



Retirement Funds Default Regulations

A. Summary

Amendments to the Regulations issued under section 36 of the Pension Funds Act 24 of 1956 were published in Government Gazette number 41064 on 25 August 2017. The amendments are also known as the Retirement Funds Default Regulations or Default Regulations. All funds that are registered before 1 March 2018 will have until 1 March 2019 to comply with the Default Regulations.

The Default Regulations require the board of trustees of the listed retirement funds to offer the following to its members:

- Defined contribution pension and provident funds: A default investment portfolio which is not excessively complex or unreasonably expensive.
- Pension and provident funds: A default in-fund preservation of benefits for members who move between employers before retirement
- Pension, pension preservation and retirement annuity funds: A default annuity strategy to ensure that members are able to convert their retirement savings into an income at retirement that is efficient, transparent and cost effective.

These default options are discussed more fully below.

B. Default investment portfolio

A default investment portfolio is a portfolio for members of occupational funds who do not specifically choose how their retirement savings should be invested. The Default Regulations require a board of a defined contribution pension and provident fund to provide one or more default investment portfolio to its members.

The default investment portfolio must comply with the following principles:

- it must be appropriate for members who are automatically placed in that investment portfolio;
- the members must be adequately informed of the composition of the assets and the performance of the default investment portfolio. The FSB may prescribe the frequency and format of this communication;
- it must be reasonably priced and competitive;
- the members must be informed of all the fees and charges;
- passive and active investment options must both be considered as investment options;

- there must not be any loyalty bonuses or complex fee structures;
- the member must not be locked into the default investment portfolio and should be allowed at least once every 12 months to instruct the fund to transfer their retirement savings account to other investment portfolios. This only applies to members who have investment choice; and
- it must be reviewed regularly to ensure that it continues to comply with the Default Regulations.

C. Default preservation

The Default Regulations require pension and provident funds to offer a default in-fund preservation arrangement to members who leave the employment of a participating employer. The funds should allow such members to leave their accumulated retirement savings in the fund and become a “paid-up” member without paying any additional fees.

When a member is no longer employed with the participating employer, the fund must make that member paid-up until the member instructs the fund, in writing, to either pay out or transfer the benefit due to him. The fund must give the member a paid-up membership certificate within 2 calendar months of becoming aware that the member is no longer employed by the participating employer. In addition, funds should be able to automatically accept members’ balances from other retirement funds to ensure members’ retirement savings follow them from employer to employer.

The fund rules must specify the following for paid-up members:

- no new contributions will be accepted;
- no deductions will be made for risk benefits;
- any defined benefit amount must be converted to and preserved as a defined contribution amount;
- how these members qualify for death, retirement and early retirement benefits; and
- they must have access to retirement benefits counselling before any withdrawal benefit is paid or any transfer is made to another fund.

D. Default annuity strategy

Pension, pension preservation and retirement annuity funds are required to have a default annuity strategy. If the rules of a provident or provident preservation fund allow for a member to choose an annuity, it must also have a default annuity strategy. The default annuity can either be an in-fund or out of fund. It can also be either a living annuity or a life annuity. The default will be a “soft default”, which means that a member needs to be given the option beforehand as to which type of annuity they would prefer, i.e. members “opt-in” instead of “opting-out”.

The default annuity strategy must comply with the following principles:

- it must be appropriate and suitable for the specific classes of members enrolled into them;
- where the annuity is a living annuity, the members must be regularly informed of the objective, asset class composition and performance of the annuity. The FSB may prescribe the format of the communication;
- the fees and charges must be reasonable and competitive;
- members must be informed of all the fees and charges and the impact on their benefits. The FSB may prescribe the format of the communication;
- members should be given access to retirement benefits counselling at least three months before their normal retirement age; and

- it must be reviewed annually to ensure that it continues to be appropriate for the members and continues to comply with the Default Regulations.

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