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## BOARD NOTICES

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### BOARD NOTICE 35 OF 2003

### PENSION FUNDS ACT, 1956

### (ACT NO. 24 OF 1956)

**Assumptions to be used in determination, in terms of section 14B (2) (a) (i) (bb) of the Pension Funds Act, 1956, of minimum individual reserve payable to a member of a defined benefit category of a pension fund**

I, Dube Phineas Tshidi, Registrar of Pension Funds, hereby, under paragraph (a) (i) (bb) of subsection (2) of section 14B of the Pension Funds Act (No. 24 of 1956), prescribe the assumptions to be used in the determination of the minimum individual reserve payable to a member of a defined benefit category of a pension fund, as regards rates of pension increases, mortality rates and rates of discount, as set out in the Schedule.

This Notice is called the Notice on Assumptions for the Determination of Minimum Individual Reserves of Members of Defined Benefit Categories of Pension Funds, 2003.



**DP TSHIDI,  
REGISTRAR OF PENSION FUNDS**

## SCHEDULE

**Assumptions to be used in the determination, in terms of section 14B(2)(a)(i)(bb) of the Pension Funds Act, 1956, of minimum individual reserves payable to a member of a defined benefit category of a pension fund**

### Definitions

1. In this Schedule-

- (a) "the Act" means the Pension Funds Act, 1956 (Act No. 24 of 1956), and any word or expression to which a meaning is assigned in the Act has, unless the context otherwise indicates and subject to subparagraph (b), the meaning so assigned to it; and
- (b) a word or expression defined or explained in a Note to the Table in paragraph 2, has the meaning as so defined or explained.

### Assumptions

2. The assumptions referred to in section 14B (2) (a) (i) (bb) of the Act are, as regards matters mentioned in Column of the following Table, those as set out in Column 2 or Column 3 of the Table, as may be applicable:

**TABLE OF ASSUMPTIONS**

| COLUMN 1   | COLUMN 2  | COLUMN 3   |
|--|---|--|
| Matters in respect of which assumptions are to be applied  | Assumptions to be used at or after the surplus apportionment date<br>(Note 1) | Assumptions to be used between the date of leaving service and the surplus apportionment date<br>(Note 1)  |
| Rate of increase in the deferred pension from date of exit to the earlier of date of retirement and the surplus apportionment date, being Date k | Nil   | C per annum, compound, where -<br>$(1 + C)^t = \frac{C_k}{C_{exit}} \cdot (1,01)^t$ where<br>$C_k$ is the value of the Consumer Price Index at Date k;<br>$C_{exit}$ is the value of the Consumer Price Index at |

| COLUMN 1  | COLUMN 2  | COLUMN 3   |
|---|---|--|
| Matters in respect of which assumptions are to be applied   | Assumptions to be used at or after the surplus apportionment date<br>(Note 1)   | Assumptions to be used between the date of leaving service and the surplus apportionment date<br>(Note 1)  |
|   |   | the month end coincident with or immediately following the date of exit; and<br>t is the period in years from date of exit to Date k.  |
| Capitalisation of pension at date of retirement (including rate of increase in pension, discount rate, proportion married, age difference between spouses, and mortality) | As per actuary<br>(Note 4)  | As per actuary<br>(Note 4)   |
| Discount rate applicable prior to retirement  | ILG% - 0,95%<br>(Note 2)<br>or<br>40%.EY,<br>where the choice between the options must be advised to the Registrar, and any change is subject to the approval of the Registrar.<br><br>(Note 5) | d, being the effective nett investment return per annum earned by the fund over period, t, defined by-<br>$(1 + d)^t = \text{the gross investment return earned by the fund, less retirement fund tax and investment management expenses, over period t.}$<br><br>(Note 6) |
| Allowance for decrements before retirement  | Nil   | Nil  |
| Fair value equivalent factor  | 1 (Note 3)  | 1  |

### Notes to Table

- Where the former member leaves the fund in circumstances in which a minimum benefit is payable, the minimum benefit shall be calculated in terms of Column 2 of the Table.

Where the former member left the fund prior to the surplus apportionment date and the fund is determining the enhancement which might be due to



the member in terms of section 15B(5)(b) of the Act at the surplus apportionment date-

- if the member has not retired prior to the surplus apportionment date, the valuator shall determine the deferred pension as at the surplus apportionment date using the assumptions in Column 3 of the Table, capitalise such pension at the surplus apportionment date using the assumptions in Column 2, and then discount the capitalised pension to the date of exit using the discount rate in Column 3;
- if the member has retired prior to the surplus apportionment date, the valuator shall determine the deferred pension as at the date of retirement, capitalise this pension at date of retirement, and discount the capitalised pension to the date of exit, in all cases using the assumptions in Column 3.

2. ILG% is the composite annualised yield on long dated index linked gilts (ie. with a term to maturity of 10 years or more) weighted according to the amount of the bonds in issue, as published with effect from the end of the first month after the commencement date of this Schedule, on a monthly basis by the Registrar of Pension Funds by notice in the *Gazette* and on the website of the Financial Services Board ("www.fsb.co.za"),

- 1%, being an allowance for retirement fund tax;

+ 1,35%, being an allowance for an equity or risk premium;

- 1%, being an allowance for salary increases in excess of the change in the Consumer Price Index;

- 0,3%, being an allowance for investment management fees,

giving rise to a total adjustment of – 0,95%.

EY is the Earnings Yield on the All Share Index, adjusted to take account of capital gains tax to the extent deemed necessary by the actuary after taking account of the investment strategy of the fund. The Registrar of Pension Funds will publish the basic rate monthly by notice in the *Gazette* and on the website of the Financial Services Board ("www.fsb.co.za").

All yields should be calculated at close of business on the day in question.

3. The fair value equivalence is achieved through the use of the current market yield on index linked gilts as the primary driver of the discount rate, or 40% of the earnings yield. No further adjustment is needed.

4. **"As per actuary"**

This means that the assumptions should follow those used by the actuary to the fund in the statutory actuarial valuation coincident with, or the closest effective date preceding, the relevant date. If the former member has not yet retired as at the surplus apportionment date, this will be the statutory actuarial valuation at the surplus apportionment date. If the former member retired before the surplus apportionment date, it will be the statutory actuarial valuation coincident with, or closest preceding, the date of retirement of the former member.

The actuary to the fund, with the agreement of the board of the fund, may, under exceptional circumstances, motivate to the Registrar why some of the assumptions used in the previous statutory actuarial valuation should be changed for the purpose of the surplus apportionment in terms of section 15B of the Act. Any such change to the method or assumptions used in the valuation will be rejected by the Registrar if it is not supported by –

- the experience of the fund modified to take account of anticipated future experience, where appropriate; and / or
- decisions taken at the time by the board of the fund in consultation with the actuary.

The Registrar will view very seriously any reversion to the method and assumptions used in the prior valuation at the valuation subsequent to the surplus apportionment exercise, once the valuator has motivated a change to the assumptions for the purpose of the surplus apportionment.

The actuary may use the actual marital status of the member and actual age difference between the member and the member's spouse at the date the member left service only if the entitlement to a spouse's pension depended upon the member's status when the member left service.

#### **5. Alternative approach using the Earnings Yield on the All Share Index**

In promoting this basis, the Actuarial Society of South Africa assumed that future productivity increases would balance salary increases and expenses. No adjustment is therefore required except for the effect of capital gains tax if such a tax is applied to pension funds.

The election as to whether to use-

- the index linked gilt yield – 0,95%; or
- 40% of the earnings yield on the All Share Index less an allowance for capital gains tax,

should be taken by the board at the time of surplus apportionment. It may be reviewed thereafter with the consent of the Registrar. Boards are advised, however, that the Registrar will take a critical approach to choosing whichever will give the higher discount rate from time to time.

#### **6. Guaranteed Fund, Hedging Strategies and Use of Proxy Investment Returns**

Where the fund has adopted a special strategy to limit the possibility of investment losses after the exit of the members, which would include the use of investment portfolios which include guarantees, the actuary shall take



account of this when determining the discount rates. A motivation of any variation to the standard set out above shall be provided when the relevant scheme is submitted.

Where the fund is not able to determine the nett investment return earned by the fund over the period , either the fund may use the default rates published by the Registrar of Pension Funds by notice in the *Gazette* and on the website of the Financial Services Board ("[www.fsb.co.za](http://www.fsb.co.za)"), or the fund may use a pooled investment portfolio for which the information is available and which is broadly representative of the investment mix of the fund, as a proxy for the nett investment return earned by the fund.

**BOARD NOTICE 36 OF 2003****PENSION FUNDS ACT, 1956 (ACT NO. 24 OF 1956)****CONDITIONS FOR SCHEMES FOR APPORTIONMENT OF ACTUARIAL  
SURPLUSES OF UMBRELLA FUNDS**

I, Dube Phineas Tshidi, Registrar of Pension Funds, hereby under section 15B (2) (a) of the Pension Funds Act, 1956 (Act-No. 24 of 1956), prescribe conditions for schemes for the proposed apportionment of actuarial surpluses of umbrella funds as set out in the Schedule.



DP TSHIDI,

REGISTRAR OF PENSION FUNDS

**SCHEDULE****PENSION FUNDS ACT, 1956 (ACT NO. 24 OF 1956)****CONDITIONS FOR SCHEMES FOR APPORTIONMENT OF ACTUARIAL  
SURPLUSES OF UMBRELLA FUNDS****Definitions****1. In this Schedule-**

"audit-exempt", in respect of a fund, means a fund to which an exemption has been granted under section 2 (3) (a) of the Act as regards the obligation to appoint an auditor;

"scheme", in relation to a fund, means a scheme for the proposed apportionment of actuarial surplus referred to in section 15B (1) (a) of the Act;

"scheme anniversary" in respect of an employer which participates in an umbrella fund, means an anniversary of the date of commencement of participation by that employer in the fund;

"the Act" means the Pension Funds Act, 1956 (Act No. 24 of 1956), and any word or expression to which a meaning has been assigned in the Act, has the meaning so assigned to it;

"umbrella fund" means a fund in which-

- (a) more than one employer participates;
- (b) the assets and liabilities in respect of the members employed by each participating employer are maintained separately from those in respect of members employed by other participating employers; and

- (iii) the financial position is determined separately in respect of the members employed by each participating employer.

#### **Conditions for schemes in respect of umbrella funds**

2. The following conditions apply in respect of a scheme to be submitted to the Registrar by the board of a fund which is an umbrella fund, and must be reflected in the provisions of the scheme as so submitted:
  - (a) Section 15B of the Act shall be applied to the assets and liabilities corresponding to members employed by a single participating employer at the earlier of the date upon which the participating employer terminates participation, or, in the case of a fund which is not audit-exempt, the end of the financial year in respect of that participating employer following 7 December 2003 or, in the case of a fund which is audit-exempt, the scheme anniversary of that participating employer following 7 December 2003;
  - (b) the board concerned may apply the said section 15B to the assets and liabilities in respect of each participating employer at a different date; and
  - (c) actuarial surplus held in respect of the members of one participating employer shall not be used to fund any enhancement to former members who worked for other participating employers, nor do the members or former members employed by other participating employers, nor the other employers themselves, have any right to participate in the equitable apportionment of such actuarial surplus.

#### **Short title**

3. This Notice is called the Notice on Conditions for Schemes for Apportionment of Actuarial Surpluses of Umbrella Funds, 2003.

**BOARD NOTICE 37 OF 2003****PENSION FUNDS ACT, 1956 (ACT NO. 24 OF 1956)****METHODS OF APPORTIONMENT DEEMED TO BE EQUITABLE**

I, Dube Phineas Tshidi, Registrar of Pension Funds, hereby under section 15B (5) (c) of the Pension Funds Act, 1956 (Act No. 24 of 1956), prescribe in the Schedule methods for the apportionment of actuarial surplus between stakeholders that shall be deemed to be equitable.

A handwritten signature in black ink, appearing to read "DP TSHIDI", is written over a horizontal line.

DP TSHIDI,

**REGISTRAR OF PENSION FUNDS**

**SCHEDULE**  
**PENSION FUNDS ACT, 1956 (ACT NO. 24 OF 1956)**  
**METHODS OF APPORTIONMENT DEEMED TO BE EQUITABLE**

**Definitions**

1. In this Schedule-  
"transfer" shall mean any transfer of a member's rights from one fund to another, with the exception of the transfer to another fund at the request of an individual member, of a benefit which he or she had the right to receive in cash in terms of the rules of the fund.

**Methods of apportionment**

2. Subject to paragraphs 3, 4, and 5 below, where the board will be apportioning actuarial surplus in terms of section 15B (5) (c), the board may use one or all of the following methods to distribute such actuarial surplus, and such methods shall be deemed to be equitable:
  - (a) After enhancement in terms of section 15B (5) (b), in the case of former members who transferred out of the fund, or who were retrenched, or members who were converted from defined benefit to defined contribution, increase the benefit previously paid, or credited to their individual accounts, to their accrued liability at the effective date of the transaction, multiplied by the ratio of the fair value to the actuarial value of the assets of the fund, immediately prior to the transaction;
  - (b) Establish a reserve for the benefit of pensioners and deferred pensioners as part of the member surplus account, which will be credited with the greater of the amount determined in terms of

section 14B (4) (b) (i) and the value of the liability in respect of pensioners and deferred pensioners, after receipt of any minimum pension increase in terms of section 14A (1) (d) and after taking account of pensioners' and deferred pensioners' reasonable expectation of future increases following adoption of the policy required in terms of section 14B (3) (a);

- (c) If not already included in the accrued liability for existing members, establish a reserve for the benefit of existing members as part of the member surplus account, which shall provide existing members with the greater of their minimum individual reserves and their accrued liabilities multiplied by the ratio of the fair value of assets to the actuarial value of assets at the surplus apportionment date: Provided that a portion of such amount, namely the difference between the fair value of assets and the actuarial value of assets in respect of such members, may be credited to an investment reserve account; and
- (d) the balance of any residual actuarial surplus may be apportioned between former members, existing members and the employer in proportion to the contributions paid by the respective classes of stakeholder accumulated to the surplus apportionment date using the net investment return earned by the fund: Provided that the valuator may use reasonable approximations in such calculations where it is not practicable to do the calculation exactly.

#### **Change of valuation method and assumptions**

3. In any calculation performed in terms of paragraph 2,



(a) the method and assumptions shall be used by the valuator as they applied in the actuarial valuation coincident with, or closest preceding, the date of the transaction: Provided that

- (i) subject to the approval of the Registrar, the board of the fund may require the valuator to adjust the method and assumptions used to determine the actuarial value of assets or the assumptions used in respect of pension increases, where the board of the fund determines that the method and assumptions were, with hindsight, inappropriate having regard to the fund's practice in respect of pension increases or insufficient to compensate exiting members, or the receiving fund, for the transfer of the investment risk;
- (ii) the Registrar may require the valuator to use the same assumptions and method as used in the statutory actuarial valuation prior to the one coincident with or immediately preceding the effective date of the event, if the Registrar is not satisfied that a change in the assumptions and method was justified as set out below; and
- (iii) actuarial surplus which has arisen from the experience of the fund after the transaction, but not as a result of the transaction, may not be taken into account when determining if the fund had sufficient assets to enable the payment of the enhanced benefit at the time of the original transaction.

- (b) Any change to the method or assumptions used in the valuation may be rejected by the Registrar if it is not supported by
- the experience of the fund modified to take account of anticipated future experience, where appropriate,
  - decisions taken at the time by the board of the fund in consultation with the actuary, or

- o revision by the valuator concerned of methods and assumptions in use across all the funds valued by the valuator at that time, in a consistent manner, or
- if the valuator reverted to the method and assumptions used in the prior valuation at the following valuation.

#### **Credit for the establishment of reserves**

4. The board may, with the consent of the Registrar, take account of amounts that were transferred, or set aside in reserve accounts, in addition to the amounts credited to individual members in such transactions.

#### **Reduction if insufficient actuarial surplus**

5. If there is insufficient actuarial surplus (after enhancement by any past actuarial surplus utilised improperly in terms of section 15B(6)) to permit all transfers, conversions and retrenchments to be enhanced by the full amount as calculated above, the valuator may proportion the enhancements downwards so that the full amount available is used to fund such enhancement.

#### **Short title**

6. This Notice is called the Notice on Methods of Apportionment Deemed to be Equitable, 2003.
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