**INTERNAL SUMMATIVE ASSESSMENT**

**Qualification: Occupational Certificate: Financial Advisor**

**Module 4: Employee Benefits and Retirement Advice**

**Learning unit 1: Trustees of Retirement Funds**

1. Identify the elements that must be addressed by the rules of a retirement fund. **(4)**

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| 1. Eligibility for membership. 2. Retirement benefits, including group risk benefits. 3. Contributions, be it compulsory or voluntary additional contributions 4. Decision-making procedures for decisions to be binding. 5. Trustees, i.e. Employer Appointed and Member-Elected Trustees. 6. Governance in terms of PF130. |

1. Explain the duties of Trustees in terms of Section 7D of the Pension Funds Act. **(6)**

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| Section 7D of the PFA requires Trustees to ensure that the following is done:   1. Ensure that proper minutes, registers, books and records of the operations of the fund are kept, inclusive of all resolutions passed by the Board; 2. ensure that proper control systems are employed by or on behalf of the Board; 3. ensure that prompt, adequate and appropriate information, in easily understandable language, is communicated to members of the fund informing them of their rights, benefits, duties and grievance procedures that are to be followed in terms of the rules of the fund; 4. take all reasonable steps to ensure that contributions are paid timeously to the fund in accordance with this Act; 5. obtain expert advice on matters where Board members may lack sufficient expertise; 6. ensure that the rules and the operation and administration of the fund comply with this Act, the Financial Institutions (Protection of Funds) Act and all other applicable laws. 7. comply with any other prescribed requirements. |

1. Explain whether Trustees may delegate functions to a third party, and if so, what are the requirements and implications. **(4)**

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| The Trustees may, in writing and in accordance with a system of delegation set out in the rules, delegate any of its functions under this Act to a person or group of persons, or a Committee of the Board, subject to conditions that the Board must determine.  However, the Board is not divested or relieved of a function delegated and may withdraw the delegation at any time. |

1. Explain the purpose of an Agenda give an indication of how items are placed thereon. **(12)**

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| In order to fulfil their fiduciary responsibilities towards a fund and its members, and in accordance with section 7D of the Act, Trustees hold meetings, the frequency of which are determined by the rules. Board of Trustees’ meeting are an integral part of the running of any pension scheme. These meetings have regular schedules which may be quarterly. As such these meetings are typically pre-arranged way ahead of their actual dates. This allows Trustees to fit in the meetings in their schedules. Trustees may be full time employees elsewhere and need to plan properly for such meetings. In addition, the pre-arrangement of meetings allows for time to prepare for the meetings, including doing relevant research where necessary. The ideal situation is that all Trustees must attend al meetings, unless the rules permit exceptions.  Trustees should ensure that meetings are quorate, i.e. that there are a sufficient number of Trustees at the meeting to enable valid and binding decisions to be made in line with the rules of the fund and within the legislative requirements.  The Chair of the Board, typically in conjunction with the Principal Officer, will decide on the contents of an Agenda, although other Trustees are invariably invited to add items to an Agenda. Agenda items that always appear on the agenda are called standing items. |

1. After checking the minutes of a previous meeting, you notice that there is an error on a particular element. Describe the process that you will follow in order to address that inaccuracy? **(5)**

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| * Final draft minutes are, depending on the rules of a fund, typically circulated by the Principal Officer and/or the Benefit Consultant (Secretariat) just after a meeting for consideration and approval at the next meeting. Trustees must ensure that the minutes of each meeting correctly reflect relevant deliberations and decisions made. * Trustees must check draft minutes and ‘flag’ any errors which are to, depending on the rules, escalated to and rectified by the fund’s Principal Officer or Benefit Consultant (Secretariat). |

1. Should there be a dispute amongst Trustees as to what was decided in respect of a particular item, how can this be resolved? Name two documents that may be consulted. **(2)**

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| Trustees may consult either meeting minutes or signed Trustee resolutions. |

**Learning unit 2: Duties of Trustees W.R.T. Death Benefits**

1. Barbara was advised to indicate how her retirement fund benefits are to be distributed in the event of her death so as to avoid conflicts amongst her family members when she dies. In her last Will he stipulates that the following people and organisations must receive the funds. These are:
2. Her two distant cousins that she was very close to.
3. An animal hospice where she was a volunteer
4. Her Church in which she was raised.
5. A long-time boyfriend who lives on his own.
6. Her grandchildren
7. Her adopted son
8. Her grandmother

Determine the eligibility of each person listed as a nominated beneficiary to share in the distribution of Barbara’s retirement benefits when she passes away. **(14)**

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| 1. Her two distant cousins that she was very close to | Highly unlikely since they are distant relatives, unless there is proof that she financially supported them in which case they will be factual dependants and eligible to share in the benefits. |
| 1. Her Church in which she was raised | UnlikeLlife Inisurance benefits, benefits under a retirement fund are for dependants as defined in the Act. A Church does not qualify as a dependant. The Church may benefit as a nominee but only if if there are no dependants. |
| 1. Grandchildren | Only to the extent that they can prove dependence on Barbara. |
| 1. Adopted son | Yes, as he will qualify as a legal dependant. |

1. You have been supplied with a set of terms and conditions for Group Life Cover. Identify any limitations and exclusions in the policy. A policy contract in terms of which fund benefits are insured is interpreted with reference to exclusions and limitations for a specific fund.  **(10)**

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| **Typical Exclusions**  **Exclusions under PHI**   1. Extra risks for a specific group; it might be because of the nature of their work that materially increases their risk so that the insurers may seek to limit their exposure by excluding such extra risks, for example, an employee working in an industrial factory, etc. This may not be the case with an office-bound employee. 2. War, riot, civil commotion and military insurrection 3. Pre-existing conditions that have been suffered within the past six months from inception. For these conditions, there will be no cover for the first twelve months as from inception of cover. 4. Pregnancy: Cover will only be available after pregnancy. 5. HIV and AIDS, except for accidental infection.   **Exclusions Under Group Life Insurance**  The following are the exclusions under Group Life Cover:   1. A deliberate unlawful act committed by the person that includes, but is not limited to committing or attempting to commit the crime of murder, assault, housebreaking, theft, robbery, kidnapping or the person committing a crime involving a sexual act or a crime of a similar nature to any of the aforesaid crimes; 2. suicide or attempted suicide under any circumstances; 3. intentional self-inflicted injury, self-inflicted injury while the person is mentally disabled or deliberate failure to obtain the best medical assistance reasonably available; 4. taking of medication, except in accordance with medical prescription; 5. driving a mechanically-driven vehicle by a person whose alcohol content of his/her blood is more than the legal prescribed limit; 6. cliff diving; 7. free diving at depths greater than 25 meters; 8. scuba diving at depths greater than 40 meters; 9. unaccompanied scuba diving; 10. cave diving, commercial diving or the exploration of underwater wrecks for financial gain; 11. expedition style mountaineering; 12. solo climbing mountaineering; 13. expedition caving; 14. hazardous aviation activities with a fixed-wing aeroplane, including student pilots and acrobatic flights; 15. Microlight, helicopter or gyrocopter flying; 16. recurrent hang-gliding, paragliding, sky-diving, parachuting or sky-surfing; 17. Base jumping; 18. Motorized racing, speed contests or acrobatic flights; 19. Drag powerboat racing, competitive jet-skiing or competitive water skiing; or 20. Professional boxing, professional kick-boxing, professional wrestling, martial arts or combat sports. |

1. Under what circumstances will a nomination form be binding on the Trustees of a retirement fund? **(2)**

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| * To the extent that the nominated persons are the persons contemplated under section 37C of the PFA. * If the estate of the member is solvent. * Dependants are not prejudiced. * If estate of the member is not solvent, only when the deceased estate’s obligations have been established. * Only after 12 months have elapsed since the passing away of a member and no beneficiaries have been identified. * The nomination form is signed. |

1. Explain the concept of a dependant in terms of financial and legal dependence. **(2)**

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| **Legal dependence**   * Spouses * Children * Adopted children * Children born out- of-wedlock |
| **Financial Dependence**   * Proof is needed to show that the dependent was factually financially dependent on the member as per PFA Section 37C (children, spouse, etc…) and that the member was able to provide support and actually had done so. * Proof of receipt of money. * Proof of shared expenses. * The financial support was recurring or frequent and not once-off. |

1. Identify the type of information that will be required in identifying persons that qualify as dependants under a retirement fund. **(4)**

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| The dependants, Financial Adviser, Attorney or Executor must complete a ‘Death claims form for retirement funds’ and the applicable ‘annexures.’  The Trustees must identify and find all dependants of the member at the time of the member’s death. This is done by following the information provided on the ‘Death claims form for retirement funds’, and ‘annexures’ and by doing further research and investigation.  The Trustees must make enquiries into the personal and financial circumstances of each dependant and nominee. This is done by gathering information and supporting documents from the various stakeholders related to the death claim. In some instances, certain information and/or documents may lead to further enquiries.  Typical supporting documentation include sworn and signed affidavits, bank statements, etc. |

**Learning unit 3: Group Retirement Products**

1. Differentiate between the tax treatment of benefits under a Pension Fund and under a Provident Fund. **(10)**

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| Answers must illustrate an understanding that the tax treatment is identical. The only difference is that, as from 1 March 2021, a maximum of a third of benefits of either a Pension or a Provided Fund may be taken in cash. Prior to the aforesaid date, 100% of the benefits of a Provident Fund and a maximum of one third of a Pension Fund could be commuted for cash.  Tax table is below:   |  |  | | --- | --- | | Taxable income (R) | Rate of tax (R) | | 0 – 500 000 | 0% of taxable income | | 500 001 - 700 000 | 18% of taxable income above 500 000 | | 700 001 – 1 050 000 | 36 000 + 27% of taxable income above 700 000 | | 1 050 001 and above | 130 500 + 36% of taxable income above 1 050 000 | |

1. You are given the following scenarios and you are required to calculate the tax implications of each scenario.

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| 1. Themba has reached 65 and is retiring with benefits worth R2 500 000 | = 130 500 + 36% of taxable income above 1 050 000  = R130 500 + (36% of R2 500 000 – R1 050 000)  **= R652 500** |
| 1. Linda is retrenched at the age of 44 and is entitled to R2 000 000 from her pension fund | = R130 500 + 36% of taxable income above 1 050 000  = R130 500 + (36% of R2 000 000 – R1 050 000)  **= R472 500** |
| 1. Johanna receives a settlement in her divorce agreement worth R1 500 000 from her husband’s pension fund | = R130 500 + 36% of taxable income above 1 050 000  = R130 500 + (36% of R1 500 000 – R1 050 000)  **= R292 500** |
| 1. Elizabeth resigns at 35 to go and start a new business. Her benefits are worth R750 000 | = R114 300 + 27% of taxable income above 660 000  = 114 300 + (27% of R750 000 – R660 000)  **= R138 600** |
| 1. Mandla lost his sight in a car accident and is declared permanently disabled and is now exiting a pension fund with benefits worth R1 000 000. | = R36 000 + 27% of taxable income above 700 000  = R36 000 + (27% of (R1 000 000 – R700 000)  = R36 000 + R81 000  **= R117 000** |

1. Explain why you would recommend a Provident Fund and not a Pension Fund to anyone. **(5)**

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| * As from 1 March 2021, there is no difference, i.e.: * Members of Provident Funds may now also (as has always been the case with a Pension Fund) only commute a maximum of one third of their benefits in cash; the balance must be used to purchase a Compulsory Annuity. The only difference is members who are aged 55 years and older at the time of exit from the Provident Fund; they may still commute all of their benefits in cash. * Contributions to either a Pension or a Provident Fund are now similarly tax deductible.   Allow candidates to give other reasons that they can support. |

1. Under what circumstances would it be ideal to use an Umbrella Fund rather than a Stand-Alone Fund? **(7)**

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| The lack of critical mass and economies of scale and consequent increasingly higher cost of administering relatively small funds resulted in a number of these funds deregistering and moving their members into Umbrella Funds. While this is certainly treated as a Section 14 transfer, it does not necessarily require that the original fund needs to enter into all the administration involved in the voluntary liquidation of a fund in terms of Section 28 (IISA, 2011).  The essence of an Umbrella Fund is that the employer is the entity that joins the fund. Having joined the fund, the employer is now able to offer its employees all the benefits of membership of a large fund without the high costs involved. Employers using stand-alone funds are freed from the onerous administration and governance requirements. Umbrella Funds may offer better expertise as at least 50% of the Trustees are compelled to be professional and independent Trustees.  Umbrella funds generally offer a defined contribution structure. The fund is usually registered by an insurer or large brokerage which then markets membership of the fund through its intermediaries. |

1. Differentiate between insured and self-insured risk benefits. **(2)**

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| Insured: The fund has taken out a policy or policies for that benefit  Uninsured benefit: The fund is responsible for that benefit and has not taken out an insurance policy for that benefit. |

1. Provide a brief description of the benefits that are normally covered under Group Risk policies. **(6)**

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| * Group life * Group funeral * Group disability * Group dread disease * Group PHI |

1. Illustrate, by way of examples, three options that may be exercised in the preservation of benefits after resigning from a Pension Fund before the stipulated retirement age? **(9)**

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| The following guidelines exist for Preservation Funds and these are listed below:   * Prior to 1 March 2021, transfers from Pension Funds to Provident Funds were subject to tax. From 1 March 2021, members of Pension Funds are now able to transfer their accumulated retirement savings to Provident Funds tax-free. * Members of Pension Funds will now also be able to transfer their accumulated retirement savings to Provident Preservation Funds tax-free, and members of Provident Funds will now be able to transfer their accumulated retirement savings to Pension Preservation Funds tax-free. * Transfer to the retirement fund of a new employer (if applicable). * The transfer may happen only on the withdrawal of the member from the relevant Pension or Provident Fund as a result of resignation or retrenchment. * Ongoing contributions to the Preservation Fund are not possible; * Only lump sums from members who have withdrawn from their employer’s funds may be accepted. * Members may choose a Preservation Fund regardless of whether their employer is a participating employer or not. * Members may also transfer their benefits to a Retirement Annuity Fund, but access thereto is locked in until the member becomes 55 years, unless he becomes permanently disabled. |

1. What is the impact of the new legislation for any members of the Provident Fund that are aged 55 years and older. Explain the practical implications of the change. (10)

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| Existing members of a retirement fund who are 55 years or older on 1 March 2021 will not be impacted by the legislative changes as long as they remain in the Provident Fund until they retire. This has the benefit of members being able to reserve the right to commute up to 100% of the Provident Fund benefit in cash when they retire and that they will not be subject to the mandatory two thirds annuitisation rule, i.e. they will not be compelled to buy a Compulsory Annuity with at least two thirds of their retirement benefit when they retire. Any future contributions and investment growth earned on or after 1 March 2021 will not be subject to the two thirds annuitisation rule. She should notify the retiring members that they should appreciate that, as before, any benefits that they commute will be taxed according to the Retirement Fund Lump Sum Tax Table |

**Learning unit 4: Group Insured Benefits**

1. Identify the types of group risk products sold in the market and the corresponding needs that they provide for? Also identify the target group for each product. **(12)**

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| Answers will vary and assessor discretion will be needed. |

1. Describe the concept of “free cover limit” and the rational therefor. **(4)**

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| The free cover limit applies to group risk cover and is the maximum amount of insurance cover that an insurer gives to a member without the member having to provide medical evidence of good health and insurability. Where medical underwriting is requested and the process is not completed, the member's benefit will be capped at the free cover limit. So group risk cover is particularly useful to those employees who may not be in good health and cannot afford the higher cost of retail insurance.  Some group insurance schemes offer members the opportunity to increase their level of cover, but underwriting may apply if they increase their benefits to exceed the free cover limit (FCL). In addition, there may be high earners in the scheme also exceeding the FCL. Financial Advisers are often tasked with explaining these aspects to their clients and their employees, which places an enormous responsibility on them. |

1. Determine the criterion on which you, as an Underwriter for group risk benefits, would base your premiums on. **(6)**

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| **Underwriting and free cover limits follows those under the group life benefits.**  Emphasis will be on risks related to occupations for certain industries or other activities. Past claims should be taken into consideration bearing in mind that there are certain industries that are unscrupulous for huge and frequent claims. If the benefits extend to previous members then stricter underwriting will be needed. These benefits are subject to tapering. Tapering means that the benefits will reduce in the last five years of cover until a certain age where they will become zero and members will not be eligible to receive benefits. Depending on the industry/occupation, then the tapering can kick in earlier or later. In high-risk industries, then an earlier age like 55 years can be used. For less risky occupations like office employees, 60 or 65 years could be used. |

1. Explain with reference to the changing nature of a group, why Group Schemes are reviewed at regular intervals. Provide three reasons. **(3)**

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| * Review claims ratio, for example, the composition of an employer’s work force may change so as to include a materially higher number of older employees or employees in higher risk jobs, etc. * Align with changing laws, for example, many employees are, owing to the current Covid-related lockdown restrictions, permitted to work from home and their exposure to risk is reduced, etc. * Align with changing environment, for example, many people are suffering from long-term ailments attributed to the Covid-19 pandemic, the onset of Cancer has been steadily increasing during the past few years, etc.   Benefits and premiums may differ I relation to the above changing  circumstances. |

1. Compare any two channels used for the distribution of group products. **(4)**

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| Online distribution of Life Insurance products has become the order of the day. The channel involves the use of online platforms for marketing, selling, transacting and processing of claims. While this channel may not address the required contact under pensions and provident funds processes, it is a significant tool that, in line with lockdown restrictions related to the Covid pandemic, drastically reduces face-to-face contact and consequently lower rates of infections. Through online platforms, customers are able to compare products by different insurers albeit at a general level at their leisure.  By their nature, retirement funds such as provident funds as well as pension funds are suitable for business to business marketing since the target client is normally another business or a trade union. The approach targets decision makers in terms or retirement funds. Products are therefore directed at these decision makers who will consider what is suitable for their employees.  A Benefit Consultant can be the marketer of group life cover. They are the face of the organization and will present different benefits provided by different products by the insurers. |

1. Discuss the taxation of benefits and premiums applicable to group insurance for approved and Fund-owned policies **(6)**

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| In the event of death, the two main benefits that are available are the pension fund death benefits as per the rules of the fund and any group life cover that the fund may have purchased. The group life cover can be approved or unapproved. With the approved benefits, they will be treated the same as the pension lump sums for tax purposes. With the unapproved benefits, the benefits will be paid out tax-free by the insurer. |

**Learning unit 5: Marriage, Divorce and Maintenance – What the Law Says**

1. Identify the marriage legislation impact on retirement funds. **(4)**

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| Answers will vary, assessor must use own discretion, but typically the following primary Acts are to be listed: The Marriage Act 25 of 1961, The Recognition of Customary Marriages Act 120 of 1998 and The Civil Unions Act 17 of 2006). |

1. Are religious marriages now legally recognised? Explain. **(6)**

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| Currently, religious marriages (marriages concluded under the tenets of a religion) are not recognised as valid marriages, although certain other laws (such as the Estate Duty Act and Intestate Succession Act) protect rights under a religious marriage in certain instances. However, this is set to change as a recent case in the Cape High Court (Women’s Legal Centre Trust v. President of South Africa and Others) ordered the State on 31 August 2018 to pass legislation that will recognise Muslim marriages within 24 months.  To cover existing legislative gaps contained within the three primary pieces of legislation relating to marriages (The Marriage Act 25 of 1961, The Recognition of Customary Marriages Act 120 of 1998 and The Civil Unions Act 17 of 2006), a draft Marriage Bill proposes the following approaches governing marriages in South Africa;  • A single Marriage Act which has a unified set of requirements and consequences applying to all marriages.  • An Omnibus or Umbrella Act that contains different chapters that reflect the current diverse set of legal requirements for and consequences of Civil Marriages, Civil Unions, Customary Marriages and other marriages that are not accommodated by the current legislation.  • Parallel Marriages Acts which is the retention of the status quo and would require enactment of more marriage legislation that must cater for marriages that are excluded by the current legislation as our Courts have often held certain legislative provisions to be inconsistent with the transformative nature of the country’s Constitution. |

1. Research three determinations by the Pension Funds Adjudicator and assess their impact on the governance and administration of funds. **(12)**

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| Answers will vary, but Assessors must use their own discretion. However, the following should be apparent from the answers provided by learners:   * Employer or Trustee decisions may be challenged by lodging a complaint with the PFA. * Lodging a complaint with the PFA is an expeditious and free process or service. * No Attorneys or Counsel are required. * Only complaints of a certain nature may be lodged with the PFA. * PFA determinations have, inter se the parties, the status of a Court judgement. |

1. Explain using examples, the different marriage regimes in South Africa and discuss the impact of each marriage regime on retirement benefits. **(16)**

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| **Types Of Marriages**  A number of marriage regimes exits in South Africa. To get better insight, The Marriages Act, The Civil Unions Act, The Matrimonial Property Act and The Constitution provide the array of recognized marriages. These are considered in the following paragraphs.  **Marriage Out of Community of Property**  Under this marriage, the spouses do not have a joint estate. The assets and liabilities acquired prior to the marriage will be excluded from the marriage. These marriages can be with or without the accrual system.  **Accrual System**  Every marriage concluded out of community of property by way of of an ante-nuptial contract in terms of which community of property and community of profit and loss are excluded, and which is entered into after the commencement of this Act, is subject to the accrual system, unless accrual is expressly excluded by an ante-nuptial contract.  At the dissolution of a marriage that is subject to the accrual system, by divorce or by the death of one or both of the spouses, the spouse whose estate shows no accrual or a smaller accrual than the estate of the other spouse, or his estate if he is deceased, acquires a claim against the other spouse or his estate for an amount equal to half of the difference between the accrual of the respective estates of the spouses.  **Accrual of Estate**  The accrual of the estate of a spouse is the amount by which the net value of his/her estate at the dissolution of his marriage exceeds the net value of his estate at the commencement of that marriage. In the determination of the accrual of the estate of a spouse:   * Any amount which accrued to that estate by way of damages, other than damages for patrimonial loss, is left disregarded; * an asset which has been excluded from the accrual system in terms of the ante -nuptial contract of the spouses, as well as any other asset which he acquired by virtue of his possession or former possession of the first-mentioned asset, is not taken into account as part of that estate at the commencement or the dissolution of his marriage; * the net value of that estate at the commencement of his marriage is calculated with due allowance for any difference which may exist in the value of money at the commencement and dissolution of his marriage, and for that purpose the weighted average of the consumer price index as published from time-to-time in the Gazette serves as prima facie proof of any change in the value of money.     The accrual of the estate of a deceased spouse is determined before effect is given to any testamentary disposition, donation mortis causa or succession out of that estate in terms of the law of intestate succession.    **Marriages in Community Of Property**    **Equal powers of spouses married in community**  A wife in a marriage in community of property has the same powers with regard to the disposal of the assets of the joint estate, the contracting of debts which lie against the joint estate, and the management of the joint estate as those which a husband in such a marriage had immediately before the commencement of the Matrimonial Property Act.    **Powers of spouses**  A spouse in a marriage in community of property may perform any juristic act with regard to the joint estate without the consent of the other spouse. Such a spouse may not, without the written consent of the other spouse, among other things:   * Alienate, mortgage, burden with a servitude or confer any other real right in any immovable property forming part of the joint estate; * enter into any contract for the alienation, mortgaging, burdening with a servitude or conferring of any other real right in immovable property forming part of the joint estate; * alienate, cede or pledge any shares, stock, debentures, debenture bonds, insurance policies, mortgage bonds, fixed deposits or any similar assets, or any investment; * alienate or pledge any jewellery, coins, stamps, paintings or any other assets forming part of the joint estate and held mainly as investments; * withdraw money held in the name of the other spouse in any account in a banking institution, a building society or the Post Office Savings Bank of the Republic of South Africa; * enter, as a consumer, into a credit agreement to which the provisions of the National Credit Act, 2005 apply, as ‘consumer’ and ‘credit agreement’ are respectively defined in that Act; * bind him- or herself as surety.   **Customary Marriage**  These marriages are based on the traditional customs and culture of South Africa’s indigenous people. Such marriages are recognized in The Recognition of Customary Marriages Act of 2000 (the RCMA).  The Recognition of Customary Marriages Amendment Act 1 of 2021, amended the RCMA to further regulate the proprietary consequences of customary marriages entered into before the commencement of the said Act commenced on 1 June 2021. It appears that the amendment confirms that Customary Marriages are in community of property. The amendment enjoys retrospective effect.  According to Momentum (2019), polygamy is permissible under a Customary Marriage but not under civil marriages. Please refer to the earlier section dealing with the draft Marriage Bill.  **Civil Unions**  **“Civil union”** means the voluntary union of two persons who are both 18 years of age or older, which is solemnized and registered by way of either a marriage or a civil partnership, in accordance with the procedures prescribed in this Act, to the exclusion, while it lasts, of all others. The Civil Union Act (CUA), effective 30 November 2006, provides for the recognition of civil unions between certain classes of persons, such as same-sex partners.  The CUA places civil unions in the same legally recognised category as civil marriages in terms of the Marriage Act and provides that any reference to marriage in any other law, including the common law, is also a reference to a civil union.  **Muslim Marriage**  Muslim marriages are not yet legally recognised. Parliament is still considering the Marriages Bill. Past decisions by the Constitutional Court have held there is precedent that Muslim spouses may claim maintenance and other proprietary relief. In 2004 in Daniels v Campbell No and Others, the Constitutional Court held that parties to a Muslim Marriage are to be treated as spouses and therefore also eligible claim maintenance from the deceased estate of their former spouse. |

1. Explain the concepts of a divorce and that of pension interest and their application to retirement funds. **(6)**

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| A concept of pension interest is provided for in the Divorce Act. A non-member spouse will, upon receipt of an enabling Divorce Order, be entitled to a pension interest of a member spouse.  Table 11: Pension Interest in the event of divorce   |  |  | | --- | --- | | Type of Retirement Fund | Definition of Pension Interest | | *Pension or Provident Fund* | Is an amount equal to the withdrawal benefit which would have become payable in terms of the rules of the fund if the member had resigned on the date of the divorce. | | *Retirement Annuity Fund* | Is equal to the sum of all the contributions, plus simple interest at the prescribed rate of interest applicable on the date of divorce. The Pension Funds Act limits the annual simple interest payable to the fund return on the pension interest assigned to the non-member spouse. |   Pension interest will vary according to the type of marriage that is in question in the event of a divorce. |

1. Explain the process to be followed on receipt of a Court order and give an indication of the implications of non-compliance. **(6)**

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| **Process And Timeframes To Be Followed In The Event Of Divorce**  (a)     For purposes of [section 7](https://discover.sabinet.co.za/webx/access/netlaw/70_1979_divorce_act.htm#section7)(8)(a) of the Divorce Act, 1979 (Act No. 70 of 1979), the portion of the pension interest assigned to the non-member spouse in terms of a decree of divorce or decree for the dissolution of a customary marriage is deemed to accrue to the member on the date on which the decree of divorce or decree for the dissolution of a customary marriage is granted, and, on the written submission of the court order by the non-member spouse-    (i)      must be deducted by -    (aa)    the pension fund or pension funds named in or identifiable from the decree;    (bb)   the pension fund or pension funds to which the pension fund referred to in item (aa) transferred the pension interest referred to in the decree;    (ii)     must be deducted on the date on which an election is made or, if no election is made within the period referred to in paragraph (b)(ii), the date on which that period expires; and    (iii)    must reduce the member’s accrued benefits or minimum individual reserve at the date of the decree.    (b)  (i)      The pension fund must, within 45 days of the submission of the court order by the non-member spouse, request the non-member spouse to elect if the amount to be deducted must be paid directly to him or her, or if it must be transferred to a pension fund on his or her behalf.    (ii)     The non-member spouse must within 120 days of being requested to make an election-    (aa)    inform the pension fund of how the amount referred to in subparagraph (i) must be dealt with; and    (bb)   if he or she elects that the amount must be paid to him or her directly, provide the pension fund with the details of how that payment must be effected; or    (cc)    if he or she elects that the amount must be transferred to a pension fund on his or her behalf, provide the pension fund with the details of that pension fund.    (iii)    The pension fund must pay or transfer the amount within 60 days of being informed of how the amount must be dealt with in accordance with the non-member spouse’s election.    (iv)    In the event that the non-member spouse fails to make an election or identify the pension fund to which the amount should be transferred within the period referred to in subparagraph (ii), the pension fund must pay the amount directly to the non-member spouse within 30 days of the expiry of that period.    (v)     Despite subparagraph (iv), in the event that the pension fund cannot reasonably ascertain how the payment to the non-member spouse must be effected, the pension fund must retain the amount and any fund return referred to in paragraph (c)(ii) in the pension fund until such time as details of how that payment must be effected is made available to the pension fund by the member, the non-member spouse or any other person.    (c)     A non-member spouse-    (i)      is not a member or beneficiary in relation to the pension fund; and    (ii)     is entitled to the accrual of fund return from the date of the deduction contemplated in paragraph (a)(ii) until payment or transfer thereof, but not to any other interest or growth.    (d)     Any portion of the pension interest assigned to the non-member spouse in terms of a decree of divorce or decree for the dissolution of a customary marriage granted prior to 13 September 2007 are for purposes of any law other than the Income Tax Act, 1962, including, but not limited to, [section 7](https://discover.sabinet.co.za/webx/access/netlaw/70_1979_divorce_act.htm#section7)(8)(a) of the Divorce Act, 1979, deemed to have accrued to the member on 13 September 2007 and must be paid or transferred in accordance with paragraphs (a) and (b).  [Subs. (4) added by s. 16 of Act 22/2008]    (5)     Despite paragraph (b) of the definition of “pension interest” in [section 1](https://discover.sabinet.co.za/webx/access/netlaw/70_1979_divorce_act.htm#section1)(1) of the Divorce Act, 1979, the total amount of annual simple interest payable in terms of the definition may not exceed the fund return on the pension interest assigned to the non-member spouse in terms of a decree granted in terms of [section 7](https://discover.sabinet.co.za/webx/access/netlaw/70_1979_divorce_act.htm#section7)(8)(a) of the Divorce Act, 1979.  [Subs. (5) added by s. 16 of Act 22/2008]    (6)     Despite paragraph (b) of the definition of “pension interest” in [section 1](https://discover.sabinet.co.za/webx/access/netlaw/70_1979_divorce_act.htm#section1)(1) of the Divorce Act, 1979 (Act No. 70 of 1979), the portion of the pension interest of a member or a deferred pensioner of a pension preservation fund or provident preservation fund, that is assigned to a non-member spouse, refers to the equivalent portion of the benefits to which that member would have been entitled to in terms of the rules of the fund if his or her membership of the fund terminated, or the member or the deferred pensioner retired on the date on which the decree was granted. |

1. Explain the concept of a pension interest and also describe the taxation thereof in the event of a divorce. **(15)**

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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 spouse. | 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 interest and the other spouse is not entitled to these benefits. |   The taxation of pension interest is based on an application of the normal retirement tax tables applicable at the time of divorce.  A withdrawal from a pension fund, even if in terms of a divorce order, is considered a “retirement fund lump sum withdrawal benefit” for purposes of paragraph 2(1)(b)(iA) of the Second Schedule to the Income Tax Act, 58 of 1962. The amount received by the non-member spouse is included in his or her gross income and it is therefore the recipient spouse that will be taxed on the withdrawal (and not the member spouse). Such tax will however not be calculated in terms of the “normal” sliding scale tax rates as applied to individuals. Lump sums received from retirement funds are taxed in terms of separately promulgated tax tables, depending on whether the lump sum received is a “retirement fund lump sum benefit” (typically where a member has died or retired) or a “retirement fund lump sum withdrawal benefit” (typically where the fund benefits are accessed prior to retirement). |

1. Explain the concept of maintenance by way of examples. **(4)**

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| MAINTENANCE PAYMENTS Section 15 of the Maintenance Act 99 of 1998 partially codifies the common law and provides that ‘a maintenance order for the maintenance of a child is directed at the enforcement of the common law duty of the child’s parents to support that child, as the duty in question exists at the time of the issue of the maintenance order and is expected to continue’.  There are circumstances under which the duty to maintain the child may be discharged through payments from retirement benefits and in particular, payment of future child maintenance. In South Africa (SA), pension law is regulated by various statutes, none of which directly provides for the payment of future child maintenance from retirement benefits. As such, the courts had to be innovative and use rules of interpretation to ensure that retirement fund members are forced to fulfil their child maintenance obligations through their retirement benefits.  Generally, s 37A(1) of the Pension Funds Act 24 of 1956 prohibits the reduction, hypothecation, cession, transfer and attachment of retirement benefits, unless such is specifically permitted by the Pension Fund Act, Income Tax Act 58 of 1962 and the Maintenance Act. Retirement funds are empowered by s 37D of the Pension Funds Act to ‘(d) deduct from a member’s or deferred pensioner’s benefit, member’s interest or minimum individual reserve, or the capital value of a pensioner’s pension after retirement, as the case may be –  (iA) any amount payable in terms of a maintenance order as defined in section 1 of the Maintenance Act’.  In terms of s 26 of the Maintenance Act, when a maintenance order has been granted and the person against whom it has been granted failed to make payment in accordance with the order, such an order is enforceable by execution against the defaulter’s property. If a specific amount was ordered, that amount attracts interest. In particular, s 26(4) of the Maintenance Act specifically provides that ‘any pension, annuity, gratuity or compassionate allowance or other similar benefit shall be liable to be attached or subjected to execution under any warrant of execution or any order issued … in order to satisfy a maintenance order’.  Section 26(4) of the Maintenance Act appears to be making provision for the attachment on the basis of the maintenance that is currently due and to a larger extent the amount of maintenance that is outstanding and not necessarily that which is payable in future. It makes provision for payment of arrear child maintenance on behalf of the child from the retirement fund member’s retirement benefits (see Naleen Jeram ‘A warning to all maintenance court officials’ (2014 (Sept) DR 43)). However, before the court can order that the other parent’s retirement benefits should be attached, it must be satisfied that the party against whom such an order is made, has no other means of paying child maintenance. Claiming maintenance from the maintenance defaulting member’s retirement fund benefit should be a measure of last resort. This will obviously be the case where a maintenance order has been granted and the person against whom it has been granted has defaulted in their payments and there have been no other means other than the retirement benefits to satisfy the maintenance order.  Children of parents who do not honour maintenance payments can claim for arrears and future maintenance payments from their parents’ pension or provident monies. This is a departure from the past where dependants could only claim for arrear maintenance payments from a defaulting parent’s pension. It means pension and provident funds can now freeze the pension payouts of members to pay for monthly payments to their children.  But before this can be done, there must be a court order instructing the fund to do this. It needs to be done before a benefit accrues to a member. If a lump sum has already been paid without the claim being lodged, the child loses out. From a pension fund point of view, there are two types of maintenance claims, being arrear maintenance and future maintenance.  ***Arrear maintenance***  This type of claim refers to a situation where a person has obtained a court order in respect of maintenance. Hereafter, the pension fund member fails to comply with the order and is in arrears with the maintenance payments. In such an instance, the maintenance creditor can request the fund to deduct the arrear amounts from the pension benefit payable upon the termination of the employment contract.  ***Future maintenance***  This claim also applies in respect of a maintenance court order where the member is not necessarily in arrears, but there is a possibility that he may not pay in terms of the order in the future.  Before 2003, it was generally accepted that a fund could not deduct from a benefit to settle a future maintenance claim. However, the Durban High Court, in a landmark ruling, and after having regard to the Constitution and in particular the rights of women and children held that justice may require that a member be deprived of a benefit where he has acted in bad faith to deprive a child of future maintenance monies.  In 2004, the Cape High Court also accepted that future maintenance claims could be deducted from pension benefits. The court was of the view that even though the pension fund member in this case had not acted in bad faith, his conduct did not create the impression that he was willing to abide by the maintenance order. Therefore, the court on a balance of probabilities took the view that the member would not pay and ordered the fund to withhold the benefit to secure the future maintenance of the child.  These two rulings have created an avenue to secure future maintenance needs. Therefore maintenance beneficiaries must be aware of the requirements outlined by the courts and where they suspect that a pension fund member may default on payment. They can approach the fund and request a withholding of the benefit to secure the claim.  The administrator must apply for a directive when any maintenance payment is made and the tax must be deducted and paid to South African Revenue Services. Maintenance payment is taxed in the hands of the member at the member’s marginal tax rate. |

1. What are the factors that must be considered by a fund in determining the validity of a maintenance order? **(5)**

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| The duty to support a family member is not limited to supporting a child. Any family member, irrespective of his or her age, can ask any family member to support or maintain him or her, provided that the following two conditions are met:The family member who claims support is unable to maintain himself or herself.The family member from whom maintenance is claimed is able to afford the maintenance that is claimed.The main requirement of the means test is that the person who is liable to pay maintenance must have MEANS and the maintenance claimed must be REASONABLE.You may claim reasonable support that is necessary for providing the child or other person who has a right to maintenance with a proper living and upbringing. This includes providing necessities such as food, clothing and housing, as well as paying for a proper education. The court may also order the parent to contribute to the payment of laying-in expenses and maintenance from the date of the child's birth up to the date on which the maintenance order is granted. The court may also grant an order for the payment of medical expenses, or may order that the child be registered on the medical scheme of one of the parties as a dependant. To enable the court to grant a fair maintenance order, both parties must provide the court with proof of their expenses. Maintenance payment is taxed in the hands of the member at the member’s marginal tax rate. |

1. Describe the process to be followed on receipt of a maintenance court and provide an indication is given of the implications of non-compliance. **(6)**

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| **Attachment of debt** In terms of section 30 of the Maintenance Act, if the respondent is owed money or is due to receive money in the future – for example, if he/she has retired and has a pension due to him/her, an attachment of debt order can be granted, which will order the party owing the money to pay that money to the complainant instead.  The complainant must prepare the necessary forms which must be lodged with the clerk of the maintenance court who will then get the order granted by the Magistrate on duty on that day. It is advisable to get the assistance of an Attorney when applying for an order for the attachment of a debt.  **Future Maintenance** Future maintenance is not specifically dealt with in the Maintenance Act, but section 26 (4) of the Act allows for pensions, gratuities and annuities to be attached to satisfy a maintenance order. This section is usually relied on when the respondent is about to stop working (either because of retirement, resignation or dismissal) and the complainant wants to attach part of the respondent’s pension benefits for future maintenance. In most cases regarding future maintenance, the respondent has a pension from which future maintenance is claimed.  The complainant must be sure that the respondent is about to stop working and that there is an existing maintenance order. It is advisable for the complainant to approach a Legal Practitioner who will prepare the necessary court papers. The complainant would need to know where the respondent is employed and if the respondent is contributing to a pension or provident fund. The Courts must also be notified that a claim against the retirement fund is the last resort.  Once the order is granted, the pension fund will be notified and ordered to pay to the Guardian’s Fund the amount mentioned in the order. The complainant will not receive the full amount in a lump sum, instead it will go to the Guardian’s Fund which will continue paying the complainant the amount of maintenance that he/she was receiving from the respondent, usually until the minor child reaches the age of majority (18) or becomes independent. |

1. Explain the treatment of arrear maintenance contributions when a member retires. **(5)**

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| ***Arrear maintenance***  This type of claim refers to a situation where a person has obtained a court order in respect of maintenance but the pension fund member fails to comply with the order and is in arrears with the maintenance payments. In such an instance, the maintenance creditor can request the fund to deduct the arrear amounts from the pension benefit payable upon the termination of the employment contract. |

1. Provide details of the new system that the government intends to introduce so as to track maintenance order defaulters (5)

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| The Department of Justice and Correctional Services plans to introduce an updated system that will track and trace South Africans who have defaulted on maintenance payments.  Justice and Correctional Services Minister Ronald Lamola advised that the department recently conducted an investigation into the trend of the maintenance defaulters.  The investigation found that most defaulters do not want to be found so as to avoid the maintenance inquiry processes and further that when they are found they conceal their means or distort the extent thereof so as to appear indigent and become exonerated from the liability to pay maintenance.  The investigation further revealed that there are two forms of economies in South Africa – being formal and informal economies – and as such, most defaulters who claimed not to have means to pay for maintenance are within the informal economy.  It was also noted that business concerns are not registered for tax and the defaulters do not have bank accounts in their own names, which makes it difficult for maintenance courts to process maintenance cases.  In light of this, a maintenance defaulters track and trace system was introduced. Initially, it was introduced through a service provider who provided information of the defaulters such as full names, contact details, property ownership and business ownership, he said.  However, the department is now developing a framework through which the concealment of income and assets gained in the informal economy can be traced for the courts to be able to grant maintenance orders in such cases. |

**Learning unit 6: Investment Strategy For Group Retirement Funds**

1. Explain the functioning of the following:
   1. Market-related
   2. Absolute return.
   3. Structured products.
   4. Smoothed bonus products.
   5. Multi-manager products. **(10)**

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| **Market-Related** Market-related funds return is the actual return received from the investment market. It is the actual fund performance and is gross of any fees/costs. Market return is directly affected by movements in the investment market. **Absolute Return** It is a measure of the performance of an investment over a period of time. This measures the performance of an investment based on time and not relative to investment instruments or against a benchmark index. **Smoothed Investments**  Smoothing refers to a method of stabilising the returns on investments where the highs and the downs in investments are levelled out. Not all profits in periods of higher returns are distributed to investors. Rather, a proportion is allocated to members and the balance is put in a reserve that will be utilised to boost returns in periods of lower or negative returns. **Structured Products** A structured product is defined as a pre-packaged securitised investment product with full or partial capital protection which is listed on a Stock Exchange like a normal share and has a daily market value. Think of it as investing on the stock market with little or no risk. Who wouldn’t want that? **Multi-Manager Products** Multi-manager funds invest across different asset classes, sectors and geographies by utilising more than one fund manager. The exposure to one investment manager is eliminated in the process and diversification is automatically achieved due to the diversity of the funds that the multiple managers will be invested in. The attraction of multi-manager funds is based on the fact that no one investment manager is able to persistently outperform all asset classes persistently. |

1. Explain need for an Investment Policy Statement (IPS) with reference to the responsibility of the Trustees and the interests of other players. **(5)**

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| An investment policy statement (IPS) is a document drafted between a a service provider such as an Investment Consultant or Asset Manager, etc, and a client, for example, the Trustees of a retirement fund, that outlines general rules for the service provider. This statement provides the general investment goals and objectives of a client and describes the strategies that the manager should employ to meet these objectives. In terms of PF130, every retirement fund should have an IPS and review/update it regularly. Other features of the IPS are:  A concrete statement of investment goal;   * a method for determining and expressing the pension board’s investment philosophy and risk tolerance to both staff and third parties; * a clear demonstration of “due diligence” * a foundation for internal controls; * guidance to Trustees, staff and third parties, to ensure both proper execution of the investment strategy as well as compliance with the law; and * risk management tool. |

1. Provide a description of additional information that affects an investment strategy and give an indication of the consequences if Trustees neglect to gather the necessary information. **(8)**

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| The following factors must be considered in determining the appropriate investment strategy:   1. Current events; 2. age bands of members; 3. members with five years to retirement; 4. pensionable salaries; 5. level of risk tolerance by the Board; 6. volatility in contributions; 7. Regulation 28 limits; 8. current and future liabilities of the fund: 9. Type of fund in question (i.e. whether it is a defined benefit, defined contribution, provident fund or pension fund) 10. current financial status of the fund; 11. liquidity and cashflow requirements; 12. maturity of the fund; and 13. profiles of beneficiaries. |

1. Discuss the influence of individual members’ norms and values on the investment strategies of a group retirement fund with reference to individual goals. **(6)**

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| Assessor discretion to be applied but the following factors are to be considered: risk profile; other sources of income/capital; actual goals, etc. |

1. Describe the asset allocation limitations laid down by Regulation 28 of the Pension Funds Act. **(10)**

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| Regulation 28 stipulates the maximum percentages that retirement funds can invest in different asset classes. The main logic for this constraint is to protect the funds of members invested in retirement funds who may be exposed to too much or too little risk or non-diversification. In the absence of such regulation, the funds may take a higher risk which could result in funds losing money and eventually members losing out on their benefits. If that happens those members mayl become a burden to the State and in turn to the taxpayers who will be taxed more to provide for the elderly whose pension benefits would have been lost.  Broadly speaking, it means that members may invest:  • a maximum of 75% of your retirement savings in shares;  • a maximum of 25% in property;  • 30% in international assets excluding Africa; and  • 40% in international assets including Africa.  Retirement funds are therefore not able to exceed the limits stated above. |

1. Design a criterion for evaluating the performance of an Asset Manager. **(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?   Portfolio   * + Does the investment manager offer suitably adaptable investment portfolios?   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?   Other Factors  Does the investment manager apply ESG and BEE considerations? |

1. Why is it important to regularly monitoring and review the investment strategy? **(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. In accordance with PF130, Trustees should have a dedicated Investment Policy Statement and an Investments Committee. 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. As permitted by section 7D of the Pension Funds Act and PF130, Trustees may delegate decisions to experts such as, for example, investment experts. However, Trustees remain liable for decisions made by the aforesaid experts. |

**Chapter 7: Pension Fund Act, Pension Fund Valuation Governance of retirement funds**

1. Explain what is meant by an actuarial valuation and also the purpose of an actuarial valuation of a retirement fund with reference to current legislation and the requirements of professional bodies. **(8)**

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| **The Purpose Of The Valuation**   * The purposes differs based on whether a fund is a defined contribution or a defined contribution. The purpose of each fund is examined below:   **Defined Benefit Funds**   * A valuation will be needed to: * comply with legislation; * check solvency levels; * better understand the trends and issues affecting the fund; * check the current funding level; * track the release of any surplus in any of the surplus accounts; * inform benefit decisions in cases of company merges or buy-outs; * decide on the appropriateness and effectiveness of the investment strategy; * inform a process of adjustment of fund benefits; and * to keep a track on the equitable share of members for withdrawal purposes.   **Defined Contribution Funds**   * An actuarial valuation of a defined contribution fund is often a high level audit of the administration of the fund, although one needs to carefully consider allocations to any reserve accounts. The purpose is to: * comply with legislation; * confirm the allocation of growth to individual member’s accounts; * allocate any excess funds from time-to-time; * advise on possible changes to benefit levels; * comment on the appropriateness of the investment strategy; * allocate monies to reserve accounts; * indicate if reserves may be used to top-up active members’ benefits; and * advise on major issues in the event of company mergers or take-overs. |

1. Identify and interrogate sources of data as consistency and integrity checks when performing an actuarial valuation of a retirement fund. **(10)**

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| An actuarial valuation by a Valuator needs the following information about the fund.   * Membership changes; * new entrants; * number of deaths; * pensioners; and * withdrawals.   In order that an investigation and actuarial valuation of a pension scheme can be carried out, certain data is required. This data is imperative for an effective valuation and includes the following:   * Latest copy of the Fund’s rules. Variations form previous valuations must be incorporated in the current fund rules; * the accounts of the fund incorporating revenue statements, as well as lists of assets held at this and the previous valuation date. Of interest should be the progression of the fund from the previous year or valuation. Tracking this movement can be very informative and useful in formulating relevant figures; * the previous valuation report; * details of all persons who fell into one or more categories of membership, such as active, deferred pensioner, surviving spouse pensioner, paid-up members, etc, at any time since the previous valuation. The data on active members and movements must include:   + membership number;   + date of birth;   + gender;   + the dates of birth and gender of family members;   + pensionable salary at different dates between this and the previous valuation,   + membership categories   + dates of joining or leaving the fund, details of any benefits paid; * information concerning members and pensioners in a form suitable for processing by a computer; * details of any annuities paid or purchased externally. |

1. Interpret the effects on the financial results of a retirement fund when changes are made to assumptions that applied when performing an actuarial valuation. **(8)**

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| Answers will vary. Assessor use own discretion. However, assumptions in question 4 must be the basis of whatever answer that will be provided. |

1. An actuarial evaluation identified that there is a gap in the financial soundness of the fund. The fund is not financially sound. Explain possible solutions for restoring the financial soundness of the fund. **(6)**

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| **Fund not in a sound financial condition**  If any return under this Act indicates that a registered fund is not in a sound financial condition as determined in accordance with prudential standards, the Authority may, save as provided in [section 29](https://discover.sabinet.co.za/webx/access/netlaw/24_1956_pension_funds_act.htm#section29), direct the fund to submit a scheme setting out the arrangements which have been made, or which it intends to make, to bring the fund into a financially sound condition within such period, and subject to such conditions, as determined by the Authority.    When any return under the PFA indicates a deficiency in a registered fund, the fund shall, within three months from the date of such return, submit a scheme to the registrar setting out the arrangements which have been made or which it is intended to make to eliminate the deficiency, together with a report thereon by a valuator.    If a registrar finds that a scheme submitted in terms of subsection (1) or (1A) is not inconsistent with the provisions of the PFA and is satisfied that the arrangements set out therein should suffice to restore the fund to a financially sound position, he shall approve the scheme. However, if the registrar is not satisfied with the proposed scheme, s/he shall request the fund to make such amendments to the scheme, or to submit such new scheme, as will enable him to be so satisfied, and the fund shall comply with the request within a period prescribed by the registrar, not being less than 30 days from the date of the request, and shall at the same time furnish to the registrar a report on such amendments or such new scheme by the valuator or auditor.    After the approval of the recovery scheme, the fund shall carry out the terms of any scheme as per approval. The registrar may, if he is satisfied that none of the objects of the PFA would be prejudiced, allow the fund to amend such scheme from time to time. If any return deposited with the registrar during the currency of such scheme in terms of the PFA shows, in the opinion of the registrar, that the scheme is unlikely to accomplish the objective restoring the financial soundness of the fund, s/he may withdraw his approval of the scheme, and the fund concerned shall, within three months thereafter, prepare a further scheme, to which the provisions of this section shall apply. In addition, if any such return shows, in the opinion of the registrar, that the financial condition of the fund is no longer unsound, s/he shall communicate with the principal officer of the fund to that effect and on receipt of such communication the obligations of the fund in respect of that scheme shall terminate immediately.    The Authority may at any time, if it is necessary in the interests of the members of a fund, direct that an investigation in terms of [section 16](https://discover.sabinet.co.za/webx/access/netlaw/24_1956_pension_funds_act.htm#section16) or an audit or both an audit and such investigation be conducted into the financial position of a fund generally or with reference to any financial aspect of the fund. The costs pertaining to the audit or investigation contemplated in paragraph (a) shall constitute a first charge on the assets of the fund unless otherwise determined by the registrar.  Following the audit or investigation herein referred a report must, within the time and in the format stipulated by the registrar, be furnished to the registrar and the board. |

1. Discuss the possible sources of a surplus in a pension fund. **(5)**

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| * Past benefits not paid * Higher contributions * Higher investment returns * Members paid only their contributions plus interest before changes in legislation * Fund related costs being materially lower than expected |

1. Discuss how contribution rates or solvency of a retirement fund are affected by each of the following:
   1. Longevity
   2. b. HIV/AIDS

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| **Socio-Economic Factors Affecting Pension Funds And Pension Valuations**  **Effect of longevity on solvency**  The longer people are living, the longer pension funds need to continue with payouts. On the flipside, it might mean that members are retiring later than the normal retirement age. This leads to more accumulation of contributions and growth in benefits.  **Effect of HIV/AIDS on solvency**  There will be more exits than anticipated and that may put the risk of insolvency at a higher level. Where a fund is defined benefit, it might result in higher employer contributions which may not be sustainable. |