EXAMINATION

12 May 2026 (am)

Subject F204 — Retirement and Related Benefits Fellowship Applications

Examination writing time: Three hours and fifteen minutes (includes reading time)

Upload time: Five minutes

[Total time on examination countdown timer: Three hours and twenty minutes]

Total marks: 100

INSTRUCTIONS TO THE CANDIDATE

Failure to adhere to any of these instructions could incur examination sanctions including disqualification from the examination.

1. *Your examination countdown timer reflects your TOTAL examination time. Reading and writing time is three hours and fifteen minutes.* ***You may NOT continue to write during the five minutes upload time as this could lead to disqualification from the examination.***

2. *The question paper is available on the ASSA Exam Platform as a PDF download only and may not be printed. Copy/paste of questions or parts thereof is allowed from the question paper to your Word answer document only.*

3. *You may not access any file from your computer, use any other computer software (e.g., Email or Excel), or open or use any other browser, collaboration tools or AI tools, including those embedded in MS Word and Adobe AI assistant (e.g. Copilot, ChatGPT etc.) during the examination. Embedded AI tools must be disabled. You may not use Grammarly, Grammarly Premium or similar built-in language and grammar tools which must also be disabled. Microsoft Word spellcheck is allowed.*

4. *Use only the Word answer template provided in your personal folder under the "Exam" icon on your desktop. The file has already been named using your candidate number. Please confirm that your candidate number matches the candidate number used in the file name. If there is any discrepancy, notify an invigilator immediately. Do not rename your file and do not create multiple versions.*

5. *Ensure that your* ***full Candidate Number*** *is entered in the "header" of your Word answer document. [Double-click on the header at the top of the Word document, input your Candidate Number only in the header, then press "Esc" to close the header.]* ***Do not use your name or member number anywhere in your Word answer document. Your candidate number must be the only identifier used. Submissions that are incorrectly labelled or cannot be clearly identified by candidate number may not be marked and may result in forfeiture of the examination attempt.***

6. *You are required to submit your answers in Word format ONLY. No answers in any other format (e.g. handwritten) will be accepted. Save work regularly.*

7. *You are not permitted to bring any other material into the examination (e.g. a Formulae and Tables book). Any such information/material that may be required will be provided to you in the examination.*

8. *You are strongly encouraged to use the first fifteen minutes as reading time only, however, you may start answering the paper whenever you are ready.*

9. *Mark allocations are shown in brackets.*

10. *Attempt all questions, starting each on a new page (as provided for in the Word answer template).*

11. *Show calculations where appropriate. No materials may be used other than blank paper for calculations. Only calculators from the ASSA-approved list are permitted.*

12. *Upload a single version of your Word answer document only to the ASSA Exam Platform. Once uploaded, click **Finish Attempt.** You may still use **Return to attempt** to check that the correct version has been uploaded, provided you have time remaining. When you are satisfied with your upload, you must click **Submit all and Finish** to complete your submission. After selecting this option, no further changes can be made.*

13. *Candidates are responsible for ensuring that the correct content is uploaded for submission of their examination, that their answer script is successfully uploaded and submitted, and that it complies with the prescribed format, file size and submission location as communicated by ASSA. Submissions must be made via the examination platform. However, in the event of technical issues affecting the uploading of scripts to the platform, candidates may submit via the Incident Form. ASSA will not retrieve, replace or amend answer scripts where incorrect, incomplete or unintended versions are uploaded, where a script is not successfully uploaded or submitted via either the examination platform or the Incident Form within the stipulated timeframes (immediately in the case of an upload issue), or where candidates subsequently notify ASSA after the conclusion of the examination session that an incorrect file was submitted. Please note that candidates must both attempt and successfully submit their examination for it to be considered valid. Any attempt that is not successfully submitted in accordance with the above requirements will be regarded as incomplete and therefore invalid and will not be marked.*

14. ***You must submit your Word answer document onto the ASSA Exam Platform BEFORE the time on your examination countdown timer runs out.***

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. The onus remains on you to read and implement all examination instructions.

END OF INSTRUCTIONS

QUESTION 1

ABC Incorporated's pension fund ("the fund") has both active and pensioner members. The active members are all defined contribution members who will take the in-fund annuity and become pensioners within the pensions account of the fund when they retire. The annuity payable from the fund is guaranteed for life with pension increases targeted at 100% of CPI.

The audited financial statements of ABC Incorporated as at 30 June 2025 disclosed the following in respect of the pensions account within the fund:

	2025 (R million)
Amounts recognised in the Balance Sheet	
Market value of assets	1 744
Value of obligations in respect of pensioners	-1 727
Surplus	17
Amount not recognised due to asset ceiling limitation	-17
Pension fund asset recognised at end of year	0
Profit or Loss	
Interest cost	-168
Interest income on fund assets	209
Interest income on asset ceiling	-1
Net Profit	40
Financial assumptions	
Discount rate	11.1% p.a.
Inflation rate	4.2% p.a.
Pension increase rate	4.2% p.a.
Asset composition	
Local equities	35%
Foreign equities	15%
Local fixed interest	40%
Local cash	10%

i. Explain the asset composition of the pensioner assets of the fund.

[6]

REMEMBER TO SAVE

PLEASE TURN OVER

Since the 30 June 2025 financial statements were completed, the following has occurred:

- A pension increase of 3.2% was granted on 1 January 2026. The monthly pension roll after the increase is R11 million.
- For the 6 months to 31 December 2025, local equity markets returned 6.0%, local fixed interest returned 15.0%, local cash earned 4.5% and foreign equities earned -1% in Rand terms.
- Inflation expectations remain unchanged, but nominal bond yields have decreased to 9.1% as at 31 December 2025.

ii. Estimate the amounts recognised in the Balance Sheet at 31 December 2025 and the Profit or Loss for the 6 months to 31 December 2025. State any assumptions or simplifications that you make.

[10]

The Trustees of the ABC Incorporated Pension Fund have asked for your assistance in reviewing the investment strategy for the active members of the fund.

iii. Set out what the Trustees of the Fund should consider when setting the investment strategy.

[10]

The Trustees have asked whether they can use the same asset composition for the active members as what is currently being used for the pensions account.

iv. Draft your response to the Trustees.

[9]

[Total 35]

REMEMBER TO SAVE

PLEASE TURN OVER

QUESTION 2

A South African retirement fund currently offers retiring members the option to purchase an in-fund life annuity. The rules of the Fund set out the options in terms of any guarantee periods and/or spouse's benefits. Pension increases would be subject to the Fund's pension increase policy which targets inflation.

The Board is considering introducing an in-fund living annuity option.

A new trustee has asked you to explain the difference between a living annuity and a life annuity.

i. Describe the main differences between these two annuities.

[3]

ii. Compare a living annuity to the current in-fund life annuity from a member's perspective noting the advantages, disadvantages and major risks.

[8]

iii. Compare the two types of annuities from the perspective of the complexity for the Board of Trustees in managing these annuities within the Fund's annuity strategy.

[8]

The same trustee would like to understand how the Fund determines the pension that can be offered to a member under the current in-fund arrangement. As actuary to the Fund, you are responsible for setting the appropriate pricing for these in-fund annuities.

iv. Set out how you would design and manage an appropriate pricing calculator for the in-fund life annuity including an explanation of all the parameters and assumptions that must be taken into account.

[12]

[Total 31]

REMEMBER TO SAVE

PLEASE TURN OVER

QUESTION 3

In 2016, tax reform in South Africa allowed for the harmonisation of tax treatment across pension, provident and retirement annuity funds.

As part of this reform, individuals were granted tax deductibility on their contributions to any form of retirement fund of up to 27.5% of their taxable income, with an overall annual cap of R350 000.

i. Discuss why a government would consider offering tax deductibility on contributions to retirement funds.

[5]

ii. Outline the conditions in the Income Tax Act that a retirement fund needs to meet to be granted tax approval.

[4]

In the 2026 Budget Speech, it was announced that the maximum overall contribution per annum will be increased to R430 000 with immediate effect.

Sardonia Inc is a large South African construction company. The trustees of Sardonia Inc. Retirement Fund have asked for your assistance in understanding the impact of this on members.

They have asked you to compare the present value of future contributions for one of their senior site managers before and after the change. She is currently earning R1.4m per annum, is retiring in 10 years' time and contributes at the maximum contribution rate allowed for tax deductible rate of 27.5%.

The fund's assets are invested in a portfolio targeting CPI + 5%, and salary increases are expected to be CPI + 2%. Your long-term assumption for inflation has recently been revised to 3% p.a.

iii. Calculate the present value of future contributions for this member before and after the limit was increased.

[8]

The trustees are also concerned about members who earned at lower levels, such that the limit does not apply to them. They have asked you to explain the impact on a member currently earning R500 000 p.a. with 10 years to retirement.

iv. Explain the impact of the new limit on future contributions for this member.

[3]

v. In light of your answers to (iii) and (iv) above, comment on the fairness and impact of the change in maximum contributions for high and low earners.

[4]

REMEMBER TO SAVE

PLEASE TURN OVER

Older high earning employees of Sardonia Inc are putting the employer under pressure to allow them to stay in employment after retirement age of 60 to maximise the use of this limit and increase their retirement savings.

vi. Discuss the suggested change in the company's normal retirement age in respect of the company and its employees.

[10]

[Total 34]

[Grand Total 100]

REMEMBER TO SAVE

END OF EXAMINATION

