

110309 ACDEFENCE



Alexander Forbes

FINANCIAL SERVICES

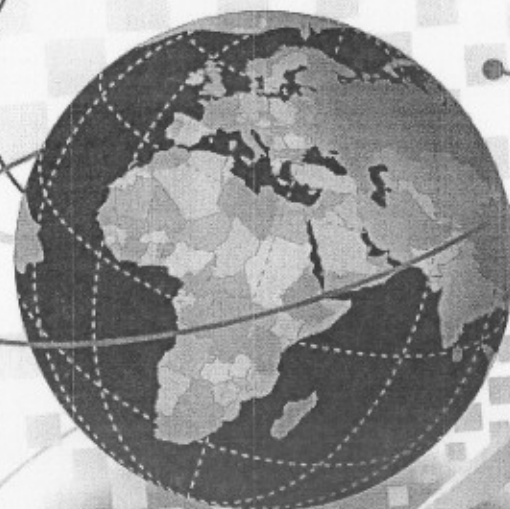
Education

Advice

Expertise

Innovation

Solutions



Military Veterans Bill Initial Costing of benefits

22 February 2011

Consultants & Actuaries

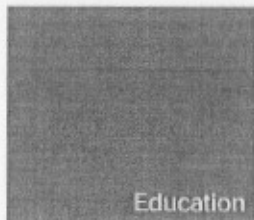
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DATA

- Available on 56 064 veterans – age only field available
- Assume no new entrants – possible to identify more later
- Marital, dependants and education – no reliable information available

➔ Compared with special pension data
- **Age distribution totally different cannot use data**



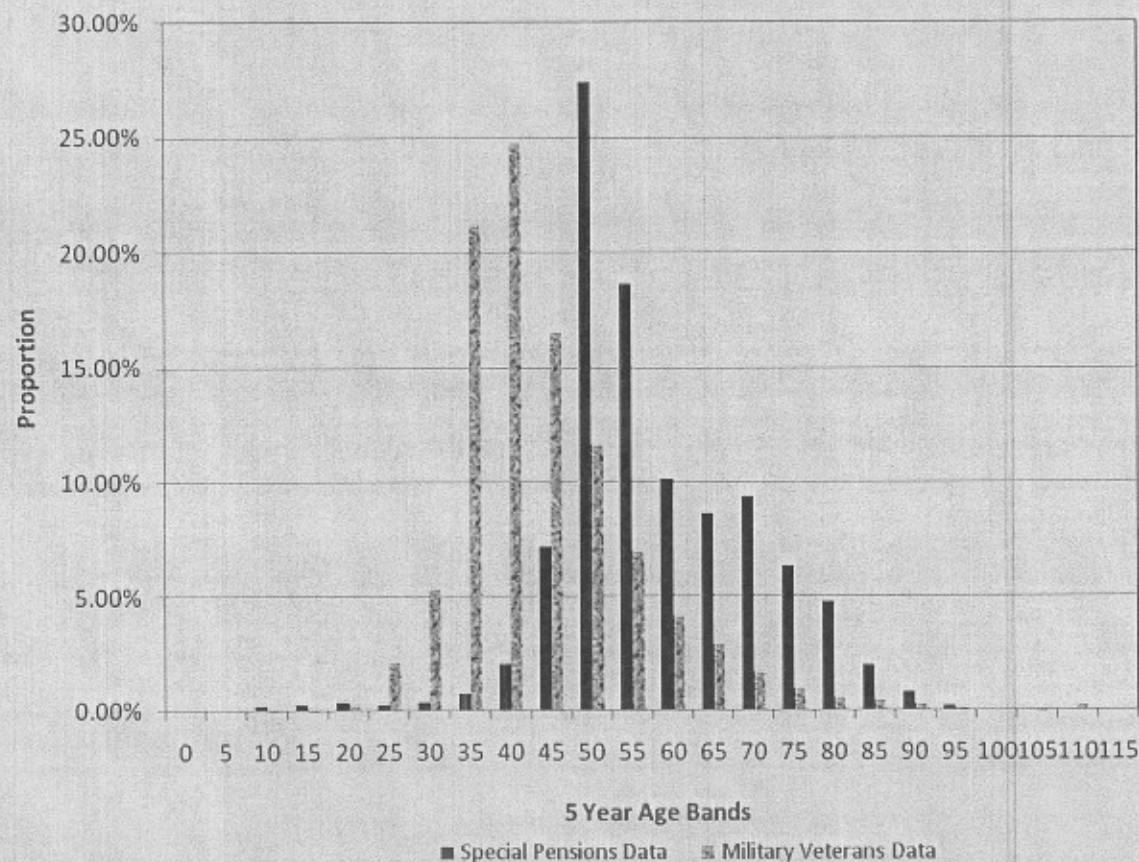


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Age Profile

Comparison of Age Profile for Special Pensions and Military Veterans Data



BENEFITS



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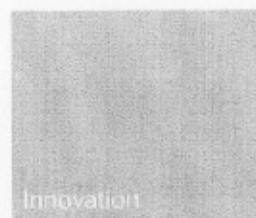
Advice

Advice

Benefit type	Benefit amount as per DMV	Number qualifying (&%)
Pension	As per schedule below - 50% to spouse on death of veteran	3 000 (5.4%)
Healthcare	R6 000 pa per beneficiary – veteran, spouse and 2 children aged 15	56 064 (100%)
Transport	R5 000 pa – to veteran only	15 000 (26.8%)
Housing	R120 000 once-off	20 000 (35.7%)
Honouring & Memorialisation	R25 500 once-off on death of veteran - Assume additional 20% fallen veterans	67 273 (120%)
Education	R10 000 pa – per beneficiary – veteran, spouse and 2 children - (payable for 3 years)	5 000 (8.9%)
Employment	R4 000 once off	5 000 (8.9%)
Business Opportunity	R4 000 once off	5 000 (8.9%)
Disability/ Counselling	Provided for under military pension dispensation	Not provided



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PENSION SCHEDULE

Age category	Annual pension payable in Rands as at 2011
Younger than 35	R 1 400 pm
At least 35 but younger than 50	R2 350 pm
At least 50 but younger than 60	R3 300 pm
60 and older	R6 500 pm

- 50% reversion to spouse on death of veteran
- 75% inflation increases annually



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ANNUITISATION

- Allow all pensions with spouse as dependant
- Assume 2 dependant children on healthcare
- Increases at 75% of inflation annually
- Features of veterans qualifying for benefit same as for data on 56 064 pensioners – if younger – higher liability
- Average pension based on scale – R2 900 per month



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Cost (R bn)

Benefit type	All qualify	Assumed number qualify (as above)
Pension	34.1	1.826
Healthcare	13.1	13.013
Transport	4.1	1.106
Housing	6.7	2.400
Honouring & Memorialisation	0.6	0.681
Education	6.2	0.557
Employment	0.2	0.020
Business Opportunity	0.2	0.020
Total cost	65.2	19.623



DIFFERENT ASSUMPTIONS

- % actually qualifying for benefit
 - if differ from assumed – liability scaled up/down
 - age structure may be different - different liability
- Ages of spouse and children may be different
- 75% of inflation increases – 100% add 10% to liability
- Valuation based on market circumstances as at December 2010 – liability depend on market circumstances
- Cashflow depend on future inflation





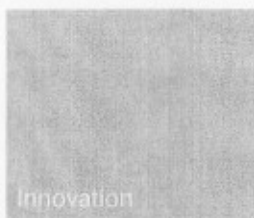
Cost and cashflow(R 'bn)

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Benefit type	Liability (as above)	Cashflow Year 1	Cashflow Year 2	Cashflow Year 3	Cashflow Year 4	Cashflow Year 5
Pension	1.826	0.104	0.106	0.108	0.110	0.112
Healthcare	13.013	1.323	1.358	1.394	0.716	0.736
Transport	1.106	0.073	0.075	0.076	0.078	0.080
Housing (scaled 4 years)	2.400	0.600	0.600	0.600	0.600	0.000
Honouring & Memorialisation	0.681	0.163	0.029	0.031	0.033	0.035
Education	0.557	0.200	0.200	0.200	0.000	0.000
Employment	0.020	0.020	0.000	0.000	0.000	0.000
Business Opportunity	0.020	0.020	0.000	0.000	0.000	0.000
Total cost	19.623	2.503	2.368	2.409	1.537	0.963



WAY FORWARD

- Finalise benefit structure (pension, healthcare, housing and transport)
- Obtain full data for valuation
- Run numbers again
- 75% of inflation
- Liability vs cashflow – phasing in of housing - other benefits cannot be phased