

Actuarial Society of South Africa

EXAMINATION

21 May 2021

Subject F204 – Retirement and Related Benefits Specialist Applications

Time allowed: Three hours and fifteen minutes, plus an additional five minutes
to allow for scrolling in the ASSA Exam Platform

Total marks: 100

INSTRUCTIONS TO THE CANDIDATE

1. *Ensure that you are logged in and authenticated through Examity before you attempt the examination.*
2. *Questions are only available in the ASSA Exam Platform and may not be printed.*
3. *Submit all of your answers in the ASSA Exam Platform only. No uploads of answers (handwritten or otherwise) to the ASSA Exam Platform will be accepted.*
4. *You may not use any other computer program (e.g. Email, MS Word or Excel) or files, nor open any other browser during the examination.*
5. *You may not make use of a Formulae and Tables book during the examination. Any such information that may be required will be provided to you within the examination.*
6. *You are strongly encouraged to use the first 15 minutes as reading time only, however, you may commence answering the paper whenever you are ready.*
7. *Mark allocations are shown in brackets.*
8. *Attempt all questions.*
9. *Show calculations where this is appropriate. You may use blank paper to carry out rough work calculations. You may use a calculator from the approved list only.*
10. *You may return to your answers to review and amend during the allotted examination time. Once you are happy with your answers you need to **Finish all and Submit** your work. Once you have submitted you will not be able to make any more changes to your answers.*
11. *You must submit all work BEFORE the end of the allotted examination time. Take this into account when planning your review and submission. There will be no time announcements.*

Note: Answers will be saved automatically during the examination if you are connected to the ASSA Exam Platform. However, the Actuarial Society of South Africa will not be held responsible for loss of data where candidates have not followed instructions as set out above.

END OF INSTRUCTIONS

QUESTION 1

You are the appointed actuary to The AD Provident Fund, a defined contribution fund providing retirement, death and disability benefits to the employees of AD Trading. The risk benefits provided by the fund are insured with a registered insurer.

- i. Explain the risks that a member, and his or her beneficiaries, of The AD Provident Fund are exposed to within the fund. [11]
- ii. Name and state the roles of the three main regulatory bodies responsible for the regulation of private retirement funds in South Africa. [6]
- iii. Analyse how the functions of, and regulations issued by, these regulatory bodies address the risks faced by members. [11]
- iv. Compare the role of the employer and the nature of the sponsor covenant in place between AD Trading and The AD Provident Fund with the employer role and sponsor covenant if the fund were a defined benefit fund. [6]

AD Trading has recently filed for bankruptcy and the company is being liquidated. As a result of this, The AD Provident Fund will also be closing.

The Trustees of The AD Provident Fund have requested your assistance in managing the closure of the Fund.

You have been asked to draft a memorandum to the Trustees, highlighting the factors to be considered in the closure of the fund, including the high-level practical steps that would need to be taken in preparation for liquidation and for deregistration.

In preparing your memorandum, your initial investigations show that no contributions have been paid to the fund for 6 months. There are also a number of long-outstanding unpaid benefits owed by the fund, as well as a few recent death, disability and withdrawal claims that are not finalised.

- v. Set out the points you would cover in your memorandum to the Trustees, addressing the steps to wind up, issues arising and further information required. [17]

[Total 51]

PLEASE TURN OVER

QUESTION 2

You are the valuator to a pension fund sponsored by Company A.

The fund has a defined contribution portion that is open to new members which has about 2 000 members. The fund also has a defined benefit section that has been closed for 18 years and consists of 30 members. The fund provides death benefits to members and these are insured.

Company A also provides disability benefits in the form of an income replacement plan. Disabled employees remain members of the fund with their contributions and the employer contribution being paid by the insurer. In terms of the rules, the fund acts as a conduit for the payment of employer contributions towards the disability benefits. Currently, of the gross employer contribution for defined contribution members of 15.0% of salaries, 1.5% is allocated towards the disability benefit, 2.0% is allocated to insured death benefits, 1.0% is allocated towards fund expenses and the balance is allocated towards retirement savings.

All members contribute to the fund at 7.5% of salaries and may make additional voluntary contributions.

Company A is in the manufacturing industry and is operating at 30% capacity due to the Covid 19 pandemic. Company A has requested that it be allowed to cease paying employer contributions to the fund for a period of time.

- i. Outline the requirements of the FSCA for Company A to cease contributions.

[4]

The FSCA requirements in i) above have been met and Company A is now engaging with the fund's trustees regarding the cessation of contributions. Company A has requested that it ceases contributions in full for a period of 4 months for all employees. Member contributions will also cease. The trustees have asked for your guidance in dealing with Company A's request.

- ii. Set out the advice you would provide to the trustees in respect of the defined contribution members.

[8]

- iii. Suggest three additional considerations that apply to defined benefit members.

[3]

One of the member trustees has asked that Company A provides a promise that it will pay the 4 months of unpaid contributions at a future date, with investment returns, to put members back into the same financial position they would have been in with no contribution cessation.

- iv. Assess the trustee's suggestion from the point of view of Company A.

[4]

[Total 19]

PLEASE TURN OVER

QUESTION 3

The South African retirement funding landscape has seen significant legislative changes over the past 5 years. Among these is the introduction of several default regulations. You have been asked, by the Board of Trustees of the SA Inc Provident Fund, to advise on the provision of annuities under the new regulations. The fund is currently valuation exempt.

- i. Describe the default regulations the trustees of SA Inc Provident Fund must consider in establishing an annuity strategy at retirement.

[5]

In complying with the default regulations, the Board of Trustees would need to ensure that it understands the available annuitisation options. The trustees are aware that the options range from in-fund pensions to insured annuities, and from life annuities to living annuities. They are not confident that they understand these complex options, which, in the context of the default regulations, place an onerous responsibility on the Board. You have been asked to assist.

- ii. Discuss the issues trustees need to consider in offering in-fund pensions.

[6]

- iii. Compare living annuities to life annuities including the advantages of each annuity type.

[7]

The Financial Sector Conduct Authority has recently published a draft conduct standard with conditions for the inclusion of living annuities within an annuity strategy.

- iv. State the principal conditions of this conduct standard, including:

- a. General conditions
- b. Measuring and monitoring sustainability
- c. Communication to members.

[6]

The Board has noted that the draft standards also set out recommended as well as maximum living annuity drawdown rates based on age. The Board would like to understand how these drawdown rates would have been determined and how the fund could go about determining its own rates.

- v. Explain how the recommended, maximum and fund-specific rates should be determined?

[6]

[Total 30]

[Grand Total 100]

END OF EXAMINATION