ACTUARIAL SOCIETY OF SOUTH AFRICA

QUANTIFYING RISK, ENABLING OPPORTUNITY

DC Projection statement - principles

- Purpose – indication of pension member can expect at retirement
- Assumptions have big impact on younger members – biggest group
- Changing assumptions year to year→ significant volatility→ reduce confidence of members in statements
- Longer term conditions have biggest impact – requires long term view
- Financial repression→ low yields – short term? ↑ variability - what do you show members?
- Relationship between assumptions important
- Needs to be simple, practical and easily explainable to lay member

DC Projection statement – Pre-retirement basis

- Based on real rates (above CPI)
- Salary increases
  - No age related promotional scale
  - Salary inflation of CPI + 2%
- Investment Return

Asset Class	Allocation	Real Return
Equities	70%	5.5%
Bonds	20%	2.5%
Cash	10%	1.5%
Total	**100%**	**4.5%**

  - Unfavourable - 3.0% real (1% above salary increases - prev 3%)
  - Expected - 4.5% real (2.5% above salary increases - prev 4%)
  - Favourable - 6.0% real (4% above salary increases – prev 5%)
- No withdrawal or mortality assumed → 100% preservation

DC Projection statement – Post-retirement basis

- Allow for 75% of CPI increases, 50% spouse pension, 5 year grtee
- Investment Return

Asset Class	Allocation	Real Return
Equities	40%	5.5%
Bonds	40%	2.5%
Cash	20%	1.5%
Total	**100%**	**3.5%**

  - Less capital charge of 1% to 1.5%
  - Plus 25% of expected CPI (1.25% to 1.5%)
  - Between 3.25% - 4.00% → decided to use 3.5% (prev 4%)
- Mortality – PA(90) -2 + 1% improvement for 10 years
- 100% married, husband 4 years older and full share purchase pension