



DRAFT NOTICE FOR COMMENTARY

PF NOTICE NO. XXX

FINANCIAL SERVICES BOARD

PENSION FUNDS ACT, NO. 24 OF 1956

**COMMUNICATION OF BENEFIT PROJECTIONS TO MEMBERS OF
RETIREMENT FUNDS**

I, **Dube Phineas Tshidi**, Registrar of Pension Funds, in terms of section 32A(1) of the Pension Funds Act, 1956 (Act No.24 of 1956) hereby prescribe the requirement for the communication of retirement projections to members of a retirement fund.

This Notice takes effect on **XXX**.

DP TSHIDI

REGISTRAR OF PENSION FUNDS

SCHEDULE

1. Definitions – In this Schedule, “the Act” means the Pension Funds Act, 1956 (Act No. 24 of 1956) and any word or expression to which a meaning has been assigned in the Act, bears that meaning, unless the context indicates otherwise.

2. Purpose

2.1 It is generally accepted that pension projections are an important tool in monitoring whether a retirement fund member is saving enough for retirement. Projections assist in managing the expectations of members of a retirement fund and influencing their behaviour (contribution rate, period of saving, level of risk, etc.) by educating members about the realistic values of their future retirement benefit and the effect of retirement decisions taken.

2.2 The purpose of this notice is to introduce the requirement that the annual benefit statements retirement funds send to their members must include a projection of the expected retirement benefit, which must be explained in a simple and clear manner.

2.3 The provisions with regards to assumptions and the nature of the projections must similarly be applied in calculators used by retirement funds providing projections to members.

3. Application

3.1 This notice applies to every fund that is registered under the Act, excluding beneficiary funds and unclaimed benefit funds.¹

4. Frequency of projections

4.1 A projection statement should be provided to members when joining a fund, so that they can make a proper decision about contribution rates and investment choice, where relevant.

¹ Beneficiary funds are not long term retirement savings vehicles and unclaimed benefits funds do not have the contact details for their membership.

- 4.2 The annual benefit statement should provide clear and adequate information to current members in order to support them to make informed decisions about their retirement. Furthermore, providing the information will ensure a high level of transparency throughout the various phases of fund membership, starting from when a member joins the fund and continuing regularly during the pre-retirement period.
- 4.3 For living annuities, projection statements must continue on an annual basis after retirement, to allow the member to consider the sustainability of their income and draw down rates.

5. Communication

- 5.1 The communication to members must include a proper disclosure to the member that the aim of the projections is to offer guidance and that this is not a promise. Furthermore, a disclaimer should be included to indicate that the projections will differ from the final value of the benefits received.
- 5.2 The following is the minimum key information that must be provided to each member of a retirement fund as part of the communication:
- 5.2.1 The member's projected benefit at retirement as a multiple of salary (cost-to-company) and not of pensionable salary²;
 - 5.2.2 The projected monthly pension in current day terms³;
 - 5.2.3 The projected monthly pension in current day terms compared to the member's current monthly salary (cost to company)², representing the replacement ratio;
 - 5.2.4 A note on the underlying risks and assumptions.

² For the purposes of the projections, the projected retirement benefit or projected monthly pension must be compared to the salary based on cost to company, not the proportioned pensionable salary. For example, if a members cost to company is R 50 000 and pensionable salary is 80% of this (R 40 000), the projected pension should be as a percentage of R 50 000.

³ For a provident fund, the statement should note that the projected monthly pension represents the projected pension that could be purchased with the projected lump sum available, setting out the underlying assumptions relating to the annuity.

5.3 The communication must also state to the member that their projected retirement benefit from the fund should be added to projected benefits expected from other sources, in order to consider the adequacy of the member's overall retirement provisions.

5.4 For living annuities, the projections must reflect how long the capital will last, given the current draw down rate chosen by the pensioner. This could also be presented graphically.

6. Methodology

6.1 For a defined benefit fund, the projected benefit should be based on the benefit payable in terms of the rules of the fund, based on service to retirement and current pensionable salary.

6.2 For a defined contribution fund, the member's share of fund should be projected:

6.2.1 applying the contribution rate defined in the rules (elected by the member, where relevant), after deductions for expected risk premiums and expenses;

6.2.2 the real rate of return to be applied for the projections should be in accordance with Section 7 on assumptions below⁴;

6.2.3 the conversion of the share of fund to a pension at retirement should be based on a disclosed pension policy (considering an appropriate spouse's pension in death of the main member, a guarantee period and targeted pension increases). The assumptions applied in converting the lump sum to a pension should be based on the rates being applied by the fund or the rates being quoted by Insurers.

⁴ The real rate of return is the nominal rate of return above the inflation rate

7. Assumptions

7.1 The real rate of return to be applied for the projections should be based on a long term view of expected returns over expected salary increases based on bond yields.

7.1.1 The expected return must be based on market yields on government bonds of over 12 year duration. A risk premium may be added to the market yield. The risk premium must be calculated as the proportion of assets invested in growth assets (equity and property) for the portfolio the member is invested in, multiplied by an equity risk premium of between 0% and 3%. The illustrative rate must be no higher than the assumed inflation rate plus 4%.

7.1.2 For the purposes of the projections, inflation is to be determined as the difference between nominal bond yields and inflation linked bond yields of the same duration. The salary increase assumption may include a margin over inflation to allow for higher salary increase expectations.

7.1.3 In addition to the rate in 7.1.1, the fund must also provide a benefit projection at a rate at least 2% per annum lower than the rate assumed in 7.1.1. The purpose of this illustration is to demonstrate the effect of different rates of return and volatility.

7.1.4 The board of a fund may use more than two (2) illustrative rates, should they so wish (eg conservative, best-estimate, optimistic). None of these rates may exceed the limits set out in 7.1.1. If more than 2 rates are used, the optimistic rate may exceed the assumed inflation rate plus 4% p.a., but may not exceed the assumed inflation rate plus 5% p.a.

7.2 For funds providing investment choice or applying a lifestage investment model, the assumptions to be applied for the retirement benefit projections will differ based on the chosen portfolios, since the risk premium applied will differ based on the proportion of assets held in higher risk asset classes.

7.3 The assumptions to be applied should be signed off by a valuator at least once every three years. This would coincide with the statutory actuarial valuation (or the re-certification by the actuary for renewal of valuation exemption).

7.4 The responsibility for the reasonableness of the projections remains with the board, who must consider whether a more prudent basis should instead be applied as the best estimate projection. For example, the board must carefully consider whether the prescribed maximum illustration rate of inflation plus 4% is suitable in their circumstances, despite such rate being prescribed in the notice.

8. Reporting and Supervision

8.1 The assumptions applied for the benefit projections and a recommendation for future projections must be included by the valuator in the statutory actuarial valuation report. For a fund applying for valuation exemption, this should instead be included with the valuation exemption application.

8.2 The assumptions applied for the benefit projections and a recommendation for future projections must also be reported in the annual financial statements to the Registrar to facilitate regular monitoring of the Treating Customers Fairly objectives.

9. Short title – This notice is called the Notice on Benefit Projections, 2018.