NATIONAL ASSEMBLY

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER: 2081 [NW2345E]

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2081. Adv A de W Alberts (FF Plus) to ask the Minister of Finance:†

(a) Why will pensioners of the Government Employees Pension Fund (GEPF) be receiving an increase of only 5,8% for the 2015-16 financial year, (b) on what basis was this increase calculated, (c) what is the relationship between the investment performance, or lack thereof, of the GEPF and this annual increase, (d) whether there is a way of improving the investment performance of the GEPF and (e) whether there is a possibility of exempting pensioners who earn less than R10 000 per month from income tax; if not, why not; if so, what are the relevant details?

NW2345E

REPLY:

(a) The 5.8% increase for the 2015/2016 financial year was based on the actual inflation rate for the 12 months ended 30 November 2014 as reported by Statistics South Africa, and was approved by the Board of Trustees of the GEPF on 3 December 2014.

This pension increase was effective 1 April 2015. It should also be noted that pensioners whose monthly pension commenced after 1 April 2014 will receive a proportionate increase based on the number of months they will have been in receipt of a pension from GEPF by 31 March 2015.

(b) The pension increase for the 2015/2016 financial year was based on the GEP Law, the rules and pension increase policy of the fund. The fund documents provide for a pension increase of 75% of the inflation rate over the 12 months to the end of the previous November (November 2014 in this instance) or higher if affordable. The Board of Trustees, together with the Minister of Finance and the Fund Actuary, have applied the full inflation related increase to ensure that pensions maintain their full purchasing power to ensure that pensioner's increase has matched the inflation rate.

In granting the above-mentioned pension increase, the Board of Trustees have taken into consideration the impact on the funding level of GEPF (i.e. the Board strives to maintain a healthy and sustainable ratio of assets to liabilities.) and the investment returns earned by the Fund.

(c) As mentioned in (b) above, the Board of Trustees do consider the investment returns earned by the Fund when determining the level of pension increases for retired members. The investment returns earned by the Fund has been strong over 2015/2016 and ahead of the 5.8% pension increase granted to retired members, however, it should be noted that looking at investment returns in isolation, especially over a short period of time, is not appropriate when determining the level of pension increases. A crude starting point for assessing affordability is to "subtract" the post-retirement discount rate from the investment performance. This is important because the first call on the investment performance is the rate of investment return required to meet the benefit promise to pensioners, as measured by the post-retirement discount rate. The Board would then make a decision based on various scenarios taking into account the impact on the funding level, the future economic outlook as well as the remaining portion of the investment performance after allowing for the post-retirement discount rate. It is important to take into consideration the future economic outlook since the investment performance in question is usually a one-year performance whereas a pension increase applies for many years into future. As such, underperformance in future years could jeopardise the funding position of the Fund as a whole.

(d) The Board of Trustees have set the investment strategy of the Fund with an aim in mind of meeting the liabilities of the GEPF as they fall due. The Board of Trustees have chosen a mix of assets (predominantly shares, bonds, properties and cash) that provides a level of diversification so that GEPF assets can grow in a consistent manner (i.e. by managing the volatility of the investment portfolio). The Board of Trustees and the investment manager, the Public Investment Corporation, are actively engaging to determine new areas of investment or ways in which to improve investment performance to ensure that the Fund remains in a strong position and that pension increases can be awarded in a sustainable manner.

(e) The table below: Adjusted tax rates applicable to individual taxpayers for the 2015/2016 tax year:

Tax thresholds		
	2014/2015 Tax year	2015/2016 Tax year
Below age 65	R 70 700	R 73 650
Age 65 to below 75	R 110 200	R 114 800
Age 75 and over	R 123 350	R 128 500

A taxpayer younger than 65 and earning a taxable income of R73 650 or less per annum, or a taxpayer 65 and older but younger than 75 and earning a taxable income of R114 800 or less per annum, or a taxpayer of 75 years and older and earning a taxable income of R128 500 or less per annum, will not pay any income tax in the 2015/2016 tax year. Therefore all taxpayers over the age of 65 years but below 75 years with taxable income less than R9 566.66 per month are exempted from personal income tax.