

THE FNPF PENSION SCHEME

Retirement - A Beginning Not an End

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Introduction: The New FNPF Pension Scheme

In August, 1998 Parliament passed important amendments to the FNPF Act which provide major changes in the Fund's pension scheme. The purpose of the new pension scheme is to eventually have a viable scheme based on actuarial principles, and consequently safeguard its continuity into the future. The scheme also extends the pension to more members who were not entitled to a pension previously. The purpose of this brochure is to provide information that should help our members, to not only understand the changes, but also to plan for their retirement. After reading the brochure, if you have further questions, please contact the FNPF office nearest you.

Q1 What is a Pension?

A1 A pension is a periodical payment made to a person, usually at retirement that is intended to support the person for the rest of his/her life.

Q2 What is the FNPF Pension Scheme?

A2 The FNPF Pension Scheme was specifically designed for FNPF members. It provides a monthly payment for life to the member who chooses to take a pension when he/she retires. The Scheme has its own formula for calculating the amount of the monthly payment, and the age from which the payments should commence. This brochure, among other things, explains the formula for calculating pensions according to the provisions of the new FNPF pension scheme.

Q3 When does a member qualify for pension?

A3 Upon attaining age 55, the member may apply for withdrawal. The pension is payable one month after the withdrawal application has been approved. The amount of the pension depends on the pension rate at time of the withdrawal.

The Changes

Q4 There have been changes to the FNPF Pension Scheme, can you explain what these are?

A4 The following summary gives you the core of the changes to the Pension Scheme. A detailed explanation of each point is covered throughout the brochure. All the changes came into effect from July 1, 1999, unless otherwise stated.

A Summary of Changes in the New Pension Scheme

1. The Pension formula for calculating single-life pensions is to be reduced from the present 25% to 15% regressively by 1% annually from July 1, 1999. For joint-life pensions, the reduction will be from the present 16.4% to 11% regressively. The yearly regression will happen for both single and joint life over a ten-year period.
2. The FNPF contribution to a member's account increased from 14 cents to 16 cents.
3. The current pension buffer fund deduction of 2 cents ceased, effective from January 1, 2000. This gives a further contribution of 2 cents to a member's account.
4. The pension option has been extended to re-entered members who previously were not entitled to a pension. These are: those who have withdrawn because of marriage and re-entered as a member. those who had withdrawn because of migration, returned, and re-entered as a member.
5. female members will no longer be able to withdraw from the Fund because of marriage.
6. for voluntary members, the threshold for the calculation of pension has increased from \$960 per annum to \$2400 per annum.
7. any contributions paid in excess of the statutory rate of 16 cents will be excluded from the calculation of pension.
8. contributions will cease for employees who attain the age of 65.

How The New Pension Scheme Works

Q5 Who is eligible for the new Pension Scheme?

A5 All members of the Fund who have attained the age of 55 and those who have re-entered the fund after withdrawing on grounds of marriage or migration. To receive a full pension, a member must have completed 120 months, or ten years, of membership. For members below the full pension-qualifying period, a proportional pension will be calculated relative to the length of membership.

Q6 How does the new Pension Scheme work?

A6 The new Pension Scheme is based on the applicable annuity factor for the financial year of withdrawal. It determines the amount of monthly payments you will receive for life.

Q7 Can you explain the Pension calculation?

A7 The pension calculation is based on the amount a member opts from the credit balance. This is calculated by using the Pension Table (shown on Page 7) that shows the percentage rate a member will receive per annum at retirement. Please note that the percentage rate will reduce by one percent annually over a ten-year period. The percentage rate that relates to the financial year in which the member withdraws will be fixed for life.

THE PENSION TABLE

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%

(Financial year is from 1 st July to 30 th June) A member who withdraws in the year July 1 1999 to June 30 th 2000, the pension rate will be 24%. If a member retires in the year 1 st July 2000 to 30 th June 2001, the pension rate will be 23%. The pension rate will continue to reduce by 1% annually, and the joint pension rate will reduce by 0.6% until 30 th June 2009. Please note, the percentage rate that relates to the year a member withdraws will be fixed for life.

How Will The Calculations For The New Pension Scheme Work?

Q8 Can you provide scenarios of how the calculations work?

A8 Upon retirement, the following options are available to the members

1. Life Pension
2. Joint Pension
3. Part Lump sum, Part Life Pension
4. Part Lump sum, Part Joint Pension
5. Part Lump sum, Part Life, Part Joint,
6. Full Lump sum

Option One - Life Pension

In these options, a member whom we will call Isimeli A., will turn 55 in August of 2001. This is his FNPf account information:

- Name: Isimeli A
- Age: 55 in August, 2001
- Balance in Account: \$40,000
- Pension Option: Full life pension

Calculation is based on the funds in Isimeli's FNPf account. His pension rate for the year 2001 will be 22% (see page 7). Therefore the calculation for his pension is as follows:

- 22% of \$40,000 = \$8,800 per annum payable at \$733.33 per month

Option Two - Joint Pension

If Isimeli A opted for a joint pension with his spouse, the annuity will be calculated as follows:

- Name: Isimeli A.
- Age: 55 in August, 2001
- Balance of Account \$40,000
- Option: Joint Pension

Calculation is based on Isimeli's FNPF Account. His joint pension rate for the year 2001 is 15.2% (refer Pension Table on page 7). Therefore, the calculation result is:

- 15.2% of \$40,000 = \$6,080. per annum payable at \$506.67 per month

Should Isimeli pass away, his spouse would continue to receive the same amount of pension till the end of her life.

Option Three - Part Lump Sum, Part Life

Through this option, the member has the opportunity to take part of his contribution as lump sum and the balance as life pension. Please note that it is upto the member to decide the amount he prefers to take as lump sum and pension. The pension will cease upon the death of the member.

- Name: Isimeli A
- Age: 55 in August, 2001
- Balance in Account: \$40,000
- Pension Option: Part Lump sum, Part Life Pension Calculation is based on the funds in Isimeli's FNPF account. His pension rate for the year 2001 will be 22% (see page 7). Therefore the calculation for his pension is as follows:

Account balance = \$40,000.00

Less Lump sum Amount = \$12,000.00 (his choice)

Pensionable amount = \$28,000.00

- 22% of \$28,000 = \$6,160 per annum payable at \$513.33 per month

Option Four - Part Lump Sum, Part Joint

This option is similar to that of option three, but goes one step further in providing the member a joint pension with the spouse. The joint pension rate applicable in August 2001 is 15.2% Account details are as follows;

- Name: Isimeli A.
- Age: 55 in August, 2001
- Balance of Account \$40,000
- Option: Part Lump sum, Part Joint Pension

Account balance = \$40,000.00

Less Lump sum Amount = \$12,000.00 (his choice)

Pensionable amount = \$28,000.00

Calculation is based on the funds in Isimeli's FNPF account. Joint pension rate for the year 2001 will be 15.2% (see page 7). Therefore the calculation for his pension is as follows:

- 15.2% of 28,000. = \$4,256 per annum payable at \$354.67 per month

Upon the death of the member, his spouse will continue to get the sum of \$4,256 per annum until her death

Option Five - Part Lump, Part Life, Part Joint

This is one option that provides the member with the opportunity to enjoy all the options mentioned earlier. He will be able to receive a lump sum amount and the remaining balance as a Life and Joint Pension.

- Name: Isimeli A.
- Age: 55 in August, 2001
- Balance of Account \$40,000
- Option: Part Lump sum, Part Life & Part Joint Pension

Account balance = \$40,000.00 Less Lump sum

Amount = \$15,000.00 (his choice)

Pensionable amount = \$25,000.00

Calculation is based on the funds in Isimeli's FNPF account. His life pension rate for the year 2001 will be 22% and the joint pension rate will be 15.2% (see page 7). Therefore the calculation for his pension is as follows: The member assigns the remaining balance of \$25,000 as follows:

1. \$12,000 as Life pension 22% of \$12,000 = \$2640 per annum payable at \$220.00 per month
2. \$13,000 as Joint Pension 15.2% of \$13,000 = \$1,976 per annum payable at \$164.00 per month

The member during his life time will be receiving two pensions upon his death the life pension will cease but the joint pension will be transferred to his spouse, who then will be receiving the joint pension amount during her life time.

Option Six - Full Lump Sum

This is an option where the member simply asks for a Lump sum which means that the balance of his account at the time of withdrawal is paid to him in one cheque.

- Name: Isimeli A.
- Age: 55 in August, 2001
- Balance of Account \$40,000
- Option: Lump sum

The New Pension Scheme Contribution Rate

Q9 What is the change in the contribution rates under the new pension scheme?

A9 There is an increase in the FNPF contributions from 14 cents to 16 cents with effect from July 1, 1999. The employer and the employee will each contribute equally, that is, 8 cents each, on every dollar earned.

The Pension Buffer Fund Deductions And Increased Contribution

Q10 What happens to the 2 cents deducted from member's contributions that goes into the buffer fund?

A10 This deduction discontinued from January 1, 2000 and the full amount is credited to the member's account.

Q11 So how much in total a member receives in increased contributions?

A11 With the ceasing of deductions for the buffer fund, and the increase in contributions from 14 cents on the dollar to 16 cents, the member now receives an increase of 4 cents on the dollar. This will mean that a member's account will grow at a faster rate.

The New Pension Scheme For Women Who Married

Q12 Under the new scheme will women who withdrew because of marriage and then rejoined, be entitled to a pension?

A12 Women members now are entitled to opt for a pension if they had withdrawn after January 1, 1975 on grounds of marriage and rejoined on or before June 30, 1999. January 1, 1975 being the year when the pension scheme was first introduced.

Q13 Will the withdrawal on the grounds of marriage still be permitted?

A13 The withdrawal ground for marriage has ceased from June 30, 1999.

The New Pension Scheme For Members Who Migrated

Q14 Under the new scheme are members who migrated and then returned to Fiji and rejoined the Fund eligible for a pension?

A14 Those who migrated, returned, and rejoined the fund, under the new scheme, are now eligible to opt for a pension.

The New Pension Scheme For Voluntary Members

Q15 How will Voluntary Members be affected by the changes in the New Pension Scheme?

A15 The main change for voluntary members is the amount that will be considered for pension. It has increased to \$2,400 per annum from \$960. For example, if a voluntary member has an FNPF Account for 15 years with a balance of \$60,000, and retires in November 2002, his pension would be calculated as follows:

- Account Balance = \$60,000
- \$2,400 x 15 years = \$36,000
- Pension rate for year 2002 is 21% 21% of \$36,000 = \$7,560 per annum therefore amount will be payable at = \$630.00 per month
- Balance as lump sum payment to member: = \$24,000

LIMITATIONS TO THE SCHEME

Q16 Are there any limitations if my employer should pay contributions in excess of the statutory 16 cents to a dollar, and how will this affect my pension at retirement?

A16 Any contributions paid in excess of 16 cents will not be considered in the calculation for pension and will be paid as lump a sum. Contributions may be paid up to a maximum rate of

30%, but the employee is restricted not to pay more than the statutory amount of 8 cents to a dollar.

Q17 If I am employed beyond the age of 55 years, will my employer be still legally liable to pay my FNPF contributions?

A17 Yes. However, FNPF contributions are not payable after the age of 65 years.