

MEMORANDUM

Proposal for an amendment to the Articles of Association for the Annual General Meeting of the Gildi Pension Fund, 28 April 2022

General

The Minister of Finance and Economic Affairs issued new life expectancy tables after having received the opinion of the Icelandic Society of Actuaries last December. The pension funds must abide by these tables in their assessment of death and life expectancy when calculating pension commitments. These tables include a new method of assessing death and life expectancies, as they specify that each age group, both men and women, will have its own life expectancy, and the forecast is that the increase in life expectancy in the past will continue into the future. It is therefore expected that the younger age groups will live longer than the older ones. It is evident that a rising life expectancy will lead to a longer period when monthly pensions will have to be paid than previously calculated.

The Board of the Gildi Pension Fund decided to introduce the new life expectancy tables in actuarial calculations for 2021. The annual accounts for last year are therefore based on these new premises. The actuarial position, based on these new premises, was 1.4%. On the other hand, the accrued position of the Fund, having regard to the premiums already earned and rights based thereon, is in surplus by 12.9%. The future position that takes future premium income and the ensuing pension rights into account is, on the other hand, in deficit by 12.6%. For the future, this means that the current table of benefits promises more benefits than can be delivered, based on the new actuarial premises. If nothing is done, the position of the Fund will become unsustainable. As regards the position already in place, younger generations are being promised, given unchanged premises, a monthly pension that is too high in light of the new premises of life expectancy, at the expense of older generations. For this reason, offsetting measures are being proposed and will be placed before the Annual General Meeting.

The offsetting measures proposed are the following:

1. The reference age for retirement pensions will remain unchanged, whereas the commitments of the Fund already incurred will be evened due to new premises. It will be assumed that rights already earned will be lowered, depending on age, so that commitments already accrued will remain unchanged after the introduction of new life expectancies. The reduction in monthly benefits will be lowered, and the reduction will differ by age groups due to differing expectations of their life expectancy. The change will be greatest for the youngest age groups, which are assumed to live longer than older generations.
2. A new benefits table is proposed based on new premises of the life expectancy of Fund members.
3. It is also proposed to use the position of the Fund already accrued to increase Fund member benefits by 15%.

More precisely, the first step will be to decrease the benefits already accrued as follows:

Age group	Change						
2005	-12.0%	1992	-11.7%	1979	-10.8%	1966	-8.3%
2004	-12.0%	1991	-11.7%	1978	-10.7%	1965	-8.0%
2003	-12.0%	1990	-11.6%	1977	-10.6%	1964	-7.7%
2002	-11.9%	1989	-11.6%	1976	-10.4%	1963	-7.3%
2001	-11.9%	1988	-11.5%	1975	-10.3%	1962	-7.0%
2000	-11.9%	1987	-11.5%	1974	-10.1%	1961	-6.6%
1999	-11.9%	1986	-11.4%	1973	-9.9%	1960	-6.2%
1998	-11.8%	1985	-11.3%	1972	-9.7%	1959	-5.8%
1997	-11.8%	1984	-11.3%	1971	-9.5%	1958	-5.3%
1996	-11.8%	1983	-11.2%	1970	-9.3%	1957	-4.9%
1995	-11.8%	1982	-11.1%	1969	-9.1%	1956	-4.4%
1994	-11.7%	1981	-11.0%	1968	-8.8%	1955	-4.1%
1993	-11.7%	1980	-10.9%	1967	-8.6%		

Due to the parallel increase in benefits in the third step, the acquired benefits will, on the whole, be positive, although different by age group. They will be most positive for pensioners and the oldest age groups:

Age group	Change						
2005	1.2%	1992	1.5%	1979	2.6%	1966	5.5%
2004	1.2%	1991	1.5%	1978	2.7%	1965	5.8%
2003	1.2%	1990	1.7%	1977	2.8%	1964	6.1%
2002	1.3%	1989	1.7%	1976	3.0%	1963	6.6%
2001	1.3%	1988	1.8%	1975	3.2%	1962	6.9%
2000	1.3%	1987	1.8%	1974	3.4%	1961	7.4%
1999	1.3%	1986	1.9%	1973	3.6%	1960	7.9%
1998	1.4%	1985	2.0%	1972	3.8%	1959	8.3%
1997	1.4%	1984	2.0%	1971	4.1%	1958	8.9%
1996	1.4%	1983	2.1%	1970	4.3%	1957	9.4%
1995	1.4%	1982	2.2%	1969	4.5%	1956	9.9%
1994	1.5%	1981	2.3%	1968	4.9%	1955	10.3%
1993	1.5%	1980	2.5%	1967	5.1%		

The accrued benefits of those 67 years or older, as well as disability and spousal benefits, thus increase by 10.5% with the introduction of the changes.

With the introduction of a new benefits table that will be 10–11% lower than the earlier one due to the introduction of new premises of expected life expectancy, the overall change will be greatest for the younger age groups. This is because the younger age groups will pay premiums for more years on the basis of the new benefits table and generally possess lower accrued benefits than older age groups. The monthly amount of benefits is reduced in the benefits table because the Fund must anticipate paying them out over a longer period than previously calculated, due to rising life expectancy.

The impact of each step of offsetting measures on the Fund as a whole will be as follows:

	Accrued position	Future position	Total position
Position 31.12.2021	12.9%	-12.6%	1.4%
After age-dependent adjustment (step 1)	22.0%	-12.6%	5.7%
With a new benefits table (step 2)	21.9%	-2.4%	11.1%
After an increase in benefits of 15% (step 3)	6.1%	-2.3%	2.7%

The overall position of the Fund will thus be in surplus by 2.7% following the introduction of the offsetting measures, with the accrued position in surplus by 6.1% and the future position in deficit by 2.3%.

It should be borne in mind that the actuarial valuation of the Fund is based on life expectancy that is specially tailored for the Fund, i.e. it is based on historical information on the life expectancy of the membership of the Gildi Pension Fund.

The new actuarial premises are a forecast of the future based on available information at the present time. Life expectancy tables are regularly revised. If it later emerges that the forecast on which they are based is far from realised, it is normal in such circumstances to review the benefits of pensioners. If it emerges, for example, that life expectancy is not increasing or not at the same rate as estimated before, premises could be created to increase pensioner benefits based on future information and the experience at that point in time. At this time, however, one must inevitably base premises on presently available information, since pension funds must calculate their commitments based on life expectancy tables in effect in each instance.

Other proposals for amendments to the Articles of Association are either related to the introduction of offsetting measures or constitute amendments to or further explanations of the texts of the Articles. Reference is made to notes associated with individual Articles. This memorandum contains a document where the changes are shown compared to the texts currently in effect in the Articles of Association of the Fund.

Changes proposed to individual Articles

Article 3.2.

The Union of Hairdresser Journeymen (Félag hársnyrtisveina) be dropped from the Articles, as the Union has merged with the Union of Industrial and Technical Trades (Félag iðn- og tæknigreina).

Article 7.1.

The amendment is proposed for the purpose of reiterating that an actuarial valuation takes place for the mutual pension division of the Fund and is carried out by an actuary or by those others certified by the Financial Supervisory Authority for said task.

Article 7.2.

The word “benefits tables” be inserted instead of “pension commitments”, as it is in accordance with the use of words in the Appendix to the Articles. The text on the review of benefits tables be inserted into Article 10.2, and the reference revised accordingly.

Article 7.3.

The substance of the amendment is that the following text be stricken: “The increase shall be brought about in such a manner that the acquired benefits of all Fund members, as calculated according to Articles 11–14 of these Articles, are increased commensurably”. This is done because actuarial premises can justify that the increase will not be commensurate when new life expectancy tables show different life expectancies, depending on the year of birth. This was not the case when the provision was originally drafted, and the same life expectancy was used for all age groups. Different actuarial premises may apply for increasing benefits (such as when it emerges later on that life expectancy does not increase as much as assumed for different age groups). On the other hand, the rule applies as before that the increase will be even if actuarial premises give reason therefor, such as if the increase in benefits is due to a rise in the asset value of the Fund. Other changes are more intended to highlight the substance of the provisions and to reiterate that the Annual General Meeting is the final decider in this instance.

Article 7.4.

The change of substance is that the following sentence is eliminated: “The reduction shall be brought about by cutting the acquired benefits of all Fund members pro-rata as they are calculated according to Articles 11–14 of these Articles.” This is done because actuarial premises can justify that the increase will not be commensurate when new life expectancy tables show different life expectancies, depending on the year of birth. This was not the case when the provision was originally drafted, and the same life expectancy was used for all age groups. Different actuarial premises may apply for increasing benefits (such as when it emerges later on that life expectancy does not increase as much as assumed between age groups). On the other hand, the rule applies as before that the cut will be even if actuarial premises give reason therefor, such as if the cut in benefits is due to a decline in the asset value of the Fund. Other changes are more intended to highlight the substance of the provisions and to reiterate that the Annual General Meeting is the final decider in this instance. It is noted that the Fund obtained a legal opinion on this point before the Annual General Meeting that concluded that a change in benefits would differ between age groups, as is proposed at this Annual General Meeting, is lawful since it is supported by grounds of substance and that equality is observed between those in a comparable position.

Article 9.7.

On one hand, it is proposed that the Fund can submit electronic statements to Fund members if permitted by law and public instructions. There is a bill in preparation that includes an authority for pension funds to do that in this manner.

On the other hand, a text will be dropped that requires a notice in a public announcement where such procedure has been cancelled. The Fund sends a summary of benefit payments to Fund members twice a year, and this summary calls attention to the 60-day rule of the provision.

Article 10.1.

There are changes being made to the wording but not of substance. The reference to Appendix C and a text of its content is dropped, as the Appendix is dropped from the Articles. The text that previously was in Article 10.2 was in part moved to Article 10.1 at the same time as the text on the revision of benefit tables is amended and moved to Article 10.2.

Article 10.2.

The Article is intended to show how the benefit tables of the Fund can change. It is assumed that if actuarial premises change to such an extent, in the assessment of the Fund's actuary, that there is reason to amend the benefit tables, he/she shall prepare a proposal for new benefit tables that reflect the amended premises and submit it to the Board of the Fund. If the Board approves the proposal, it shall be presented to the next Annual General Meeting or Extraordinary Meeting for confirmation. This provision replaces the ultimate sentence of Article 10.1 currently in effect.

Article 10.5.

A change is proposed in the reference to a table in the Appendix, as a new Appendix A is assumed.

Article 11.2.

A change is proposed in the reference to a table in the Appendix, as a new Appendix A is assumed.

Article 11.5.

The provision will be dropped, as it no longer applies. A new benefits table reaches up to the age of 70 years, and there is therefore no need for a table for 67–70 years or a discussion thereon. Instead, it is proposed that Fund members reaching the ages of 70, 75 and 80 who have not begun accepting old-age benefits shall be provided with information on their pension benefit rights and how they may be applied for.

Article 11.6.

The latter half of the Article be dropped since it no longer applies.

Article 12.9.

The proposal is that providing the Fund with certain information is obligatory, but not the Board of the Fund. This is in accordance with existing procedure where the Board actually does not receive such information, only the staff of the Fund.

Article 16.1.

A minor change in the explanation to the text of the provision is proposed. The proposal is that an actuary proposes premises that account shall be taken of instead of the word “assessment”.

Article 16.2.

The proposal is that premiums paid to the Fund for those older than 70 years of age shall be deposited in the Fund’s private pension division in the name of the Fund member concerned in the investment option that carries the least risk with the Fund at each time unless the Fund member decides upon another investment option. Both the premium of the Fund member as well as the counter-contribution of the employer shall be deposited. The Fund member concerned shall be notified of this measure, and benefit payments shall take place in accordance with the general provisions of the private pension department. This is a change from the past procedure since the premiums of those 70 years and older have been refunded. The acceptance of benefits can be postponed until the age of 80 with the Fund, and the change is proposed for the purpose of letting a Fund member who continues to work after the age of 70 in the labour market keep the premium he pays to the Fund.

It is also proposed that premiums paid to the Fund for those younger than 16 years shall be refunded and that the refund shall take place to the Fund member and the employer of the share of each.

Article 17.1.

A minor change is proposed to reiterate that there is no need to present agreements according to the provision to the Minister unless dictated by law. The proposal is also to use the word “Minister” instead of a certain Ministry, as the word Minister is most often used in laws and is therefore neutral towards the Minister and Ministry in each instance.

Article 18.4.

The proposal is that the provision will define the value of a one-time pension payment based on the actuarial premises on the date of payment instead of referring to the proposals of an actuary. The rule itself is therefore incorporated into the Articles, and therefore, there is no need to refer to rules outside the Articles in this context.

Article 24.3.

The proposal is to use the word “Minister” instead of a certain Ministry, as the word Minister is most often used in laws and is therefore neutral towards the Minister and Ministry in each instance.

Provisional provision

The proposal is that in the years 2023–2025, the extrapolation of benefits according to Article 12.6 (disability benefits) shall be multiplied with coefficients, as stated in the provision, for those who are judged to qualify for disability benefits each year. The provision is proposed for the purpose of introducing changes in the benefits table for disability beneficiaries in stages, since there may be some differences between years when changes are introduced. This applies less to old-age benefits since it is not based on extrapolation.

Appendix A

New benefit tables are proposed that take account of new life expectancy tables that are assumed to enter into effect from and as of the turn of next year, as has been explained earlier in this Memorandum. It is evident, looking towards the future, that new age groups will be added to the Fund membership that may be assumed to live longer than the older age groups at the same time as older groups begin to accept benefits. It may therefore be assumed that the benefit tables of the Fund will have to be revised every 5–10 years with this in mind, such as at the same time as life expectancy tables are reviewed. Based on an unchanged forecast, it may be assumed that the benefit tables will be reduced somewhat at each revision due to expectations of higher life expectancy of new age groups. Changes between individual age groups are not, in the opinion of the actuary, that rapid that it will become important to revise benefit tables according to the above.

References to a new Appendix A and tables in this Appendix are revised in the Articles where applicable.

Appendix B

The proposal is to add a passage to the introduction to the Appendix concerning changes for the mutual pension division. The proposal is to add the words “as applicable” to changes in benefits that may take place without it actually being required by law on basis of paragraph 2, Article 39 of Act No. 129/1997. It is also proposed that subitem 6 be added with decisions on changes in benefits that are being proposed to the 2022 Annual General Meeting. By approving the changes to the Articles, it will mean that decisions are made described therein.

It will thereby be declared that an approval took place at the Annual General Meeting to adopt a new life expectancy table confirmed by the Minister of Finance and Economic Affairs in December 2021. The approval of the Annual General Meeting will mean that acquired pension benefits will need to be recalculated according to the following rules:

The acquired benefits of each birth year group are recalculated so that the value of acquired commitments for each birth year group remains unchanged by the new life expectancy tables, as they were approved according to the older life expectancy tables.

- a) All accrued commitments of the Fund for all Fund members who have reached the age of 67 or older, plus disability and spousal survivor beneficiaries, shall be calculated on one hand with the new life expectancy tables and, on the other hand, according to the older life expectancy tables. The calculations shall be based on 31.12.2021. The acquired benefits of Fund members according to the new life expectancy tables are recalculated in such a manner that the acquired commitments of the mutual pension division for this group will be the same proportion of acquired commitments of the mutual pension division as they were according to the older life expectancy tables. The acquired rights of the above groups will thus be reduced by 3.9% for this reason.
- b) Acquired commitments for other Fund members than specified under item a, except child benefit recipients, shall be calculated according to the new life expectancy tables and, on the other hand, according to the older life expectancy tables. The calculations shall be based on 31.12.2021. The acquired benefits of Fund members according to the new life expectancy tables are recalculated so that acquired commitments for each birth year of this group shall be the same proportion of

acquired commitments of the mutual pension division as they were according to the older life expectancy tables.

The Annual General Meeting shall also at the same meeting approve, following the above measures, that the acquired benefit rights of all Fund members in 2021 shall increase by 15%.

The proportional changes in expected monthly benefit payment will decline in accordance with the table appearing in the Appendix. The table will also show the combined effect of changes between age groups that result, on one hand, from the decline in acquired benefits due to the adoption of the new life expectancy tables and, on the other hand, due to the increase in benefits decided at the same meeting.

Appendix C

The proposal is that Appendix C will be dropped. Instead, the main actuarial premises on which the benefit tables of the Fund are based will appear in Appendix A.
