Government Employees Pension Fund
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Actuarial Interest Factors Frequently Asked Questions

1. What is actuarial interest?

Actuarial interest is the present-day Rand value of the pension benefits that you have already earned to date in the fund. It answers the question: *"How much must be set aside today so that, with investment growth, the Fund can pay all the future pension payments that are promised in full?"*

It is used when a cash amount is needed before retirement (for example, on resignation). It is not a personal savings account and does not amount to your contributions plus interest. As actuarial interest depends on long-term assumptions are reviewed at each statutory valuation, the amount can move up or down over time.

2. What are actuarial interest factors?

Actuarial interest factors simplify the process of determining your benefit entitlement at any time before retirement. They represent the lump sum value, for **one Rand of your current salary and for a year's service**, needed today in exchange for the future gratuity and lifelong pension benefits that would be paid to you in retirement. In essence, these factors provide a shortcut, similar to how insurers quote an annuity rate (the lump sum required today to secure one Rand of pension for life), but adjusted for the fact that you are not yet at retirement and your pension is based on future salary growth.

The pension that is payable to you in retirement is based on your final average salary **at retirement age** and your years of service. To get a clearer picture, we need to consider what happens in the background. We start from your current salary, project it to your expected salary at retirement and use that future salary to work out your gratuity and starting pension under the Rules. We then project those pensions with expected annual increases for as long as they are expected to be paid and then sum all those future payments while taking account of the time value of money. We express the outcome as a single lump sum value today per one Rand of current salary and year of service, which becomes the factor we can use in a simple formula for every member, without having to repeat that complex process each time.

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3. <u>What is the difference between actuarial factors and actuarial interest</u>

Actuarial factors express the value today, that can be secured by one Rand of current salary and one year of service, of the future pension and gratuity benefits payable in retirement. Actuarial interest is the total benefit of these expected future pension payments, taking into account the current service and salary. In practice, actuarial interest is calculated using these factors according to the GEPF Rules, providing a standardised, fair and efficient way to determine cash-equivalent values.

4. <u>Why are actuarial interest factors needed?</u>

Actuarial factors convert the pension and gratuity benefits payable in the future to an equivalent lump sum value in today's monetary terms. An actuarial interest factor is the pre-calculated value today, based on one Rand of current salary and a year of service, of a pension that

- will start at retirement,
- be paid for life, and
- rise each year with pension increases.

Since we know the "price today" of that future benefit for each Rand and year of service,, we can work out a member's total entitlement at any date simply by plugging completed service and current pensionable salary into a formula specified by the Rules. In other words, instead of re-doing a long, technical exercise for every case, i.e.

- projecting salary to retirement,
- determining the starting pension and gratuity,
- projecting the pension with annual increases for life,
- discounting every future payment back to today, and
- adding them all up,

the factor bundles all of that into a single number. Using factors turns a complex individual projection into a quick, consistent, and auditable calculation applied the same way to everyone.

As such actuarial serve an administrative function in that they simplify what would otherwise be a very technical calculation which would need to be done manually for each member. The advantages of using factors are as follows:

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- faster and more convenient calculation of benefits
- cheaper than requiring manual individual calculations
- ensures consistency between members

Actuarial factors turn a complex lifetime pension into a single, clear today's value, making benefit calculations fast, fair, and consistent.

5. When is actuarial interest paid?

With the introduction of the Two-Component System, it is necessary to consider each benefit component (i.e. Vested, Savings and Retirement Components) in isolation. Each of these have different rules relating to the accessibility and form of benefits.

The situations where actuarial interest might be payable for each component are listed below:

Vested Component:	Savings Component	Retirement Component:
❖ Resignation and retrenchment ❖ Discharge and retirement, with less than 10 years of total pensionable service ❖ Death, with less than 10 years of total pensionable service ❖ Transfer to another fund	❖ Savings component withdrawals ❖ Resignation and retrenchment ❖ Discharge and retirement, with less than 10 years of total pensionable service ❖ Death, with less than 10 years of total pensionable service ❖ Transfer to another fund	❖ Transfer of balance in retirement component to the retirement component in another fund ❖ Transfer of capitalised deferred pension to another fund ❖ Death, with less than 10 years of total pensionable service Retirements with less than 10 years of total pensionable service where actuarial interest is below the deminimis amount prescribed in the Income Tax Act

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6. How often does the GEPF update the actuarial factors?

The Fund updates actuarial interest factors after each statutory actuarial valuation is approved and the required consultation with employee organisations is concluded. By law, a statutory valuation must be carried out **at least once every three years**, so the factors are reviewed on that cycle (or sooner if the Board considers it necessary due to material changes in assumptions).

7. What drives the value of actuarial interest factors?

As mentioned, the actuarial interest factors, and therefore actuarial interest, are calculated directly from the GEPF liabilities (which themselves reflect the current Rand value of the GEPF's benefit promises to its members). Since the actuarial interest factors express the value of the future expected retirement and other benefits in current-day terms, they are affected by the set of assumptions adopted in the Fund's statutory actuarial valuation. These include both economic and demographic elements, as listed below.

Economic assumptions

- investment returns-the expected growth in GEPF assets
- salary increases-expected future rate of increase in salaries
- pension increases-expected future rate of increase in pensions

Demographic assumptions:

- mortality-how long will members live?
- ill-health retirement-how many members will retire due to ill-health, and at what ages?
- early and normal retirement: when will members retire?

None of these aspects can be known in advance, **therefore assumptions about the future must be adopted**.

The assumptions are expected to reflect the experience of the GEPF membership and its investments. The assumptions are based on reasonable expectations about future events and are guided by actual experience and statistics. The main driver of the Fund liabilities, and therefore the factors, are usually the economic assumptions, and

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particularly the investment returns in excess of inflation that the GEPF's investments are expected to earn from now until the pension benefits become payable.

When future investment returns are expected to be high, a smaller amount needs to be set aside now to provide for the benefits at retirement. This is because the higher returns allow this money to grow quicker. On the other hand, more money would be required to be set aside now when future returns are expected to be low.

8. Why must actuarial factors be updated?

The GEPF conducts statutory actuarial valuations to refresh its assumptions, ensuring they align with the latest economic outlook and membership trends, such as changes in interest rates, inflation, or life expectancy. Actuarial interest factors, which determine the present-day value of a member's earned pension benefits, are derived from these assumptions. When the economic and/or demographic outlook shifts, these factors must be updated to accurately reflect the fair value of benefits in today's terms.

The goal is to ensure neutrality and fairness for all members. When members leave the Fund before retirement, they should receive exactly their fair share of the pooled fund based on the benefits they have earned. If assumptions indicate a lower fair value but outdated, higher factors are used, exiting members could be overpaid, receiving more than their fair share. In a defined benefit fund like the GEPF, this overpayment is effectively subsidised by members who remain until retirement, which is unfair since leaving is a voluntary choice. Conversely, using outdated lower factors when the fair value has increased could underpay exiting members, depriving them of their due benefits. Regular updates to actuarial factors prevent these imbalances, ensuring equitable treatment across all members.

9. What are the implications of the new factors?

The new actuarial factors are based on the 31 March 2024 statutory actuarial valuation assumptions. The new factors are lower across all ages compared to the previous factors. The extent to which individual members' actuarial interest values will differ between the new and current factors depends on their age and category (i.e. whether they are Uniformed service members or not).

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10. Who is affected by the changes in the actuarial interest factors?

The updated actuarial factors are applicable to **all** active members. However, only benefits where actuarial interest is payable will be affected. These include:

- all resignations, irrespective of service;
- normal and early retirements where a member has less than 10 years of pensionable service and lumpsum due is lower than the de minimis amount;
- deaths where the deceased member has less than 10 years of total pensionable service;
- other exits where members have less than 10 years of pensionable service;
- transfers of benefits to another to another fund;
- transfers of capitalised value of deferred pensions to another fund;
- transfers of Vested and /or Savings Component balances to the Retirement Component
- savings withdrawal benefits from Savings Component; and
- paid-up benefits due to unpaid Savings Component on resignation,

As the actuarial factors are applied to all active member records, then all members will see reduced benefit values for the above benefits on their benefit statements.

It is important to note that the benefits of **members who retire with at least ten years of pensionable service will be unaffected by changes to the actuarial factors**. Furthermore, deferred pensions that are retained in the GEPF until the member becomes a pensioner, will be unaffected. Pensioner benefits are also unaffected by any changes to actuarial factors.

11. Why are the new factors lower than the previous ones?

As part of its latest statutory valuation, the GEPF revised its assumptions to account for a more optimistic outlook on investment returns. The Fund now anticipates that its investments will grow at a higher rate than previously expected, driven by a stronger margin of returns above projected inflation. In simpler terms, the Fund expects its assets to grow faster, relative to inflation, in the future than it did at the time of the last valuation.

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This shift has a direct impact on the actuarial factors used to calculate the present-day value of benefits for members who exit the Fund before retirement, such as through resignation or withdrawal. Because the Fund anticipates higher future investment returns, it needs to set aside a smaller amount today to cover the benefits that exiting members would have received at retirement. As a result, the actuarial interest entitlement for these members is reduced, leading to lower actuarial factors.

This adjustment ensures that the benefits paid to exiting members accurately reflect the Fund's updated financial outlook, maintaining fairness for all members and preserving the GEPF's long-term financial stability. Importantly, this change does not affect the benefit formula for members retiring within the Fund, which continues to be based on years of service and final average salary as per the Fund Rules.

12. Does this mean that I now have a lower benefit?

The actuarial interest factors affect benefits where actuarial interest is payable. The level of a member's actuarial interest benefit depends on the actuarial interest factors (which differ by age and member category) as well pensionable salary and pensionable service. A change in the actuarial factors leads to a change in the actuarial interest benefit.

The actuarial interest factors based on the 2024 statutory valuation are lower at all ages for both member categories (i.e. Uniformed and non-Uniformed) compared to the 2021 factors. Therefore, the actuarial interest benefit for a given member will be lower on the new factor set (if the same age, pensionable service and salary are used in the calculation). Any changes in the date at which benefits are calculated (e.g. date of exit or savings pot withdrawal) and therefore changes in the age, service and salary of a member would impact the level of the actuarial interest benefit and might offset the reduction in the actuarial interest factors (since greater service and salary would increase a member's actuarial interest benefit).

Again, it is important to remember that members who retire within the Fund with at least 10 years of pensionable service will be unaffected by any changes to the actuarial factors.

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13. <u>Why are the benefits previously communicated reducing? This is the second cycle where the factors are reduced. We are also hearing rumours of failed investments and over expenditure. In addition, a low pension increase has been granted this year. Is the fund in trouble, is that why actuarial factors are being reduced again?</u>

No, the Fund is not in financial trouble. As per the statutory valuation as at 31 March 2024, the Fund is fully funded and the funding level has actually increased compared to the valuation performed as at 31 March 2021.

The Fund continues to guarantee the retirement benefits as promised in the GEPF Rules (it is a defined benefit fund). However, the current value of these future benefits depends on economic and demographic circumstances and can change over time. Periodic revisions to the factors are required to ensure that the factors remain consistent with the valuation assumptions (and therefore with the economic and demographic conditions at the time) and that the value of benefits payable remain fair to all members and affected stakeholders.

Economic conditions are typically the most significant driver of the changes in the value of the Fund's liabilities (and therefore the actuarial interest factors and actuarial interest benefits). A key quantity of interest is often the 'net discount rate' (i.e. the extent to which the expected investment return assumption exceeds the salary increase and pension increase assumptions). The changes in the net discount rate are often the primary reason for the changes in the value of the Fund's liabilities between valuation dates, and therefore also changes in the actuarial interest factors and changes in the Fund's financial position. The net discount rate captures the combined impact of the assumptions which dictate the projected future level of benefits (i.e. salary and pension increase assumptions) and the assumptions which affect the current value of these future benefits (i.e. the investment return or discount rate assumption). It is always important to consider the impact of assumption changes holistically, i.e. their combined effect.

The higher the net discount rate (i.e. the greater the difference between the expected long-term investment returns and long-term inflation), the less money the Fund has to set aside today in order for it to be able to meet its future benefit obligations to members (i.e. the gratuity and pension benefits which become payable at retirement

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age) – this means lower Fund liabilities, and therefore lower actuarial interest factors and lower actuarial interest benefits. The reverse is true for a decrease in the net discount rate.

In the 31 March 2024 statutory actuarial valuation, the difference between the long-term return assumption and the expected future inflation assumption was higher than in the previous valuation. The new factors are therefore lower than the previous factors at each age.

Updating factors is essential for fairness. If the Fund kept using older, higher factors after the outlook improved, members who resign or withdraw would be overpaid relative to their fair share. In a pooled defined-benefit arrangement, that overpayment would be subsidised by those who remain to retirement. Conversely, if the updated outlook implied higher today values but the Fund kept lower factors, exiting members would be underpaid. Regular updates prevent these cross-subsidies, keep cash-equivalent payments fair across cohorts and exit dates, and support the Fund's long-term financial soundness.

Importantly, these factors are determined based on forward-looking assumptions about future economic conditions, not the Fund's investment performance in any given year. Regarding the low pension increase granted this year, this adjustment is directly tied to the low inflationary environment prevailing at the time the increase was determined. Pension increases in the GEPF are set with reference to the inflation rate experienced over the year, ensuring that pensions maintain their purchasing power. A lower inflation rate naturally results in a smaller pension increase, as was the case this year. This adjustment is separate from the actuarial factors, which are based on long-term economic projections rather than short-term investment outcomes or inflation in a single year.

By aligning actuarial factors with the latest valuation assumptions, the GEPF ensures equitable treatment for all members, pensioners, and stakeholders, while maintaining its financial stability. These updates are a routine and essential part of managing the Fund, allowing it to continue delivering on its promise to pay both current and future benefits. Importantly, the benefit formula for members retiring within the Fund remains unchanged, calculated based on years of service and final average salary as per the Fund Rules.

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14. <u>The GEPF has generated a positive return over the past three years and has grown its assets. Why then are the factors being reduced when the Fund is growing?</u>

It is correct to note that the Fund is growing and generating positive returns. However, as a defined benefit fund there is no direct link between the benefits due to members and the growth in assets. The benefits due to members are specified in the rules of the Fund and depend on pensionable salaries and years of pensionable service. As a defined benefit fund, the GEPF guarantees the benefits payable to a member on retirement according to the formulae specified in the Fund Rules. However, as previously mentioned, the Fund cannot guarantee the current value of benefits (which dictates the level of the Fund's liabilities and therefore the actuarial interest factors and the level of actuarial interest benefits) since this depends on the market conditions at the time.

The changes observed in the valuation basis (2024 statutory valuation compared to the 2021 valuation) indicate that the Fund now expects to generate higher returns from its investments over the long term than what was anticipated at the previous valuation date. Importantly, the expected returns are anticipated to exceed the future inflation rate by a greater margin than before. This means that the Fund can afford to set aside less money now, than at the previous valuation date, in order to meet the same level of retirement benefits as promised to members in the GEPF Rules. This is because the investments are expected to grow at a faster rate.

15. <u>The statutory valuation at 31 March 2024 has allowed for higher salary increases than what public servants have received in the last few years. What would be the impact on actuarial factors if we allow for the lower increases?</u>

As mentioned previously, actuarial interest always represents the amount of money needed now to provide the retirement benefits that have been earned based on service to date. Using a lower salary increase assumption would lead to lower expected retirement benefits which would reduce the level of actuarial interest benefits, and therefore also the actuarial interest factors, i.e. even lower actuarial factors would be adopted.

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16. Why is the balance in the Vested Component reducing? We were told that the benefits earned before 31 August 2024 would be protected, so why are they reducing?

The protection provided by the Two-Component system is that the pensionable service earned by 31 August 2024, along with the Fund Rules and benefit structure in place at that time, remains fixed. However, this protection does not mean that the cash value of these benefits for members exiting before retirement are fixed.

The balance you see for the Vested Component is a present-day value of the future pension and gratuity benefits that are to be paid in retirement but based only on vested service. Just as before the Two-Component system, actuarial factors are updated from time to time in line with the Fund's valuation assumptions. When assumptions change, today's value of the benefit promise can go up or down. This is exactly the same approach that was applied before 1 September 2024, the Two-Component system did not change that.

17. How are early retirement benefits affected by the change in actuarial factors?

When members choose early retirement, the impact of updated actuarial factors on their benefits depends on their total pensionable service, as outlined in the Fund Rules. For members retiring early with 10 or more years of pensionable service, the benefit is calculated using the standard defined benefit formula based on their final average salary and years of service. Since this formula does not rely on actuarial factors, these members' early retirement benefits remain unaffected by changes in the factors.

However, for members who retire early with fewer than 10 years of pensionable service, the Fund Rules stipulate that the benefit is paid as an actuarial interest. As a result, any updates to these factors will affect the early retirement benefit for these members.

Please note that the waiver or application of the early retirement penalty/adjustment is not based on actuarial factors. Any waiver of the early retirement penalty/adjustment is subject to approval from the Employer.

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18. What changes am I going to see on the benefit statements once the new actuarial factors are implemented?

As previously noted, actuarial factors affect only those benefits where actuarial interest is payable. As such, members will see a reduced resignation benefit on their benefit statement. Members will also see reduced accumulated Savings and available Savings Component balance. Members who are expected to reach retirement age with less than 10 years of total service will see a reduction in the gratuity payable on normal retirement. This is because actuarial interest is payable as the gratuity or lumpsum benefit. Similarly, members who currently have less than 10 years of pensionable service and are expected to reach retirement age with less than 10 years of pensionable service, will see a reduction in the death benefit lumpsum as this is based on actuarial interest. Ill-health retirement benefits are not based on actuarial interest, hence, these will not be affected by the change in actuarial factors.

19. I am not planning on leaving the Fund or making a savings withdrawal. Why am I seeing a reduction in the resignation benefit on the benefit statement? Why am I affected?

If you are not planning to leave the Fund or make a savings withdrawal, you may still notice a reduction in the resignation benefit shown on your benefit statement. This change occurs because the Fund updates the actuarial interest values **for all** active members, reflecting the current value of benefits payable upon resignation or withdrawal. However, this adjustment does not impact you unless you choose to exit the Fund. Your resignation benefit on the statement may vary over time, but it only matters if you resign or withdraw. For members who stay until retirement, the pension and gratuity are calculated based on your years of service and final average salary, as per the Fund Rules, and are not influenced by these fluctuations.

A helpful analogy is owning a company share. Its market price changes constantly, but you are unaffected by these paper fluctuations until you decide to sell. Your final payout is determined at the moment of sale. Likewise, your retirement benefit is determined by your salary and service at that time, protecting it from these interim valuation changes.

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20. What happens if I withdraw before 1 October 2025 but get paid after 1 October 2025? Will the benefit payout be based on the new factors?

No. The GEPF applies actuarial factors based on when you formally exit the Fund or submit a savings withdrawal request, **not when the payment is processed**. If your exit date, such as through resignation or withdrawal, is before 1 October 2025, your benefit payout will be calculated using the 2021 actuarial factors, even if the funds are disbursed after that date. Similarly, if you request a savings withdrawal before 1 October 2025, the available balance will be determined using the 2021 factors.

However, if your exit date or savings withdrawal request occurs on or after 1 October 2025, the updated 2024 actuarial factors will apply, reflecting the Fund's latest valuation assumptions.

21. I have not yet withdrawn from my Savings Component this tax year. Will the amount that I can withdraw from my Savings Component be affected and if so, what will be the impact?

The amount available for withdrawal will be affected by the updated actuarial factors implemented for every active member. The balance available for withdrawal from the Savings Component is calculated as actuarial interest, which is based on your accumulated savings service. Since this benefit depends directly on actuarial factors, the lower 2024 factors, compared to the 2021 factors, will result in a reduced available balance for withdrawal.

However, if you submit a withdrawal request before 1 October 2025, the 2021 actuarial factors will apply, meaning your available balance will be calculated using the higher factors. For withdrawals requested on or after 1 October 2025, the lower 2024 factors will be used, reflecting the reduced balance. Regardless of the timing, your Savings Component balance will continue to grow as you earn additional savings service over time, in line with the Fund Rules.

22. I resigned and left a deferred pension with the Fund. Am I affected by the change in actuarial factors?

Whether you are affected depends entirely on what you decide to do with your deferred pension in the future. If you choose to leave your benefit with the Fund until you reach

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retirement age, you will not be affected by the change in actuarial factors. This is because the pension you eventually receive is calculated using a defined benefit formula based on your salary and service, not on the actuarial factors.

However, you will be affected if you decide to transfer your deferred pension out to another fund or provider on or after 1 October 2025. In this case, the cash value used to calculate your transfer will be determined using the new 2024 actuarial factors. Therefore, the amount you would receive for a transfer after the effective date will be different from the amount calculated under the previous factors.

In summary, your deferred pension remains unaffected by actuarial factor changes as long as it stays in the GEPF until retirement. A transfer to another fund before retirement, however, will reflect the updated factors based on the timing of the transfer.

23. I thought that the GEPF was a defined benefit fund. Why are my benefits decreasing? Are they not guaranteed?

The GEPF is indeed a defined benefit fund, and its core promise remains fully guaranteed. The Fund promises to pay you a lifelong pension in retirement, calculated based on your final salary and years of service. This pension is guaranteed for life, with provisions for a surviving spouse, protecting you from the risk of outliving your savings. There is also a guarantee to provide an inflation-linked pension increase annually when affordable. Furthermore, you are shielded from investment risk; the Fund is obligated to pay your promised pension regardless of market performance.

The key is to distinguish between the guaranteed pension paid in retirement and the current estimated value of that future promise. The decrease you are seeing is not a reduction in your guaranteed future pension, but a change in the present-day actuarial valuation of that promise. This valuation is an estimate that depends on financial assumptions about the long-term future, such as expected investment returns, salary growth, and inflation.

When these assumptions change, the estimated value today changes with them. The recent update reflects an outlook where higher future investment returns relative to inflation are anticipated. A higher expected return means less money needs to be set aside today to fund the same future pension promise, which results in a lower current valuation.

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In essence, the guaranteed benefit you will receive at retirement remains unchanged. The calculation you are seeing now is a snapshot that fluctuates with long-term forecasts, but it does not alter the fundamental, guaranteed formula that will be used to calculate your pension when you retire.

24. Can you please provide a worked example to help illustrate the impact of the change in factors?

Let us consider a 40-year-old non-Uniformed Services member with a current final average salary of R300 000. They have 10 years vested service, 4 months savings service and 8 months retirement service. The actuarial interest under the two different set of factors is outlined in the table overleaf:

Description	Using 2021 Factors	Using 2024 factors
Vested	R542 460 *(10x300 000x0.18082)*	R400 290 *(10x300 000x0.13343)*
Savings	R18 082 *(4/12x300 000x0.18082)*	R13 343 *(4/12x300 000x0.13343)*
Retirement	R36 164 *(8/12x300 000x0.18082)*	R26 686 *(8/12x300 000x0.13343)*
Total	**R596 706**	**R440 319**

There is a 26% in the actuarial interest values.

Now lets consider a 60-year-old Services member who with a current final average salary of R300 000. They have 10 years vested service, 4 months savings service and 8 months retirement service. The actuarial interest under the two different set of factors is outlined in the table below:

Description	Gratuity	Annuity
Vested	R201 600 *(6.72%x10x300 000)*	R54 545.45 (1/55x10x300 000)
Savings	R25 350 *(3x8.45%x4/12x300 000)*	-

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Retirement	-	R4 941.53 *(1.5x1/60.71x8/12x300 000)*
Total	**R226 950**	**R59 486.98**

The following table shows the actuarial interest benefit entitlement based on the two sets of factors.

Description	**2021 Factors**	**2024 factors**
Actuarial interest	**R836 204.94** (226 950 +59 486.98x10.24182)	**R761 310.24** (226 950 +59 486.98x8.98281)

There is a 9% in the actuarial interest values.

The examples show that the impact is greater at younger ages: with more years until retirement, expected investment growth compounds over a longer period, so each rand of future pension is discounted more heavily and the present-day value (and thus the factor) moves by a larger amount.

25. What has happened to the higher benefit amounts that I had before?

If you have noticed that the benefit amounts are lower than before, rest assured that nothing has been lost, and your promised pension at retirement remains unchanged. As a defined benefit fund, the GEPF does not maintain individual accounts filled with your contributions, as might be the case in a defined contribution fund. Instead, your contributions are pooled with those of all members to fund the guaranteed pensions promised under the Fund Rules, based on your years of service and final average salary.

The benefit amounts shown on your statement for scenarios like resignation or withdrawal represent the present-day value of your future pension entitlement. This value is not fixed and can fluctuate when the Fund updates its economic assumptions. In the 31 March 2024 valuation, the GEPF revised its expectations to anticipate stronger long-term investment growth compared to salary and pension increases. Because the Fund now expects the money set aside to grow faster, it needs to allocate

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less today to meet the same future pension obligations. As a result, the cash value of your benefits for early exits appears lower than before.

This difference is not missing or lost; it reflects the additional growth the Fund expects to achieve through future investments, reducing the amount needed in today's terms. Your pension at retirement, calculated using the defined benefit formula, remains fully guaranteed and unaffected by these changes. The adjustment simply ensures that the present-day value of early exit benefits aligns with the Fund's current financial outlook, maintaining fairness and sustainability for all members.

In theory, if you exit the Fund and receive this cash amount, you could invest it at the higher market rates assumed in the updated valuation. If those assumptions hold true, the investment would grow to provide a value sufficient to purchase a pension equivalent to what you would have received had you stayed in the GEPF. However, exiting early means you assume the risk, if market conditions do not align with the assumptions, your investment may not perform as expected, and you would no longer benefit from the GEPF's guarantees, as your contract with the Fund would have ended.

26. <u>So what is the fund doing with the difference between my previous higher benefit and the reduced benefit that is now being reflected?</u>

It is understandable to wonder what happens to the value of your previous benefit entitlement when it appears to decrease. After all, you have been contributing steadily, so where does that "lost" value go? Rest assured, no money is actually lost from the fund. When assumptions about long-term returns and inflation are updated, we re-measure how much needs to be set aside today to meet the same future pension.

When the outlook improves (higher expected returns relative to inflation), more of your future pension is expected to be funded by future investment growth, so less is required today. The difference between the earlier, higher figure and the new figure stays inside the Fund. It remains invested in the pooled assets and is not appropriated by anyone.

In practice, that difference strengthens the pool that backs all members' and pensioners' benefits, including yours if you remain to retirement. Think of it as moving part of the funding from "today's Rand" to "tomorrow's growth", not moving it out of the

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Fund. The pooled nature of the fund ensures that these efficiencies benefit the collective security of pensions, rather than enriching the fund itself.

27. What is the role of previous and current investment performance. Is the PIC performance affecting the factors?

Actuarial factors are derived from long-term assumptions about the future. The primary goal is to determine how much needs to be set aside today to cover promised pension benefits in retirement. This calculation takes into account several key aspects:

- current service and salary
- expected salary growth until retirement
- expected pension increases in retirement
- life expectancy of the member and their spouse, which determines the number of pension payments
- anticipated future investment returns by the fund, as informed by market conditions (this influences the discount rate used)

None of these aspects are based on the past or current investment performance of the Fund or the PIC. Therefore, past and current investment performance do not affect the values of the actuarial factors. The economic assumptions are drawn from overall market trends and are not influenced by the Fund's specific performance. The only fund-specific consideration is the expected long-term asset allocation (e.g., shares, bonds, money markets, and properties). Instead, past or current investment performance and asset values impact the funding levels, which are assessed in statutory actuarial valuations.

28. Why doesn't the Fund invest only in the JSE to achieve higher returns and avoid reducing actuarial factors?

It's true that investing in shares on the JSE is expected to yield higher returns over the long term compared to other asset classes. Shares are inherently riskier, with values that can fluctuate significantly and even result in losses or negative returns. However, this risk comes with the potential for higher rewards, making shares an attractive investment over extended periods.

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Despite this, it would not be prudent for the Fund to invest exclusively in JSE shares. The Fund serves a diverse membership, including active members, pensioners, and deferred pensioners, each with distinct needs and risk profiles. To meet these varied requirements, the Fund must invest in a way that aligns with the nature, term, and currency of its benefit obligations. No single asset class, including JSE shares, can adequately address the needs of all membership categories.

Additionally, concentrating investments in one asset class, such as JSE shares, introduces significant concentration risk. If the JSE underperforms or experiences a downturn, the Fund's ability to pay benefits could be jeopardised without diversification to act as a buffer. Diversifying across asset classes like shares, bonds, money markets, and properties, helps manage risk and ensures more stable returns to meet the Fund's obligations.

Regarding actuarial factors, your assumption about their relationship with investment returns needs clarification. Actuarial factors are calculated using a discount rate, which reflects the expected long-term investment returns of the Fund's diversified portfolio. If the Fund were to invest solely in the JSE, the higher expected returns would lead to a higher discount rate. A higher discount rate reduces the present value of future pension obligations, meaning the amount set aside today to cover those obligations would be lower, potentially resulting in lower actuarial factors. However, this approach would increase risk exposure, which could jeopardise the Fund's stability.

29. Why are my benefits decreasing yet I have been paying contributions. Shouldn't these grow and accumulate just like in a defined contribution fund?

In a defined contribution fund, your benefit is your fund credit. Each month's contribution, which is based on your current salary, is added to what you already have. Investment returns are credited, costs are deducted, and the running total is your money today. There is a direct, month-by-month link between what goes in and what you can take out, and there is no timing mismatch: you earn it now and you can realise it now.

In the GEPF, your monthly contribution is not building a personal pot. Instead, it buys service toward a future lifetime pension that

- will start at retirement,
- be based on your final average salary at that future date,

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- increase with pension increases, and
- be paid for as long as you (and, where applicable, a spouse) live.

Here the timing is different. You pay today for a benefit that is only payable in the future and depends on **future** salary, **future** pension increases, and how long payments will be made. As these aspects are unknown today, we estimate them using assumptions. A value today, of this future pension promise, is then determined each time using these assumptions. This present value is your benefit entitlement, but it's not a fixed, realisable amount like in a DC fund. Instead, it's an estimate that can change if assumptions, like expected investment returns, change.

This is why you can't simply "look at contributions" in the GEPF to see your entitlement. Your pension payable by the fund in retirement, always grows with more service. However, today's value of that future promise can still reduce, if the outlook for long-term investment returns improves. Let's consider a simplified example to illustrate this. if you want R110 in one year and expect 10% growth, you must set aside R100 today (110 ÷ 1.10). If you want a higher future amount, let's say R115 but now expect 16% growth, you only need about R99.14 today (115 ÷ 1.16). The future benefit is higher, yet the value required reduced because the expected growth is higher.

This is why the benefit promise in the fund is not immediately realisable. Your contributions add to the fund's pooled investments, but your entitlement is tied to a future pension, not the contributions themselves. In contrast, DC funds offer a direct link between contributions and benefits, making them practical for immediate valuation. While the fund provides the security of a promised pension **in retirement**, it relies on assumptions about the future, which can lead to fluctuations in the present value of the benefit promise despite steady contributions.

30. Why can't we just keep the assumptions the same each time? Wouldn't this avoid changing actuarial factors and make things easier?

Keeping the same assumptions from one valuation to the next would indeed simplify things. There would be no need to recalculate actuarial factors periodically, and members might feel more certainty about their benefit entitlements without seeing fluctuations in today's benefit entitlement. However, while this approach might seem easier in the short term, it wouldn't be fairer or sustainable in the long run.

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The core issue is that the future is uncertain, and economic conditions, market outlooks, and other factors like life expectancy or inflation evolve over time. Assumptions set at one point, such as expected investment returns or salary growth, will not necessarily remain relevant years later. If we locked in outdated assumptions, benefit entitlements calculated before retirement would drift further from their "true" current value, based on the latest realities. This misalignment could persist for extended periods, leading to unintended consequences for the fund and its members.

When the outlook improves but we keep using older, higher factors, people who resign or withdraw would be overpaid relative to their fair share. Those who stay to retirement effectively subsidise that overpayment. When the outlook worsens and we keep using older, lower factors, members who exit or withdraw would be underpaid. Updating factors after each valuation prevents these cross-subsidies and treats members who exit and those remain with the Fund even-handedly, while keeping the pooled fund strong.

There is also a funding consequence. The Fund's contributions and reserves are calibrated to the valuation assumptions. If factors are not refreshed, actual cash outflows on exits won't line up with what has been set aside, leading, over time, to systematic over- or under-contribution and avoidable strain on long-term sustainability (in the under-contribution case).

Finally, the Fund is required to perform statutory actuarial valuations at least every three years; good governance is to align actuarial factors with each approved valuation so that today's measurements reflect current best estimates, not outdated ones.

Thus, keeping assumptions fixed may be easier, but updating them is fairer, more accurate, and safer for all members.