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BOARD NOTICE

BOARD NOTICE 270 OF 2013

FINANCIAL SERVICES BOARD

PENSION FUNDS ACT NO. 24 OF 1956:

ASSUMPTIONS FOR THE DETERMINATION OF MINIMUM INDIVIDUAL RESERVES OF MEMBERS OF DEFINED BENEFIT CATEGORIES OF PENSION FUNDS

In Board Notice 37 of 2007 published in the *Government Gazette* 29767 of 2 April 2007, the registrar published his prescribed *'Assumptions for the determination of minimum individual reserves of members of defined benefit categories of pension funds'* in terms of section 14B(2)(a)(i)(bb) of the Pension Funds Act, 1956 ('the PFA').

Acting in terms of section 14B(2)(a)(i)(bb) of the PFA I, **Dube Phineas Tshidi**, registrar of pension funds, by this notice and with effect from the date of publication of this notice in the *Government Gazette*, replace Board Notice 37 of 2007 with this notice and prescribe the assumptions set out in the Schedule to this notice as those which must be applied in the determination of the 'minimum individual reserve' of a member of a 'defined benefit category of a fund' to whom a benefit has accrued on the termination of the member's membership of a retirement fund on or after that date in terms of the fund's rules but before the member's retirement.

DP TSHIDI

DP TSHIDI
REGISTRAR OF PENSION FUNDS

SCHEDULE

1. **Definitions** – In this Schedule –

(a) 'DB member' means a member of a fund to whom a benefit may accrue or will accrue in terms of the rules of the fund on a 'defined benefit' basis before retirement;

(b) 'PFA' means the Pension Funds Act, 1956, and any word or expression to which a meaning is assigned in the PFA has that meaning in this notice unless the context otherwise indicates; and

(c) a word or expression defined or explained in a Note to the Table in paragraph 5, has the meaning given to it in that definition or explanation.

2. **Choices of actuarial methods and assumptions and changes in those choices**

The board of each fund which has DB members is advised that:–

2.1 The board is responsible for the calculation of prescribed minimum benefits in terms of section 14B, although it may take advice from a person with the appropriate expertise to perform those calculations.

2.2 After taking the advice of a person with such expertise, the board of the fund must choose–

2.1.1. the actuarial methods and assumptions other than those prescribed in this notice; and

2.1.2. which of the two prescribed methods described below for determining the discount rate,

must be used.

2.3 The registrar will subject to close scrutiny any difference between the actuarial methods and/or assumptions used by a valuator for minimum benefit calculations for a fund and those previously used for such calculations or in the statutory actuarial valuation of the fund's liabilities.

2.4 The actuarial method used to determine the discount rate may be reviewed with the consent of the registrar. The registrar will take a critical approach if it is apparent that the board is choosing the method and / or valuation assumptions that result in a higher discount rate, from time to time.

3. Discount rate

3.1 For the purpose of determining the amount of the prescribed minimum benefit of a DB member, the board may use one of the following two methods for determining the discount rate to be applied:

3.1.1 Index-linked Gilt Yield Method

The discount rate derived from the use of this method is the annualised yield on long-dated index-linked gilts (bonds) with reference to the 10-year rate on the real government zero yield curve as published by the Johannesburg Stock Exchange ('JSE') and adjusted as follows:

+ 1,35%, being an allowance for a risk premium;

– 1,00%, being an allowance for salary increases in excess of the change in the Consumer Price Index; and

– 0,30%, being an allowance for asset management fees,

resulting in a total adjustment of + 0,05%.

3.1.2 *Earnings Yield Method*

The discount rate derived from the use of this method is 40% of the earnings yield on the JSE All-Share Index as last published by the JSE.

3.2 The discount rate derived from the method chosen by the board and to be used in the calculation of a member's minimum individual reserve must be the rate applicable to the chosen method published by this office, and–

3.2.1 as at the date on which a benefit accrued to the member; or

3.2.2 if the benefit accrued to the member on a date other than the last day of the month, as at the end of the month immediately preceding that in which the benefit accrued; or

3.2.3 if no rate as at either date has been published, as at the date closest to the date on which the benefit accrued.

3.3 The underlying principle in the application of any of the two methods is that the minimum individual reserve should be determined on the basis of market conditions as at the date of benefit accrual. As the method adopted already takes account of market conditions, no further market equivalence factor is required to be applied.

3.4 If a fund is not able to determine the 'fund return' earned by the fund over the relevant period, the fund may either use the default rates published by the registrar, or the fund may use a proxy for the fund return earned by the fund based on an investment portfolio which is broadly representative of the investment mix of the fund over the period.

4. Information published by the registrar

The registrar of pension funds will publish each month on the official web site of the Financial Services Board (www.fsb.co.za), current values for the following:

4.1 ILG% + 0,05%;

4.2 40% * EY; and

4.3 Default rates of fund return.

5. Assumptions

The assumptions referred to in section 14B(2)(a)(i)(bb) of the PFA are, as regards matters mentioned in Column 1 of the following Table, those as set out in Column 2 or Column 3 of the Table, as may be applicable:

TABLE OF ASSUMPTIONS		
Column 1	**Column 2**	**Column 3**
Matters in respect of which assumptions are to be applied	Assumptions to be used at or after the surplus apportionment date **(Note A)**	Assumptions to be used between the date of leaving service and the surplus apportionment date **(Note A)**
Rate of increase in the deferred pension from date of exit to the earlier of normal retirement date and the surplus apportionment date, being Date k	Nil	C per annum, compound where – $(1+C)^t = \frac{C_k}{C_{exit}} (1{,}01)^t$ Where **C_k** is the value of the Consumer Price Index at Date k; **C_{exit}** is the value of the Consumer Price Index at the month end coincident with or immediately following the date of accrual; and **t** is the period in years from date of exit to Date k
Capitalisation of pension at normal retirement date (including rate of increase in pension, discount rate, proportion married, age difference between spouses, and mortality)	As per valuator **(Note B)**	As per valuator **(Note B)**
Discount rate applicable prior to normal retirement	ILG % + 0,05% or 40% * EY, (Any change in method is subject to the approval of the Registrar)	d, being the fund return per annum earned by the fund over the relevant period
Allowance for decrements prior to normal retirement	Nil	Nil

NOTES TO THE TABLE OF ASSUMPTIONS

Note A

A.1 A minimum benefit which becomes payable, if a former member exits a fund at or after surplus apportionment date, must be calculated in terms of Column 2 of the Table.

A.2 If a fund must determine the enhancement in terms of section 15B(5)(b) of the PFA that may be due to a former member who exited the fund prior to its surplus apportionment date–

A.2.1 if the former member has not attained normal retirement age prior to the surplus apportionment date, the valuator must determine the value of the retirement benefits (including deferred pension and/or lump sum where applicable) as at the surplus apportionment date using the assumptions in Column 3 of the Table, capitalise such value as at the surplus apportionment date using the assumptions in Column 2, and then discount the capitalised value to the date of exit using the discount rate in Column 3; or

A.2.2 if the former member has attained normal retirement age prior to the surplus apportionment date, the valuator must determine the value of the retirement benefits (including deferred pension and/or lump sum where applicable) as at the normal retirement date, capitalise such value at the normal retirement date and discount the capitalised value to the date of exit, in all cases using the assumptions in Column 3.

Note B

B.1 'As per valuator' means that the assumptions must be consistent with those used by the valuator in the accepted statutory actuarial valuation with an effective date coincident with, or the closest preceding the date at which the minimum individual reserve is calculated, provided that:

B.1.1 the assumptions may be revised at any point in time to be relevant to the circumstances when a calculation is made and the board must implement any revised assumption within a reasonable period of time following the acceptance of the statutory actuarial valuation report; and

B.1.3 if the period between the effective date and the calculation date exceeds three years, the assumptions must be revised to at least reflect those that the valuator would use should a statutory actuarial valuation be performed at the financial year end coincident with, or closest preceding the calculation date.

B.2 In relation to the choice of statutory actuarial valuation to determine the minimum individual reserve of a former member who:

B.2.1 has not yet attained normal retirement age as at the surplus apportionment date, it must be the statutory actuarial valuation at the surplus apportionment date; or

B.2.2 has attained normal retirement age prior to the surplus apportionment date, it must be the statutory actuarial valuation coincident with, or closest preceding, the normal retirement date of the former member.

B.3 The valuator may use the actual marital status of the member and actual age difference between the member and the member's spouse at the date the member left service only if the entitlement to a spouse's pension depended upon the member's status when the member left service.

6. **Short title** – This Notice is called the Notice on MIR Assumptions, 2013.

MEMORANDUM EXPLAINING THE NATURE AND PURPOSE OF THIS BOARD NOTICE

1. For any fund registered under the Pension Funds Act, 1956, ('the PFA'), in terms of section 14A(1)(a) of the PFA, a benefit which accrues to a member on the termination of membership of the fund before the member's retirement, is required to have a minimum capital value of his or her 'minimum individual reserve' as defined in section 1(1) of the PFA.

2. In terms of section 15B(5)(b) of the PFA, provision must be made for 'minimum benefit top-ups' for those former members whose memberships of a fund terminated before the fund's surplus apportionment date and who received benefits lower than what would have been their 'minimum individual reserves' had the minimum benefit provisions of the PFA been applicable to them.

3. According to section 14B(2)(a) of the PFA, the amount of the 'minimum individual reserve' of a member to whom a benefit accrues on a 'defined benefits' basis before retirement:–

   3.1 must be determined by the board of the fund; and

   3.2 must be in the amount which is the greater of–

"(i) the fair value equivalent of the present value of the member's accrued deferred pension. Provided that —

(aa) where there is not a uniform rate of accrual over the full period of membership of the fund, the accrued deferred pension shall be calculated assuming a uniform rate of accrual as if the member had remained in service until normal retirement date as defined in the rules of the fund, but which uniform rate of accrual will not be less than the uniform rate of accrual that is calculated based on the period of service completed up to the date of calculation;

(bb) the fair value equivalent of the present value shall assume rates of increase in the pension before and after retirement, mortality rates and rates of discount[1] as prescribed by the registrar; and

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[1] Although section14B(2)*(a)*(i)*(bb)* does not explicitly authorise the registrar to prescribe assumptions in relation to other decrements, when determining a rate of discount, an actuary will make a number of assumptions in relation to other factors such as future salary increases, future pension increases and fund returns that will be earned on the fund's assets. In the circumstances the power conferred

(cc) the term 'accrued deferred pensions' in this section shall include the portion of any lump sum benefit payable at normal retirement date which corresponds to prior service; and

(ii) an amount equal to the value of the member's contributions, less such expenses as the board deems appropriate to deduct from the contributions, augmented as from the date of payment of a contribution by fund return plus any amount payable in terms of the rules of the fund in excess of the member contributions[2] increased or decreased as from the date that the member joined the fund: Provided that the board may elect to smooth the fund return.'

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on the registrar to prescribe discount rates tacitly incorporates the power to determine assumptions in relation to factors such as these.

2 In the opinion of the registrar, the reference to 'any amount payable in terms of the rules of the fund in excess of the member contributions' cannot sensibly be understood to include in its scope amounts paid to the fund other than only in respect of the member such as amounts paid to provide for the fund's expenses and the like.

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