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**THE INDEPENDENT COMMISSION  
FOR THE REMUNERATION  
OF  
PUBLIC OFFICE BEARERS**



**SECOND REPORT AND RECOMMENDATIONS  
ON THE MAJOR REVIEW  
OF SALARIES, BENEFITS, ALLOWANCES  
AND TOOLS OF TRADE  
OF PUBLIC OFFICE BEARERS**

**APRIL 2008**

**To: Mr TM Mbeki, the President of the Republic of South Africa**

We have the honour to submit to you, in terms of section 8(4) of the Independent Commission for the Remuneration of Public Office Bearers Act, 1997 (Act No. 92 of 1997), the recommendations of this Commission following the second phase of a major review of the remuneration structures and practices relating to all public office bearer positions in the Republic of South Africa.

Yours sincerely

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## EXECUTIVE SUMMARY

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- i. The Commission published a report and recommendations following its major review of public office bearer remuneration in March 2008, which report, amongst others, set out an underlying philosophy for public office bearer remuneration in South Africa, recorded comprehensive job profiles for each public office bearer position, designed institutional remuneration grading structures, and completed local and international public and private sector benchmarking, before it recommended what it considers to be fair, equitable and transparent remuneration packages for each public office bearer position.
- ii. The Commission's March 2007 report and recommendations however did not deal comprehensively with pension and medical aid benefits, and so-called tools of trade, which it undertook to address in a further review report. The current report therefore reports on the Commission's review of those aspects, and contains recommendations in respect thereof.
- iii. The review methodology applied by the Commission consisted of different phases. During most of those phases the Commission made use of the services of actuarial consultants with specific expertise in benefit analysis and design. The first phase of this methodology related to the collection and analysis of data in respect of current benefits. This was followed by a process of stakeholder engagements during which the Commission and its consultants not only engaged in direct consultations with stakeholders, but also considered various written submissions made to it by different stakeholders. In the next phase the Commission costed these stakeholder proposals, as well as different options for a benefit design for public office bearer positions in each institution. In the final phase of the review the Commission considered and designed recommendations in respect of what it considers to be fair, transparent

and accountable pension and medical aid benefits for public office bearers in South Africa.

- iv. The Commission also set out to review the resources required by different public office bearer positions in order for the incumbents to perform their respective duties effectively. These resources are commonly referred to as tools of trade. The Commission has come to the conclusion that the current practices in relation to the determination, allocation and usage of such tools of trade are neither transparent nor equitable, and would require major research before meaningful recommendations could be made in this regard. The Commission is not in a position to make such recommendations at this stage, and until significant improvements are made to the current lack of transparency in respect of these tools of trade. The Commission is nevertheless committed to revisit this review in the near future.
  
- v. Finally, the Commission is statutorily obliged to make annual recommendations in relation to the salary, benefits and allowances of all public office bearer positions. These recommendations are often referred to as cost-of-living remuneration adjustments. In this report, the Commission recommended for such adjustments based on factors such as projected CPIX figures and labour market expectations, on two scenarios. The first scenario is based on the implementation of total remuneration packages for all public office bearer positions, as recommended for in the Commission's March 2007 report, while the second scenario merely recommends for an adjustment to current remuneration levels, should the Commission's recommendations of March 2007 not be implemented.

## INTRODUCTION

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1. This Commission took the first step towards a major review of public office bearer remuneration when it published its review report and recommendations on 30 March 2007. The Commission has been advised that those recommendations were still being considered by the President, and have therefore not yet been implemented. The Commission however identified, in its March 2007 report, the need to amplify such report with a further report in relation to pension and medical aid benefits, as well as the resources required by public office bearers to perform their respective duties effectively (commonly referred to as "tools of trade").
2. These two review reports attempt to holistically address the many inequities that exist in the current system of public office bearer remuneration, and simultaneously consider how public office bearer remuneration and benefits practices have kept up with developments generally, and what measures were required to address instances where it did not. Therefore, seen as a whole, these two major review reports for public office bearer remuneration are aimed at furthering our constitutional democracy through effective governance practices which would accrue to the benefit of the broader public by establishing public office as a valuable and valued career option.
3. In the review report of March 2007 the Commission stated a remuneration policy in clear terms, and conceptualised the principles it considers to be of key importance in respect of public office bearer remuneration. Transparency, flexibility and fair remuneration were identified as the main objectives of the establishment of a remuneration regime for public office bearers. These principles are equally important in informing the Commission's review and recommendations in respect of pension and medical aid benefits, and tools of trade, contained in this second report.

4. Although these recommendations in some instances may carry with them increased costs, they are not aimed to enrich office-bearers, but rather to provide additional flexibility and choice, which the Commission believes to be important in attracting appropriate skills and talent to public office. It is true that without properly resourced, committed and effective public officials, the good and socially just society our Constitution promises will, in time, become illusory.
5. In one of the chapters of its March 2007 report, the Commission defined certain key concepts used frequently in relation to public office bearer remuneration, which are equally applicable to the same concepts referred to in this report. For ease of reference a schedule of all public office bearer positions in South Africa is duplicated as **Annexure A**.
6. The Commission recorded before that its March 2007 report did not deal with certain aspects of a total remuneration package. It undertook to supplement the review report with a further report dealing with, amongst others, appropriate pension and medical aid benefits, and tools of trade.
7. The following considerations underscore the need for a supplementary review in relation to pension and medical aid benefits, and tools of trade:
  - It should be determined whether current benefits and tools of trade are properly aligned to aspirations of the Constitution, and whether it facilitates effective, open, and accountable public governance.
  - Certain public office bearer benefit structures have possibly been implemented without due regard for processes established by law.
  - There is no transparent record of the specific tools of trade made available to each position in the relevant institutions.
  - There is a need for an exhaustive comparison of existing conditions of services, salaries, allowances and other benefits. This is especially relevant in view of a general perception that current pension



arrangements and tools of trade are totally inadequate and inequitable to achieve any of its objectives.

- It is necessary to determine whether benefits offered to public office bearers, and the practices for determination and usage thereof have kept pace with developments in remuneration practice and economic determinants of remuneration levels, benefits and tools of trade.
- Positions have been added at different times to the definition of “office-bearers”, without necessarily aligning their remuneration arrangements, including benefits with those of comparative positions.
- The processes for the allocation of tools of trade, as well as the nature and extent of such tools of trade vary widely across institutions.
- An accurate costing of both current and proposed benefits would be required to determine its affordability.
- The design of new or improved benefits should consider future needs of public office bearers and steer away from obvious past mistakes.
- The Commission has been advised repeatedly by serving public office bearers from different institutions that the tools of trade currently made available to them have not been commensurate with or customised to the requirements of their jobs, and are inadequate.
- The process for determining and allocating tools of trade to public office bearers must be fair and open to public scrutiny. While it would be inappropriate to attempt to achieve absolute parity amongst positions with vastly different performance requirements, there should be a degree of comparability in both the process and actual.
- A number of significant inequities exist in the current remuneration structure, as appears from the comparison of existing benefit arrangements across institutions, in **Annexure B**.

## REVIEW METHODOLOGY

8. This review report is informed to a large extent by what is contained in the Commission’s review report of March 2007. Most fundamentally, the

principles underlying public office bearer remuneration, as recorded in the March 2007 report, underpins also the allocation of benefits and tools of trade to public office bearers.

9. The Commission adopted a general methodology in relation to its review of pension and medical aid benefits, and tools of trade, that is characterised by a recordal and analysis of existing such benefits and tools of trade, followed by an evaluation of the nature of benefits and tools of trade that would be most appropriate to firstly give effect to the underlying principles for public office bearer remuneration, and secondly the particular requirements of the different positions in terms of the job descriptions formulated by the Commission in March 2007. Each of the stages of the review process is more fully set out in Table 1 below, which illustrates the activities and outcomes in respect of each of the phases of the project methodology utilised.

**Table 1: The review process and outcomes**

MARCH 2007 REVIEW REPORT	RECORDAL, COSTING AND ANALYSIS OF EXISTING BENEFITS	STAKEHOLDER INPUT AND ENGAGEMENT	BENEFIT DESIGN AND COSTING	SECOND REVIEW REPORT
<p><b>Activities</b></p> <ul style="list-style-type: none"> <li>• Remuneration philosophy statement</li> <li>• Job profiles</li> <li>• Grading structure</li> <li>• Benchmarking</li> <li>• Remuneration and benefits base pay structure</li> </ul>	<p><b>Activities</b></p> <ul style="list-style-type: none"> <li>• Collect and collate benefits data</li> <li>• Actuarial costing of existing benefits</li> <li>• Analysis of adequacy of existing benefits</li> </ul>	<p><b>Activities</b></p> <ul style="list-style-type: none"> <li>• Direct consultations</li> <li>• Written submissions</li> <li>• Costing of submissions and proposals</li> </ul>	<p><b>Activities</b></p> <ul style="list-style-type: none"> <li>• Consider options</li> <li>• Benefit design</li> <li>• Costing of proposed benefits</li> </ul>	<p><b>Activities</b></p> <ul style="list-style-type: none"> <li>• Draft report</li> <li>• Further stakeholder engagements</li> <li>• Statutory consultations</li> <li>• Consider final input</li> <li>• Publish report</li> </ul>
↑	↑	↑	↑	↑
<p><b>Outcomes</b></p> <ul style="list-style-type: none"> <li>• Basis for determination of benefits and tools of trade in a total remuneration framework</li> </ul>	<p><b>Outcomes</b></p> <ul style="list-style-type: none"> <li>• Baseline for benefits design phase</li> </ul>	<p><b>Outcomes</b></p> <ul style="list-style-type: none"> <li>• Evaluation and costing of stakeholder expectations</li> </ul>	<p><b>Outcomes</b></p> <ul style="list-style-type: none"> <li>• Fair, transparent and accountable benefits and tools of trade practice</li> </ul>	<p><b>Outcomes</b></p> <ul style="list-style-type: none"> <li>• Fair, justifiable and transparent total remuneration structure and tools of trade for all public office bearers in South Africa</li> </ul>

10. During the most critical period of the review, the Commission appointed Jacques Malan Consultants and Actuaries (JMCA) in 2007 to report to it on, amongst others, actuarial calculations:

- to ascertain the impact on the cost-to-company of current pension and medical aid benefits for all public office bearer positions; and
  - to determine the impact of recommended changes on the base salary on those same benefits, as published in the Commission's remuneration review report of 30 March 2007.
11. In the design phase, the Commission considered carefully different variables applicable to both a Defined Benefit and Defined Contribution pension scheme. These variables are set out in **Annexures C and D**.

#### **STAKEHOLDER AND PUBLIC COMMENT**

12. The Commission and its consultants engaged stakeholders from all public office bearer groups throughout this second phase of its major remuneration review. The aim of these consultations was to gather information, test different philosophies, approaches and the suggestions developed by different institutions on pension benefits, medical aid benefits and tools of trade. In this regard the Commission, had direct consultations with public office bearers, received submissions, completed international comparative studies, invited stakeholder comment and considered a number of consultant reports. The Commission is indebted for the high quality and valuable engagements and submissions, which have all been considered duly in the process of making the recommendations contained herein. Most essentially, these proposals were cost analyzed to determine, amongst others, the viability and affordability thereof.
13. The Commission also gained valuable insight from similar institutions and practices in other comparable countries. This lends credibility to the research and affords a more comprehensive basis for the determination of fair and equitable pension benefits, medical aid benefits and tools of trade.

14. The details of these submissions appear below, where pension and medical aid benefits, and tools of trade, for each institution is discussed.

#### **UNDERLYING PRINCIPLES AND KEY DECISION AREAS FOR PUBLIC OFFICE BEARER BENEFITS AND TOOLS OF TRADE**

15. The Commission formulated a set of underlying principles and objectives in determining public office bearer remuneration, in its report on 30 March 2007. They reflect the effort of the Commission to arrive at principled but practical bases for determining an equitable remuneration and benefits structure. It would be prudent to recollect those principles when considering the recommendations contained herein. Some key decision areas arise in respect of benefits and tools of trade, which should be considered within the framework of principles set out before.
16. The benefit design should consider the needs of both the public office bearer and his or her family. A useful measure is an appropriate Net Replacement Ratio (NRR) for a given retirement age and tenure.
17. One alternative for the design of a benefits structure is to require compulsory membership in particular pension and medical aid funds. Another is to increase remuneration with an amount which would enable discretionary retirement and medical aid arrangements. Currently some public office bearers are obliged to be members of specified benefit funds, while others have the option of voluntary membership.
18. The modern practice for the design of pension and medical aid benefits is to ensure equity in the level of contributions, as opposed to in the benefits emerging from the schemes. Where benefits are fixed, the contributions are usually different due to factors such as age, sex or other risk parameters. It is necessary therefore to consider what could be regarded as equitable, which could be achieved through:

- Consistent contributions for similarly profiled members;
  - Consistent benefit levels for similarly profiled members;
  - Consistent benefit values for similarly profiled members.
19. The pension and medical aid benefits must be simple to communicate. Currently the pension benefit designs applicable to different public office bearer groups display significant differences. One striking example is that some public office bearers are members of a defined contribution fund whilst others are members of a defined benefit fund, while yet others enjoy an unfunded defined benefit. It is however questionable whether uniform benefits across institutions would take cognizance of the differences amongst positions.
20. Under a defined benefit design, the contribution rate of a member and the benefit at retirement is defined, whereas the contribution rate of the employer is not guaranteed and the employer must carry the balance of the cost of providing the benefit at retirement. Under a defined contribution design, the contributions of the member and the employer are fixed as a percentage of pensionable salary and the benefit at retirement is unknown. Both designs have merit.
21. Currently the existing benefits designs distinguish between different positions as reflected in **Table 2** below.

**Table 2: Existing pension benefit designs**

<b>Institution</b>	<b>Benefit</b>	<b>Fund</b>
President	Defined benefit	Unfunded
National and Provincial Legislatures and the Executive	Defined contribution, plus additional service benefit (ASB, which is a defined benefit)	Political Office Bearer Pension Fund (POBPF) plus unfunded ASB
Local Government	Defined contribution fund	Municipal Council Pension Fund (MCPF)
Judges	Defined benefit	Unfunded
Magistrates	Defined benefit fund	Government Employees Pension Fund (GEPF)
Traditional Leaders	No benefits	Not applicable

22. The affordability of proposed pension and medical aid benefits, and tools of trade, should be carefully considered, and especially in respect of both funded and unfunded pension benefits.
23. A measure of flexibility should be designed within the pension and medical aid schemes to cater for different needs of individual public office bearers. Younger public office bearers usually require higher risk cover, while older members prefer flexible retirement benefits. The extent of flexibility should be weighed up against the risks and costs of implementation and communication. The nature of certain public office bearer positions is such that, at times, it results in a short tenure, which implies short savings and accrual periods for the members.
24. It is evident from the data presented to the Commission that public office bearers tend to be younger than in the past, and serve for shorter periods of time. In such an instance, pension accrual would only yield benefits equal to small portions of salary, which is insufficient to maintain a living standard, to be paid to these members. Furthermore, the cost of providing appropriate pension benefits to younger members of a fund is high due to the longer life expectancy. A lump sum benefit is therefore sometimes considered more appropriate for positions characterised by shorter tenures.
25. An important aspect to consider is whether membership to a benefit fund should be compulsory or voluntary. The main advantage of compulsion is to enforce a savings discipline. The alternative is to allow members to make individual arrangements according to their own needs, and then to increase discretionary portions of their remuneration packages.
26. Healthcare needs are generally expected to be similar despite the differences amongst public office bearer positions and institutions.

## REVIEW, ANALYSIS AND RESULTS

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27. The Commission is acutely aware of the possibility of some negative public sentiment which may result from the extent of its remuneration recommendations contained in this report. The Commission however strongly believes that it has a constitutional duty to make remuneration recommendations which are fair and justifiable, and which are made without fear, favour or prejudice.
28. The Commission has formed a view that public office bearer remuneration has not kept pace with economic and other developments in the past. In addition, remuneration and benefit levels have not to date been determined in accordance with scientific methodologies. The Commission therefore set out to make recommendations which would, for the first time, settle public office bearer remuneration at levels that would be fair, just and equitable, and at the same time reflect the value of public office and service to the country.
29. The review results are presented for each Public Office Bearer institutional group, namely National Executive and Deputy Ministers, Parliament (National Assembly and National Council Of Provinces), Provincial Legislatures, Local Government, Traditional Leaders, and the Judiciary (Judges and Magistrates).

**PENSION BENEFITS**

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**NATIONAL EXECUTIVE, NATIONAL PARLIAMENT, AND PROVINCIAL LEGISLATURES**

30. All members of National Executive (excluding the President), National Assembly, National Council of Provinces, and Provincial Legislatures contribute towards the Political Office Bearers Pension fund.

CURRENT BENEFITS

31. The Political Office Bearers Pension fund provides a defined contribution benefit and a defined benefit, namely the Additional Service Benefit, to its members. The Fund therefore has a hybrid structure. The Additional Service Benefit is funded on a pay as you go basis.
32. A summary of the main provisions of the Rules of the Fund are set out below.

MEMBERSHIP

33. Membership is compulsory for all Political Office-Bearers who are defined as follows:
- an Executive Deputy President;
  - a Minister or Deputy Minister;
  - a member of the National Assembly or National Council of Provinces;
  - the Premier or a member of the Executive Council of a province;
  - a member of a Provincial Legislature;
  - a diplomatic representative of the Republic of South Africa who is not a member of the public service;



- any other person recognised as a Political Office-Bearer for the purposes of Section 190A of the Interim Constitution of 1993, which in turn requires that such persons be recognised for this purpose by an Act of Parliament.

#### CONTRIBUTIONS

34. Current member and employer contributions are as follows:

- Members: 7.5% of pensionable salary; and
- Employer: 22.5% of pensionable salary of which a minimum of 17% is allocated towards retirement fund benefits, 4.5% towards reinsured risk benefits and 1% towards administration and expenses, plus a once-off contribution when the Additional Service Benefit becomes payable

#### MINIMUM RETIREMENT AGE

35. The retirement age prescribed by the Fund is last day of the month in which a member attains the age of 50 years. If at minimum retirement date a member is still a Political Office Bearer, he or she and the Employer shall continue to contribute until such date on which the Member ceases to be a Political Office Bearer.

#### MEMBER SHARES

36. Member and Employer contributions, at a total rate of 24.5% of pensionable salary, plus any Transfer Value are accumulated with the actual return earned by the assets of the Fund.

NORMAL RETIREMENT BENEFITS

37. A Member shall become entitled to his Member's Share plus his Additional Service Benefit, if applicable, on the date of retirement, of which benefit the member may commute up to one-third for a lump sum. The balance must be used to purchase a pension.
38. The Additional Service Benefit is based on a member's revalued pensionable salary and the number of terms in office. The benefit is specified as one times the member's revalued pensionable salary times the number of terms in office (with a maximum of two terms in office). Thus, the benefit is subject to a maximum of two times the member's revalued pensionable salary.
39. The revalued pensionable salary is defined as the average of the member's annual pensionable salary over the period of qualifying service, adjusted to take into account any annual cost of living increases that may have been granted. It is determined by applying a revaluation factor relevant to each financial year, taking account of the exact period of service (if any) in each financial year. The revalued pensionable salary is subject to a minimum of the member's actual annual pensionable salary at the member's date of exit.
40. The Additional Service Benefit was originally introduced with reference to the two terms of office ending 2004. In consultations we had with our consultants, we were advised that the actuaries of the Fund have indicated through the valuation report of the Fund that this benefit will also be applicable to terms of office after 2004 with a maximum benefit based on two terms. The Commission was unable to ascertain the regulatory source for the proposed extension.

EARLY RETIREMENT BENEFITS

41. Members may not retire before reaching the age of 50 except on grounds of ill health.

DEATH IN SERVICE BENEFITS

42. If a Member dies still being a Political Office Bearer, a benefit is payable equal to the sum of the Reinsured Death Benefit and the Member Share which includes the Additional Service Benefit, where the Reinsured Death Benefit is determined as follows:

- The Reinsured Death Benefit that can be provided by the required contribution of 4.5% of salaries less the cost of the separate disability benefit. Since 1 July 2003, the insured death benefits for all members have been five times annual pensionable salary.

43. The current cost to reinsure the death benefit is less than 4.5% of salaries. The balance is allocated to fund the Risk Reserve and excess amounts are allocated to Member Shares from time to time.

44. With effect from 1 June 2003 these amounts are applied to secure insured pension annuities for and in the names of the members' beneficiaries, unless the beneficiaries choose to commute part of or all of the benefits for a lump sum (which may be paid into Trust).

FUNERAL BENEFITS

45. There are no Funeral Benefits for members of the Fund.

WITHDRAWAL BENEFITS

46. Members receive their Member Share, including the Additional Service Benefit, in cash or can transfer it to another fund or it can be retained in the Fund as a paid-up benefit. A deferred beneficiary may not take benefits before reaching the age of 50.

DISABILITY BENEFITS

47. A separately insured disability income benefit is provided externally to the Fund, for members under the age of 65. Membership of the Fund continues while an employee is in receipt of this benefit. There is a six month waiting period, and with the following insured monthly benefit structure:
- 75% of the first R31,500 of monthly pensionable salary; plus
  - 60% of the next R42,000 of monthly pensionable salary; plus
  - 50% of the balance of pensionable salary;
  - Plus an employer waiver of 22.5% of monthly pensionable salary.
48. The benefit is currently capped at a maximum benefit of R60,000 per month. Benefits escalate at the lesser of 7% or CPI per annum.
49. Benefits are payable until the age of 50 or until the end of the current term of office of the Member, if the claimant is older than 50, but not beyond the age of 65.
50. A member who does not qualify for this benefit but satisfies the Trustees that he or she has become incapable of carrying out their duties, may be granted early retirement on grounds of ill-health. The member shall then be entitled to a retirement benefit provided by his Member Share including the Additional Service Benefit.

NET REPLACEMENT RATIOS

51. The net replacement ratio (NRR) is the annual pension expressed as a percentage of the final annual pensionable salary. Therefore, if a person earned a pensionable salary of R100,000 per annum in the year before retirement, a 70% NRR means that he or she will be receiving an annual pension of R70,000 per annum on retirement.

52. Based on the assumptions set out in **Annexure F**, the benefits as a percentage of final salary of Political Office Bearers in terms of the Fund are given in Table 3 below for different entry and retirement ages (including ASB).

**Table 3: Benefits at retirement (POBF)**

2/3 Annual joint pension expressed as a percentage of final salary							
		Age at Retirement					
		50	55	60	65	70	75
Age at Entry	30	30.9%	42.0%	56.9%	77.4%	106.4%	148.9%
	35	23.6%	33.1%	45.8%	63.1%	87.8%	124.0%
	40	17.4%	25.4%	36.0%	50.7%	71.6%	102.3%
	45	8.2%	18.6%	27.6%	40.0%	57.6%	83.5%
	50	X	9.0%	20.1%	30.5%	45.3%	67.1%
	55	X	X	9.8%	22.5%	34.7%	52.9%
	60	X	X	X	10.8%	25.5%	40.4%
	65	X	X	X	X	12.2%	29.6%

1/3 Lump sum benefit expressed as a percentage of final salary							
		Age at Retirement					
		50	55	60	65	70	75
Age at Entry	30	291.1%	369.7%	460.0%	563.9%	683.3%	820.7%
	35	222.8%	291.1%	369.7%	460.0%	563.9%	683.3%
	40	163.3%	222.8%	291.1%	369.7%	460.0%	563.9%
	45	78.3%	163.3%	222.8%	291.1%	369.7%	460.0%
	50	X	78.3%	163.3%	222.8%	291.1%	369.7%
	55	X	X	78.3%	163.3%	222.8%	291.1%
	60	X	X	X	78.3%	163.3%	222.8%
	65	X	X	X	X	78.3%	163.3%

53. Table 4 below shows the pension that could be purchased if the value of the total benefits (any cash benefit plus pensions to be paid) were to be used to purchase a pension. The pension that a member will be entitled to on retirement is converted to a cash amount and any cash gratuity is added to this amount to determine the value of the total benefits. The value of total benefits is then divided by annuity factors that are determined according to a set of assumptions that is consistent for all stakeholder groups. This enables a just comparison to be made between the value of the benefits received by the various stakeholder groups. The NRR of total benefits (average of males and females) are therefore as set out in Table 4 below.

**Table 4: Total NRR of POBPF benefits**

		Total benefits as pension expressed as a percentage of final salary					
		Age at Retirement					
		50	55	60	65	70	75
<b>Age at Entry</b>	<b>30</b>	46.5%	63.5%	86.4%	118.2%	163.8%	231.7%
	<b>35</b>	35.6%	50.0%	69.4%	96.4%	135.2%	192.9%
	<b>40</b>	26.0%	38.3%	54.6%	77.5%	110.3%	159.2%
	<b>45</b>	12.5%	28.0%	41.8%	61.0%	88.6%	129.9%
	<b>50</b>	X	13.5%	30.7%	46.7%	69.8%	104.4%
	<b>55</b>	X	X	14.7%	34.2%	53.4%	82.2%
	<b>60</b>	X	X	X	16.4%	39.2%	62.9%
	<b>65</b>	X	X	X	X	18.8%	46.1%

MEMBERSHIP DATA

54. The Commission received the membership data of the Political Office Bearers Pension Fund from the Fund’s administrator. The effective date of the data is 1 January 2008. The effective date of the rules provided to us is 31 December 2006 and according to the consultant of the Fund no rule amendments have been implemented since that date.

55. The data provided to the Commission did not allow us to separate the members of the Political Office Bearers Pension Fund into members of

the National and Provincial Legislature. Therefore in our calculations we considered the Political Office Bearers Pension Fund in its totality and ignored the different membership groups that make up the Fund.

56. The total membership at 1 January 2008 is 883 active members. Since membership of the Fund is compulsory for the members of the National and Provincial Executive and Legislature, we made the assumption that the data includes all public office bearers in these institutions.

57. The data provided included the following information for all members:

- Date of birth,
- Date of employment,
- Date that the member joined the Fund,
- Annual salary,
- Fund credit,
- Gender.

**Table 5: Summary of POBPF membership data**

	Past Service	Number of Members	Average Past Service	% of Membership	Average Age	Average Fund Credit ( R )	Average Annual Salary ( R )
<b>Males</b>	<= 5 Years	213	3.20	24.12%	49.99	375,726	375,198
	> 5 Years and <= 10	176	8.15	19.93%	52.84	1,215,261	438,266
	> 10 Years	214	13.47	24.24%	56.32	2,751,854	491,353
<b>Females</b>	<= 5 Years	91	3.06	10.31%	50.18	356,261	373,186
	> 5 Years and <= 10	83	8.08	9.40%	52.27	1,181,830	448,125
	> 10 Years	106	13.30	12.00%	56.41	2,678,154	526,065
<b>Total</b>		<b>883</b>	<b>8.33</b>	<b>100%</b>	<b>53.09</b>	<b>1,469,092</b>	<b>440,678</b>

	Age	Number of Members	Average Age	% of Membership	Average Past Service	Average Fund Credit ( R )	Average Annual Salary ( R )
Males	<= 35 Years	18	33.44	2.04%	4.01	259,193	380,329
	> 35 Years and <= 45	128	41.55	14.50%	6.58	3,283,807	430,618
	> 45 Years and <= 55	235	50.56	26.61%	8.46	6,998,670	445,283
	> 55 Years and <= 65	139	59.49	15.74%	9.62	4,149,165	440,144
	> 65 Years	83	71.42	9.40%	9.12	1,918,418	414,639
Females	<= 35 Years	8	33.13	0.91%	4.00	126,150	401,009
	> 35 Years and <= 45	57	41.95	6.46%	7.18	1,669,255	452,424
	> 45 Years and <= 55	116	50.73	13.14%	8.32	3,298,182	463,007
	> 55 Years and <= 65	64	60.27	7.25%	9.14	1,766,683	456,723
	> 65 Years	35	71.00	3.96%	10.51	935,215	428,053
<b>Total</b>		<b>883</b>	<b>53.09</b>	<b>100%</b>	<b>8.33</b>	<b>1,469,092</b>	<b>440,678</b>

58. Nearly 32% of members are female, and the ratio of members in the first five years versus second five years, and also more than ten years service, is very close to being a third each, namely 35%, 29% and 36%.

EXISTING COST

59. The Defined Contribution part of the benefit structure is 100% funded. The total of the Active Member Shares as at 1 January 2008 is **R1 297m**. The total of the Active Members' Assets (Total of Fund Credit and Reserve Accounts) amounted to approximately **R 1 319m** as at 1 January 2008.

60. In addition to the assumptions set out in Annexure F, we made the following assumption specific to the Political Office Bearers Pension Fund:



- The Revalued Pensionable Salary for the calculation of the Additional Services Benefit (ASB) was taken as the Annual Salary in the data.

61. The costs as at 1 January 2008 are set out in Table 6 below:

**Table 6: Costs for providing POBPF benefits (1 January 2008)**

Scenario	Unfunded ASB Past Service Liability (R'm)	% of Pensionable Salaries	ASB Liability accruing during 2008 (R'm)	% of Pensionable Salaries
Current Salaries	R 581	149.32%	R 45	11.57%
Recommended Salaries	R 671	151.5%	R 50	11.20%

Scenario	Employer Annual Contributions (R'm)	Employer contribution as a % of Pensionable Salaries	Member contribution as a % of Pensionable Salaries	Total contribution as a % of Current Pensionable Salaries
Current Salaries	R 87.55*	22.50%*	7.50%	30.00%*
Recommended Salaries	R 99.67*	22.50%*	7.50%	30.00%*

\* This includes the amounts contributed towards risk cost and other expenses of 5.5%.

62. Annualised Payroll as at 1 January 2008 of current salaries is taken as R 389.1m and of recommended salaries is taken as R433m.

## **COSTING OF SUBMISSIONS**

63. The Commission received a submission from National Parliament, which suggests that consideration be given to providing members with the following retirement benefits:

- **Pension**

- After 5 years of service a lump sum benefit equal to 60% of pensionable salary for each year of service.
- After 10 years of service, a pension equal to 66.66% of pensionable salary.
- After 15 years of service, a pension equal to 100% of pensionable salary.
- The spouse of a deceased member to receive 75% of the amount to which the deceased member was entitled at the date of death.
- In the absence of a surviving spouse, the minor children or legal dependants, to receive 50% of the amount to which the deceased member was entitled to, which amount is to be paid over to the executor of the deceased's estate.

- **Gratuity**

- A gratuity of 13.33% of final pensionable salary, for each year of service capped at 15 years, to assist the member to pay off debts, such as mortgage bond and motor vehicle loan.
- In addition, a severance allowance of 80% of final pensionable salary to be paid for a period of three months.

64. According to the Parliamentary submission, the above benefits should be provided on a retirement age of 50 years. The submission does not distinguish between Normal Retirement, Early Retirement, Withdrawal

and Disability Benefits. We assumed cost neutrality on Early Retirement, Withdrawal and Disability Benefits in our costings.

65. Total NRR's of the proposed benefits (average of males and females) are as appear in Table 7 below.

**Table 7: Parliamentary benefits proposal**

Annual pension expressed as a percentage of final salary							
		Age at Retirement					
		50	55	60	65	70	75
Age at Entry	30	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	35	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	40	66.7%	100.0%	100.0%	100.0%	100.0%	100.0%
	45	16.0%	66.7%	100.0%	100.0%	100.0%	100.0%
	50	X	17.2%	66.7%	100.0%	100.0%	100.0%
	55	X	X	18.8%	66.7%	100.0%	100.0%
	60	X	X	X	21.0%	66.7%	100.0%
	65	X	X	X	X	24.0%	66.7%
Gratuity expressed as a percentage of final salary							
		Age at Retirement					
		50	55	60	65	70	75
Age at Entry	30	200.0%	200.0%	200.0%	200.0%	200.0%	200.0%
	35	200.0%	200.0%	200.0%	200.0%	200.0%	200.0%
	40	133.3%	200.0%	200.0%	200.0%	200.0%	200.0%
	45	66.7%	133.3%	200.0%	200.0%	200.0%	200.0%
	50	X	66.7%	133.3%	200.0%	200.0%	200.0%
	55	X	X	66.7%	133.3%	200.0%	200.0%
	60	X	X	X	66.7%	133.3%	200.0%
	65	X	X	X	X	66.7%	133.3%
Severance Allowance expressed as a percentage of final salary							
		Age at Retirement					
		50	55	60	65	70	75
Age at Entry	30	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
	35	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
	40	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
	45	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
	50	X	20.0%	20.0%	20.0%	20.0%	20.0%
	55	X	X	20.0%	20.0%	20.0%	20.0%
	60	X	X	X	20.0%	20.0%	20.0%
	65	X	X	X	X	20.0%	20.0%
Total benefits as pension expressed as a percentage of final salary							
		Age at Retirement					
		50	55	60	65	70	75
Age at Entry	30	111.7%	112.6%	113.8%	115.4%	117.6%	120.7%
	35	111.7%	112.6%	113.8%	115.4%	117.6%	120.7%
	40	74.8%	112.6%	113.8%	115.4%	117.6%	120.7%
	45	20.6%	75.5%	113.8%	115.4%	117.6%	120.7%
	50	X	22.1%	76.3%	115.4%	117.6%	120.7%
	55	X	X	24.2%	77.4%	117.6%	120.7%
	60	X	X	X	27.0%	78.9%	120.7%
	65	X	X	X	X	30.9%	81.1%

66. The last table included in table 7 above shows the pension that could be purchased if the value of the total benefits (any cash benefit plus pensions to be paid) were to be used to purchase a pension. The pension that a member will be entitled to on retirement is converted to a cash amount and any cash gratuity is added to this amount to determine the value of the total benefits. The value of total benefits is then divided by annuity factors that are determined according to set of assumptions that is consistent for all stakeholder groups. This enables a just comparison to be made between the value of the benefits received by the various stakeholder groups. The NRR of total benefits (average of males and females) therefore as set out in the last section of Table 7 above.

67. The estimated cost of the proposal at a minimum retirement age of 50 is given in Table 8 below (the figures are based on the active members of the current fund):

**Table 8: Estimated cost of Parliamentary proposal**

Scenario on current salaries	Gross Past Service Liability as at 1 January 2008	Net Past Service Liability as at 1 January 2008	Present Value of the Liability accruing over the year	Member Contribution as a % of Pensionable Salaries	Employer Contribution as a % of Pensionable Salaries	Total Contribution as a % of Pensionable Salaries
NRA 50	R 3 632M	R 2 313M	R 346M*	7.5%	87%*	94.5%*

Scenario on salaries recommended in March 2007 report	Gross Past Service Liability as at 1 January 2008	Net Past Service Liability as at 1 January 2008	Present Value of the Liability accruing over the year	Member Contribution as a % of Pensionable Salaries	Employer Contribution as a % of Pensionable Salaries	Total Contribution as a % of Pensionable Salaries
NRA 50	R 4 258M	R 2 939M	R 399M*	7.5%	88%*	95.5%*

\* The amounts shown in the table above include contributions toward risk costs and administration expenses of 5.5%. We assumed that current risk and administration costs on the POBPF would apply to the Parliamentary submission.

68. The minimum retirement age of 50 implies that commencement of the annuity is deferred until the minimum age is applicable and the gratuity is paid at the date of exit.
69. The amounts given in Table 8 above only extends to the current active members of the Fund. Should the parliamentary proposal be extended to members who exited the Fund since 1994 the cost would be significantly higher. Under the parliamentary proposal at the current salaries where retirement is allowed at age 50, the cost of providing top-up benefits to exited members is estimated to be **R1 812M**.
70. The total past service cost will thus be **R 4 125M** on current salaries, and **R4 751M** on recommended salaries, for active Members and all the Members who exited the fund since 1994. On current salaries the contribution rate from the Member and the State would be **94.5%** (including the 5.5% admin and risk costs) of pensionable salaries to provide for the benefits as the service of Members accrue. We have ignored the provision for the current ASB in the comments above.

**MUNICIPAL COUNCILLORS**

71. The Municipal Councillors Pension Fund (MCPF) is a defined contribution pension fund. A summary of the main provisions of the Rules are set out below.

CURRENT BENEFITS

72. All councillors of a participating Municipality are entitled to become Members of the Fund. According to our most recent records 7,012 out of the 8,500 Councillors are members of the Municipal Councillors Pension Fund.

73. A Member who ceases to be a Councillor of a participating Municipality shall cease to be a member. After the normal retirement age a councillor may only become a member with approval of his or her municipality, who will then apply in writing to the trustees for membership.

CONTRIBUTIONS

74. Current member and employer contributions are as follows:

- Members: 13.75% of pensionable salary; and
- Employer: 15% of pensionable salary of which a minimum targeted amount of 9% is allocated towards retirement fund benefits, and the rest towards risk benefits and expenses

NORMAL RETIREMENT AGE

75. The retirement age prescribed by the Fund is last day of the month in which a member attains the age of 60 years. If at normal retirement date a Member is still a Councillor, the member and his or her Local

Municipality shall continue to contribute until such date on which he or she ceases to be a Councillor.

#### MEMBER SHARES

76. Member and Employer contributions at a total targeted rate of 22.75% of pensionable allowances plus any Transfer Value are accumulated with the actual return earned by the assets of the Fund.

#### NORMAL RETIREMENT BENEFITS

77. A Member shall become entitled to his Member's Share on date of retirement, of which benefit the member may commute up to one-third for a lump sum. The balance must be used to purchase a pension.

#### EARLY RETIREMENT BENEFITS

78. Members may retire early after reaching the age of 55, or at any other age allowed by the Commissioner as a retirement age.
79. The benefit payable on early retirement is equal to the Member Share and is subject to the provisions stated above for Normal Retirement.

#### DEATH IN SERVICE BENEFITS

80. If a Member dies while he is still a Councillor, a gratuity is payable equal to the sum of the Reinsured Death Benefit and the Member Share, where the Reinsured Death Benefit is determined as follows:
- If the Member is 75 or older he or she is entitled to one times annual salary.

- If the Member is between the age of 65 and 75 and entered the Fund after 5 December 2000 then he or she is entitled to three times annual salary.
- If the Member is between the age of 65 and 75 and entered the Fund before 5 December 2000 then he or she is entitled to five times annual salary.
- If the member is younger than 65 he or she is entitled to five times annual salary.

#### FUNERAL BENEFITS

81. The following amounts shall be applied towards funeral costs of the declared relatives of the Member:

- Death of a Member: R 10 000
- Death of an Eligible Spouse: R 7 500
- Death of each child up to 21 years of age: R 3 000

provided that these benefits shall be insured under a separate policy, and benefits will only be payable if the Insurer pays the benefit.

#### WITHDRAWAL BENEFITS

82. Members receive their Member Share in cash, or can transfer it to another fund.

#### DISABILITY BENEFITS

83. No disability benefits are provided by the Fund. Members receive their Member Share in cash or can transfer it to another fund.



NET REPLACEMENT RATIOS

84. The net replacement ratio (NRR) is the annual pension expressed as a percentage of the final annual pensionable salary. Therefore, if a person earned a pensionable salary of R100,000 per annum in the year before retirement a 70% NRR means that he or she will be receiving an annual pension of R70,000 per annum on retirement.

85. Based on the assumptions in **Annexure F**, the benefits of Municipal Councillors are given in Table 9 below for different entry and retirement ages.

**Table 9: Benefits at retirement (MCPF)**

		2/3 Annual Pension expressed as a percentage of final salary				
		Age at Retirement				
		55	60	65	70	75
Age at Entry	30	31.9%	45.2%	63.4%	89.1%	127.1%
	35	23.7%	34.8%	50.1%	71.9%	103.9%
	40	16.5%	25.8%	38.6%	56.8%	83.8%
	45	10.3%	18.0%	28.6%	43.8%	66.3%
	50	4.8%	11.1%	19.9%	32.5%	51.0%
	55	X	5.3%	12.2%	22.6%	37.8%
	60	X	X	5.8%	14.0%	26.2%
65	X	X	X	6.6%	16.4%	

  

		1/3 Lump sum benefit expressed as a percentage of final salary				
		Age at Retirement				
		55	60	65	70	75
Age at Entry	30	281.4%	365.3%	461.7%	572.6%	700.1%
	35	208.4%	281.4%	365.3%	461.7%	572.6%
	40	145.0%	208.4%	281.4%	365.3%	461.7%
	45	89.8%	145.0%	208.4%	281.4%	365.3%
	50	41.8%	89.8%	145.0%	208.4%	281.4%
	55	X	41.8%	89.8%	145.0%	208.4%
	60	X	X	41.8%	89.8%	145.0%
65	X	X	X	41.8%	89.8%	

86. Table 10 below shows the pension that could be purchased if the value of the total benefits (any cash benefit plus pensions to be paid) were to be used to purchase a pension. The pension that a member will be entitled to on retirement is converted to a cash amount and any cash gratuity is added to this amount to determine the value of the total benefits. The

value of total benefits is then divided by annuity factors that are determined according to set of assumptions that is consistent for all stakeholder groups. This enables a just comparison to be made between the value of the benefits received by the various stakeholder groups. The NRR of total benefits (average of males and females) are therefore as set out in Table 10 below.

**Table 10: Total NRR of MCPF total benefits**

Total benefits as pension expressed as a percentage of final salary						
		Age at Retirement				
		55	60	65	70	75
<b>Age at Entry</b>	<b>30</b>	48.3%	68.6%	96.8%	137.3%	197.7%
	<b>35</b>	35.8%	52.9%	76.6%	110.7%	161.7%
	<b>40</b>	24.9%	39.2%	59.0%	87.6%	130.4%
	<b>45</b>	15.5%	27.2%	43.7%	67.5%	103.1%
	<b>50</b>	7.1%	16.8%	30.4%	50.0%	79.4%
	<b>55</b>	X	7.8%	18.8%	34.8%	58.8%
	<b>60</b>	X	X	8.9%	21.5%	41.0%
	<b>65</b>	X	X	X	10.0%	25.4%

87. Table 10 above reflects that, even after 15 years as a Councillor, the benefit is low.

MEMBERSHIP DATA

88. The data provided to the Commission included the following useful information for all members:

- Date of birth,
- Date of joining the Fund,
- Annual salary
- Gender.

89. It should be noted that membership to the Municipal Councillors Pension Fund is not compulsory for Municipal Councillors. Almost every month new members join the Fund. The latest figure we received during December 2007 was that about 83% of Councillors participated in the Municipal Councillors Pension Fund.

90. The data as at 1 August 2007 can be summarised in Table 11 below.

**Table 11: Summary of MCPF membership data**

	Past Service	Number of Members	Average Past Service	% of Membership	Average Age	Average Annual Salary ( R )
<b>Males</b>	<= 5 Years	2 916	2.14	42.45%	45.21	113 495
	> 5 Years and <= 10 Years	1 293	7.10	18.82%	48.97	139 639
	> 10 Years	230	13.49	3.35%	53.66	186 156
<b>Females</b>	<= 5 Years	1 717	2.09	24.99%	45.03	116 404
	> 5 Years and <= 10 Years	609	7.14	8.86%	48.68	145 257
	> 10 Years	105	12.67	1.53%	53.54	207 049
<b>Total</b>		<b>6 870</b>	<b>4.05</b>	<b>100%</b>	<b>46.59</b>	<b>125 820</b>

	Age	Number of Members	Average Age	% of Membership	Average Past Service	Average Annual Salary ( R )
<b>Males</b>	<= 35 Years	553	32.02	8.05%	3.08	113 475
	> 35 Years and <= 45 Years	1 705	40.73	24.82%	3.70	125 815
	> 45 Years and <= 55 Years	1 321	50.03	19.23%	4.36	127 721
	> 55 Years and <= 65 Years	596	59.99	8.68%	5.48	129 354
	> 65 Years	264	70.10	3.84%	5.65	118 323
<b>Females</b>	<= 35 Years	309	31.87	4.50%	2.59	111 955
	> 35 Years and <= 45 Years	882	40.80	12.84%	3.42	119 806
	> 45 Years and <= 55 Years	816	50.00	11.88%	4.06	136 238
	> 55 Years and <= 65 Years	359	59.76	5.23%	4.99	136 943
	> 65 Years	65	69.08	0.95%	5.30	145 714
<b>Total</b>		<b>6 870</b>	<b>46.59</b>	<b>100%</b>	<b>4.05</b>	<b>125 820</b>

91. The female component of membership is about 35% and the ratio in the time periods is very different from the Parliamentary membership. For members with less than five years there are 67%, between five and ten years there are 28% and only 5 % above ten years. This clearly reflects a material change in the people elected to such positions at the last election. Furthermore, not all Councillors belong to the fund at the moment but the outstanding number is reducing all the time as Councillors elect to join.

EXISTING COST

92. The Defined Contribution liabilities of Municipal Councillors are 100% funded by definition. We have estimated the Member Shares as at 1 January 2008 as **R838m**. This value was calculated by multiplying the ratio of member shares to investments at the latest valuation date (30 June 2006) with the total investments as at 1 January 2008.

93. The estimated Defined Contribution past service liability is important for purposes of calculating past service cost of alternative benefit structures.

94. The costs as at 1 January 2008 are set out in Table 12 below.

**Table 12: Costs for providing MCPF benefit (1 January 2008)**

Scenario	Employer Annual Contributions(R'm)	Employer Contributions as a % of Pensionable Salaries	Member Contributions as a % Pensionable Salaries	Total Contributions as % of Pensionable Salaries
Current Salaries	R 129.7*	15.0%*	13.75%	28.75%*
Recommended Salaries	R 136.7*	15.0%*	13.75%	28.75%*

\* This includes the amounts contributed towards risk cost and other expenses of 6%.

95. Annualised Payroll as at 1 January 2008 of current salaries is taken as R 864.4m, and of recommend salaries is taken as R911.1m.

96. The Recommended Salaries do not have an impact on the accrued past service liability in the Fund.
97. It should be noted that the costing above only reflects the Municipal Councillors who are members of the Municipal Councillors Pension Fund as stated above. No additional salary in lieu of the potential employer contributions to the fund is being paid to Municipal Councillors who are not members of the Fund and they can thus be ignored for this exercise as far as we are aware, but it could be that there are still some who belong to funds which have not been formally approved by the authorities in terms of the applicable Act that established the fund for Councillors. The membership may have increased by now but for practical purposes the information is valid.

#### COSTING OF SUBMISSIONS

98. Apart from discussions during a formal engagement with SALGA, the Commission did not receive a proposal from the members of the Municipal Councillors Pension Fund until 12 March 2008. This proposal could not be considered fully for purposes of this report. The proposal also addresses issues beyond what has been reviewed herein, but which requires careful consideration at a future point.
99. The Commission therefore considers it prudent not to make any recommendations in respect of the pension benefits of members of Municipal Councils until such time as it has had the opportunity to engage these stakeholders on their specific proposals.

**TRADITIONAL LEADERS**

100. As there is currently no pension benefit afforded to Traditional Leaders in South Africa, a committee composed of members of the National House and Provincial Houses of Traditional Leaders presented a proposal to the Commission, which is commented on below.

PROPOSED BENEFIT

101. Membership to a pension fund should be compulsory for all members of the National House of Traditional Leaders (NHTL).

CONTRIBUTIONS

102. The members of the NHTL indicated that their preparedness to contribute to such a scheme should they receive a salary component that provides for such a contribution.

103. In the case of the Political Office Bearers Pension Fund the Employer contribution is 22.5% of pensionable salary of which a minimum of 17% is allocated towards retirement fund benefits, 4.5% towards reinsured risk benefits and 1% towards administration and expenses.

104. To provide the risk benefits to the members of the NHTL, the proposed scheme will therefore require a minimum contribution of about 5% of salaries.

DEATH IN SERVICE BENEFITS

105. If a Member dies while still being member of the NHTL, a benefit should be payable to his or her dependents equal to the Reinsured Death Benefit.

FUNERAL BENEFITS

106. The NHTL is of opinion that funeral benefits similar to those afforded to members of the Political Office Bearers Pension Fund is an important benefit for its members, and therefore suggests that the funeral scheme set out in Table 13 below be considered for all Traditional Leaders excluding Headman.

**Table 13: Proposed funeral benefits for members of the NHTL**

Member	R20 000
Spouse	R20 000
Children 14 – 21	R20 000
Children 6 – 13	R16 000
Children 1 – 5	R12 000
Children 0 – 11 months	R 3 000
Stillborn	R 2 500

107. The Commission is of the opinion that an amount equal to the benefit provided for only one spouse should qualify so as to be fair to all the members. In the case where a member has more than one spouse, the benefit could be distributed amongst the different spouses equally.

HEADMEN

108. No benefits were requested for headmen.

CONCLUSION

109. The current remuneration of Traditional Leaders appears in Table 14 below.

**Table 14: Current Traditional Leader remuneration**

CATEGORY	TOTAL	ANNUAL SALARY
King / Paramount Chief	12	R545 066
Chief	840	R130 830
Chairperson NHTL	1	R433 260
Deputy Chairperson NHTL	1	R376 116
Full time Chairperson PHTL	6	R396 713
Full time Deputy Chairperson PHTL	6	R352 871

110. Where Traditional Leaders are paid salaries as members of the NHTL or the Provincial Houses of Traditional Leaders (PHTL), they are required to forfeit their respective salaries as Traditional Leaders for such time as they serve either the NHTL or PHTL. The members revert back to the receipt of the latter salaries once they no longer serve on the NHTL or PHTL.
111. There are indications that the number of Provincial Houses could increase to seven in the near future.
112. Headmen and Headwomen are not included in the Commission's consideration at this stage, but may well be considered in future, pending the outcome of pending litigation in this regard.

COSTING

113. The benefits on which the costing is based are set out in Table 15 below.

**Table 15: Costing of Traditional Leaders' proposals**

CATEGORY	EXPIRY AGE	BENEFIT
Death Cover	Life long	5 x Annual Salary
Funeral Cover	65	See Table 13 above

114. The above costing is based on the data reflected in Table 16 below.

**Table 16: Costing data for Traditional Leader proposals**

Category	Total	Annual Salary
King / Paramount Chief	12	R 545 066
Chief	840	R 130 830
Chairperson NHTL	1	R 433 260
Deputy Chairperson NHTL	1	R 376 116
Full time Chairperson PHTL	6	R 396 713
Full time Deputy Chairperson PHTL	6	R 352 871



115. The total salaries are therefore about R 121,7M.
116. The following assumptions were used as the Commission did not have any membership data other than the salaries and number of leaders in each position:
- Average age 50;
  - All males;
  - They have 1 spouse aged 45; and
  - Assume 3 children (aged 20, 16, and 12).
117. The cost of the risk benefits based on the above data could be less than 4% of salaries.
118. The above cost represents about 3.26% of traditional leader salaries.

**JUDGES**

119. A summary of the main provisions of the Judges Remuneration and Conditions of Employment Act (Act 47 of 2001) are set out below.

**MEMBERSHIP**

120. "Constitutional Court judge" means any person holding the office of-

- (a) Chief Justice of South Africa;
- (b) Deputy Chief Justice; or
- (c) Judge of the Constitutional Court,

and includes any person who, since 7 June 1994, held, the office of-

- (i) President of the Constitutional Court;
- (ii) Deputy President of the Constitutional Court; or
- (iii) Judge of the Constitutional Court.

121. "Judge" means any person holding the office of-

- (a) President or Deputy President of the Supreme Court of Appeal;
- (b) Judge of the Supreme Court of Appeal;
- (c) Judge President or Deputy Judge President of any High Court; or
- (d) Judge of any High Court;

and includes any person who, at or since the fixed date, held the office of-

- (i) Chief Justice of South Africa or Deputy Chief Justice;
- (ii) Judge of the Appellate Division of the Supreme Court of South Africa or of the Supreme Court of Appeal;
- (iii) Judge President or Deputy Judge President of any provincial or local division
- (iv) Judge of any provincial or local division of the Supreme Court of South Africa
- (v) Judge of any court of a homeland referred to in Item 16 of Schedule 6 to the Constitution.

CONTRIBUTIONS

122. No contributions are currently made to fund pension or retirement benefits for judges. These benefits are paid by the South African National Treasury.

NORMAL RETIREMENT AGE

123. A Constitutional Court judge who holds office in terms of the Constitution-

- (a) must be discharged from active service as a Constitutional court judge, on the date on which he or she-
  - (i) attains the age of 70 years; or
  - (ii) has completed a 12-year term of office as a Constitutional Court judge, whichever occurs first;
- (b) may at any time be discharged by the President from active service as a Constitutional Court judge if he or she becomes incapable of performing his or her official duties; or
- (c) may at any time on his or her request and with the approval of the President be discharged from active service as a Constitutional Court judge if there is any reason which the President deems sufficient.

124. A judge who holds office in a permanent capacity-

- (a) shall be discharged from active service as a judge on the date on which he or she attains the age of 70 years, if he or she has on that date completed a period of active service of not less than 10 years, or, if he or she has on that date not yet completed a period of 10 years' active service, on the date immediately following the day on which he or she completes a period of 10 years' active service;
- (b) who has already attained the age of 65 years and has performed active service for a period of 15 years, and who informs the Minister

- in writing that he or she no longer wishes to perform active service, shall be discharged by the President from active service as a judge;
- (c) may at any time be discharged by the President from active service as a judge if he or she becomes disabled and incapable of performing his or her official duties; or
- (d) may at any time on his or her request and with the approval of the President be discharged from active service as a judge if there is any reason which the President deems sufficient.

#### MEMBER SHARES

125. No pension fund exists for judges. Constitutional Court judges and judges receive a defined benefit, and no contributions are made to fund benefits. No Member Shares are therefore present.

#### NORMAL RETIREMENT BENEFITS

126. A Constitutional Court judge or a judge who on or after 1 April 1989 was or is discharged from active service, shall be paid a salary in accordance with the formula  $(A/B) \times C$  with the following factors:
- **A** represents the annual salary applicable to the highest office held by the Constitutional Court judge or judge concerned in a permanent capacity during the period of his or her active service;
  - **B** equals 15; and
  - **C** represents the period in years of active service of such Constitutional Court judge or judge.
127. The aggregate of the salary payable to a Constitutional Court judge or judge who was or is discharged from active service:
- shall not be less than 40 per cent of his or her highest annual salary during the period of his or her active service and shall not exceed such salary;

- shall be equivalent to the annual salary applicable to the highest office held by him or her in a permanent capacity during his or her period of active service, if he or she performed active service for a period of not less than 20 years;
- shall, in terms of Section 2(b) of the act, and subject to the above, be 80 per cent of his or her highest annual salary during the period of his or her active service, plus two per cent of that salary for every year of active service which he or she performs after attaining the age of 65 years.

128. Any Constitutional Court judge or judge who on or after 1 April 1989 was or is discharged from active service shall, in addition to any salary payable to him or her, be paid a gratuity which shall be calculated in accordance with the formula  $D \times 2 \times (E/15)$  with the following factors:

- **D** represents the annual salary which at the time of the discharge of such Constitutional Court judge or judge from active service was applicable to the office concerned; and
- **E** represents the period in years of active service, but not exceeding 20 years, of such a Constitutional Court judge or judge in the office concerned.

129. The total amount of any gratuity payable in terms of this section to a Constitutional Court judge or judge shall not exceed three times his or her highest annual salary during the period of his or her active service.

#### EARLY RETIREMENT BENEFITS

130. If a Constitutional Court judge at any time requests to be discharged, and is, with the approval of the President, discharged from active service before he or she attains the age of 65 years, the aggregate salary used in the calculation of pension shall not be more than 80 per cent of his or her highest annual salary during the period of his or her active service.

131. Early retirees will receive the same gratuity as calculated for Normal Retirement.

DEATH IN SERVICE BENEFITS

132. The surviving spouse of a Constitutional Court judge or judge who on or after 1 April 1989 was or is discharged from active service, or who died or dies while performing active service, shall receive:

(a) in the case of a surviving spouse of a Constitutional Court judge or judge who was so discharged from active service, an amount equal to two thirds of the salary payable to that Constitutional Court judge or judge; or

(b) in the case of a surviving spouse of a Constitutional Court judge or judge who died while performing active service as a Constitutional Court judge or judge, an amount equal to two thirds of the amount to which that Constitutional Court judge or judge would have been entitled if he or she was discharged from active service on the date of his or her death.

133. The amount payable to a surviving spouse shall be payable until the death of such spouse.

134. If a gratuity would have been payable to a Constitutional Court judge or judge who died or dies on or after the fixed date on which he or she was discharged from active service, there shall be paid a gratuity, which shall be equal to the amount of the gratuity which would have been so payable to such Constitutional Court judge or judge had he or she not died but was, on the date of his or her death, discharged from active service. Such gratuity shall be paid as follows:

- (a) if such Constitutional Court judge or judge is survived by a surviving spouse, be payable to such surviving spouse, in addition to any salary payable to that spouse; or
- (b) if such Constitutional Court judge or judge is not survived by a spouse, be payable to the estate of such Constitutional Court judge or judge.

#### FUNERAL BENEFITS

135. The Act does not make provision for any funeral benefits.

#### WITHDRAWAL BENEFITS

136. Any resignation by a Constitutional Court judge or judge which is not contemplated in Act 47 of 2001 precludes the payment of any benefits to such person to which a Constitutional Court judge or judge would otherwise be entitled on discharge from active service.

137. A Constitutional Court judge or judge, who holds office in a permanent capacity, who already has attained the age of 65 years and has performed 15 years active service may resign from office by notice in writing to the President that he or she no longer wishes to serve as such, and shall vacate his or her office upon acceptance of such resignation. On approval of such resignation, a Constitutional Court judge or a judge shall be paid a salary and gratuity in accordance with Normal Retirement Benefits.

138. The same benefits apply to a Constitutional Court judge who is not a judge as contemplated in the Constitution but has completed a 12 year term of office as a Constitutional Court judge, or who has attained the age of 70 years.

DISABILITY BENEFITS

139. If a Constitutional Court judge or judge becomes disabled and thereby incapable of performing his or her official duties before he or she attains the age of 65 years, the aggregate salary used in the calculation of pension shall not be more than 80 per cent of his or her highest annual salary during the period of his or her active service.

140. Early retirees will receive the same gratuity as calculated for Normal Retirement.

NET REPLACEMENT RATIOS

141. The net replacement ratio (NRR) is the annual pension expressed as a percentage of the final annual pensionable salary. Therefore, if a person earned a pensionable salary of R100 000 per annum in the year before retirement a 70% NRR means that he or she will be receiving an annual pension of R70 000 per annum on retirement.

142. The current benefits afforded to Judges are reflected in Table 17 below.

**Table 17: Judges' current retirement benefits**

Annual pension expressed as a percentage of final salary				
		Age at Retirement		
		65	70	75
<b>Age at Entry</b>	<b>30</b>	100.0%	100.0%	100.0%
	<b>35</b>	100.0%	100.0%	100.0%
	<b>40</b>	100.0%	100.0%	100.0%
	<b>45</b>	100.0%	100.0%	100.0%
	<b>50</b>	80.0%	100.0%	100.0%
	<b>55</b>	X	100.0%	100.0%
	<b>60</b>	X	66.7%	100.0%
	<b>65</b>	X	X	66.7%



<b>Gratuity expressed as a percentage of final salary</b>				
		<b>Age at Retirement</b>		
		<b>65</b>	<b>70</b>	<b>75</b>
<b>Age at Entry</b>	<b>30</b>	266.7%	266.7%	266.7%
	<b>35</b>	266.7%	266.7%	266.7%
	<b>40</b>	266.7%	266.7%	266.7%
	<b>45</b>	266.7%	266.7%	266.7%
	<b>50</b>	200.0%	266.7%	266.7%
	<b>55</b>	X	200.0%	266.7%
	<b>60</b>	X	133.3%	200.0%
	<b>65</b>	X	X	133.3%

143. Table 18 below shows the pension that could be purchased if the value of the total benefits (any cash benefit plus pensions to be paid) were to be used to purchase a pension. The pension that a member will be entitled to on retirement is converted to a cash amount and any cash gratuity is added to this amount to determine the value of the total benefits. The value of total benefits is then divided by annuity factors that are determined according to set of assumptions that is consistent for all stakeholder groups. This enables a just comparison to be made between the value of the benefits received by the various stakeholder groups. The NRR of total benefits (average of males and females) are therefore as set out in Table 18 below.

**Table 18: NRR of Judges' total benefits**

<b>Total benefits as pension expressed as a percentage of final salary</b>				
		<b>Age at Retirement</b>		
		<b>65</b>	<b>70</b>	<b>75</b>
<b>Age at Entry</b>	<b>30</b>	127.1%	128.0%	130.1%
	<b>35</b>	127.1%	128.0%	130.1%
	<b>40</b>	127.1%	128.0%	130.1%
	<b>45</b>	127.1%	128.0%	130.1%
	<b>50</b>	100.8%	128.0%	130.1%
	<b>55</b>	X	122.7%	130.1%
	<b>60</b>	X	81.8%	123.8%
	<b>65</b>	X	X	82.6%

MEMBERSHIP DATA

144. Although the Commission, through its consultants, received membership data in respect of judges from the Department of Justice and Constitutional Development, we were informed that a proper data

validation exercise was not yet done on the data. The effective date of the data provided to us is 20 February 2008.

145. The data included the following useful information:

- Job title,
- Gender,
- Date of birth, and
- Date of appointment.

146. The salary data are as appears in the latest relevant remuneration proclamation of 2007.

147. The above data can be summarised in terms of Table 19 below.

**Table 19: Summary of membership data for judges**

	Past Service	Number of Members	Average Past Service	% of Membership	Average Age	Average Annual Salary ( R )
<b>Males</b>	<= 5 Years	42	2.59	20.39%	55.69	739 497
	> 5 Years and <= 10 Years	49	7.41	23.79%	59.10	744 378
	> 10 Years and <= 15 Years	43	12.25	20.87%	61.16	751 754
	> 15 Years and <= 20 Years	24	17.36	11.65%	65.04	744 414
	> 20 Years	10	22.75	4.85%	66.30	749 174
<b>Females</b>	<= 5 Years	14	2.75	6.80%	47.21	739 497
	> 5 Years and <= 10 Years	13	7.28	6.31%	49.62	746 412
	> 10 Years and <= 15 Years	11	12.08	5.34%	55.73	743 583
	> 15 Years and <= 20 Years	-	-	0.00%	-	-
	> 20 Years	-	-	0.00%	-	-
<b>Total</b>		<b>206</b>	<b>9.27</b>	<b>100 %</b>	<b>58.29</b>	<b>744 914</b>

	Age	Number of Members	Average Age	% of Membership	Average Past Service	Average Annual Salary ( R )
<b>Males</b>	<= 45 Years	3	45.00	1.46%	1.75	739 497
	> 45 Years and <= 55 Years	45	51.33	21.84%	6.43	744 181
	> 55 Years and <= 65 Years	78	60.76	37.86%	9.97	744 141
	> 65 Years	42	69.17	20.39%	13.58	749 211
<b>Females</b>	<= 45 Years	10	43.00	4.85%	4.54	741 744
	> 45 Years and <= 55 Years	18	49.67	8.74%	6.92	744 491
	> 55 Years and <= 65 Years	10	59.50	4.85%	9.60	741 744
	> 65 Years	-	-	0.00%	-	-
<b>Total</b>		<b>206</b>	<b>58.29</b>	<b>100%</b>	<b>9.27</b>	<b>744 914</b>

EXISTING COST

148. The estimated unfunded past service liability as at 1 January 2008 is **R 990.8m**.

149. The general valuation basis under the assumptions listed in **Annexure F** were adjusted as follows with regard to the Judges' calculations:

- Pension increase assumptions were revised from 5% per annum to 6% per annum, because the pension is a continuation of salary (i.e. expected to increase at CPI + 1% rather than CPI).
- Judges will claim their gratuity benefits on retirement and not earlier, where allowed. This implies that we accrued for all gratuity benefits in our costings, and did not take any actual gratuity payments made to active judges into account.

150. The costs as at 1 January 2008 are set out in Table 20 below.

**Table 20: Costs of current benefits for Judges**

Scenario	Liability accruing during 2008 (R'm)	Employer Contributions as a % of Pensionable Salaries	Member Contributions as a % of Pensionable Salaries	Total Contributions as % of Pensionable Salaries
Current Salaries	R 105.5*	69.8%*	0.0%	69.8%*
Recommended Salaries	R 128.8*	70.0%*	0.0%	70.0%*

\*The amounts shown in the table above includes contributions towards the current cost of death in service benefits, which we estimate to be about 9.5%. It also includes contributions towards administration expenses that will be covered by an additional 1% of pensionable salaries.

151. Annualised Payroll as at 1 January 2008 of current salaries is taken as R 153.5m, and of recommended salaries is taken as R186.6m.

152. The accrued past service liability as at 1 January 2008 increases to **R1 221m** based on the Commission's March 2007 recommended salaries. This implies an additional cost of **R 230m** (or 150% of current pensionable salaries). From this it is evident that the major salary restructuring of Judges was automatically recognized in their past service liabilities.

COSTING OF SUBMISSIONS

153. After discussions with the Judges' Remuneration Committee, a representative group of Judges appointed by the Chief Justice for engagement with this Commission, it was the general consensus that Judges were generally satisfied with their current benefit structure, and that no amendment thereof was required.

## MAGISTRATES

154. Magistrates are currently members of the Government Employees Pension Fund (GEPF). This Fund provides for all the employees of the Government and their benefits are agreed between the Government and their employees in the appropriate bargaining forums.

### CURRENT BENEFITS

155. The Government Employees Pension Fund is a defined benefit pension fund. A summary of the main provisions of the Rules are set out below.

### MEMBERSHIP

156. All employees of government are required to become members of the GEPF, provided that they are not required by legislation to belong to another pension fund, or are excluded from membership of the GEPF.

157. A member of the GEPF can provide himself with an improved benefit by way of purchasing additional service. The following types of service can be purchased:

- Leave without pay
  - A member can purchase back the periods of service in excess of 120 days if leave without pay has been used. This is because the member must still contribute for the first 120 days. After receiving approval, the member and the employer will pay the required contributions.
- Previous service in the government
  - This is for any period of past service where the member contributed to the Fund and resigned from employment. The period

out of service may not be more than 3 years and the member has to apply in the first year of re-employment. After receiving approval the member must refund the Fund for the payment received (from the Fund) and interest for the period in which the member did not contribute.

- Other service
  - This is any other period which does not qualify for the other two types of service. Once approval has been received the member will have to pay the required amount to the Fund.

#### CONTRIBUTIONS

158. Current member and employer contributions are as follows:

- Members: 7.5% of pensionable salary; and
- Employer: The employer contributes at a rate, in consultation with the actuary, to ensure that the funding level of the Fund will be at least 90%.

#### NORMAL RETIREMENT AGE

159. The member may retire from the age of 60, unless the employment contract or law governing the employment stipulates otherwise. In the case of Magistrates the normal retirement age is 65 years of age.

#### MEMBER SHARES

160. The Government Employees Pension Fund is a defined benefit pension fund, and therefore individual Member Shares are not calculated.

NORMAL RETIREMENT BENEFITS

161. The member is entitled to the following retirement benefits after reaching the normal retirement age:

- With less than 10 years of pensionable service:
  - A gratuity in the form of a lump sum cash payment equal to the actuarial interest.
- With 10 or more years of pensionable service there are three options:
  - **Option 1:**
    - A gratuity equal to **6.72%** x final salary x years of pensionable service; and
    - An annuity equal to **1/55** x final salary x years of pensionable service plus R360 with a **50%** spouse's and **10%** orphan's annuity entitlement on death of the pensioner.
  - **Option 2:**
    - A gratuity equal to **5.85%** x final salary x years of pensionable service; and
    - An annuity equal to **1/55** x final salary x years of pensionable service plus R360 with a **75%** spouse's and **10%** orphan's annuity entitlement on death of the pensioner.
  - **Option 3:**
    - A gratuity equal to **6.72%** x final salary x years of pensionable service; and

- An annuity equal to **1/57** x final salary x years of pensionable service plus R360 with a **75%** spouse's and **10%** orphan's annuity entitlement on death of the pensioner.

162. The final salary is defined as the average salary earned over the last 24 months of pensionable service, or during the whole period of service, whichever period is shorter.

#### EARLY RETIREMENT BENEFITS

163. With the employer's consent, a member may retire early from the Fund as determined by the conditions of service.

- With less than 10 years of pensionable service, a gratuity is payable equal to the actuarial interest in the Fund.
- With 10 or more years of pensionable service the benefits will be the same as for normal retirement, but will be reduced by 1/3 of a percentage for each month between the date of retirement and the age of 65.

#### LATE RETIREMENT BENEFITS

164. With the employer's consent, a member may retire from the Fund after the normal retirement age as determined by the conditions of service. Members accrue benefits on the same basis before and after the normal retirement age.

#### DEATH IN SERVICE BENEFITS

165. When a serving member dies while in service, the following are payable:



- Death in service gratuity
  - Death with less than 10 years of service the greater of:
    - The actuarial interest; or
    - The final salary.
  - Death with 10 years or more service:
    - A gratuity equal to  $6.72\% \times \text{final salary} \times \text{increased years of pensionable service} + \frac{5}{55} \times \text{final salary} \times \text{increased years of pensionable service}$ .
    - The years of pensionable service will be increased by the lesser of:
      - 5 years; or
      - $\frac{1}{3}$  of the member's pensionable service; or
      - The unexpired period of service.
- Spouse's annuity
  - With 10 or more years of full potential service the spouse will be eligible for a spouse's annuity equal to  $50\% \times (1/55 \times \text{final salary} \times \text{full potential service} + R360)$ .
  - The full potential service is equal to the sum of the years of pensionable service plus the unexpired service up to normal retirement age.
- Orphan's annuity
  - From 1 April 2006 an orphan's pension is calculated at 10% of the member/pensioner's annuity (on date of death) with a minimum amount of not less than R200 per month per orphan.

FUNERAL BENEFITS

166. Where a member, a pensioner, the spouse of a member (or a deceased member), or the spouse of a pensioner (or deceased pensioner) dies, a cash lump sum payment of R7 500 will be paid out for the funeral.
167. Where a child of a member (or a deceased member), or the child of a pensioner (or a deceased pensioner) dies, a cash lump sum payment of R3 000 will be paid out for the funeral.

WITHDRAWAL BENEFITS

168. Where a member resigns, or is discharged due to misconduct, or due to an illness or injury that was caused by the members own doing, he or she will have the following two options:
- Option 1:
    - A lump sum resignation benefit equal to 7.5% x final salary x years of pensionable service. The lump sum will be increased by 10% for each year of service more than five years of service up to a maximum of 100%.
  - Option 2:
    - The benefit may also be transferred to an approved fund. In this case the Fund will transfer a cash resignation benefit, plus any difference between this benefit and the actuarial interest.
169. A member may be discharged due to medical grounds, the abolishment, reduction, re-organisation or re-positioning or posts, or to promote efficiency in a department, or appointment to another position by the

President or Premier, or due to an injury on duty or incapability. The following benefits will then be payable.

- With less than 10 years of pensionable service:
  - A gratuity equal to 15.5% x final salary x years of pensionable service x 4/3 if the member is discharged except for incapability; or
  - A gratuity equal to 15.5% x final salary x years of pensionable service if the member is discharged for incapability.
  
- With 10 or more years of pensionable service there are three options:
  - **Option 1:**
    - A gratuity equal to **6.72%** x final salary x increased years of pensionable service; and
    - An annuity equal to **1/55** x final salary x increased years of pensionable service plus R360 with a **50%** spouses annuity entitlement.
  
  - **Option 2:**
    - A gratuity equal to **5.85%** x final salary x increased years of pensionable service; and
    - An annuity equal to **1/55** x final salary x increased years of pensionable service plus R360 with a **75%** spouses annuity entitlement.
  
  - **Option 3:**
    - A gratuity equal to **6.72%** x final salary x increased years of pensionable service; and

- An annuity equal to **1/57** x final salary x increased years of pensionable service plus R360 with a **75%** spouses annuity entitlement.

170. The years of pensionable service will be increased, except in respect of those discharged due to incapability, by the lesser of:

- Five Years; or
- 1/3 of the member’s pensionable service; or
- The unexpired period of service.

NET REPLACEMENT RATIOS

171. The net replacement ratio (NRR) is the annual pension expressed as a percentage of the final average salary. Therefore, if a person earned a final average salary of R100 000 per annum in the year before retirement a 70% NRR means that he or she will be receiving an annual pension of R70 000 per annum on retirement.

172. The benefits afforded to Magistrates are reflected in Table 21 below for different entry and retirement ages.

**Table 21: Magistrates’ pension benefits**

		Annual Pension expressed as a percentage of final salary				
		Age at Retirement				
		55	60	65	70	75
<b>Age at Entry</b>	<b>30</b>	24.8%	39.7%	58.0%	66.2%	74.5%
	<b>35</b>	19.9%	33.1%	49.7%	58.0%	66.2%
	<b>40</b>	14.9%	26.5%	41.4%	49.7%	58.0%
	<b>45</b>	9.9%	19.9%	33.1%	41.4%	49.7%
	<b>50</b>	X	13.2%	24.8%	33.1%	41.4%
	<b>55</b>	X	X	16.6%	24.8%	33.1%
	<b>60</b>	X	X	X	16.6%	24.8%
	<b>65</b>	X	X	X	X	16.6%

		<b>Gratuity expressed as a percentage of final salary</b>				
		<b>Age at Retirement</b>				
		<b>55</b>	<b>60</b>	<b>65</b>	<b>70</b>	<b>75</b>
<b>Age at Entry</b>	<b>30</b>	95.1%	152.2%	222.0%	253.7%	285.4%
	<b>35</b>	76.1%	126.9%	190.3%	222.0%	253.7%
	<b>40</b>	57.1%	101.5%	158.6%	190.3%	222.0%
	<b>45</b>	38.1%	76.1%	126.9%	158.6%	190.3%
	<b>50</b>	X	50.7%	95.1%	126.9%	158.6%
	<b>55</b>	X	X	63.4%	95.1%	126.9%
	<b>60</b>	X	X	X	63.4%	95.1%
	<b>65</b>	X	X	X	X	63.4%

- These tables are based on option 3 mentioned above

173. Table 22 below shows the pension that could be purchased if the value of the total benefits (any cash benefit plus pensions to be paid) were to be used to purchase a pension. The pension that a member will be entitled to on retirement is converted to a cash amount and any cash gratuity is added to this amount to determine the value of the total benefits. The value of total benefits is then divided by annuity factors that are determined according to a set of assumptions that is consistent for all stakeholder groups. This enables a just comparison to be made between the value of the benefits received by the various stakeholder groups. The NRR of total benefits (average of males and females) are therefore as set out in Table 22 below.

**Table 22: Total NRR of magistrates' total pension benefits**

		<b>Total benefits as pension expressed as a percentage of final salary</b>				
		<b>Age at Retirement</b>				
		<b>55</b>	<b>60</b>	<b>65</b>	<b>70</b>	<b>75</b>
<b>Age at Entry</b>	<b>30</b>	27.5%	45.2%	68.2%	81.2%	96.3%
	<b>35</b>	22.0%	37.7%	58.5%	71.1%	85.6%
	<b>40</b>	16.5%	30.2%	48.7%	60.9%	74.9%
	<b>45</b>	11.0%	22.6%	39.0%	50.8%	64.2%
	<b>50</b>	X	15.1%	29.2%	40.6%	53.5%
	<b>55</b>	X	X	19.5%	30.5%	42.8%
	<b>60</b>	X	X	X	20.3%	32.1%
	<b>65</b>	X	X	X	X	21.4%

MEMBERSHIP DATA

174. The Commission, through its consultants, received the magistrates' data from the Department of Justice and Constitutional Development. The effective date of the data provided to us is 5 December 2007. The effective date of our costing is 1 January 2008. It was therefore assumed that the membership data remained constant from 5 December 2007 up to 1 January 2008.

175. The data provided included the following useful information for all members:

- Date of birth,
- Date of employment,
- Gender,
- Job description.

176. The data received from the Department did not contain any salary information. We used the basic salaries as appears in the latest remuneration proclamation of 2007.

177. The above data can be summarised in terms of Table 23 below.

**Table 23: Summary of membership data for magistrates**

	Past Service	Number of Members	Average Past Service	% of Membership	Average Age	Average Annual Salary ( R )
<b>Males</b>	<= 5 Years	153	2.12	8.22%	49.13	325 183
	> 5 Years and <= 15 Years	187	10.97	10.05%	44.50	318 235
	> 15 Years and <= 25 Years	413	20.22	22.19%	46.30	324 496
	> 25 Years and <= 35 Years	326	30.02	17.52%	51.83	329 849
	> 35 Years	168	39.75	9.03%	59.27	342 358
<b>Females</b>	<= 5 Years	88	2.76	4.73%	41.53	318 390
	> 5 Years and <= 15 Years	196	10.63	10.53%	39.20	318 303
	> 15 Years and <= 25 Years	268	19.85	14.40%	44.71	329 537
	> 25 Years and <= 35 Years	59	28.36	3.17%	50.37	336 122
	> 35 Years	3	39.00	0.16%	56.67	343 416
<b>Total</b>		<b>1 861</b>	<b>19.68</b>	<b>100%</b>	<b>47.43</b>	<b>326 658</b>

	Age	Number of Members	Average Age	% of Membership	Average Past Service	Average Annual Salary ( R )
<b>Males</b>	<= 35 Years	35	33.37	1.88%	8.63	310 855
	> 35 Years and <= 45 Years	361	40.95	19.40%	15.35	320 566
	> 45 Years and <= 55 Years	542	50.33	29.12%	23.34	328 036
	> 55 Years and <= 65 Years	293	59.69	15.74%	29.48	335 261
	> 65 Years	16	68.19	0.86%	3.75	355 990
<b>Females</b>	<= 35 Years	57	34.04	3.06%	7.88	314 372
	> 35 Years and <= 45 Years	365	40.40	19.61%	13.87	321 537
	> 45 Years and <= 55 Years	160	49.26	8.60%	20.66	336 477
	> 55 Years and <= 65 Years	31	59.00	1.67%	19.32	327 605
	> 65 Years	1	66.00	0.05%	20.00	310 855
<b>Total</b>		<b>1 861</b>	<b>47.43</b>	<b>100%</b>	<b>19.68</b>	<b>326 658</b>

178. Approximately one third of Magistrates are female, and there are very few magistrates over the age of 65. It therefore appears that the bulk of Magistrates retire at age 65 or earlier, and that those who remain beyond the age of 65 are not statistically significant, at less than 1% of the total. The female data reflect a high number in the age group between 35 and 45 years old, and this probably reflects a change in policy to appoint more females as Magistrates.

#### EXISTING COST

179. The estimated accrued past service liability with regard to existing benefits for the 1861 Magistrates of various rank at 1 January 2008 is **R 2 105m.**

180. The accrued past service liability estimated above is important for the purposes of calculating the past service cost of alternative benefit structures.

181. The general valuation basis was adjusted as follows with regard to magistrates' calculations:

- The pension increase assumption was revised from 5% per annum to 4% per annum, because of the fact that the GEPP targets pension increases of 75% of CPI, whereas we assumed a 100% of CPI target otherwise in terms of **Annexure F**. Should the intention be that the Magistrates be handled differently to other State Employees in the GEPP and make allowance for full CPI increases, then the costing will increase by about 7%.

182. In addition to the adjusted general assumptions, we assumed the following:

- Early retirement benefits are cost neutral to the Fund



- The average future withdrawal benefit amounts to 2 x 7.5% x past service x final salary (i.e. the maximum cash withdrawal benefit)
- The retirement liability increases by 5% as a result of more generous benefits in the event of ill-health retirement
- Death in Service benefits are not accrued for under the past service liability and is allowed for on a current cost basis – i.e. the required contribution rate reflects the total cost of death in service benefits during the following year.
- The actuarial reserve value calculated on the valuation basis is subject to a minimum value of the greater of a member’s Actuarial Interest on the valuation date (which is defined in the Rules of the GEPF) and the Cash Withdrawal benefit.
- Although the minimum funding requirement of the GEPF is only 90% of accrued liabilities, we assumed that the Magistrates’ past service liabilities are fully funded.
- The required contribution rate for benefit accrual during 2008 is also based on 100% rather than a 90% level.

183. Withdrawals from employment were taken into account according to Table 24 below.

**Table 24: Magistrates withdrawal from employment**

Age	Males	Females
20	11%	11%
25	10%	10%
30	9%	9%
35	6%	7%
40	4%	4%
45	2%	2%
50	1%	1%
55+	0%	11%

184. The costs as at 1 January 2008 are set out in Table 25 below.

**Table 25: Costs of current benefit contributions (Magistrates)**

Scenario	Present Value of Benefits accruing during 2008 (R'm)	Member Contribution as a % of Pensionable Salaries	Employer Contribution as a % of Pensionable Salaries	Total Contribution as a % of Pensionable Salaries
Current Salaries	R 122.0*	7.50%	13.58%*	21.08%*
Recommended Salaries	R 142.3*	7.50%	13.56%*	21.06%*

\*The amounts shown in the table above includes contributions towards the current cost of death in service benefits, which we estimate to be about 4%. It also includes contributions towards administration expenses that will be covered by an additional 1% of pensionable salaries.

185. Annualised Payroll as at 1 January 2008 of current salaries is taken as R 607.9m, and of the salaries recommended in the Commission's March 2007 report is taken as R 709.1m.

186. The accrued past service liability as at 1 January 2008 increases to **R 2 464m** based on the Commission's March 2007 recommended salaries. This implies an additional cost of **R 359m**. From this it is evident that the major salary restructuring of magistrates was automatically recognized in their past service liabilities. It should also be noted that magistrates have received some major remunerative adjustments in recent years.

COSTING OF SUBMISSIONS

187. The Commission received a submission from the Association of Regional Magistrates of South Africa (ARMSA), which contains a detailed description of their proposed benefit structure.

188. The ARMSA submission refers to the Normal Retirement Age (NRA) of Magistrates as being 65 years of age.

189. The Commission and its consultants used the correct NRA of 65 in its calculations throughout.

190. The salient points of the ARMSA proposal are as follows:

- Pension
  - Magistrates should be paid **a salary** in accordance with the formula **(A/B) X C**.
    - **A** is the annual salary applicable to highest office held by a magistrate in a permanent capacity,
    - **B** equals 25, and
    - **C** represents the period in years of service.
- Gratuity
  - Magistrates should be paid a gratuity in accordance with the formula **D X 2 X (E/15)**.
    - **D** is the annual salary applicable at time of discharge,
    - **E** represents the period in years of service not exceeding 20 years.
- Death benefits
  - The surviving spouse of a magistrate should receive **66%** of final salary until the death of spouse, plus a **10%** orphans' benefit which is capped at a maximum of three dependants.

- Removal from office

- A lump sum payment equal to  $7.5\% \times \text{final salary} \times \text{years of service}$ . The lump sum will be increased by 10% for each year of service more than 5 years of service up to a maximum of 100%.

191. According to the ARMSA proposal the above mentioned **Pension** and **Gratuity** should be paid in the case of Normal Retirement, Early Retirement, Withdrawal and Disability. In the proposal it was stated that the Early Retirement and Withdrawal benefits should be capped at 80% of final salary. It was not suggested that the Normal Retirement and Disability benefits should be capped, but we assumed this should be capped at 100%.

192. In addition it was proposed that a magistrate's past contributions plus interest towards the GEPF should be refunded to each respective magistrate.

193. In costing the proposal the following assumptions were made:

- Everybody will retire as early as possible, as the early retirement benefits are generous (i.e. no early retirement reduction factors are applied).
- Withdrawal benefits should rather be cost neutral (i.e. the benefit is equal to the actuarial reserve held for an exiting member).
- Death in Service Benefits were not valued under the past service liability but allowed for at current cost (i.e. total cost of death in service claims expected during 2008 were allowed for in the accrual rate).
- Benefits accrue uniform over full service up to the earliest possible retirement date.
- No specific allowance for Removal from office was made.

- The benefit is a function of highest annual salary and is not averaged over a longer period as is the norm in defined benefit funds.
- We allowed for pension increases in line with the expected growth in CPI and not in line with magistrates' expected salary inflation which is likely to exceed the growth in CPI.

194. The ARMSA proposal suggests that magistrates should not make any contributions towards funding of the proposed benefits.

195. The ARMSA submission also made two alternative proposals, namely:

- In the first alternative to their mandate ARMSA suggested that exactly the same benefits as mentioned above should apply, with the exception that magistrates should contribute 7.5% of their salary. According to the proposal the contributions made for the period longer than 20 years should be repaid according to a specified formula, and as an additional benefit. In our calculations we ignored member contributions after 20 years of service and allowed for a reduction in the contribution rate under the main proposal for contributions made by members with less than 20 years of service. We also assume that there is no request for a refund of past member contributions towards the GEPF under the alternative proposals.
- The second alternative proposes a separate defined benefit fund that will guarantee the following benefits:
  - Normal Retirement Benefits
    - With less than 10 years of pensionable service:
      - A gratuity in the form of a lump sum cash payment equal to the actuarial interest.

- With 10 or more years of pensionable service:
  - A gratuity equal to **6.72%** x final salary x years of pensionable service; and
  - An annuity equal to **1/25** x final salary x years of pensionable service.
  
- Early Retirement Benefits
  - With less than 10 years of pensionable service, a gratuity is payable equal to the actuarial interest in the Fund.
  - With 10 or more years of pensionable service the benefits will be the same as for normal retirement, but will be reduced by 1/4 of a percentage for each month between the date of retirement and the age of 65.
  
- Death in Service Benefits
  - Death with less than 10 years of service the greater of:
    - The actuarial interest; or
    - The final salary.
  
  - Death with 10 years or more service:
    - Gratuity equal to 6.72% x final salary x increased years of pensionable service + 5/25 x final salary x increased years of pensionable service.

- The years of pensionable service will be increased by the lesser of:
  - 5 years; or
  - 1/3 of your pensionable service; or
  - Unexpired period of service.
  
- Spouse's annuity
  - With 10 or more years of full potential service the spouse will be eligible for a spouse's annuity equal to  $66\% \times (1/25 \times \text{final salary} \times \text{full potential service})$
  - The full potential service is equal to the sum of the years of pensionable service plus the unexpired service up to normal retirement age.
  
- Orphan's annuity
  - An orphan's pension is calculated at 10% of the member/pensioner's annuity (on date of death). Claim to be capped at 3 orphans
  
- Withdrawal benefits
  - Removal from office due to misconduct:
    - A lump sum resignation benefit equal to  $7.5\% \times \text{final salary} \times \text{years of pensionable service}$ . The lump sum will be increased by 10% for each year of service more than 5 years of service up to a maximum of 100%.

- Removal from office due to resignation:
  - A lump sum resignation benefit equal to 7.5% members contribution plus current recommended actuarial employer contribution (as derived from the latest actuarial report) X final salary X years of pensionable service.
  
- Removal from office for any other reason:
  - A member may be discharged due to medical reasons; the abolishment, reduction, re-organisation or positions or posts; to promote efficiency in a department, appointment to another position by the President/Premier; an injury on duty or incapability. The following benefits will then be payable.
    - A gratuity equal to **6.72%** x final salary x increased years of pensionable service; and
    - An annuity equal to **1/25** x final salary x increased years of pensionable service plus with a **66%** spouses annuity entitlement

196. In the latter alternative it is suggested that the total accrued benefits held by the GEPF in respect of magistrates should be transferred to the proposed new fund, to assist in the funding of the benefits.

197. For the costing of the second alternative the following assumptions were made:

- The maximum annuity at normal retirement age is 100% of final salary.
- There is no cap applicable to the gratuity formula.



- As a result of the low level of the early retirement reduction factor (i.e. ¼% per month), members will prefer to retire as early as possible with a minimum of 10 years of service.
- Withdrawal benefits or other benefits related to “actuarial interest” imply cost neutrality to the Fund.
- Death in Service Benefits were not valued under the past service liability but allowed for at current cost – i.e. total cost of death in service claims expected during 2008 were allowed for in the accrual rate.
- Benefits accrue uniform over full service up to the earliest possible retirement date.
- No specific allowance for Removal from office was made.
- The benefit is a function of highest annual salary and is not averaged over a longer period as is the norm in defined benefit funds.
- We allowed for pension increases in line with the expected growth in CPI and not in line with magistrates’ expected salary inflation which is likely to exceed the growth in CPI.

198. Two alternatives of the Total NRR’s of the proposed benefits (average of males and females) are as appear in Tables 26 to 29 below.

**Table 26: NRR of benefits proposed by magistrates (alternative 1)**

Annual Pension expressed as a percentage of final salary						
		Age at Retirement				
		55	60	65	70	75
Age at Entry	30	80.0%	80.0%	100.0%	100.0%	100.0%
	35	64.0%	80.0%	100.0%	100.0%	100.0%
	40	48.0%	64.0%	100.0%	100.0%	100.0%
	45	32.0%	48.0%	80.0%	100.0%	100.0%
	50	X	32.0%	60.0%	80.0%	100.0%
	55	X	X	40.0%	60.0%	80.0%
	60	X	X	X	40.0%	60.0%
	65	X	X	X	X	40.0%

		<b>Gratuity expressed as a percentage of final salary</b>				
		<b>Age at Retirement</b>				
		<b>55</b>	<b>60</b>	<b>65</b>	<b>70</b>	<b>75</b>
<b>Age at Entry</b>	<b>30</b>	266.7%	266.7%	266.7%	266.7%	266.7%
	<b>35</b>	266.7%	266.7%	266.7%	266.7%	266.7%
	<b>40</b>	200.0%	266.7%	266.7%	266.7%	266.7%
	<b>45</b>	133.3%	200.0%	266.7%	266.7%	266.7%
	<b>50</b>	X	133.3%	200.0%	266.7%	266.7%
	<b>55</b>	X	X	133.3%	200.0%	266.7%
	<b>60</b>	X	X	X	133.3%	200.0%
	<b>65</b>	X	X	X	X	133.3%

199. Tables 27 and 28 below show the pension that could be purchased if the value of the total benefits (any cash benefit plus pensions to be paid) were to be used to purchase a pension. The pension that a member will be entitled to on retirement is converted to a cash amount and any cash gratuity is added to this amount to determine the value of the total benefits. The value of total benefits is then divided by annuity factors that are determined according to set of assumptions that is consistent for all stakeholder groups. This enables a just comparison to be made between the value of the benefits received by the various stakeholder groups. The NRR of total benefits (average of males and females) are as set out in Tables 27 and 28 below.

**Table 27: Total NRR of benefits proposed by magistrate (alternative 1)**

		<b>Total benefits as pension expressed as a percentage of final salary</b>				
		<b>Age at Retirement</b>				
		<b>55</b>	<b>60</b>	<b>65</b>	<b>70</b>	<b>75</b>
<b>Age at Entry</b>	<b>30</b>	94.2%	95.4%	116.8%	119.2%	122.7%
	<b>35</b>	78.4%	95.4%	116.8%	119.2%	122.7%
	<b>40</b>	58.8%	79.7%	116.8%	119.2%	122.7%
	<b>45</b>	39.2%	59.7%	97.1%	119.2%	122.7%
	<b>50</b>	X	39.8%	72.9%	99.6%	122.7%
	<b>55</b>	X	X	48.6%	74.7%	103.2%
	<b>60</b>	X	X	X	49.8%	77.4%
	<b>65</b>	X	X	X	X	51.6%

**Table 28: NRR of benefits proposed by magistrates (alternative 2)**

		Annual Pension expressed as a percentage of final salary				
		Age at Retirement				
		55	60	65	70	75
Age at Entry	30	70.0%	85.0%	100.0%	100.0%	100.0%
	35	56.0%	85.0%	100.0%	100.0%	100.0%
	40	42.0%	68.0%	100.0%	100.0%	100.0%
	45	28.0%	51.0%	80.0%	100.0%	100.0%
	50	X	34.0%	60.0%	80.0%	100.0%
	55	X	X	40.0%	60.0%	80.0%
	60	X	X	X	40.0%	60.0%
	65	X	X	X	X	40.0%

		Gratuity expressed as a percentage of final salary				
		Age at Retirement				
		55	60	65	70	75
Age at Entry	30	100.8%	161.3%	235.2%	268.8%	302.4%
	35	80.6%	134.4%	201.6%	235.2%	268.8%
	40	60.5%	107.5%	168.0%	201.6%	235.2%
	45	40.3%	80.6%	134.4%	168.0%	201.6%
	50	X	53.8%	100.8%	134.4%	168.0%
	55	X	X	67.2%	100.8%	134.4%
	60	X	X	X	67.2%	100.8%
	65	X	X	X	X	67.2%

200. Table 29 below shows the pension that could be purchased if the value of the total benefits (any cash benefit plus pensions to be paid) were to be used to purchase a pension. The pension that a member will be entitled to on retirement is converted to a cash amount and any cash gratuity is added to this amount to determine the value of the total benefits. The value of total benefits is then divided by annuity factors that are determined according to a set of assumptions that is consistent for all stakeholder groups. This enables a just comparison to be made between the value of the benefits received by the various stakeholder groups. The NRR of total benefits (average of males and females) are therefore as set out in Table 29 below.

**Table 29: NRR of total benefits proposed by magistrates (alternative 2)**

		Total benefits as pension expressed as a percentage of final salary				
		Age at Retirement				
		55	60	65	70	75
<b>Age at Entry</b>	<b>30</b>	74.8%	93.7%	114.6%	119.4%	126.1%
	<b>35</b>	59.9%	92.0%	112.2%	116.7%	122.9%
	<b>40</b>	44.9%	73.6%	109.9%	114.0%	119.7%
	<b>45</b>	29.9%	55.2%	87.9%	111.3%	116.6%
	<b>50</b>	X	36.8%	65.9%	89.0%	113.4%
	<b>55</b>	X	X	44.0%	66.8%	90.7%
	<b>60</b>	X	X	X	44.5%	68.1%
	<b>65</b>	X	X	X	X	45.4%

201. The cost of the magistrates' proposal and the two alternatives is reflected in Table 30 below.

**Table 30: Total costs of benefits proposed by magistrates**

Scenario	Gross - Past Service Liability as at 1 January 2008	Net Past Service Liability as at 1 January 2008	Required Sponsor contribution over the year	Member contribution expressed as % of Pensionable Salaries	Employer contribution expressed as a % of Pensionable Salaries	Total contribution expressed as a % of Pensionable Salaries
Mandate	R6 892M	R4 787M	R 301M*	0.0%	49.5%*	49.5%*
Alternative1	R5 126M	R3 021M	R 279M*	3.6%	45.9%*	49.5%*
Alternative 2	R4 344M	R2 239M	R 228M*	7.5%	37.5%*	45.0%*

\*The amounts shown in the table above includes contributions towards risk costs. It also includes contributions towards administration expenses that will be covered by an additional 1% of pensionable salaries.

202. Annualised Payroll as at 1 January 2008 is taken as R 607.9m.

203. The cost of the magistrates' proposal and the two alternatives on recommended salaries is reflected in Table 31 below.

**Table 31: Total costs of benefits proposed by magistrates**

Scenario	Gross Past Service Liability as at 1 January 2008	Net Past Service Liability as at 1 January 2008	Required Sponsor contribution over the year	Member contribution expressed as a % of Pensionable Salaries	Employer contribution expressed as a % of Pensionable Salaries	Total contribution expressed as a % of Pensionable Salaries
Mandate	R8 061M	R5 597M	R 351M*	0.0%	49.5%*	49.5%*
Alternative 1	R5 995M	R3 531M	R 326M*	3.6%	45.9%*	49.5%*
Alternative 2	R5 083M	R2 619M	R 267M*	7.5%	37.5%*	45.0%*

\*The amounts shown in the table above includes contributions towards risk costs. It excludes contributions towards administration expenses that will be covered by an additional 1% of pensionable salaries.

204. The annualised recommended payroll as at 1 January 2008 is taken as R 709m.

**MEDICAL AID BENEFITS**

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205. The provision for healthcare cost is a very important aspect to consider when designing the benefits provided to employees. The employer should include the cost before and after retirement in the design process. The need for healthcare benefits increase dramatically with age. Typically the income of an individual would reduce after retirement. This mismatch between the healthcare need and the ability to fund this need implies that the provision for the cost of healthcare after retirement is an integral part of designing a set of employee benefits.
206. We will firstly consider the design of a suitable package of healthcare benefits taking into account the target population. Thereafter we will consider the cost burden of funding this cover before and after the retirement of the target population. We have also considered the current healthcare benefits of the different groupings of Political Office Bearers ("the office bearers"). The main vehicle that is being used for medical aid provision is Parmed. This is a restricted medical aid scheme that is governed by the Medical Schemes Act, 1998.
207. The membership of Parmed is restricted to the following parties:
- President
  - Deputy President
  - Cabinet Ministers
  - Members of Parliament
  - All Judges of the Constitutional Court
  - All Judges of the High Court
  - All Judges of the Court of Appeal
  - Members of the National Council of Provinces
  - Premiers
  - Members of Provincial Legislatures

208. These members have a choice to remain on the fund after they have retired from active service.
209. The office bearers that we have considered elsewhere in this report that do not have access to this medical aid are the following:
- National House of Traditional Leaders
  - Provincial House of Traditional Leaders
  - Traditional Leaders
  - Magistrates
  - Municipal Councilors
210. The benefits provided by Parmed are very comprehensive and it compares very well against the best options available in the open market. These benefits are over and above the benefits provided in the public health system. All the other office bearers can elect a medical scheme in which to participate from a number of open medical schemes. The benefits provided by these schemes are governed by the Medical Schemes Act, 1998. All these schemes must provide a basic level of benefits.
211. The Commission has firstly considered an appropriate set of benefits for the target population. Given the standing of the target population, the benefits provided should at least compare with the second highest rated options available in the market. The highest rated options are typically designed for people with extremely high medical needs and would not be suitable for a larger population. This is reflected in the relative membership numbers of the highest rated and second highest rated options provided by medical aid funds in South Africa. On average (based on a sample of schemes) the highest option contains less than 5% of all the members.

212. One of the major considerations should be whether the out of hospital benefits should be provided in a new generation or traditional structure. The new generation structure involves a savings account for each individual from which the out of hospital benefits are paid. This effectively means that the healthcare risk in respect of these benefits is shifted to each individual member. This structure is currently offered by the majority of options in the industry, but the Council for Medical Schemes has expressed reservations with this structure.
213. The benefit of this structure is that it provides an incentive to the members to take control of their own healthcare spend which in turn translates into lower overall spend. This has proved to be very effective and we recommend that this structure is followed. It should, however, coincide with a benefit providing additional benefits for members with high out of hospital spend. The benefit will become available to members once they have depleted their savings accounts. This benefit is typically known as an above threshold benefit.
214. Using a suitable open scheme benchmark as discussed above and the recommended structure, we recommend the following level of minimum benefits:
- Hospitalisation Cover
    - The benefit should cover the cost of hospitalisation in all private hospitals in South Africa. The reimbursement rate of doctor costs in the hospital should be at least 200% of the relevant reference tariff.
  - Chronic Medicine Cover
    - Based on the benchmark discussed above, the chronic medicine benefit should cover the most common 50 to 60 conditions. The



cover should be based on accepted formularies and it should not be limited to a rand amount.

- General Practitioners and Specialists Cover
  - This benefit deals with the cost of general practitioner and specialist consultations out of hospital. This benefit will be paid from the savings account and the above threshold benefit.
- Optical Benefits Cover
  - Allowance should be made for optical benefits. This benefit will be paid from the savings account and the above threshold benefit.
- Dental Benefits Cover
  - This benefit will be paid from the savings account and the above threshold benefit.
- Acute Medicine Cover
  - This benefit will be paid from the savings account and the above threshold benefit.
- HIV/AIDS Treatment Cover
  - The HIV/AIDS benefit should be paid for from the risk portion of the scheme (i.e. not the savings account). The benefit should be unlimited subject to reasonable treatment plans.

- Auxiliary Benefits Cover
  - This benefit will be paid from the savings account and the above threshold benefit.
  
- Other
  - A number of additional benefits can be considered. These would include:
    - A preventative screening benefit;
    - An international travel benefit;
    - A wellness benefit.

215. Most of the office bearers receive a subsidy towards the designated medical aid scheme while in employment. In most cases, the subsidy is equal to two-thirds of the medical aid contribution. A maximum rand amount is determined from time to time. The following groupings have no medical aid benefits:

- National House of Traditional Leaders
- Provincial House of Traditional Leaders
- Traditional Leaders

216. The subsidy payable to the employees while they are in employment will be considered next. Most employers would express the subsidy as a percentage of the contribution towards the medical aid scheme. The employer would have to decide to what level the dependants of the main member will also be subsidised. Typically, most employers will include the immediate family in the subsidy policy. The contributions in respect of extended family will be paid by the main member.

217. In respect of the subsidisation of children, the typical arrangement is to make allowance for a child subsidy as long as it is reasonable to expect that the child is financially dependant on the main member. In most cases, this is considered to be equal to 18, or 23 in the case of a child who is a full time student. In the case of a special dependant (i.e. a child who will never be able to support him-/herself due to a medical condition), the subsidy should not cease at a pre-determined age. The tax free portion of a medical aid contribution can provide some guidance on the required level of subsidy. The tax free portion is currently as follows:

- Main Member                      R 530 per month
- Adult Dependand                R 530 per month
- Child Dependand                R 320 per month

218. Healthcare needs are expected to be similar between the different grades of positions. In the Commission's view, there should therefore, not be any distinction between the different positions when a subsidy is determined. Lastly, the employees should also retain a degree of responsibility towards the cost. This will ensure that the employees are at least aware of the cost of medical aid cover and therefore, where the employee has an option, will consider the most cost effective option. This will lead to savings for the employer.

219. Based on the above, we recommend that the current subsidy of two thirds of the medical aid contribution should be retained. The subsidy should be limited to the immediate family of the employee with the recommended expiry age for children (as discussed above).

220. A post employment subsidy is payable to the office bearer after they have retired from active service. The subsidy is paid as a percentage of the office bearer's contribution towards the elected medical aid and it is payable for the remainder of the office bearer and the office bearer's

spouse's life. The percentage varies according to the number of years of completed service. The percentage is calculated as reflected in Table 32 below.

**Table 32: Medical aid subsidy**

No. of Years	% of Contribution
1	31.67
2	36.67
3	41.67
4	46.67
5	51.67
6	56.67
7	61.67
8	66.67

221. Table 32 above applies to the following office bearer positions:

- President
- Deputy President
- Cabinet Ministers
- Members of Parliament
- All Judges of the Constitutional Court
- All Judges of the High Court
- All Judges of the Court of Appeal
- Members of the National Council of Provinces
- Premiers
- Members of Provincial Legislatures

222. The other office bearers do not have any post employment medical aid benefits. The employer would have to consider the payment of subsidies after employment. As previously stated, the need for healthcare after retirement (or after expiry of employment at a high age) is a major

consideration. The average healthcare cost incurred by members after retirement can be up to three times the cost incurred by members before retirement.

223. This shows that it is very important that the individuals have access to healthcare insurance after retirement. The cost of providing a subsidy towards the contributions of a medical aid scheme after retirement is however very high. Where many employers offered their employees this type of subsidy in the past, most of these employers have curtailed these subsidy benefits.
224. We have considered this benefit over and above the normal retirement benefits due to the special nature of this benefit. The cost of the annual increase in this benefit should also be allowed for separately as the increase in medical aid contributions has been different from the increase in the consumer price index (and therefore living costs) over the past number of years.
225. Over the past 10 years, the average increase in medical aid contributions has outstripped the increase in the Consumer Price Index by 4.5% per annum. The allowance made for increases in the normal pension income would, therefore, not be sufficient to cover the cost of increasing healthcare.
226. As an illustration, the cost of providing a subsidy for a medical aid member equal to two thirds of that member's contribution after retirement is as reflected in Table 33 for different retirement ages.

**Table 33: Cost of providing medical aid subsidy**

Main Member Age	Single Male	Single Female	Married Male	Married Female
40	R 311 510	R 333 756	R 743 835	R 737 307
45	R 339 873	R 370 867	R 716 317	R 721 878
50	R 340 480	R 379 694	R 666 146	R 684 832
55	R 308 600	R 353 998	R 590 154	R 621 628
60	R 258 945	R 309 489	R 500 632	R 547 231
65	R 212 752	R 264 351	R 415 098	R 477 098
70	R 171 260	R 214 102	R 330 113	R 405 729
75	R 134 590	R 167 976	R 250 478	R 341 862
80	R 103 347	R 127 399	R 182 500	R 287 261

227. Table 33 above is based on a total medical aid contribution of R2 500 for a main member and R1 500 for the adult dependant. We have not taken into account any minor dependants. These benefits would add the amounts reflected in Table 36 below to the total cost of employment (in current money terms) in respect of an employee who is 60 at retirement with different levels of service.

**Table 34: Increase in total remuneration bill due to medical contributions**

Main Member Service	Single Male	Single Female	Married Male	Married Female
5	R 56 542	R 67 578	R 109 315	R 119 490
10	R 30 356	R 36 281	R 58 689	R 64 152
15	R 21 691	R 25 925	R 41 936	R 45 840

228. We have made an allowance of 6.5% growth in this amount per year. In addition to the above benefit, one should consider a benefit to the dependants of the employees on the death of the employee while in employment. Again, this benefit should be treated separately from the normal death benefits.

229. The expected annual cost of this benefit is equal to approximately R3 000 per annum per main member. The benefit will only be available for individuals with dependants, but the cost is spread amongst all the

individuals. The cost of these benefits can either be funded over the working lifetime of the employee, alternatively, it can be treated as a pay-as-you-go scheme. Furthermore, the impact on the risk pool should be considered. If after retirement, all the members are allowed to retain their membership of a closed scheme, the membership is expected to have a high average age which in turn will increase the contributions. The total liability of providing these benefits to those who are eligible to receive subsidies (stated in paragraph 221) is roughly R600M.

230. From the table it can be seen that the benefit is very expensive. This is especially relevant in respect of individuals who completed only a limited number of years, for example 5 years of service. Based on the above, we recommend that the post employment benefit is linked to service with the full two thirds benefit being available to individuals who completed 15 years of service. Additionally, the employer should consider a reasonable age from which the benefit is available. Members who leave the parliament prior to this date can be given a gratuity in lieu of the subsidy benefit. The gratuity will be calculated as a portion of the value of the benefit that individual has accrued to date.
231. The appropriate vehicle for the provision of these benefits should be considered. The benefits can either be provided through a restricted membership scheme or an open scheme. The risk profile of the membership will be an important element to consider when judging which of the two options will be the most favourable. The risk profile is typically measured by the age of the group. This means that if the average age of the membership is lower than the average age of the members in a comparable open fund option, it is likely to be more favourable to provide the benefits through a restricted membership scheme.
232. Irrespective of the average age of comparable membership, a restricted membership scheme would generally have a better risk profile as there is

no (or very limited) selection against the Fund. Selection is a major factor in an open scheme as healthy individuals will in many cases elect not to join a medical aid fund and therefore required cross subsidisation would be absent. The membership of an open scheme would, therefore, consist of members with higher than average claims profiles.

233. In the case of a restricted membership scheme, the membership is compulsory and, therefore, the impact of selection is not present. This implies that if the average ages of the two comparative options are the same, the restricted membership scheme is expected to have a healthier profile compared to the open scheme. A restricted membership scheme has the additional advantage of being fully tailored to the membership. Representatives of the membership would have control over the benefit structure and contributions and these can be designed to meet the expectations and needs of the specific membership. In an open scheme, the Trustees need to consider the needs of all the members and this may not be in line with the needs of a specific group.

234. The one major disadvantage of a restricted membership scheme is the number of benefit options that it is able to offer. The number of members on a scheme will determine the number of options that it can offer. As the number of members is small in this case, a restricted membership scheme will only be able to offer a single benefit option. The members would, therefore, not have a choice of options that they would have in an open scheme. In addition the entrance of younger members in the future will impact on the long term health of a restricted membership scheme. If the expectation is that future members will typically be young, then the future health of a restricted membership scheme can be ensured. If this is not the case, then an open scheme would be the preferred option. Once the Commission is afforded the opportunity to analyse the current and future intended membership, a firm recommendation can be made.



235. One of the most effective means of reducing the cost of healthcare provision is through the promotion of wellness. Up to quite a high percentage of total healthcare spend can be attributable to lifestyle diseases. Through the improvement of the lifestyles of the members of a scheme, a significant portion of this spend can be saved leading to reduced total healthcare spend.
236. In addition to the potential savings on healthcare spend, the quality of life of the members can also be improved through wellness. The promotion of wellness amongst the membership of a healthcare scheme is the most effective way to improve the lifestyle of the members. A number of wellness programmes can be investigated.

**TRADITIONAL LEADERS**

237. As previously stated, this group currently does not receive any medical aid benefits. It is, however, proposed that all the Members of the Houses for Traditional Leaders receive the same medical benefits as that of the Political Office Bearers for all cases where formal salaries are being paid to such Members for their services in a Traditional House. The benefits provided by PARMED are very comprehensive and it compares very well against the best options available in the open market. As is the case with other public office bearers, the traditional leaders will make their relevant contributions towards such a medical aid fund and the state as employer would make its contribution similarly. There is the option of making membership compulsory to any medical aid of their choice. However, it would be desirable that they all belong to one medical scheme and not be scattered amongst various medical aid schemes. Another option that could be considered is to make membership voluntary in the beginning and compulsory at a later stage. It is the firm view of the Commission that a benefit structure must be established for this group of office bearers.

**MUNICIPAL COUNCILORS**

238. This category made did not make timeous submissions to the Commission. Due to not receiving any input the Commission is of the view that if it does not know what municipal councilors want, it would be inappropriate to make recommendations without their considerations. The Commission, therefore, decided that the reviewing of their medical aid benefits should stand over to a later stage.

**MAGISTRATES**

239. It was decided that there is no need for the reviewing of the medical aid benefits of magistrates. It would be a business mistake to change something that is working. According to reports received by the Commission, the medical aid benefits as proclaimed by the President on a previous occasion have not yet been implemented. It is the held view that if previous recommendations have not yet been implemented, it is difficult to see how any new recommendations could be made. It was, therefore, agreed not to review magistrates' medical aid benefits.

**JUDGES**

240. Judges are in the same situation as magistrates. The Commission also holds the view that their medical aid benefits should remain as it is and not be amended at this stage. For reasons indicated above the Commission, therefore, agreed not to propose any changes to the medical aid benefits for judges at this stage.

**RESULTS AND RECOMMENDATIONS**

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241. After due consideration of current pension and medical aid benefits, submissions and proposals received in respect thereof, taking advice from its consultants, and own research, the Commission makes the following recommendations in relation to pension and medical aid benefits of different categories of public office bearers.

**NATIONAL EXECUTIVE, NATIONAL PARLIAMENT AND PROVINCIAL LEGISLATURES**RETIREMENT BENEFITS

242. The Commission is of the opinion that the proposals it received from the National and Provincial Legislatures are excessively expensive from a pension design perspective, and would not be affordable to the fiscus. It could potentially also be an embarrassment to implement due to the level of the request. A contribution level equal to the current salary of a member is too high and must be reduced in terms of the requirements of the members and the State's willingness and ability to pay.

243. The Commission however has no doubt that the current benefit levels are totally inadequate, as evidenced by the Additional Service Benefit that was added to attempt to address the criticism of a totally inadequate design. There is clear evidence that the need of the members and the State are not properly served by a contribution of 22.5% by the State and 7.5% by the member.

244. The Commission therefore recommends that the following benefits be provided to Political Office Bearers:

- The current State contribution, including that of the ASB, amounts to approximately 34.5 % of salaries. The suggested increase is 20% for all the current Members on a monthly basis. The Member contributions for all should furthermore cease after 15 years of contribution. These increases should also be applied retrospectively for existing members.
- The benefit design should have a maximum benefit equal to 92.5 % of pensionable salary as a pension, and this will be reached at different ages for the members. All members will however cease to contribute after 15 years. For the younger members, the contributions must be maintained by the State until the benefit reaches the 92.5%. This achieves the objective of fairness at the beginning of the tenure and meets the need of the younger members in that they can continue to build up a resource over a longer period in Parliament. The older generation will be able to retire after 15 years on a comprehensive pension benefit.
- The above 92.5% benefit is the replacement of the full after tax income of the member (after 15 years when a member stops contributing, the relationship will not hold, but it is a fair dispensation to the State in funding the level of the benefit).
- On the promotion of a member, the maximum benefit will again build up as the contributions accrue in the Fund.
- If major salary increases are granted, the State would have to contribute again to build the reserves after the contributions have lapsed for those members.
- The contribution is fixed for the State until the benefits reach the maximum scale, and thereafter the liability will again be capped at

the contribution level for all active members until the benefit reaches the cap again.

- The design includes the ASB and the proposal is that the ASB will form part of the fund (i.e. be properly funded so that the additional 12% contribution will have to be paid by the State to the fund). We have not extended the ASB and it is capped at twice annual salary after 10 years' service, as is currently the case. This additional amount is ample, and takes care of the additional needs identified in the parliamentary submission.
- The Normal Retirement Age should remain at age 50.

245. The design is therefore a compromise between the proposals received from the Parliamentary Committee and the ability of the State to finance those proposals. It is a Defined Contribution Design with a Defined Benefit cap and, in the case of exits after five years of service, a more comprehensive benefit will be available, but not as high as requested. The current benefit level before is too low and the proposals received were too high. This proposal will achieve a balance in providing a meaningful exit opportunity for members

246. Grandfathering the initial members of a fund that did not provide adequate benefits, is in our opinion an important legacy to address. In the original design, the ASB was not included, and went some way towards addressing the historical difficulties. The Commission therefore recommends for the extension of the proposed benefits to all members who exited the fund since April 1994.

247. In addition to the above benefits, a benefit of a 3 month salary at 80% of the salary at exit was proposed. This is part of the exit benefits and, in our opinion, a comprehensive approach should rather be implemented than to consider or adhere to this request. The Commission is not in



favour of allowing such "golden parachutes", because they will simply multiply exponentially.

248. A further suggestion was to allow members to buy back actual service. This is financially sound, but member would have to pay in all the contributions of both the member and the State, since, on early exit, the member would have received the contributions of the State in the benefits. It would therefore not be appropriate for the State to contribute twice for such benefits. In the previous design of the buyback of service in the GEPF, members were allowed to buy back service at a very low price, which led to many abuses of process. Buyback must be financially sound, and should only be allowed in terms of the financial commitment of the plan sponsor - in this case, the State.
249. The issue of the cessation of pensions on re-election was also raised with the relevant Parliamentary Committee, and this should be included in the design, because the payment of a salary and a pension is an enrichment scheme which goes beyond the needs of the individual and the moral and financial obligation of the State to fund.
250. A very important financial consideration is to provide the pensions from the Fund. If, at retirement, a member is allowed to exit with the capital, the pension could be redesigned and then the spouses and the growth in the pension may need to be protected for the dependants or member.
251. On demotions or promotions of members, a formula whereby the service at various levels is averaged at the highest revalued fifteen years' salaries could be considered, to reduce cost on promotion or protect the member on demotion.

DEATH BENEFITS

252. The Commission recommends for a maximum death benefit that can be purchased within the applicable risk contributions.

DISABILITY BENEFITS

253. The Commission recommends for a maximum disability benefit that can be purchased within the applicable risk contributions.

FUNERAL BENEFITS

254. The Commission recommends for a maximum benefit that can be purchased within the applicable risk contributions.

SPOUSES' COVER BENEFIT

255. The Commission recommends for a maximum benefit that can be purchased within the applicable risk contributions.

CONTRIBUTION DESIGN

256. The following pension benefit contribution design is recommended:

- Member Contribution : 7.5%
- Employer for retirement : 37.0 %
- Employer for ASB : 12.0%
- Employer for Risk and Admin : 5.5%
- **Total Employer Contribution : 54.5%**

257. The risk costs would then be as follows:

• Death Benefits	:	3.6%
• Disability Benefits	:	0.8%
• Funeral Benefits	:	0.1%
• Spouses' Cover	:	0.3%
• <b>Total Risk Cost</b>	:	<b>4.8%</b>

258. Under this scenario, a provision for expenses to a maximum of 0.7% should be allowed.

259. The net replacement ratio (NRR) is the annual pension expressed as a percentage of the final annual pensionable salary. Therefore, if a person earned a pensionable salary of R100,000 per annum in the year before retirement, a 70% NRR means that he or she will be receiving an annual pension of R70,000 per annum on retirement.

260. Total NRR's of existing benefits (average of males and females) based on the current remuneration of members, are as reflected in Table 35 below.

**Table 35: Total NRR of existing benefits**

Total benefits as pension expressed as a percentage of final salary								
	Age at Retirement						Retirement Age where NRR = 92.5%	Term elapsed to reach NRR = 92.5%
	50	55	60	65	70	75		
<b>Age at Entry</b>								
<b>30</b>	46.49%	63.51%	86.43%	118.17%	163.81%	231.68%	<b>61</b>	<b>31</b>
<b>35</b>	35.61%	50.02%	69.44%	96.40%	135.20%	192.92%	<b>64</b>	<b>29</b>
<b>40</b>	26.04%	38.26%	54.64%	77.47%	110.27%	159.20%	<b>67</b>	<b>27</b>
<b>45</b>	12.54%	28.02%	41.80%	61.03%	88.62%	129.90%	<b>71</b>	<b>26</b>
<b>50</b>	X	13.47%	30.68%	46.66%	69.79%	104.35%	<b>73</b>	<b>23</b>
<b>55</b>	X	X	14.65%	34.23%	53.44%	82.19%	<b>76</b>	<b>21</b>
<b>60</b>	X	X	X	16.37%	39.16%	62.88%	<b>79</b>	<b>19</b>
<b>65</b>	X	X	X	X	18.75%	46.07%	After 79	Less than 19

261. Total NRR's of benefits, based on the remuneration levels as recommended by the Commission in its March 2007 report, (average of males and females) are as reflected in Table 36 below.

**Table 36: Total NRR of recommended benefits**

Total benefits as pension expressed as a percentage of final salary									
		Age at Retirement					Retirement Age where NRR = 92.5%	Term elapsed to reach NRR = 92.5%	
		50	55	60	65	70			75
		Age at Entry	30	73.59%	92.50%	92.50%			92.50%
35	55.88%	79.10%	92.50%	92.50%	92.50%	92.50%	57	22	
40	38.67%	60.15%	86.48%	92.50%	92.50%	92.50%	61	21	
45	18.48%	41.63%	65.76%	92.50%	92.50%	92.50%	64	19	
50	X	19.80%	45.58%	73.42%	92.50%	92.50%	68	18	
55	X	X	21.65%	50.71%	83.89%	92.50%	71	16	
60	X	X	X	24.03%	58.01%	92.50%	74	14	
65	X	X	X	X	27.46%	68.27%	77	12	

262. Table 36 above shows that the pension benefits prior to reaching a replacement ratio of 92.5% increases dramatically. This design therefore substantially improves benefits for people leaving the fund before having 15 years service.

MEDICAL AID

263. The Commission does not recommend any changes to the medical aid benefits afforded to these members currently, and views these benefits as both sufficient and attractive.

**MUNICIPAL COUNCILLORS**

264. The Commission has not received any proposals timeously from Municipal Councillors, other than an engagement with SALGA, at which the Commission was informed of the intention to make a comprehensive submission to the Commission at a later stage.
265. The Commission therefore recommends that the retirement and ancillary benefits for Municipal Councillors remain unaltered for the time being, until the Commission has had an opportunity to consider a submission in this regard. Amendments to their benefit design could then be considered in a further report, which should allow Municipal Councillors and SALGA sufficient time to make proposals in this regard.

**JUDGES**

266. The Commission considers the benefits currently afforded to Judges sufficient, and in accordance with the principles alluded to before.

267. The Commission therefore recommends that the retirement and ancillary benefits for Judges remain unaltered.

**MAGISTRATES**RETIREMENT BENEFITS

268. The Commission considers the proposals it received from Magistrates to be very costly.
269. Magistrates' salaries were increased substantially over the last three years, and they received full past service recognition in the GEPF as part of the overall restructuring of the conditions of employment of State employees. Their remuneration is also based upon a profession where regular annual increases and promotions in a regulated environment are the norm. The determination of Magistrates' relative remuneration packages and conditions of employment should thus recognize, amongst others, those of similarly qualified individuals employed by the Government.
270. The Commission considered carefully the potential conflicts of interest caused by retaining magistrates as members of the GEPF. One of the complicating factors of such an arrangement is that magistrates are, for good reason, not represented in government's Central Bargaining Council, where, amongst others, members' interests in the GEPF are negotiated. The Commission is of the view that magistrates should not be members of the GEPF, but that a separate pension fund should be established to accommodate magistrates.. The rules and benefit structures of such a fund should be similar to those applicable in respect of the GEPF.
271. The arguments raised by Magistrates in their submissions to the Commission, regarding Long Service award similar to those of Judges, is not convincing in view of the vast differences in the levels of the two categories. The mere fact that both Judges and Magistrates are



members of the Judiciary does not follow that their jobs are equal to such an extent that the Government should afford the same benefits to both categories, at great cost.

272. Should Magistrates' job profiles and grading, and consequently their remuneration levels, increase, the benefits linked to their retirement benefits will also increase in line with their remuneration.
273. The Commission is not convinced that there are convincing arguments as to why Magistrates should be treated exactly the same as Judges. To our mind, it seems that the Judges' unique situation is used as the proxy without substantive arguments. On the one hand, there is a lot more responsibility and public image attached to the role of a Judge, which also requires a change from a career as a private specialist to employment at an older age as a Judge. On the other hand, there is a lifetime career within the relative safety of the State for Magistrates. A similar situation arises where career diplomats who become Ambassadors remain members of the GEPP, and politicians that become diplomats remain in the POBPF.
274. Where a Magistrate is promoted to become a Judge, the credits due to such a Magistrate in the GEPP should be offset against the benefits at retirement as a Judge.

#### DEATH BENEFITS

275. The Commission recommends that these benefits should be the same as for GEPP members.

DISABILITY BENEFITS

276. The Commission recommends that these benefits should be the same as for GEPF members.

FUNERAL BENEFITS

277. The Commission recommends that these benefits should be the same as for GEPF members.

CONTRIBUTION DESIGN

278. The Commission recommends that these benefits should be the same as for GEPF members.

MEDICAL AID

279. The Commission recommends that these benefits should be the same as for State employees.

## TRADITIONAL LEADERS

280. The Commission is of the view that the benefits for Traditional Leaders should be considered in two tiers.

- The first tier relates to the basic salary being paid to all Traditional Leaders (currently excluding Headmen and Headwomen), totalling some 852 members. For this tier, only some risk benefits could be appropriate, as the payment of pension benefits would not be consistent with the lifetime appointment of these leaders to their respective positions. The Commission therefore recommends for the allocation of a Death benefit and a Funeral benefit to Traditional Leaders falling in this tier. We propose that a contribution of 5% be made available from the fiscus for such benefits. Actuarial control of such a program is essential and must report to the National House of Traditional Leaders. All proposed changes to such a scheme must be sanctioned by the Commission before implementation thereof.
- The second tier comprises the few Members who receive salaries, other than as Traditional Leaders, for their membership to the National and Provincial Houses of Traditional Leaders. These salaries lapse when a member exits a House. In this case, the Commission recommends that these members join the Political Office Bearers Pension Fund with effect from 01 April 2008.

281. Traditional Leaders should be allowed to become members of a specified medical aid fund, and provision should be made for increases in their proclaimed salaries to fund employer contributions to such fund. The guidelines and contribution rates applicable to public servants should be followed in this regard.

## TOOLS OF TRADE

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282. The Commission is statutorily obliged to publish recommendations relating to the resources which are necessary to enable an office-bearer to perform his or her functions effectively. These resources are commonly, as is in this and the Commission's March 2007 report, referred to as tools of trade.
283. The Commission already expressed its strongest intention to distinguish between remuneration and tools of trade in both this report and its March 2007 report. The Commission similarly undertook in 2007 to review and report on appropriate tools of trade for all public office bearer positions.
284. The Commission has already commented on wide differences in both the process for determination of tools of trade amongst public office bearer institutions, as well as the actual tools afforded to different public office bearers. There is a need to formalise the determination process, and to simultaneously make it more transparent and justifiable.
285. The prevailing administration of tools of trade reveals the following:
- Tools of trade for public office bearers in the Executive, and presiding officers in National and Provincial Legislatures, are regulated through a Ministerial Handbook, which was adopted by Cabinet.
  - Tools of trade for the remaining public office bearers in the National Assembly and the National Council of Provinces are regulated through a Members Facilities Handbook.
  - Tools of trade for members of Provincial Legislatures are regulated by means of individual guidelines or procedures in each legislature.
  - Tools of trade for Judges and Magistrates are regulated statutorily.

- Tools of trade for Municipal Councillors at the Local Authorities are regulated in terms of Municipalities by-laws or regulations.
- Traditional Leaders are mostly depending on their respective communities, Provincial Governments, and the National Department of Local Government, for the allocation of tools of trade.

286. The current inequitable and non-transparent administration of tools of trade in these institutions has a potential negative effect to the democratic health, accountability, cost control and promotion of administrative justice by institutions. It is necessary to develop a uniform framework for the allocation of tools of trade to all public office bearers, but which would allow for a measure of institutional flexibility to accommodate unique institutional requirements. Such a framework should ensure administrative action that is lawful, reasonable, transparent and procedurally fair.

287. As indicated above, tools of trade refer to the resources required by public office bearers to perform their respective duties effectively. The term can also be defined as the type and amount of instruments, tools, equipment, devices and machinery as would be usually used in the normal course and scope of a public office bearer designation. This is to be distinguished from remuneration, which refers to the total monetary value of the salary, allowance and benefits of any public office-bearer. The term remuneration could also be defined as the amount of income which is paid or is payable to any person by way of any salary, leave pay, wage, overtime pay, bonus, gratuity, commission, fee, emolument, pension, superannuation allowance, retiring allowance or stipend, whether in cash or otherwise and whether or not in respect of services rendered. Tools of trade and remuneration furthermore ought to be distinguished from service conditions, which refers to employment conditions such as leave, working hours (ordinary, Sundays and public holidays), employment contracts, employee records, deductions, pay slips, overtime, and termination.

288. Following the Commission's formulation of the principles underlying public office bearer remuneration, both above and in its March 2007 report, the following aspects ought to be emphasized in relation to the allocation of tools of trade to public office bearers:

- **Accessibility:** All the incumbents of the defined public office bearer's designations should have lawful, open and fair access to tools of trade.
- **Affordability and Cost Control:** Efficient, economic and effective use of resources should be promoted.
- **Equity:** The positioning of tools of trade levels within institutions should be externally comparable, and differences in amount of allocation should be informed by differences in job complexity or designation.
- **Flexibility:** Institutions should provide public office bearers opportunity to select tools of trade that satisfies their personal needs without adding to the total expenditure of institutions, and tools of trade should be customized to institutions and designations.
- **Simplicity:** Tools of trade arrangements should be simple to administer and easily understood by public office bearers to whom it apply.
- **Transparency and Accountability:** Institutions should foster transparency and accountability by providing the public with timely, accessible and accurate information of public office bearers' tools of trade to entrench good governance.
- **Value chain:** Access to tools of trade should create value for institutions, public office bearers and public.

289. The Commission spent considerable time collecting, collating and analysing the different tools of trade allocated to public office bearers in different institutions. It has become clear that this exercise is considerably more complex than the Commission first anticipated. Factors contributing to this complexity include, amongst others, voluminous documents setting out these tools of trade for each of the institutions, major inequities in respect

of both the process and extent of the tools allocated, and lacking submissions on the principles underlying the allocation of tools of trade rather than an itemised list of perceived needs. A preliminary collation of known tools of trade appears in **Annexure E** hereto.

290. The Commission therefore considers it prudent to keep recommendations in this regard in abeyance until such time as it is in a position to make comprehensive analysis and recommendations for both the process for determination of tools of trade, and actual core and peripheral such tools for each institution. In this regard, the Commission will principally consider whether it would be more appropriate in terms of the already identified principles underlying public office bearer remuneration, to recommend a closed list of specific tools of trade which ought to be allocated to each public office bearer position, or to recommend a framework which sets out core tools which ought to be allocated, and an additional institutional discretion in respect of certain peripheral tools of trade, to be allocated against certain criteria.
291. The Commission therefore intends to research and report on these aspects in a further report.
292. In the meantime, the Commission recommends that:
- Each body in which public office bearers are employed should publish details annually in respect of both the entitlements and usage of tools of trade of its members on an individualised basis, and that such disclosure should appear in a public document; and
  - Commission reserves the right to review this disclosure and the specific tools of trade allocated and used, annually.
  - The Commission is concerned that it appears that magistrates are not provided with the most basic and core tools of trade required to perform their duties effectively. Examples of such tools of trade include laptop

computers, printers and access to electronic reference material. The Commission is of the view that the lack of delivery of such tools of trade, which has the potential of breaking down the efficiency of and undermining justice at the coalface, needs to be addressed by the Department of Justice and Constitutional Development urgently and immediately.



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## 2008 / 2009 COST-OF-LIVING REMUNERATION ADJUSTMENTS

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293. On 30 March 2007, the Commission published a report and recommendations on a major review of public office bearer remuneration in Government Gazette No. 29759, which the Commission notes has not yet been accepted or implemented by the prescribed decision makers.
294. On 31 October 2007, the President requested the Commission to advise him on an inflation linked cost-of-living remuneration adjustment for all public office bearer positions for the 2007/2008 financial year, which recommendations were duly published by the Commission in a Government Gazette No. 30487 of 16 November 2007. The Commission was pleased to note the subsequent determinations of cost-of-living adjustments for the 2007/2008 financial year in Government Gazettes dated 21 November 2007, 27 November 2007, 14 December 2007 and 18 December 2007.
295. The Commission is statutorily obliged by virtue of section 8 (4) and (5) of the Independent Commission for the Remuneration of Public Office Bearers Act, 1997, to make annual recommendations relating to the salaries, benefits and allowances, as well as the resources required by different categories of defined public office bearers to enable them to perform their respective duties effectively.
296. In arriving at the Commission's recommendations relating to a cost-of-living remuneration adjustment for the 2008/2009 financial year, the Commission considered, amongst others, the following factors:
- The Commission is of the opinion that this second review report should be considered holistically together with its first report published on 30 March 2007. In such a case, the Commission should provide for two

potential outcomes, namely firstly recommending for cost-of-living adjustments to the remuneration packages recommended in its 30 March 2007 report (should the recommendations contained therein be accepted and implemented), and secondly recommending for cost-of-living adjustments to the current real remuneration packages (should the Commission's recommendations of 30 March 2007 not be accepted or implemented). Both scenarios are covered in the tables below.

- A link between labour costs and inflation is regarded as a sound basis for making salary adjustments. CPIX is arguably the best inflation measure against which to measure remuneration increases since it is the inflation measure used for inflation targeting. Using this measure, it is clear that remuneration always leads inflation.
- The Commission considered the relevant annual and month-on-month CPI and CPIX figures, as well as the percentages of remuneration increases for executives, mid-management and public office bearers for each year since 2005.
- Inflation targets for the next 12 months are expected to remain higher than the target range of 3% to 6%. Month-on-month CPIX, which is believed to be the most stable inflationary indicator, for September 2007 was 6.7%.
- The National Treasury estimates the average inflation (CPIX) for the fiscal year running from 1 April 2007 to 31 March 2008, at 6.5%. Given that CPIX for the year up to September 2007 was 6.7% and taking into account that the major factors driving inflation over this period were food and fuel prices, it is likely that the average CPIX for 2008/2009 fiscal year may be slightly higher than the estimate.
- Another important consideration is that private sector salary increases appear to be slightly higher than inflation. Moreover, the Public Service Coordinating Bargaining Council (PSCBC) has provided for a basic salary increase for public servants of 7.5%, for 2007 and CPIX (projected) plus 1% for 2008.

- The Commission consulted, as it is statutorily required, with the Ministers of Finance and of Justice and Constitutional Development, as well as with the Chief Justice of South Africa, before compiling its recommendation. All three support the recommendation.
297. It has become apparent that the international economic environment has become increasingly uncertain and volatile since 2007. The slowdown in global growth has had a spill over effect on the South African economy, which has continued to respond to the tighter monetary policy stance of the South African Reserve Bank. Inflation is expected to peak in the first quarter of 2008 at an average of 8.5%. The CPIX inflation figure has continued its upward trend, moving from 6.3% in August 2007 to 8.5% in December 2007. The average CPIX increase for 2007 was 6.5%.
298. The most recent forecast of the South African Reserve Bank indicates a further deterioration in the inflation outlook for the short term when compared to its previous forecast. CPIX is expected to decline to below the upper end of the target range during the final quarter of 2008 and to remain around the 5.6% level for most of 2009. The CPIX is expected to average 6.8% for 2008 and 5.3% for 2009. This forecast is broadly consistent with market expectations.
299. According to the wage settlement survey of Andrew Levy Employment Publications, the average wage settlement for 2007 was 7.3% compared to 6.5% in 2006. This appears to be consistent with the 7.7% year-on-year increase in average nominal remuneration per worker measured in the third quarter of 2007. Indications from the latest Deloitte and Touché client survey for the period 1 August 2007 to 31 July 2008 show a predicted annual remuneration increase of between 7% and 8%.

300. In view of the above considerations, the Commission recommends a general percentile increase in salaries, allowances and benefits for all public office bearers, of 7.5% per annum with effect from 1 April 2008.

RECOMMENDED COST-OF-LIVING ADJUSTMENT ON PROPOSED SALARY LEVELS

301. Tables 37 to 42 below reflect the proposed remuneration tables for public office bearers, should the Commission's recommendations of 30 March 2007 be accepted and implemented with effect from 01 April 2008.

**Table 37: Recommended grading and remuneration table for National Executive and Deputy Ministers**

GRADE	PAY LEVEL	POSITION	TOTAL REMUNERATION RECOMMENDED MARCH 2007	PROPOSED TOTAL REMUNERATION 01 APRIL 2008
EA	1	President	1 898 400	2 040 780
EB	1	Deputy President	1 708 600	1 836 745
EC	1	Minister	1 452 300	1 561 223
ED	1	Deputy Minister	1 196 000	1 285 700

**Table 38: Recommended grading and remuneration table for National Parliament**

GRADE	PAY LEVEL	POSITION	TOTAL REMUNERATION RECOMMENDED MARCH 2007	PROPOSED TOTAL REMUNERATION 01 APRIL 2008
PA	1	Speaker: NA	1 708 600	1 836 745
		Chairperson: NCOP	1 708 600	1 836 745
PB	1	Deputy Speaker: NA	1 196 000	1 285 700
		Deputy Chairperson: NCOP	1 196 000	1 285 700
	2	House Chairperson	1 110 600	1 193 895
PC	1	Chief Whip: Majority Party	939 700	1 010 178
		Chief Whip: NCOP	939 700	1 010 178
		Parliamentary Counsel: President	939 700	1 010 178
		Parliamentary Counsel: Deputy President	939 700	1 010 178
		Leader of Opposition	939 700	1 010 178
	2	Chairperson of a Committee	854 300	918 373
PD	1	Deputy Chief Whip: Majority Party	768 900	826 568
		Chief Whip: Largest Minority Party	768 900	826 568
		Leader of a Minority Party	768 900	826 568
	2	Whip	713 500	767 013
PE	1	Member: NA	643 800	692 085
		Permanent Delegate: NCOP	643 800	692 085

**Table 39: Recommended grading and remuneration table for Provincial Executives and Legislatures**

GRADE	PAY LEVEL	POSITION	UPPER LIMIT OF TOTAL REMUNERATION MARCH 2007	PROPOSED TOTAL REMUNERATION 01 APRIL 2008
LA	1	Premier	1 366 900	1 469 418
LB	1	MEC	1 196 000	1 285 700
		Speaker	1 196 000	1 285 700
LC	1	Deputy Speaker	939 700	1 010 178
	2	Chairperson of Committees	768 900	826 568
		Chief Whip: Majority Party	768 900	826 568
		Leader of Opposition	768 900	826 568
	3	Deputy Chairperson of Committees	723 400	777 655
		Chairperson of a Committee	723 400	777 655
		Deputy Chief Whip: Majority Party	723 400	777 655
		Chief Whip: Largest Minority Party	723 400	777 655
		Leader of a Minority Party	723 400	777 655
LD	1	Parliamentary Counsel to a King	643 800	692 085
		Whip	643 800	692 085
	2	MPL	623 100	669 833

**Table 40: Recommended grading and remuneration table for Local Government**

GRADE	PAY LEVEL	POSITION	UPPER LIMIT OF TOTAL REMUNERATION MARCH 2007	PROPOSED TOTAL REMUNERATION 01 APRIL 2008
MA	1	Executive Mayor	756 900	813 668
		Mayor	756 900	813 668
MB	1	Deputy Executive Mayor	613 500	659 513
		Speaker / Chairperson	613 500	659 513
		Deputy Mayor	613 500	659 513
MC	2	MEC	577 700	621 028
		MMC	577 700	621 028
		Chairperson of a sub-council	577 700	621 028
		Whip	577 700	621 028
MD	1	Municipal Councilor	290 900	312 718

**Table 41: Recommended grading and remuneration table for Traditional Leadership positions**

<b>GRADE</b>	<b>PAY LEVEL</b>	<b>FULL TIME POSITIONS</b>	<b>TOTAL REMUNERATION MARCH 2007</b>	<b>PROPOSED TOTAL REMUNERATION 01 APRIL 2008</b>
TA	1	King	590 400	634 680
TB	1	Chairperson: NHTL	501 800	539 435
	2	Full time Chairperson: PHTL	413 300	444 298
	3	Deputy Chairperson: NHTL	383 800	412 585
	4	Full time Deputy Chairperson: PHTL	354 200	380 765
TC	1	Full time Member: NHTL	206 600	222 095
	2	Full time Member: PHTL	177 100	190 383
TD	1	Senior Traditional Leader	129 900	139 643
	2	Headman	0	0
<b>GRADE</b>	<b>PAY LEVEL</b>	<b>PART TIME POSITIONS *</b>	<b>SITTING ALLOWANCE MARCH 2007</b>	<b>PROPOSED TOTAL REMUNERATION 01 APRIL 2008</b>
/	/	Part time Member: NHTL	R744 per day	R800 per day
/	/	Part time Chairperson: PHTL	R885 per day	R951 per day
/	/	Part time Deputy Chairperson: PHTL	R796 per day	R856 per day
/	/	Part time Member: PHTL	R617 per day	R663 per day

\* In addition to sitting allowances, part time members are entitled to their salaries as Traditional Leaders, as well as subsistence costs (reasonable and actual expenses) and transport costs (Department of Transport tariffs for the use of privately owned vehicles), for their attendance of official meetings, seminars, workshops and conferences of the respective Houses.

**Table 42: Recommended grading and remuneration table for the Judiciary**

GRADE	PAY LEVEL	POSITION	TOTAL REMUNERATION MARCH 2007	PROPOSED TOTAL REMUNERATION 01 APRIL 2008
JA	1	Chief Justice	1 708 600	1 836 745
JB	1	Deputy Chief Justice	1 537 700	1 653 028
		President: SCA	1 537 700	1 653 028
JC	1	Deputy President: SCA	1 452 300	1 561 223
	2	Judge: Constitutional Court	1 366 900	1 469 418
		Judge: SCA	1 366 900	1 469 418
	3	Judge President: High/Labour Court	1 281 500	1 377 613
	4	Deputy Judge President: High/Labour Court	1 196 000	1 285 700
	5	Judge: High/Labour Court	1 110 600	1 193 895
JD	1	Special Grade Chief Magistrate	768 900	826 568
		Regional Court President	768 900	826 568
JE	1	President: Divorce Court	683 400	734 655
		Regional Magistrate	683 400	734 655
		Chief Magistrate	683 400	734 655
	2	Presiding Officer: Divorce Court	632 200	679 615
JF	1	Senior Magistrate	563 800	606 085
JG	1	Magistrate	512 600	551 045

RECOMMENDED COST-OF-LIVING ADJUSTMENT ON CURRENT SALARY LEVELS

302. Tables 43 to 49 below reflect the proposed remuneration tables for public office bearers, which do not take into account the Commission's recommendations of March 2007. They are based on the currently proclaimed remuneration levels for all public office bearer positions



**TABLE 43**

**GRADING STRUCTURE, REMUNERATION AND ALLOWANCES FOR THE PRESIDENT, DEPUTY PRESIDENT, MINISTERS, DEPUTY MINISTERS (NATIONAL EXECUTIVE AUTHORITY) WITH EFFECT FROM 01 APRIL 2008**

COLUMN 1		COLUMN 2 (NOTCH 1)			COLUMN 3 (NOTCH 2)			COLUMN 4 (NOTCH 3)		
Grade	Office	Basic salary	Motor vehicle allowance	Total remuneration	Basic salary	Motor vehicle allowance	Total remuneration	Basic salary	Motor vehicle allowance	Total remuneration
No Grade	President	1,365,298		1,365,298						
Grade G	Deputy President	899,948	224,987	1,124,935						
Grade F	Minister	743,747	185,937	929,684	780,950	195,237	976,187	818,132	204,532	1,022,664
Grade E1	Deputy Minister	604,512	151,128	755,640	634,743	158,685	793,428	664,958	166,239	831,197

TABLE 44										
GRADING STRUCTURE, REMUNERATION AND ALLOWANCES OF MEMBERS OF THE NATIONAL ASSEMBLY AND PERMANENT DELEGATES TO THE NATIONAL COUNCIL OF PROVINCES WITH EFFECT FROM 01 APRIL 2008										
COLUMN 1		COLUMN 2 (NOTCH 1)			COLUMN 3 (NOTCH 2)			COLUMN 4 (NOTCH 3)		
Grade	Office	Basic salary	Motor vehicle allowance	Total remuneration	Basic salary	Motor vehicle allowance	Total remuneration	Basic salary	Motor vehicle allowance	Total remuneration
Grade F	Speaker: National Assembly (NA) Chairperson NCOP	743,747	185,937	929,684	780,950	195,237	976,187	818,132	204,532	1,022,664
Grade E1	Deputy Speaker: NA Deputy Chairperson: NCOP	604,512	151,128	755,640	634,743	158,685	793,428	664,958	166,239	831,197
Grade E2	Parliamentary Councilor (PC): President Chief Whip Majority Party in NA Chief Whip (CW): NCOP Leader of the Opposition i.t.o section 57(2)(d) of the Constitution	497,992	124,487	622,479	522,895	130,724	653,619	547,815	136,954	684,769
Grade D	PC: Deputy President House Chairperson: NA & NCOP	473,151	118,288	591,439	506,276	126,568	632,844	520,461	130,115	650,576
Grade C1	Chairperson of a Committee of a House or a Joint Committee	458,489	114,621	573,110	490,576	122,645	613,221	504,319	126,079	630,398
Grade C2	CW: Official Opposition/Largest Minority Party in a House Deputy Chief Whip: Majority Party in a House	444,334	111,083	555,417	475,437	118,858	594,295	488,768	122,191	610,959
Grade B	Leader of a House Whip in a House Leader of a Minority Party other than the official opposition where that leader is a member of the NA or a permanent delegate to the NCOP	426,132	106,615	532,747	447,787	111,945	559,732	469,107	117,277	586,384
Grade A1	Member of NA Permanent Delegates	379,336	94,834	474,170	405,901	101,476	507,377	417,275	104,318	521,593
All amounts reflected under the "Total remuneration" columns include an amount of R40 000 per annum determined in this Proclamation as the amount to which section 8(1)(d) of the Income Tax Act, 1962, applies.										

TABLE 45

UPPER LIMIT OF THE SALARIES AND ALLOWANCES OF PREMIERS, MEMBERS OF EXECUTIVE COUNCILS AND MEMBERS OF PROVINCIAL LEGISLATURES WITH EFFECT FROM 01 APRIL 2008

COLUMN 1		COLUMN 2 (NOTCH 1)			COLUMN 3 (NOTCH 2)			COLUMN 4 (NOTCH 3)		
Grade	Office	Basic salary	Motor vehicle allowance	Total remuneration	Basic salary	Motor vehicle allowance	Total remuneration	Basic salary	Motor vehicle allowance	Total remuneration
Grade F	Premier	743,747	185,937	929,684	780,950	195,237	976,187	818,132	204,532	1,022,664
Grade E1	Executive Council member Speaker	604,512	151,128	755,640	634,743	158,685	793,428	664,958	166,239	831,197
Grade D	Deputy Speaker	473,151	118,288	591,439	506,276	126,568	632,844	520,461	130,115	650,576
Grade C1	Chief Whip: Majority Party	458,489	114,621	573,110	490,576	122,645	613,221	504,319	126,079	630,398
Grade C2	Leader of Opposition i.t.o section 116(2)(d) of the Constitution Chairperson of a Committee Chairperson of Committees	444,334	111,083	555,417	475,437	118,858	594,295	488,768	122,191	610,959
Grade B	Chief Whip: Official Opposition Deputy Chief Whip: Majority Party Deputy Chief Whip: Majority Party Deputy Chairperson of Committees	426,132	106,615	532,747	447,787	111,945	559,732	469,107	117,277	586,384
Grade A1	Parliamentary Counsellor to the King Whip Leader of a Minority Party in a Legislature other than the Official Opposition	379,336	94,834	474,170	405,901	101,476	507,377	417,275	104,318	521,593
Grade A2	Member of a Legislature	365330	91331	456661	376296	94072	470368	401875	100468	502343

All amounts reflected under the "Total remuneration" columns include an amount of R40 000 per annum determined in this Proclamation as the amount to which section 8(1)(d) of the Income Tax Act, 1962, applies.

TABLE 46				
UPPER LIMIT OF THE SALARIES AND ALLOWANCES OF MEMBERS OF MUNICIPAL COUNCILS, WITH EFFECT FROM 01 APRIL 2008				
Grade	COLUMN 1	COLUMN 2		
	Office	Basic salary	Motor vehicle allowance	Total remuneration
6	Executive Mayor Mayor	589,500	196,499	785,999
6	Speaker Deputy Executive Mayor Deputy Mayor	471,600	157,199	628,799
6	Member of Executive Committee Member of mayoral Committee Whip Chairperson of a sub-council	442,125	147,374	589,499

<b>TABLE 47</b>			
<b>REMUNERATION OF TRADITIONAL LEADERS WITH EFFECT FROM 01 APRIL 2008</b>			
<b>CATEGORY</b>		<b>ANNUAL SALARY</b>	
King/Paramount Chief		585,946	
Chief		140,642	
Chairperson NHTL		465,755	
Deputy Chairperson NHTL		404,325	
Full time Chairperson PHTL		426,466	
Full time Deputy Chairperson PHTL		379,336	
<b>ALLOWANCES PAYABLE TO MEMBERS OF THE NATIONAL HOUSE OF TRADITIONAL LEADERS FOR ATTENDING MEETINGS OF THE HOUSE, SEMINARS, WORKSHOPS AND CONFERENCES, IN ADDITION TO THEIR SALARIES AS TRADITIONAL LEADERS</b>			
<b>CATEGORY</b>	<b>SITTING ALLOWANCE</b>	<b>SUBSISTENCE</b>	<b>TRANSPORT</b>
Member	819,00 per day	Reasonable,actual expenses	Department of Transport tariffs for the use of privately owned vehicles
<b>ALLOWANCES PAYABLE TO MEMBERS OF THE PROVINCIAL HOUSES OF TRADITIONAL LEADERS (WHO ARE NOT FULL TIME MEMBERS) FOR ATTENDING MEETINGS OF THE HOUSE, SEMINARS, WORKSHOPS AND CONFERENCES, IN ADDITION TO THEIR SALARIES AS TRADITIONAL LEADERS</b>			
<b>CATEGORY</b>	<b>SITTING ALLOWANCE</b>	<b>SUBSISTENCE</b>	<b>TRANSPORT</b>
Chairperson	974,00 per day	Reasonable,actual expenses	Department of Transport tariffs for the use of privately owned vehicles
Deputy Chairperson	876,00 per day	Reasonable,actual expenses	Department of Transport tariffs for the use of privately owned vehicles
Member	679,00 per day	Reasonable,actual expenses	Department of Transport tariffs for the use of privately owned vehicles

<b>TABLE 48</b>	
<b>REMUNERATION OF CONSTITUTIONAL COURT JUDGES AND JUDGES WITH EFFECT FROM 01 APRIL 2008</b>	
<b>DESIGNATION OF OFFICE</b>	<b>SALARY PER ANNUM ( R )</b>
Chief Justice of South Africa	889,825
Deputy Chief Justice	874,825
President of the Supreme Court of Appeal	874,825
Deputy President of the Supreme Court of Appeal	860,799
Judge of the Constitutional Court	819,120
Judge of the Supreme Court of Appeal	819,120
Judge President of the High Court	814,109
Judge President of the Labour Court	814,109
Deputy Judge President of the High Court	801,007
Deputy Judge President of Labour Court	801,007
Judge of the High Court	794,959
Judge of the Labour Court	794,959

<b>TABLE 49</b>			
<b>REMUNERATION OF MAGISTRATES WITH EFFECT FROM 01 APRIL 2008</b>			
<b>DESIGNATION OF OFFICE</b>	<b>SALARY PER ANNUM ( R )</b>	<b>MOTOR VEHICLE ALLOWANCE</b>	<b>TOTAL REMUNERATION</b>
Special Grade Chief Magistrate	502,644	146,459	649,103
Regional Court President	502,644	146,459	649,103
Chief Magistrate	406,004	119,588	525,592
Regional Magistrate	406,004	119,588	525,592
Senior Magistrate	367,341	91,835	459,176
Magistrate	334,168	83,541	417,709

## CONCLUSION

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303. Due to the fact that this Commission and its predecessors in the past made its remuneration recommendations based on mainly historical remuneration practices and levels, it has become necessary to conduct a review of the remuneration structure, systems and levels pertaining to all public office bearers.
304. This Commission took the first ambitious step towards such a review when it published its report and recommendations for public office bearer remuneration in March 2007. This review not only presented an opportunity to address the many inequities that exist in the current system of public office bearer remuneration, which resulted inter alia from the addition of different positions to the definition and fold of public office bearers at different times, and from different remuneration regimes, but afforded the Commission to craft a remuneration scheme that is in line with both the principles of constitutional democracy that underlie our public office, and international best public office bearer remuneration practice.
305. The March 2007 review and report established, for the first time, a remuneration philosophy for public office bearer remuneration, and comprehensive job profiles for each public office bearer position, through a process of multi-faceted and scientific job evaluation. This served as a strong basis for job grading, benchmarking, and ultimately for the determination of fair and appropriate pay levels and benefits for each of those positions.
306. The Commission indicated already in its March 2007 report its intention to conduct further research in respect of pension and medical aid benefits, and tools of trade, and to report thereon in a further report. This second major

review report sets out to report on such further research. It should therefore be considered, together with the March 2007 report, to establish a fair, transparent and accountable remuneration system for all public office bearer positions in South Africa.

307. The significantly different processes for and actual allocations of tools of trade by different institutions, the widespread confusion with regard to the nature of such tools of trade, and the appropriateness of these allocations, necessitates a full review thereof by the Commission in the immediate future.



## ANNEXURES

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- A. Public office bearer positions
- B. Benefits per group of public office bearers
- C. Defined Benefit Scheme design variables
- D. Defined Contribution Scheme design variables
- E. Current tools of trade
- F. Assumptions

**ANNEXURE A: PUBLIC OFFICE BEARER POSITIONS**

	<b>Executive Authority</b>	<b>Legislative Authority</b>	<b>Judicial Authority</b>
<b>National Level</b>	<ul style="list-style-type: none"> <li>• President</li> <li>• Deputy President</li> <li>• Minister</li> <li>• Deputy Minister</li> </ul>	<p>National Assembly</p> <ul style="list-style-type: none"> <li>• Speaker</li> <li>• Deputy Speaker</li> <li>• House Chair</li> <li>• Leader of Opposition</li> <li>• Chief Whip: Majority Party</li> <li>• Parliamentary Counsel: President</li> <li>• Parliamentary Counsel: Deputy President</li> <li>• Chairperson of a Committee</li> <li>• Deputy Chief Whip: Majority Party</li> <li>• Chief Whip: Largest Minority Party</li> <li>• Leaders of Minority Parties</li> <li>• Whip</li> <li>• Member</li> </ul> <p>National Council of Provinces</p> <ul style="list-style-type: none"> <li>• Chairperson</li> <li>• Deputy Chairperson</li> <li>• House Chair</li> <li>• Chairperson of a Committee</li> <li>• Chief Whip</li> <li>• Whip</li> <li>• Permanent Delegates</li> </ul> <p>National House of Traditional Leaders</p> <ul style="list-style-type: none"> <li>• Chairperson: NHTL</li> <li>• Deputy Chairperson: NHTL</li> <li>• Member of NHTL</li> </ul>	<ul style="list-style-type: none"> <li>• Chief Justice</li> <li>• Deputy Chief Justice</li> <li>• President of Supreme Court of Appeal</li> <li>• Judge of Constitutional Court</li> <li>• Deputy President of Supreme Court of Appeal</li> <li>• Judge of Supreme Court of Appeal</li> </ul>
<b>Provincial Level</b>	<ul style="list-style-type: none"> <li>• Premier</li> <li>• Member of Executive Council</li> </ul>	<p>Provincial Legislature</p> <ul style="list-style-type: none"> <li>• Speaker</li> <li>• Deputy Speaker</li> <li>• Leader of Opposition</li> <li>• Chairperson of Committees</li> <li>• Deputy Chairperson of Committees</li> <li>• Chairperson of a Committee</li> <li>• Chief Whip: Majority Party</li> <li>• Deputy Chief Whip: Majority Party</li> <li>• Chief Whip: Largest Minority Party</li> <li>• Leader of Minority Parties</li> <li>• Whip</li> <li>• Member of Provincial Parliament</li> </ul> <p>Provincial House of Traditional Leaders</p> <ul style="list-style-type: none"> <li>• Chairperson: PHTL</li> <li>• Deputy Chairperson: PHTL</li> <li>• Member: PHTL</li> </ul>	<ul style="list-style-type: none"> <li>• Judge President of the High Court</li> <li>• Deputy Judge President of the High Court</li> <li>• Judge of the High Court</li> </ul>
<b>Local Level</b>	<ul style="list-style-type: none"> <li>• Executive Mayor</li> <li>• Deputy Executive Mayor</li> <li>• Mayor</li> <li>• Deputy Mayor</li> <li>• Member of Executive Council</li> <li>• Member of Mayoral Council</li> </ul>	<p>Municipal Council</p> <ul style="list-style-type: none"> <li>• Speaker</li> <li>• Whip</li> <li>• Chairperson of a sub-council</li> <li>• Municipal Councillor</li> </ul> <p>Traditional Leaders</p> <ul style="list-style-type: none"> <li>• King</li> <li>• Senior Traditional Leader</li> <li>• Headman</li> </ul>	<ul style="list-style-type: none"> <li>• Special Grade Chief Magistrate</li> <li>• Regional Court President</li> <li>• President of the Divorce Court</li> <li>• Chief Magistrate</li> <li>• Regional Magistrate</li> <li>• Presiding Officer of the Divorce Court</li> <li>• Senior Magistrate</li> <li>• Magistrate</li> </ul>

(Deloitte & Touche; 2006)

**ANNEXURE B: BENEFITS PER GROUP OF PUBLIC OFFICE BEARERS**

Benefits per group of Office Bearers								
Authority	Title	Basic	Pension	Medical Aid	Motor Allowances	Other Allowances	Home Owners Allowance	13 <sup>th</sup> Cheque
National Parliament: NA and NCOP	Speaker: NA Chairperson: NCOP Deputy Speaker: NA Deputy Chairperson NCOP House Chair CW: Majority Party Chief Whip: NCOP PC: President PC: Deputy President Leader of Opposition Chairperson of a Committee Dep CW: Majority Party CW: Largest Minority Party Leader of Minority Party Whip Member: NA Permanent Delegate NCOP	Y	Y	Y	Y	N	N	N
Provincial Legislature	Premier Speaker MEC Deputy Speaker Chair of Committees Deputy Chair of Committees Leader of Opposition Chair of a Committee Chief Whip: Majority Party Deputy CW: Majority Party CW: Largest Minority Party Leader of Minority Party Whip MPL	Y	Y	Y	Y	N	N	N
Local Council	Executive Mayor Deputy Executive Mayor Mayor Deputy Mayor Speaker MEC MMC Chairperson of Sub-Council Whip Municipal Councilor	Y	Y	Y	Y	Y	Y	N
Judiciary	Chief Justice Deputy Chief Justice President of the SCA Deputy President of the SCA Judge of the Constitutional Court Judge of the SCA JP of High Court Deputy JP of the High Court Judge of the High Court	Y	Y	Y	Y	Y	N	N
Magistrates	Regional Court President Spec Grade Chief Magistrate Pres of the Divorce Court Regional Magistrate Chief Magistrate Pres Officer of Divorce Court Senior Magistrate District Magistrate	Y	Y	Y	Y	N	Y	Y
Traditional Leaders	King Chairperson: NHTL Deputy Chairperson: NHTL Chairperson: PHTL Deputy Chairperson: PHTL	Y	N	N	N	N	N	N

(Deloitte & Touche; 2006)

**ANNEXURE C: DEFINED BENEFIT SCHEME DESIGN VARIABLES**

VARIABLE	BRIEF COMMENT
<b>Membership</b>	
Minimum Age	Not eligible to join before a specified age.
Maximum Age	Not eligible to join after a specified age.
Voluntary / Compulsory	Anti-selection risk if voluntary – high risk members may only join for risk benefits. If participation is low, running of scheme is more expensive. Savings discipline established via compulsion.
<b>Funding</b>	
Unfunded	Sponsor contributes on PAYG basis on commencement of benefit payment(s). Reduced security for members – but irrelevant where Government is sponsor
Member	Could be a fixed portion of total cost but mostly a fixed % of pensionable salary – e.g. 6% to 7.5% Alternatively non-contributory
Employer	Could be a fixed portion of total cost but mostly balance of cost after fixed % member contribution deducted – i.e. open ended liability.
<b>Net Replacement Ratio</b>	$NRR = \text{Initial Pension} : \text{Final Salary}$ Sponsor should decide on a suitable NRR on retirement for different positions Benefit design should then target this NRR
<b>Normal Retirement Age</b>	Typically between 60 and 65. Increase in NRA by 1 year reduces liability by around 2%. Trend of improving longevity increases cost further For a 1 year longevity improvement the liability increases by around 2%. Higher female proportions also increase liability for a unisex NRA.
<b>Pensionable Salary</b>	Basic Annual Salary only or including allowances and/or bonuses
<b>Final Salary</b>	Pensionable Salary averaged over defined period. Usually highest average over 2 to 3 year period. Each additional year of averaging should reduce liability by around 3%. Could also use revalued pensionable salary in averaging by adjusting for inflation which will increase cost.
<b>Normal Retirement Pension</b>	
Pension	Typically = accrual rate x past service x final salary Accrual rate usually 1.75% to 2% per year of service For Public Service likely to have higher accrual rate for shorter tenure positions Usually maximum pension of 100% of final salary
Pension Increases	Real value protection of pension essential Guaranteed pension increases are very seldom offered Usually discretionary increases in line with a policy, subject to affordability Typically 75% to 100% of growth in CPI Allowance for discretionary increases provided for in costing/valuation 1% pa Pension Increase allowance increases liability by 8% to 10% Pension expected to increase with CPI cost around 1.5 times a level pension
Continuation	Continuation pension payable to spouse Definition of Spouse important Typically 50% to 75% of pension at date of death Also increases in line with Pension Increase policy
Guaranteed Period	100% of full pension guaranteed for a specified period Typically 5 years Continuation pension remains at 100% for balance of period if death occurs before 5 years If pensioner and spouse dies within 5 years, lump sum payable to estate

<b>Normal Retirement Lump Sum</b>	
<b>Commutation</b>	Up to 1/3 of pension could be converted into a lump sum Commutation factors are actuarially calculated Lump Sum = % commuted x Annual Pension x Commutation Factor (e.g. 10 at NRA) For practical reasons factors are usually simplified – e.g. only function of age
<b>Gratuity</b>	Lump Sum could be defined in addition to Annuity Then no Commutation Typically = accrual rate x past service x final salary Accrual rate usually around 6.67% Annuity accrual rate normally lower if Gratuity defined
<b>Early Retirement Benefit</b>	Normal Retirement Benefit formulae adjusted for cost neutrality on Voluntary Early Retirement To compensate for longer period of pension payments and reduced funding period Typically 1/3% reduction in pension for each month of early retirement Defined Gratuities could also be adjusted
<b>Late Retirement Benefit</b>	Various options: Accrual of service stops at NRA and pension increases by say 1% per month until later retirement Accrual continues on Normal Retirement basis Deferred Normal Retirement Pension plus Defined Contribution structure post NRA
<b>Ill-health Retirement Benefit</b>	Benefit usually higher in value than Actuarial Reserve Value Protection at younger ages requires full service rather than past service And no reduction factor as for early retirement Definition of Ill-health is crucial Needs to complement other Disability benefits
<b>Death in Service Benefit</b>	Usually higher in value than Actuarial Reserve Value from minimum past service level Various options: Spouse Annuity = accrual rate x full service x final salary x 50% Orphan Annuity = accrual rate x full service x final salary x 10% (double if no Spouse) (past service for younger members will result in insufficient protection of dependants) Lump sum = member contributions plus interest Lump sum = final salary x past service x accrual rate Lump sum = multiple of final salary Any combination of the above Discrimination issues between married and single members Lump sum Death in Service benefits Lump sum death benefits could be accelerated in the event of terminal illness Could also have multiple of salary benefit in the event that the spouse dies
<b>Trauma Cover</b>	Typically 1 x final salary e.g. payable on defined conditions such as cancer, heart attack, etc
<b>Funeral Benefits</b>	All dependants covered Definition of dependants important Could also allow for Grand parents Usually defined as fixed Rand amount per family member In addition could provide repatriation benefits
<b>Withdrawal Benefits</b>	Traditionally penal benefits payable on withdrawal Typically if service was less than 5 years, only get own contributions plus little interest Afterwards vesting scale could apply with say double contributions plus interest after 10 years Alternative cash benefit definitions possible – e.g. Formulae with Actuarial Factors Usually the cash benefits are lower than the Actuarial Reserve Value Deferred Pension option after minimum service – usually better value benefit Transferring to another fund rather than cash benefit usually better value benefit Pension Funds Act introduced minimum benefit levels in line with value of the deferred pension Employer usually improves withdrawal benefits on Retrenchment
<b>Disability Benefits</b>	Definition is crucial Total or Permanent Disability Own Occupation or Any Other Occupation Lump Sum or Income Benefit
<b>Other</b>	Could also consider: Housing; Credit Cover; Study Support; Permanent / Chronic Illness; Accidental Death

**ANNEXURE D: DEFINED CONTRIBUTION SCHEME DESIGN VARIABLES**

VARIABLE	BRIEF COMMENT
<b>Net Replacement Ratio</b>	NRR = Initial Purchased Pension : Final Salary Sponsor should decide on a suitable NRR on retirement for different positions Contribution levels should then target this NRR
<b>Normal Retirement Age</b>	Typically between 60 and 65. Lower NRA implies shorter savings period and more expensive insured pensions
<b>Pensionable Salary</b>	Contributions usually defined as % of Pensionable Salary Basic Annual Salary only or including allowances and/or bonuses
<b>Risk Benefits</b>	Death in Service; Disability; Funeral and other risk benefits usually insured Therefore provided on a current cost basis If annuity benefits are paid usually approximately insured as multiple of salary Sponsor then underwrites any possible mismatch between insured amount and cost of annuity Review risk benefits in line with affordability Could offer flexible risk benefits
<b>Funded Benefits</b>	Member Share = contributions towards retirement provision + transfer-in values + investment return Payable on Normal Retirement or prior exit Traditionally vesting scale applied with full Member Share only payable after say 5 years of service Current regime is to remove vesting scale and always pay full Member Share Also a requirement in terms of the Pension Funds Act
<b>Contributions</b>	
Member	Fixed % towards retirement provision Alternatively non-contributory with higher Employer contribution
Employer	Fixed %: first deduct for expenses and risk benefits; balance towards member share If costs increase, retirement provision deteriorates Should then consider reducing risk benefit levels OR Fixed % towards member share Expenses and risk benefits contributions in addition If costs increase, it will cost Sponsor more if risk benefits not reduced
<b>Investment Returns</b>	Investment strategy is vital as members bear investment risk Investment horizon is long – can therefore smooth out volatility Targeted NRR unlikely if investment strategy too conservative Capital protection options closer to retirement Realistic long term investment target = CPI + 4% to CPI + 6% Unlikely to achieve this if bulk of assets in Cash and Fixed Interest instruments To achieve target need 50+% exposure in equity markets Could also consider Investment Choice for members or Life Stage investment models
<b>Retirement Benefits</b>	Provident Fund = Up to 100% as Lump Sum Pension Fund = Up to 1/3 as Lump Sum Balance should be used to purchase pension Alternatively fund could have a defined benefit pension section underwritten by Sponsor Guaranteed purchased pension should ideally target CPI pension increases and continuation pension to spouse with 5 year guaranteed period Alternatively, for higher member shares, could consider living annuity Mismatch risk between investment portfolio underlying member share and asset allocation underlying retirement benefit

**ANNEXURE E: CURRENT TOOLS OF TRADE**

Source	Applicable to	Tools of Trade	Comments
Presidential Policy Directive	<ul style="list-style-type: none"> <li>• President</li> <li>• Deputy President</li> <li>• Spouses</li> </ul>	Housing and Accommodation	<ul style="list-style-type: none"> <li>• State owned, furnished housing</li> <li>• Maintenance and renovation</li> <li>• Household staff</li> <li>• Actual expenses relating to all domestic and international accommodation</li> </ul>
		Transport	<ul style="list-style-type: none"> <li>• All expenses in respect of domestic and international official and private transport (SANDF and SAPS)</li> <li>• Commercial air travel (Deputy President / any spouse) considering security, cost and convenience</li> <li>• State owned vehicle and VIP driver for a spouse's official and private transport</li> <li>• Day-to-day travel support to dependent family members</li> </ul>
		Personal Support Staff	<ul style="list-style-type: none"> <li>• Appointment of Advisors for President / Deputy President</li> <li>• Appointment by the Speaker of Parliamentary Councilors</li> </ul>
		Entertainment	<ul style="list-style-type: none"> <li>• Actual expenses for all official functions</li> </ul>
		Security	<ul style="list-style-type: none"> <li>• SAPS protection at all times</li> </ul>
		Medical and Health Care	<ul style="list-style-type: none"> <li>• Provided by SAMHS</li> <li>• Payment of compulsory private contributions in respect of Deputy President</li> </ul>
		Legal Representation	<ul style="list-style-type: none"> <li>• Legal representation in terms of the State Attorney's Act and Public Finance Management Act</li> </ul>
		Funerals	<ul style="list-style-type: none"> <li>• State funeral in terms of official funeral policy</li> </ul>
Ministerial Handbook 2007	<ul style="list-style-type: none"> <li>• Minister</li> <li>• Deputy Minister</li> <li>• Premier</li> <li>• MEC</li> <li>• Presiding / Deputy Presiding officer in National Parliament</li> <li>• Presiding / Deputy Presiding officer in Provincial Legislature</li> </ul>	Official Residence	<ol style="list-style-type: none"> <li>1. <b>Privately owned residence:</b> at the seat of the office. <ul style="list-style-type: none"> <li>• Department of Public Works is responsible for: Cleaning, garden services, water and electricity.</li> <li>• Members are responsible for all costs related to the procurement.</li> <li>• State provides residence security.</li> </ul> </li> <li>2. <b>State owned residence:</b> <ul style="list-style-type: none"> <li>• Members may occupy one State-owned residence, in the capital of their choice, free of charge.</li> </ul> </li> </ol>

Source	Applicable to	Tools of Trade	Comments
			<ul style="list-style-type: none"> <li>If available, Members may occupy a second State-owned residence in the other capital, for official purposes. In this event a monthly market related rental is payable.</li> <li>Occupation of State-owned residences is taken on arrangement with the Minister of Public Works.</li> <li>Department of Public Works will be responsible for insurance, removals, domestic and garden services, general maintenance and renovations, furniture and accessories, and gatehouse.</li> <li>State provides residence security.</li> </ul>
		Travel and Transport	<ul style="list-style-type: none"> <li>State-owned official vehicles, and South African Police Services VIP Drivers/Protectors, may be allocated to Members</li> <li>Official vehicle and VIP driver for official trips (National level – 2 vehicles; Provincial level – 1 vehicle: Duration = maximum 120 000 km/5 yrs: Purchase price 70% of total notch 3 remuneration package value)</li> <li>Claim for official km's in excess of 500km in private vehicle</li> <li>Official vehicle maybe necessary for family support</li> <li>Actual rail expenses for official travel</li> <li>Actual business class air travel for official trips (first class for international travel)</li> <li>SAAF and chartered aircraft services when available</li> <li>Use of VIP lounges at airports</li> <li>Discretionary use air tickets (30 per annum in business class, and 6 per annum for dependent children in economy class)</li> <li>Spouse accompaniment on official travel</li> <li>Travel support to dependent children</li> </ul>
		Private Office	<ul style="list-style-type: none"> <li>10 posts for Minister/Premier (6 for Deputy Minister/MEC)</li> <li>Official stationery, cards, invitations, newspapers, magazines, photographic services</li> <li>Home office phone, fax, computer, furnishing</li> <li>Departmental credit card (DG guidelines)</li> </ul>
		Entertainment	<ul style="list-style-type: none"> <li>Actual expenses for official entertainment</li> <li>Use of Presidential Guesthouse for official entertainment</li> </ul>
		Subsistence and Travel Costs	<ul style="list-style-type: none"> <li>Actual domestic subsistence and travel expenses plus daily allowance at published rates</li> <li>Actual international subsistence and travel expenses plus 110% / 30% of published DG daily allowance</li> </ul>
		Security	<ul style="list-style-type: none"> <li>As may be determined by Minister of Safety and Security</li> </ul>
		Accepting and Relinquishing Office	<ul style="list-style-type: none"> <li>Actual relocation expenses, including property transfer costs (appointment)</li> </ul>



Source	Applicable to	Tools of Trade	Comments
			<ul style="list-style-type: none"> <li>Retention of benefits up to 30 days after relinquishing office</li> <li>Actual relocation expenses when relinquishing office</li> </ul>
	<ul style="list-style-type: none"> <li>Former Ministers</li> <li>Former Deputy Ministers</li> </ul>	Funeral	<ul style="list-style-type: none"> <li>Official / state funeral in terms of policy (including spouse)</li> </ul>
		Air Travel	<ul style="list-style-type: none"> <li>Minister and spouse: 48 single domestic business class air tickets (of which 24 is for spouse)</li> <li>Deputy Minister and spouse: 36 single domestic business class air tickets (of which 18 is for spouse)</li> <li>Widow(er): 12 single domestic business class air tickets</li> </ul>
Handbook on facilities for members of the National Assembly and permanent delegates to the NCOP	<ul style="list-style-type: none"> <li>Members of the National Assembly</li> <li>Permanent Delegates to the NCOP</li> </ul>	Travel	<ul style="list-style-type: none"> <li>Annual 78 single domestic economy class air tickets (54 for members residing in Western Cape) – can be exchanged for rail or bus tickets</li> <li>Each dependent child 12 single economy class air tickets</li> <li>Dependent family members 2 economy class single air tickets</li> <li>AA rates for official travel in private motor vehicle</li> <li>Government transport rates for travel in private motor vehicles to and from airports</li> <li>AA rates for daily commuting in private vehicles (in excess of 30km per day)</li> <li>Parking at airports to a maximum of R1 500 per month</li> <li>Actual cost (AA rate for self-drive) for 1 return journey per annum between Cape Town and home (offset additional conveyance against air tickets)</li> </ul>
		Telephone Costs	<ul style="list-style-type: none"> <li>R1 914 – R3 553 per month, depending on position</li> </ul>
		Subsistence and Accommodation	<ul style="list-style-type: none"> <li>Actual travel expenses for official travel (AA rates if travel is by private vehicle)</li> <li>Accommodation costs to a maximum of R950 per day, and R150 for meals (maximum R150 per day for private accommodation)</li> <li>Daily allowance as determined by Speaker and NCOP Chair</li> <li>Class B motor vehicle hire costs</li> </ul>
		Equipment and Furniture	<ul style="list-style-type: none"> <li>Laptop, printer, internet, standard office furniture, letterbox, electronic copy of SA Statutes</li> </ul>
		Stationery	<ul style="list-style-type: none"> <li>500 blank letterheads, 500 official envelopes</li> <li>Franking and dispatch of official letters and parcels up to 50kg</li> </ul>
		Insurance	<ul style="list-style-type: none"> <li>Insurance against death, permanent disability and injury</li> </ul>
		Relocation Costs	<ul style="list-style-type: none"> <li>One Spoornet container / removals company to a limit of R15 925, or cash payment of R13 310 (R5 000 added for members with more than 10 years service)</li> <li>1 return flight between Cape Town and home base</li> </ul>

	Members of Provincial Legislatures		Different dispensations in each legislature. Requested submissions.
Regulation 653 of 30 June 2006	Municipal Councilors	Telephone Allowance	• R1 057 – R2 115 per month
		Other	DPLG to advise
	Traditional Leaders		NHTL collating the different dispensations, and will submit before 15 December 2007

**ANNEXURE F: COSTING ASSUMPTIONS**

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We have assumed the following general valuation basis for costing purposes.

**1. Interest and Pension Increases**

Investment Return Assumption: 9.00% p.a. (pre and post retirement)

Pension Increase Assumption: 5.00% p.a.

The pension increase assumption has been based on our long-term best-estimate of South African CPI as at 31 December 2007.

Post Retirement Interest Rate: 4.00% p.a.

The post retirement interest rate of 4.00% p.a. is the difference between the investment return assumption and the pension increase assumption and represents the real rate at which the expected future pension payments are discounted. The effect of using a real rate of 4.00% p.a. is that if the pensioner assets earn a return of 9.00% p.a. then a pension increase of 5.00% p.a. can be afforded without a higher than expected increase in the liability, all else being equal.

**2. Mortality**

We have used the PA(90) ultimate mortality table rated down by two years in our calculations post retirement.

During the pre-retirement stage we adopted the SA 56 – 62 table with female lives rated down by 3 years.

**3. Salary Increases**

The assumption is made that salaries will increase annually at CPI + 1%. Hence our calculations have salaries increasing at 6% p.a. given that our long-term best-estimate of South African CPI as at 31 December 2007 is 5%.

The proposed increases in pensionable salaries were derived from the IRC's report on the Remuneration of Public Office Bearers. In this report the increased total remuneration packages are given as proposed by the IRC. We calculated the increase in the total remuneration package and applied this increase factor to the current pensionable salary to arrive at the proposed pensionable salary.

**4. Dependants**

We assumed that all members will be married at the time the member becomes entitled to a benefit. We ignored the impact of dependent children.

**5. Spouse's Age**

We assumed married males are 4 years older than their female spouse.

**6. Net Replacement Ratio (NRR) and Benefit Tables**

In the NRR tables we assumed a 75% spouses continuation annuity. We used PA(90) male mortality rated down two years in the tables except if something else is stated with reference to a specific table. The other assumptions mentioned above were also used.

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