 = R218 736

Pension after one-third commutation = 2/3 x 364 560 = R243 040

One-third commutation on formula pension (Pension A)
Old factors: 1/3 x 364 560 x **9.771** = R1 187 372
New factors: 1/3 x 364 560 x **9.965** = R1 210 947

AVC/PB pension (Pension B):
One-third commutation = 1/3 x 350 000 = R116 667

Pension - old factors: (2/3 x 350 000) / **12.590** = R18 533
Spouse's pension (on death of pensioner) – old factors = 60% x 18 533 = R11 120

Pension – new factors: (2/3 x 350 000) / **13.507** = R17 275
Spouse's pension (on death of pensioner) – new factors = 60% x 17 275 = R10 365

Total
Old factors: pension = R 261 573 (R243 040 + R18 533) and cash lump sum = R 1 304 039

New factors: pension = R 260 315 (R243 040 + R17 275) and cash lump sum = R 1 327 614

Married female retiree

Assumptions:

- She retires at **normal retirement age 65:**
- Her accrued service is 42 years.
- Her final average pensionable emoluments = R400 000
- Her AVC and PB balance = R350 000

Formula pension = 2.17% (Pension accrual rate) Rule 22 x 400 000 x 42 = R364 560
Spouse's pension = 60% x 364 560 = R218 736

Pension after one-third commutation = 2/3 x 364 560 = R243 040

One-third commutation on formula pension (Pension A)
Old factors: 1/3 x 364 560 x **9.771** = R1 187 372
New factors: 1/3 x 364 560 x **13.061** = R1 587 173

AVC/PB pension (Pension B):
One-third commutation = 1/3 x 350 000 = R116 667

Pension - old factors: (2/3 x 350 000) / **11.670** = R19 994
Spouse's pension (on death of pensioner) – old factors = 60% x 19 994 = R11 996

Pension – new factors: (2/3 x 350 000) / **13.884** = R16 806
Spouse's pension (on death of pensioner) – new factors = 60% x 16 806 = R10 084

Total
Old factors: pension = R 263 034 (R243 040 + R19 994) and cash lump sum = R 1 304 039

New factors: pension = R 259 846 (R243 040 + R16 806) and cash lump sum = R 1 703 840

Example: normal retirement for a single unmarried member

Single male retiree	Single female retiree
Assumptions: • He retires at **65** • His accrued service is 42 years. • His final average pensionable emoluments = R400 000 • His AVC and PB balance = R350 000 **Formula pension (Pension A)** = 2.17% (Pension accrual rate) Rule 22 x 400 000 x 42 = R364 560 Spouse's pension = 60% x 364 560 = R218 736 (if married at future date of death) Pension after one-third commutation = 2/3 x 364 560 = R243 040 **One-third commutation on formula pension (Pension A)** Old factors: 1/3 x 364 560 x **9.771** = R1 187 372 New factors: 1/3 x 364 560 x **9.965** = R1 210 947 **AVC/PB pension (Pension B)** One-third commutation = 1/3 x 350 000 = R116 667 Pension - old practice: (2/3 x 350 000) / **13.507** = R17 275 Spouse's pension (if married at future date of death) = 0 Pension – new practice: (2/3 x 350 000) / **10.064** = R23 185 Spouse's pension (if married at future date of death) = 0 **Total** Old practice: pension = R 260 315 (R243 040 + R 17 275) and cash lump sum = R 1 304 039 **New practice: pension = R 266 225 (R243 040 + R 23 185) and cash lump sum = R 1 327 614**	**Assumptions:** • She retires at **65**: • Her accrued service is 42 years. • Her final average pensionable emoluments = R400 000 • Her AVC and PB balance = R350 000 **Formula pension (Pension A)** = 2.17% (Pension accrual rate) Rule 22 x 400 000 x 42 = R364 560 Spouse's pension = 60% x 364 560 = R218 736 (if married at future date of death) Pension after one-third commutation = 2/3 x 364 560 = R243 040 **One-third commutation on formula pension (Pension A)** Old factors: 1/3 x 364 560 x **9.771** = R1 187 372 New factors: 1/3 x 364 560 x **13.061** = R1 587 173 **AVC/PB pension (Pension B)**: One-third commutation = 1/3 x 350 000 = R116 667 Pension - old practice: (2/3 x 350 000) / **13.884** = R16 805 Spouse's pension (if married at future date of death) = 0 Pension – new practice: (2/3 x 350 000) / **13.192** = R17 687 Spouse's pension (if married at future date of death) = 0 **Total** Old practice: pension = R 259 845 (R243 040 + R16 805) and cash lump sum = R 1 304 039 **New practice: pension = R 260 727 (R243 040 + R17 687) and cash lump sum = R 1 703 840**

Our contact details

If you have any questions or queries, please get in touch, we would like to hear from you!

Call 0800 11 45 48

E-mail info@eppf.co.za

Visit www.eppf.co.za, this is where we keep an information archive for you to use anytime.

Are you close to any of our regional centres? Visit one of our walk-in centres:

Johannesburg
Isivuno House
EPPF Office Park
24 Georgian Crescent East
Bryanston East

Emalahleni/Witbank
House No. 27
Eskom Park
Visagie Street
Emalahleni

East London
Sunnilaws Office Park
Bonza Bay Road
Beacon Bay

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