

Actuarial Society of South Africa

EXAMINATION

22 October 2021

Subject N211 — Communications

Time allowed: Three hours and fifteen minutes, plus an additional five minutes to allow for uploading your file on the ASSA Exam Platform

Total marks: 100

INSTRUCTIONS TO THE CANDIDATE

1. *Ensure that you are logged in and authenticated through Examyty before you attempt the examination.*
2. *Ensure that you have your candidate number handy to input as part of the examination.*
3. *Questions are only available on the ASSA Exam Platform and may not be printed or copied outside of the ASSA Exam Platform.*
4. *You will be provided with Word and PowerPoint templates to access and use to complete your questions. You may only use the files provided to you. No other files from your PC nor any other browser may be accessed.*
5. *An Excel template will be available to use if necessary but will not be uploaded and used for the marking process.*
6. *Ensure that your Candidate number appears in the Header (Word template) and Footer (PowerPoint template). [Select “Insert”, then “Header”/”Footer”, input your candidate number on blank header/footer template and select “Close Header”/”Close Footer”]. DO NOT USE YOUR NAME OR MEMBER NUMBER ON YOUR ANSWER SCRIPT.*
7. *You are strongly encouraged to use the first 15 minutes as reading time only; however, you may start answering the paper whenever you are ready.*
8. *Mark allocations are shown in brackets.*
9. *Add your word count to the bottom of Question 1. Include words and numbers in tables and graphs.*
10. *Attempt all questions. Save your work continuously during the examination.*
11. *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.*
12. *Upload your answer files with your solutions to the ASSA Exam Platform. You need to upload your files BEFORE the examination time expires.*

13. *Once you have added your files, you MUST click on FINISH ATTEMPT to save your files. You will still be allowed to go back and make changes (Review Attempt) if you have time.*
14. *Once you are satisfied with your uploaded file, click **FINISH ATTEMPT and FINISH ALL AND SUBMIT** whereafter you will not be able to make more changes. Consider this when finishing early - once you have submitted, you will not be able to make any more changes to your answers.*
15. *It is the candidate's responsibility to ensure that all work is submitted BEFORE the end of the examination time. Take this into account when planning your review and submission. There will be no time announcements.*
16. *You should use blank paper to work on any calculations where this is appropriate.*
17. *An option to opt out of the examination will become available one hour after the official examination start time. If you select the Opt-Out option, you agree and understand that your entire script/answers will be deleted and cannot be retrieved at a later stage and that your script or part thereof will not be put forward for marking.*

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.

END OF INSTRUCTIONS

This question paper has three sections: generic information pertinent to both questions, Question 1 and Question 2.

Generic information pertinent to both questions

The South African government has enacted new legislation governing the use of provident fund money at retirement date. The legislation is effective from 1 March 2021 and aims to gradually align the treatment of pension and provident fund monies.

Legislation still allows members retiring from pension funds to take a maximum of a third of the value of their accumulated savings at retirement as a cash lump sum. All monies remaining after a cash withdrawal must be used to secure a pension within members’ current funds or to buy an annuity.

Up to 1 March 2021, all retirement savings in provident funds could be taken as a cash lump sum at retirement. This is no longer true in all cases. The table below sets out what funds may be used for what purpose.

Type of member	Use(s) of savings at retirement
Unretired members 55 years or older on 1 March 2021 who never transfer to another retirement fund	All accumulated capital at retirement may be taken in cash.
Unretired members 55 years or older on 1 March 2021 who subsequently transfer to another fund before they retire	All accumulated capital at the date of transfer and associated future returns may be taken in cash. A maximum of a third of the value of contributions paid after the date of transfer and their associated returns may be taken in cash. The remainder must be used to purchase an annuity from an approved provider if it amounts to more than R247 500. If less, then this portion of retirement savings may also all be taken in cash.
Unretired members younger than 55 years on 1 March 2021	The accumulated value of capital held on 1 March 2021 towards retirement and associated future returns may all be taken in cash. A maximum of a third of the value of contributions paid after 1 March 2021 and their associated returns may be taken in cash. The remainder must be used to purchase an annuity from an approved provider if it amounts to more than R247 500. If less, then this portion of retirement savings may also all be taken in cash.

QUESTION 1

You are the Head of Retail Client Services for WeCare, an insurance company that provides administration and consultation services to retirement funds. Mrs Belinda Roker is a WeCare affiliated broker who services several provident funds whose membership includes unretired individuals. Draft a letter of between 550 and 650 words to Mrs Roker, explaining to her how the above legislative changes will impact her clients. Briefly cover the types of fund members not affected by the change in legislation so that she has a full picture of what is happening and is unlikely to pass on incorrect information to others.

Notes:

- The letter is to be sent out six weeks before the implementation date of 1 March 2021.
- There is no need to state whether you expect fund members to have savings of R247 500 or less at their retirement date.
- Do not consider the possibility of members taking a partial cash withdrawal before retirement.
- Do not comment on purely administration aspects necessitated by the legislation change.
- Standard letters will still be sent out close to members' retirement dates setting out the options available to them in more detail.
- Write your response on a company letterhead. Create suitable recipient address and contact details where needed.
- Add your word count to the bottom of the question. Count from the start of the subject line to the closing sentence (including words and numbers in tables and graphs) but excluding addresses or complimentary close/signature.

[Total 50]

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QUESTION 2

You work for ProvFund as an actuary. ProvFund manages the administration and investment of provident and provident preservation funds. These funds cater for employees of small and medium enterprises, as well as individual members who are either self-employed or want to supplement their employer-arranged retirement savings. ProvFund also sells retirement annuities and living annuities.

From 1 March 2021, retirement reforms brought changes (as outlined above) to members of provident funds. With more changes likely in future, you have been asked to present a high-level summary of the changes and their effects to the board.

Your research on the topic and discussions with colleagues across the organisation on possible impacts are summarised below:

Recent changes:

Members would want to keep track of which savings are subject to which rules and be able to consider the advantages of investing for retirement and purchasing different types of annuities at retirement. To do this, a new administration system was needed.

Our administration system upgrades have addressed all the effects of these changes. There have been no major implementation issues and the system upgrades are running successfully so far.

There is the risk that some members may opt to reduce their new contributions to fall short of the minimum threshold of R247 500 at retirement. There is also the risk that the most suitable retirement income product may not be purchased.

Upcoming changes:

There are proposals to allow active retirement members to use 3-5% of retirement savings as a short-term savings tool. Members would be allowed to access this part of their fund pre-retirement if the financial need arises. Members may also be allowed early access to part of their retirement savings if they have been adversely affected by the Covid-19 pandemic.

Although legislation is not yet clear on these two issues, we can anticipate their effects on our business:

- The short-term savings portion of funds will be subject to a different investment strategy and regulatory requirements as well as increased administration and fund activity. This increases reputational risk since short-term returns are much more volatile and may not meet member expectations.
- We should identify those members who will become eligible for pandemic-related withdrawals. We could provide them with an additional service by outlining the implications of such withdrawals on the potential purchasing power of expected retirement income. Early identification will assist us in identifying potential short-term liquidity risk that may arise due to these withdrawals.

Growing business:

Members have freedom of choice in relation to the type of pension and provider when they retire. ProvFund would like to retain as many of the members of the funds they administer post-retirement as possible.

Establishing good communication channels with members would help retention, both pre- and post-retirement. Innovation is important as we seek to gain a larger share of the retirement income market. The product development team are working on potential ideas that will make our annuities more attractive by:

- increasing fee and expense transparency and
- creating more accessible investment outlook material.

With a larger investment pool, we will be able to implement more flexible investment strategies. With more funds available to invest on behalf of our members, we can diversify and increase investment income by following riskier investment strategies, within the appropriate regulatory framework. This will benefit both our clients, by increasing their potential returns, and our company, by attracting more members.

Prepare a PowerPoint presentation of no more than 10 slides outlining the recent legislative changes, their effect on different types of members, as well as the current short-term proposals and how these could affect the company. Also consider the impact on administrative requirements and investment strategies. You should touch on the potential for selling more of the company's other products when fund members retire.

The three slides below contain a draft outline of a suitable presentation. These may be changed as appropriate.

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Retirement Reform @ ProvFund Before and after P-day 21 March 2021

Presented on: 10 September 2021
Presented to: The ProvFund Board
Presented by: M Miller

Agenda

- Introduction
- Retirement reform – recent changes
- Retirement reform – possible short-term changes
- ProvFund readiness
 - Administration
 - Preservation
 - Innovation
- Summary

Introduction

- Major changes for provident fund members on 1 March 2021
- Compulsory purchase retirement income product for 2/3 of funds accumulated from 01/03/2021

WHY?

- Harmonise the retirement funding environment
- Ensure retirement savings are converted to retirement income

[Total 50]

[Grand Total 100]

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END OF EXAMINATION