



**RFLAUN**

Retirement Fund for Local Authorities  
and Utility Services in Namibia

# THE RETIREMENT FUND FOR LOCAL AUTHORITIES AND UTILITY SERVICES IN NAMIBIA

**(Registration Number 25/7/7/107)**  
ACTUARIAL VALUATION REPORT  
as at 31 December 2021

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**COMPILED BY:**

Old Mutual Corporate Consultants



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## Executive Summary

We have pleasure in presenting the interim actuarial valuation report of the Retirement Fund for Local Authorities and Utility Services in Namibia (the "Fund") as at 31 December 2021. This summary is for reference purposes only, and should be read in the context of the full report.

### Membership as at 31 December 2021

The membership of the Fund as at 31 December 2021 is as follows:

	31 December 2021	31 December 2020
Number of Active Members	4,790	4,843
Number of Pensioners	1,864	1,787
Number of Disability Pensioners	1	3

### Financial Position

The financial position of the Fund as at 31 December 2021 was as follows:

	Assets	Liabilities	Reserves	Surplus
	N\$'000	N\$'000		N\$'000
Active Member Share Account	4,564,298	4,561,442	0	2,856
Actives Reserve Account	163,598	0	163,598	0
Pensioners Account	1,477,174	1,163,548	174,532	139,094
Disability Pensioners Account	859	453	227	179
<b>TOTAL</b>	<b>6,205,928</b>	<b>5,725,443</b>	<b>338,356</b>	<b>142,128</b>

### Contribution Allocation

Members may select from a wide range of rates at which to contribute. Recent Employer contribution allocations have been as follows:

	1 January 2022	1 May 2022
<b>Total Employer Contributions</b>	<b>21.700%</b>	<b>21.700%</b>
Group Life Assurance premiums	1.790%	2.207%
Disability premiums	0.688%	0.688%
Dread Disease premiums	0.500%	0.439%
Administration expenses	0.997%	0.997%
Benefit Consulting fees	0.040%	0.040%
Funeral premiums	0.160%	0.160%
Actuarial and Investment Consulting fees	0.030%	0.030%
Audit fees	0.030%	0.030%
Trustee and Office Expenses	1.951%	1.951%
Non-recurring expenses	0.137%	0.137%
<b>Net Employer Contributions</b>	<b>15.377%</b>	<b>15.021%</b>

## Conclusions and Recommendations

It is recommended that the current Employer contribution allocation be maintained, subject to changes in risk premiums (other than changes in funeral premiums which are covered by the allocation to reserves) and salary related expenses.

I recommend that an enhancement of 0.24% to active Members' shares be made from the Mismatch Reserve.

I recommend that a 6.0% pension increase be granted effective 1 July 2022.

I recommend that the residual capital guarantee value be held separately to enable any payments made to the estate of a deceased pensioner to be debited against this.

# 1. Introduction

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## 1.1 Purpose of the report

This report gives the results of the 31 December 2021 interim actuarial valuation of the Retirement Fund for Local Authorities and Utility Services in Namibia ("the Fund"). The purpose of this report is as follows:

- To analyse the overall financial position of the Fund;
- To analyse the position of the Pensions Account and make any necessary recommendations;
- To analyse the position of the Disability Pensions Account and make any necessary recommendations;
- To analyse the position of the Reserve Account and make any necessary recommendations;
- To check the allocation of investment returns and that Members' Shares are reasonable; and
- To analyse the allocation of Employer contributions towards risk benefit premiums and expenses.

## 1.2 Background to the report

The Fund was established on 1 March 1992. The current statutory valuation is as at 31 December 2021 ("the Valuation Date") and covers the 2021 Financial Year i.e. 1 January 2021 to 31 December 2021. The previous statutory actuarial valuation was conducted as at 31 December 2018 and interim actuarial valuations were conducted as at 31 December 2019 and 31 December 2020. The next statutory actuarial valuation of the Fund is due as at 31 December 2024.

This actuarial valuation report covers, inter alia, the requirements of a Statutory Valuation in terms of Section 16 of the Pension Funds Act of the Republic of Namibia. We have followed the guidance notes of the Republic of South Africa (SAP201 of the Actuarial Society of South Africa) rather than those of the United Kingdom (GN9) as the Namibian legislative environment is closer to that of South Africa.

This report has been prepared for the Trustees of the Fund and should not be used by third parties for purposes not specifically mentioned. Reference to any part of this report should include references to the full report.

## 1.3 Previous recommendations

The Trustees approved the recommended annual pension increase of 4.0% effective 1 July 2021 and adjusted the allocation of the Employer contribution rate.

## 2. Benefits

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### 2.1 Benefit Structure

A summary of the present benefit structure and contribution rates is given in Annexure I.

The Fund provides benefits on a defined contribution basis, where the benefit is equivalent to the member's individual accumulated credit. At retirement a member can purchase a guaranteed life pension from the Fund.

Employers contribute 21.7% of members' pensionable salaries which is first allocated towards covering risk benefit premiums and Fund expenses before the remaining portion (minimum 14.0%) is allocated towards retirement savings.

Members have the option to contribute at a rate of 7.5%, 9.0%, 10.0%, 12.0%, 14.0% or 16% of their pensionable salaries. Members who joined before 1 September 2008 also have the additional option to contribute at a rate of 2.5% or 5.0% of pensionable salaries.

### 2.2 Rule Amendments and Changes in Benefit Structure

No rule amendments occurred during the 2021 Financial Year.

### 2.3 Allocation of investment returns

The Fund operates on a monthly unitised basis.

### 2.4 Risk Benefit Policy

The Fund's death benefits were fully insured at the Valuation Date. In my opinion, in light of the nature of the Fund, the insurance of risk benefits is more appropriate than self-insurance. Furthermore, in my opinion, the level of reinsurance is adequate for the level of risk benefits offered by the Fund as at the Valuation Date. The Fund does not carry any residual risk in respect of these benefits.

### 3. Membership Data

#### 3.1 Reasonability of Data

The Fund is administered by RFS Fund Administrators (Pty) Ltd ("RFS"). RFS provided data for this exercise, including data from their administration system and the Fund's audited financial statements. The data has been examined for reasonability and the position at 31 December 2021 reconciled with that of 31 December 2020.

Overall we are satisfied that the data is adequate for the purposes of this report.

#### 3.2 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 2021	31 Dec 2020
<b>Number of Members</b>	<b>4,790</b>	<b>4,843</b>
<b>Averages:</b>		
Age (years)	43.5	43.0
Service (years)	11.2	10.8
<b>Annual Pensionable Salaries:</b>		
Total (N\$'000)	1,107,913	1,048,908
Average (N\$)	231,297	216,582
<b>Member's Shares:</b>		
Total (N\$'000)	4,561,442	3,799,605
Average (N\$)	952,284	784,556

Below is a reconciliation of the Fund's active membership over the 2021 Financial Year:

Active Members as at 31 December 2020	4,843
Less: Late Exits	(29)
Plus New Entrants	170
Plus Transfers In	1
Less Transfers Out	-
Less Deaths	(41)
Less Retirements	(81)
Less Withdrawals	(73)
<b>Active Members as at 31 December 2021</b>	<b>4,790</b>

### 3.3 Pensioners

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

	31 Dec 2021	31 Dec 2020
<b>Number of Actively Paid Pensioners</b>		
Males	1,070	1,041
Females	631	580
<b>TOTAL</b>	<b>1,701</b>	<b>1,621</b>
<b>Pension-Weighted Average Age:</b>		
Males (years)	65.3	65.2
Females (years)	63.6	63.4
<b>TOTAL (years)</b>	<b>64.8</b>	<b>64.7</b>
<b>Annual Pensions:</b>		
Total (N\$'000)	94,489	86,421
Average (N\$)	55,549	53,314

Below is a reconciliation of the Fund's pensioner membership over the 2021 Financial Year:

	Pensioners	Suspended Pensioners	Total Pensioners
Pensioners as at 31 December 2020	1,621	166	1,787
Plus New Pensioners	198	-	198
Less Deaths	(78)	(7)	(85)
Less Terminations	(14)	(22)	(36)
Suspended	(369)	369	-
Reinstated	343	(343)	-
<b>Pensioners as at 31 December 2021</b>	<b>1,701</b>	<b>163</b>	<b>1,864</b>

### 3.4 Disability Pensioners

There were two insured disability pensioners in the Fund as at 31 December 2020, they were outsourced in January 2021. There was one uninsured disability pensioner in the Fund as at 31 December 2020, who remains in the Fund as at 31 December 2021.



## 4. Assets

### 4.1 Summary of Fund assets

The assets of the Fund are currently managed by Namibia Asset Management (NAM), Allan Gray, Prudential and Ninety One. The assets of the Capital Protection Portfolio options are invested in the Old Mutual Absolute Growth Secure portfolio and the Sanlam Stable Bonus portfolio (introduced effective 1 October 2018).

The Fund's unlisted investment managers are Capricorn Asset Management, IJG Capital and EOS Capital.

The value of the policies as at 31 December 2021 and the comparative figures as at 31 December 2020 are set out in the table below:

	Account Balances			
	31 December 2021		31 December 2020	
	(N\$'000)	%	(N\$'000)	%
Allan Gray Namibia	1,202,398	19.3%	1,069,793	20.2%
Capricorn Asset Management	314,172	5.0%	161,333	3.0%
EOS Capital	18,602	0.3%	11,877	0.2%
IJG Capital	9,926	0.2%	8,596	0.2%
Ninety One Asset Management Namibia	1,255,694	20.1%	1,095,521	20.7%
Namibia Asset Management	1,337,917	21.4%	1,129,324	21.3%
Old Mutual Namibia	423,003	6.8%	472,602	8.9%
Prudential Portfolio Managers Namibia	1,247,281	20.0%	1,063,534	20.1%
Sanlam Life Namibia	276,153	4.4%	190,836	3.6%
Stanlib Namibia Unit Trust Management	140,846	2.3%	68,603	1.3%
Property and Equipment	18,391	0.3%	20,070	0.4%
<b>Value of Invested Assets</b>	<b>6,244,384</b>	<b>100%</b>	<b>5,292,087</b>	<b>100%</b>
Bank Account	73,885		26,431	
Contributions Receivable	28,701		25,441	
Other Current Assets	513		8,407	
Creditors	(141,555)		(93,580)	
<b>Net Asset Value per Financial Statements</b>	<b>6,205,928</b>		<b>5,258,786</b>	

The Fund earned a return of **16.6%** over the 2021 Financial Year. The financial structure of the Fund is outlined in Annexure III and a Revenue Statement is given in Annexure IV.

## 4.2 Investment Returns and Options for Members

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.

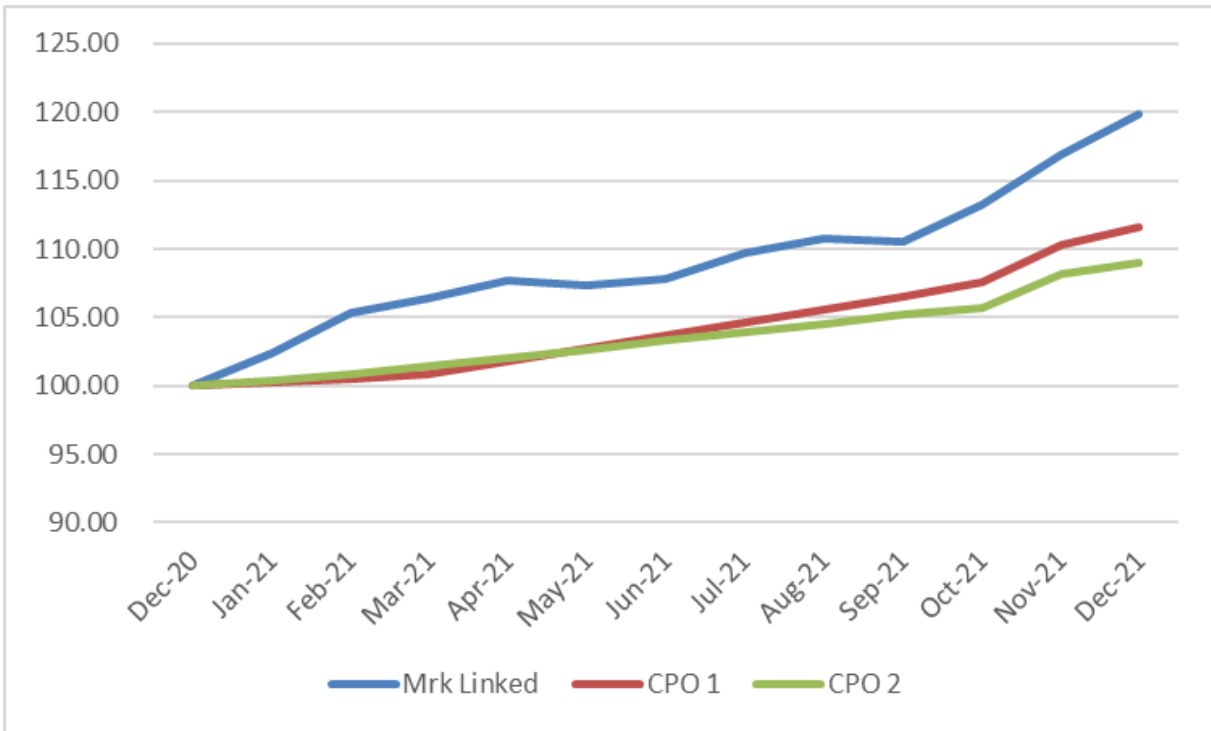
With effect from 1 October 2018, the Capital Protection Option in existence ("CPO1") was closed and a new Capital Protection Option ("CPO2") was set up. CPO1 invests 100% in the Old Mutual Absolute Growth Secure portfolio, while CPO2 invests roughly equally in the Old Mutual Absolute Growth Secure portfolio and the Sanlam Stable Bonus portfolio.

	Market Linked	CPO 1	CPO 2
January 2021	2.35%	0.23%	0.40%
February 2021	2.92%	0.24%	0.46%
March 2021	1.00%	0.42%	0.52%
April 2021	1.18%	0.89%	0.58%
May 2021	-0.23%	0.91%	0.62%
June 2021	0.38%	0.92%	0.68%
July 2021	1.78%	0.92%	0.59%
August 2021	0.96%	0.92%	0.59%
September 2021	-0.21%	0.93%	0.62%
October 2021	2.47%	0.92%	0.54%
November 2021	3.14%	2.61%	2.27%
December 2021	2.62%	1.14%	0.73%
<b>TOTAL</b>	<b>19.90%</b>	<b>11.59%</b>	<b>8.94%</b>

Inflation in Namibia as measured by the Consumer Price Index was 4.5% over the 2021 Financial Year, compared to 2.4% over the 2020 Financial Year.

The active members in RFLAUN received an additional investment return allocation of 1.70% during November 2021, which is included above. This was part of the re-aligning of RFLAUN's reserves.

The cumulative returns over the 2021 Financial Year can be represented graphically as follows for the Market linked and two Capital Protection portfolios:



## 5. Fund Accounts

### 5.1 Assets of the Fund

Below is a summarised revenue account for the Fund for the 2021 Financial Year:

	N\$
Balance as at 31 December 2020	<b>5,258,785,819</b>
Member Contributions	123,607,030
Employer Contributions	227,355,585
Reinsurance Proceeds	50,400,937
Reinsurance Premiums	(32,531,286)
Fund Expenses	(32,087,726)
Transfers In	49,215,640
Benefits	(316,619,838)
Investment Return	877,801,569
<b>Balance as at 31 December 2021</b>	<b>6,205,927,730</b>

### 5.2 Fund Account Structure

The main purpose of an actuarial valuation is to compare accrued assets and liabilities in order to assess the solvency position of a retirement fund. As at 31 December 2021 the various Fund Account balances were as follows (with 31 December 2020 balances shown for comparison):

	31 Dec 2021	31 Dec 2020
	N\$'000	N\$'000
Share Account	4,564,298	3,799,605
Actives Reserve Account	163,598	190,464
Pensioners Account	1,477,174	1,225,466
Disability Pensioners Account	859	43,251
<b>TOTAL</b>	<b>6,205,928</b>	<b>5,258,786</b>

### 5.3 Members' Share Account

The Members' Share Account represents the sum of active members' shares i.e. liabilities towards active Members. Members' Shares are provided by the Administrator and are checked for reasonability and adjustments are made if necessary after consultation with the Administrator. The total of the Share Account is based on the unitised returns allocated per the 3 different investment strategies. Investment returns were also allocated accordingly for members who switched to CPO 1 or CPO 2 during the 2021 Financial Year.

The movement in the Members' Share Account over the 2021 Financial Year was as follows:

	N\$
Balance as at 31 December 2020 per valuation	3,799,604,786
Reversal of valuation adjustment	<u>( 31,461,557)</u>
Balance as at 31 December per financial statements	3,768,143,229
Member contributions	123,607,030
Employer contributions	163,381,318
Reinsurance proceeds on death	50,364,421
Transfers in	49,215,640
Benefits payable out of RFLAUN	(214,565,052)
Transfers to Pensioners' Account on retirement	(100,278,565)
Bonus allocated to Members	<u>687,751,187</u>
Balance as at 31 December 2021 per financial statements	4,527,619,208
Valuation adjustment (per 2020 valuation plus interest)	<u>36,678,754</u>
<b>Balance as at 31 December 2021</b>	<b>4,564,297,962</b>

The breakdown of Members' Shares between the three investment strategies is as follow:

	N\$
Market-Linked	4,306,321,884
CPO 1	191,682,851
CPO 2	63,437,608
	<b>4,561,442,343</b>

The Fund's Asset-Liability Matching comparison as at 31 December 2021 is as follows:

	Market-Linked	CPO 1	CPO 2
	N\$'000	N\$'000	N\$'000
<b>Invested Assets</b>	<b>5,545,228</b>	<b>423,003</b>	<b>276,153</b>
Active Member Liability	4,306,322	191,683	63,438
Pensioner Liability	1,163,548	0	0
Disability Pensioner Liability	<u>453</u>	<u>0</u>	<u>0</u>
<b>Total Liabilities</b>	<b>5,470,323</b>	<b>191,683</b>	<b>63,438</b>
<b>Surplus</b>	<b>74,905</b>	<b>231,320</b>	<b>212,715</b>
<b>Funding Level</b>	<b>101.4%</b>	<b>220.7%</b>	<b>435.3%</b>

Overall asset-liability matching appears acceptable when considering the benefits payable as at the Valuation Date. There will be timing differences in cash flows between assets and liabilities.

#### 5.4 Pensioners Account

The Pensioners Account consists of the Pooled Pensioners' assets, totalling N\$ 1,477,173,560 as at 31 December 2021.

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\$10 000 lump sum death benefit for pensioners also valued at an interest rate of 5% p.a.

The interest rate used to value the pensioners, indicates the excess investment return that the Fund's investments would have to earn in addition to the increase in the Namibian Consumer Price Index in order to provide pensioners with inflation-related pension increases. This means that the investments would have to earn NCPI + 5% over the long 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.

However, a policy of smoothing pension increases is used. During periods of positive investment returns, the reserves are increased in order to fund pension increases during periods of negative investment returns.

Below is a build-up of the Pensioner Account over the 2021 Financial Year:

	N\$
Balance as at 31 December 2020 per valuation and adjustment in financial statements	1,225,466,095
Transfers on retirement	100,278,565
Pensions paid	<u>(94,900,698)</u>
Balance as at 31 December 2021 per financial statements	1,230,843,962
Investment returns	203,662,109
Fund expenses	(6,794,971)
Transfer from Disability Account per trustee decision	<u>49,462,461</u>
<b>Balance as at 31 December 2021 per valuation</b>	<b>1,477,173,560</b>

The liability of the pensions is **N\$1,163,547,649** as at 31 December 2021. The trustees' new policy is to hold a targeted Solvency Reserve of 10% of liabilities and a Data Reserve of 5% of liabilities. The solvency position of the Pensioners Account as at 31 December 2021 was therefore as follows:

	N\$'000
<b>Asset Value</b>	<b>1,477,174</b>
Liabilities	1,163,548
Solvency Reserve	116,355
Data Reserve	<u>58,177</u>
<b>Total Liabilities and Reserves</b>	<b>1,338,080</b>
<b>Surplus</b>	<b>139,094</b>
<b>Funding Level</b>	<b>110.4%</b>

Following the 2020 valuation, the trustees decided to re-allocate the reserves of the Fund. This included transferring the majority of the surplus in the Disability Account to the Pensioners Account to help fund explicit reserve in the Pensioners Account to help protect the solvency position. The Fund earned a net investment return of 16.6% for the 2021 Financial Year, which was in excess of the 5% discount rate used to value pensioner liabilities.

The suspended pensioners' future liability was calculated as **N\$17,598,646** as at 31 December 2021. This potential liability has not been included in the solvency position.

Pensioners are entitled to a residual capital guarantee, whereby each retiree is guaranteed to have the nominal value of their accrued retirement savings paid out as pension benefits to themselves, pension benefits to their dependants or as a payment to their estate. The total value as at 31 December 2021 was derived as **N\$524,482,850**. For the vast majority of pensioners, their actuarial liability value exceeded their residual capital guarantee value as at 31 December 2021.

This residual capital guarantee amount needs to be ring-fenced so that payments made to the estate of deceased pensioners can be debited against this amount. The liability value will be re-calculated annually in future.

Below are details of the previous 5 annual increases granted to pensions:

Date	Namibian CPI	Pension Increase	Increase as % of CPI
1 July 2017	6.1%	5.0%	82%
1 July 2018	4.0%	5.0%	125%
1 July 2019	3.9%	4.0%	103%
1 July 2020	2.1%	2.0%	95%
1 July 2021	4.1%	4.0%	95%
	<b>4.0%</b>	<b>4.0%</b>	<b>100%</b>

Pension increases are granted pro-rata for those with less than 12 months of pensioner status as at the effective date of the pension increase.

## 5.5 Disability Pensioners Account

The Disability Pensioners account provides benefits for Members in the event of their disablement. 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.

Liabilities for disability pensioners are valued an interest rate of 5% p.a., mortality assumptions are now ignored since there is only such disability pensioner remaining; the normal retirement date of this member is 31 March 2027.

A build-up of the Disability Pensioners Account is shown below:

	N\$
Balance per 31 December 2020 valuation	<b>43,250,692</b>
Reinsurance proceeds	36,516
Disability pensions paid	(135,047)
Investment returns	7,172,162
Fund expenses	(3,208)
Transfer to Pensioner Account	<u>(49,462,461)</u>
Balance as at 31 December 2021	<b>858,655</b>

The liability of the disability pensions is **N\$453,093** as at 31 December 2021. Given the removal of assumptions around in-service mortality, a 50% Solvency Reserve is suitably conservative. The solvency position of the Disability Pensioners Account is therefore as follows:

	N\$
<b>Asset Value</b>	<b>858,655</b>
Liabilities	453,093
Solvency Reserve	<u>226,547</u>
<b>Total Liabilities and Reserves</b>	<b>679,640</b>
<b>Surplus</b>	<b>179,015</b>
<b>Funding Level</b>	<b>126.3%</b>

## 5.6 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 Members' Share Account as at 31 December 2021.

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 trustees re-structured the reserves of the Fund following the 2020 valuation.

The Actives Reserve Account amounted to N\$ 163,597,553 as at 31 December 2021, representing 2.82% of the total active Member liabilities. This balance can be split as follows:

	31 Dec 2021	Ratio to Total Member Shares	
	N\$	Actual	Target
Data Reserve	22,148,394	0.49%	0.50%
Risk Reserve	44,296,789	0.97%	1.00%
General Reserve/Mismatch Reserve	33,929,169	0.74%	0.50%
Expense Reserve	28,248,370	0.62%	0.50%
Office Building	34,974,831	n/a	n/a
<b>TOTAL</b>	<b>163,597,553</b>	<b>2.82%</b>	<b>2.50%</b>



The movement in the Actives Reserve Account over the 2021 Financial Year was as follows:

	General/ Mismatch Reserve	Data Reserve	Risk Reserve	Expense Reserve	Office Building	TOTAL
	N\$	N\$	N\$	N\$	N\$	N\$
1 January 2021 balance per valuation	142,507,468	16,218,361	31,738,417	-	-	190,464,246
Adjustment reversal	31,461,557	-	-	-	-	31,461,557
1 January 2021 balance per financial statements	173,969,025	16,218,361	31,738,417	-	-	221,925,803
Employer contributions			32,531,286	31,442,981		63,974,267
Risk premiums			(32,531,286)			(32,531,286)
Fund expenses				(32,087,726)		(32,087,726)
Investment returns	877,801,569					877,801,569
Late payment interest to exits	(7,019,041)					(7,019,041)
Bonus allocation	(702,822,453)	2,689,453	5,263,108	(53,458)		(694,923,349)
31 December 2021 balance per financial statements	341,929,100	18,907,815	37,001,525	(698,203)	-	397,140,237
Previous adjustment + interest	(36,678,754)					(36,678,754)
Transfer to Pensioner Account	(203,662,109)			6,794,971		(196,867,138)
Transfer to Disability Pensioner Account				3,208		3,208
Adjustment from 2020 valuation	(67,659,068)	3,240,580	7,295,263	22,148,394	34,974,831	-
<b>Balance as at 31 December 2021 per valuation</b>	<b>33,929,169</b>	<b>22,148,394</b>	<b>44,296,789</b>	<b>28,248,370</b>	<b>34,974,831</b>	<b>163,597,553</b>

The General Reserve Account has now been reconstituted as the Mismatch Reserve. This is to allow for potential mismatching in the allocation of investment returns within the assets and liabilities.

The Data Reserve is required to cover unanticipated liabilities the Fund may experience due to data errors or historic liabilities that have not been accrued for.

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. The Risk 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 Expense Reserve balance is to fund any differences between expenses incurred and allocated to the various liability accounts.

An amount has also been set aside to fund the purchase of a new office building

## 6. Contribution Rate Assessment

### 6.1 Employer Contribution Assessment

As per the rules of the Fund, Employers contribute a total of 21.70% of each Member's pensionable salary, of which at least 14.00% should be applied toward Member's retirement funding. The remaining 7.70% should first be applied toward the cost of Fund expenses and the balance (if any) be applied toward Member's retirement funding. Recent Employer contribution allocations have been as follows:

	1 January 2022	1 May 2022
<b>Total Employer Contributions</b>	<b>21.700%</b>	<b>21.700%</b>
Group Life Assurance premiums	1.790%	2.207%
Disability premiums	0.688%	0.688%
Dread Disease premiums	0.500%	0.439%
Administration expenses	0.997%	0.997%
Benefit Consulting fees	0.040%	0.040%
Funeral premiums	0.160%	0.160%
Actuarial and Investment Consulting fees	0.030%	0.030%
Audit fees	0.030%	0.030%
Trustee and Office Expenses	1.951%	1.951%
Non-recurring expenses	0.137%	0.137%
<b>Net Employer Contributions</b>	<b>15.377%</b>	<b>15.021%</b>

The allocation towards non-pensionable salary linked expenses is therefore 2.308% of pensionable salaries. Based on the 2021 Financial Statements the non-pensionable salary expenses totalled 2.148% of pensionable salaries, revealing a margin of 0.160%.

Based on the above I recommend that the allocation to the Reserve Account toward the cost of non-salary linked expenses be maintained. The Expense Reserve balance is available to fund any unexpected shortfalls due to costs being higher than expected or pensionable salaries being lower than expected.

## 7. Annual Pension Increase

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### 7.1 Annual Pension Increase

Pensions payable by Fund are reviewed on an annual basis effective 1 July. The pension increase policy is to increase pensions in payment by 100% of Namibian inflation in the form of the Namibian Consumer Price Index (CPI). This is subject to affordability.

### 7.2 Namibian Inflation

Namibian inflation as measured by CPI was 6.0% for the year ended 30 June 2022.

### 7.3 Investment Performance

Investment returns per investment strategy over the period 1 January to 30 June 2022 were as follows:

Investment Strategy	Investment Return
Market Linked	(5.06%)
CPO 1	7.83%
CPO 2	4.25%
<b>Weighted Average</b>	<b>(3.78%)</b>

This is equivalent to a (7.41%) annualised return over the first 6 months of the 2022 Financial Year, compared to the 5% p.a. assumed return used in the valuation basis.

### 7.4 Pension Increase Recommendation

Despite the poor investment performance subsequent to the Valuation Date, the Pensioner Account's solvency is relatively strong. Therefore a 6.0% pension increase can be granted effective 1 July 2022.

### 7.5 Alternative – bonus for pensioners

Based on the 31 December 2021 valuation result, every 1% pension increase would increase liabilities by N\$11.635 million. The monthly pension payroll as at December 2021 was N\$7.874 million, therefore a once off bonus for pensioners would cost that amount. The trustees can consider granting a combination of an increase plus once off monthly bonus, for example granting a 5.3% increase and a once off monthly bonus would be the same cost as granting a 6% increase.

## 8. Conclusions and Recommendations

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### 8.1 Conclusions

The Fund was financially sound as at 31 December 2021, in that its assets exceeded the value of its liabilities. The Fund is expected to remain financially sound until its next statutory valuation as at 31 December 2024.

Investments held provided a suitable match for Fund liabilities as at the Valuation Date. The investment strategy for the Fund, including the Pensioner Account, remains appropriate in my opinion.

### 8.2 Recommendations

It is recommended that the current Employer contribution allocation be maintained, subject to changes in risk premiums (other than changes in funeral premiums which are covered by the allocation to reserves) and salary related expenses.

I recommend that an enhancement of 0.24% to active Members' shares be made from the Mismatch Reserve.

I recommend that a 5.3% pension increase be granted effective 1 July 2022 together with a once off bonus for pensioners in December 2022. Both the increase and the once off bonus should be pro-rated for new pensioners.

I recommend that the residual capital guarantee value be held separately to enable any payments made to the estate of a deceased pensioner to be debited against this.



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**Stephen Walker BBusSc FIA FASSA**

In my capacity as Fund Valuator  
and an employee of Old Mutual Corporate

September 2022

## ANNEXURE I – Summary of the Rules

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### **Financial Structure**

The Rules provide for the assets of the Fund to be separated into three separate accounts.

### **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.

### **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 pensioners.

### **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.

## **Contributions**

Employers contribute 21.7% of members' pensionable salaries which is first allocated towards covering risk benefit premiums and Fund expenses before the remaining portion (minimum 14.0%) is allocated towards retirement savings.

Members have the option to contribute at a rate of 7.5%, 9.0%, 10.0%, 12.0%, 14.0% or 16% of their pensionable salaries. Members who joined before 1 September 2008 also have the additional option to contribute at a rate of 2.5% or 5.0% of pensionable salaries.

## **Normal Retirement Age**

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

## **Types of benefits (Retirement, Withdrawal, Death and Disability etc.)**

### **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.

### **Early Age Retirement Pension**

After age 55 calculated as for Normal Retirement Pension.

### **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.

### **Death in Service**

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

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

### **Death after Retirement**

In the case of the death of a Pooled Pensioner:

- A lump sum of N\$10 000.
- 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.

### **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.

### **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.