

FINANCIAL INSTITUTIONS OFFICE
Private Bag X238
PRETORIA
0001

June 1988

CIRCULAR PF NO. 66

(To all self-administered pension funds
and insurers who underwrite pension funds)

**SECTION 18 OF THE PENSION FUNDS ACT, 1956: FUND NOT IN A
SOUND FINANCIAL CONDITION**

1. This circular replaces Circular P.F. No. 58 which is hereby withdrawn as the amendments to section 16(7) of the Act which now, inter alia, require the valuator in his report in terms of this section of the Act, to quantify the amount of the surplus of deficiency.
2. This Office is concerned about the extent to which certain funds are under funded and, in some cases, financially unsound. The discretionary power conferred on me by the provisions of section 29(1) of the Act is one I would prefer to exercise only as a last resort. Section 18 of the Act, however, places a responsibility and duty upon this Office which cannot be ignored. Funds are therefore called upon to arrange the financing of the benefits they offer their members in such a manner as to avert under funding.
3. It is conceded that a financially sound and responsibly managed fund could become under funded from one statutory valuation to the next, if only because for example, salary increases granted in the interim exceed those anticipated by the valuator. For the convenience of funds, a funding level of 95% in terms of the provisions of section 16(7)(d) of the Act will normally be acceptable to this Office on condition that the previous valuation showed a funding level of at least 100%. Where the funding level is below 95% or is below 100% for the second successive valuation and the valuator recommends a scheme of special contributions calculated to raise the funding level to 100% as at the next statutory valuation, such scheme will normally qualify

automatically for the approval contemplated in section 18(2), provided the person managing the business of the fund certifies –

- a) initially, that the scheme has been adopted in accordance with the provisions of the rules of the fund; and
- b) annually thereafter, that the scheme is being adhered to.

In the absence of such certification, the provisions of section 18 of the Act will apply.

Funds are expected to liaise closely with their actuarial advisers on a continuing basis, and if during the course of an intervaluation period, an unusual or unexpected event takes place, funds should consult their valuers timeously – even to the extent of obtaining an interim valuation- in order to take corrective steps without delay.

4. Special problems may arise -

- a) where a new fund is established and prior service is recognised as being pensionable; or
- b) where retirement or other benefits are increased retro-actively (for example, the pension factor is increased from 1/60 to 1/50 of final average salary for each year of service).

Funds are reminded of their obligations in terms of the provisions of section 12(3) of the Act, and are advised that rule amendments involving retro-active increases as contemplated in (b) above, will normally be considered for approval in terms of the provisions of section 12(4) of the Act only if the fund has achieved an acceptable funding level.

Whenever large additional liabilities of the type mentioned in (a) or (b) above are contemplated, the actuarial certificates required by the provisions of sections 4(2) and 12(3) of the Act should be included in a scheme of special contributions which are calculated to raise the funding level to 100% within a period not exceeding three successive statutory valuation periods. Again, such a scheme will normally qualify automatically for the approval contemplated in section 18(2) of the Act, provided the person managing the business of the fund furnished the same certification as envisaged in paragraph 3 above. In the absence of such certification, the provisions of section 18 of the Act will apply. Here again funds should maintain close contact with

their actuarial advisers and where necessary, create retro-active liabilities only in stages which they can afford to fund within the prescribed periods.

5. The procedures outlined in paragraphs 3 and 4 above are intended to be administratively convenient to accommodate small, unforeseen, inadvertent deficiencies and larger, retro-active additional liabilities respectively in standard and streamlined manner. Deficiencies which cannot be dealt with in the abovementioned manner, will be handled on an individual basis in accordance with the provisions of section 18 of the Act.
6. Paragraphs 3 and 4 of this circular also apply to pension funds which have been exempted from any provisions of the Act in terms of the provisions of section 2(3)(a)(ii).
7. Kindly acknowledge receipt and confirm that a copy of this circular has been handed to your auditor by signing and returning the attached acknowledgement form to this Office.

Signed by Mr PP Badenhorst

REGISTRAR OF PENSION FUNDS

(Circular P.F. 65 was addressed to all self-administered pension funds)

(Afrikaans agterop)

0172R6