MIRF

Copartes Pension Fund

# MEMBER PRESENTATION
# DEFINED CONTRIBUTION SECTION

# WHY ARE WE HERE TODAY?

- The Board of Trustees of the Copartes Pension Fund, after consulting both members and the participating Employers, have decided to introduce a Defined Contribution (DC) Section to the existing Copartes Pension Fund.
- After significant delays the Fund has now received approval of the rule amendments from the Authority
- Currently all members are on the Defined Benefit (DB) Section of the Fund.
- Members will have a **once-off opportunity** to consider joining the Defined Contribution (DC) section.
- Today, we will explain to you your current benefits, the proposed benefits, and the implications of joining the proposed Defined Contribution (DC) Section of the Fund, as well as the process that you will need to follow to make your selection.

# WHAT IS THE DEFINED BENEFIT SECTION?

The current Defined Benefit Section is where the benefits that you will receive when you leave the fund, are defined by a formula as set out in the Rules of the Fund

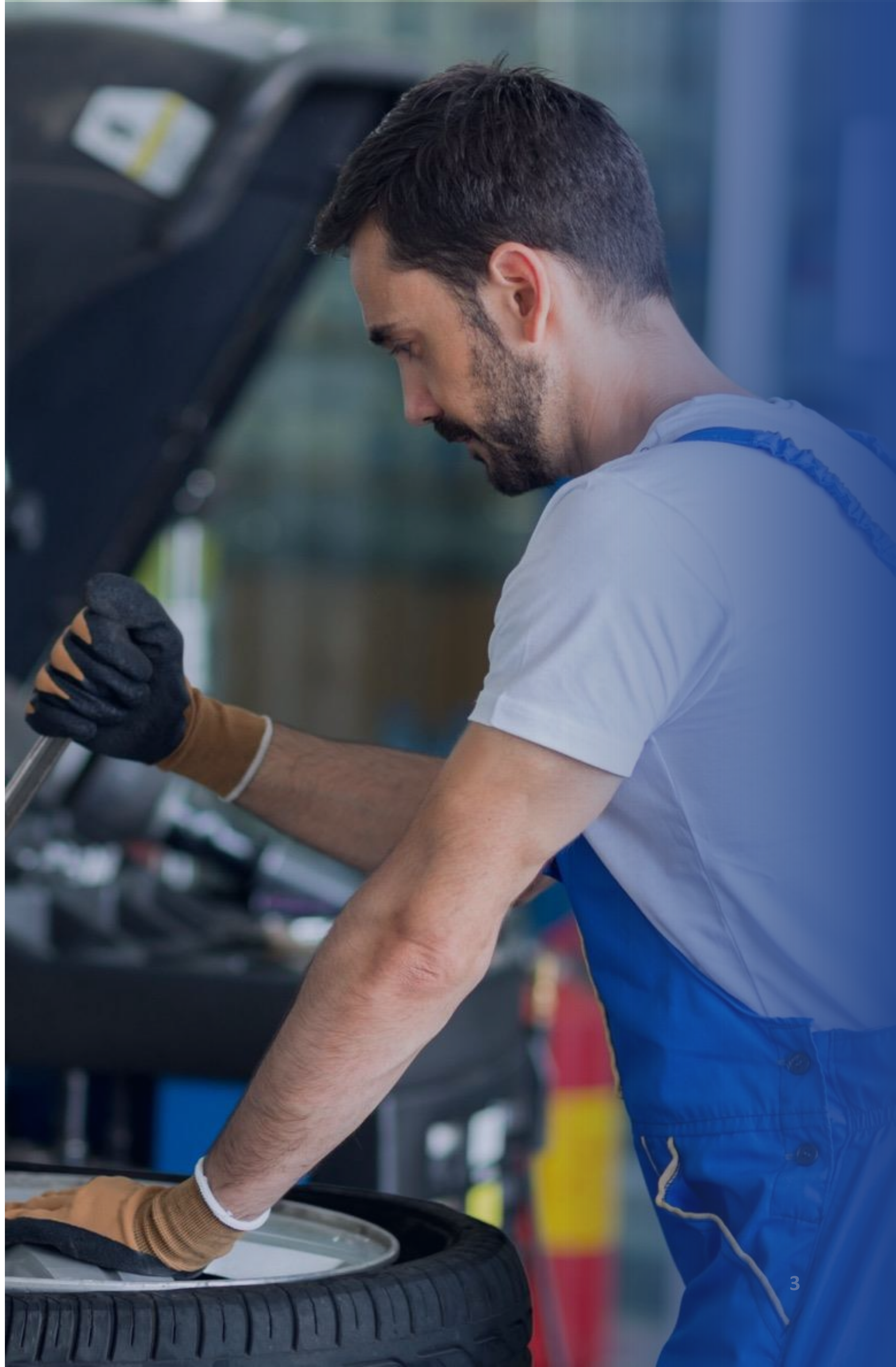
## CURRENT DEFINED BENEFITS (DB)

The **benefits** you will receive when you **leave** the fund are **guaranteed** as per the Rules of the Fund. **The Fund carries most of the risk.**

On retirement, for example, your pension will be a defined percentage of your final pensionable salary for each year of pensionable service. The percentage of salary does differ for service before and after 1 September 2024.

E.g.: If we assume you joined the Fund today and will have 35 years of pensionable service, your pension at retirement will be :

**35** years **X** **2%** **=** **70%** of your final salary



# WHAT IS THE NEW DEFINED CONTRIBUTION SECTION?

In a Defined Contribution Section, the **contribution**s that both you and the employer pay towards the Fund, are **defined** within the Rules of the Fund (i.e. *defined contribution*), and the benefit that you receive when you leave the Fund is not known and cannot be guaranteed.

The benefit you will receive depends on the actual contributions that you have made, less the expenses and cost of any insured benefits that need to be paid, and the actual investment returns (positive or negative) that have been earned by the Fund.

## DEFINED CONTRIBUTION (DC) BENEFIT

The benefit that you receive when you leave the Fund is not known and cannot be guaranteed. The Fund does not have sight of what your future contributions and expenses will be and cannot predict future investment returns.

**The member carries all the risks.**

Investment returns could result in greater benefits. On exit you will get the full member share, including the member and employer contributions, less expenses and adjusted for investment returns, positive or negative.

**ACTUAL CONTRIBUTIONS**

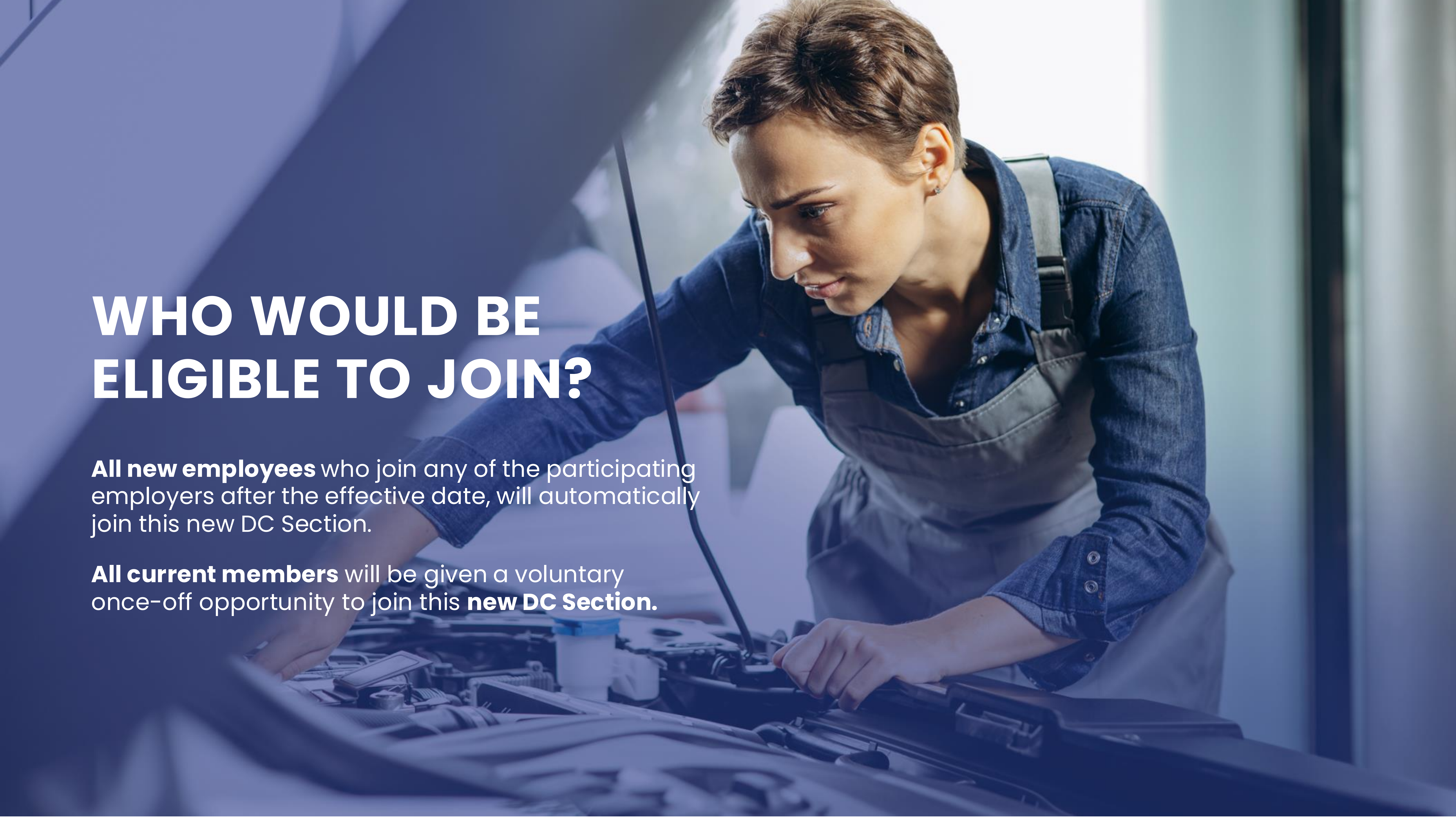
The expenses and cost of any insured benefits to be paid

+

The actual investment returns (positive or negative) earned

=

**Benefits**



# WHO WOULD BE ELIGIBLE TO JOIN?

**All new employees** who join any of the participating employers after the effective date, will automatically join this new DC Section.

**All current members** will be given a voluntary once-off opportunity to join this **new DC Section.**

# A COMPARISON OF THE TWO SECTIONS

## DEFINED BENEFIT SECTION – CURRENT FUND

### Withdrawal or Resignation

- As per the formula, member contributions plus a portion of the Employer contributions depending on years of service. Includes interest which is fixed at 4%.

### Retirement

- Pension as defined in the formula set out in the Rules, based on your contributory service and your average salary over the years leading to retirement.

### Fund Expenses

- Paid by the Fund out of the total contributions. Deducted from the Employer contributions on resignation and have no impact on your retirement pension.

### Death

- A lump sum benefit of 5 times your salary plus a return of the member contributions. The cost of the lump sum death benefit is met by the Fund from the employer contributions.

### Investment Returns

- The expected investment returns affect the Fund's ability to cover the cost of the guaranteed pension benefits. Good or bad investment returns do not directly impact on the promised pension which is based on service and salary.

## DEFINED CONTRIBUTION (DC) SECTION

### Withdrawal or Resignation

- You will receive the full value of the member share account.

- Your member share account includes all member contributions, all employer contributions (after deducting the Fund expenses, insured benefit costs) plus investment returns (positive or **negative**).

### Retirement

- A pension that will need to be purchased using the balance in your member share account.

- The Fund will offer a pension in line with the current pension benefits, which includes a spouse pension and annual increases. The insurers will offer a wider range of options.

- You may purchase this from the Fund and then remain a pensioner of the Fund, or purchase this from a registered insurer of your choice.

### Fund expenses

- Deducted from your Employer contributions before they are invested.

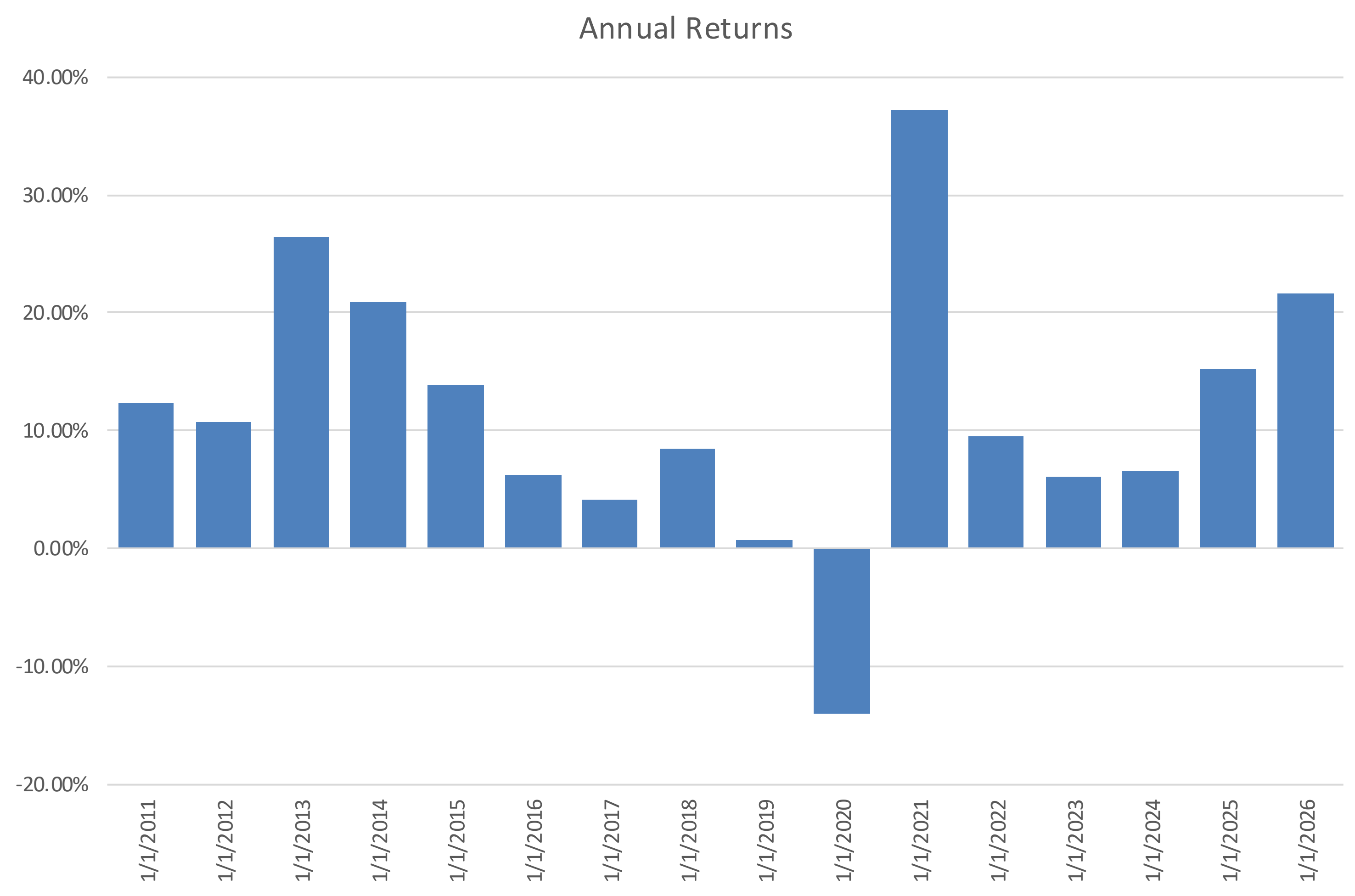
### Death

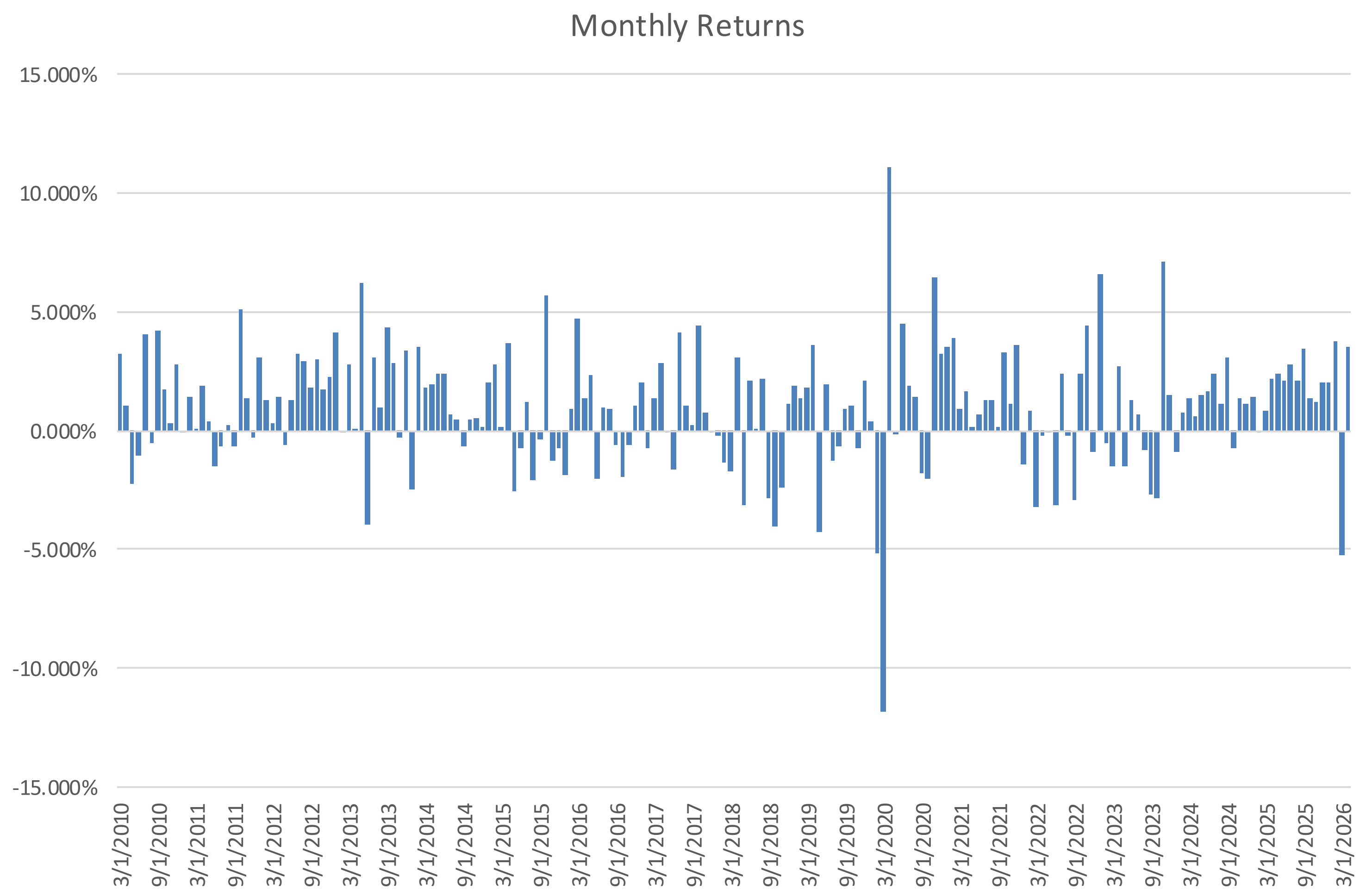
- A lump sum based on your age plus your full member share account.

# Investment risk

What does it mean when we talk about investment risk?

- Investment risk is the risk that your retirement savings will not grow by as much as expected and occasionally may even go down in value.
- Under the defined contribution section there is no guarantee of the investment returns that you will earn with investment returns going up or down as determined by financial markets.
- For example, over the last 16 years of Fund returns, there has been one year when the returns were negative, one year of near-zero returns and many months when the return was negative.
- The decline in value due to poor investment market performance at the time your benefits are due may be significant.
- The closer you are to retirement the greater the impact of a negative return in any one month as your investments have less time to recover. Your DC benefit might end up being less than your equivalent DB benefit.
- The longer you have until retirement the more time you have to recover the losses and could potentially end up earning higher returns making your DC benefit higher than the equivalent DB benefit.
- The Fund protects the DB benefit using a solvency reserve. As part of the conversion offer, if you convert to DC benefit, you will receive a share of this solvency reserve as compensation for the investment risk, protecting you from investment market fluctuations over time.
- Older members and younger members may therefore have different perspectives as to whether the share of solvency reserve is sufficient compensation for this investment risk.
- This is entirely a personal decision based on each individual's attitude to risk. i.e. whether they think unknown future investment losses will be covered by the share of the solvency reserve. Members of the same age may also have different perspectives based on their attitude to risk.



# Comparison of benefits on retirement

- Whether you are in the DB section or you have converted to the DC section, by default you will still receive your pension from the Fund.
- This default protects you from losing value due to investment advisor fees and annuity provider profit margins and limits your exposure to potentially inappropriate choices at retirement.
- The difference between the retirement benefits under the DB section and the DC section is the starting level of your pension (or annuity income).
- The current defined benefit section promises you a pension that is based on your period of service and final average salary.
- The defined contribution section does not guarantee the starting level of your pension. The starting level of pension depends on the value of your investments (i.e., your future member share account).
- You can, however, still choose to buy a pension outside of the Fund, for example, from an insurance company or an investment house. This option already exists under the defined benefit section and as such there is no change with respect to this option.

# COMPARISON OF BENEFITS ON WITHDRAWAL OR RESIGNATION

- When comparing the withdrawal benefits across the whole fund, we found that the average benefits on withdrawal would generally increase.
- The current withdrawal benefit provides only a portion of the Employer contributions for members with service less than 15 years.
- The DC Section will provide the full member and Employer contributions, less expenses, as part of the member share account.

# COMPARISON OF BENEFITS ON WITHDRAWAL OR RESIGNATION

| Age Band | Number of Members | Ratio DC to DB |
|---|---|---|
| 20-25 | 3 | 407.88% |
| 25-30 | 40 | 262.05% |
| 30-35 | 70 | 207.54% |
| 35-40 | 95 | 175.42% |
| 40-45 | 108 | 166.41% |
| 45-50 | 67 | 189.51% |
| 50-55 | 72 | 190.36% |
| 55-60 | 44 | 181.57% |
| 60-65 | 24 | 155.47% |

# A COMPARISON OF DEATH BENEFITS

## DEFINED CONTRIBUTION (DC) SECTION

### Death Benefits

- A lump sum benefit based on salary and your age at the last birthday before your death **plus** your full member share account.
- The cost of the lump sum benefit will also be deducted from the Employer contributions before they are invested.
- The Fund has performed a general comparison of the DB benefit to the DC benefit and found that in general because members would receive their full member share together with the lump sum, the lump sum benefits based on a reducing age scale would have an overall positive impact.
- An age based lump sum scale would also result in lower cost of death benefits and therefore an increase in allocations towards retirement savings.
- There may be some individuals where the benefit is initially lower. These members could choose to remain in the DB section or could purchase their own additional death benefits.

The following  table sets out the multiple of salary applicable per age:

| Age | Multiple | Age | Multiple | Age | Multiple |
|---|---|---|---|---|---|
| Up to 40 | 5.0 | | | | |
| 41 | 4.9 | 51 | 3.7 | 61 | 2.5 |
| 42 | 4.8 | 52 | 3.6 | 62 | 2.4 |
| 43 | 4.6 | 53 | 3.4 | 63 | 2.2 |
| 44 | 4.5 | 54 | 3.3 | 64 | 2.1 |
| 45 | 4.4 | 55 | 3.2 | 65 | 2.0 |
| 46 | 4.3 | 56 | 3.1 | 66 | 1.9 |
| 47 | 4.2 | 57 | 3.0 | 67 | 1.8 |
| 48 | 4.0 | 58 | 2.8 | 68 | 1.6 |
| 49 | 3.9 | 59 | 2.7 | 69 | 1.5 |
| 50 | 3.8 | 60 | 2.6 | 70 | 1.4 |

# A COMPARISON OF THE TWO SECTIONS

## DEFINED CONTRIBUTION (DC) SECTION

### Fund Expenses

May fluctuate over time and will be deducted from the employer contributions before these are invested in your members share account.

### Investment Returns

The member share account is directly affected by the actual investment returns earned by the fund. Good investment returns will improve the expected pension benefits that could be purchased while poor or negative investment returns could result in lower pensions benefits. Investment returns will be credited on a monthly basis, and members must expect that from time to time there will be months where returns are negative.

### Member Investment Choice

Members **will not** be able to choose their own investment. the Trustees will determine the investment strategy that applies to all members.

# SUMMARY COMPARISON

| | BENEFIT ON RESIGNATION | BENEFIT ON RETIREMENT | FUND EXPENSES | DEATH AND DISABILITY BENEFITS | INVESTMENT RETURNS |
|---|---|---|---|---|---|
| **DEFINED BENEFIT**<br><br>Current Fund | As per the formula, member contributions plus a portion of the Employer contributions. | Pension as defined in the Rules based on your contributory service and salary. | Paid by the Fund out of the total contributions.<br><br>Deducted from the Employer contributions on resignation but have no impact on your retirement pension. | A lump sum benefit based on salary plus a return of the member contributions.<br><br>The cost of the lump sum benefit is met by the Fund from the total contributions. | The expected investment returns affect the Fund's ability to cover the cost of the guaranteed pension benefits. Good or bad investment returns do not directly impact on the promised pension which is based on service and salary. |
| **DEFINED CONTRIBUTION**<br><br>Proposed Fund | Full value of the member share account. | A pension that will need to be purchased using the balance in your, member share account. | May fluctuate over time, deducted from the employer contributions before these are invested in your member share account. | A lump sum benefit based on salary and age plus a return of the full member share account.<br><br>The cost of the lump sum benefit will be deducted from the Employer contributions before they are invested. | The member share account is directly affected by the actual investment returns earned by the Fund. Good investment returns will improve the expected pension benefits that could be purchased while poor investment returns could result in lower pension benefits. |

# VARIABLES TO BE CONSIDERED

It can allow members more flexibility over time and the opportunity to earn a benefit that exceeds the current guaranteed benefits.

| EXPENSES | COST OF DEATH AND DISABILITY BENEFITS | INVESTMENT STRATEGY RETURNS | COST OF BUYING A MONTHLY PENSION | IMPORTANT NOTE |
|---|---|---|---|---|
| • The Board of Trustees would manage these costs within a tight budget to ensure that members receive good value for money.<br><br>• The Fund cannot know in advance exactly what the expenses will be. | • These change over time depending on the experience of the Fund and the general insurance market.<br><br>E.g., the COVID19 pandemic has resulted in a significant increase in the cost of death benefits. | • The actual investment returns that will be earned in future over the lifetime of your membership of the Fund, cannot be predicted.<br><br>• It is subject to the movements of the investment markets.<br><br>• Over the long-term these are expected to provide positive returns above inflation.<br><br>• Over the short-term negative returns are possible. | • The actual cost of buying a pension from the Fund or from an insurance company cannot be known or predicted in advance. | • Considering the variables listed, the Fund may at best be able to estimate your future benefits but can never guarantee the benefits that will be payable in future.<br><br>• The risks that the benefits payable are less than those promised under the current arrangement or less than what you may need at retirement and are the risks that you as a member would need to accept. |

# CONVERSION OFFER

What will happen to your current benefits if you choose to move to the Defined Contribution Section?

**1.**

Members will carry across the value of their current accrued benefits.

This will be a value determined by the Fund's actuary that takes account of your current age, your current period of pensionable service and your current pensionable salary.

The value will include a share of the Fund's current solvency reserves

We will call this the **Conversion Value.**

**2.**

You would effectively swap your current accrued benefits for the lump sum equivalent of those accrued benefits.

Therefore, you would no longer be entitled to any benefits under the existing defined benefit arrangements.

**3.**

This **Conversion Value** would then be your starting value in the defined contribution section and would immediately begin to earn investment returns (positive or negative).

**4.**

Your future contributions net of expenses would then be added to this opening balance which would ultimately make up the full value of your benefits in the Fund.

**5.**

Importantly, at the time of joining the defined contribution section you would not be able to access the full conversion value.

The full value would be transferred into the new section of the Fund.

You would however in terms of the two-pot legislation be able to access all or a portion of your savings component subject to tax and any restrictions imposed by SARS.

# CONVERSION STATEMENTS

## CONVERSION STATEMENTS EXPLAINED

- **Every member** will receive a **Conversion Offer**
- **The Conversion Offer** will include details regarding the current DB and new DC benefits, an election form and a personalised **Conversion Statement.**
- The **Conversion Statement** will include your personalised **Conversion Value,** the lump sum equivalent of the benefits that you have already accrued in the Fund based on your age, period of pensionable service and pensionable salary. This will be the value that gets carried across as your opening balance in the DC Section. Hypothetically if you resigned the day after the conversion this would be the value of the benefits available to you.
- The Conversion Statement will importantly also contain a comparison of your current benefits in the DB Section to the benefits that would be available in the DC Section taking into account your personal circumstances.
- It will show a comparison of the withdrawal and death benefits on a before and after basis, it will include an estimated projection (**not a guarantee!**) of the possible retirement benefits.

# ANY QUESTIONS?