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To all registered insurers who underwrite pension funds

CIRCULAR PF NO. 122

Clarification of issues regarding the application of Regulation 36, applications for valuation exemption in terms of Regulation 2, small surpluses and deficits in respect of bulk applications

INTRODUCTION

1. This Circular should be read in conjunction with Circular PF115 and seeks to further clarify certain issues regarding the application of Regulation 36, applications for valuation exemption in terms of Regulation 2, small surpluses and deficits in respect of bulk applications.
2. In various circumstances a bulk application can be made for underwritten funds in batches not exceeding 100 funds by the valuator to these funds.
3. In addition to the original application, the valuator should submit the summary of results in an electronic format (e.g. a spreadsheet).
4. The valuator will be required to make a declaration on improper use of surplus as set out in section 15B(6) of the Pension Funds Act, Act 24 of 1956 ("the Act").
5. The valuator will be entitled to sign off the application provided that he confirms that he has the authority from each board of the funds listed in this application to act on their behalf.
6. In addition, Form C (see below) must be attached to every application. This must be signed by a duly authorised official of the insurer stating that the insurer takes joint responsibility, together with the valuator, for the contents of the bulk application.

FOR REGISTRAR OF PENSION FUNDS

Board Members: Dr Cyrus Rustonjee (Chairperson) Mr Abel Sithole (Deputy Chairperson) Mr Brian Hawksworth Ms Jabu Mogadime
Ms Nosipho Molope Prof P J Sutherland Ms Louisa Mojela Ms Hilary Wilton
Executive Officer: Mr J van Rooyen



ABBREVIATED RETURNS – BULK APPLICATIONS

If the funds satisfy either of the following sets of conditions, an abbreviated process for the actuarial valuation, “nil” surplus submission, and re-application for valuation exemption may be followed at the surplus apportionment date:

- A** The funds were registered prior to 7 March 2002 and –
- (i) Operated a mechanism for the automatic distribution of actuarial surplus at the end of each financial or scheme year;
 - (ii) The funds did not operate any form of reserve account;
 - (iii) The valuator is satisfied that the profits that have arisen on the exit of members in the prior year is less than the cost of a surplus apportionment scheme; and
 - (iv) The funds comply with the conditions of Regulation 2 as amended with effect from 24 January 2003 and would have complied with those conditions prior to the surplus apportionment date if they had been in effect.

If all the above conditions are satisfied, the attached Forms A and C should be completed and submitted to the Registrar.

- B** The funds were registered prior to 7 March 2002 and –
- (i) The funds have reserve accounts;
 - (ii) The administrators are able to confirm that the reserve accounts were not used for the benefit of any individual member or selected group of members or for the reduction of the employer contribution due in respect of any period after 7 December 2001;
 - (iii) The reserve accounts have been split into an investment reserve account and a contingency reserve account, the latter to cover the cost of surplus apportionment;
 - (iv) The valuator is satisfied that the balance in the contingency reserve accounts at the surplus apportionment date is insufficient to meet the costs of a fund’s surplus apportionment scheme; and
 - (v) The funds were previously exempted in terms of the Regulation 2 as existed prior to 24 January 2003.

If all of these conditions are satisfied, the attached Forms B and C should be completed and submitted to the Registrar.

FORM A

“Nil” surplus submission in respect of a collection of funds where the funds distributed any surplus or deficit arising during the year automatically at the end of such year and have never had a reserve account of any kind

CERTIFICATE

1. The funds are all defined contribution funds.
2. One of the following conditions is applicable:
 - 2.1 No pensions are paid from the funds. On retirement, the member's individual account balance, less any amount paid in cash, is used to purchase an annuity policy from a registered insurer; or
 - 2.2 Any pensions paid from the funds are fully secured through annuity policies purchased from insurers and owned by the funds.
3. All liabilities of the funds, to the extent that they exceeded the value of the members' individual accounts were fully underwritten by one or more registered insurers.
4. As far as can be established, the funds have never had accounts to which surplus assets could be allocated and therefore it may safely be assumed that there has been no improper use of actuarial surplus by the employer, as described in section 15B(6) of the Act.
5. In terms of its rules, any surplus or deficit which arose in the funds during a financial / scheme year was distributed to the surviving members at the end of the financial / scheme year. The only actuarial surplus available as at the surplus apportionment date to be apportioned was the total of any profits enjoyed on the exit of members in the year prior to the surplus apportionment date. This was quantified and is less than the cost of surplus apportionment.
6. There is no actuarial surplus or amounts in respect of “past improper utilisation of surplus” to be distributed in terms of section 15B(6) of the Act.

Valuation

7. The purpose of the valuation is, *inter alia*, to confirm that there is no actuarial surplus at the surplus apportionment date and that the principles of operation of the funds over the period from inception of the funds, or date of last expiry of valuation-exemption, whichever is the later, satisfied the requirements for valuation-exemption in terms of Regulation 2 made in terms of the Act.

8. I have used information supplied by the administrators of the funds concerning the rules of the funds, the systems with which it is administered, the assets, the members' individual accounts, the value of withdrawal profits earned by the funds in the year prior to the valuations and the estimated cost of surplus apportionment. I have confirmed that the data matches the information provided to the boards of the funds at the corresponding year-end.
9. The only contingency reserve accounts hold the lower of the estimated cost of a surplus apportionment scheme and the value of the withdrawal or expense profits earned by the funds in the year prior to the valuation date.
10. The valuation results are as follows:

Fund Details				Number of		Valuation Results (R'000)						
No	PF No (12/8/...)	Fund Name	Surplus Apportionment Date	Active Members	Paid-up Members	Assets Fair Value	Current Liabilities	Assets to meet past service liabilities	Total of members' individual account balances	Contingency reserve account – cost of surplus apportionment	Accrued Liabilities	Actuarial Surplus
						A	C	D = A - C	E	F	G = E + F	D – G (which should equal zero)
1												
2												
3												
...												
100												

11. An electronic copy of the table above is included with this submission.

12. I have scrutinised the rules and the method of operation of the funds since the issue of the previous certificates of valuation-exemption, or since the inception of the funds, and declare that, effective the surplus apportionment dates of the funds, to the best of my knowledge, the funds have complied with the following requirements, as contemplated by Regulation 2:

- (a) All members of the funds, other than pensioners, were entitled to a defined contribution type benefit;
- (b) All liabilities of the funds, to the extent that they exceeded the value of the members' individual accounts were fully underwritten by one or more registered insurers;
- (c) Any pensions paid from the funds are fully secured through annuity policies purchased from insurers and owned by the funds; and
- (d) The funds did not have any reserve accounts other than those allowed in terms of Regulation 2(d) as amended with effect 1 January 2003.

13. In respect of the period since the issue of the previous certificates, *or* the inception of the funds:

13.1 The method used to allocate investment returns to individual accounts is based on sound principles and has been as follows:

.....
.....

AND one of the following conditions is applicable:

13.2 The rate of investment return is not smoothed, i.e. the full net investment returns are allocated to members' accounts in the funds. The implementation of this policy does not endanger the financial soundness of the funds; or

13.3 The rate of investment return passed on to members is smoothed, and I am satisfied that:

- (i) the rate is reasonable in relation to the gross investment return earned by the funds, net of reasonable expenses, and
- (ii) the mechanism used to smooth the rate does not endanger the financial soundness of the funds, i.e. in the event of negative investment returns, benefits will be reduced accordingly.

AND

13.4 The treatment of expenses (including the premiums paid for the insurance of death and disability risks) is based on sound principles and has been as follows:

.....
.....

14. There are no instances of past improper uses of surplus by the employer (section 15B(6) of the Act) in the history of the funds.

Certificate by the valuator in support of the renewal of valuation-exemption for the collection of funds for a three-year period after the surplus apportionment date

15. I have scrutinised the rules and declare that, with effect from the surplus apportionment date for the funds, the funds comply with the following requirements, as contemplated in Regulation 2:
- (a) All members of the funds, other than pensioners, were entitled to a defined contribution type benefit;
 - (b) All liabilities of the funds, to the extent that they exceeded the value of the members' individual accounts were fully underwritten by one or more registered insurers;
 - (c) Any pensions paid from the funds are fully secured through annuity policies purchased from insurers and owned by the funds; and
 - (d) The funds did not have any reserve accounts other than those allowed in terms of Regulation 2(d) as amended with effect 1 January 2003.
16. To the best of my knowledge, there is no danger of the funds not complying with conditions (a) to (d) in paragraph 15 above.
17. The assets are suitable considering the liabilities of the funds.
18. In my opinion, continued exemption from the appointment of a valuator and triennial valuations as contemplated in sections 9A and 16 of the Act respectively is warranted.
19. I, (Full name), duly authorised by the funds declare that the information given above is correct to the best of my knowledge and belief.

Signed

Name in block letters

Date

FORM B

“Nil” surplus submission in respect of a collection of funds, where the funds as at surplus apportionment date held reserve accounts which are insufficient to fund the cost of surplus apportionment in terms of section 15B of the Act, and there is no history of transactions that would indicate any past surplus utilised improperly in terms of section 15B(6).

CERTIFICATE

1. The funds are all defined contribution funds.
2. One of the following conditions are applicable:
 - 2.1 No pensions are paid from the funds. On retirement, the members' individual account balance, less any amount paid in cash, is used to purchase an annuity policy from a registered insurer; or
 - 2.2 Any pensions paid from the funds are fully secured through annuity policies purchased from insurers and owned by the funds.
3. All liabilities of the funds, to the extent that they exceeded the value of the members' individual accounts were fully underwritten by one or more registered insurers.
4. The funds do have reserve accounts but have previously been exempted from valuation as they have complied with the requirements set out in Regulation 2 of the Act as it read prior to 1 January 2003.
5. There is no actuarial surplus or amounts in respect of “past improper utilisation of surplus” to be distributed in terms of section 15B(6) of the Act.

Valuation

6. The purpose of the valuation is, *inter alia*, to confirm that there is no actuarial surplus at the surplus apportionment date and that the principles of operation of the funds over the period from inception of the funds, or dates of last expiry of valuation-exemption, whichever is the later, satisfied the requirements for valuation-exemption in terms of Regulation 2 of the Act as it read prior to 1 January 2003.
7. I have used information supplied by the administrators of the funds concerning the rules of the funds, the systems with which it is administered, the assets, the members' individual accounts and the estimated cost of surplus apportionment. I have confirmed that the data matches the information provided to the boards of the funds at the corresponding year-end.

8. The contingency reserve accounts hold actuarial surplus that is insufficient to cover the costs of surplus apportionment.

9. The valuation results are as follows:

Fund Details					Number of		Valuation Results (R'000)							
No	PF No (12/8/...)	Fund Name	Surplus Apportionment Date	Regulation 2 application (yes/no)	Active Members	Paid-up Members	Assets Fair Value	Investment Reserve Account	Current Liabilities	Assets to meet past service liabilities	Total of members' individual account balances	Contingency reserve account – cost for surplus apportionment	Accrued Liabilities	Actuarial Surplus
							A	B	C	$D = A - B - C$	E	F	$G = E + F$	$D - G$ (which should equal zero)
1														
2														
3														
...														
100														

10. An electronic copy of the table above is included with this submission.

11. I have scrutinised the rules and the method of operation of the funds since the issue of the previous certificates of valuation-exemption, or since the inception of the funds, and declare that, effective the surplus apportionment dates of the funds, to the best of my knowledge, the funds have complied with the following requirements, as contemplated by Regulation 2 of the Act as it read prior to 1 January 2003:

- All members of the funds, other than pensioners, were entitled to a defined contribution type benefit;
- All liabilities of the funds, to the extent that they exceeded the value of the members' individual accounts were fully underwritten by one or more registered insurers; and
- Any pensions paid from the funds are fully secured through annuity policies purchased from insurers and owned by the funds.

12. In respect of the period since the issue of the previous certificates, *or* the inception of the funds:

12.1 The method used to allocate investment returns to individual accounts is based on sound principles, and has been as follows:

.....
.....

AND one of the following conditions is applicable:

12.2 The rate of investment return is not smoothed, i.e. the full net investment returns are allocated to members' accounts in the funds. The implementation of this policy does not endanger the financial soundness of the funds; or

12.3 The rate of investment return passed on to members is smoothed, and I am satisfied that:

- (i) the rate is reasonable in relation to the gross investment return earned by the funds, net of reasonable expenses; and
- (ii) the mechanism used to smooth the rate does not endanger the financial soundness of the funds, i.e. in the event of negative investment returns, benefits will be reduced accordingly.

AND

12.4 The treatment of expenses (including the premiums paid for the insurance of death and disability risks) is based on sound principles and has been as follows:

.....
.....

13. There are no instances of past improper uses of surplus by the employer (section 15B(6) of the Act) in the history of the funds.

Certificate by the valuator in support of the application of valuation-exemption for the collection of funds (as indicated above) for a three-year period after the respective surplus apportionment dates

14. I have scrutinised the rules and declare that, with effect from the surplus apportionment dates for the funds requiring exemption as indicated in the table in paragraph 9 above, the funds comply with the following requirements, as contemplated in Regulation 2:
- (a) All members of the funds, other than pensioners, were entitled to a defined contribution type benefit;
 - (b) All liabilities of the funds, to the extent that they exceeded the value of the members' individual accounts were fully underwritten by one or more registered insurers;
 - (c) Any pensions paid from the funds are fully secured through annuity policies purchased from insurers and owned by the funds; and
 - (d) The funds did not have any reserve accounts other than those allowed in terms of Regulation 2(d) as amended with effect 1 January 2003.
15. To the best of my knowledge, there is no danger of the funds requiring exemption as indicated in the table in paragraph 9, not complying with conditions (a) to (d) in paragraph 14 above.
16. The assets are suitable considering the liabilities of the funds.
17. In my opinion, exemption from the appointment of a valuator and triennial valuations as contemplated in sections 9A and 16 of the Act respectively, for each of the funds requiring exemption as indicated in the table in par. 9, is warranted.
18. I, (Full name), duly authorised by the funds declare that the information given above is correct to the best of my knowledge and belief.

Signed

Name in block letters

Date

FORM C

“Nil” surplus submission in respect of a collection of funds

CERTIFICATE

(to be signed by a duly authorised official of the registered insurer)

1. This is to certify that we have scrutinised the information presented in the attached Form A / Form B (delete which is not applicable) and confirm that the information contained therein is correct.
2. We accept joint responsibility, with the valuator, for the contents of this bulk application.
3. I, (Full name), duly authorised
by (Registered insurer) declare
that the information given above is correct to the best of my knowledge and belief.

Signed

Name in block letters

Designation

Date
