SUBMISSION TO THE PRIME MINISTER
FNPF MISINFORMATION

*"**Speak Out Now for Truth: PM**"*

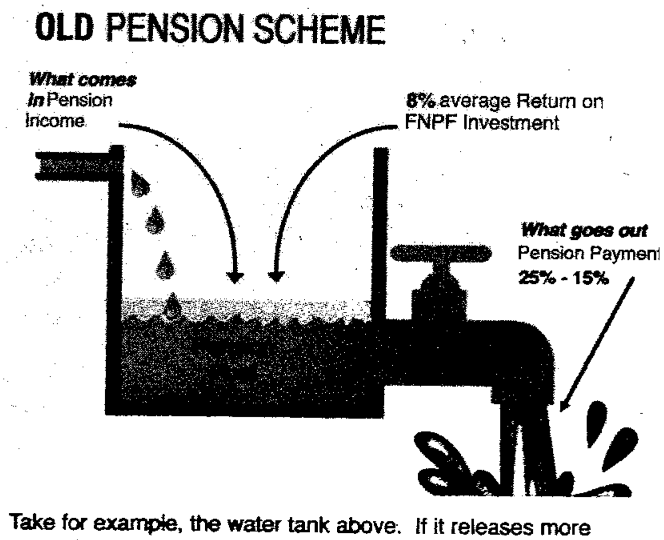
After reading the Fiji Sun article of 31 July 2014 on page 12, many pensioners have taken heart at the PM's urging Nadi senior citizens to speak up because as a nation, "*Fiji cannot afford your silence. We cannot do without your input and advice. Fiji needs you now.*"

Previously, pensioner's representatives have made submissions to the Prime Minister's Office, an FNPF executive, and the Deputy Secretary for Finance. It seems these submissions may not have reached the Prime Minister as no responses were received. So this submission will not use these channels, nor will it use the two major newspapers, as certain pensioners' emails have been blocked. It is with regret that we need to communicate through other means.

This factual submission is made without any invectiveness or any political connotations. Many of us senior citizens are apolitical and appreciate the many achievements of the present government. As leader of the citizens of this country including senior citizens, pensioners humbly ask the PM to accept and review the facts in this submission as they have suffered greatly during these final years of their lives.

With no other recourse (as government legislation has stopped court action challenging the FNPF Decree) and under duress, pensioners were forced to accept one of the two options offered. Many were too old to risk starting businesses or undertaking other ventures. They were forced to accept the new FNPF pension scheme or refund of their pension investment and re-investing in low risk and low income investments. This has resulted in much reduced income and traumatic changes to their lifestyle and retirement plans e.g. a widow, who is a retired teacher, had her pension reduced from $1,200 to $700 per month (below the poverty line).

FNPF and DECREE 51 SAY:
(What FNPF says through paid advertisements and news releases)
As an example, refer to the last sentence of the Fiji Sun advertisement dated 26 July 2014 titled *"FACTS ON PENSION REFORM"* appended below:
"*Thus, the shortfall in pension payments was met by current members who have yet to retire***."**



Take for example, the water tank above. If it releases more water than it receives, then in due course, it will be empty. The same would have taken place if the previous pension scheme had continued. The pension income was less than the pension payments. Thus, the shortfall in pension payments was met by current members who have yet to retire.

Again, quoting from the advertisement above (top right hand corner), FNPF states that "*8% average Return on FNPF Investment*" had been added to the tank representing total pension income {it is called "Pension Buffer Reserve" (old pension scheme) in FNPF Annual Reports}. This sentence leads one to believe that total pensioner income {consisting of Return on Investment (ROI) added to funds paid by retiring members to purchase a pension annuity} was not sufficient to meet pension payments, hence, the reform.

Section 4 (1) (c) of Decree 51 states: "*accordingly, under the current arrangements, the Board's annuity liability for current annuitants cannot continue to be met from the annuitants' conversion amounts* ***plus investments returns****, and so must* ***be met by applying a proportion of FNPF member contributions*** *to that purpose (including by way of reserving against these liabilities*)."

Let us proceed to prove that that the above are not true.

ROI Not Paid to Old Pension Scheme

The truth of the matter is that FNPF has **never paid any ROI** to the old pension scheme from the beginning. A review of FNPF Annual Reports for the years 1975 to 2010 confirms this. Please refer to Page 59[(C1)] of the FNPF 2010 Annual Report as examples for the years ended 30 June 2009 and 2010; you will see that no ROI was paid into the Pension Buffer Reserve. It is blatantly unfair that ROI was **not** paid to pensioners each year yet interest was paid to members.

FNPF annual excess of income over expenditure (including pensioners' ROI) had been credited to the General Reserve account in the Financial Statements; balance as at 30 June 2010 was \$952.16m[(C1)].

HOW MUCH ROI IS OWING TO THE OLD PENSION SCHEME?

Let us reconstruct the Pension Buffer Reserve account[(C2)] from past Annual Reports (1975 to 2010). In the spreadsheet, we also add columns to show unpaid ROI due to the old pension scheme (calculated at interest rates paid to members each year). The calculations indicate that **\$762.5m** of ROI was owing and unpaid for the previous 36 years from 1975 to 30 June 2010. These calculations were prepared by a pensioner and verified by a CPA and economist.

Adding this unpaid ROI (**\$762.5m**) to the Pension Buffer Reserve balance of \$107.3m[(C1)] will result in the adjusted balance of (**\$869.8m**) owing to the old pension scheme as at 30 June 2010 (this means that over 91.3% of FNPF's entire General Reserves (\$952.16m) [(C1)] rightfully belongs to the old pension scheme). Although, pensioners are not asking that this amount be set aside for pensions, it should be acknowledged that the old pension scheme has substantially contributed to the FNPF reform and to current members.

ABILITY TO PAY CONTRACTED PENSIONERS

1. Actuarial Valuation. The FNPF's own consultants, Mercer (Australia) Pty Ltd, have certified in the 2010 Annual Report[(C2~1)] that there are adequate net assets to meet both current members' and pensioners' liabilities.
2. Cash Flow. From a layman's point of view, a 5.5% ROI on the adjusted Pension Buffer Reserve of \$869.8m would yield \$47.8m; this is more than the \$46.8m[(C1)] paid to pensioners for the year ended 30 June 2010. As contracted pensioners die each year, future pension payments would reduce each year creating further surplus.

OLD PENSION SCHEME FUNDS USED TO HELP FUND PENSION REFORM

Further evidence that pensioners have funded the reforms comes from FNPF's own admission in their website[(C3)] stating that, of the $565m actuarially valued pensioners' liability (as at 30 June 2011), $310m was refunded to pensioners, $100m used for top up payments and; quote: "*The remaining $150 million or so will support the FNPF Board to meet member liabilities and new solvency requirements*".
The sequestering of this $150m is cross subsidization by pensioners to current and future members and is contrary to one of the objectives of the reform and Decree 51 and 52.

So, **the old pension scheme has greatly helped fund the FNPF reform** and it is now benefitting current and future members e.g. FNPF now achieving healthy 2013 profits to the tune of $293m for year ended 2013 (as stated by the PM)!

MESSAGE TO EXISTING FNPF MEMBERS

Some of you are our siblings, children, grand and great grand children. I am sure that you know that most of our generation of senior citizens struggled out of poverty, worked hard and saved to the best of their ability for our retirement. Please rest assured that we have not used your funds to subsidize our pensions! We have now placed the above facts before you.

NEED FOR PENSION REFORM

Yes, we agree that World Bank, ILO and FNPF consultants have recommended pension reforms to ensure **long term sustainability**. However, there is no evidence (nor have FNPF provided any) that these organizations have recommended termination of contracted pension agreements and reduction of pension payments.

Contrary to FNPF's reduction to pensions, the 2002 ILO report[(C4)], states that in assessing the sustainability of proposed reduced pension rates, quote "*it is crucial to estimate the costs associated with the transitionally high annuity factors …..*" (This refers to contracted pensioners' high pension rate). The ILO is inferring that FNPF must continue to honor the contracted pension rates – no reduction!

REAL REASONS FNPF FINANCIAL DILEMMA AND REFORMS

From the FNPF 2008 Annual Report, FNPF operations and finances were basically business-as-usual. However, the following year's annual report caused alarm bells to ring and triggered panic and drastic changes; directors were replaced and pension reforms were fast tracked. Some of the reasons for reform were:

1. 2009 operating loss of $181.15m[(C5~1)] (compared with a profit of $123m for 2008).
2. Asset impairment write downs for year ended 2009 amounted to $373.5m[(C5~1)]: of which Natadola and Momi projects accounted for $352.15m[(C5~1)].
3. Inadequate Reserves. Excess of net assets over Mercer's actuarial valuation of (members' and pensioners') liabilities reduced to a low level of $168.76m[(C5~2)] or 4.9% of members balance (versus $464.47m in 2008). Reserve Bank requirement is now 10%. Since the global financial crisis and failure of banks and financial institutions, many governments have mandated that they set aside higher reserves.
4. For many years, FNPF has paid members higher interest rates than ROI rates.
5. Low return on investment due to:
    a. Government restrictive investment policies especially foreign investments
    b. Excessive lending to government (50+% of portfolio) at quite favorable rates
    c. Small and limited investment opportunities in Fiji
    d. Bad and low yield investments

   e. Excessive money in financial institutions
   f. Downturn in world economy
6. High pension rates.

The hotel write downs should not be considered permanent losses; they will be recouped in future years. When these investment projects are completed and earn profits, their market value will increase and these losses will be written back. While present pensioners suffered these losses, it will be present and future members who will reap the benefits.

I believe that you now know the main reason for the rushed FNPF reform.

Considering the above factors, it is blatantly unfair that the cost of reforms should be shouldered by pensioners only when other stakeholders have also benefitted from the above.

ABUSE OF OLD PENSION SCHEME?

There may have been some abuse of the pension scheme. It may well be that FNPF did not separately account for members' contributions in excess of the normal 12/14 cents and these excess contributions were subsequently allowed to qualify for pensions. This really is a FNPF management issue. These excess contributions should not qualify for pensions. However, FNPF promoted, accepted, invested and earned ROI on these excess contributions. The misdeeds of a few should not be used as the reason for pension reforms that penalize other pensioners.

FAIRNESS OF OLD PENSION SCHEME?

All contracted pensioners receive the **same pension rates** as stipulated in the FNPF Act. What one receives as a pension depends on one's choice of how much to invest. It is generous but fair.

However, with the low average wage/salary in Fiji, it has been and will be a challenging issue as to how-best one can achieve a life sustaining pension. It is government's responsibility to find a solution to this very critical problem, however, it should not be used as an excuse for reforms that terminate pension agreements and reduce pension rates.

A PLEA FOR HELP

Having revealed the above, we will have to leave it to this or future governments to see how pensioners can be compensated for their losses and their very real distress, acknowledged. The PM and government have shown compassion and improved the lot of many needy segments of Fiji society so we urge that similar action be afforded to seniors; a fast dying generation (even more so with high level NCDs, people are dying younger than the 73.09 years used by FNPF as life expectancy).

Meanwhile, pensioners can only leave this issue to the court of public opinion, hope and pray for relief (in this world, if not, the next). May God continue to bless our beloved Fiji, its government and people.

Pensioners.

Reference sources:

- C1. FNPF Annual Report 2010 page 59 (appended below)
- C2. Prepared by pensioner and checked by a CPA and an economist (appended below)
- C2~1. FNPF Annual Report 2010 page 61 (appended below)
- C3. FNPF website headed "myths and realities" (appended below)
- C4. 2002 ILO Report ref ILO/TF/Fiji/R4 page 11 (appended below)
- C5 FNPF Annual Report 2009 – Chairman's Report (appended below)

Fiji National Provident Fund and its subsidiaries

Notes to and forming part of the financial statements

For the year ended 30 June 2010

C1
Source:
FNPF Annual Report 2010
Page 59

No investment return/ interest credited to Pension Buffer Reserve

28. NET ASSETS AVAILABLE TO PAY BENEFITS (continued)

(b) General Reserve Account (GRA) (continued)

		Consolidated		The Fund	
		2010 $000	2009 $000	2010 $000	2009 $000
Pension buffer reserve					
Balance at the beginning of the year		128,606	150,193	128,606	150,193
Add/(less) transfers from/(to) statements of changes in net assets:					
Transfer from	30	25,438	21,861	25,438	21,861
Transfer to	30	(46,760)	(43,448)	(46,760)	(43,448)
Balance at the end of the year		107,284	128,606	107,284	128,606

The amounts transferred to the Pension Buffer Reserve relate to members who have opted for annuities during the year of $25,438,000 (2009: $21,861,000).

The amounts transferred from the Pension Buffer Reserve of $46,760,000 (2009: $43,448,000) represent payment of annuities during the year.

General reserve					
Balance at the beginning of the year		875,599	807,663	484,511	724,363
Add transfers from statements of changes in net assets:					
Transfer from	30	76,561	67,936	68,486	-
Transfer to	30	-	-	-	(239,852)
Balance at the end of the year		952,160	875,599	552,997	484,511

FNPF Transitional Decree 2011 Section 4 (2) (c) states and I quote **"the Board's annuity liability for current annuitants cannot continue to be met from annuitants' conversion amounts plus investment returns."** This is not true. FNPF has misinformed Government because no investment returns/interest have been credited to the Pension Buffer Reserve. The following spreadsheet and attachments prove this statement is incorrect.

Pension Buffer Reserve

Calculation of investment return/Interest on Pension Buffer Fund Reserve

Figures extracted from Annual Reports from 1975 to 2010					Investment Return/Interest calculation & Adjusted Pension Buffer Fund Balance		
Year Ended 30 June	Pension Income		Pension Expenses	Pension Buffer Reserve Closing Balance	Unpaid Investment Return/ Interest at Interest Rates paid to Members	Adjusted Pension Buffer Reserve Balance	Interest Rate Paid to Members
	Annnitants' Conversion Amounts paid to FNPF	2c Contri-bution	Pension Annuity Payment				
	$m	$m	$m	$m	$m	$m	%
1975	0.036	1.137	0.001	1.171	0.000	1.171	5.00%
1976	0.037	2.694	0.007	3.895	0.059	3.953	5.00%
1977	0.067	3.201	0.019	7.144	0.198	7.400	5.00%
1978	0.131	3.523	0.044	10.754	0.481	11.491	6.50%
1979	0.138	4.123	0.062	14.952	0.747	16.436	6.50%
1980	0.166	4.784	0.097	19.804	1.068	22.357	6.50%
1981	0.198	5.450	0.139	25.313	1.621	29.486	7.25%
1982	0.291	6.063	0.192	31.475	2.359	38.007	8.00%
1983	0.350	6.634	0.260	38.199	3.801	48.532	10.00%
1984	0.627	7.272	0.374	45.725	4.853	60.911	10.00%
1985	0.767	8.593	0.533	54.552	6.091	75.829	10.00%
1986	0.929	8.613	0.702	63.391	7.583	92.251	10.00%
1987	1.585	8.271	0.996	72.251	9.225	110.336	10.00%
1988	1.180	6.653	1.310	78.774	11.034	127.893	10.00%
1989	1.624	7.643	1.595	86.446	11.510	147.075	9.00%
1990	1.679	9.572	1.903	95.794	13.237	169.660	9.00%
1991	2.294	10.549	2.326	106.311	16.118	196.295	9.50%
1992	2.521	11.875	2.878	117.829	19.237	227.049	9.80%
1993	3.367	12.555	3.436	130.315	20.434	259.970	9.00%
1994	5.503	13.870	4.251	145.436	22.097	297.188	8.50%
1995	6.200	14.194	6.199	159.632	25.261	336.645	8.50%
1996	8.007	13.348	7.061	173.925	28.615	379.553	8.50%
1997	8.346	16.090	8.832	189.529	30.364	425.521	8.00%
1998	10.452	16.773	11.334	205.419	31.914	473.326	7.50%
1999	15.589	16.933	12.956	224.986	35.499	528.392	7.50%
2000	14.368	10.913	17.190	233.076	34.345	570.828	6.50%
2001	14.505		20.087	227.494	36.533	601.779	6.40%
2002	14.721		22.800	219.415	38.514	632.214	6.40%
2003	21.500		26.091	214.824	37.933	665.556	6.00%
2004	21.261		26.870	209.215	39.933	699.880	6.00%
2005	22.735		31.743	200.207	43.742	734.614	6.25%
2006	23.842		37.428	186.621	47.750	768.778	6.50%
2007	22.157		38.299	170.479	48.433	801.069	6.30%
2008	20.912		41.201	150.190	48.064	828.845	6.00%
2009	21.861		43.448	128.603	41.442	848.700	5.00%
2010	25.438		46.760	**107.281**	42.435	**869.813**	5.00%
Total	295.384	231.323	419.426		762.531		

	$m
Adjusted Buffer Reserve Balance (including investment return/Interest not paid)	869.813
Summary of Pension Buffer Reserve Account	
Annuities purchased - 1975 to 2010	295.384
2c Contribution to Pension Buffer Reserve - 1975 to 2000	231.323
sub total	526.707
Deduct pension annuity paid - 1975 to 2010	419.426
Calculated Pension Buffer Reserve balance as at 30 June 2010	107.281
Pension Buffer Reserve Balance - FNPF 2010 Annual Report (variance due to rounding off)	**107.284**

This proves that investment return/interest was not paid to the Pension Buffer Reserve Account.

Fiji National Provident Fund and its subsidiaries

Notes to and forming part of the financial statements

For the year ended 30 June 2010

C2-1
Page 61 FNPF Annual Report for the Year ended 30 June 2010.

29. LIABILITY FOR ACCRUED BENEFITS (continued)

(d) Actuarial valuation

	The Fund 2010 $000	2009 $000
Net assets available for benefits	3,525,771	3,316,285
Actuarial present value of accrued benefits		
Vested benefits for current workers	2,871,291	2,705,900
Vested benefits for pensioners	536,183	423,317
Non-vested benefits	62,308	18,304
Total actuarial present value of accrued benefits	3,469,782	3,147,521
Excess	55,989	168,764

The actuarial valuation has been calculated by Mercer (Australia) Pty Ltd as required under International Accounting Standards 26 "Accounting and Reporting by Retirement Benefit Plans"

Myth #4. The reforms have always been about punishing pensioners

C3
Source: FNPF Website "myths & realities"

Reality: The reforms have been long overdue. The reforms are cor address structure, solvency, refocus on retirement, prudential regulat greater independence from political interference and sound risk management. The reforms are robust and aim to avoid a repeat of the current problems. They should also mean better and more appropriate retirement products, improved efficiency and less red tape, and better returns for members.

Current pensioners have enjoyed the greatest benefit from the past mistakes in the design of the annuities scheme. The FNPF Board understands well and grappled with the possibility of financial hardship for some pensioners but on balance committed to the adjustments to achieve fairer outcomes overall.

At 30 June 2011, the amount to be set aside (technical provisions) to support future pension payments of all pensions current at that date was $565 million. The FNPF Board, underpinned by the Transition Decree, will apply a large part of this amount to pay around $310 million in refunds plus up to $100 million in top up payments to support those pensioners who decide to take up a new life annuity product. The remaining $150 million or so will support the FNPF Board to meet member liabilities and the new solvency requirements. That is, more than $400 million goes to support the 11,000 pensioners and $150 million goes to support the 300,000 workers.

1.4. Problems and issues in the current scheme

1.4.1. Issues in annuity factor

C4
2002 ILO Report ref ILO/TF/Fiji/R.4 to the Fiji Government on the actuarial valuation of the FNPF evaluated as of 30 June 2002. Page 11.

(i) Background

One of the most significant changes in the 1999 FNPF reform is to gradually reduce the conversion rate of the member's balance into annuities from 25 per cent to 15 per cent over a ten-year transition period. The rate applicable from July 2003 to June 2004 is 20 per cent. One issue to be ascertained in this valuation is whether the fund can be sustainable with the above reduction schedule or whether the fund should further reduce the rate to the actuarial rate of around 10 per cent. For this purpose, it is crucial to estimate the costs associated with the transitionally high annuity factors by taking into account population dynamics as well as the behavioural pattern of the beneficiaries. Furthermore, there is a view that the

Indicates that estimated future cost of contracted pensioners need to be estimated (accounted for) in ascertaining sustainability. Clear indication that ILO did not recommend reduction of pension rates

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C5-2
FNPF 2009 Annual Report
Page 4
Investment Write Down.

"To ensure that the pension fund is equitable, fair and sustainable for our current and future contributors, it is critical that management take the necessary steps now to review and reform the pension scheme."

Prime Minister Voreqe

improvement in 2009. Net investment income increased by 17% to $227.39 million.

The Fund collected $288.49 million in contributions, an increase of $6.81 million from 2008. Member withdrawals totaled $352.30 million, from $297.70 million the previous year, mainly attributable to the flood assistance withdrawals. Consequently, the Fund recorded a negative net contribution of $63.81 million.

The Fund's total assets as at June 30, 2009 stood at $3.30 billion compared with $3.50 billion the previous year.

In accordance with International Accounting Standards 26, the valuation by Mercer showed an excess of assets over actuarial present value of accrued benefits of $168.76 million in 2009, as opposed to $464.47 million in 2008.

2009 withdrew $41.26 million of their savings to rehabilitate their lives.

While the Fund has assisted members during such natural calamities, it is imperative that members change their expectations of FNPF and its role. Put simply, the Fund cannot continue to fund all aspects of welfare.

Board assurance

While the sustainability issue has been raised as a potential risk in the future, I would like to assure members that we are taking all necessary measures through the reforms to address it now.

Like any other business, the Fund is focussed on the need to transform and change, so that it can better meet its core purposes. In that respect, I must convey my appreciation to the Government

C5-1
FNPF 2009 Annual Report
Page 4
Investment Write Down.

Chairman's Report

The financial year ending 30 June 2009, was the "year of consolidation" for the Fiji National Provident Fund as the flow-on effects of the global financial crises led to an impairment of about 9% of the Fund's total investment portfolio. Whilst the write-down was at the low end of the international trend, it was significant to the size of the Fund. This raised the urgency to undertake major structural reforms, as well as the need to overhaul internal processes, procedures and systems.

Notwithstanding the complexity of this challenge, the Fund under my chairmanship will undertake to deliver on these reforms to ensure that obligations to our members are sustained in the long-term.

We are grateful that the Government has supported us and we also urge other key stakeholders to understand and help the Fund with its reform programs.

Impairment

Part of the Natadola Intercontinental Hotel was completed during the year. The project was developed with a significant investment from the Fund against a backdrop of deteriorating international financial condition.

The Board engaged two international valuers to conduct valuations of the Hotel and its other development including the Golf Course. Both valuations confirmed that impairment was imminent. Consequently, the Board approved the loan and investment write-down totalling $302.15 million for Natadola Bay Resorts Limited (NBRL) and Natadola Land Holdings Limited (NLH).

During the year, efforts were also made to divest the uncompleted hotel development at Momi through an auction. The highest bid did not attract the reserved price. Consequently, the Board also approved to write-down an additional $18.21 million of its loan to the project. The total impairment for Momi hotel development project is $55.0 million.

Investment and loan write-down approved by the directors totaled $327.65 million for the financial year. Bulk of this were for the two hotel developments in Natadola and Momi. The Board has directed all immediate efforts towards the rehabilitation of these assets to ensure that these losses are recovered over time.

In particular, specific actions are being undertaken to create value for NBRL ncluding the opportunity to develop residential blocks as well as to work with the current hotels managers to improve the profitability of the hotel. Renewed efforts are also being made to either divest or jointly complete the Momi project.

In addition, the Board is commissioning a forensic investigation for NBRL to identify the causes of these problems. The Board has also taken all measures to ensure that similar mistakes are not repeated in future.

Equally important, the Fund initiated the application of due diligence processes that allowed for the improved screening of prospective loan applications and the review of current loan accounts to better protect FNPF's interests.

Fund Results

As a result of the impairment, FNPF recorded a net loss of $181.15 million in 2009. Nevertheless, the underlying performance of the Fund (excluding the one-off write-down), showed an