**105026: Occupational Certificate:**

**Financial Advisor**

**Module 4**

**Employee Benefits and Retirement Advice**

**SAQA ID: 105030**

**NQF Level 5**

**80 credits**

**All Learning units**

**Practical Assignment Memo**

**This assignment relates to the practical aspects of employee benefits. You must read the instructions carefully and submit the required evidence:**

***INSTRUCTION***

* This practical assignment must be done in class; the learner must demonstrate an ability to perform the tasks.
* Read the case study given and answer the questions that follow.

1. Darren was an employee for XZY Minerals. In 2017 he went through a divorce and his divorce settlement included splitting the pension benefits equally with his wife Sarah. Sarah also successfully got a maintenance order for their two daughters. In 2018 Darren decided to remarry and married Annah. Darren got involved in a car accident and passed away. Identify and justify (provide the aspect in the case that will be affected by that particular law) five laws that will can affect different matters addressed in this case. **(10)**

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| Section 37C of the PFA | * Distribution of benefits to dependants and/or nominees |
| Maintenance Act | * Deduction of arrear and future maintenance obligations from a retirement fund |
| Divorce Act | * Pension interest and its split in the event of divorce; taxation in the hands of the recipient spouse |
| Income Tax Act | * Taxation of benefits at death as well as pension interest |
| Civil Union Act | * Type of marriage and split of pension benefits |
| Matrimonial Property Act | * Type of marriage and split of pension benefits |
| Any other Act that can be linked to this scenario, e.g. The Customary Marriages Act, etc. |  |

1. Design a presentation with five slides on the types of marriages and highlight the impact of each marriage regime on the distribution of pension benefits pension benefits. **(10)**

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| |  |  |  |  | | --- | --- | --- | --- | | Muslim Marriages | Marriages in community of property | Marriages out of community of property: Accrual System | Marriages out of community of property: No Accrual System | | Spouse can get a share of the pension interest if there is a Court order to that effect. | Pension interest becomes due on the date of divorce. Notable here is the fact that the pension interest exists by the mere type of marriage and not by a Court order. However, the PFA requires that there must be a Court order for the deductions for divorce to be permissible. The divorce order must state the following:   1. The order must specifically provide for the non-member spouse's entitlement to a "pension interest" as defined in the Divorce Act; 2. the relevant fund which has to deduct the "pension interest" must be named or identifiable; 3. the order must set out a percentage (%) of the member's "pension interest" or a specific amount; and 4. the fund must be expressly ordered to endorse its records and make payment of the "pension interest". | Only the accruals on the pension benefits will be shared by the divorcing parties. In spite of this, a Court may make an order where one party will forfeit a portion or all their benefits under a pension fund. The reason for such an order might be due to misconduct by the other partner. | Before 1984 black marriages were deemed to be out of community of property with each party being entitled to their own pension. However, a Court may on application by one party order a transfer of benefits.  Post 1 November 1984, each party keeps their pension and the other party is not entitled to these benefits. | |

1. Regarding the Board of Trustees of Iron Metals Pty Ltd, you are given the following information;
   1. Their Board of Trustees comprises five Member-Elected Trustees and three Employer-Appointed Trustees.

Explain if the composition is in accordance with the provisions of the Pension Funds Act. **(5)**

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| * Every fund shall have a Board consisting of at least four board members, at least 50% of whom the members of the fund shall have the right to elect. * The composition of the Board shall at all times comply with the requirements of the rules of the fund and any vacancy on such board shall be filled within such period as prescribed. The constitution of a Board, the election procedure of the members mentioned in that subsection, the appointment and terms of office of the members, the procedures at meetings, the voting rights of members, the quorum for a meeting, the breaking of deadlocks and the powers of the Board shall be set out in the rules of the fund. However, that if a Board consists of four members or less, all the members shall constitute a quorum at a meeting. * Board members must within six months of their appointment meet the prescribed skills and training and must maintain these skills and training requirements throughout their tenure, i.e. the FSCA’s Trustee Training Toolkit. Trustees are also required to complete a signed declaration to that effect. * Boards of Trustees are required to inform the FSCA of the departure of Board members who leave for reasons not related to the ending of their term * If the Board becomes aware of material circumstances which may seriously prejudice the financial viability of the fund or its members, it must notify the registrar in writing. * In terms of section 26(2)(a) of the Pensions Fund Act, the FSCA may appoint Trustees whenever a retirement fund is not properly constituted.     **Exemptions**  The Commissioner may allow exemptions   1. If it is impractical and expensive to have a Board of at least four members. A Board of less than four members will be allowed provided that the members will elect at least 50% of the Board members. 2. The requirement that the members of the fund have the right to elect members of the Board, if the fund IS:  * for the benefit of employees of different employers (umbrella funds) * a retirement annuity fund; * a beneficiary fund; or * a Pension Preservation Fund or a Provident Preservation Fund. * Exemptions may be withdrawn if the fund no longer meets the conditions of the exemption. |

1. Discuss the responsibilities/duties of each of the following; **(6)**

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| 1. Trustee | 1. Act with care, utmost good faith and due diligence.  2. Ensure that the Rules, operations and administration of the fund comply with the Act.  3. Know the specific Rules in detail, as well as the relevant Act.  4. Know the Fund’s rules and other policy documents.  5. Administer the fund as prescribed by the Rules of the fund.  6. Obtain expert advice on matters where the Board members lack sufficient expertise  7. Control and oversee the operations of a fund in accordance with the Rules of the fund.  8. Avoid conflict of interest.  9. Act with impartiality in respect of all members and beneficiaries.  10. Ensure proper controls and systems are employed.  11. Act jointly. There are criminal and civil consequences of failing to act properly.  12. Ensure proper registers, books and records of the operations of the fund are kept. |
| 1. Investment Mnager | * Invest on behalf of the fund * Ensure growth in the fund’s monies * Understand the objectives of the fund * Implement the fund’s investment strategy * Research and analysis of investments |
| 1. Sub-investment manager mandates. | * Invest on behalf of the fund * Ensure growth in the fund’s monies * Understand the objectives of the fund * Implement the fund’s investment strategy   Research and analysis of investments |

1. Discuss the requirements regarding Service Level Agreements for the following: **(4)**
2. Consultants

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| * scope of services * fees for services * fees for ad hoc services * reporting * performance management * termination and dispute resolution * compliance with POPIA * etc… |

1. Administrators

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| * managing the timeous collection and payment of contributions; * compiling and timeous submission of Contribution Schedules; * where applicable, investment of accruing moneys; * assist with section 14 transfers; * issue of annual benefit statements; * insuring of and payment of benefits, where the fund elects to have insured benefits; * maintenance of records for individual members and for the fund as a whole; * keeping accounts; * providing the required information to a Valuator for the periodic monitoring of the financial position of the fund; * preparing the annual financial statements for auditing and submission to the FSCA; * the submission of statistics to the Registrar of Pension Funds; and * compliance with POPIA |

1. List control structures that you would include in a fund if you were tasked with the role of ensuring that there are adequate safeguards in the fund. **(4)**

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| * Trustees exercise oversight function * Regular training of Trustees * Appointment of a fit and proper Principal Officer who amongst other things, must ensure that Trustee decisions are implemented * Appointment of a fund Monitoring person, who is typically the Principal Officer * Appointment of the fund’s Information Officer who is also typically the principal Officer * Provision of adequate Professional Indemnity cover * Must be clear identification and assignment of operational responsibilities * Importance of proper reporting and obtaining expert advice * Regular assessment of those with operational responsibilities * Regular review of fees and costs * Regular review of information processes, software, accounting and financial reporting * Monitoring of conflicts of interest amongst those with operational responsibilities * Protection of confidential information * Regular review of compliance * Registration of fund rules with the FSCA or amendments thereto |

1. List four different role-players that may be required in a retirement fund **(4)**

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| * Actuary/Valuator * Insurer/Underwriter * Administrator * Investment manager * Broker/Consultant * Trustees * Principal Officer * Monitoring Person * Information Officer * Chairperson * Asset Manager * Auditor * Employer * Member * Beneficiaries * FSCA * Ombudsman for Financial Services |

1. Your Facilitator will provide you with the rules of a pension fund. Identify and describe any four circumstances when benefits may be payable. **(8)**

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| Answers will vary so assessor discretion required. However, learners answers are to include payment under the following circumstances:   * Normal retirement age. * Early retirement. * Late retirement. * Withdrawal, resignation, dismissals, etc * Ill-health retirement, etc |

1. What is an annuity? **(3)**

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| An annuity is a financial product that pays you a regular income at retirement. As a member of a pension, pension preservation or retirement annuity fund, you must use at least two-thirds of your fund proceeds at retirement to purchase an annuity.  Once you elect to retire from a retirement savings product this will now cease to exist, and your two-thirds is then invested into either a living annuity or life annuity. |

1. Randal is retiring at the age of 60 from his pension fund and is curious and anxious about which annuity option that he may chose. You are further told that Randal’s wife, Maggie, retired two years ago at age 62. Suggest and justify four types of annuities that Randal should consider. **(8)**

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| Any annuity can be suggested as long as it is justified, primarily based on the needs/objectives of a retiring member.  Immediate Single Life Annuities  These annuities are based on the life of the annuitant and pay after one month of the deposit of the lump-sum to purchase the annuity. It ceases when the annuitant dies. It is, therefore, a higher return annuity. It may also be related to inflation, but will attract a higher cost.  **Guaranteed Annuities**  This annuity removes the risk that the invested capital will be lost in the event of death. A guaranteed annuity provides a guaranteed annuity for a specified period and thereafter until the death of the annuitant. It can promise a return of a portion of the capital invested in the event of the death of the annuitant. A decreasing term life cover can be purchased to pay a certain sum insured in the event of death.  **Deferred Annuities**  The lumpsum money is invested with a life insurer but the start of the payment of the annuity is delayed until a certain age or date. Where death occurs before the start date of the annuity pay-out, then there will be a return of the purchase money.  **Reversionary Annuities**  Reversionary annuities provide for the payment of an annuity for life if the annuitant is living at the time of the death of another life insured. It is suitable for a breadwinner making provision for his surviving spouse in the event of his death.    **With Profit Annuities**  This annuity is structured based on a conventional with-profit investment strategy where the annuity is linked to a portfolio that is managed actively. The investment returns from the active management are then allocated as vesting and non-vesting bonuses Vested bonuses will accrue to annuitants as income and the non-vesting bonuses are used for smoothing the returns over the years. This type of annuity is typically more expensive.  **Temporary Annuities**  These annuities provide for the payment of an annuity for a given number of years if the annuitant survives that period but, if he dies during the given number of years, the annuity ceases at his death.  **Escalating Annuities**  This annuity increases over the years based on an agreed rate. This might mean that the initial benefits are not as high as in a situation where there are no increases.  **Equity-Linked Annuities**  The performance of the fund is linked to equities normally a unit trust. This feature allows the annuity to grow and counter the effects of inflation. Also, this annuity allows for the continuance of the annuity until the capital is exhausted. The death of the first annuitant does not cause the annuity pay-out to cease. Successive generations could still access this annuity as long as the capital is not exhausted.  **Joint Life Annuities**  Ordinary contracts of this type provide for an annuity during the lives of the annuitants, payment ceasing at the first death.  **Joint Life and Survivor Annuities**  A stipulated annuity is paid when the annuitant and his/her spouse are alive and will reduce when one dies. It secures an income for the surviving spouse. |

1. Distinguish between Living and Life Annuities **(6)**

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| Living annuity:  A living annuity allows you to select an annual income drawdown percentage of between 2.5% and 17.5% per annum. You can select an income frequency of monthly, bi-annual, quarterly or an annual payment. This income percentage can be changed – but only once a year on the anniversary date of the investment. This gives you more flexibility and the ability to draw a higher income if needed.  Life annuity:  A life annuity secures you a pre-determined monthly income for the rest of your life. This product is provided by a life insurance company, where you hand over to the company the lump sum of the retirement saving and they take on the obligation to pay you an income for the rest of your life.  The income may be a fixed rand amount, or it might be inflation-linked, or you can add a spouse benefit with a guaranteed payment term. |

1. What happens to an annuity on the death of the annuitant? **(6)**

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| Living annuity:  On your death the remaining capital value in a Living Annuity will be paid to your nominated beneficiaries. Please note that if there are no beneficiaries nominated this will form part of your estate. Your beneficiaries can elect to receive the residual value as a lump sum or as an annuity, or a combination of both.  Life annuity:  On death, the Life Annuity will fall away, as this option does not allow you to nominate a beneficiary. The only thing you can nominate is a spouse benefit or a guaranteed period, where it continues to pay the income until the spouse passes away or until the guaranteed period has ended.  The downside of a life annuity is that while your income is guaranteed for the rest of your life, you are unable to elect a beneficiary unless the contract includes a guaranteed period or a spouse benefit. |

13. List some disadvantages of a Living and a Life Annuity **(6)**

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| Living annuity:  The risk of a Living Annuity is that you may run out of funds and be left with no pension. This could be due to poor performance in the markets, withdrawing too much for your living expenses, or simply by living longer than expected, according to Estate Living, here.  Life annuity:  You’re unable to elect a beneficiary, which means your money dies with you and no money passes on to your heirs.  You do not have the flexibility of changing the income drawdown amount; once this has been calculated by the life company it will be fixed.  There is the risk of inflation. Although annuities provide an income for life that mostly increases annually, there is no guarantee that annuity increases will keep up with pensioner inflation. This could include a big portion of unexpected medical expenses which exceeds increases in CPI. |

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| Briefly explain how annuities are taxed **(2)**Annuity income is taxable as income as per the investor’s marginal tax rate. |

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| 15. Explain the background to and the purpose of the Promotion of Personal Information Act (POPIA) and how it will affect retirement funds **(10)**Before the enactment of POPIA, members of the public were subject to unregulated collection, retention, dissemination and/or processing of personal information, as well as the unregulated use thereof, without accessible recourse. In an ever increasingly digital environment, Parliament, in its wisdom, saw fit to introduce legislation to protect individuals against the growing misuse of personal information.    POPIA is South Africa's first comprehensive privacy statute, otherwise known as South Africa's data protection law. It gives substance to the right to privacy contained in our Bill of Rights by creating a legal framework within which personal information can be processed in a manner that respects the right to privacy and enhances a regulated information economy.    The stated purpose of POPIA is inter alia (a) to promote the protection of personal information processed by public and private bodies, (b) to introduce certain conditions so as to establish minimum requirements for the processing of personal information, and (c) to regulate the flow of personal information across the borders of South Africa. In practical terms, POPIA sets conditions for the lawful processing of personal information in order to protect the public from harm, to stop our money being stolen, to stop our identity being stolen, and generally to protect our privacy.    The Information Regulator has been constituted to monitor and enforce compliance by public and private bodies with the provisions of POPIA.    POPIA commenced on 1 July 2020 and gives parties a grace period of 12 months (until 30 June 2021) to comply with its provisions. POPIA's reach is wide and its commencement impacts every public and private body in South Africa.  POPIA regulates all organisations who process personal information. This includes information about employees, customers, suppliers and those who outsource key processing activities, share data offshore, or engage in direct marketing. |

16. Briefly explain National Treasury’s stance with regards to members of retirement funds being able to access their retirement benefits earlier **(15)**

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| National Treasury has published a discussion paper about the proposed two-bucket or two-pot retirement system.  The public purse controller proposed a two-bucket system for retirement, which would allow people to withdraw some of their retirement savings before retiring. The industry has been suggesting that at least two-thirds of the money should be in the bucket that people cannot touch before retiring.  Treasury's 24-page proposal states that the pot that will be preserved until retirement will house two-thirds of what people save for retirement. And for the first time, people who contribute to retirement annuities (RAs) would also get access to some of their savings before the age of 55.  Treasury also proposed that all defined benefit funds, including the Government Employees' Pension Fund (GEPF), be included in the two-pot system.  Treasury has given the public until 31 January 2022 to comment on its proposals.  It said the government is sympathetic towards the financial difficulties many South Africans face. And even though retirement savings should preferably only be used during people's golden years, it recognises that there might be a need to allow some access to accumulated savings before retirement.  "The proposed restructuring of retirement savings aims to address the situation where many members of funds find themselves cash strapped, and then they resign from their jobs to access their retirement savings," reads the discussion paper.  Therefore, the idea is to allow limited immediate access to the pre-retirement pot for people negatively impacted by the Covid-19 "under specific conditions" and for "similar emergencies".  Treasury said the government hopes that giving struggling workers some level of access to their money during their working years may reduce households' unexpected financial hardships and thus lead to a greater willingness to save through retirement funds.  The two-pot system will only affect contributions made after it becomes law.  People will be allowed to make one withdrawal a year from the pot they can access before retirement. The accessible portion would be available at any time of the year, and the minimum amount that can be withdrawn would be R2 000.  Treasury said people should not feel forced to withdraw every year as they will have the option to do so at any point in future. |

**Practical Module 2 Advise client on the most appropriate structuring of retirement funds and employee benefits (18 credits)**

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| **HIGHVELD COLLEGES** | | | |
| The following information is provided about the employees about HIGHVELD COLLEGES: | | | |
| No of Employees | 300 | | |
| Categories of Employees | Teachers | Administrators | Manual Labour – Cleaners, Gardeners, Kitchen Staff and Security Guards |
| Wage-bill | R24 000 000 | | |
| Special needs | The Union is very adamant that there must be a spousal and children’s pension. However there are also employees who, due to age, have grown up children who are independent. | | |
| Industry | Education | | |
| Current Benefits | None. | | |

**Respond to the questions below based on the information about Highveld College highlighted above.**

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| 1. Analyse the needs and motivation of an organisation in establishing a retirement fund. **(5)** |
| * Provide secure and cost-effective retirement benefits in a tax efficient way * Legislation * Pressure from unions * Competition * Need to attract and retain better skills * Tax benefits at the time of contributions and accessing benefits upon exit from a retirement fund * Estate Duty savings |
| 1. Apply knowledge of legislation to determine the possible structure of a fund **(5)** |
| * Assessor discretion based on the laws and regulations referred to. Some of the key points are to include the following pieces of legislation: Income Tax Act No 58 of 1962; Pension Funds Act No 24 of 1956 and the provisions of Regulation 28 to the latter Act. I is critical that learners appreciate that members of a retirement fund comply with the organisation’s rules, for example, being a permanent employee to be a members, payment of employee and employer contributions, etc. |
| 1. Develop a proposal to meet the identified needs of a specific organisation. **(5)** |
| Needs   * Retirement benefits * Retrenchment benefits * Death benefits * Spouse and children’s benefits * Withdrawal benefits * Disability * Dread disease   Proposed Fund  **Stand-alone fund with compulsory membership**  Fund to cover the following:   * Retirement benefits * Retrenchment benefits * Death benefits * Spouse and children’s benefits * Withdrawal benefits * Provision of pension-backed housing laons/guarantees * Allowance for transfers in from members with accumulated benefits earned whilst contributing to a different fund   **Risk Products**   * Group life * Group funeral cover and * Group accidental death * Disability not too much of a need since this is an educational institution |
| 1. Design an implementation plan. **(5)** |
| Learner to address   * Negotiations and stakeholder engagement   + Broker   + Insurer   + Actuaries   + Legal experts * Benefits structure * Legal processes * Registration of fund   + Rules   + Appointment of Trustees   + Election process for the election of Member Trustees   + Investments   + Auditors   + Actuaries * Generation of quotations for risk benefits   Timeline for implementation of the fund  Requirements for registration with the FSCA  Compiling and registering the fund’s rules with the FSCA |

1. Apply technical knowledge and skill to advise business entities on insurance and group retirement benefits

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| You are given the following three scenarios for different individuals | | |
| **Individual 1** | **Individual 2** | **Individual 3** |
| Thabo aged 26 is single and is a Salesperson at a Life Insurer. He is paid a commission and the insurer provides him with membership of a Provident Fund. A 10% contribution is made based on the commission that he earns. | Andre aged 46 is in a long term relationship with Aldrin aged 40. Andre is self-employed and has not been saving for retirement at all . | Jane aged 56, works as a Professor at one of the State universities. Her employer contributes 10% and she also contributes 10% towards her retirement. |
| **Objectives** | **Objectives** | **Objectives** |
| * Leave an inheritance when he retires * Clear all debts * Travel the world during retirement | * Purchase a holiday home in Mossel Bay * Replacement income 50% in retirement | * Purchase a house in a retirement village in a secluded area * Continue working but on a part-time basis until death * Go on a once-off tour of the world |
| **Risk Tolerance** | **Risk Tolerance** | **Risk Tolerance** |
| Moderate | Aggressive | Low |

1. Discuss the rights of each of the above persons to join either a Pension or a Provident Fund. **(6)**

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| a. – May either a Provident or Pension Fund sponsored by the employer.  - However, he may also join a Retirement Annuity Fund of his choice without any involvement on the part of the employer. |
| b. May not a Pension Fund or a Provident Fund as an employer-employee relationship is required. However, he may join a Retirement Annuity Fund of his choice as the latter fund does not require an employer-employee relationship. |
| c. May join either a Provident or Pension Fund sponsored by the employer.  - However, he may also join a Retirement Annuity Fund of his choice without any involvement on the part of the employer. |

1. Analyse the tax deductibility of pension contributions (based on the Income Tax Act) for each of the individuals in the table above. **(6)**

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| In cases a, b and c, the individual may increase contribution up to 27.5% up to a tax deductible maximum of R350 000 for all retirement fund contributions. You may contribute more to your retirement funds but after you've reached these limits, your contributions are rolled forward to and automatically deducted in future years.  Section 11(F) of the Income Tax Act 58 of 1962 (the Act) states that contributions made to retirement funds which did not previously qualify for deduction can be:   * carried forward to the following tax year * offset against any lump sums taken * exempted from compulsory annuity income under section 10C of the Act.   Carried forward to the following tax year  This means that if for example, you’ve contributed R500 000 to your retirement fund in the current tax year and R350 000 was deducted in the following tax year, the balance of the R150 000 can be carried forward as a deduction in that year.  Offset against any lump sums taken  Let’s take the same example of a contribution of R500 000 made to a retirement fund, but assume that the R150 000 remains unclaimed. Say you retire from your retirement fund with R9 million in capital. You can commute up to one-third (i.e. R3 million) as a lump sum and then use the remaining R6 million to purchase an annuity.  Since the excess contribution of R150 000 wasn’t deducted previously, this can be offset against your R3 million lump sum, thus reducing the amount of tax you pay on your lump sum withdrawal. You will thus pay tax on R2 850 000 as opposed to on the full R3 million (R3 000 0000 – R150 000 = R2 850 000).  Applying the current retirement fund lump sum tables and assuming you haven’t received any previous lump sums (i.e. you still have R500 000 that is tax free), you’ll pay R778 500 in, and receive an after-tax amount of R2 221 500. If you didn’t have the excess contributions available, you’d have paid tax of R832 500 and only received a lump sum of R2 167 500.  Exempted from compulsory annuity income under section 10C of the Act  Using the same example of a retirement fund value of R9 million and assuming you didn’t take a lump sum at retirement and used the full amount to purchase an annuity, your yearly annuity will be exempt to the value of R150 000 until it’s exhausted. Practically, if you draw an income of R225 000, R150 000 of that income will be exempt from tax in that year.  It’s also worth noting that should you pass away your retirement funds are exempt from Estate Duty. Post retirement, the value of your living annuity will also be exempt from estate duty. However, contributions that didn’t qualify for deduction will be included as property in the estate and may be subject to estate duty in terms of section 3(2)(bA) of the Estate Duty Act (Act 45 of 1955). In our example, the R150 000 that didn’t previously qualify for deduction will be included as property and may be subject to estate duty.  Contributing beyond the limits can help those if you started saving for retirement late and need to catch up. It’s important to consult your financial adviser, especially if you’ll be retiring soon, to ensure that your retirement savings are optimised to meet your long-term goals. |

1. Assess objectives and provisions and determine a financial strategy for retirement for the three individuals. **(9)**

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| a.   * Show and understanding of current provision * Show understanding of shortfalls in current plan * Suggest reasonable and sound solutions * Appreciate the risk tolerance of each individuals * Recognise the life stage of each individual * Appreciate the budget of the individual |
| b.   * Show an understanding of current provision * Show understanding of shortfalls in current plan * Suggest reasonable and sound solutions * Appreciate the risk tolerance of each individuals * Recognise the life stage of each individual |
| c.   * Show and understanding of current provision * Show understanding of shortfalls in current plan * Suggest reasonable and sound solutions * Appreciate the risk tolerance of each individuals * Recognise the life stage of each individual * Appreciate the budget of the individual |

1. Construct a portfolio for each client based on a client’s risk tolerance and objectives as provided in the table. **(9)**

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| a.  Portfolio to comply with Regulation 28 maximum allocations as follows:  Equity (excluding listed property) 75%  Offshore assets as prescribed by the SARB\*  Listed property 25%  Commodities 10%  Hedge funds 10%  Bank debt 75%  Government debt 100%  Cash 100%  Risk aversion of the member   * Low risk: Less equity, hedge funds, more cash, bonds and property * Moderate: Less equity, hedge funds, more cash, bonds and property * Aggressive: more equity, hedge funds, less cash, bonds and property * Life stage also critical: More risks investments in younger age and less risky investments in pre-retirement ages. |

1. Recommend changes to a retirement plan after an unplanned life event.

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| Diana was involved in a car accident and will be receiving 75% of her regular income for her group disability policy. What changes would you recommend to her retirement plan? **(3)** |
| * Increases in contributions * A retirement annuity addition * Type of investments chosen may be adjusted |
| Musa was married to Arnold and they unfortunately divorced and Arnold got 50% of Musa’s pension benefits as part of their divorce settlement. What adjustments would you recommend to her retirement plan? **(3)** |
| * Retirement annuity addition * Moving the lump-sum to her current Pension or Provident Fund * Any other sound advice |

1. For the following questions, use the case for Highveld Colleges provided.
2. Research an industry sector to determine issues and trends (Focus on pension laws, economic issues and social issues). **(10)**

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| Assessor must use own discretion as since the issues will be diverse. |

1. Analyse a business entity to determine needs and existing benefits. **(6)**

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| Assessor must use own discretion as since the issues will be diverse. |

1. Synthesise information to propose appropriate benefit structures. **(3)**

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| Assessor must use own discretion as since the issues will be diverse. |

1. Recommend a financial solution for a business entity. **(5)**

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| Assessor must use own discretion as since the issues will be diverse. |

1. Advise retirement fund Trustees and corporates on the structure of a fund’s investment

Using the rules provided to you by your Facilitator and the case of Highveld College answer the following questions.

1. Apply the requirements of PF130, Regulation 28 and the Pension Funds Act on the governance of the investments of a retirement fund. **(5)**

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| * Show knowledge of PF130 * Show knowledge of Regulation 28 * Identify the extent to which the rules in question address the matters in PF130 * Show compliance of the Investment Policy Statement (IPS) with Regulation 28 |

1. Analyse the investment objectives of a retirement fund. **(5)**

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| Assessor must use own discretion as since the responses will be diverse. Learners responses should consider the age profile of members; their risk profile; whether they have other savings; their post-retirement plans/provisions; their post-retirement objectives; etc. |

1. Construct a portfolio for a retirement fund proposed for Highveld Colleges. **(5)**

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| Assessor must use own discretion as since the responses will be diverse. |

1. What criteria would you use in selecting an investment advisor for a pension fund. **(5)**

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| Philosophy   * + Is the investment manager's investment philosophy compatible with the views of the Trustees?   People   * + Does the investment manager have a stable team of well-qualified people to assist him?   + Is the entity or staff independent of any Asset Managers?   Portfolio   * + Does the investment manager offer suitably adaptable investment portfolios?   + Are the costs competitive and transparent?   Performance   * + Does the investment manager have the sort of track record that inspires confidence in his ability to perform during both good and bad times?   Strategies   * + Are the Trustees comfortable with the strategies adopted by the investment manager?   Infrastructure   * + Does the investment manager possess the necessary infrastructure for research and analysis of the investment markets economic climate, and so on?   Risk   * + What is the profile of the investment manager as measured by past performance? |

1. What criteria would you use in evaluating a Fund Manager for a pension fund. **(5)**

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| **Monitoring and Review of Investment Strategies**  The Trustees should monitor the performance of their appointed investment manager or of their fund where they are managing the assets performance themselves. Even if members’ contributions and benefit levels are defined, and the employer has consistently met the contribution rates recommended by the Actuary, overall investment return is still relevant to the members of a Defined Benefit fund. There can be little doubt that good investment performance enhances the security of pension promises, while bad performance weakens that security.  Under a Defined Contribution fund, members’ benefits will be directly determined by the returns earned on the contributions paid.  It is, therefore, vitally important that Trustees know that their fund is maximizing its investment return within the objectives set. The normal measure of the investment performance of a fund is the benchmark set by the Board of Trustees. A comparison with other Retirement Funds of a broadly similar nature can also be done and this is usually done through participation in a performance measurement service.  Trustees should, with the help of their advisers, seek relevant comparisons of the performance of the manager relative to that of other managers operating similar funds.  Following the appointment of an investment manager the Trustees should meet with the manager as required, but at least twice a year. The manager’s performance should be monitored on an on-going basis having regard to the objectives set. Such monitoring should include not only the actual investment return achieved by the manager, but also the investment strategy which was pursued on behalf of the fund. The Trustees should ask the manager to explain any aspect of the fund investments which they do not understand.  **How do you measure investment performance?**  Traditionally investment surveys concentrated on nominal returns, i.e. actual returns achieved by participants. There is, however, increasing recognition that it is just as important to measure the risk or volatility inherent in achieving the returns.  Investment return is in itself, quite meaningless. One needs to judge an investment return, given the level of risk taken to achieve that return.  **How do you measure risk?**  The measure commonly used for risk is the standard deviation of the monthly returns. This measures the extent to which the returns over a number of years vary.  A high standard deviation reflects high volatility or risk and conversely, a low standard deviation would reflect low risk.  There are other measures of risk and reward, like return per unit of risk. This unitizes the risk and attaches a return to it. In this case the higher the return per unit of risk, the better.  These are commonly used measures. Of course, there are many sophisticated mathematical and statistical measures of the various components but suffice to say that risk and return have a strong correlation and that one needs to be viewed in terms of the other. |