



## **Subject F204**

## **Retirement and Related Benefits**

## **Fellowship Applications Syllabus**

For the 2023 Examinations

October 2022

The syllabus is up to date with industry developments as at the end of May in the year preceding the publication of the syllabus. However, students attempting F200 subjects should also have knowledge and be aware of topical, relevant and current issues, as these may also feature in the examinations.



## Aim

The of F204, retirement and related benefits applications, is to instil in successful candidates the ability to apply knowledge of the South African pension and employee benefits environment and the principles of the actuarial practice of pension and employee benefits provision to a South African retirement fund or employee benefits provision scheme.

## Links to other subjects

Subject F104 — retirement and related benefits principles provides the underlying principles upon which this subject is based. It is assumed that students have a good understanding of the principles covered in that subject.

Candidates can expect to be examined in aspects of general principles developed in Subject F104 — retirement and related benefits principles, as well as in the SA specific aspects developed in this subject.

## Objectives

On the successful completion of this subject the candidate will be able to:

### **1) Describe the stakeholders involved in the provision of pension and employee benefits in South Africa, and the local economic and commercial environment which the provision of such benefits is subject to.**

Specifically, the candidate will be able to:

- a) Define the principal terms used in the provision of pension and employee benefits in South Africa.
- b) Identify and discuss the various benefits that are offered or are proposed to be offered by the South African state to its people, including:
  - i) The State Old Age Grant;
  - ii) The proposed National Social Security Fund;
  - iii) The Unemployment Insurance Fund;
  - iv) Disability grants;
  - v) The child grant.
- c) Identify and discuss the various benefits that are offered by South African employers, and the common form and structure of those benefits in South Africa.
  - i) Retirement funds;
  - ii) Retrenchment benefits;
  - iii) Death and disability benefits;
  - iv) Leave benefits, including holiday, maternity and paternity leave, sick leave, family responsibility and other types of leave;



- v) Bonuses and other performance incentives;
  - vi) Non-monetary benefits such as working environment, workplace healthcare and wellness, training and education.
- d) Explain how South Africa's demographic profile influences the current and proposed provision of state benefits and the relative importance of death, disability and retirement benefits in occupational funds.
- e) Discuss the economic influences in South Africa which affect the demand for and supply of pension and employee benefits, in particular:
- i) Discuss the effect of the post-apartheid legacy in terms of the distribution of wealth, education and employment amongst different population groups on the need and provision of benefits in the country.
  - ii) The taxation of pension and employee benefits funds and the effect of this incentive system on provision of these benefits in South Africa.
- f) Identify and describe the role, motivations and responsibilities of the stakeholders in the provision of private pension and employee benefits; in particular:
- i) The Financial Services Board;
  - ii) The South African Revenue Service;
  - iii) The South African Reserve Bank;
  - iv) The Trustees, and in particular the Chairman of the Board of Trustees;
  - v) The Principal Officer;
  - vi) The Pension Funds Adjudicator;
  - vii) Trade unions and employee organisations;
  - viii) The Administrator;
  - ix) The Sponsor, with particular reference to umbrella and industry funds.
  - x) All of the remaining stakeholders as listed in Subject F104:
    - (1) The employer;
    - (2) The member;
    - (3) The trustees;
    - (4) The state;
    - (5) The actuary;
    - (6) Other service providers, including advisors, insurers and investment managers; healthcare and training providers, human resource specialists.
- g) Describe the legislative and regulatory framework for pension and employee benefits; in particular:
- i) Describe, analyse and apply relevant regulations in the South African pension and other benefit provision; in particular:
    - (1) Describe the structure of a retirement fund, including the composition of the Board of Trustees; the regulatory reporting requirements of a retirement fund; the requirements placed on service providers; and the governance framework within which retirement funds operate.
    - (2) Describe the various types of retirement funds permitted in terms of the Income Tax Act, including provident and pension funds, preservation funds and retirement annuities ;



- (3) Describe the investment restrictions placed on retirement fund investments.
- ii) Discuss the statutory obligations of a pension fund valuator in the South African environment.
- h) Explain the issues that affect cross-border retirement provision when operating from South Africa.

**2) Analyse the problems that occur in the provision of pension and employee benefits in South Africa, analyse solutions that have been developed to address these problems, and demonstrate how these solutions can be monitored over time.**

Specifically, the candidate will be able to:

- a) Discuss the risks inherent to South African retirement funds and benefit provision, and develop risk mitigation strategies to manage these risks. In particular:
  - i) Describe the risks that affect the provision of pension and employee benefits in South Africa; with particular reference to:
    - (1) The coverage of retirement funding arrangements across South African workers;
    - (2) The lack of preservation of retirement benefits and the interaction between unemployment, poverty and retirement funding;
    - (3) The high fee levels and lack of market efficiency and consumer awareness in the South African market;
    - (4) The use of tax incentives to encourage retirement savings and the advantages and disadvantages of the South African implementation of these incentives;
    - (5) The inefficiencies in the South African annuity market;
    - (6) The shift to defined contribution funds and the effect that this may have on retirement adequacy in the future;
    - (7) The lack of a savings culture in South Africa.
  - ii) Devise a risk management framework that appropriately addresses the key risks of major stakeholders through its policy framework, governance structure and monitoring procedures.
  - iii) Identify the various options available to manage the risks in a fund and recommend a suitable risk management solution for a particular fund.
  - iv) Analyse fund data for quality and appropriateness.
- b) Discuss the use of various options in the design of employee pension and employee benefit funds in South Africa; in particular:
  - i) The shift from defined benefit to defined contribution funds and the historical reasons for this change;



- ii) The difference between umbrella and stand-alone funds, the advantages and disadvantages of each and market trends with respect to consolidation;
  - iii) Typical member and employer contribution rates and practices employed in setting a contribution rate in South African retirement funds;
  - iv) The use of individual member investment choice and life-staging portfolios, and the use of defaults;
  - v) The trends in provision of additional benefits within South African funds such as death and disability benefits, funeral benefits; and the funding options utilised for such benefits;
  - vi) The use of flexible remuneration models and their advantages and disadvantages in meeting stakeholder needs.
- c) Discuss the need for and practice of valuing a retirement fund in South Africa; in particular:
- i) Describe the need for, the practice and the disclosure requirements for a defined benefit valuation, including section 18 schemes;
  - ii) Describe the need for, the practice and the disclosure requirements for a defined contribution valuation;
  - iii) Discuss the requirements and implications of a valuation exemption in the South African environment.
- d) Discuss the options available for the financing and funding of retirement benefits in South Africa, and evaluate the solvency of a retirement fund; in particular:
- i) Develop and advise on appropriate funding schemes for different types of plan and benefit.
  - ii) Describe how the management and funding of a closed defined benefit fund differs from the management of an open defined benefit fund.
  - iii) Quantify and advise on the impact of a defined benefit fund on the balance sheet of a sponsoring employer using International Accounting Standards.
  - iv) Derive and justify appropriate bases for the valuation of defined benefit liabilities.
- e) Describe how an investment strategy for a retirement fund can be developed and implemented; in particular:
- i) Analyse the issues facing retirement plan sponsors regarding investment of fund assets and make recommendations on the actuarial issues.
  - ii) Compare and contrast active and passive asset management methodologies and advise a retirement fund on how to select the most appropriate approach.
  - iii) Discuss socially conscious investments and their role in retirement fund investing.



- f) Design suitable benefit plans to meet the needs of various stakeholders, and assess the design outcome and suitability of various benefit designs; in particular:
  - i) Discuss how employment-related benefits coordinate with social insurance benefits in South Africa;
  - ii) Discuss how human factors relating to effective communication and behavioural science impact upon financial decision making and product design in South Africa;
  - iii) Discuss how current South African government policy and policy proposals impact on retirement product / fund design;
  - iv) Formulate and implement defined benefit to defined contribution transfers, liability buy-outs and scheme amalgamations using appropriate modelling techniques.
  
- g) Describe the factors affecting individuals in their retirement planning process; in particular:
  - i) Discuss the impact of individual member choice and the use of defaults and life staging portfolios on individual's investment selection process;
  - ii) Discuss the factors that influence the investment decision of an individual in a member choice plan, including the financial position of the member, their risk tolerance, the availability and cost of various investments, and the individual's retirement timing and post retirement investment strategy.
  - iii) Analyse the reasons and limitations of benefit statements, benefit projections and replacement ratio projections;
  - iv) Discuss the considerations that should be taken into account when selecting a post-retirement income product; in particular:
    - (1) The advantages and disadvantages of living annuities as compared to life annuities;
    - (2) The implications of selecting a level pension vs. increasing pension;
    - (3) The balance between lump-sum and pension;
    - (4) The features of open market vs. in-fund pensions.
  
- h) Monitor and assess the actual experience of retirement funds; in particular
  - i) Develop suitable bases for the following purposes:
    - (1) Defined contribution fund benefit projection
    - (2) Mergers and acquisitions
    - (3) Liability buy-out.
  - ii) Make appropriate adjustment to the valuation basis of a retirement fund based on new environmental or fund information.
  
- i) Evaluate the actuarial considerations in plan options and administration with specific reference to South Africa.
  
- j) Be able to act professionally and communicate appropriately with all stakeholders; in particular:
  - i) Describe and evaluate the role of actuaries in pension and other benefit provision, compared to other professionals;
  - ii) Formulate approaches to managing conflicts that appropriately address the professional and privacy issues as well as personal conflicts of interest;



- iii) Explain the key issues, drivers and stakeholder concerns that a provider should consider when communicating with members regarding their benefits. Communication mechanisms ranging from benefit statements to online benefit monitoring and online projection tools should be considered.
- iv) Be able to apply standards of actuarial practice and advisory practice notes and the code of professional conduct to real world situations. Apply the principles of professional practice in the context of pension and other benefit provision.

**End of Syllabus**