Volume 7, Issue 1: 31 December 2015

ANNUAL NEWSLETTER

MIPF

Mining Industry Pension Fund

"Cares for your future"

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Inside this issue:

Introduction

This 7th edition of the Annual Newsletter updates stakeholders on new developments at the Fund including the financial performance for the year 2015.

Death Notice

The Fund is deeply saddened by the death of Mr Joseph Midzi who was a representative of the Associated Mine Workers Union of Zimbabwe on the Fund's Board of Trustees. Mr. Midzi passed away on the 21st of July 2015 after serving the Fund as a Trustee for more than 15 years.

Financial Performance for 2015

The Accumulated Fund for the year ended 31 December 2015, based on book values, was as follows;

Opening balance (Jan 2015)	$102,050,487
Balance as at 31 Dec 2015	$107,998,802
Increase in Accumulated Fund	$5,948,315

Actuarial Valuation Results

The Fund was not financially sound as at 31 December 2015. The Fund's liabilities exceeded its assets based on market values, as follows;

Total Assets	$160,716,898
Total Liabilities	$272,016,330
Actuarial Deficit	$ 111,299,432

Assuming that the Fund continues to operate long-term, the assets of the Fund were not sufficient to meet the accrued liabilities in respect of service up to the valuation date, hence the deficit of $111.30 million. This translated to a funding level of 59.1%. However, on a minimum funding basis, that is, assuming no further benefit accrual or increase, the deficit decreased to $85.7 million. This translated to a funding level of 65.2%.

As a result, no bonus was declared and the Additional Death Benefit remained at $1 000.

The Actuary attributed the increase in the deficit to lower than expected investment returns and reduced remittance of contributions. Contribution arrears including interest stood at $81.63 million. The gross investment return for the year was estimated at –7.9% while the year on year inflation was -2.47%.

Advice to Members

1. New Commutation Limits

On 19 February 2016, the Insurance and Pensions Commission (IPEC), reviewed annual commutation limits From US$360 to US$600. This means that, a member whose pension falls below US$600 per annum or $50 per month, may commute the whole or part of his/ her pension for a lump sum.

Please note that the maximum preserved employer portion remains unchanged at $300.

2. Benefit Statements for 2015

Members' Benefit Statements for the year ended 31 December 2015 were dispatched in the last week of June 2016 to members whose employers were up to date with payment of pension contributions as at 31 December 2015. Statements were not sent to members whose employers were not up to date with payments as at 31 December 2015 because their financial details would not reflect the actual contributions received. This is because the Fund's Pensions Administration System accumulates benefits for members based on invoiced contributions rather than on contributions received. To address this challenge, the Fund is in the process of acquiring a new Pensions Administration System that will accrue benefits based on actual contributions received. The system is envisaged to go live in 2017.

3. MIPF Fund Rules (SI 14 of 2016)

You are advised that the Fund Rules, S.I 771 of 1982, was replaced by S.I 14 of 2016. The new Rules do not constitute any material change to the benefits offered by the Fund or the way the Fund conducts its business. This is because the new Fund Rules mainly consolidated provisions that were previously approved and adopted but were contained in separate documents. These included Circulars from the Regulator, IPEC, recommendations made by the Actuary over the years which were approved and implemented by the Board, as well as amendments that were contained in other Statutory Instruments such as S.I 121 of 1993.

Principal Officer's Message

Introduction

The year 2015 was challenging and the Mining Industry Pension Fund was not spared from the negative operating environment.

Management is concerned over the lower than expected performance of the Fund which is characterised by the deteriorating funding level which, at 59.1% is below the recommended IPEC minimum threshold of 75%.

The overall performance was such that the Fund in book value terms, increased from $102.05 million in 2014 to $108.00 million in 2015. On the other hand, in market value terms, the assets reduced from $174.91 million to $160.72 million. Effectively, the assets lost value due to the negative economic environment.

Key Performance Indicators

An explanation of why and how the Fund ended the year 2015 with an increased funding deficit will assist put issues into perspective. During 2015, the Fund relied on three sources of cash flows, namely, pension contributions (66%) that are collected from the mines, rentals (20%) that are collected from the tenants who occupy the Funds' properties and income from other investments such as dividends from companies that the Fund is invested in as well as interest from money market investments (9%). Other sources accounted for 5%.

As the mining sector struggled to perform due to depressed international prices and economic constraints, many mines faced difficulties with the remittance of contributions. As a result, out of 125 member mines, only 63 were up to date with their remittances as at 31st December 2015. This resulted in an increase in contributions debtors from $62.48 million in 2014 to $81.63 million in 2015, inclusive of interest.

In terms of rental collections, businesses that are the main tenants in the Fund's properties also faced severe economic challenges that resulted in underperformance. Some companies closed and exited the Fund's properties. Void spaces increased from 19% to 22%. Consequently, many were unable to pay their rentals and operating costs to the Fund. As a result, outstanding rental and operating costs increased from $6.17 million in 2014 to $7.08 million in 2015.

Investments returns were also negatively affected. According to the Actuary, the overall return was –7.9% against inflation of -2.47%.

The value of the Fund's properties declined from $102.34 million in 2014 to $96.66 million in 2015 while the value of investments on the stock market continued to deteriorate from $47.55 million in 2014 to $33.78 million in 2015.

Total cash collections declined from $27.93 million in 2014 to $26.52 million in 2015. During the comparable period, expenditure increased from $33.66 million in 2014 to $38.01 million in 2015.

The expenditure was mainly driven by an increase in benefits expenses which increased from $8.46 million in 2014 to $14.53 million in year 2015.

The increase in pension benefits payments was driven mainly by retrenchments and mine closures as well as the increase in the number of pensioners. The number of pensioners has been increasing steadily from 6,153 in 2009 to 9,488 in 2014 and 10,056 as at 31 December 2015. The above performance indicators explain why the Fund ended 2015 with a deficit of $111.3 million compared to $56.00 million in 2014. As a result, the Fund could not afford to declare a bonus. The deficit means that currently, the member's liabilities exceed the value of the assets. However, this situation will improve and correct when economic performance improves and member mines become able to remit contributions in full. Tenants in the Fund properties are also expected to pay their rental and operating costs dues when the economy improves.

Strategies to Improve Performance

In the meantime, Management undertook to apply its best endeavours to work towards reducing the funding gap. Among other strategies, the following were identified as critical to addressing the performance issues:

- Continue to vigorously follow up and collect outstanding contributions.
- Vigorously follow up and collect outstanding rentals and property operating costs.
- Sweat the assets with a view to maximising investment returns.
- Identify alternative viable investment opportunities as the investments in property and the stock market continue to lose value and returns continue to decline. As at 31st December 2015, the Fund was invested mainly in property (60.34%), stock market (21.09%), money market (4.30%), prescribed assets (7.73%) and unlisted equities (3.79%). Other investments accounted for 2.75%.
- Continue to monitor and reduce administration expenses.

Given that the strategies of collecting pension contributions and rentals, as well as sweating assets, continued to be negatively affected by the economic environment, the Fund also placed more emphasis on reducing administration expenses. To this end, the Fund suspended the payment, to Fund employees, of performance bonuses and annual bonuses (13th cheque) until such a time that the performance of the Fund improved. These measures had a positive impact on administration expenses. In addition, the Board of Trustees approved basic salary reductions that would positively impact performance from 2016 going forward.

Apart from the above detailed cost cutting measures, the Fund closed its 100% owned property management company, Southgate & Bancroft, which was responsible for managing the Fund's properties. Sixteen (16) employees were retrenched while nine (9) were retained and formed an in-house property department. Significant cost reduction was realised through this exercise. Also, all the administration costs that came with running Southgate & Bancroft as a separate legal entity have been removed.

Conclusion

In conclusion, while acknowledging that there are serious operational challenges bedevilling the industry, the Fund would like to urge the member mines to strive to remit contributions. Management wishes to acknowledge and thank the member mines for their continued support.