Eskom
Pension and Provident Fund

Minimum Individual Reserve (MIR)

2022

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*members*

Introduction

In this booklet we outline the process of calculating an in-service member's withdrawal benefit which becomes payable upon exiting the Fund, prior to retirement.
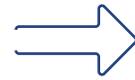
We also explain how certain factors outside of the Fund's control, may fluctuate the member's withdrawal benefit from month-to-month.

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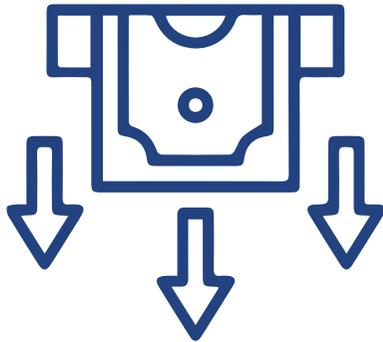
Defined Benefit Fund

Firstly, it is important to understand that the EPPF is a defined benefit pension fund and not a defined contribution fund.
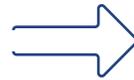
In a defined benefit Fund, your retirement benefit is defined ahead of time, and is determined by an actuarial formula.
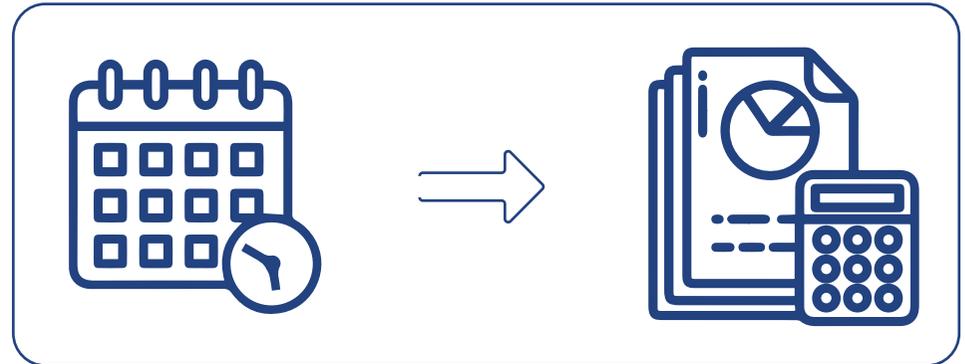
The calculation method is defined in the rules of the Fund and it also considers additional voluntary contributions.
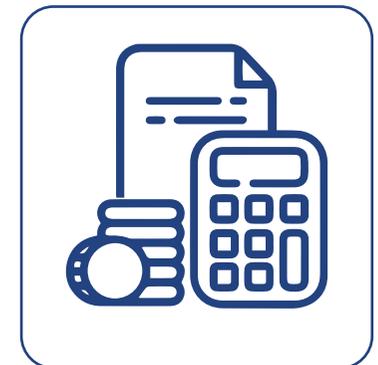
Defined Contribution Fund

Defined contribution funds on the other hand, allow employees to contribute and invest in funds over time to save for retirement.

As such, an employee is given the responsibility to choose the investments offered by the plan.
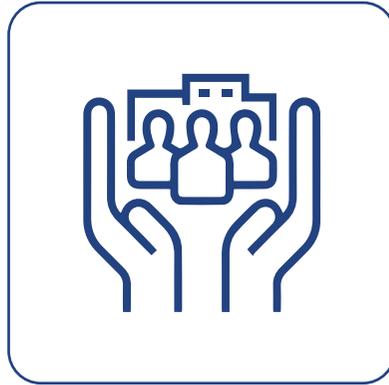
As mentioned, this is not the case in a defined benefit fund, such as the EPPF

Let's get into the details

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What is a cash withdrawal benefit?

In a nutshell, your cash withdrawal benefit is accumulated member contributions, which would include bonuses and additional voluntary contributions calculated using the Fund interest rate.
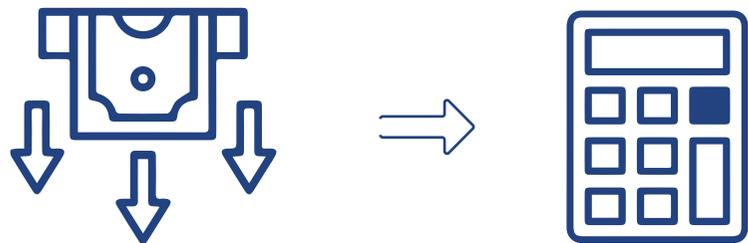
HOWEVER, to ensure that you receive a fair withdrawal benefit when you leave the fund, this cash withdrawal benefit is tested against your Minimum Individual Reserve or MIR value. Once calculated, it is the greater of the cash withdrawal amount OR the MIR amount that would be payable to you.
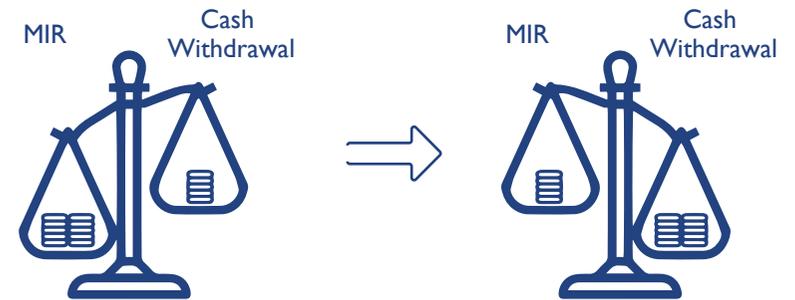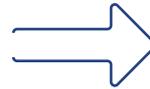
What is your MIR?

The MIR is not a pot of money! It is a present-day value of your pension.

This amount is converted into a capital value as at your normal retirement date, in other words a projection of your pension amount at your future date of retirement.
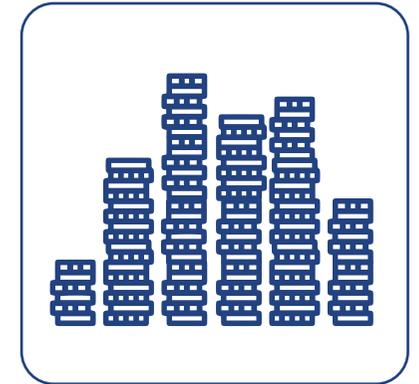
hereafter it is represented in a present-day value, using the Earnings Yield rate which is published by the Financial Sector Conduct Authority (FSCA) at the end of each month.

In other words - it is a calculation of the pension that you have accrued up to your date of leaving the fund prior to retirement.

EY% → FSCA

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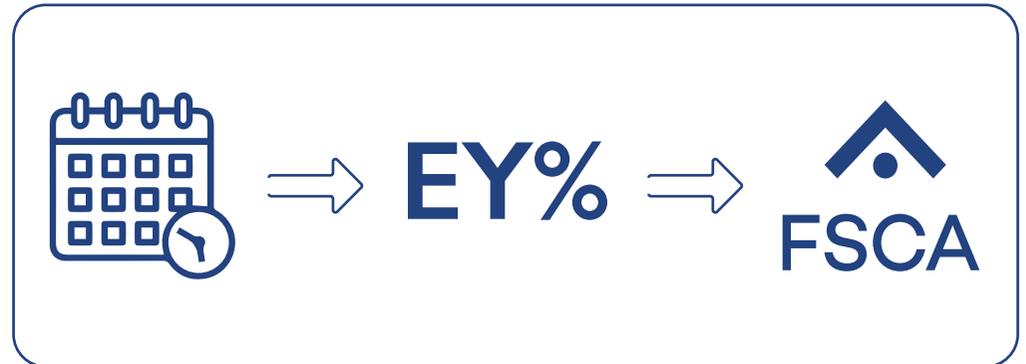
What is the Earnings Yield rate?

As mentioned, the EPPF is a defined benefit fund, and we understand that a formula is used to calculate your cash withdrawal benefit.
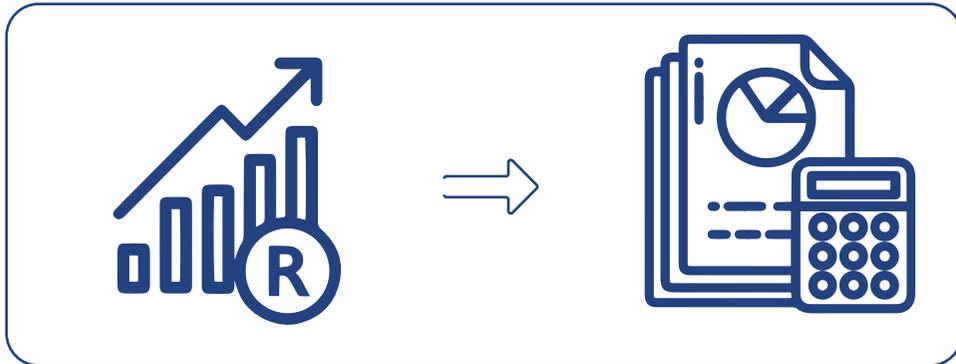

A variable in the formula is that of the Earnings Yield rate. The EPPF utilises 40% of that rate as prescribed in terms of the Pension Fund's Act.

EY%
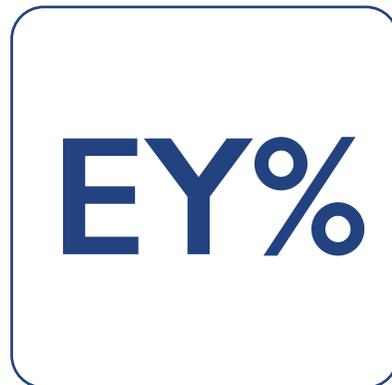
As the Earnings Yield rate is linked to the performance of the local equity market, you would appreciate that market movement is unpredictable. And since market movement is unpredictable, the MIR changes from month-to-month.
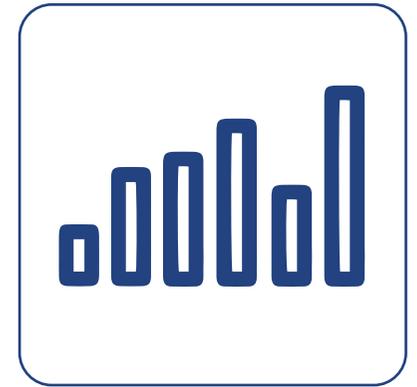
When the earnings yield moves up, the withdrawal benefit reduces, when it moves down, the withdrawal benefit increases.

Earnings Yield   Withdrawal

1,1%

Earnings Yield   Withdrawal

2,0%

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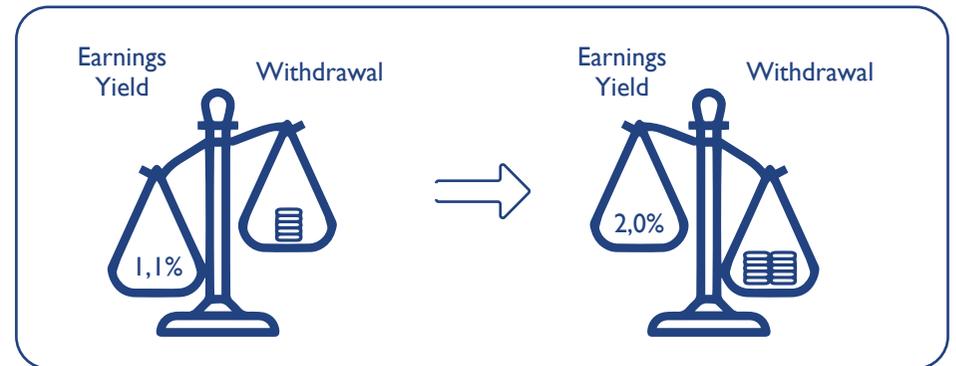
What is the Earnings Yield rate?

It should be emphasised that the EPPF has no impact on how the earnings yield rate is determined.

Therefore, the value of a member's MIR is not influenced by the Fund's own investment performance, but rather the Earnings Yield rate.
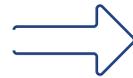
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⇒

MIR

⇓

EY%

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So how does the Earnings Yield affect your MIR value?

Let's consider the story of Ben

Ben is a 40-year-old male member, with a final average salary of R500,000 and a past service period of 15 years. Therefore, Ben has 25 years left until he reaches the normal retirement age of 65 years.

The actuarial formula is based on Ben's pensionable years of service, pensionable salary and applicable actuarial factors.
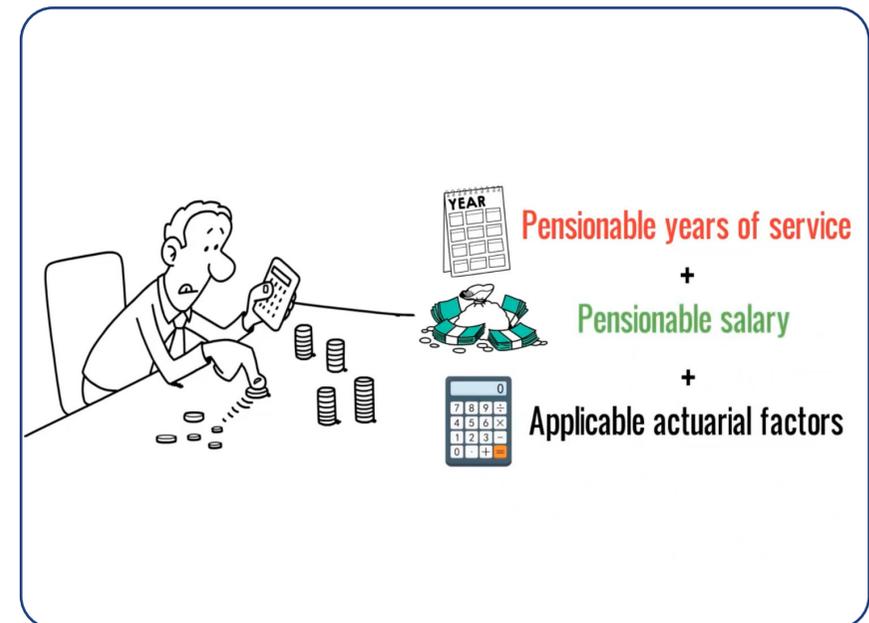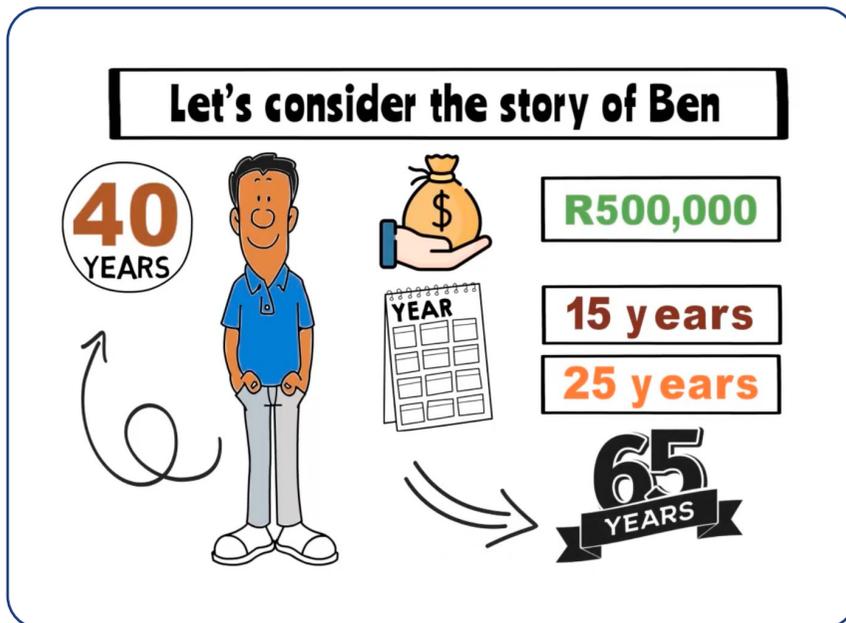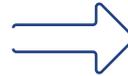
So how does the Earnings Yield affect your MIR value?

Consider two scenarios

In scenario 1

40% of Earnings Yield is 1.0% applying the actuarial formula the member MIR value is R1,6Million

In scenario 2

40% of Earnings Yield is 2.0% applying the actuarial formula the member MIR value is R1,2Million


In scenario 1

40% of Earnings Yield is 1.0%

$2.17\% * 15 * R500{,}000 * 12.84609 * (1+1\%)^{(-25)}$

MIR value is R1,630,263

In scenario 2
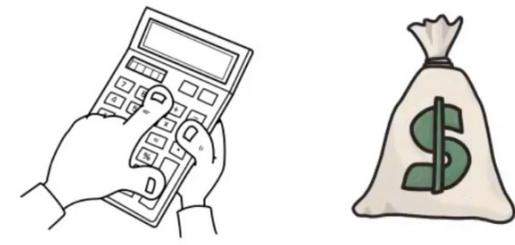
40% of Earnings Yield is 2.0%

$2.17\% * 15 * R500{,}000 * 12.84609 * (1+2\%)^{(-25)}$

MIR value is R1,274,347

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So how does the Earnings Yield affect your MIR value?

It is clear from the example that the MIR value of a member is expected to grow over time as salary and service period increases.

However, when the earnings yield increases, your withdrawal benefit reduces and vice versa.

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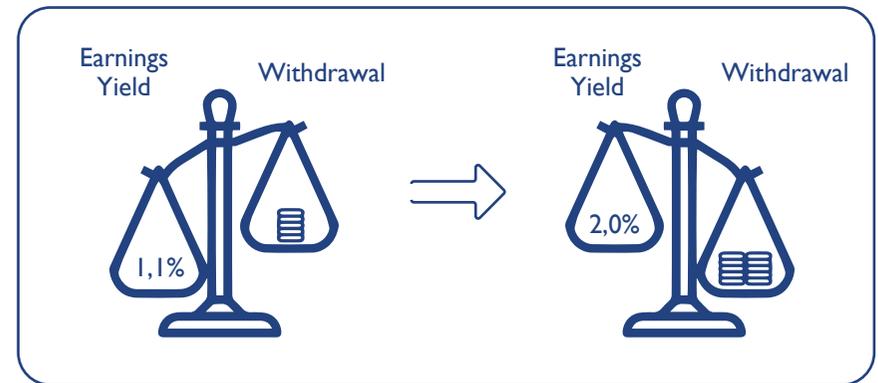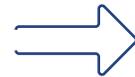
So how does the Earnings Yield affect your MIR value?

Now that you know how the formula works, you can understand why your withdrawal benefit fluctuates every time the earnings yield changes.

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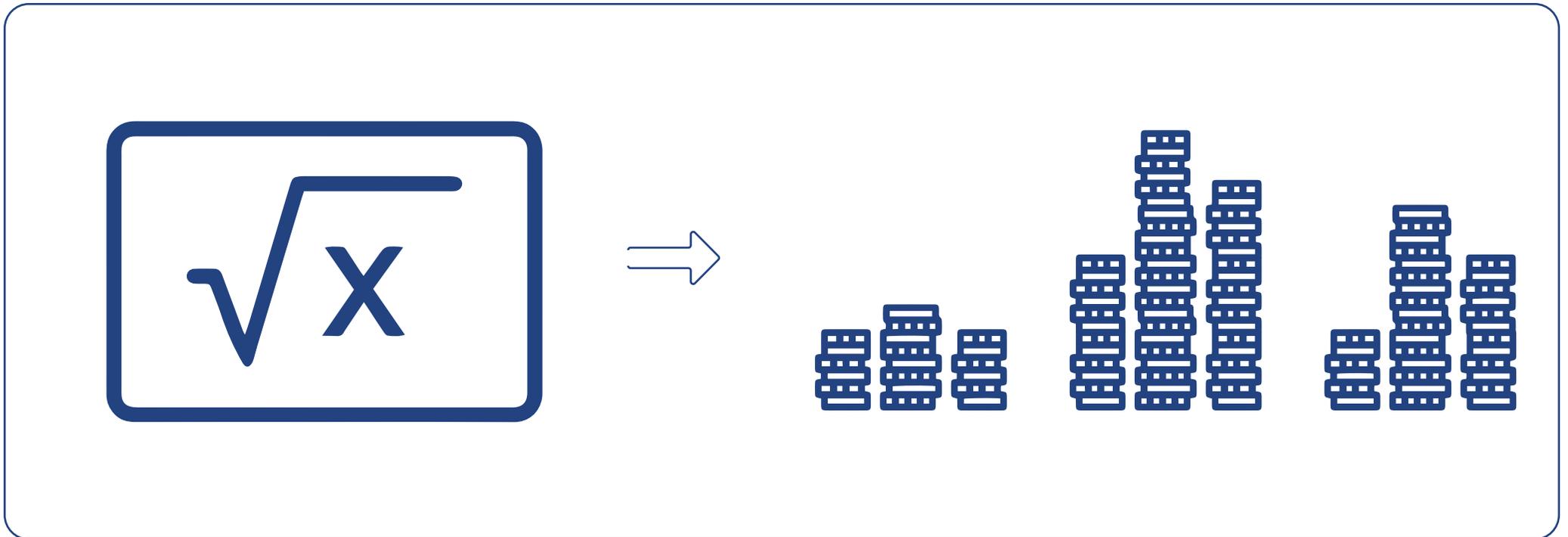
Contacts

For this reason, you are urged to keep track of your MIR movement, and to speak to our call centre should you require any further information on your member record. Please dial 0800 11 45 48 or email info@eppf.co.za.
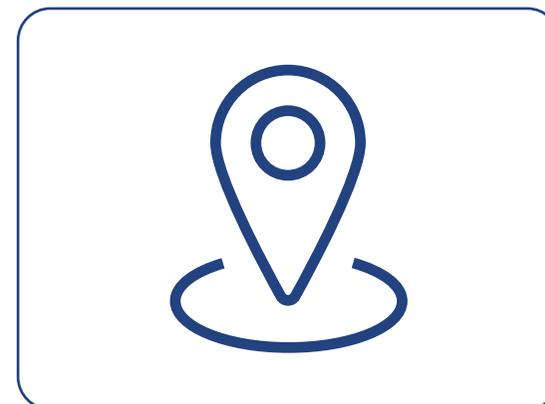
For dedicated assistance in understanding the calculation of your withdrawal benefit or your benefit statement, please contact any of our Regional Retirement Fund Consultants. Their contact details can be found on the EPPF website at www.eppf.co.za

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