National Tertiary Retirement Fund

Pension Increase Recommendation: 1 March 2025

24 February 2025

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Agenda

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- Investment Returns
- Pension increase policy
- Pension Increase considerations
- Pension increase recommendation 2025
- History of increases

How your pension works

It is all about how the cake is eaten

The cake belongs the Pensioner Pool

- Your retirement money needs to provide you with a lifelong pension
- You can also choose that your surviving spouse should receive a pension on your death
- Now you need to decide what pension increases you would like to receive – 65% or 100% of inflation TARGET noting such increases are not guaranteed
- Now we need cut the cake according to your needs
    - Providing a spouse's pension means the slices need to be smaller depending on the age difference and gender
    - Providing for pension increases also means the slices need to be smaller as the Fund needs to increase the pension; the higher the provision for future pension increases the smaller the slices

It is all about how the cake is eaten

- If the targeted level of pension increases is 65% of inflation, the initial size of your cake is about 20 % bigger than if you choose targeted increases of 100% of inflation
- After being on pension for about 9 to 11 years the 100% of inflation pension may catch-up with the 65% of inflation pension, but this all depends what inflation is. The lower inflation, the longer it takes to catch-up and vice versa
- Almost all retirees are on the target of 65 % of inflation increases

Investment Returns

Investment returns

The cake can get a bit bigger or smaller over time depending on investment returns

- The Fund invests your money so that it grows
- It can take on more risk on the basis (hope) that if the cake gets bigger and it can provide bigger slices (via higher pension increases). However, if investment returns are poor, the slices will need to get smaller (via lower increases)
- The Fund has decided to follow a more conservative approach so that it can be reasonably sure of granting pension increases in line with the inflation targets of 65% or 100%.
- The Pensioner Portfolio has 25% investment offshore as a hedge against poor outcomes locally

Pension Increase Policy

- Provide annual pension increase of at least 65% of inflation (100% if so elected)

- Inflation is increase in CPI for the year ending 31 December 2024 (current measurement of inflation) =3%

- Inflation target of 65% =1.95% increase

  Inflation target of 100% =3 % increase

- Affordability provision – can grant a higher or lower increase if funding level above 102.5%

- 102.5% long term funding level (estimated a 70%-80% probability that we can grant increase of at least 65%/100% of CPI each year)

Pension Increase Considerations

Pension increase considerations

Item	31 Dec 2023 R'm	30 June 2024 R'm	30 Sept 2024 R'm	31 Dec 2024 R'm
Present value liability	4 482.8	4 679.2	4 953.4	4 891.7
Market value of assets	4 661.2	4 850.3	5 167.4	5 198.8
Surplus / (Shortfall)	178.4	171.1	214.1	307.1
Funding level	104.0%	103.7%	104.3%	106.3%

- Clearly scope to grant a pension increase in excess of the policy (1.95% and 3%)
- Allocate excess assets above 2.5% (that is 3.8%) on a consistent and fair to different generations of pensioners
- Based on above reasoning and discussion with Board, comfortable to allocate 2.3% of the 3.8% excess actuarial assets as an additional increase

Pension Increase Recommendation 2025

Recommendation

	65% of CPI	100% of CPI	Corresponding funding level
Increase based on CPI target	1.95%	3.00%	106.3%
Additional recommended increase	2.30%	2.30%	
Increase recommended (maximum)	4.25%	5.30%	104.0%
Percentage of CPI	141.7%	176.7%	

- A pensioner who has been in receipt of his/her pension for less than a year as at date of the increase, shall receive a pro-rated increase
- While investment markets can be unpredictable, it's important for pensioners to stay informed and manage expectations. It's wise to plan for the possibility that regular increases above 65%/100% of inflation may only occur from time to time.

History of increases

History of increases

Year	Inflation	Increase granted-65%	Percentage of inflation-65%	Increase granted-100%	Percentage of inflation-100%
01-Mar-14	5.40%	8.00%	148.15%		
01-Mar-15	5.30%	6.50%	122.64%		
01-Mar-16	5.30%	5.50%	103.77%		
01-Mar-17	6.70%	5.00%	74.63%		
01-Mar-18	4.70%	4.00%	85.11%		
01-Mar-19	4.50%	0.00%	0.00%		
01-Mar-20	4.00%	2.25%	56.25%		
01-Mar-21 (1)	3.10%	2.00%	64.52%		
01-Mar-22	5.90%	4.50%	76.27%		
01-Mar 23	7.20%	5.00%	69.44%		
01-Mar-24	5.10%	5.10%	100.00%		
01-Mar-25	3.00%	4.25%	141.7%	5.30%	176.7%

(1) LDI strategy was implemented during 2020 and pension increase policy was amended in February 2021.