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14 June 2011

Mr Aisake Taito
Chief Executive Officer
Fiji National Provident Fund
SUVA

Dear Sir

Proposed Changes to FNPF

Further to my letter of 9 June 2011 the following provisions of Section 10 of the Fiji National Provident Fund Act Cap 219 have just been brought to my attention which I repeat in full:

Advances by Government, Section 10

"If the Fund is, at any time, unable to pay any sum which is required to be paid under the provisions of this Act, the sum required shall be advanced to the Fund by the Government and the Fund shall, as soon as practicable, repay to the Government the sums so advanced."

I understand that as FNPF was established as a compulsory scheme, the Act provided a reassurance that should there be any shortfall, this would be guaranteed by Government. This was seen as necessary to provide confidence for the credibility of FNPF since its formation and was/is obviously very significant.

Where does this guarantee now stand in the light of the current moves to reduce pensions?

Yours sincerely



RG McDonald
(Pensioner)

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9 June 2011

Mr Aisake Taito
Chief Executive Officer
Fiji National Provident Fund
SUVA

Dear Sir

Proposed Changes to FNPF

I attended the public meeting held at the Suva Civic Auditorium on Thursday 26 May 2011 and came away concerned both at the presentation I had heard and the lack of information that is being made available to FNPF members to enable a fair and balanced discussion of the matter. There are many aspects of my concern.

I am even more concerned at the undue haste that appears to be being given to making changes to the FNPF pension provisions.

Indeed I am still more concerned that according to the Fiji Times of 4 June 2011 changes to the FNPF Act have already been agreed and will be implemented on 1 July 2011 and have to ask, why is there such a stampede for change? Indeed why have meetings if the changes have already been decided?

To enlarge on these points.

The Law

The general tenor of the presentation at the Civic Centre was that the current pensions are unfair, unreasonable and should be changed because they are being subsidized by members. I had the feeling that pensioners were being made out to be the bad guys in all this.

There was no mention made of the fact that all present and past pensioners who joined the FNPF at its inception in 1966, and since then, were only doing what the law required. We did not have any choice in this. We were not able to contribute to any other fund as we may have wished to as most funds were then closed, and all others have since been progressively closed.

It is the FNPF Act approved by the lawmakers of the day that put us in this position. We have been doing merely what the law requires.

I suggest there is an obligation for the law to see us all sensibly through the situation it has created in a fair and reasonable manner and not in the draconian way that is being put forward.

Current members who are not yet of pensionable age are in exactly the same position.

The “Blaxland” Recommendation of 10%

At the Civic Centre meeting there was no mention made of the fact that the main recommendation of the Blaxland review of FNPF completed in November 1994 suggested that the FNPF pension should be progressively reduced to 10% over a twelve year period from 1996 to 2008.

I was instrumental in initiating the Blaxland study through the then Fiji Employers Federation and so have some knowledge of this. My memory is that at the time the Blaxland recommendations were supported by employers but strongly opposed by the Unions. The Unions had the support of the Government of the day and the recommendation to reduce to 10% over twelve years was changed to reduce to 15% over ten years.

Indeed had the Blaxland recommendation been accepted FNPF would have been in much better shape and pensions would have been far closer to a sustainable level.

The move to 10% was one of many recommendations made by Blaxland.

A key recommendation of the Blaxland report was that changes to pensions be implemented over time which was finally agreed at ten years and not immediately, as appears to be being suggested with the current changes.

The thinking behind this was to give workers who were within ten years of retiring, time to re-arrange their pension finances, as they were nearing the end of their working lives and did not have time on their side to re-build their pension finances, as opposed to a younger person of 25 or 30 who still had many years of working life ahead in order to save and adjust to pension changes. Quite simply it was seen as unreasonable to implement the change with immediate effect as this would have caused considerable hardship to a person nearing retirement age of 55 who would have no time to adjust and save additional funds for retirement.

There is nothing new in what is being discussed, that pensions are subsidized. The fact that FNPF pensions are being subsidised has been known from day one when FNPF was formed and is commented upon by Blaxland.

My understanding is that when FNPF was established pensions were initially set at 25% to gain support for the then new FNPF and to give the FNPF credibility, so that in its early years pensioners would receive a reasonable pension. It was always known and intended that the pension rate would have to be reduced.

FNPF the Original Model

I understand that the original model for the FNPF included the two cent buffer fund and that it was intended to gradually move to an actuarial based system, over time. The 15% pension adopted following the Blaxland report was meant to be temporary until after another actuarial valuation, which when done it was intended to move this further down to 12% and then to 10%. This type of long term financial arrangement could be monitored and adjusted when actual take up rates become known.

The main parameters in managing this were the take up rate and the earnings rate of the fund. Given the recent poor performance of management it is probable that the take up rate will probably fall dramatically with the loss of confidence created.

In all this it needs to be remembered that the FNPF was basically modeled as a lump sum scheme. The pension was entirely voluntary thus the liability for pensions was controlled by FNPF. The pension percentage offered was decided by FNPF. It was up to members to decide to take a pension or not. Pensions are not indexed and there was a minimum amount mainly because of administrative reasons, where the members account balance was very small, for even at 25% or 15% of the balance, a pension would be negligible and could not in any way be seen as a living pension of substance to assist the member in retirement.

I understand the liability for pensions was supported by the reserves built up over the years from the buffer fund and its earnings. The reserves should belong to the pensioners until their contracts are paid out. Additionally these reserves should have been credited with interest. If not then it means that members have been credited with higher earnings than what the fund actually earned, each year.

I understand time is on management's side in managing the FNPF, as they see liabilities rising gradually they have time to solve the problem, by revising pension levels that could reduce liabilities well below actuarial sustainability, thus strengthening FNPF.

The reduction from 25% to 15% over 10 years was one such example following an ILO actuarial valuation and reinforced by the Employers sponsored Blaxland report.

The key to managing FNPF has always been long term sustainability, not the short term quick fix solutions that will bring hardship and distress that are now being offered.

Financial Assumptions

At the Civic Centre meeting whilst financial figures were displayed on a screen there were far too many of these to either have the time to read or understand.

Handout notes and copies of all assumptions, the current FNPF financial position, statistical data, and actuaries' calculations should all have been available in hard copy to enable these to be taken away and considered.

I suggest complete notes of the changes should be made available to all members either by way of hard copy or on the FNPF website so that members have the opportunity to be fully informed on the FNPF financial assumptions and what is being proposed.

Timing

There appears to be undue haste given to making the changes to pensions and from media reports and indications given at the meeting the changes are to be decided by 30 June 2011.

One has to ask why the haste? Why cannot this decision wait for a year at least so that the proposals can be aired throughout the community in the public domain, by pensioners and future pensioners, by community and interested groups so that a reasoned and balanced position can be decided so that changes, when made, are fair and reasonable to all.

Given the unseemly haste there is no time available to consult with other specialists in pension funds or actuaries to gain opinions and ideas on alternative strategies that could be implemented to resolve the position.

Presumably the recommendations being made by the consultants Mercers are being taken as "gospel". Mercers are undoubtedly a respected group of international standing and expert in their field. They are not however experts on the social fabric of Fiji. There are many other international experts in this field who will have differing views and solutions to those of Mercers. I would suggest it would be prudent to obtain a wider range of views to enable a more considered position to be gained. In this way other solutions can be considered and a decision made on what is the better solution for FNPF.

As it is it appears FNPF is placing all its eggs in one basket of advice. This I suggest is dangerous!

There has been totally inadequate time allowed to publicise the changes being proposed. While the public meetings being held are useful they allow inadequate time for a reasoned and balanced view to be reached by those attending, and more mature thought of the ramifications of the proposals and alternatives available.

As you are aware our current political structure in Fiji does not allow for a truly open debate. The decisions to be made will have a huge impact on nearly all of the population well into the future. It is therefore important that any decisions to be made have been subject to significant consultation and thoughtful debate throughout the community, as far as is possible within the restraints of Fiji's current political environment.

Financial Viability of FNPF

At the Civic Centre meeting we were not given any financial data to take away and peruse so I can only comment from memory on the figures that were briefly displayed at the meeting.

From what the speaker said FNPF is solvent and has an actuarial surplus. FNPF is not going to go broke tomorrow and I recall the speaker saying has adequate funds to survive on current forecasts to the mid 2000s. Why then the rush? The Blaxland report was made in November 1994 and changes to the FNPF not made until 1998. This enabled all interested groups to consider the changes then proposed and to make considered comment on them.

What happened to the FNPF philosophy to make progressive changes to pension entitlements and in this way ensure reasonable ongoing levels of pension payments and to work its way through the issue? This has been the FNPF philosophy from the start and was implemented for the Blaxland recommendations.

In this way future generations also take on some of the burden in supporting the elderly just as existing pensioners have done with past pensioners who are sadly no longer with us. This philosophy of care and support for the elderly is deeply engrained in all levels of society in Fiji and should continue to be respected through FNPF.

Subsidies in Our Every Day Lives

Much is being made of the fact that existing pensioners are being subsidized by future pensioners.

No mention is being made of the fact that in the future where a pensioner has opted for a full 15%, 9%, 8% or whatever percentage pension, and dies in less than four years, then he /she will not have been paid all of the funds that they had in FNPF by way of pension. The balance of these monies will not be paid to that pensioner's estate but will be absorbed by FNPF to be used to subsidise pension payments to other pensioners. Is this not a subsidy that will continue regardless of what changes are made to the fund? It appears this subsidy is acceptable!

Indeed one comment made by the speaker was that there could be a minimum pension of say \$200 monthly (I think this was the figure mentioned). If this is so, surely this is a subsidy of exactly the same kind that is being so strongly objected to?

It is true that all pensioners are being subsidized by others. This is how the fund was designed and how it was meant to work, with progressive change over time so that it comes to a point where subsidies are no longer needed. The first of these changes was put in place following the Blaxland report in 1994. It is right that more changes should now be considered, but not the draconian changes that are being suggested.

The other fact not being mentioned is that it needs to be realized subsidies are a part of our every day life.

Subsidies are in effect across many sectors of our economy. We see subsidies in agriculture, in rural development, with improvements in villages and settlements, the sugar industry, the Fiji Development Bank, in support for some NGOs, even the tourist industry and such things as subsidized bus fares for children and pensioners to name just a few. There are others. We accept these subsidies because we know these communities need help, just as many, many pensioners need help, regardless of the size of their pensioners. The size of help needed is all relative to their individual positions.

Despite all these subsidies in our everyday lives, it seems subsidies through FNPF pension payments are not acceptable!

Investment Returns and Subsidies

Much has been said about the write down of investments at Natadola. Property investments by their nature are long term. Whilst the write down will have been necessary under international accounting standards, some observers say that the write down has been savage, others say excessive.

This does not alter the fact that it could be seen that pensioners are being made to underwrite this write down by way of reduced pensions in the future. The question to be answered is what happens over the next five or ten years and beyond when this value rebuilds, land sales at Natadola commence, and the hotel and property is worth significantly more than it is valued at now?

This increase in value will presumably be credited to members by way of an increased interest return on their accounts and the pensioners will get nothing. Is this not another subsidy? This write down should not be used as part of the excuse to reduce pensions.

Contract

As I understand it all pensioners have **an irrevocable contract with FNPF to pay their pension. This is a contract that cannot be voided or changed.** When we signed to receive a pension there was a special section making it very clear that this was an important decision and **once signed could not be changed.** No mention was made of this at the Civic Centre meeting.

This contract was respected by FNPF when the changes were made following the Blaxland report. A precedent was created.

Is this contract now to be cast aside? It will be a sad day for the integrity of FNPF and its ongoing credibility if this is to be the case.

The FNPF has been there for many of us since 1966, and all pensioners and members have put their faith in it and this has not been misplaced. We knew FNPF would be there to support us in later years and this faith has been justified.

The converse is of course, if a pensioner came to FNPF asking for an increased pension he would be quickly shown the door and told his pension was contracted for and could not be changed. This reeks of double standards! What hypocrisy!

Obligations

With consideration being given to reducing pensions, much deeper consideration needs to be given to the impact this will have on all pensioners. For many this is their only source of income and any reduction will cause hardship.

Many pensioners have ongoing commitments and regular payments to make. They have made commitments to banks for repayment of loans. These commitments have been based on the premise of receiving a pension in terms of their irrevocable contract with FNPF. Change will cause hardship and distress for pensioners both small and large as these regular ongoing payments are all relative to their own individual positions.

Is this really what FNPF wants to inflict on pensioners?

Voluntary Payments

What happens to those pensioners whose employers made voluntary payments on their behalf, or they themselves made voluntary contributions over and above the minimum level set by law that is currently 16%.

These pensioners worked hard and saved. Are they to now be penalized for their prudent savings over 20, 30 or 40 years? Are they to lose these voluntary contributions?

Conclusion

From my above comments I trust it can be seen that there are many issues, and many others apart from the ones I have mentioned that need airing and discussion in deciding on changes to FNPF.

I suggest the key considerations are;

- much more time needs to be given to considering any changes
- financial data needs to be made available to all members
- the hardship a reduction in pensions will cause across all sectors of the community
- the draconian reductions to pensions of the amounts indicated are not necessary

Whilst I obviously do not know what changes will be decided what I do know from my many years of commercial experience is that changes of the magnitude being suggested need much more time for consideration and for frank and open discussion.

I urge you to stop and think, and think carefully about the distress and hardship the impact of the changes being suggested will cause across all sectors of our society, and give time for these changes to be openly discussed and considered in the public domain.

Much more time for deliberation across all sectors of the community is necessary so that when agreed, any changes to FNPF are fair and reasonable to all concerned so that a balanced solution, acceptable to all is achieved.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R.G. McDonald', written in a cursive style.

RG McDonald
(Pensioner)