

12 March 2019

Dear Members

**DEFAULT REGULATIONS TO THE PENSION FUNDS ACT, ACT 24 OF 1956
(AS AMENDED)**

The Minister of Finance issued the final 'default' regulations to the Pension Funds Act ('regulations') on 25 August 2017.

The regulations have three components:

- (i) a default investment strategy;
- (ii) a default preservation strategy; and
- (iii) a fund annuity strategy.

The 'default' regulations to the Pension Funds Act are meant to improve the outcomes for members by ensuring that they get good value for their savings and retire comfortably.

Members must receive retirement benefit counselling namely, the disclosure and explanation, in clear and understandable language, of a fund's investment portfolios, annuity strategy and how preserved benefits are handled (the risks, costs and charges of these options must be explained).

The new *Default Regulations* have been implemented with an understanding that it constitutes an Opt-in system, meaning that members are not automatically transferred to the defaults on retirement. Members must specifically elect / opt to make use of the defaults and even if they do, they may under certain circumstances, change their election at a later stage. The latter can only apply to (1) non-contributing members who have not yet retired and have become "Paid-Up" Members, and (2) members who have elected to use the Fund's default investment portfolios. A member who has elected to retire in The Fund's Guaranteed Life Annuity **cannot** change his/her election at a later stage.

However, a member who has resigned / retired from the employer and does not make an election, will automatically become a "Paid-Up" Member until such time

that the member makes an election. In this situation, it seems that the Default Regulations may actually be viewed as an *Opt-out system*.

This policy will be updated and improved as the Regulator issues more guidance notes and clarity on their intentions with the default regulations.

1. Default investment strategy

The Fund already offers a *Life Stage Trustee Default Option*, incorporating four default portfolios, namely:

ARC Aggressive Portfolio
ARC Balanced Portfolio
ARC Conservative Portfolio
ARC Ultra Conservative Portfolio

Members are switched between these portfolios based on their age:

Portfolio	Age Band
ARC Aggressive Portfolio	<45
ARC Balanced Portfolio	45-54
ARC Conservative Portfolio	55-62
ARC Ultra Conservative Portfolio	63+

This *Trustee Default Option*, offers default investment portfolios to contributing members who do not exercise any choice regarding how their contributions should be invested. Members may also, as is required by the Regulations, switch out of these *Default Portfolios*. In the Fund's case, members are not limited to a once-off switch opportunity per annum, but may exercise as many switches per annum as required. The first switch instruction per calendar year is offered free of charge to members.

The Fund monitors these *Default Portfolios* on an ongoing basis and reviews the investment strategy, as well as the appropriateness of the different age bands, on an annual basis as part of the Fund's IPS review (Investment Policy Statement).

2. Default preservation and portability strategy

Following the approval of The Fund's rule amendment by the FSCA, resigning (and retiring) employees will be allowed to leave their accumulated retirement savings in the fund, when leaving the service of the employer.

In the case of resignation members will have the right to opt out of the fund and withdraw their fund credit in cash or to transfer to any other fund at any time before retirement age. Retiring members or members who have reached retirement age

will have the right to opt out of the fund and have the benefit transferred to another fund or to elect to retire from the Fund. Employees must obtain retirement benefits counselling before they make a decision to take cash or transfer the benefit.

Please note the following:

- (i) Investment fees for default portfolios will be the same as those for paid-up members and active members;
- (ii) Administration fees charged to paid-up members 75% of the fees charged for administrative services for active members and will be deducted from the member's fund credit;
- (iii) No initial once-off charge will be levied when members become paid-up;
- (iv) The ARC Pension Fund will allow for transfers in from other funds;
- (v) When individuals join The ARC Pension Fund, the Fund must ask that member for a list of all paid-up membership certificates he/she has, within 4 months. The fund must then ask the member if he/she wants to transfer any savings into the fund. The fund must then arrange the transfer and cannot levy a charge on the transfer amounts;
- (vi) Paid-up members –
 - Can no longer pay contributions to the fund;
 - Will no longer qualify for the group risk benefits that active member have; (please note that there is a continuation option of these benefits after leaving the employment of the ARC. Please inform your HR practitioner if you would like us to get a quote for your individual rates);
 - Will be eligible to receive their fund credit on death, retirement and early retirement as per the fund rules'
 - Should you pass away during this time, the distribution of the benefits are subject to Section 37C of the Pension Funds Act and the Trustees will be responsible to establish who your dependents are; (it is therefore important to regularly update your beneficiary nomination form).
- (vii) Paid-Up Members will receive a *Paid-up Membership Certificate* within two calendar months of the Fund becoming aware that the member has left the services of the employer. This Certificate will contain the following minimum information:
 - Fund Name, address and contact details of the Principal Officer;
 - Fund Administrator's name and contact details;
 - Member's name, address, ID number, tax number and most recent contact details of the member;

- The date the member became paid-up;
- Date the certificate was issued;
- Value of the fund benefit when the member became paid-up;
- Investment portfolio(s) in which the benefit is invested; and
- any other prescribed information from time to time.

3. Default annuity strategy

In respect of retiring members, a fund must have an Annuity Strategy with annuity options.

The ARC Pension Fund has opted to offer retiring members an option between:

- a With Profit Life Annuity; and
- a Standard Guaranteed Life Annuity.

Members who are retiring will receive *One on One Retirement Counselling* which will be scheduled no more than 6 months prior to a member's normal retirement date, but at least 3 months prior to normal retirement date. During this session all your options will be explained to you, including the difference between the two annuities.

Please note that The Pension Fund is only aware of a member's *normal retirement date* and we will contact those members accordingly. If you wish to **retire early** please inform your HR practitioner that you require *Retirement Counselling* or contact The Fund directly at 012 346 0084 or email info@arcpf.co.za

Again the default annuity is an opt-in election and members still have all the options currently available to them at retirement. The default annuity is merely an additional option for members who do not wish to receive outside financial advice.

4. Retirement Benefit Counselling

Retirement Benefits Counselling ("RBC") is the responsibility of the Fund and the Trustees. RBC may be done in person, telephonically or in writing and the Fund will keep records of the counselling which has been provided, in a Counselling Register ("CR").

The Fund will provide RBC to the following categories of members:

- New-member Counselling
- Retirement Counselling (normal and early retirement)
- Active Member Counselling
- Paid-Up Member Counselling

Please note that since The Fund pays for the counselling it is therefore free to all members.

Therefore please make use of the opportunity and contact the fund for any queries at 012 346 0084 or email info@arcpf.co.za

Feel free to contact us, should there be any queries in this regard.

Kind regards

A handwritten signature in black ink, appearing to read 'FC Greeff', with a stylized flourish at the end.

FC Greeff
Executive Principal Officer