# LUCAS SOUTH AFRICA PENSION FUND

## Actuarial Valuation Report

as at

## 30 June 2002

## (P.F. 12/8/10121)

OLD MUTUAL Corporate

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Licensed Financial Services Provider

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OLD MUTUAL
Corporate

# 1. Executive Summary

We have pleasure in presenting the statutory actuarial valuation report of the Lucas South Africa Pension Fund (the "Fund") as at 30 June 2002. This summary is for reference purposes only, and should be read in the context of the full report.

## 1.1 Membership

| Pensioners | Number | Value of the Pensions |
|---|---|---|
| Existing as at 1 February 1994 | 186 | R 1,641,675 |
| Existing as at 30 June 2002 | 123 | R 2,467,605 |

## 1.2 Financial results

The results of the current valuation are set out below. The Funding level is determined by expressing the assets as a percentage of the total liabilities.

| | Actuarial value 30.6.2002 (R'000) | |
|---|---|---|
| Old Mutual Purchased Pensions | 23,557 | |
| Actuarial value of other assets | 14,205 | |
| **Total Value of Assets** | | **37,762** |
| Liabilities held in respect of purchased pensions | 23,557 | |
| Provision for closure and liquidation expenses | 2,342 | |
| Provision for settlement adjustment to Prestolite | 1,090 | |
| Provision for adjustment for D&L i.r.o. pensioners | 449 | |
| Surplus Apportionment Expense Reserve | 1,260 | |
| **Total Value of Liabilities** | | **28,698** |
| **Surplus** | | **9,064** |
| Funding level (including Contingency Reserve) | | **132%** |

## 1.3 Future contribution rate

There were no in-service members at the valuation date and as a result no future contributions, or reassurance of death benefits, are required.

## 1.4 Financial condition of the Fund

The Fund is in a sound financial condition as at 30 June 2002, having taken into account net recoveries made by the Fund subsequent to the valuation date up to 15 September 2010 and discounted them to the valuation date, as hereinafter fully described.

# 2. Introduction

## 2.1 Background

The Fund which is a defined benefit pension Fund was established on 1 March 1973 and it later became known as the Lucas South Africa Pension Fund ("the Fund").

On 1 June 1992 there was a transfer of 344 members from the Fund to the Lucas Automotive Pension Fund, which is now known as the Prestolite Pension Fund ("Prestolite Fund"). On 1 March 1994, a further 55 members and 9 paid up members were transferred to the Prestolite Fund.

I have been advised by the Curator's office that

- Shortly thereafter, the last remaining member was moved from the Fund, via the Lifecare Fund to the Prestolite Fund. The remaining 186 pensioners and their corresponding assets were incorrectly outsourced via an annuity policy purchased for R18.4 million. The surplus of some R14.9 million was moved to the Lifecare Group Holdings Pension Fund ("Lifecare Fund"), and it was subsequently acquired by the Employer and other parties.
- After the above transactions, the Fund ostensibly had no remaining active members, pensioners or deferred pensioners and no assets or liabilities. The Fund was thereafter purportedly deregistered with the Financial Services Board ("FSB") on 22 June 1994.
- The transactions described were unlawful and after an FSB investigation, and as a consequence of these transactions, the Fund was placed under curatorship on 4 April 2006 and then into liquidation on 1 September 2006.

During investigations into the past activities of the Fund, it was found that a number of the past transactions related to the Prestolite Fund and the Lifecare Fund were suspect or incorrect and required adjustment (refer Section 6). These transactions have to a large extent been rectified by the Curator/Liquidator.

## 2.2 Purpose of the report

The purpose of this report is to give the results of an examination of the financial soundness of the Fund as at 30 June 2002.

Since this valuation is the first statutory valuation subsequent to the enactment of the Pension Funds Second Amendment Act, 2001 ("Surplus Act"), it sets the date at which the Fund's Surplus Apportionment Scheme ("SAS") must be developed and defines the amount of Surplus to be apportioned in terms of the Surplus Act. The previous valuation report on the Fund was conducted as at 1 February 1994 but exemptions were granted by the Financial Services Board from subsequent valuations. A summary of the present benefit structure in terms of the Rules is given in Annexure I.

The Fund has had no members (save for the pensioner members wrongfully outsourced) or deferred pensioners since 1994. There have therefore been no member or employer contributions since that date and this report does not need to consider any future contribution rates for pension or death benefits. A summary of the membership data is given in Annexure II.

This report covers, inter alia, the requirements of a Statutory Valuation in terms of Section 16 of the Pension Funds Act, 1956. As discussed with the FSB on 26 March 2010 it includes allowance for the impact of post valuation date events to give effect the intention of the Surplus Act.

This report meets the requirements of the Professional Guidance Note 201 of the Actuarial Society allowing for the unavailability of data and the special circumstances. I am satisfied that the report is adequate for the purpose of determining the surplus to be distributed, given that there are no members or deferred pensioner liabilities and the only assets are the net recoveries from other parties, allowing for expenses incurred.

## 2.3 Method

The Fund has had no members (save for the pensioner members wrongfully outsourced) or deferred pensioners since 1994 so there are no other liabilities for these members at the valuation date.

The Fund has a with-profit annuity policy purchased from Old Mutual. I have used the value of this annuity policy calculated by the Underwriter. I consider that this annuity policy has met the pensioner liability including minimum pension increases as defined in Section 14B(4) of the Surplus Act.

For the purposes of the valuation, I have discounted all asset recoveries and settlements (after the valuation date up to 15 September 2010) back to the valuation date by Fund return. Fund return has been derived as follows:

- In respect of recoveries made by the Liquidator up to 15 September 2010: The interest rate expected to be recovered by the Liquidator, which is the net investment return that would have been earned on the assets removed from the Fund based on the investment strategy adopted by the Fund prior to the removal of assets.

- In respect of all other cash flows (after the valuation date up to 15 September 2010), the actual net investment returns on the assets has been used.

The average Fund return[1] was calculated to be 12.8% per annum. The interest rate used for discounting affects the value of assets (and thus the surplus) determined at the valuation date, and the corresponding Fund return for the period from the valuation date until 15 September 2010.

The interest rate used for discounting does not affect the actual assets (or the surplus) available for distribution as at 15 September 2010, or thereafter. For example, the higher the discount rate used, the lower the assets (and the surplus) determined at the valuation date, but the Fund return thereafter would be higher, so that the assets at 15 September 2010 would be the same.

In addition, the rate used for discounting is not material to the distribution of surplus as the only payments will be to former members; since there are no minimum pension increases payable to pensioners (refer Section 4.2).

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[1] Trivial amounts were assumed to occur in the middle of each financial year.

# 3. Data

## 3.1 Section 16(8) of the Act

For valued Funds, the Registrar requires the Liquidator to deposit, together with the valuation report, a certificate stating that the valuation data supplied to the Valuator is correct and complete in every material aspect. Further, the Registrar requires that a copy of the Valuator's report be sent to each and every participating employer.

We comment in this report on the accuracy of the data provided by the Administrator to assist the Liquidator to satisfy this requirement. We also recommend that a certificate be obtained from the Administrator to certify the accuracy of the data.

## 3.2 Reasonability of Data

All the members and deferred pensioners present at the previous valuation as at 1 February 1994 were purportedly transferred out of the Fund in March 1994.

In respect of the pensioners, I have used the data supplied by the Underwriter for the annuity policies purchased from Old Mutual at the valuation date.

There were no other tangible Fund assets at the valuation date. For the purposes of determining the net assets of the Fund recovered after the valuation date, I have used the draft accounts supplied by the Fund Accountant for the period 1 July 2006 to 15 September 2010. I have reconciled these to the asset statements supplied by the Administrator and Fund Accountant and produced a consolidated revenue account for the period, which is shown in Annexure III.

I am satisfied with the reasonability of the investment income received, investment fees paid and the annuity policy purchased.

I have taken into account all expenses and recoveries as reflected in the draft accounts provided to me by the Curator's office and Administrator as at 15 September 2010.

Given the special circumstances of the Fund described in the background, I consider that the data is adequate for the purposes of this report.

# 4. Pension Increases

## 4.1 Pension increases

With profit annuities were purchased from Old Mutual to back the pensioner liabilities and pension increases have been granted as follows since the previous valuation:

| Date of Increase | Pension increases (per annum) | CPI[1] |
|---|---|---|
| 1.1.1995 | 7.8% | 9.9% |
| 1.1.1996 | 7.0% | 6.9% |
| 1.1.1997 | 12.0% | 9.3% |
| 1.1.1998 | 11.6% | 6.3% |
| 1.1.1999 | 1.2% | 8.9% |
| 1.1.2000 | 5.6% | 2.2% |
| 1.1.2001 | 9.1% | 7.0% |
| 1.1.2002 | 9.5% | 4.5% |
| 1.1.2003 | 7.5% | 12.4% |
| 1.1.2004 | 2.5% | 0.4% |
| 1.1.2005 | 1.5% | 3.3% |
| 1.1.2006 | 5.0% | 3.6% |
| 1.1.2007 | 8.5% | 5.8% |
| 1.1.2008 | 8.5% | 9.0% |
| 1.1.2009 | 8.5% | 9.5% |
| 1.1.2010 | 7.0% | 6.3% |
| **Average** | **7.1%** | **6.6%** |

## 4.2 Minimum benefits for pensioners

The Surplus Act requires that current pensioners be granted a *minimum pension increase* at the Surplus Apportionment Date such that their pension will have increased in line with CPI inflation since inception, to the extent that this can be afforded by the Fund.

The pensions of pensioners have been purchased and therefore no minimum pension increase will become due in terms of the Surplus Act.

[1] Annual increase in Consumer Price Index: Metropolitan areas– All Items P0141 as published by Statistics SA.

## 5. Assets

### 5.1 Pensioner assets

At the valuation as at 1 February 1994 all pensioners were paid by the Fund and the liability was about R18.2 million.

Shortly thereafter, the 186 pensioners and their corresponding assets were outsourced and an annuity policy was incorrectly purchased for some R18.4 million. I understand that this was done contrary to the stipulations of the approved transfer in respect of these members.

The Liquidator has subsequently recovered assets that enabled him to finance an annuity policy in respect of the pensioners (refer Section 6 below) and the Fund has now matched these pensioner liabilities.

### 5.2 Other Assets

At the previous valuation as at 1 February 1994 the Fund's assets of R43,097,966 were invested in a market linked investment policy underwritten by Old Mutual ("MultiFund") which was invested in a balanced portfolio. All dividends and interest payments were reinvested and capital appreciation and depreciation was reflected directly in the market value.

Shortly thereafter, the assets in the MultiFund were disinvested and placed in cash and a smoothed bonus investment policy underwritten by Old Mutual (the "Guaranteed Fund").

The assets backing the member and deferred pensioner liabilities were transferred to the Prestolite Fund on 1 March 1994 and used by that Fund to meet its liabilities to those members. The surplus assets of some R14.9 million that was moved to the Lifecare Fund on 31 March 1994 was subsequently paid to the Employer and other parties.

The Fund thus had no assets at this valuation, but the Liquidator has subsequently been pursuing the recovery of assets from other parties (refer Section 6 below).

# 6. Significant Post Valuation Events

## 6.1 Pensioner annuity policy

The Liquidator has recovered assets which have been used to finance an annuity policy to rectify the situation described above.

The value of the annuity policy purchased amounted to R21,288,680 as at 30 April 2008. The Underwriter has determined that the value of the pensioner annuity policy would have been R23,557,315 as at 30 June 2002.

## 6.2 Settlement amount paid to Prestolite Pension Fund

The Prestolite Fund and its predecessors were affected by irregular transfers of surplus assets from the Fund.

Transfers took place from the Fund to the Lucas Automotive Pension Fund (now the Prestolite Fund) between 1 June 1992 and 1 March 1994 to rid the Fund of its members. Less than a proportionate share of surplus based on market values was included in these transfers at that time.

The Liquidator therefore considered it reasonable and equitable[1] to redress the situation by reaching a settlement with the Prestolite Fund for the balance of the proportionate share of the surplus, plus interest.

An amount of R13,979,907 was paid by the Fund to the Prestolite Fund on 31 October 2008. I have made a provision for the payment of an additional amount of R2,923,402 to the Prestolite Fund as at 15 September 2010 in terms of the settlement agreement, based on the additional assets recovered to date. Any additional assets recovered by the Fund in this regard will require further amounts to be paid to the Prestolite Fund.

## 6.3 Recovery of Surplus assets and legal expenses

The Liquidator has recovered assets of some R56.3 million to date and will pursue any further outstanding claims, where appropriate.

## 6.4 Loan to the Fund

An amount of R47,042,073 was secured as a loan for the benefit of the Fund as at 30 April 2008. The loan has subsequently been repaid from the assets recovered by the Liquidator.

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[1] This does not imply that the previous transfers were not in terms of the Rules or standard practices applicable at the time.

## 6.5 Demutualisation Shares

The Liquidator has recovered the value of the shares resulting from the demutualisation and listing of Old Mutual which the Fund would have been allocated had it not been for the removal of the annuity policy backing the pensioner liabilities on 31 March 1994.

The value recovered was R 16,677,109 as at 30 April 2008. I have made a provision for the repayment of an amount of 1,203,841 as at 15 September 2010 resulting from this transaction, since the previous payment was based on incorrect pensioner liabilities.

## 6.6 Current Asset structure and returns

The value of the Fund's assets (excluding the annuity policy in respect of pensioners) as at 15 September 2010 and the comparative figures as at 1 February 1994 are set out in the table below:

| | Account Balances | | | |
|---|---|---|---|---|
| | 1.2.1994 | | 15.9.2010 | |
| | (R'000) | % | (R'000) | % |
| Old Mutual MultiFund | 43,098 | 100% | 0 | 0% |
| Old Mutual Absolute Stable Growth Portfolio | 0 | 0% | 35,179 | 92% |
| Investec CCM Call Account | 0 | 0% | 4,326 | 12% |
| ABSA Trust account | 0 | 0% | 757 | 2% |
| Nedbank Account | 0 | 0% | 41 | 0% |
| Net current assets/(liabilities) | 0 | 0% | (2,216) | -6% |
| Value of assets | 43,098 | 100% | 38,087 | 100% |

The assets recovered have predominantly been invested in Old Mutual's Absolute Stable Growth Portfolio ("ASGP"). This is a smoothed bonus insurance policy in a balanced portfolio of market linked assets with an 80% capital guarantee on any benefit payments. However, on surplus and termination payments and transfers out of the policy there may be restrictions on the amount that is paid at book value. The balance of the payments would be paid at market value.

The average net return on the ASGP assets has been 6.1% per annum over the period 1 May 2008 to 15 September 2010.

The balance of the assets has been held in various interest bearing accounts with Investec, ABSA and Nedbank. The interest rates on these accounts have varied according to the nature of the account and fluctuated during the period.

The current rate on the Investec account on 15 September 2010 is 6.2% per annum.

A detailed build-up of the assets from 1 February 1994 to 15 September 2010 is given in Annexure III.

### 6.7 Provision for Fund closure and liquidation expenses

Any further amounts recovered by the Liquidator will be added to the amount of surplus to be apportioned. I have therefore allowed for the following associated costs of these recoveries estimated by the Fund Accountant and Administrator until the Fund is liquidated:

| | Total (R'000) |
|---|---:|
| Legal costs | R5,583 |
| Administration fees | 410 |
| Actuarial and consulting fees | 285 |
| **TOTAL** | **R6,278** |

I have deducted the discounted value of this provision from the actuarial value of the assets. Any over (or under) provision for these expenses will be added to (or deducted from) the surplus on finalisation of the SAS and be used to increase (or decrease) the surplus benefit payments to stakeholders.

### 6.8 Improper use of Surplus

An investigation was conducted into potential improper uses of surplus by the Employer in terms of Section 15B(6) of the Surplus Act. It was found that Executives enjoyed greater benefits than those provided to other members. These assets were partly recovered by the Liquidator.

Any additional assets recovered from this source must be added to the distributable surplus on finalisation of the SAS and used to increase the surplus benefit payments to stakeholders.

### 6.9 Contingency Reserves

The Liquidator is responsible for establishing and reviewing the contingency reserves in the Fund, with the advice of the valuator. PF 117 gives specific examples of the types of contingency reserves that may be established as at the Surplus Apportionment Date.

The following contingency reserve accounts may be set up provided that the need for such accounts are fully justified and that the establishment of such accounts does not result in a deficit arising:

- Solvency Reserve
- Contingency Reserve for estimated surplus apportionment costs
- Data Reserve
- Risk Reserve
- Processing Error Reserve
- Contribution Reserve.

The Liquidator may review the contingency reserves the Fund holds at any subsequent valuation, if justified.

Based on the circumstances of the Fund, I recommend that the Liquidator approves a contingency reserve in order to cover the expenses related to the surplus apportionment exercise. The outstanding expenses have been estimated to be R3,379,736 as at 15 September 2010 (refer Annexure IV).

I have deducted the discounted value of this reserve using the average internal rate of return on the Fund's assets from the actuarial value of the assets. Any over (or under) provision for these expenses will be added to (or deducted from) the surplus on finalisation of the SAS and be used to increase (or decrease) the surplus benefit payments to stakeholders.

A detailed current estimate of the items making up this amount is provided in Annexure IV.

## 7. Valuation Results

### 7.1 Actuarial value of assets as at 30 June 2002

The following table provides a summary of the discounted values (excluding the annuity policy in respect of pensioners):

| | Gross amounts (R'000) | Actuarial values 30.6.2002 (R'000) |
|---|---|---|
| Value of assets before provisions and reserves | 38,087 | 14,205 |
| Provision for closure and liquidation expenses | (6,278) | (2,342) |
| Provision for settlement adjustment to Prestolite | (2,923) | (1,090) |
| Provision for adjustment for D&L i.r.o. pensioners | (1,204) | (449) |
| Surplus Apportionment Expense Reserve | (3,380) | (1,260) |
| Value of assets after provisions and reserves | 24,302 | 9,064 |

### 7.2 Funding Level

The results of the current valuation are set out below. The funding level is determined by expressing the assets as a percentage of the total liabilities.

| | Actuarial value 30.6.2002 (R'000) | |
|---|---|---|
| Old Mutual Purchased Pensions | 23,557 | |
| Actuarial value of other assets | 14,205 | |
| **Total Value of Assets** | | **37,762** |
| Liabilities held in respect of purchased pensions | 23,557 | |
| Provision for closure and liquidation expenses | 2,342 | |
| Provision for settlement adjustment to Prestolite | 1,090 | |
| Provision for adjustment for D&L i.r.o pensioners | 449 | |
| Surplus Apportionment Expense Reserve | 1260 | |
| **Total Value of Liabilities** | | **28,698** |
| **Surplus** | | **9,064** |
| Funding level (including Contingency Reserve) | | **132%** |

The Fund is thus in a sound financial position as at the valuation date of 30 June 2002, having taken into account net recoveries made by the Fund subsequent to the valuation date up to 15 September 2010 and discounted them to the valuation date, as hereinafter fully described.

# 8. Certification of Asset/Liability Matching

The Liquidator of the Fund is responsible for the investment of the Fund's assets and the Fund's investment strategy.

Pension Fund Circulars 71 and 72 issued by the Registrar of Pension Funds require the Valuator to certify that he is satisfied with the structure of the assets and that they adequately match the liabilities of the Lucas South Africa Pension Fund.

The Fund is currently in liquidation and an annuity policy has been purchased to match the liability in respect of pensioners.

The only other assets represent surplus which will be allocated to stakeholders in terms of a surplus scheme to be submitted in terms of the Surplus Act. The assets invested in the Absolute Smoothed Growth Policy may be paid out at less than book value in terms of the policy conditions in adverse market conditions, which will then impact on the Fund return paid to stakeholders. The other assets are held in liquid bank accounts.

We have examined the assets in relation to the liabilities, and consider that the Fund's asset profile is appropriate in relation to the nature and term of the liabilities. However, in light of the substantial recoveries made to date, it is recommended that a revised investment policy be adopted relating to the surplus assets recovered.

## 9. Certification of Financial Soundness

As at 30 June 2002 the actuarial value of the Fund's assets exceeded the liabilities by some R9,064,000 and the Fund is financially sound .

The value of the pensioner liabilities is assumed to be matched by the annuity policy purchased from Old Mutual and the contingency reserves and provisions established by the Liquidator on our advice allow for some fluctuations in asset values and/or unexpected changes in liabilities, there is no guarantee that these reserves will prove sufficient in practice. Conversely, it is possible that the reserves may prove to be more than sufficient.

If the reserves prove to be inadequate, action by the Liquidator will be required to rectify the position. This may involve, inter alia, the reduction of future surplus payments. If the reserves prove to be excessive, or improper uses of surplus or legal expenses are recovered by the Liquidator, then the amount available for distribution would have been understated and future surplus payments may thus be increased.

The uncertainty of the adequacy or otherwise of the reserves held is unavoidable and the actual outcome can only be determined when the Fund ceases to have any further liabilities.

We recommend that the Liquidator approve a surplus apportionment expense reserve of R1,260,000 as at 30 June 2002.

The position will be reviewed at the next valuation due as at 30 June 2005.

| | |
|---|---|
| **Gavin Finch** | **Carrie-Anne Kropman** |
| **B.Bus.Sc.(Hons), HIA, CFA, CFP, FASSA** | **B.Comm.(Hons), FASSA** |
| **Fellow of the Institute of Actuaries** | **Fellow of the Institute of Actuaries** |
| In my capacity as Valuator of the Fund and contracted to Old Mutual | In my capacity as an actuary and an employee of Old Mutual |

November 2010

The following is a brief summary of the registered Rules applicable when the last remaining members transferred out of the Fund in March 1994. In the event of a dispute, the Rules shall be binding.

ELIGIBILITY CONDITIONS

All employees who are under the normal retirement age on the full-time permanent staff of the Employer.

NORMAL RETIREMENT AGE

| | |
|---|---|
| Senior Executives: | 62 and 6 months |
| Males: | 65 |
| Females: | 65 |

Female members who participated under the Fund prior to 1 August 1985 had the option to elect a normal retirement age of 60.

RETIREMENT BENEFIT

i. Annual pension benefit on normal retirement

1/50th of the average annual salary over the last 2 years before retirement for each year of pensionable service. The Rules provide for the acceleration of the accrual of pension benefits for the senior executives and an additional 2.5 years bonus service.

The pension above shall be reduced by the value of any benefit retained in the U.K. Fund.

ii. Annual pension benefit on early retirement

A member may retire early if he/she is within 10 years of the normal retirement age and has completed 5 years of continuous service. The pension accrued up to the early retirement date shall be reduced by 4% for each year between the early and normal retirement dates.

iii. Annual pension benefit on ill-health retirement

A member may retire early at any age for ill-health reasons. The pension will accrue as if the member had remained in the Employer's service until the normal retirement date, but shall be based on final average salary as at the ill-health retirement date

iv. Annual pension benefit on late retirement

The pension accrued up to the late retirement date.

PENSION INCREASES

Pensions paid by the Fund may be increased on an ad-hoc basis.

DEATH AFTER RETIREMENT

The balance (if any) of the first 60 monthly pension instalments shall continue to be paid. Thereafter, in the case of a married member, a pension to the spouse equal to 60% of the member's pension before commutation shall be payable. (Members who elected a normal retirement age of 60 are not eligible for this benefit.)

DEATH BEFORE RETIREMENT

i. Cash benefits

A lump sum life assurance benefit of three times annual salary of ordinary members and five times annual salary for senior executives will be payable

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in the case of a member ineligible to receive spouse's and children's pension benefits, a return of twice the member's accumulated contributions (including interest).

ii. Spouse's and Children's pension benefits

The spouse of a married member will be entitled to an annual pension equal to 60% of the pension to which the member would have been entitled at normal retirement age, the pension being based on annual salary at the date of death and service up to the normal retirement age.

Each child (subject to a maximum of 3 children) will be entitled to a pension equal to 20% of the spouse's pension payable to age 18 or later if a full-time student. If there is no spouse or on the subsequent death of the spouse, the children's pensions will increase to 2.5 times their benefit payable if there had been a spouse.

WITHDRAWAL BENEFIT

i. Cash

A return of the member's own contributions plus 4% per annum compound interest thereon up to 31 January 2000 and 8% per annum compound interest thereafter.

OR

ii. Pension

For members with more than 5 years' service, the greater of the following amounts can be preserved:

a. the pension that can be provided by the amount in (i) above, and
b. the pension accrued up to the date of withdrawal.

CONTRIBUTION RATE

6.5% of annual pensionable salary

## A. IN-SERVICE MEMBERS

### Number of in-service members

| | Males | Females | Total |
|---|---|---|---|
| Existing as at 1 February 1994 | 42 | 14 | 56 |
| 1 March 1994 transfer to the Prestolite Fund | 41 | 14 | 55 |
| 31 March 1994 purportedly transferred to the Lifecare Fund | 1 | - | 1 |
| Existing as at 30 June 2002 | - | - | - |

### Total annual pensionable salaries (R'000)

| | Males | Females | Total |
|---|---|---|---|
| Existing as at 1 February 1994 | 3,325 | 520 | 3,846 |
| Existing as at 30 June 2002 | - | - | - |

### Salary Weighted Average Age

| | Years | Months |
|---|---|---|
| As at 1 February 1994 | 43 | 7 |
| As at 30 June 2002 | - | - |

## B. DEFERRED PENSIONERS

| | Number | Pension (per annum) |
|---|---|---|
| Existing as at 1 February 1994 | 9 | R 149,666 |
| 1 March 1994 transfer to Prestolite Fund | 9 | R149,666 |
| Existing as at 30 June 2002 | - | - |

## C. PENSIONERS

| | Number | Value of the Pensions |
|---|---|---|
| Existing as at 1 February 1994 | 186 | R 1,641,675 |
| Existing as at 30 June 2002 | 123 | R 2,467,605 |

## Revenue Statement for the period 1 February 1994 to 15 September 2010

| | R | R |
|---|---|---|
| **Market value at 1 February 1994** | | **43,097,966** |
| Transactions at 1 March 1994 and 31 March 1994 | | -43,097,966 |
| Opening balance after transactions at 31 March 1994 | | 0 |
| **Income** | | 100,243,949 |
| Pensioner assets recovered | 21,288,680 | |
| Assets recovered | 56,260,885 | |
| Settlements received | 16,677,109 | |
| Investment income | 6,017,275 | |
| **Expenditure** | | 62,156,435 |
| Annuity policy purchased | 21,288,680 | |
| Settlement paid to Prestolite Fund | 13,979,907 | |
| Liquidator fees (inclusive of VAT) | 19,028,292 | |
| Legal costs (inclusive of VAT) | 6,377,788 | |
| Consulting and former member representative fees | 44,782 | |
| Administration, actuarial and consulting expenses | 934,042 | |
| Investment fees | 502,944 | |
| **Market Value as at 15 September 2010** | | **38,087,514** |

## ANNEXURE IV –Surplus Apportionment Expense Reserve

The Surplus Apportionment Expense Reserve of R3,379,736 for the outstanding items as at 15 September 2010 is made up as follows:

| | Item | Estimated costs (R) |
|---|---|---|
| (a) | Quantification of improper use | 30,000 |
| (b) | Surplus valuation (PF 117) | 249,750 |
| (c) | Former member data analysis & consolidation | 45,433 |
| (d) | Minimum pension increase calculations | 50,000 |
| (e) | Development of SAS | 50,000 |
| (f) | Call Centre | 25,340 |
| (g) | Tracing | 212,940 |
| (h) | Communication to stakeholders (pre-objection period) | 19,110 |
| (i) | Communication to stakeholders (post-objection period) | 21,840 |
| (j) | Dealing with objections | 20,000 |
| (k) | Prepare & Submit SAS in prescribed format | 20,000 |
| (l) | FSB Levy | 16,000 |
| (m) | Communication to non qualifying stakeholders | 4,368 |
| (n) | Former member benefit payments | 1,729,728 |
| (o) | Former member representative | 30,000 |
| (p) | Surplus consulting and investigations | 442,137 |
| | **TOTAL EXCLUDING VAT** | **2,966,646** |
| | VAT | 413,090 |
| | **TOTAL INCLUDING VAT** | **3,379,736** |

### Pension Funds Second Amendment Act, 2001

In terms of the Surplus Act, this statutory valuation sets the date on which the surplus in the Fund, if any, must be apportioned between the various stakeholders. The stakeholders are former members who left the Fund after 1 January 1980, pensioners, active members and the Employer.

In quantifying the amount of surplus to be apportioned, a quantification of any prior *improper use(s)* of surplus is required. The value of any improper use(s) of surplus must be added to the surplus to be apportioned as per this report.

The value of any improper use(s) of surplus must be deducted from any final allocation of surplus to the Employer in the SAS. If the allocation of surplus to the Employer is insufficient, then the balance will constitute a debt owed by the Employer to the Plan.

### 2007 Amendments to the Pension Funds Act

In addition, the Pension Funds Amendment Act (No 11 of 2007) (the "Amendment Act") came into effect on 13 September 2007.

The main changes under the Amendment Act affecting the Fund can be summarised as follows:

- Improper use of surplus must be calculated irrespective of the Fund's financial position at the surplus apportionment date.
- Fund returns must be added to the improper use from the effective date of the improper use until receipt by the Fund.
- Where the Employer must pay an amount to the Fund arising from improper use, the Employer must submit a scheme of repayment that conforms with prescribed requirements and repay the debt within a period approved by the Registrar.
- The calculation of the Minimum Individual Reserve has been amended as follows:
  - In the accrued pension calculation: to incorporate a minimum uniform rate of accrual to be used and to include portions of lump sum benefits payable at the normal retirement date which correspond to prior service; and
  - In the return of members' contributions calculation: to allow members' contributions to be accumulated with Fund returns from the date that the contribution was paid into the Fund.
- The obligatory pension increase policy is not required where pensioners or the Fund (for the pensioners) purchased a long-term insurance policy to provide the pension.
- The provisions relating to the apportionment of death benefits in Section 37C are removed from application to spouses' and children's pensions.
- The "clean-break" principle has been introduced for future divorce awards to ex-spouses of Fund members.

## Investment Markets

Investment markets have become increasingly volatile over the last few years. In the context of an ongoing Fund however, short-term fluctuations are not a major concern. Assets are held for their long-term worth to the Fund in matching its liabilities.

Market values can become very important, however, if the Fund is involved in any large financial transactions (such as bulk transfers, conversions, mergers, partial terminations or liquidations). These transactions should only be undertaken after appropriate legal, investment and actuarial consultation has taken place.

Fluctuations in asset values are more relevant since it is intended to terminate the Fund. The market values of the investments are thus more relevant than their long-term values. Further, the Fund’s investment in the insurance policy has surrender penalties which may apply depending on market conditions.

## Tax on Retirement Funds

With effect from 1 March 1996, the Tax on Retirement Funds Act was promulgated. This Act required tax to be paid on interest and net rental income of retirement Funds.

Tax was introduced at a rate of 17%, and was increased to 25% as from 1 March 1998. With effect from 1 March 2003 the rate of tax was reduced to 18% and further reduced to 9% from 1 March 2006. As from 1 March 2007, Retirement Fund Tax has been abolished.