

FSCA COMMUNICATION 33 OF 2020 (RF)

Assumptions for the determination of minimum individual reserves of members of defined benefit categories of pension funds

1. PURPOSE

The purpose of this Communication is to inform funds that, in these times of high market volatility, they should consider adapting their minimum individual reserve assumptions to be in line with market yields at exit date.

2. BACKGROUND

- 2.1 In Board Notice 270 of 2013 (Board Notice), the Financial Sector Conduct Authority (FSCA) prescribed the assumptions to be used for the determination of minimum individual reserves of exiting members of defined benefit categories of pension funds in terms of Section 14B(2)(a)(i)(bb) of the Pension Funds Act, 1956.
- 2.2 The Board Notice considers the assumptions to be applied for the period prior to the assumed normal retirement date and those to be applied for the period after the assumed normal retirement date. This communication relates to the assumptions to be applied after the assumed normal retirement date.

3. ADJUSTMENT OF ASSUMPTIONS

- 3.1 In the calculation of the minimum individual reserve at exit, the assumptions to be applied to capitalise the pension at normal retirement date should be as per the valuator, where this is defined to mean that the assumptions must be consistent with those used by the valuator in the accepted statutory actuarial valuation with an effective date coincident with or the closest preceding the date at which the minimum individual reserve is calculated.
- 3.2 In this period of high market volatility, board member must take reasonable steps to protect the fund, whilst also being fair to all members.
- 3.3 Rather than waiting for a statutory actuarial valuation report to be accepted, funds may consider adapting the assumptions to be in line with markets, provided the board follows the same methodology in setting the assumptions to capitalise the pension at normal retirement date as was applied in the last accepted statutory actuarial valuation report but basing this methodology on the up to date bond yields at the exit date.

4. ENQUIRIES

For more information or enquiries regarding this communication please contact the Actuarial Services Department of the FSCA at giulia.tognon@fsc.co.za.

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