

FNPF REFORM UPDATE

SUSTAINABILITY IS KEY FOCUS

REFORM MANDATE

In the last few years the International Labour Organisation (ILO), World Bank (WB), International Monetary Fund (IMF), Mercer Australia and lately Singapore Cooperation Enterprise (SCE) have highlighted gaps in the Fund that borders on sustainability and non-compliance with social security conventions and best practices.

These studies together with recommendations from Reserve Bank of Fiji, external auditors, customer surveys and internal researches have formed the platform for the reform in the Fund policy, law and practices to ensure the gaps identified are bridged and Fund grow sustainably.

The Government is well aware of the need to reform the Fund and in his Budget address in November last year, the Prime Minister and Minister of Finance mandated the Fund to undertake structural and operational reforms to address the Fund's sustainability.

The major objective of this media conference is to provide you with an update on the progress of the reforms over the last six months. Before that, I would just like to recap the major reforms being undertaken within the Fund.

1. Investment Rehabilitation
2. Pension Review
3. Review of the FNPF Act
4. Review of Member Benefits & Partial Withdrawals
5. Review of Contributions, Coverage & Collections
6. IT Strategic Review
7. Business Process Re-engineering.

These reforms are all being undertaken concurrently and as a package – in that these projects are inter-dependent. The success of one is critical to the success of others. The timelines for these reforms vary from 12 months to 36 months.

REVISED VISION & MISSION

In light of the mandated reform, and the FNPF Board's commitment to achieve our objectives, the FNPF has revised its corporate statements of intent to reflect our key strategic focus.

The new vision is "Securing your Future". This vision encompasses the strategic aim of the Fund and its core role in ensuring that our members are financially secure on retirement.

The new Mission reads "To deliver excellent services and sustainable returns to our stakeholders". Again, I reiterate the reforms currently being undertaken at the Fund are geared towards operational & structural efficiency that will ensure value-added service to our members and better returns.

INVESTMENT REHABILITATION

The strategic direction for investment rehabilitation is

- Correct the value of the investment in our books
- Rehabilitate the non-performing assets, and
- Put the portfolio on a new growth path.

In this regard, you are all aware of the write-down that was made in the financial year ended June 2009. Most of us have now accepted that this exercise was not only necessary but was also prudent.

Let me now briefly update you with the progress on the key projects:

Natadola Hotel Development

The focus for Natadola is to create value by completing the residential development as well as working closely with the Hotel Manager to increase the profitability of the hotel. The progress is encouraging and is assisted by an upturn in our key overseas tourist markets.

Some key highlights include the opening of the Club Villas on 17th May; the completion of a survey under a revised master plan. We are now discussing with Native Land Trust Board (NLTB) on the new leasing arrangements and working on a scheme plan for the residential lots.

The hotel is becoming a popular destination for international, regional and local events.

The financial performance for the hotel has also improved, and we are working with the operators, Intercontinental Hotel Group (IHG), to continue to improve further.

Momi Hotel Development

We had already advised the media of our process to invite expression of interest for either the sale of or for a joint venture to complete the Momi Stage 1 Integrated Hotel Development.

We are working with various international channels to reach as many investors as possible. This expression closes on 27th August where we will be then in a position to determine our way forward.

Some strong interests have been registered and we are working closely with them.

Grand Pacific Hotel

With regard to GPH, we are in discussion with an investor and we will announce the details once finalised.

PENSION REVIEW

The FNPF provides one of the most generous pension schemes in the world. The reform will address the sustainability by making the pension annuity actuarially sound.

The Fund has recently acquired the World Bank Pension Model known as the Pension Reform Option Simulation Toolkit (PROST) which will be used to simulate pension reform options. In addition, we have begun negotiations with Mercer Australia to assist in this area. Key stakeholders will be consulted.

REVIEW of the FNPF ACT

The FNPF Act was legislated in 1966. Over the years there has been ad-hoc amendments made to the Act.

The review encompasses best practice provisions keeping in mind the developments in the area of superannuation and any legislative frameworks to further strengthen the Fund. The review is intended to modernize the Act, to make it relevant and enable the Fund to deliver its objectives.

Some of the specific areas that the Act will address include:

- Best corporate Governance practices
- Investment mandate
- Improve on Enforcement Capability to ensure members contributions are collected

Again, key stakeholders will be consulted.



Chief Executive Aisake Taito

The Fund's core role is to ensure that our members are financially secure on retirement

REVIEW OF CONTRIBUTIONS, COLLECTIONS & COVERAGE

The Fund's objective is to ensure all contributions are collected and to explore ways in which we can improve and broaden our coverage of the informal sector.

BUSINESS PROCESS RE-ENGINEERING & IT STRATEGIC REVIEW

The Business Process Re-engineering (BPR) targets operational efficiency and better services to our members. BPR is aimed at improving our processes to deliver excellent services and meet members' expectations.

The Fund is overhauling its IT system to allow members' accessibility to our services and improve internal efficiencies and reporting.

REVIEW OF MEMBER BENEFITS & PARTIAL WITHDRAWALS

In the last few months, the Board has had to take a thorough assessment of the benefits available to our members against its fiduciary responsibility as a retirement fund.

Changing Member Mindset

The Board understands the current economic challenges facing our members and their expectations over the years. However, we note with concern the extent of increased reliance by the members on the Fund to meet basic and social obligations.

The Fund reiterates it is a savings scheme for retirement, and not a bank.

From its assessment, the Board has concluded that the Fund needs to immediately review the benefits available to our members.

- To ensure members are financially secure during their retirement
- To ensure the Fund generates positive net contributions for investment purposes to sustain the growth of the Fund

The Board has therefore, taken a decisive action in re-focussing the FNPF to its core function – that of a retirement fund.

The FNPF believes in maintaining partial withdrawal grounds that will directly contribute to the retirement well-being of our

members. These are in line with core benefits of similar retirement funds.

Effective from September 1st, 2010, the Fund will only allow Partial Withdrawals under the following grounds

1. Education
2. Housing &
3. Medical

We are currently reviewing the Funeral Assistance and Unemployment Assistance. A decision on this will be announced soon.

Improvements to Retained Benefits

To add-value, to the retained withdrawal grounds, the Fund has enhanced these benefits through the:

- Removal of ceiling of \$2000 for local education per student per semester
- Extension of cover for medical benefits to a member's brother(s) and sister(s); currently this is reserved for the member, spouse, children and his/her parents.
- Review of housing assistance to ensure that it is more inclusive of our less-affluent members; and to encourage property ownership.

The Fund has decided to reduce the processing fee for partial withdrawals by 50% , from \$20 to \$10. This is effective from September 1st, 2010.

The other new measures, which become effective from January 1, 2011 are:

- The introduction of \$2000 deduction from the Special Death Benefit to cover for members' funeral expenses. Currently the onus is on relatives of members to withdraw their funds for funeral expenses.
- Allowance for those over 50 years, unemployed for over 3 years and with balances of \$2000 and below, to fully withdraw their funds.
- Allow options for members to repay amounts withdrawn under partial schemes. Of course, these repayments will allow members to have a higher balance on retirement.

Reasons for the Review

The reforms that FNPF has undertaken are critical for both the Fund and members. It is critical for the Fund to carry out this reform to sustain itself in light of the changing global environment. The review of Member Benefits and Partial Withdrawal policy has been undertaken to strengthen and add value to the retirement benefits of all FNPF members.

The revised policies will benefit members as it will boost their savings, allowing them to accumulate more for retirement.

The FNPF Board needs to ensure that members are financially secure after their work-life; as this is their responsibility as trustees of the Fund.

FINANCIAL PERFORMANCE

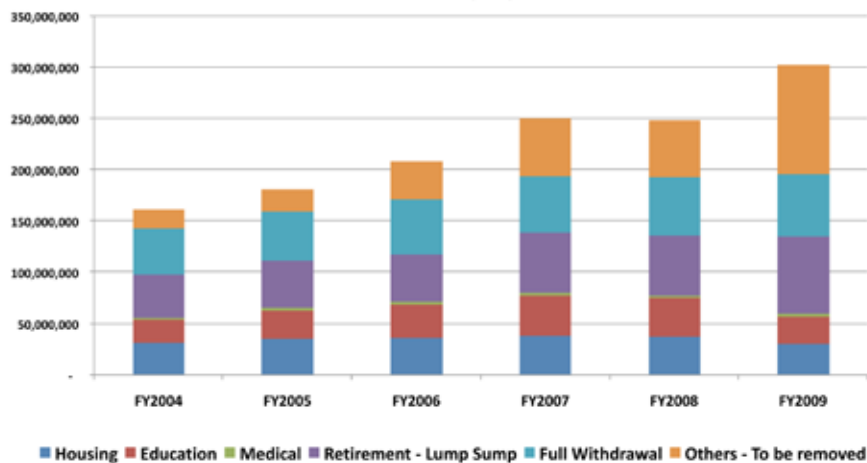
Earlier last month, the Fund credited 5% interest to our members' accounts totaling \$121.30 million. The Fund intends to continue to credit to members a good return on their savings.

The audit of our financial performance for the Financial Year ended June 2010 has started and we will report this to our members once completed.

Let me close, by assuring our members that these reforms are necessary to ensure the continued sustainability of the Fund in Securing your Future.

Aisake Taito
CEO FNPF

Withdrawal History 2004-2009



Value - Added Benefits

Effective, September 1, 2010

- Removal of ceiling of \$2000 for local education
- This will assist those courses that are over \$2000 to allow members and their dependents pursue and achieve quality higher education.
- The extension of cover for medical benefits to a member's brother(s) and sister(s).
- This is currently reserved for the member, spouse, children and member's parents.
- Reduction of processing fee on partial withdrawal grounds from \$20 to \$10.

- funeral expenses.
- Currently relatives of deceased members withdraw their funds for funeral expenses
- Full Withdrawal – This allows for those over 50 years, unemployed for 3 years and with balances of \$2000 and less to fully withdraw their funds
- This is a viable pre-retirement option to allow members to invest in these funds for their retirement.
- Repayments -Allow members to repay monies withdrawn under partial schemes
- This will ensure that members increase their balances for retirement.

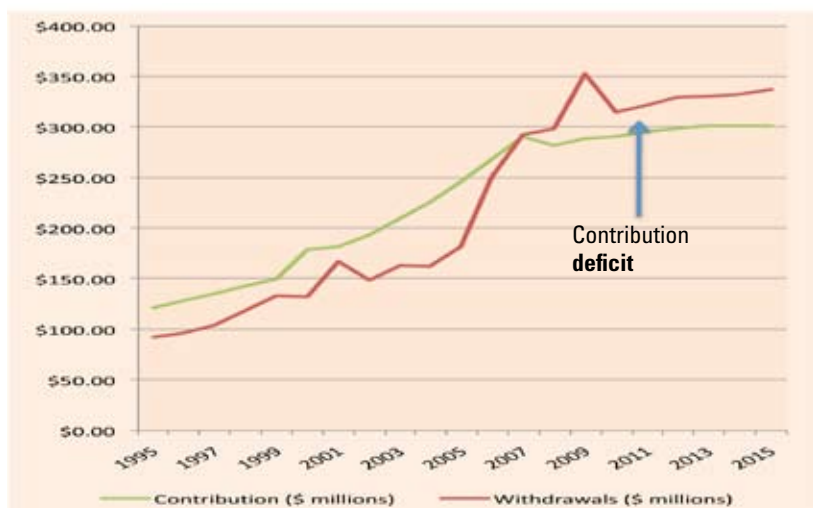
Effective January 01, 2011

- Funeral Assistance-The introduction of \$2000 deduction from the Special Death Benefit (SDB) to cover for members'

Under review

- Housing Benefits -The Fund is reviewing the housing to encourage property ownership.

Contribution & Withdrawal trend



Q & A

trustees and custodians of members' funds.

The Board has and will always exercise due diligence and care in ensuring that decisions made are in the best interest of members

1. What is the major objective of the Revised Withdrawal Policy?

- To strengthen and add value to the retirement benefits of all FNPF members.
- The revised policies will benefit members as it will boost their savings, allowing them to accumulate more for retirement.

2. What pre-retirement benefits are now available to members?

- Education
- Medical
- Housing
- Funeral Assistance (is still under review)
- Unemployment Assistance (is still under review)

3. Why the review in policy given the current economic environment?

The Fund will continue to realign to its core business objective that is to provide financial security for members when they retire. We reiterate that the Fund is not a bank nor is it a welfare body. Members need to understand that money/savings kept with us are for the sole purpose of retirement

4. Is the Fund revising the partial withdrawal policy to recover the write-down of \$327million last year, and the subsequent loss of \$181.1 in the 2009 accounts?

No. The write-down, and loss, was in the book-value of the assets, which affected our Profit and Loss statement. The revised withdrawal policy is part of the reform to refocus our services to our core function – a retirement fund.

5. Given that the cause of the loss last year was the Natadola Investment, why can't the Fund consider limiting your investment rather than limiting members from accessing their funds?

Investments are necessary to provide sufficient income in the future to meet projected pension liabilities.

6. With the exclusion of most of the withdrawal grounds, the number of applications for processing will now decline; does this mean the \$20 fee will be removed for partial withdrawal applications?

This has been reduced to \$10 - effective September 1, 2010.

7. Why were members and other stakeholders not consulted of these changes before this announcement?

Under the FNPF Act, the Board is empowered to implement and improve policies that are in the best interest of members.

8. Whose interest do Board members promote in making such decisions?

Regardless of who the directors represent on the board, all FNPF board members take very seriously their fiduciary duties to ensure that members' interests remain paramount.

The Board takes pride and maintains a high level of professionalism in conducting their responsibility as

9. Would the Fund consider implementing these changes six months from now instead of September 1, 2010, to allow members to make alternative arrangements for their source of funding for grounds that are now being excluded?

Members need to understand that the Fund is a saving scheme for retirement. It is not supposed to be seen to be a cash outlet to fund pre-retirement expenses.

The Fund has extended its assistance to fund essential needs such as housing, education & medical. But, members need to change their mindset about the Fund and should seriously start saving for a rainy day or for defined commitments.

10. What would happen to members' accounts if the Fund does not review the withdrawal policy?

Members will continue to dip into their retirement savings, leaving little pensionable balances. The Fund believes that when members retire, they should still be able to enjoy their retirement from their savings with the Fund. Current workers need to save for retirement and to remember that when work stop, life should not.

11. Please clarify the new policy allowing for repayment of partial withdrawals?

This is optional for those members who wish to repay partial withdrawals. The only reason this is being encouraged to allow members to boost their account balance. It is restricted to those under 50 years old and repayment amount should not exceed the amounts withdrawn.

12. What is the key requirement in accessing the three grounds of partial withdrawals - education, medical & housing.

Members need to have eligibility and to meet all other requirement specified for the grounds of withdrawal. For more information members can access this on www.myfnpf.com.fj or call any of our branches and agencies.

13. Will the Fund maintain or better its current interest rate to members?

The Fund assures members that it will continue to pursue strategies that will ensure the growth of their savings to enable the Fund to meet members' expectations.

14. What is the latest on the forensic investigation on Natadola by the firm Deloitte?

The FNPF Board has received the report from Deloitte and the findings of the report will be made public at the right time

No longer Applicable

- Employment opportunities overseas
- Re-employment for security overseas
- Re-settlement overseas with provisional visa
- Low-income earners
- Short term re-employment for tour of duty
- Assistance to members over 55 years
- Excess withdrawal
- Share Investment Scheme

Implemented from September 1, 2010

For more information visit

www.myfnpf.com.fj

