BOARD NOTICE

BOARD NOTICE 37 OF 2007

PENSION FUNDS ACT NO. 24 OF 1956

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

I, Robert James Gourlay Barrow, Registrar of Pension Funds, hereby, under paragraph (a)(i)(bb) of subsection (2) of section 14B of the Pension Funds Act (No. 24 of 1956), prescribe the assumptions to be used in the determination of the minimum individual reserve payable to a member of a defined benefit category of a pension fund, as regards rates of pension increases, mortality rates and rates of discount, as set out in the Schedule.

This Notice is called the Notice on Assumptions for the Determination of Minimum Individual Reserves of Members of Defined Benefit Categories of Pension Funds, 2007 which will be effective from 1 March 2007. This Board Notice replaces Board Notice 44 of 2006 dated 30 May 2006.

RJG BARROW
Registrar of Pension Funds

SCHEDULE

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

    (a) "the Act" means the Pension Funds Act, 1956 (Act No. 24 of 1956), and any word or expression to which a meaning is assigned in the Act has, unless the context otherwise indicates and subject to subparagraph (b), the meaning so assigned to it; and

    (b) a word or expression defined or explained in a Note to the Table in paragraph 2, has the meaning as so defined or explained.

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

TABLE OF ASSUMPTIONS		
Column 1	**Column 2**	**Column 3**
Matters in respect of which assumptions are to be applied	Assumptions to be used at or after the surplus apportionment date **(Note 1)**	Assumptions to be used between the date of leaving service and the surplus apportionment date **(Note 1)**
Rate of increase in the deferred pension from date of exit to the earlier of date of retirement and the surplus apportionment date, being Date k	Nil	C per annum, compound where – $$(1+C)^t = \frac{C_k}{C_{exit}} (1{,}01)^t$$ Where C_k is the value of the Consumer Price Index at Date k; C_{exit} is the value of the Consumer Price Index at the month end coincident with or immediately following the date of exit; and t is the period in years from date of exit to Date k
Capitalisation of pension at date of retirement (including rate of increase in pension, discount rate, proportion married, age difference between spouses, and mortality)	As per actuary **(Note 4)**	As per actuary **(Note 4)**
Discount rate applicable prior to retirement	ILG Yo + 0,05 Yo **(Note 2)** or 40%.EY, where the choice between the options must be advised to the Registrar, and any change is subject to the approval of the Registrar **[Note 5)**	**d,** being the effective nett investment return per annum earned by the fund over period, t defined by- $(1+d)^t$ = the gross investment return earned by the fund, less retirement fund tax and investment management expenses, over period t. **(Note 6)**
retirement	Nil	Nil
Fair value equivalent factor	**'Note 3)**	1

Motes to Table

1. Where the former member leaves the fund in circumstances in which a minimum benefit is payable, the minimum benefit shall be calculated in terms of Column 2 of the Table.

   Where the former member left the fund prior to the surplus apportionment date and the fund is determining the enhancement which might be due to the member in terms of section 15B(5)(b) of the Act at the surplus apportionment date-

   * if the member has not retired prior to the surplus apportionment date, the valuator shall determine the deferred pension as at the surplus apportionment date using the assumptions in Column 3 of the Table, capitalise such pension at the surplus apportionment date using the assumptions in Column 2, and then discount the capitalised pension to the date of exit using the discount rate in Column 3;
   * if the member has retired prior to the surplus apportionment date, the valuator shall determine the deferred pension as at the date of retirement, capitalise this pension at date of retirement, and discount the capitalised pension to the date of exit, in all cases using the assumptions in Column 3.

2. ILG % is the composite annualised yield on long dated index linked gilts (i.e. with a term to maturity of 10 years or more) weighted according to the amount of the bonds in issue, as published with effect from the end of the first month after the commencement date of this Schedule, on a monthly basis by the Registrar of Pension Funds on the website of the Financial Services Board ("www.fsb.co.za"),

   + 1,35 %, being an allowance for an equity or risk premium;
   - 1 %, being an allowance for salary increases in excess of the change in the Consumer Price Index;
   - 0,3 %, being an allowance for investment management fees,

   giving rise to a total adjustment of + 0,05%.

   EY is the Earnings Yield on the All Share Index, adjusted to take account of capital gains tax to the extent deemed necessary by the actuary after taking account of the investment strategy of the fund. The Registrar of Pension funds will publish the basic rate monthly on the website of the Financial Services Board ("www.fsb.co.za").

   The yields used in the calculation should be as at the close of business on the date of exit or, if the calculation is performed prior to the date of exit, the yield as at the most recent month-end: Provided that such month-end shall not be more than 2 months prior to the date of exit and provided further that if the date of exit is not at the month-end the yield at the month end immediately prior to the date of exit may be used.

3. The fair value equivalence is achieved through the use of the current market yield on index linked gilts as the primary driver of the discount rate, or 40 % of the earnings yield. No further adjustment is needed.

4. **"As per Actuary"**

This means that the assumptions should follow those used by the actuary to the fund in the statutory actuarial valuation coincident with, or the closest effective date preceding, the relevant date. If the former member has not yet retired as at the surplus apportionment date, this will be the statutory actuarial valuation at the surplus apportionment date. If the former member retired before the surplus apportionment date, it will be the statutory actuarial valuation coincident with, or closest preceding, the date of retirement of the former member.

The actuary to the fund, with the agreement of the board of the fund, may, under exceptional circumstances, motivate to the Registrar why some of the assumptions used in the previous statutory actuarial valuation should be changed for the purpose of the surplus apportionment in terms of section 15B of the Act. Any such change to the method or assumptions used in the valuation will be rejected by the Registrar if it is not supported by-

- the experience of the fund modified to take account of anticipated future experience, where appropriate; and/or
- decisions taken at the time by the board of the fund in consultation with the actuary.

The Registrar will view very seriously any reversion to the method and assumptions used in the prior valuation at the valuation subsequent to the surplus apportionment exercise, once the valuator has motivated a change to the assumptions for the purpose of the surplus apportionment.

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

5. **Alternative approach using the Earnings Yield on the All Share Index**

In promoting this basis, the Actuarial Society of South Africa assumed that future productivity increases would balance salary increases and expenses. No adjustment *is* therefore required for the effect of capital gains tax if such tax is applied to pension funds.

The election as to whether to use-

* The index linked gilt yield + 0,05%; or
* 40 % of the earnings yield on the All Share Index less an allowance for capital gains tax,

should be taken by the board at the time of the surplus apportionment. It may be reviewed thereafter with the consent of the Registrar. Boards are advised, however, that the Registrar will take a critical approach to choosing whichever will give the higher discount rate from time to time.

6. Guaranteed Fund, Hedging Strategies and Use of Proxy Investment Returns

Where the fund has adopted a special strategy to limit the possibility of investment losses after the exit of the members, which would include the use of investment portfolios which include guarantees, the actuary shall take account of this when determining the discount rates. A motivation of any variation to the standard set out above shall be provided when the relevant scheme is submitted.

Where the fund is not able to determine the nett investment return earned by the fund over the period, either the fund may use the default rates published by the Registrar of Pension Funds on the website of the Financial Services Board ("www.fsb.co.za"), or the fund may use a pooled investment portfolio for which the information is available and which is broadly representative of the investment mix of the fund, as a proxy for the nett investment return earned by the fund.