



Mining Industry Pension Fund

"Cares for your future"

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CIRCULAR TO MINES

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Subject : Board Changes, 2012 Actuarial Valuation Results and Benefit Statements

1. Board Composition Changes

In terms of the Fund Rules, the Chairman of the Board of Trustees should be appointed by the Trustees on their first meeting in each financial year, from among the Trustees.

Accordingly, Mr Charles Mugwambi was elected new Chairman of the Board effective from 14 March 2013. He was first appointed to the Fund Board on 1 January 2012.

Mr Mugwambi succeeded Mr J. P. Maposa who decided to step down as both Chairman and Trustee, though the Trustees had unanimously re-elected him. Mr Maposa felt that it was time to hand over the reins because he had done his part, contributing to the Fund as a Trustee and in terms of leadership. This was particularly so given that he joined the Fund in March 2005 and was appointed Chairman in June 2007. Mr Maposa left the Fund in a strong financial position as well as with strong corporate governance structures.

Subsequently, Mr Ngonidzashe Mpfu was appointed to fill in the vacancy left by Mr Maposa.

2. Actuarial Valuation as at 31 December 2012

The actuarial valuation of the Fund as at 31 December 2012 was completed in March 2013 and the Actuary determined that on an ongoing basis, the liabilities were \$ 171.74 million while the assets were \$ 158.56 million. This resulted in a funding level of 92 % before the declaration of the bonus. However, on a minimum funding basis, assuming no further benefit accrual or increase, the Fund was solvent with a surplus of \$67 million which translated to a funding level of 173%.

The resultant funding gap on an ongoing basis was despite the good performance of the Fund's investments which earned a gross return of 22.13% against annual inflation of 2.91%. Against the above detailed financial background and on the Actuary's recommendations, the Trustees approved the following:

- i) A 10% bonus across the board to all categories of members including pensioners. The bonus was effective from 1 January 2013. This brought the lowest pension to \$60.63 from \$55.12 for members who would have contributed for a minimum of ten (10) years.
- ii) The Additional Death Benefit remains unchanged, at \$ 1 000.00 for deaths that occurred after 1 July 2012. It is also payable where a member pensioner dies after 1 July 2012.

After the bonus declaration, the funding level reduced to 84%, but this is still above the 75% funding level recommended by the Insurance & Pensions Commission in terms of best practice.

The decision to declare a bonus of 10% was not arrived at lightly. Firstly, the Trustees were motivated by the need to address low pensions. Secondly, the Trustees were satisfied that despite the funding deficit, the Fund has the potential to close the funding gap in the near future. This is particularly so given that the property portfolio, according to the Actuary, is grossly undervalued at \$ 100.4 million. Already, in 2012 alone, its value increased by 19% compared to 16% in 2011. The difference between the \$ 100.4 million current market valuation and the \$ 235 million gross replacement cost value is indicative of the potential value because experts advised that the two valuations should converge at some future date.

3. Benefit Statements as at 31 December 2012

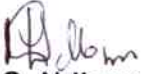
Benefit Statements for the year ended 31 December 2012, were dispatched only to members whose employers had paid up contributions as at 31 December 2012. This was done in order to avoid misrepresenting the financial status to members. This is because the pensions system from which the Benefit Statements are produced accrues, that is to say it shows expected contributions rather than amounts that have actually been received. Thus, even where a member has not contributed, on the Benefit Statements it will appear as if the money was received. However, when benefits are actually paid, the Fund makes adjustments to ensure that the payments are based on what has actually been received.

In addition to reflecting the bonus on the Benefit Statements, interest calculated at the rate of 10% on cumulative contributions as at 31 December 2012 is also shown. The interest rate is matched to the rate of the bonus declared and it is only payable when a member withdraws prematurely from the Fund before reaching retirement age. On the other hand the bonus is

calculated on the pension purchased to date. Therefore, the interest and bonus amounts are different even though the rates applied (10%), are the same.

Members are reminded to check their Benefit Statements to ensure that they reflect correct and accurate information. Any errors should immediately be brought to the attention of the Fund.

Yours faithfully,
Mining Industry Pension Fund



K.G. Ndlovu (Ms)
Acting Principal Officer