Eskom Pension and Provident Fund

PowerTalk

MAY 2010

THIS ISSUE

AHOY! There is a new captain on board this ship!

The Fund's new Chief Executive. Mr. Sibusiso Luthuli, started his tour of duty at the EPPF on 6 April 2010. Sbu, as he prefers to be called, says this is a large ship to steer, with about eighty crew members, including the Officers in charge of the running of the ship. He is humbled but also challenged by the daunting task of steering such a large vessel through the sometimes stormy waters of the financial markets and changes in the winds that are blowing through the retirement industry.

"We need to take the best care possible of the precious cargo on this ship, being the investments worth about R60 billion that belongs to the members and the pensioners of the Fund. With the full support of the crew we can do this successfully", Sbu said.

Sbu hails from KwaZulu-Natal and his background is mainly banking. Sbu has been the CEO of Ithala Bank Limited, a wholly owned subsidiary of the Ithala Development Finance Corporation Limited, which is a provincial development agency. He took over the running of the Bank in 2004 when it had 40 branches and grew it to 56 branches over the 6 years in charge.

Sbu is a Chartered Accountant and he is the non executive chairman of Cipla Medpro Pharmaceuticals Limited as well as a non executive director at Telkom SA Limited.

The first 5 things on his agenda are:

1. Understand the things that work well and the challenges facing the Fund.
2. Focus on streamlining our operations, and managing costs.
3. Review our IT strategy.
4. Focus on improving our customer service.
5. Focus on improving returns on assets under management.

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Sbu is looking forward to meet the participating employers, members and pensioners of the Fund over time and is adamant that he will lead by example as he expects only the best in terms of customer service from the ship's crew.

His family will join him soon in Johannesburg from Durban, and they will probably miss the ocean, but his wife Phumzile and children Owethu aged 7 and Eyethu aged 2 months are looking forward to starting a new life in Jozie. Phumzile is planning to stay at home for a while to allow the family to settle in.

Sbu's hobbies include reading, mostly business and financial publications, and playing golf. He is an avid soccer fan and supports Kaizer Chiefs. His favourite international team, after Bafana Bafana, is Brazil.

Withdrawal benefits

As a member of the Eskom Pension and Provident Fund you are entitled to certain benefits. These benefits are defined in the Rules of the Fund, which Rules govern the Fund.

In this article we take a look at the benefits payable to you on withdrawal from the Fund.

What is a "withdrawal"?

A "withdrawal benefit" becomes payable in the following instances:

- Resignation
- Retrenchment
- Dismissal
- Abscondment.

What benefit will you be entitled to if you withdraw from the Fund in any one of the above circumstances?

Your withdrawal benefit payout is based on your "Minimum Individual Reserve" or "MIR". The Minimum Individual Reserve payable to a member must be the greater of the Accumulated Contribution or the Fair Value.

Accumulated Contribution - the Fund must calculate the capital value of the member's accumulated past contributions (the total amount of money the member has paid into the Fund) plus interest. The rate of interest after December 2001 must compare reasonably with the actual rate of investment return that the Fund has earned on its assets.

Fair Value – the Fund must calculate the value of the "accrued deferred pension". The accrued deferred pension is the amount of pension that a member has earned for past service up to the date of leaving the Fund, based on the member's salary at the date of leaving the Fund. The capital value of this amount is calculated using financial assumptions, including items such as the rate of future salary increases and future investment returns.

The Pension Funds Act prescribes the assumptions used in calculating the above benefits.

The benefit you will receive if you are retrenched:

In the event of you being retrenched your Minimum Individual Reserve must be the greater of your Accumulated Contribution, or your Fair Value, or your Retrenchment Benefit.

Your Retrenchment Benefit is equal to three times your own contributions to the Fund.

How much tax is deducted?

If you decide to take your withdrawal benefit as a cash lump sum, the following tax table will apply:

Lump sum withdrawal benefit	Rate of tax
R0 – R22 500	0%
R22 501 – R600 000	18%
R600 001 – R900 000	27%
R900 001 and above	36%

Options on withdrawal

The following options are available on withdrawal:

a). Transfer your full benefit to an approved pension/ provident fund (such as a new employer's fund), retirement annuity (individual pension plan bought from an insurer where the member keeps making contributions) or a preservation fund (bought from an insurer to preserve benefits – contributions are not made).

b). Take the maximum tax-free amount (R22 500) and transfer the balance to an approved pension/provident fund or a retirement annuity.-

c). Take the benefit in cash. (Less tax, of course.)

d). Take R22 500 tax-free and defer the remainder of the actuarial value into the Fund's Deferred Pension Scheme.
(For details about the Deferred Pension Scheme, please see the article elsewhere in this publication.)

e). Transfer the full actuarial value into the Fund's Deferred Pension Scheme.

f). In the event of retrenchment a member can withdraw his/her accumulated contributions and defer the remainder of the actuarial value into the Fund's Deferred Pension Scheme.

Note: The accumulated balances in the Additional Voluntary Contribution and Performance Bonus Contribution Schemes are added to the above withdrawal benefits.

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The Editor interviewed Ms Linda Soga Mateza, the Fund's Acting Chief Investment Officer, about the latest state of the Fund's investments.

The EPPF has reached a new milestone in terms of the size of its investments. What is the significance?

The Fund's investments exceeded the R60 billion mark in March 2010. The previous peak was in May 2008, when the investments reached R53, 6 billion.

This figure is more significant if we consider that in March 2009, investments declined to around R49 billion as a consequence of the global financial crisis.

Reaching R60 billion is significant as it shows the Fund's recovery through one of the most difficult periods in investment history, and the importance of a long-term investment strategy.

Where were we at 30 June 2009?

At June 2009, the market value of the Fund's investments was R52 billion.

What were the markets like then?

The global economy was beginning to move from recession to recovery following the crisis which had begun in the third quarter of 2008. Equity markets, which had reached a bottom in March 2009, had begun to recover sharply. Investor sentiment was improving, and the term "green shoots", which indicated signs of economic recovery, had become a buzzword among market commentators around the world.

What has changed?

As the financial crisis unfolded, governments in most developed economies responded swiftly and in unison to provide bail-out packages to financial institutions, and central banks cut interest rates aggressively. Without this coordinated intervention, the crisis may have lasted longer and could have been more severe.

Although the global recovery has been slow and uncertain, sentiment among consumers is far more positive now than it was a year ago, while investors are also more confident. As a result, demand prospects have returned to the global economy, which is positive for growth. Volatility in the financial markets has also fallen substantially.

Which asset classes (local and international), if not all, contributed to the growth?

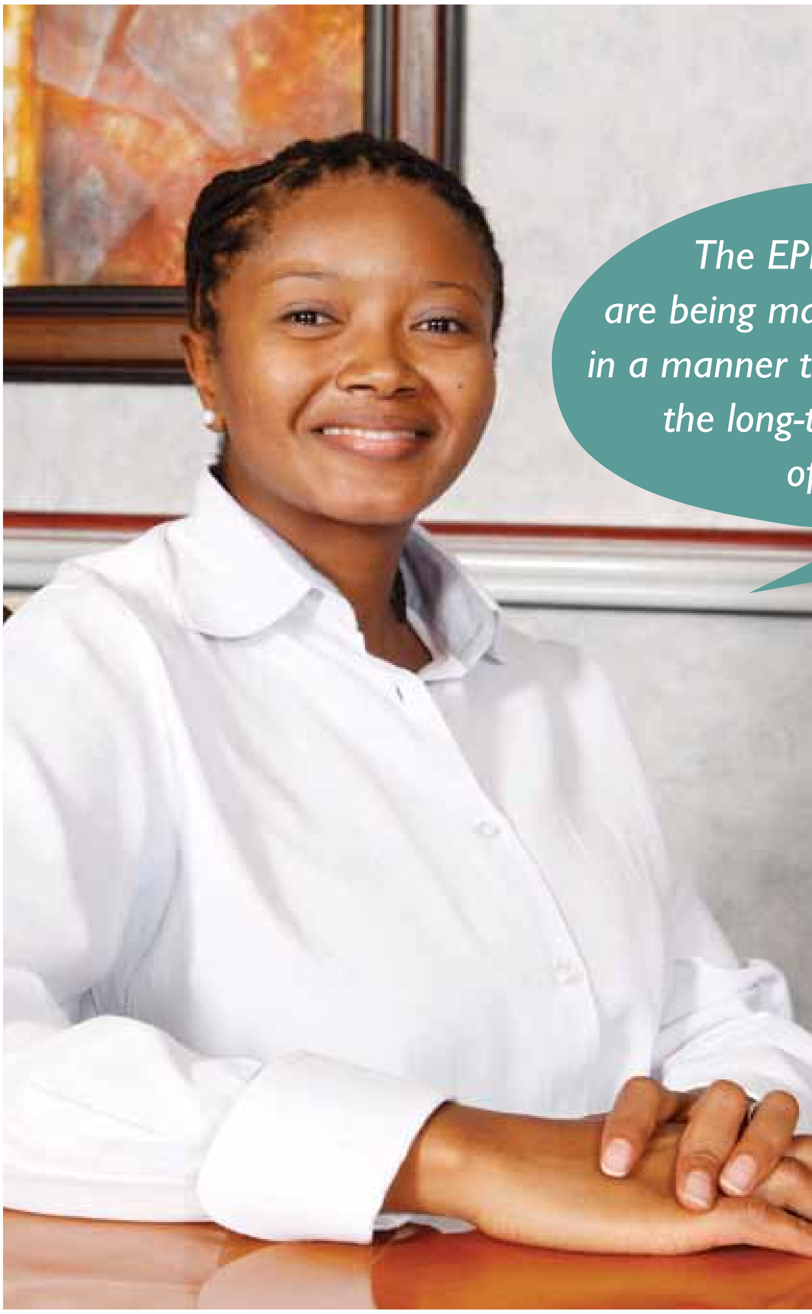
The most significant recovery has been in emerging market equities, which gained 81% in the 12 month period from March 2009 in US Dollar terms; followed by global developed equity markets which gained 53%.

On the domestic front, the South African equity market gained more than 40% between March 2009 and March 2010. The All Bond Index gained 9% over the same period.

Both the domestic and international bond markets have had a more muted recovery, since they were not as hard-hit as the equity markets during the crisis.

Is the R60 billion sustainable?

The Fund's assets are invested according to a strategic asset allocation which is in line with sound investment principles, and is approved by the Fund's Board of Trustees. Great care is taken to minimise risk when investing the Fund's assets. However, as we have seen in recent years, the financial markets can be volatile and unpredictable. Under such conditions, there is a risk of capital loss, which could see assets declining below the R60-billion mark. However, if market conditions remain favourable, the Fund is positioned to sustain and grow its assets under management.



MS LINDA SOGA MATEZA

The EPPF's investments are being managed prudently, and in a manner that seeks to maximise the long-term sustainability of the Fund.

What is the current investment outlook?

The global economy continues to recover, and equity valuations look reasonable, but we remain cautious due to the high levels of debt that consumers and governments around the world continue to hold. The recent rally in the equity markets may not be sustainable.

What is your message to participating employers, members and pensioners about the state of the EPPF's investments?

The EPPF's investments are being managed prudently, and in a manner that seeks to maximise the long-term sustainability of the Fund. There is risk and uncertainty in financial markets in the short term. However participating employers, members and pensioners should remain confident in the Fund's ability to weather the storms in the long run.

New Pension Funds Adjudicator

Mr Charles Pillay has been appointed as the new Pension Funds Adjudicator as from 1 April 2010, for a period of three years. He previously served as the Financial Advisory and Intermediate Services (FAIS) Ombud.

He took over the reins from Ms Elmarie de la Rey, who had acted as Pension Funds Adjudicator for the past six months, following the resignation of Ms Mamodupi Mohlala, who took up a position as Director-General in the Department of Communications.

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Regional Service Centers

During the course of 2009 the EPPF embarked on a client service initiative to bring the Fund's services closer to members, pensioners and participating employers. To facilitate this initiative the Fund established regional service centers at certain Eskom offices in all the major centers where there are substantial numbers of pensioners and members of the Fund. Currently, there are five mobile Consultants rendering services at these service centers once a month. They have remote access to the Fund's information systems in order to assist with all enquiries and in general have been able to attend to most of the queries they have received while visiting those regional centers.

The Regional offices are open at regular pre-arranged times and dates every month and in this issue we also publish the program for those visits. You are welcome to have a look at the program for May and June 2010 elsewhere in this edition.)

Services available at Regional Offices

The services rendered by the Consultants include:

- Providing information and training to HR Practitioners at Eskom offices regarding the EPPF's processes, procedures and benefits;
- Conducting member benefits education sessions;
- Render a comprehensive service to pensioners on all their Fund related queries;
- Facilitating pensioner functions;
- Facilitating face to face communication with members and pensioners; and
- Enabling improved administration processes at the Fund's offices.

REGIONS

The regional service centers were chosen based on the demand in terms of numbers and needs of pensioners and numbers of members in the area. The allocation of Consultants was also based on language abilities, as it is easier to provide a service in the main languages spoken in the area, to create better understanding.

The regions include:

Eastern Cape and Gauteng

Sandiso Mgwebi is responsible for both the Eastern Cape and Gauteng regions. The Eastern Cape regional service centers include East London, Butterworth, Queenstown, Mthatha and Port Elizabeth.

In Gauteng, apart from the Fund's office in Bryanston, the other service centres are in Vereeniging, Simmerpan, Rotek, Menlyn (Pretoria) and Benoni, with the latter four newly established.

Free State and North West

The Free State and North West regional service centers are serviced by Jacqueline Seima. In the Free State the offices are in Bethlehem and Bloemfontein, and in North West in Rustenburg, Mmabatho, Vryburg, Taung and Klerksdorp. She also goes to Lephalale (Ellisras) in the Limpopo Province.

Kwa-Zulu Natal

Busisiwe Kunene provides services for regional service centers in this region and it includes offices in Newcastle, Ladysmith, Richards Bay, Pongola, Pietermaritzburg, New Germany (Durban) and Shelley Beach (Margate).

Limpopo and Mpumalanga

Bilal Mavundla looks after the regional service centers in these regions, including Witbank, Phalaborwa, Thohoyandou, Groblersdal, Nelspruit and Acornhoek.

Western Cape

Muziwandile Gambu is looking after the Western Cape and he is responsible for regional service centers in Bellville, Brackenfell, George, Worcester and at Koeberg Power Station. He also assists with the four new service centers in Gauteng.

What is the Deferred Pension Scheme?

The Deferred Pension Scheme is an option available to active members of the Fund to invest their withdrawal benefit (e.g. resignation benefit amount) in the Fund when they leave their employer's service. This enables members to preserve their retirement capital for retirement purposes.

As can be seen towards the bottom part of the annual benefit statement, the Deferred Scheme Transfer Value may in many cases be higher than the cash benefit upon withdrawal. The amount invested in the Deferred Pension Scheme earns compounded interest, with substantial growth over time. The interest rate is reviewed on a quarterly basis

But there are some conditions attached to this Scheme.

As is the norm with retirement annuities as well, by law you are only allowed to take retirement from this Scheme at any time from age 55, but before reaching age 65. Deferred members are also not allowed any access to their funds in the Deferred Scheme before retirement, and then only one-third may be taken in cash while the balance must be used to purchase a pension from the Fund. Deferred members may not make any partial withdrawal from the Deferred Scheme, nor may they give their benefits as security for any loans.

So what are the benefits of the Scheme?

One of the other biggest historical advantages of this Scheme offered by the Fund is the fact that in difficult economic times, when investments earned negative returns, the interest rate in the Scheme was reduced to 0%, but your capital amount in the Scheme was not reduced. This is in direct contrast to most of the retirement annuities that are offered in the marketplace, where investors' capital values were reduced in accordance with the negative returns in the financial markets. This virtual capital guarantee is still in place at present, although changes may be made into the future.

Another benefit provided by the Scheme is that there is no administration costs allocated to each member's account, but again, this may be subject to change going forward.

In terms of the Pension Funds Act, the money invested in the Scheme forms part of your pension provision and may not be attached or claimed by creditors in the event of insolvency, it is protected.

General Conditions:

The decision to defer (or not to defer) is irrevocable once it has been made: You cannot change your mind later.

No further additional contributions are allowed into the Deferred Scheme.

Interest, compounded on a monthly basis, is added to the member's value in the Deferred Scheme at an interest rate determined by the Board of Trustees on a quarterly basis.

The Board of Trustees may declare bonuses on the Scheme, depending on the Fund's Investment Performance.

The member can only retire from this Scheme at any time from age 55, but not later than age 65.

Frequently Asked Questions:

Assuming I leave Eskom's employment, can I claim my money at age 55 in the event of my re-employment in Eskom?

No, you first have to retire from Eskom and then you can claim. As per SARS directives, you cannot be an actively contributing member of the Fund and be a pensioner at the same time.

Who determines the interest rates of the scheme?

The Board of Trustees, on a quarterly basis.

Can I contribute further into the "Deferred Scheme"?

No, because there's no longer an employer-employee relationship.

Who will benefit in the event of my death before I retire from the Scheme?

The total value deferred plus interest earned over time, less tax, will be paid to the deceased member's dependants or nominated beneficiaries or into the deceased's estate account as per section 37C of the Pension Fund's Act. There will be no monthly pension to the surviving spouse.

Who will benefit from my death after my retirement from this Scheme?

On death after retirement, the surviving spouse (who should have been married to the member of the Scheme at the date of the commencement of the monthly pension) will qualify for a monthly pension. This pension will be paid until the death of the surviving spouse and is based on 60% of the pension that the deceased pensioner had received at the time of death. Unfortunately under the conditions of the Scheme, if the pensioner gets married after commencement of his pension from the Scheme, this spouse does not qualify for a pension.

What happens to the balance in the Scheme in the event of the death of a single or unmarried pensioner?

Any eligible children will receive a pension, but if there are no eligible children, the pension will cease and no further benefits are payable to the deceased's estate (Rule 18 (7) (b).