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CIRCULAR PF NO. 86

(to all privately administered funds and insurers who underwrite pension funds)

DISCLOSURE REQUIREMENTS TO BE OBSERVED BY FUNDS

Following extensive consultation and substantial agreement with industry representatives, it has been decided to improve communication between funds and members, through adherence by all funds registered at this office, to the following minimum disclosure requirements with effect from 1 July 1996. Should any particular fund, administrator or insurer not be in a position to adhere to these requirements from this date, an application for exemption from the whole or part of the requirements may be lodged with this office beforehand, giving full reasons as well as the period for which exemption is required.

1. EXPLANATORY PAMPHLET ON ADMISSION AND BENEFIT STATEMENT

New members should be furnished with an explanatory pamphlet containing as a minimum the information provided below within three months after the date of admission to the fund. An annual benefit statement must be furnished to each member (excluding pensioners and deferred pensioners) not later than 6 months after the financial year end of that fund.

The annual benefit statement and the explanatory pamphlet may be combined provided that the benefit statement is automatically issued to a new member. For underwritten retirement annuity funds, the issuing of a policy document will be acceptable as an explanatory pamphlet provided it contains, as a minimum the information provided below.

MINIMUM INFORMATION TO BE INCLUDED IN EXPLANATORY PAMPHLET AND BENEFIT STATEMENT

Both documents may be in any format, but shall be fund specific and contain the following information:

Details of Fund:

1. Fund name and registered address.
2. The name or job title of the person to be contacted to answer queries together with the relevant telephone number.
3. Fund's reference number at the Registrar.

Details of Benefit:

4. Member's name (plus class of membership, if applicable)
5. Date of Birth.
6. Date of admission to the fund (and date of effective membership if applicable eg. where service is backdated.)
- *7. Pensionable salary of member at the date of the statement.
8. Date of the statement as well as the date of the calculation of benefits.
9. A statement of the benefits that become payable at:
 - (a) Retirement:
 - (i) The normal retirement date must be given.
 - (ii) For a defined benefit fund the anticipated benefit formula based on current salary must be used to calculate the benefit.
 - (iii) For a defined contribution scheme, a statement of how the benefit is constituted, will suffice. The investment risk should also be explained.
 - (iv) For a defined benefit fund, a statement to the effect that a reduced benefit becomes payable on early retirement, if applicable.
 - (v) If the rules provide for fixed pension increases, this should be stated.
 - (b) Death.
 - (c) Disability and ill health early retirement benefit (if applicable).
 - *(d) Withdrawal:

The vesting provisions, the benefit payable on retrenchment as well as any additional entitlement which may be payable if benefits are preserved must be furnished.

Rate of Contributions:

- 10 (a) Current Contributions payable by the member and the frequency thereof.
- *(b) Current contributions payable by the employer and the frequency thereof. In the case of a defined contribution fund, this should be the actual amount with an indication whether management and risk benefit costs are included or not. In the case of a defined benefit fund,

a statement that the employer's contributions are the balance of cost, will be sufficient.

- (c) Where the calculation of a member's interest is dependent on market values, an explanation that the market risk may affect benefit levels, must be given.

Additional benefits in respect of transfers from previous funds shall be identified separately.

General:

- 11. A statement that the rules, the financial returns and the most recent actuarial valuation report may be inspected at the registered office of the fund or at the main office of the employer. Should a member require any copies, the member should pay the costs thereof as set out in the rules.
- 12. The procedures for internal dispute resolution and access to the Retirement Adjudicator. This will only apply once the legislation commences. Until such time, reference should be made to the dispute resolution rule in the rules only.
- 13. A note stressing the importance of nominating a beneficiary and keeping any nomination up to date.
- 14. A statement that it is important to obtain professional advice, before electing a benefit, on termination of membership.
- 15. A statement to the effect that if the benefit statement conflicts with the rules, the rules will prevail.
- 16. A statement to the effect that all benefits may be subject to income tax depending on the tax regime.

ADDITIONAL INFORMATION

Funds who wish to give more information than the required minimum, may do so. Additionally, there is no requirement to provide information relating benefits, such as permanent disability benefits and unapproved group life insurance, which do not fall within the ambit of the Pension Funds Act, although it would be good practice to include them.

2. NOTIFICATION TO MEMBERS ON SPECIFIC EVENTS

FUND RESTRUCTURING

This heading comprises events which result in:

- (a) voluntary fund termination in terms of section 28 of the Act;

- (b) withdrawal of an employer (excluding umbrella funds with unrelated employers);
- *(c) conversions from a defined benefit to a defined contribution fund;
- (d) reduction or increase in benefits or contributions;
- (e) transfer of benefits to another fund.

The information which should be provided on conversions should consist of a personal benefit statement illustrating the effect of the conversion, stressing the difference in benefit structure and the resulting transference of investment risk.

For transfers in terms of section 14, the statement should include a note of the transfer value and the actual document is to be supplied by the transferor fund.

Reasonable notice (not less than 60 days) is to be given to the members of the intention to restructure the fund, in order to allow time for objections.

***WITHDRAWAL FROM SERVICE**

Preferably, each member will have all options in terms of the rules explained before a cash payment is selected. As a final fail safe mechanism, the letter enclosing any cash payment must refer to any benefits which may be forfeited as a result of the cash payment, including the elimination of liability for tax on transfer to another pension fund as defined in the Income Tax Act, 1962, preservation pension fund or retirement annuity.

RETIREMENT

A notification explaining the available options in terms of the rules should be sent to the member before the event. If the benefit is an annuity, it must state that a certificate of existence will be required from time to time. Where the benefit is a lump sum payable from a provident fund, there must be a note indicating that this is the full and final benefit payable.

DEATH

After the Trustees have decided to whom the benefit is payable in terms of Section 37C, the beneficiaries/dependants who are to share in the benefit must each receive a letter notifying them of the decisions made by the Trustees and setting out all the options available. Similar statements must be made as envisaged for retirement where the benefit is an annuity or lump sum.

* These matters do not apply to retirement annuity funds.

Yours faithfully

REGISTRAR OF PENSION FUNDS