APN 204: ACTUARIAL DISCRETION IN TERMS OF RETIREMENT FUND RULES

1.1 APN204 is an Advisory Practice Note (APN) and compliance with it is advisory. APN 204 replaces PGN 204. Where legislation or other documentation refers to PGN 204 it should be interpreted as APN 204.

1.2 In the drafting of the rules of a retirement fund, the actuary should warn the trustees against the provision of a benefit based on the fund's part-service liabilities in respect of a member. The trustees may achieve the same effect by adoption a rule or resolution that specifies the factors to be used and the method of using them. The advantages of doing so are: (a) the actuary cannot then be accused of the exercise of arbitrary or discriminatory practice in the determination of benefits, and (b) the valuation assumptions do not have to be determined with a view to benefit calculations. The disadvantage is that, if at a subsequent date it is considered that valuation assumptions are appropriate, it may not be possible to reduce the factors for service prior to that date. In order to avoid this disadvantage, the rules should stipulate that if, on the advice of the actuary, the trustees decide that the factors should be reduced in order to maintain the fund in, or restore it to, a sound financial condition, they shall be so reduced.

1.3 If, however, the rules of a retirement fund refer to "actuarial reserve value", "actuarial interest in the fund", "cash value of accrued pension", or similar expressions in the specification of benefits, and such expressions are not very clearly defined, the actuary should motivate a resolution or practice note, to be adopted jointly by the trustees and the actuary, which governs the practice of any such vague rule.

1.3.1 Such a practice note would provide greater clarity as to how the actuary would approach a particular situation.

1.3.2 By way of example, a practice note covering the calculation of the actuarial reserve value could specify that:

"In terms of Rule …., the Actuarial Reserve Value will be calculated by the Actuary using the past service liability on the projected unit method, and using the actuarial assumptions adopted in the most recent statutory actuarial valuation of the Fund. The value placed on the assets of the Fund will not affect the member's Actuarial Reserve Value. The Actuary may depart from this method and these assumptions in special circumstances, provided he or she justifies such departure to the Trustees and they agree to such change."

1.3.3 The actuary should ensure that the trustees apply their minds to the extent to which, if any, investment margins and surpluses are included in benefits. This may differ between individual benefits and bulk transfers.

1.3.4 It may be advisable to communicate any such decision to the members of the fund.

1.4 Actuaries are advised to address the issue of discrete changes to reserve values for individual members which can result from the use of ages based on complete years only. An example of a possible smoothing solution is to calculate reserve values at the anniversaries of valuation dates, and interpolate between such values.

THE RETIREMENT MATTERS COMMITTEE

THE ACTUARIAL SOCIETY OF SOUTH AFRICA

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