

# Actuarial Society of South Africa

## EXAMINATION

24 October 2016

### Subject F204 - Retirement and Related Benefits Fellowship Applications

Time allowed: Three Hours

#### *INSTRUCTIONS TO THE CANDIDATE*

- 1. You will receive instructions to log in using a password which will be issued to you at the exam centre.*
- 2. You are required to submit your answers in Word format only using the template provided. You MAY NOT use any other computer program (e.g. Excel) during the exam.*
- 3. Save your work throughout the exam on your computer's hard drive.*
- 4. You have 15 minutes at the start of the exam in which to read the questions. You are strongly encouraged to use this time for reading only, but notes may be made. You then have three hours to complete the paper.*
- 5. You must not start typing your answers until instructed to do so by the invigilator/supervisor.*
- 6. Mark allocations are shown in brackets on exam papers.*
- 7. Attempt all questions, beginning your answer to each question on a new page.*
- 8. You should show calculations where this is appropriate.*

**Note: 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.**

#### *AT THE END OF THE EXAMINATION*

**Save your answers on the hard drive.**

**Hand in your question paper with any additional sheets firmly attached.**

In addition to this paper you should have available the 2002 edition of the Formulae and Tables and your own electronic calculator from the approved list.
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## QUESTION 1

You are the employer-appointed actuary to ABC Inc, a medium sized company, sponsoring two retirement funds. One is an open defined contribution provident fund, and the other a defined benefit pension fund which has been closed to new entrants for many years.

At the fund's most recent statutory valuation at 28 February 2015, the defined benefit fund has assets of R513 million and liabilities in respect of active members of R282 million. The fund has a solvency reserve of R57 million and, under the rules of the fund, all future surplus is allocated to the employer. The balance of the assets is therefore allocated to the Employer Surplus Account (ESA). The employer is currently on a contribution holiday, which is being funded from the ESA.

The defined benefit fund conducted its most recent accounting disclosure valuation in terms of IAS19 as at 31 December 2014, in terms of which the company could recognise an asset of R236 million in its financial statements. The income recognised in the company financial statements was R12 million.

The defined benefit fund has 60 active members. At retirement, all pensions are purchased in the name of the pensioner, and therefore there are no pensioners in the fund. Active members have previously been given the option to convert their benefits to a defined contribution arrangement, but have refused to do so.

In the light of the defined benefit fund's decreasing membership, the employer is considering discontinuing the fund and closing it, but has no knowledge of what the implications of this would be. In terms of the rules, the fund would have to be liquidated.

- i) Explain the possible sources of difference between the results of the funding valuation and the accounting disclosure valuation done in terms of IAS19. [5]

You have been requested to draft a report setting out the issues the employer needs to consider in making a decision about the future of the defined fund.

- ii) Discuss the points you would cover in your report. [32]

The employer has informed the fund's board of trustees that it is considering closing down the fund. The trustees have also decided to take advice on the issues they need to consider and have requested the fund valuator to draft a similar report addressed to the trustees.

- iii) Suggest how the fund valuator's report might differ from yours. [4]

- iv) The fund valuator is also employed by your actuarial firm. Discuss how you propose to manage the conflict of interest that might arise in this situation. [3]

[Total 44]

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## QUESTION 2

BG Brother Industries (Pty) Ltd employs close to 5 000 employees across a wide range of skill sets from highly skilled professionals to unskilled factory workers. All employees belong to the same defined contribution pension fund and fall under the same membership category with the exact same level of benefits. The Company has as one of its objectives to improve the financial well-being and financial literacy of all its employees. It has asked the Trustees of the Fund to provide for this objective within the Fund's communication strategy.

- i) Discuss the key aspects that should be considered in devising an appropriate communication strategy in assisting members to better plan for their retirement. [8]
- ii) Discuss the use, and limitations, of benefit projection statements as an education tool within a fund's communication strategy. [12]

A group of members of the Fund have raised concern that the Fund is not delivering on its objectives to ensure a suitable retirement income for all members.

- iii) Discuss the various option that may be available to address these concerns. [5]

At a member presentation a new employee has questioned the Trustees on the appropriateness of the death benefits. The current arrangement allows for a lump sum of 2 times salary and a return of the member's retirement savings account.

- iv) Discuss the appropriateness of the current death benefit to all members and set out some of the considerations with regards to agreeing an appropriate level of death benefits. [5]

[Total 30]

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### QUESTION 3

You are the valuator to a defined contribution retirement fund, which has requested that you assist the trustees to submit an application for valuation exemption in terms of Section 2(5) of the Pension Funds Act. This is the first such application made by the trustees.

- i) Set out the regulator's requirements and conditions for valuation exemption application. [5]
- ii) Describe the possible advantages and disadvantages the trustees should be aware of in considering such an application. Suggest how the trustees might address the disadvantages. [7]
- iii) Describe the contingency reserves that a valuation exempt fund may decide to hold, indicating for each how you would decide on the appropriate level for such a reserve. [8]

The trustees are considering National Treasury's proposed regulations regarding default annuity strategies. The trustees do not want the default strategy chosen to impact the fund's potential valuation exempt status.

- iv) Briefly describe two appropriate options that are available to the fund in terms of the proposed regulations and list the advantages and disadvantages of each. [6]

[Total 26]

GRAND TOTAL [100]

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**END OF EXAMINATION**