

# **Actuarial Society of South Africa**

## **EXAMINATION**

October 2021

### **Subject N211 — Communications**

#### **EXAMINERS' REPORT**

This subject report has been written with the aim of helping candidates. This report summarises the main points that the examiners were looking for and some common problems encountered.

The examination required the candidates to draft

1. A letter to a broker outlining upcoming changes to provident funds.
2. A presentation to the board of a provident fund provider discussing recent and possible changes to retirement regulation as well as the possibility of customer retention and future growth as a result of these changes.

## **General Examiner’s comments**

### ***Question 1***

Candidates were expected to explain which categories of members could or would never be affected by the changing legislation (depending on their characteristics). Members needed to be further separated into those impacted and those not impacted. Benefits needed to be explicitly stated for all members active on 1 March 2021.

Numerous candidates omitted to say that pension fund members, or those who are already retired on 1 March 2021, will be unaffected by legislative changes.

Stating that active members who were younger than 55 on 1 March could take all their accumulated contributions in cash at that date was a fatal flaw. If brokers were to explain this to their members, they would be responsible for misleading them. For the same reason, stating that over 55’s who transfer to a new fund pre-retirement may take their accumulated savings as cash at the date of transfer was a fatal flaw. These flaws resulted in some candidates missing out on exemptions.

It would assist many candidates if they correctly memorised the formats for the types of writing included in the course. Candidates could either assume that Mrs Roker works from home (and type a home address directly under “Mrs B Roker”) or assume that she works for a brokerage (and include an imaginary brokerage name between her “Mrs B Roker” and the brokerage address). Those who forgot to include a word count at the end of the letter received zero out of four marks. Words and numbers that are contained in tables and graphics must be included in the word count.

It was better to add value to the table in the question paper to include more columns (eg transfer/not) rather than simply using the given column layout (cut and paste). Categories could also be bulleted. Alternatively, the information given in the table could be completely expressed in paragraph form.

Some candidates unnecessarily rounded R247 500 down to R247 000. This is not required for numbers of this magnitude and specificity. Other candidates correctly calculated the maximum amount that could be accumulated after 1 March 2021 (or the transfer date for those older than 55) before an annuity purchase was required as R371 250 ( $247500 \div 2 \times 3$ ). If properly expressed, this alternative was marked as correct.

*Question 2*

This question required candidates to explain the effects and associated risks of the recent and proposed changes to retirement regulations to the board of a provident fund provider. Candidates also had to cover the potential for client retention, as well as future growth, so ending on a positive and optimistic note was important.

Most students were able to include the required content reasonably well with better candidates making sure to cover all the sections required in sufficient detail and to draw out the implications of the changes for both members and the company.

The main challenge was ensuring that all the messages came across clearly since there were several elements that had to be discussed. Achieving an appropriate tone and professional style for the board of a company was important for candidates to be successful.

Better candidates were able to include tables and graphics to differentiate some of the slide designs to keep interest. If lead-in sentences were used for bullet lists, each bullet needed to follow these grammatically, logically and coherently; consistency in the use of sentences and phrases was important to maintain parallel structure.

Weaker candidates were not able to achieve an appropriate level of detail and tone for a presentation to the board. A board is unlikely to need to know what the background of the company is but will likely need a refresher on the details of recently implemented regulation changes.

It is recommended that students use the maximum slides permitted to avoid overloading (with small font and poor readability).

## Question 1 - Draft Solution

Company letterhead, including address and contact details

15 January 2021

Mrs B Roker  
Roker’s Brokerage  
14 Light Way  
Durbanville  
7550

Dear Mrs Roker

### **Changes in legislation on lump sum withdrawals at retirement**

New legislation about how your clients’ lump sum withdrawal benefits at retirement are treated comes into effect on 1 March 2021 (Implementation Date). The intention is to equalise the treatment of pension and provident funds at retirement over time. Whether or not this impacts your clients will depend on their fund type, member age, future changes in member employment and the value of member investments at retirement. This letter will help you to identify which of your clients will be impacted by the legislative change.

#### **Those not impacted**

Individuals who are already retired and members of pension funds are not impacted by the legislation. Both categories of members may take at most a third of their savings as cash and receive the rest as a regular income in retirement.

Active members of a provident fund, however, may or may not be impacted depending on their age. If they are aged 55 years or older on Implementation Date and they remain in the same provident fund until retirement, they will not be impacted by the legislation. These members may withdraw all their savings as cash at retirement.

#### **Transferring provident fund members aged 55 years or older**

If a member transfers to a different fund after the Implementation Date, but before they retire, their savings at the time of transfer, and all investment growth on this money, may be taken as cash at retirement.

All new contributions into the new fund, and related investment growth, may be dealt with differently than in the past. This is set out in the section headed “Provident fund savings treated differently at retirement”.

#### **Provident fund members younger than 55 years**

Contributions paid before the Implementation Date, and their related growth, may all be taken as cash at retirement. There may, however, be limitations on the way they use accumulated contributions paid after Implementation Date. These are specified in the next section.

**Provident fund savings treated differently at retirement**

To recap, only new contributions (and related growth) of two types of members are likely to be impacted by the new legislation:

- members 55 years and older on Implementation Date who transfer out of their fund after this, and
- members younger than 55 on Implementation Date.

For members 55 years or older, the rules below only apply to new contributions after they have transferred to a new fund. For younger members, they apply to new contributions after Implementation Date.

If members fall into either group, they may take all their new savings in cash if these are worth R247 500 or less at retirement. If new savings are worth more than R247 500, they may take a maximum of a third as cash. The remainder must be used to secure a regular income in retirement.

**Standard pre-retirement letter**

WeCare will send out a personalised letter to all members close to their retirement date that details their specific retirement options.

**Conclusion**

You are now able to explain in advance to your clients and their members who will be affected by new legislation. To summarise: if provident fund members are 55 years or older on the 1 March 2021, the new rules only apply to contributions made after any transfer to a new fund. Otherwise, they apply to all contributions made by provident fund members after this date.

If you would like more information on these or other pending legislative changes, please call me on (0860) 123 4567.

Yours sincerely

*Anne Masinga*

Anne Masinga  
Head of Retail Client Services

[577 words]

**Question 2 - Draft Solution**



Retirement Reform  
@ ProvFund  
Before and after  
1 March 2021

Presented to: The ProvFund Board  
Presented by: Max Miller, Actuary  
Presented on: 10 September 2021

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Agenda

- Purpose of changes
- Retirement reform
  - recent changes
  - possible short-term changes
  - risks
- ProvFund readiness
  - Administration and Preservation
  - Innovation
- Summary

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## Purpose of changes

### WHEN?

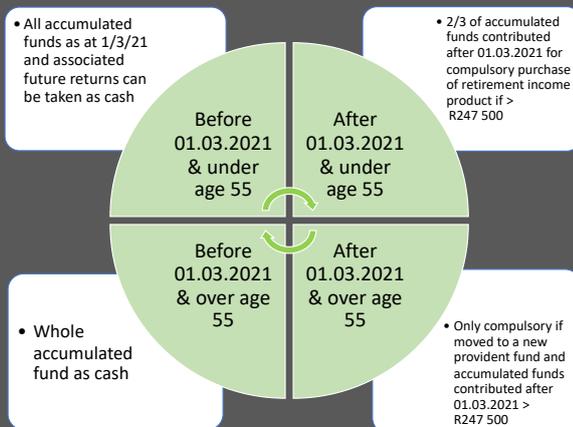
- Major changes for provident fund members on 1 March 2021
- Compulsory purchase of retirement income product for 2/3 of funds accumulated from 1 March 2021

### WHY?

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

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## Retirement reform – recent changes



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## Retirement reform – possible short-term changes

- **Short-term savings (3-5%)**
  - Some portion of new contributions to be used as a short-term savings plan
  - Ring-fenced with a different investment strategy and different growth outlook
  - Increased administration burden likely
- **Covid relief**
  - Members to meet specific criteria to withdraw a portion of savings
  - Potential to lead to liquidity issues for ProvFund

### SO

- ProvFund must establish who will be eligible before legislation comes into play and outline comparative scenarios of withdrawal vs none

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## Retirement reform – risks

### Recent changes – risks to members

- Inappropriate purchasing decisions at retirement
- Reduction in contributions to fall below threshold of R247 500

### Possible future changes – risks to ProvFund

- potential reputational risk due to volatility of returns for ST savings
- liquidity risk if pandemic withdrawals higher than anticipated

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## ProvFund readiness – Administration and Preservation

- Following the regulatory changes, members would need to keep track of which savings fall under which set of rules
- New administration system upgrades implemented successfully

We want to:

- preserve our current member base

**HOW?**

- Establish and maintain good communication channels

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## ProvFund Readiness - Innovation

- Use current member base as starting point for new retirement income clients
- Attract outside retirement income clients

**BY**

- Increasing transparency of charges and fees
- Creating more accessible investment outlook materials

Larger client base = larger fund = more flexible investment strategy = wider investment outcomes 😊

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## Summary

- ProvFund has implemented the changes to the admin system successfully – the investment of resources has been successful
- PovFund is able to preserve its current member base
- ProvFund can adapt as legislation continues to change
- ProvFund is innovating to meet the new customer demand brought on by changes in legislation

We will continue to build member relationships and innovate to meet consumer demand

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## Thank you

Any questions?

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- x2405

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**END OF EXAMINERS' REPORT**