

**PROVIDENT FUND FOR THE FURNITURE
INDUSTRY OF THE WESTERN CAPE**
Surplus Communication | Number Two | August 2011

INTRODUCTION

This communication follows Communication Number One, which was issued in November 2010. Some of the information from the previous communication has been repeated, to ensure clear understanding for all parties.

This document is intended to be a brief and simple progress report on the obligations of the Trustees of Provident Fund for the Furniture Industry of the Western Cape ("the Fund") to comply with legislation that requires that any "surplus" monies in a retirement fund must be divided amongst eligible stakeholders of the fund, including any members who have left (resigned, retired, etc.) that retirement fund.

Update

On 3 August 2011, the actuary of the Fund presented his report to the Trustees on the financial position of the Fund, as at 31 October 2010, which is the date at which the surplus position needs to be determined.

The draft report indicates that there was a surplus in the Fund at this date.

The exact amount of the available surplus will be confirmed by the Financial Services Board, once the report by the actuary has been formally submitted to the authorities, together with a proposed plan of how the surplus is to be distributed amongst eligible stakeholders.

The Trustees of the Fund are now required to develop a Surplus Apportionment Scheme by following a series of steps:



This summary has been prepared by the trustees of the Fund, with input from Old Mutual Corporate.



- The Trustees must appoint a **Former Member Representative**. This person, who does not necessarily need to have been a former member of the Fund, is responsible for the protection of the rights of the former members.
- The Trustees are required to facilitate the provision of necessary data in respect of former members (dating back to 1980) to enable the actuary to recommend an equitable allocation of surplus between stakeholders.
- If there is insufficient data to perform this function, the Trustees are required to place advertisements in appropriate media publications requesting former members to register their prior membership with the Fund, and provide necessary data. At least 6 months must be allowed for this process.
- The Surplus Apportionment Scheme must allow for the allocation of surplus in line with the Surplus Act, which will require upgrades to be paid to former members who left the Fund before the Surplus Apportionment Date.
- The proposed Surplus Apportionment Scheme must be communicated to all stakeholders, who are then granted a 12 week period in which to provide feedback.
- The Surplus Apportionment Scheme can then be finalised and submitted to the Registrar of Pension Funds.
- The Surplus Apportionment Scheme must be submitted within 18 months after the Surplus Apportionment Date – that is, by 30 April 2012. Experience from other funds has shown that it is extremely difficult to complete the entire process in 18 months, and the trustees may need to apply for an extension.
- The Surplus Apportionment Scheme has to be formally approved by the Financial Services Board before any payments can start. This approval process can take many months.

A project team will be established to ensure all the required actions, as prescribed by legislation are timeously attended to.

The question everyone will be asking is: Who is entitled to a share of the surplus money?

Answer:

The law in this regard says that the first claim on the surplus is from **former members** (i.e. people who left the Fund) and who did not get a fair payment (defined as their “Minimum Benefit” in the Surplus Act) when they left.

Additional payments must thus first be made to all former members of the Fund who did not receive their Minimum Benefit. (“Minimum Benefit” means all member and company contributions, plus Fund interest.)

If there is any surplus left after all former members have received their allocations, the balance of the money can then be divided between all stakeholders, being the current active members of the Fund, the former members of the Fund, and the Employers. The Trustees need to agree a fair allocation in this regard.

Remember that if there is any surplus money left after all former members have received their allocations, and some of this money gets allocated to active members of the Fund, **the money is not available in cash, but will be added to fund balances.**

If you left the Fund, and re-joined at a later date, and are currently an active member of the Fund, any entitlement you may receive as a former member will be added to your balance in the Fund.

What happens to former members of the Fund who have died? Will their families receive any money?

Answer:

The precedent from most Funds who have gone through this process is that only former members who are alive at the Surplus Apportionment Date will be entitled to a benefit. Thus, only the beneficiaries of former members who die after 31 October 2010 would be potentially entitled to a benefit.

What needs to happen before active members will know if there is any surplus to be allocated to them?

Answer:

The administrator of the Fund needs to supply available details of former members to the actuary, who will then calculate which former members are due additional payments. This process will take at least six months to complete, and may include advertisements in appropriate media to try to trace former members where sufficient information is not available to do the necessary calculations.

This is all very complicated and I don't understand it ! As an active Fund member, what are the key points I need to understand about this process?

Answer:

There are three main points to understand at this stage:

1. The process is going to take a **long time** to complete. This is not the fault of the trustees or the administrator of the Fund, but simply due to the complexity of all the required steps, as prescribed in legislation. It is not possible at this stage to give an indication of when the process will be completed.
2. It is unlikely that there will be much money, if any, to distribute to active fund members as former members who did not receive both their and the Employer's contributions when they left the Fund have to be paid before any surplus can be awarded to active members.
3. **No cash payments** can be made to anyone who is still an **active fund member**.

Surplus Communication Number Three will be issued early in 2012, to provide a progress report to all stakeholders.