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Retirement Fund for Local Authorities
and Utility Services in Namibia

ACTUARIAL VALUATION

AS AT 31 DECEMBER 2016

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Prepared by
NMG Consultants and Actuaries



1. Executive Summary

This section provides a brief summary of the key aspects covered in this report.

1.1 Active Members

The active membership of the Fund as at the current valuation date is summarized below:

	31-Dec-2016	31-Dec-2015
Number of Members:	4,652	4,660
Salary Weighted Average:		
Age (years)	41.9	41.6
Service (years)	10.5	10.3
Annual Pensionable Salaries:		
Total (N\$ '000)	810,379	761,089
Averages (N\$)	174,200	163,324
Members' Shares:		
Total (N\$ '000)	2,818,163	2,778,198
Averages (N\$)	605,796	596,180

1.2 Fund's Assets

The net assets of the Fund amounted to N\$ 3,896,362,000 as at 31 December 2016. The assets invested in the market portfolio earned a rate of return of 2.4% over the valuation period whereas assets invested in the Capital Protection Portfolio earned 4.9% over the same period.

1.3 Fund Accounts

The valuation made allowance for Fund Accounts according to the Rules of the Fund. The Fund Account balances as at 31 December 2016 were as follows (previous valuation figures are provided for comparison purposes):

	31-Dec-2016 N\$ '000	31-Dec-2015 N\$ '000
Share Account	2,818,163	2,778,198
Actives Reserve Account	120,335	109,681
Pensions Account	793,971	726,152
Disability Pensioners Account	163,893	161,747
Total Fund	3,896,362	3,775,778

1.4 Recommendations

We recommend that both pooled and disability pensioners be awarded a pension increase of 5.0% effective 1 July 2017. A pro-rata increase is to be granted to those who have received pensions for a period less than 12 months as at 1 July 2017.

We recommend that the Employer contribution structure be maintained but that an assessment is performed for the 2017 financial year and forecast for 2018 when the 2018 budget become available with a view to managing these costs within the 2.2% allocation.

We recommend that the Trustees also consider allocating the surplus in the Disability Pensioners' Account as follows:

- To allocate 40% of the surplus to Pensioner's Account to support pension increases to the broader pensioner pool in future years.
- To allocate 40% of the surplus to the Pensioner's Account, and to allocate this amount to the Reserve Account in terms of Rule 4.4.2.3 (c) in order to fund an additional interest allocation to active members. We recommend an additional interest allocation of 1.5% to active members, with the balance being held as an additional buffer against adverse future experience.
- The maintain 20% of the surplus in the Disability Pensioners' Accounts to grant pension increases to disability pension. The reserve can still further be utilised to consider on a case by case basis any ill-health disability claims which may, for various reasons, have been rejected by the insurer

In our opinion the Fund was in a sound financial position as at the valuation date.



THIRUMENI GOVENDER
B.Econ Sc (Wits), FASSA, FSAN
In my capacity as a representative of NMG
Consultants and Actuaries (Pty) Ltd



MWENENI MUNGEYI
B.Sc
In my capacity as a representative of NMG
Consultants and Actuaries (Namibia) (Pty) Lt

2. Introduction to the valuation

This report, addressed to the Trustees of the Retirement Fund for Local Authorities and Utility Services in Namibia ("the Fund"), reflects a valuation of the Fund carried out as at 31 December 2016.

The Fund was established with effect from 1 March 1992. With effect from 17 November 2005, the name of the Fund changed to The Retirement Fund for Local Authorities and Utility Services in Namibia.

The valuation report as at 31 December 2015 was submitted to the Registrar of Pension Funds and it was accepted by NAMFISA as a statutory valuation. The next statutory valuation of the Fund will be carried out as at 31 December 2018.

The purpose of the valuation is:

- to investigate the financial position of the Fund;
- to determine the value of the Pensions Account in respect of the liabilities it represents and recommend increases, if any, in benefits payable from that Account;
- to determine the value of the Disability Pensions Account in respect of the liabilities it represents and recommend increases, if any, in benefits payable from that Account;
- to determine the balance in the Reserve Account and recommend any allocation thereof;
- to check the allocation of the investment returns and that the Members' Shares calculated by the administrator are reasonable;
- to recommend an Employer Contribution rate in respect of risk benefits and expenses; and
- to comply with statutory requirements.

The liabilities and reserves of the Fund were calculated in accordance with the Rules of the Fund. The Rules of the Fund are summarised in Appendix 2.

The audited financial statements for the year ending 31 December 2016 were used for this valuation.

3. Inter-Valuation Period

3.1 Valuation Period

The period under review is the period from 1 January 2016 to 31 December 2016.

3.2 Administration

The Fund is administered by Retirement Fund Solutions (Pty) Ltd which provided the data for the valuation.

3.3 Valuation Exemption

The Fund is not valuation exempt. The last statutory valuation was carried out as at 31 December 2015. The next statutory valuation will be carried out as at 31 December 2018.

3.4 Contributions

The Employer contributes a total of 21.7% of members' pensionable salaries which is allocated as follows:

- A portion is allocated towards the cost of risk benefits and expenses relating to the management and administration of the Fund; and
- The remaining portion is allocated towards the members' retirement benefits

The members have the option to contribute at a rate of 5%, 7.5%, 10% or 14% of their pensionable salaries.

3.5 Rule Amendments

Rule Amendment 1

Rule Amendment 1, effective 1 January 2016, was approved by NAMFISA in December 2015 and by the Ministry of Finance in February 2016. In terms of this rule amendment, the following provisions have been introduced into the Rules:

- to provide that ALAN and the Fund are Participating Employers;
- to improve the governance of the Fund by requiring that the Trustees must meet at least four times a year;
- to remove reference to the Management Committee from the Rules, since the full board of Trustees have decided to dissolve this body;
- to clarify the functions of the Executive Committee;
- to allow certain sub-committees to appoint independent persons with expertise in the field concerned to serve on the sub-committee but without voting powers; and
- to provide that unclaimed benefits shall be retained in the Fund for five years instead of the three, which is the period currently provided for in the Rules.

Rule Amendment 2

Rule Amendment 2, effective 1 August 2016, was approved by both NAMFISA and the Ministry of Finance in September 2016. In terms of this rule amendment, the following provisions have been introduced into the Rules:

- to allow employees whose employment is for a limited period to be eligible for membership; and
- to implement a dread disease scheme on the Fund.

3.6 Previous Valuation Recommendation

Our recommendation to grant a pension increase of 8.0% effective 1 July 2016 on pensions in payment (normal pensioners and disability pensioners), was approved by the Trustees and implemented during the valuation period. A pro-rata increase was granted to pensioners who had received a pension for less than 12 months as at 1 July 2016.

3.7 Section 14 transfers

The employees of the Oranjemund Town Council transferred into the Fund from the Fundsatwork Umbrella Pension Fund, effective 1 July 2016.

The employees of the Outapi Town Council transferred into the Fund from the Orion Namibia Pension Fund, effective 1 June 2016.

The S14 applications in terms of these transfers have been submitted to NAMFISA.

3.8 Fund Investments

The assets of the Fund are currently managed by Namibia Asset Management (NAM), Allan Gray, Prudential, and Investec. The assets of the Capital Protection Portfolio are invested in the Old Mutual Absolute Growth Secure portfolio.

The Fund's unlisted investment managers are Capricorn Asset Management (Pty) Ltd, IJG Capital (Pty) Ltd, and EOS Capital (Pty) Ltd. As at 31 December 2016, these investments represented 1.3% of the overall invested assets (and 1.5% of the assets within the market linked portfolio).

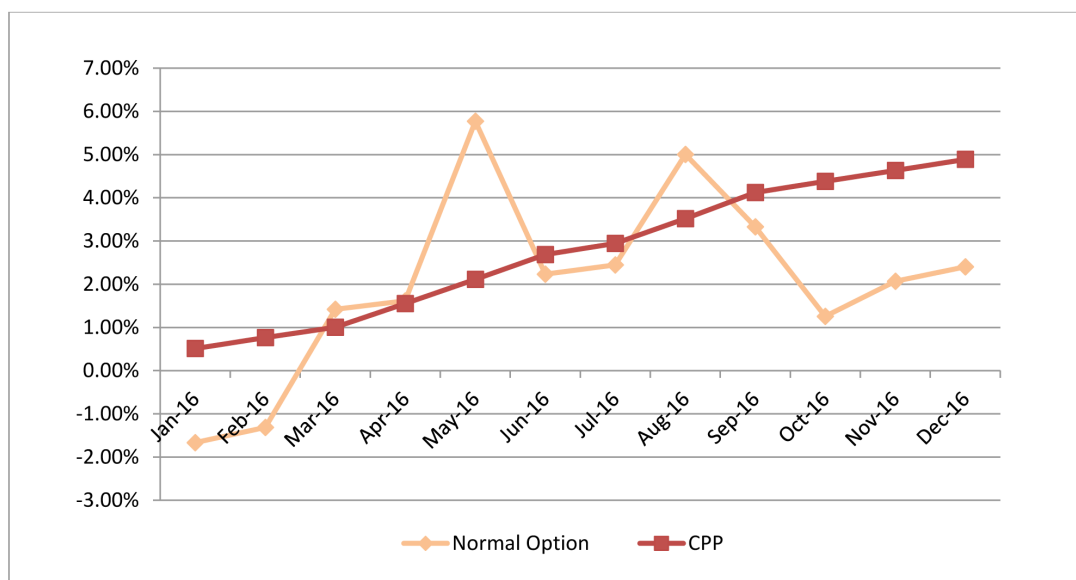
Note that for the purpose of establishing compliance with regulation 28 in terms of committed capital as defined in regulation 29, the unlisted investments accounted for 2.3% of investments and therefore the Fund was compliant at year end.

3.9 Interest rates

The following returns were applied to Members' Shares for the period 1 January 2016 to 31 December 2016:

Month	Normal Option	Capital Protection Option
Jan-16	-1.66%	0.51%
Feb-16	0.36%	0.25%
Mar-16	2.77%	0.24%
Apr-16	0.20%	0.54%
May-16	4.09%	0.55%
Jun-16	-3.35%	0.56%
Jul-16	0.21%	0.25%
Aug-16	2.49%	0.56%
Sep-16	-1.59%	0.58%
Oct-16	-2.01%	0.25%
Nov-16	0.80%	0.24%
Dec-16	0.33%	0.24%
Cumulative	2.40%	4.89%

The cumulative returns can be represented graphically as follows for the Market and Capital Protection portfolios:



3.10 Life Stage Model

In terms of the Fund's life stage model, the Fund Credits of all members aged 55 at 1 April and 1 October each year are automatically transitioned to the Capital Protection Portfolio. Members however have the option to remain in the Market linked Portfolio and are required to confirm in writing by signing an option form should they wish to do so.

4. Membership Data

4.1 Administration

The valuation has been based on data supplied to us by the Administrator. In terms of Standard Actuarial Practice Note 201 (read in conjunction with Section 16 of the Pension Funds Act), issued by the Actuarial Society of South Africa, we tested the data for reasonability and accuracy as described in Appendix 3.

We are satisfied with the general correctness of the data for the purpose of the valuation.

4.2 Active Members

The active membership of the Fund as at the current valuation date is summarised below (figures as at the previous valuation date are shown for comparison purposes):

	31-Dec-2016	31-Dec-2015
Number of Members	4,652	4,660
Average:		
Age (years)	41.9	41.6
Service (years)	10.5	10.3
Annual Pensionable Salaries:		
Total (N\$'000)	810,379	761,089
Average (N\$)	174,200	163,324
Members' Shares:		
Total (N\$'000)	2,818,163	2,778,198
Average (N\$)	605,796	596,180

A summary of the membership data by age group is given in Appendix 1.

4.3 Membership Reconciliation

The following is a reconciliation of the membership of the Fund over the valuation period:

Active Members as at 31-Dec-2015	4,660
Plus New Members	249
Less Deaths	(19)
Less Retirements	(109)
Less Withdrawals	(129)
Active Members as at 31-Dec-2016	4,652

4.4 Pensioners

The pensioner membership of the Fund as at the valuation date is summarised below (figures as at 31 December 2015 are shown for comparison purposes):

	31-Dec-2016	31-Dec-2015
Number of Pensioners:		
Males	1,026	1,002
Females	617	608
Total	1,643	1,610
Pension Weighted Average Age:		
Males (years)	62.33	61.67

Females (years)	58.89	57.76
Total (years)	61.19	60.35
Annual Pensions	56,052,253	46,133,891
Average Annual Pensions	34,116	28,655

The pensioner membership reconciles as follows for the period 31 December 2015 to 31 December 2016.

Pensioners as at 31-Dec-2015	1,610
New Pensioners	139
Less Terminated Pensioners	(106)
Pensioners as at 31-Dec-2016	1,643

4.5 Disability Pensioners

The disability pensioner membership of the Fund as at the valuation date is summarised below (figures as at 31 December 2015 are shown for comparison purposes):

	31-Dec-2016	31-Dec-2015
Number of Disability Pensioners:		
Insured	35	30
Uninsured	10	11
Total	45	41
Disability Pension Weighted Average Age:		
Insured (years)	53.19	53.19
Uninsured (years)	56.62	56.62
Total (years)	54.34	54.34
Annual Disability Pensions:		
Insured (N\$)	2,892,816	2,048,359
Uninsured (N\$)	1,023,174	1,031,055
Total (N\$)	3,915,991	3,079,415
Average Annual Disability Pensions		
Insured (N\$)	82,652	68,279
Uninsured (N\$)	102,317	93,732
Total (N\$)	87,022	75,108

The disability pensioners' membership reconciles as follows for the period 31 December 2015 to 31 December 2016:

Disability Pensioners as at 31-Dec-2015	41
New Pensioners	11
Less Terminated Pensioners	(7)
Disability Pensioners as at 31-Dec-2016	45

5. Assets of the Fund

5.1 Value of Assets

The underlying net assets of the Fund, as at 31 December 2016, were as shown below (previous valuation figures are shown for comparison purposes):

	31-Dec-2016 N\$'000	31-Dec-2015 N\$'000
Investments		
Namibia Asset Management Limited	758,947	741,196
Investec Asset Management Namibia (Pty) Ltd	637,920	630,272
Prudential Portfolio Managers Namibia (Pty) Ltd	835,256	795,129
Old Mutual Asset Management Midina Fund	86,693	80,602
Old Mutual Namibia Life Assurance Company (CPP Portfolio)	491,218	495,653
Allan Gray Namibia (Pty) Ltd	1,023,431	984,609
Capricorn Asset Management (Pty) Ltd	25,629	23,415
IJG Capital (Pty) Ltd	13,648	20,524
EOS Capital (Pty) Ltd	10,964	339
Property, plant and equipment	15,796	15,796
Total Investments	3,899,502	3,787,535
Cash	69,762	82,312
Contributions Receivable	19,218	15,972
Other Current Assets	1,893	2,881
Creditors	(94,013)	(112,922)
Net Assets as per Financial Statements	3,896,362	3,775,778

5.2 Investment Returns

Over the valuation period, the actual net annual rate of return earned on each of the investment portfolios was as follows:

Investment Portfolio	Return per Annum
Prudential Portfolio Managers (Namibia) (Pty) Ltd	4.0%
Namibia Asset Management Limited	1.3%
Allan Gray Namibia (Pty) Ltd	3.1%
Investec Asset Management Namibia (Pty) Ltd	-0.1%
Combined Return	2.4%
Old Mutual Life Assurance Co. Namibia (CPP)	4.9%

The combined rate of return earned by the fund's assets was 2.4% per annum. The Capital Protection Portfolio earned a net investment rate of 4.9% over the valuation period

5.3 Asset-Liability Matching

The total investments of N\$ 3,899,502,000 as shown above represent the fair value of the assets of the Fund. According to the information received from the Fund's auditors and asset consultants, the Fund's investments comply with the requirements of Regulation 28 and Regulation 29 pertaining to unlisted investments.

The comparison of the assets and the liabilities of the Fund are shown below.

Investment Portfolio	Market Portfolio N\$'000	CPP Portfolio N\$'000
Total invested assets	3,408,284	491,218
Active Members' Shares Liability	2,336,205	481,958
Pensioners' Liability	645,078	-
Disability Pensioners' Liability	2,883	-
Surplus	424,118	9,260
Funding level	114.2%	101.9%

The total invested assets may include the liability in respect of members who exited the Fund toward the end of the valuation period but for whom the assets had not yet been disinvested as at 31 December 2016. It is the Fund's policy that benefits are invested in line with the overall investment strategy until all claim documentation has been received.

We are comfortable that the Fund's assets appropriately matched the nature and term of the Fund's liabilities as at the valuation date.

5.4 Fund Cash-flows

The assets have increased over the valuation period as follows:

	N\$'000		N\$'000
Opening Value at 31-Dec-2015	3,775,778		
Contributions Received	253,478	Benefits Awarded	179,597
Transfers in	18,776	Fund Expenses	18,746
Reinsurance proceeds	13,347	Pension Payments	52,649
Net Investment Proceeds	108,666	Reinsurance Premiums	22,691
		Closing Value as 31-Dec-2016	3,896,362

6. Fund Accounts

6.1 Financial Position

The valuation of the Fund entails a comparison of the Fund's assets and liabilities at the valuation date. As at the same date the Fund Accounts were as follows (figures as at 31 December 2015 are included for comparison purposes):

Investment Portfolio	31-Dec-2016 N\$ '000	31-Dec-2015 N\$'000
Share Account	2,818,163	2,778,198
Actives Reserve Account	120,335	109,681
Pensioners Account	793,971	726,152
Disability Pensioners Account	163,893	161,747
Total Fund	3,896,362	3,775,778

6.2 Members' Share Account

The Members' Share Account represents the sum of active members' shares. Members' Shares are provided by the Administrator and checked by us for reasonability and adjustments are made where necessary after consultation with the Administrator. The total of the Share Account is based on the market-linked rate of 2.4% and the CPP rate of 4.9% for members in the two respective categories. Interest was also allocated accordingly for members who switched to CPP during the valuation period.

The breakdown of the Members' Shares in the two portfolios is as follow:

	31-Dec-2016 N\$ '000
Market Linked Portfolio	2,336,205
Capital Protection Portfolio	481,958
Total	2,818,163

6.3 Pensioners Account

The Pensioners Account consists of the Pooled Pensioners' assets, totalling to N\$ 793,971,000.

Pensions in payment are valued on assumptions based on the PA(90) ultimate mortality tables and an interest rate of 5% per annum. The value of ex-Members' pensions includes contingent spouse and children's pensions. In addition, provision is made for a N\$3 000 lump sum death benefit for pensioners valued at an interest rate of 12% p.a.

The interest rate used to value the pensioners (5% in this case), indicates the excess investment return that the fund investments would have to earn in addition to the increase in the Namibian Consumer Price Index in order to provide the pensioners with inflation related increases. This means that the investments would have to earn NCPI + 5% over the longer term to ensure inflationary increases.

The interest assumption implicitly allows for pensions to be increased at an annual rate approximately equal to the actual Fund investment return less 5% p.a. Our aim though, is that pension increases should be smoothed and in line with inflation, in accordance with the Pension Increase Policy. Therefore, in times when

investment returns are higher than expected, a portion of the return is retained as reserves. These reserves will be used to fund increases in years when market investment returns are poor.

In our opinion, pensioners also have a reasonable expectation of receiving smoothed pension increases. Very high increases in one year followed by very low increases in the next year will result in pensioners' expectations not being met.

A detailed build-up of the Pensioners Account is provided in Section 7.

6.4 Disability Pensioners Account

The Disability Pensioners account provides benefits for Members in the event of their disablement. As reflected in Section 4.5, most of the disability pensioners are insured. The monthly pensions for insured members are paid by the insurer through the Fund, while the Fund meets the benefit obligation for uninsured pensioners. Uninsured disability pensioners are mainly members who were disabled before the Fund's disability insurance policy with the insurer came into effect.

Historically, the pensioner liability for the uninsured disability pensioners was determined on a similar basis to the pooled pensioners. We have however considered it prudent to revise the methodology to more accurately reflect the nature and expected payment profile of the liability. Whilst the assumptions in terms of mortality (PA(90) ultimate) and interest rate (5%) remain, the following changes were made to the methodology, as from 2015 valuation:

- Disability pensioners are valued as single life pensioners whether married or not.
- No provision is made for a death lump sum as no such benefit is applicable to disability pensioners.
- Disability pensioners are only valued until they reach normal retirement age or become deceased, whichever occurs first. This is in contrast to pooled pensioners who receive a pension for life.

A detailed build-up of the Disability Pensioners Account is provided in Section 7. 6.5 Actives Reserve Account

6.5 Actives Reserve Account

The Actives Reserve Account represents the difference between the market value of the total Active Members' Fund Assets and the balance in the Share Account as at the valuation date.

Specific reserves in the Actives Reserve Account are based on previous values plus items of experience and the net investment return of the investments of the Fund. The actual experience of the Reserve Account is outlined in Section 7.

The three specific reserves are as follows:

- Data Reserve;
- Risk Reserve; and
- General Reserve.

The Actives Reserve Account, representing approximately 4.3% of the Share Account, amounted to N\$ 120,335,000 as at the valuation date.

The active reserve account was split as follows:

	31-Dec-2016 N\$ '000	31-Dec-2015 N\$ '000
Data Reserve	12,563	12,367
Risk Reserve	24,586	24,010
General Reserve	83,186	73,304
Total Fund	120,335	109,681

6.5.1 Data Reserve Account

The Data Reserve Account is required to cover unanticipated liabilities the Fund may experience due to data errors. There was one claim funded from this reserve during the valuation period. The value of the previous Data Reserve Account plus interest at the net rate of return earned on the Fund investments amounted to N\$ 12,563,000 as at 31 December 2016 and represents approximately 0.5% of the Share Account.

In Section 7, we show how this account developed over the valuation period.

6.5.2 Risk Reserve Account

The Fund provides death in service and disability benefits. Previously these benefits were reinsured with an insurer on an approximate basis, however the current benefits are fully reinsured. This reserve is therefore currently only utilised in cases where there is a difference between premiums paid and contributions received by the Employer, or where claims are paid by the Fund due to reinsurer default. The value of the previous Risk Reserve Account plus interest at the net rate of return earned on the Fund investments amounted to N\$ 24,586,000 as at 31 December 2016 and represents approximately 0.9% of the Share Account.

In Section 7, we show how this account developed over the valuation period.

6.5.3 General Reserve Account

The General Reserve Account represents the balance in the Reserve Account after provisions have been made for the Data and Risk Reserve Accounts. This Reserve should be seen as the unallocated assets or surplus of the Fund which can be utilised to fund special benefits, or as an additional buffer against adverse future experience. The General Reserve Account balance was N\$ 83,186,000 as at 31 December 2016 and represents approximately 3.0% of the Share Account.

In Section 7, we show how this account developed over the valuation period.

7. Fund Experience

The following section of the report is based on the actual experience of the Fund over the valuation period.

7.1 Members' Share Account

The experience of the Members' Share Account over the valuation period was as follows:

	N\$'000
Opening Balance as at 31-Dec-2015	2,778,198
Member Contributions: Retirement	125,729
Employer Contributions: Retirement	83,806
Reinsurance Proceeds: GLA	10,083
Transfers in	18,776
Benefits Awarded:	
Withdrawal Benefits	(81,549)
Retirement Benefits	(74,239)
Death Benefits	(19,695)
Transfer to Pensioners Account	(101,874)
Fund Interest Allocated	78,928
Closing Balance 31-Dec-2016	2,818,163

7.2 Disability Pensioners Account

The experience of the Disability Pensioners Account over the valuation period was as follows:

	N\$'000
Opening Balance 31-Dec-2015	161,747
Expenses	(803)
Disability Benefits Paid	(4,178)
Reinsurance Recoveries	3,265
Investment Return	3,862
Closing Balance 31-Dec-2016	163,893

The Investment Return is based on the actual market portfolio's net rate of return of 2.4% p.a. earned over the valuation period.

7.3 Pooled Pensioners Account

The experience of the Pooled Pensioners Account over the valuation period was as follows:

	N\$'000
Opening Balance 31-Dec-2015	726,152
Retirement Transfers from Share Account	101,874
Pension Payments	(48,472)
Expenses	(3,605)
Investment Return	18,022
Closing Balance 31-Dec-2016	793,971

The Investment Return is based on the actual market portfolio's net rate of return of 2.4% p.a. earned over the valuation period.

The total liability for all pensions in payment at the valuation date was calculated to be N\$ 645,078,000. Therefore, the surplus in the Pensioners Account amounts to N\$ 148,893,000 as at the valuation date. The breakdown of the liability between actives and suspended members is shown below.

	Number of Pensioners	Liability N\$'000
Actives		
Principal Pensioners	816	491,680
Spouses	327	142,795
Children	47	2,052
Total	1190	636,527
Suspensions (During the valuation period)		
Principal Pensioners	16	1,506
Spouses	6	519
Children	116	4,020
Total	138	6,045
Suspensions (Longer than 1 year)		
Principal Pensioners	89	875
Spouses	50	757
Children	176	875
Total	315	2,507

7.4 Actives Reserve Account

The experience of the Actives Reserve Account over the valuation period was as follows:

	N\$'000
Opening Balance as at 31-Dec-2015	109,681
Contribution Experience	6,914
Investment Experience	960
Benefits Adjustments	268
Interest Allocated	(2,513)
Closing Balance as at 31-Dec-2016	120,335

The development of the contribution and investment experience is set out below.

Contribution Experience

The contributions received exceeded those required to provide for sundry and risk benefit expenses incurred by the Fund. This is shown below:

	N\$'000
Contributions Received	253,478
Retirement Contributions to Members' Fund Account	(209,535)
Risk Benefit Premiums	(22,691)
Expenses	(14,338)
Contribution Experience	6,914

Investment Experience

The net investment income earned by the Fund exceeded the interest allocated to members, resulting in a positive investment experience of N\$ 960,000 over the valuation period.

The investment experience is mainly due to timing differences. The investment income earned and the interest allocated to Members' Shares by the Administrator may match exactly, but in practice there is generally a delay between the date the interest is applied on Members' Shares, versus the date the actual income has been earned and is applied to the assets of the Fund by the investment managers.

This effect of timing can result in investment experience that can be positive or negative in any given year. The net investment income earned and allocated are shown below:

	N\$'000
Investment Income earned	108,666
Less: Investment Return Allocated to Members' Share Account	(78,928)
Investment Return Allocated to Pensioners' Account	(18,022)
Investment Return Allocated to Disability Pensioners' Account	(3,862)
Investment Return Allocated to Data Reserve Account	(295)
Investment Return Allocated to Risk Reserve Account	(576)
Investment Return Allocated to General Reserve Account	(1,642)
Late Payment Interest	(4,382)
Investment Experience	960

The interest awarded are based on the actual investment returns of 2.4% p.a.

7.4.1 Data Reserve

The experience of the Data Reserve Account over the valuation period was as follows:

	N\$'000
Opening Balance as at 31-Dec-2015	12,367
Benefit Adjustment ¹	(99)
Investment Return	295
Closing Balance as at 31-Dec-2016	12,563

Payments in respect of a pensioner whose banking details were incorrect on take-on from previous administrator and his monthly income has been paid into another pensioners' account. The trustees resolved not to recover this from the other pensioner but to fund it from the Data Reserve.

7.4.2 Risk Reserve

The experience of the Risk Reserve Account over the valuation period was as follows:

	N\$'000
Opening Balance as at 31-Dec-2015	24,010
Contributions Towards Risk Cost	22,691
Reinsurance Premiums	(22,691)
Investment Return	576
Closing Balance as at 31-Dec-2016	24,587

7.4.3 General Reserve

The experience of the General Reserve Account over the valuation period was as follows:

	N\$'000
Opening Balance as at 31-Dec-2015	73,304
Contributions Towards Expenses	21,251
Admin Expenses	(14,338)
Investment Experience	960
Benefit Adjustments	367
Investment Return	1,642
Closing Balance as at 31-Dec-2016	83,186

8. Contribution Rate Assessment

8.1 Employer Contribution Rate Assessment

The Employer contributes a total of 21.7% of members' pensionable salaries which is allocated as follows:

- A portion is allocated towards the cost of risk benefits and expenses relating to the management and administration of the Fund; and
- The remaining portion is allocated towards the members' retirement benefits.

The risk premium rates and the rates in respect of administration and benefit consulting fees, and other expenses, have been re-costed at certain intervals throughout the year, resulting in a fluctuating employer contribution towards retirement during the valuation period. As at 31 December 2016, the contribution rate required to cover the cost of risk benefits and other expenses, expressed as a percentage of pensionable salaries, was estimated as shown in the table below:

	31-Dec-2016
Employer: Total	21.70%
Group Life Assurance	2.000%
Disability	0.400%
Dread disease ¹	0.300%
Administration fees	0.846%
Benefit consulting fees	0.050%
To Reserve ²	2.200%
Employer: Retirement	15.904%

Dread disease cover was introduced in August 2016.

The allocation to the Reserve Account is to cover for the cost of non-salary linked expenses of the Fund. Based on our contribution rate assessment review for 2016, the allocation to the Reserve was increased to 2.2%, effective 1 April 2016.

The table below shows the estimated cost of non-salary linked expenses as valuation date as well as forecast for the next valuation are shown for comparison purposes.

	31-Dec-2016	31-Dec-2017
Allocation to Reserve	2.200%	2.200%
Funeral	0.103%	0.103%
Actuarial & Investment Fees	0.050%	0.050%
Audit fees	0.040%	0.040%
Non-standard fees and other expenses	0.106%	0.106%
Trustees and Office expenses	1.185%	2.255%
Total cost of non-salary linked expenses	1.484%	2.553%
Excess/(Shortfall)	0.716%	-0.353%

The Trustees and office expense for 2017 are based on Fund budget for 2017. The forecast assumes an inflation increase of 6% for all other expenses as well as a 6% increase on pensionable salaries. The current allocation of 2.2% was sufficient to cover the cost of non-salary linked expenses for the current valuation but may not be sufficient for the 2017 financial year.

Our recommendation on this regard is discussed in Section 9.

9. Recommendations

9.1 Employer Contribution Rate

The total cost of non-salary linked expenses to be covered from the 2.2% allocated to the Reserve Account was approximately 1.5% the total salary bill, with an excess of approximately 0.7% as at valuation date. The total cost of non-salary linked expenses for the 2017 financial year is estimated at to be 2.55%, therefore resulting in a possible shortfall of 0.35%. The current allocation of 2.2% may not be sufficient to cover all non-salary linked expenses in the future.

We recommend that the current Employer Contribution allocation be maintained and an assessment be undertaken for the 2018 financial year when the 2018 budget is available.

9.2 Pension Increases

The pension increase is calculated based on the objective of aiming to match inflation, also considering the affordability of the increase. Inflation is measured by the change in the Namibian Consumer Price Index (NCPI) from one year to the next. The final pension increase recommendation takes into account the affordability of the increase for the Fund. The affordability is measured by taking into account the investment returns earned on the Fund's assets and in conjunction, considering the size of the surplus or deficit specifically in respect of ring-fenced pensioner assets.

Pension increases over time are expected to be close to inflation and relatively consistent from one year to the next. Based on the net investment returns earned on the underlying assets and the requirement to smooth pension increases, we recommend a pension increase of 5.0%, effective 1 July 2017, for both pooled pensioners and disability pensioners. Pensioners who have been receiving a pension for less than 12 months as at the effective date will receive a pro-rata increase.

A comparison of Consumer Price Inflation against pensioner increases over the last 5 years up to and including the recommended rate as at 1 July 2017 is as follows:

	CPI	Declared Pensioner Increase
30/06/2013	6.2%	8.0%
30/06/2014	6.2%	8.0%
30/06/2015	3.0%	6.0%
30/06/2016	6.7%	8.0%
30/06/2017 ¹	6.1%	5.0%
Cumulative	31.5%	40.2%
Annualized	5.6%	7.0%

Recommended rate to be approved by Trustees.

9.2.1 Pooled Pensioners' Increases

Should this recommendation be accepted, the pooled pensioners' liability will increase by N\$ 32,179,000. The Pooled Pensioners' Account will be as follows:

	Pre Allocation – N\$'000	Post Allocation – N\$'000
Pensioners' Liabilities	645,078	677,257
Pensioners' Surplus	148,893	116,714
Pensioners' Account	793,971	793,971

9.2.2 Disability Pensioner Increase

The Disability Pensioners' liability will increase by N\$ 144,000.

The Disability Pensioners' Accounts will be as follows:

	Pre Allocation – N\$'000	Post Allocation – N\$'000
Pensioners' Liabilities	2,883	3,027
Pensioners' Surplus	161,010	160,866
Pensioners' Account	163,893	163,893

9.3 Disability Pensioners' Surplus

The Disability Pensioners' Account was set up to make provision for Fund-insured disability pensioner payments. As the current disability benefit is insured by the Fund, the Reserve in respect of the Disability Pensioners' Account is far in excess of the amount required to ensure pensions can be paid in the normal course of events.

We recommended in the previous valuation that the Trustees may consider utilising the surplus:

- To consider on a case by case basis any ill-health disability claims which may, for various reasons, have been rejected by the insurer; and
- To support pension increases to the broader pensioner pool in future years should the funding level within the pensioner account worsen on account of investment or other experience.

We further updated our recommendation for the Trustees to also consider allocating a portion of the surplus to active members and hence recommends the following:

- To allocate 40% of the surplus to Pensioner's Account to support pension increases to the broader pensioner pool in future years.
- To allocate 40% of the surplus to the Pensioner's Account (and thereafter to the Reserve Account to support an additional interest

- allocation of 1.5% to active members and to provide a buffer against adverse experience in future years.
- The maintain 20% of the surplus in the Disability Pensioners' Accounts to grant pension increases to disability pension. The reserve can still further be utilised to consider on a case by case basis any ill-health disability claims which may, for various reasons, have been rejected by the insurer.

9.3.1 Result of the Recommendation

The financial position of the Fund after implementing our recommendations above will be as follows:

	31-Dec-2016 (Before Recommendation) N\$'000	31-Dec-2016 (After Recommendation) N\$'000
Share Account	2,818,163	2,860,435
Actives Reserve Account	120,335	142,409
Pensioners Account	793,971	858,317
Disability Pensioners Account	163,893	35,201
Total Fund	3,896,362	3,896,362

10. Conclusion

We have investigated the financial position of the Retirement Fund for Local Authorities and Utility Services as at 31 December 2016.

As at the valuation date, there were 4,652 active members with annual pensionable salaries totalling N\$ 810,379,000.

The Fund's financial position as at 31 December 2016 before implementation of the valuation recommendations was as follows:

	31-Dec-2016 (Before Recommendation) N\$'000	31-Dec-2016 (After Recommendation) N\$'000
Share Account	2,818,163	2,860,435
Actives Reserve Account	120,335	142,409
Pensioners Account	793,971	858,317
Disability Pensioners Account	163,893	35,201
Total Fund	3,896,362	3,896,362

The Fund is financially sound as at the valuation date (both prior to and in the event that the valuation recommendations are adopted)

The next statutory valuation of the Fund is as at 31 December 2018 although interim valuations will be performed annually.

APPENDIX 1 - Summary of Membership Data

An age-related summary of the active membership is tabled below:

Age Group	Count	Average Pensionable Salaries N\$	Average Member Shares N\$
-25	51	151,136	67,689
25-29	396	154,373	125,407
30-34	804	174,887	275,393
35-39	851	182,392	408,444
40-44	801	182,885	535,906
45-49	703	178,731	812,500
50-54	640	168,333	1,040,102
55 +	406	162,172	1,305,256
Overall	4,652	174,200	605,796

APPENDIX 2 - Summary of the Rules

1. Commencement date

The Fund was established on 1 March 1992.

2. Financial Structure

The Rules provide for the assets of the Fund to be separated into three individual Accounts.

3. Share Account

The Share Account consists of the sum of the Members' Shares in the Fund. These Shares comprise the initial allocation made to each Member at the date of inception of the Fund, any transfers on behalf of the Member from other funds, the contributions made by the Member, the Employer contributions relating to retirement benefits and investment earnings.

4. Pensions Account

The balance of a Members' Share on his retirement is credited to the Pensions Account and all pension payments are debited to this Account. Bonuses are added annually at a rate determined by the Management Committee in consultation with the Actuary. Pension increases are granted by the Management Committee in consultation with the Actuary out of the surplus in the Pensions Account.

Members retiring after 1 April 2000 had the option of receiving a normal pension or a living annuity pension. With effect from 1 January 2011, the living annuity pension option has been removed. There are currently no living annuity pensioners in the Fund.

The assets in the Pensions Account are separated from the assets due to the active members and the Disability Benefit Fund.

5. Reserve Account

The Reserve Account serves to smooth fluctuations that would occur if no such account had been established. Special provision is made for investment fluctuation and other contingencies and this Account provides an element of stability to the Fund. The following reserves are specified in this Account:

- Investment Reserve,
 - Data Reserve,
 - Risk Reserve, and
 - General Reserve.
6. Contributions

6. Contributions

- Members contribute to the Share Account at the rate of 5%, 7,5%, 10% or 14% of their pensionable salaries, or at the rate that a Member was contributing to the Previous Fund, if applicable.
- The Employer contributes at the following rates 21.7% of each member's pensionable salary.

7. Accumulated Contributions

The total of:

- the actuarial reserve in the Previous Fund as at the Commencement Date,
- any transfer amounts brought into the Fund, and
- the contributions paid by the Member subsequent to the Commencement Date, all with interest.

The rate of interest applicable from the Commencement Date onwards is based on the investment yield achieved by the Fund.

8. Normal Retirement Age

The age of 60 years, although Members of the Previous Fund may maintain their Normal Retirement Age from that Fund.

9. Types of benefits (Retirement, Withdrawal, Death and disability etc.)

9.1 Normal Retirement Pension

A Member had the option to become a pooled pensioner or a living annuity pensioner. However, with effect from January 2011, the living annuity option has been removed.

Should a Member choose to become a pooled pensioner, the following benefit becomes payable:

A pension is payable from the date of retirement based on the amount of the Member's Share as at that date, subject to:

- any commutation paid,
- allowance for regular increases in pension after retirement,
- allowance for death benefits after retirement.

9.2 Early Age Retirement Pension

After age 55 calculated as for Normal Retirement Pension.

9.3 Late Retirement Pension

Subject to the request of the Employer and agreement of the Member, but not later than age 65. Member and Employer contributions shall be paid up to the late retirement date and the benefit is calculated as for Normal Retirement Pension.

9.4 Death in Service

The following benefits are payable on death of a Member while in service or in receipt of a disability income benefit.

- (a) the Fund Credit; plus
- (b) the amount of death benefit as can be provided from an insurer with a maximum of 3.97% of the Member's Pensionable Emoluments.

9.5 Death after Retirement

In the case of the death of a Pooled Pensioner:

- A lump sum of N\$3 000.
- A spouse's pension equal to 75% of the Member's pension at date of death.
- A child's pension equal to 5% of the Member's pension at date of death per child (maximum of 25%). If no spouse's pension is payable, the child's pension is doubled.
- A guarantee that the total of all pension payments will not be less than the Member's Share transferred to the Pensions Account at retirement.

9.6 Termination of Service

A Cash Withdrawal Benefit is payable, although the Member may elect a Preservation Benefit.

Cash Withdrawal Benefit

Members receive their Accumulated Contributions plus an amount equal to a percentage of the difference between the Member's Accumulated Contributions and the Member Share, based on the number of completed months of service. Members older than 55 years, who are retrenched or who have completed 5 years of uninterrupted service receive their full Member Share.

Preservation Benefit

A Member who elects this option will be entitled to the full Member Share which may be preserved as follows:

- in the Fund to provide a deferred pension benefit,
- transferred to an approved retirement annuity or pension fund,
- Cash Withdrawal Benefit transferred to the preservation fund to which the Member belongs and the balance of the Member's Share transferred to an approved retirement annuity or pension fund.

9.7 Expenses

Expenses relating to the management and administration of the Fund, including the cost of audits, actuarial investigations and investment expenses are borne by the Fund.

APPENDIX 3 - Data Validation

1. Introduction

The quality of the results of an actuarial valuation is crucially dependent on the quality of the underlying valuation data. In terms of Standard Actuarial Practice Note 201 issued by the Actuarial Society of South Africa, the actuary is required to:

- Inspect the quality of the data for accuracy and reasonability; and
- Provide a description of the measures taken to ensure the completeness and accuracy of all data used.

Its purpose is to ensure that the valuation report contains sufficient information to allow an adequate appreciation to be made of the financial condition of the Fund by the Trustees of the Fund, the sponsoring employers and the regulatory authority. This guidance note is mandatory for statutory valuations and best practice for other valuations.

In order for data to be of acceptable quality and accuracy it must be:

- Complete;
- Accurate;
- Up-to-date;
- Consistent with previous valuation data; and
- Sufficiently detailed, providing all information that is likely to be financially significant to the level or timing of future benefits.

It is required of the actuary to express his satisfaction with regards to the quality of the data or, if necessary, qualify any reservations regarding the reliability thereof.

2. Findings

The valuation has been based on all relevant data available at the time, in electronic format or otherwise. This data was obtained from the following sources:

- Membership data as supplied by Retirement Fund Solutions Namibia, the Fund's Administrators;
- Investment managers' report as at valuation date, as supplied by NMG Investment Consultants;
- Audited financial statements as supplied by Retirement Fund Solutions Namibia;
- Other relevant documents such as the Rules of the Fund, Minutes and previous valuation reports; and
- Other information supplied by various parties per telephone or email upon request. In order to validate the data for this valuation, we have performed the following checks:

In order to validate the data for this valuation, we have performed the following checks:

- We have verified that there are no unusual values such as impossible dates of birth, retirement ages or start dates.
- We have compared the data against the Rules of the Fund in respect of contributions received and benefits paid.
- We have examined the interest rates used in the data to calculate Members' Shares for accuracy.
- We have independently calculated each individual Member Share at the valuation date, based on the investment allocation and interest earned and contributions made over the valuation period, and compared it to the data supplied for accuracy.
- We have compared the data against the financial statements supplied by Retirement Fund Solutions Namibia for consistency with respect to contributions paid and fund expenses incurred.
- We have independently calculated each exited individual's Member Share at exit, based on the investment allocation and interest earned and contributions made over the valuation period, and compared it to the gross benefits paid recorded by Retirement Fund Solutions Namibia.
- We have compared the data against the financial information supplied for consistency with respect to benefit payments over the valuation period.
- We have compared the asset information supplied in the accounts with the investment managers' reports for accuracy.
- We have compared the investment income implied by the asset data with the information supplied in the Accounts for consistency.
- We have investigated the change in the excess of Assets over Liabilities from the previous valuation to the current valuation for any unusual items that might indicate the inaccuracy of the data.

We are satisfied that the level of detail of the data provided was sufficient in order for us to assess the quality and accuracy thereof for the purpose of this valuation.

In summary, we have checked the data provided by Retirement Fund Solutions Namibia for reasonability. We are satisfied that the data is adequate for the purpose of this valuation.

- THE RETIREMENT FUND FOR LOCAL AUTHORITIES
AND UTILITY SERVICES IN NAMIBIA
Actuarial Valuation as at 31 December 2016

