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Mining Industry Pension Fund

"Cares for your future"

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Board of Trustees

Mr C Mugwambi -Chairman & Chamber Representative

Mr P Dell - Chamber Representative

Mr I Kwesu - Chamber Representative

Mr N Mpofu -Chamber Representative

Mr T E Ruzive -Union Representative

Mrs V Mlandeli -Union Representative

There are two vacant positions for the AMWUZ which is yet to appoint members to the Board.

Introduction

The purpose of this eighth edition of the Fund's Annual Newsletter is to give members and other stakeholders an update on pertinent issues that include, among other things, the Fund's financial performance, the Actuarial Valuation for the year ended 31 December 2016 as well as latest industry developments.

Financial Performance for 2016

Based on book values, the Fund grew by \$2.82m in 2016 as follows;

Opening Balance (Jan 2016)	\$108.00m
Balance as at 31 Dec 2016	\$110.82m
Increase in Accumulated Fund	\$2.82m

Actuarial Valuation Results for 2016

The Actuarial Valuation on a going concern basis revealed that as at 31 December 2016, the Funding level was 58% which is in line with other industry based self-administered pension funds. The Trustee's are targeting the funding level to increase to 75%.

A significant number of mines were unable to remit pension contributions while tenants at the Fund's properties also struggled to pay rentals and operating

costs. This resulted in contributions debtors increasing to \$98.66m while rentals and operating costs debtors including interest ended the year at \$8.43m. The collection of outstanding contributions and rental debts would go a long way in improving the funding level for the Fund. Furthermore, the value of immovable properties declined due to the negative operating environment. It is believed that the value of the real estate will improve once the performance of the economy improves.

As a result of the above highlighted factors, no bonus was declared to all membership categories in 2016. The Additional Death Benefit was maintained at \$1,000.

Despite the negative operating environment characterised by the increasing debtors, the Fund's investment portfolio performed well resulting in a Gross Investment Return of 5.3% against Year on Year Inflation of negative 0.93%.

Advice to Members and Pensioners

1. Benefit Statements for 2016

Members' Benefit Statements for the year ended 31 December 2016 were dispatched in the last week of June 2017 to members whose employers were up to date with payment of pension contributions as at 31 December 2016. Statements were

not sent to members whose employers were not up to date with payments as at 31 December 2016 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 implementing a new Pensions Administration System that will accrue benefits based on actual contributions received. The new system is expected to go live in January 2018.

2. Tax Relief for Pensioners

The Fund would like to remind all members that in terms of the Income Tax Act (Chapter 23:06), eligibility for tax exemption on pension benefits only applies to members who retire after attaining fifty-six (56) years of age. Therefore, members are advised that pension benefits in respect of members who opt to retire before attaining the age of fifty-six (56) years are subject to tax depending on their income levels and amount of pension.

3. Submission of Pay slips for Exiting Members

All members exiting the Fund are required to submit a copy of their last pay slip together with a claim form (Form BNI) and a copy of their National Identity card.

Please note that payslips are required by ZIMRA for tax assessment purposes.

4. Provision of a Full Commutation Facility to Pensioners above the Limit Prescribed by the Insurance and Pensions Commission (IPEC)

IPEC, in its capacity as the Regulator, has advised of a provision for pensioners to commute full or part of their pension benefits. The part or full commutation is in respect of lump sum amounts over and above the normal one third commutation. However, application for commutations will only be considered under the following circumstances;

1. For payment of medical bills in respect of the member or his/her immediate family,
2. For purchasing or construction of a member's first and only residential property and;
3. For payment of school fees in respect of children below the age of 24 years.

Members and pensioners are advised that when applying for these commutations, supporting evidence should be attached. All applications for commutations are subject to approval by IPEC.

5. Review of Commutation Limits

In 2016, IPEC reviewed annual pension commutation limits from \$360 to \$600.

This means that a member whose pension falls below \$600 per annum or \$50 per month and does not qualify for the MIPF minimum pension of \$63.98 will be allowed to commute his/her pension as a lump sum. Please note that commutation amounts are subject to tax.

6. New Satellite Office

In an effort to improve communication with stakeholders and accessibility to members, the Fund opened a Satellite Office at Baobab Centre in Hwange town effective from 31 January 2017. The purpose of the office is to serve all members, pensioners and other stakeholders in Hwange and surrounding arrears. The office opens on the last Tuesday of every month from 08:00hrs to 16:30 hrs.

7. Certificates of Existence

Every pensioner should ensure that he or she completes, signs and returns the Certificate of Existence by 30 November 2017 in order to avoid having their pension suspended. If one has not received their Certificate of Existence by end of September of each year, they should contact the Fund as soon as possible. Pensioners are also advised to always notify the Fund in the event of changes in their contact details to ensure effective ongoing communication.

Principal Officer's Message

Introduction

The year 2016 was yet another challenging trading period for the Fund. The operating environment was characterised by lack of capital and depressed international commodity prices negatively affected the operating conditions for the mining sector. Resultantly, many member mines struggled to meet their financial obligations, including their obligations to remit pension contributions to the Fund. Other industry operators suffered as well and

industry capacity utilisation remained low. Overall, there were retrenchments and closure of operations across the board. This resulted in membership reduction, failure to remit contributions by some mines as well as failure to pay rentals and operating costs by some companies who were tenants in the Fund's properties. Fund performance suffered.

Debtors

Cumulatively since 2009, a total of \$98.66m pension contributions, including interest, remained outstanding. Furthermore, a total of \$8.43m rentals and operating costs, inclusive of interest, was also outstanding cumulative from 2009.

This impacted negatively on Fund growth because the Fund had to be prudent and provided in full for outstanding amounts. Also, available funds for investment were negatively affected, thus impacting the investments returns. Overall, this resulted in a lower than expected Fund growth.

The Fund continued to follow up the defaulting mines through mine visits. IPEC was also updated on a quarterly basis, as required by law. The Fund employed various strategies in managing the rentals and operating costs debtors. Firstly, the Fund continued to employ rigorous screening processes to ensure that poor quality tenants were not taken on board. In addition, defaulters were sued and evicted as soon as it became evident that they were unable to pay.

Investments

Investments performance was negatively affected by the diminishing funds available for investment as well as by the general decline in returns that was obtaining on the market. Listed equities showed a marked improvement in performance during the later part of the

year. The Fund was mainly invested in properties and quoted equities in proportions of 53.44% and 29.65%, respectively. Other investments were in prescribed assets, unlisted equities and money market in proportions of 4.82%, 3.92% and 3.83%, respectively. The remaining 4.31% was in fixed income, Old Mutual Guaranteed Fund and cash. The real estate portfolio was hardest hit by the operating environment as it suffered a reduction in value of 9.06% from \$96.66m to \$87.90m. Properties were negatively affected by the high rate of rentals defaults as many businesses that were tenants in the Fund's properties faced difficulties in paying rentals. Overall, the Fund's investments portfolio recorded a return of 5.3% against year on year inflation of negative 0.93%.

The Challenge of Low Pensions

As mentioned above, the constrained environment resulted in poor contributions remittances, lower rentals collections and the subdued property portfolio valuation. This affected the Fund's cash-flows and had a negative effect on the surplus available from which the bonus could be declared.

Overall, Fund performance suffered and as a result, **NO** bonus was declared. The challenge of paying meaningful pensions remains of paramount concern for the Fund. However, the pension quantum is a function of the contribution rate, the length of pensionable service as well as the investment returns. The Fund's contribution rate of 7.5% apiece of salary remains comparatively

low given a market average of 10%. The pensionable service is driven by the number of years that members contribute to the Fund.

While investment returns are driven by market forces, the Fund requires net cash inflows to invest in the first place. Due to constrained cash-flows, the Fund did not have fresh money to invest in 2016. Notwithstanding this, the Board of Trustees and Management applied their best efforts to maximise returns by sweating the available assets while being prudent not to invest in high risk investments that might cause loss to the Fund.

Administration

While acknowledging that member mines are operating under difficult conditions which sometimes constrain their ability to remit pension contributions, I would like to take this opportunity to implore mines to continue to support the Fund by remitting contributions and submitting pension schedules timely. The schedules show the breakdown of amounts paid to enable the allocation to be made to individual members. The submission of schedules from all mines is required on a monthly basis, including from those mines that are not paying contributions, in order for the Fund to maintain accurate records. The Fund does agree to payment plans where mines have financial difficulties.

Conclusion

On behalf of the Board and Management, I take this opportunity to express appreciation for the support from all the Fund's stakeholders in ensuring the long-term viability of the Fund. In particular, members, member mines, the Chamber of Mines of Zimbabwe and the Associated Mine Workers Union of Zimbabwe deserve special mention as they have ensured that the Fund continues to operate despite the challenging operating environment.