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FIJI NATIONAL PROVIDENT FUND

(FNPF)

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INTRODUCTION

The Fiji National Provident Fund (FNPF) was formed in 1966 by the legislature under the FNPF Act.

It is the largest financial institution in Fiji and the only superannuation that is mandated by law to collect compulsory contributions from employees and employers towards the retirement savings of all workers.

The members have to attain the age of 55 years for full withdrawal or Pension. The Pension options are Life Pension, Term Annuity and Lump sum.

Introduction (contd)

It is compulsory by law for all workers to contribute the mandatory amount of 8% matched by another 8% from the employer.

The Pension Scheme was introduced in 1975

Introduction (contd)

As at 30th June, 2013 the FNPF's total assets were valued at approximately \$4billion and total membership stood at 368,186.

It is a major investor in Fiji who own five star resorts have controlling interests in Telecommunications and a financial institution which is due to operate as a bank

OTHER BENEFITS

The three main benefits are *Retirement, Permanent Incapacity and Survivors Benefit in case of death of a member.* The secondary benefits or schemes that complements these, includes *housing, education, and medical assistance scheme.*

Other Benefits (contd)

- Many a time we feel that FNPF is not a full retirement scheme as such. The withdrawals by the members for the other benefits erode their future pension.
- Permanent Incapacity (physical or mental)
 - a member can withdraw or receive joint pension without reaching age 55.
- Survivors Benefit (Special Death Benefit)
 - maximum of \$2000 is given to the member's family to assist for funeral expenses.

- **Unemployment Benefit**

The maximum amount permitted for withdrawal is \$2000 for unemployment eligibility. A member is terminated, laid off or made redundant can apply for this assistance, provided he/she has been in continuous employment for 2 years prior to being unemployed.

Secondary Benefits

- **Housing Assistance** – this assistance is provided to the members to purchase a dwelling house/vacant land or to build/renovate/extend a house or for electrification, installation of water tank or to reduce or pay off housing debt with an approved lender

- **Education Assistance Scheme**

FNPF provides assistance to students of local education institute as well as overseas. In case of overseas assistance, it could be for the member, spouse, children and brother or sister. Incidental expenses not exceeding \$5000 and if two people are applying for the same student their joint withdrawal should not exceed \$20,000 for one student

Medical Assistance Scheme – Local and Overseas medical assistance is available for the member, spouse, parents, children and brothers and sisters of the members. Where the members' eligibility is less than 50% of the cost of full treatment the fund may request evidence of other funds available to meet the shortfall before releasing any FNPF fund. Assistance may also be extended for incidental expenses to a maximum of \$5000 per patient per annum.

PENSION

Pension is a periodical payment made to a person under a retirement scheme which is intended to support the person for the rest of his/her life.

FNPF PENSION REFORM

- (1) On 25th November, 2011 Decrees No.051 and 052 were promulgated to implement drastic and unprecedented changes to the pension benefits payable under the Fund.
- (2) The Promontory Group Consultants and Actuaries from Singapore were hired by the government for the Pension reform which culminated into Decrees 51 and 52. The reform took effect from 1st March, 2012.

FNPF Pension Reform (contd)

- (1) The reason for the reform was pension sustainability. The Consultants found that as at 30th June, 2011 total liabilities for the 11,000 pensioners amounted to \$565 million compared with \$312 million set aside for pensions. The shortfalls in pension income against pension payment meant that current members' savings were used to pay for the difference.
- (2) The pension reform was widely criticized by the pensioners, NGO's and by the trade unions whose members in future would receive reduced rate of pension (15% reduced to 8.7%) on their retirement which would hardly meet their living expenses even now and in future.

FNPF Pension Reform (contd)

(3) There was a challenge by class action court case to the Reform in the High Court by a pensioner supported by several groups, on the grounds that :

(i) That the reduction in pension was a breach of contract.

(ii) That the review intending to reduce the current pension benefits of the pensioners was a breach of human rights.

(4) The challenge could not continue under the judicial process as the Decrees cannot be challenged in any Court of law.

FNPF Pension Reform (contd)

- (5) The argument of the stakeholders was that if the objective of the reform was indeed, to provide financial security to the retirees, then it was imperative that a totally different perspective should have been devised to achieve that purpose while ensuring the long term viability of the Fund remained stable. Several Economists had submitted alternative methods for the sustainability of the fund and at the same time avoiding any reduction in the pension.

REDUCTION IN PENSION RATES

- Reduction in Pension Rates: However, the main feature under the reform agenda also drastically affected current Members still in employment. Their pension eligibility rate at the retiring age of 55 changed from March 2012 onwards, as follows, from:
 - **15% down to 8.7%, a drop of 42%.**
- In excess of 360,000 FNPF Members were affected. This change took place without the concurrence of the affected Members.

Current Pensioners:

In this category, former employees who have been pensioners for some time, and who were on conversion rate ranging from 25% to 15% (as applicable), had their retirement pension forcibly reduced by as much as an average of 50% (rates vary according to individual status).

The new pension rates are based on pensioner's age and they range from low of 8.7% to high of 23.3%. As in the past, there are separate rates for single or joint pensions. Approx. 11,300 FNPF pensioners were seriously affected with the reduction in their pension.

FNPF Pension Reform (contd)

If Promontory Group Consultants recommendation under the Pension Reform was to provide and consolidate financial security after retirement then it would seem incongruous, that the reforms reduced the rate of pension from 15% of the Members' contribution to the current rate of 8.7%.

PENSION CONVERSION TABLE BEFORE REFORM

YEAR	SINGLE PENSION RATE	JOINT PENSION RATE
1999	24%	16.4%
2000	23%	15.8%
2001	22%	15.2%
2002	21%	14.6%
2003	20%	14.0%
2004	19%	13.4%
2005	18%	12.8%
2006	17%	12.2%
2007	16%	11.6%
2008	15%	11.0%

PENSION CONVERSION (contd)

As can be seen from the above table in July 1999 the pension rate of 24% and later it continued to reduce by 1% annually to the threshold of 15% for single pension 0.6% for joint pension until 2009.

The percentage rate that relates to the year a member withdrew was fixed for life. From 2009 the rate of 15% single pension and 11% for joint pension was to continue until further reform amendments.

CURRENT CONVERSION RATE

Pension Conversion Rates

Current pension conversion rates for ages from 55 to 100 are shown on Table 1 below.

The age is the age at the last birthday, as at the date of purchase of the pension. The rates for joint life pension apply only where the spouse is not more than seven (7) years younger than the pensioner.

Different rates will apply to joint pension for spouses who are younger by seven years or more. These rates will be determined by actuaries and is available upon request.

Pension Conversion Rates

Age	Single	Joint	Age	Single	Joint
55	8.7%	7.5%	66	11.1%	9.0%
56	8.9%	7.6%	67	11.4%	9.2%
57	9.0%	7.7%	68	11.7%	9.4%
58	9.2%	7.8%	69	12.1%	9.7%
59	9.4%	7.9%	70	12.3%	9.8%
60	9.6%	8.0%	71	12.7%	10.0%
61	9.8%	8.1%	72	13.1%	10.3%
62	10.0%	8.3%	73	13.5%	10.6%
63	10.3%	8.4%	74	13.9%	11.0%
64	10.5%	8.6%	75	14.4%	11.4%
65	10.8%	8.8%	76	14.9%	11.7%

Pension Conversion Rates

Age	Single	Joint	Age	Single	Joint
77	15.3%	12.1%	89	21.3%	18.7%
78	15.8%	12.6%	90	21.6%	19.2%
79	16.3%	13.1%	91	21.9%	19.8%
80	16.9%	13.6%	92	22.2%	20.3%
81	17.4%	14.1%	93	22.5%	20.8%
82	17.9%	14.6%	94	22.8%	21.2%
83	18.5%	15.2%	95	23.1%	21.7%
84	19.0%	15.8%	96	23.3%	22.1%
85	19.5%	16.4%	97	23.3%	22.4%
86	20.0%	17.0%	98	23.3%	22.7%
87	20.4%	17.6%	99	23.3%	23.1%
88	20.9%	18.2%	100	23.2%	23.3%

Proof of Life – for continuation of payments

The FNPF requires evidence from time of member's continued survival, or of a member or spouse if applicable.

A Pension Renewal Certificate is required at four monthly intervals.

- Retirement Income Fund – Pensions and annuities are provided from the Retirement Income Fund (RIF), a separate fund within the FNPF, established to provide life pensions and term annuities.
- The amount set aside by a member for his pension is paid into the RIF, and the pension is paid out of the RIF. The RIF is supported by the investment earnings on its assets, less expenses attributable to its management.

INVESTMENTS BY FNPf

Investment Objective

The principal role of the FNPf is to manage and invest members' savings for their retirement. FNPf Board's investment objective is to maximize long-term investment returns, subject to constraints aimed at containing fluctuations in returns over shorter-term periods, to ensure an appropriate balance between risk and return.

FUNDS VIABILITY

The Fund's viability has been endangered as follows:

- Incompetent financial management.
- Deals and practices relating to investments.
- Imprudent investments as a result of departure from the provisions of the Trustees Act, e.g. Building five star hotels at Natadola and Momi Bay.

FUNDS VIABILITY (contd)

- Depressed economic conditions in the past 25 years attributable to political instability resulting in lack of investment, depressed wage and employment levels, and significant out migration of workers who withdrew their earnings early.
- Failure to gradually increase the contribution rate to achieve adequate levels of Reserves – the last increase was effective 1st January 2000 from 7% - 8%. It was envisaged in the Tripartite Forum in the late 1970s that the rate would be gradually increased to 12% each. It was largely pressure from the employers that prevented this from materialising.

LOSSES RESULTING FROM IMPRUDENT INVESTMENTS

- Currently over FJD 500 million worth of investments made in hotels and other projects are generating a negative return. The write down of assets in Natadola and Momi (5 Star Hotel Investments) notwithstanding, these losses continue as a diminution of capital reserves.

LOAN TO FIJI AIRWAYS

- The FNPF advanced a loan of FJD\$200 million to Fiji Airways to purchase three (3) new A330 Aircraft from Air Bus because no commercial banks agreed to lend the money to Fiji Airways.
- However, the FNPF gave \$200 million as a deposit or collateral on behalf of Fiji Airways because European Credit Companies were not prepared to trust Fiji Airways's financial projection on the viability of their billion dollars purchase of three (3) aircraft

Loan to Fiji Airways (contd)

- There appears to be substantial dodgy dealing behind the purchase of A330 planes by Fiji Airways. The planes are owned by a mysterious front company called Waqavuka Financing Ltd in Ireland.
- The facts which has been revealed is that Waqavuka owns the three (1) A330 aircraft which is leased to Fiji Airways and mortgaged to Banks in Europe. The banks lent billions of dollars to Waqavuka to buy the planes and not to Fiji Airways. Until all the company documents are assessed, it is difficult to know how the FNPF money has been spent.

Loan to Fiji Airways (contd)

- There is an agreement between FNPF and Fiji Airways to pay back the \$200 million in instalments but the information is that not a single cent has been paid by now. This is workers retirement fund which is to be safeguarded at all costs. The advance of FJD\$200 million is a part of an investment and under the agreement the Fiji Airways is to pay a higher interest to FNPF on loan than the current market rates.

Loan to Fiji Airways (contd)

- The agreement between FNPF and Fiji Airways cannot be made public or information given to members of the fund because it is classified as a confidential business deal between the two parties.

CONCLUSION

The call for an Inquiry into the Fund's activities and future viability continues.