DEFAULT REGULATIONS

Earlier this year we communicated with you regarding draft regulations that would require funds to have various defaults and other provisions in place. These regulations have recently been signed into law and became effective on 1 September 2017. Funds now have until 1 March 2019 to comply.

Regulations 37 and 38 do not apply to a retirement annuity or preservation funds and all the regulations mentioned herein do not apply to funds in liquidation.

The regulations require that funds have:

- *a default investment portfolio*
- *default preservation and portability provisions*
- *a strategy for member pensions at retirement*

DEFAULT INVESTMENT PORTFOLIO

Regulation 37 states that a fund with a defined contribution category must require the board to include at least one default investment portfolio in their investment policy statement. Members will be invested in this portfolio unless they elect an alternative.

When deciding on the default portfolio there are various things that the board must consider, resulting in the chosen portfolio being appropriate for the members who are automatically enrolled into it.

There is a strong focus on cost effectiveness as well as communication and transparency for members regarding the composition, performance and fees of the default portfolio.

This regulation does not require that funds now offer more than one investment portfolio to their members but it does allow for more if the board feels it appropriate.

DEFAULT PRESERVATION AND PORTABILITY

Regulation 38 requires that, where members join a pension or provident fund as a condition of employment, the rules of the fund must provide for the members to become “paid-up” when they leave the service of the employer before retirement. “Paid-up” means that no further contributions are payable and the entitlement to insurance benefits falls away, while the members’ investments remain in the fund.

Robson Savage is a licensed Financial Services Provider, license number 16359

Members will automatically become “paid-up” until such time as they elect to withdraw or transfer their benefits to another fund, which will be allowed at any time. Members will be issued with a paid-up membership certificate by the fund.

The regulation restricts the investment fees and costs that the fund may charge paid-up members.

The rules of the fund will have to allow for benefits from other funds to be paid into the fund for the benefit of the members. The regulation says that each fund must request for all new members a list of all their paid-up membership certificates from previous funds and where requested to, facilitate the transfer in of those benefits.

Each fund must also make available access to retirement counselling before any benefit is paid out.

Importantly, the default position will not be compulsory meaning that members will still be free to withdraw their money should they so wish.

The purpose of this regulation is to increase the number of members who preserve their retirement benefits by giving them an easy option when leaving the service of their employer.

ANNUITY STRATEGY

Regulation 39 requires that the boards of all pension, pension preservation and retirement annuity funds must establish an annuity strategy. i.e. an income in retirement. Also, where the rules of a provident fund provide for the member to elect an annuity on retirement, the board must establish an annuity strategy for the fund. This strategy may be offered by the fund or from an external provider.

The regulation prescribes various points that the board must consider when establishing the strategy to ensure that it is appropriate and suitable for the members who will make use of it. Boards must consider various types of annuities and will need to review the strategy at least annually.

As with the preservation provisions explained above, there is a strong focus on cost effectiveness and clear communication to members regarding the objective, composition and performance of the annuity, and transparency regarding the fees and charges.

Funds will be required to provide members with access to retirement counselling before their retirement date. Members will need to elect to make use of the fund’s annuity strategy and will not automatically be defaulted into it.

WHAT DOES THIS MEAN FOR YOU?

Boards must ensure that any default arrangements already in place on their fund must comply with the provisions of these regulations by no later than 1 March 2019.

Boards must, where necessary, amend their investment policy statement, fund rules and member communication to meet all the requirements of the regulations.

Boards must ensure that, by no later than 1 March 2019, their fund has a default investment portfolio, the fund rules allow for members to become paid-up on leaving service and that they have an annuity strategy in place. All of which must meet the requirements of the regulations.

A fund may apply for exemption from all or some of the provisions of these regulations subject to conditions that the Registrar may impose.

Your fund consultant will work closely together with the board to ensure that the process of compliance happens with as much ease as possible and that all requirements are met within time.

Your Robson Savage consultant will be glad to provide any further input you might require.

Visit us at www.robsav.com