



Mining Industry Pension Fund
"Cares for your future"

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CIRCULAR TO MINES AND MEMBERS

No. 3/2023

Subject: Notice to All Mining Industry Pension Fund (MIPF) Stakeholders on the MIPF Fund Rules Amendment Regarding Funding of The Administration Expenses and The Additional Death Benefit

Background

All pension funds incur administration expenses in the course of their operations. The administration expenses include employment costs, office expenses such as printing, stationery, postage and telephone costs, business travel, information technology license fees, routine property repairs and maintenance, as well as property management and Asset Managers fees. In addition, the Fund pays the Additional Death Benefit (ADB) on the death of members and pensioners. Traditionally, the Mining Industry Pension Fund (the Fund) has been funding these expenses from investments income.

New Regulatory Requirements

The new IPEC Guideline on Expenses, which was issued in 2022 requires that a percentage of the Employer contributions be set aside upfront to cover administration expenses for Active members. As Pensioners, Deferred and Preserved members are no longer contributing to the Fund, a fee calculated based on a percentage of the market values of assets under management attributable to the non-active members shall be charged to cover their administration expenses. The new requirements are designed to enhance accountability, transparency and control over expenditure as the Insurance and Pensions Commission (IPEC/ the Regulator) will monitor adherence to the set limits. For example, in the event that contributions collection or investments are poorly managed, then a pension fund might face challenges paying administration expenses. IPEC will closely monitor compliance and hold pension funds accountable.

In terms of the ADB funding, as the benefit is paid to both beneficiaries of deceased Active members and Pensioners, a separate "self-insurance fund" is required so that payments are met from a ring-fenced fund. This will ensure ease of audit of the Fund's expenditure by IPEC.

Compliance with the New Requirements

In order to comply with the requirements of the Guideline on Expenses, the Fund's Actuary advised the Fund to set up an **Expense Reserve Account** to cater for administration expenses and a **Self-Insurance Reserve Account** to cater for the ADB payments. The funding modalities for the two accounts are explained below:

Expense Reserve Account

This account shall be funded from 2.25% of the employer portion of collected contributions in respect of each contributing member. For Pensioners, Deferred and Preserved members, funding of their administration expenses shall be derived from a fee calculated based on 0.60% of the market values of assets attributable to this category of members. Additional funding shall be derived from any fees earned by the Fund from management services provided by the Fund to other entities such as the Chamber of Mines Pension Enhancement Fund.

Self-Insurance Reserve Account

This account shall be funded from 0.25% of the employer portion of collected contributions. As the Fund already has in place an Additional Death Benefit (ADB) Reserve Fund which was set up following IPEC recommendations, the balance in this fund shall be transferred to the Self-Insurance Reserve Account.

Implications of the Expense Reserve Account and the Self-Insurance Reserve Fund Account

Effectively, the setting aside of 2.25% and 0.25% of the employer portion of collected contributions means that only 5% of employer contributions shall accrue to the members' contributions pot. It is important to note that the employee contributions of 7.5% will continue to accrue in full to the members' accounts. As the administration expenses and ADB were previously funded from investments income which reduced investment returns, it also means that going forward, the investment returns from which bonuses are declared will be higher resulting in higher bonuses. In essence, while the employer portion of contributions that is credited to the members' account shall be reduced, members shall be compensated by higher bonuses arising from investment returns.

It should be noted that IPEC has placed an overall limit on administration expenses of 15% of collected contributions. This is meant to ensure control and discipline and avoid extravagant expenditure from the designated accounts.

Amendment of the Fund Rules

In order to effect the above detailed changes, the Fund is required to amend the Rules to align with the new regulatory requirements. As the setting up of the Expense Reserve Account and the Self-Insurance Reserve Fund Account, is a compliance issue, the Board of Trustees at a Board meeting held on 30th June 2023 passed a resolution to enable the necessary changes to be incorporated into the Fund Rules. Subsequent to the Board Resolution, IPEC approved the amendment of the MIPF Fund Rules, to implement the above changes retrospectively, from 1st January 2023.

Yours Faithfully,

Mining Industry Pension Fund



K. GATSHENI NDLOVU (MS)
PRINCIPAL OFFICER AND CHIEF EXECUTIVE