Glassock

# Glassock Guidelines

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Proudly Bidvest

## 2018 Draft Circulars issued by the Financial Sector Conduct Authority

A. Draft Notice: communication of benefit projections to members of retirement funds, and
B. Draft Notice: prescribed conditions for eligibility of smoothed bonus products

## A. Draft Notice: communication of benefit projections to members of retirement funds, and

This draft notice introduces the requirement that the annual benefit statements which retirement funds (excluding beneficiary funds and unclaimed benefit funds) send to their members must include a projection of the expected retirement benefit, which must be explained in a simple and clear manner.

### Guidance, not a guarantee

The annual benefit statements provided to fund members must clearly state that the aim of the projections is to offer guidance, rather than a guarantee, as well as containing a disclaimer to the effect that the projections will differ from the final value of the benefits received.

### Minimum information

Minimum information to be included in the benefit statement is:

- the member's projected benefit at retirement as a multiple of salary (cost-to-company) and not of pensionable salary;
- the projected monthly pension in current day terms;
- the projected monthly pension in current day terms compared to the member's current monthly salary (cost to company), representing the replacement ratio;
- a note on the underlying risks and assumptions;
- a statement that the member's projected retirement benefit from the fund should be added to projected benefits expected from other sources, in order to consider the adequacy of the member's overall retirement provisions; and
- a projection, for living annuities, reflecting how long the capital will last, given the current draw-down rate chosen by the pensioner.

### When should projection and annual benefit statements be provided?

Projection statements should be provided to members when joining a fund, so that members can make a proper decision about contribution rates and investment choice, where relevant.

Annual benefit statements should provide clear and adequate information to current members.

For living annuities, projection statements must continue on an annual basis after retirement.

### Methodology and assumptions

The draft notice sets out the methodology to be used by defined benefit funds, as well as defined contribution funds.

The assumptions to be used in projection statements are also dealt with in the draft notice.

The assumptions applied for the benefit projections and a recommendation for future projections must be included in the fund's statutory actuarial valuation report. For a fund applying for valuation exemption, this should instead be included with the valuation exemption application.



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The assumptions applied for the benefit projections and a recommendation for future projections must also be reported in the annual financial statements to the Registrar, to facilitate regular monitoring of the Treating Customers Fairly ("TCF") objectives.

## B. Draft Notice: prescribed conditions for eligibility of smoothed bonus products

Provided that they comply with Regulation 37 and Section 36 of the Act, the fund's trustees may include a smoothed bonus policy as a default investment portfolio.

**Policy requirements**

The policy must:

- Set out a formula to calculate and determine bonus declarations, both vested and non-vested, which must:
  - include the triggers for the removal of non-vested bonuses and the method of removal;
  - provide for the triggers that dictate the provision of shareholder capital to maintain the financial soundness of the policy;
  - clarify the extent to which shareholder capital is viewed as a loan which will be repaid to shareholders with future investment returns versus a cash injection that will not be repaid from future investment returns;
  - specify the minimum and maximum levels of the stabilisation reserve and the remedial actions which will be activated should these limits be breached;
  - limit the smoothing period to 24 months;
  - result in a long-term funding level not exceeding 105 per cent; and
  - be disclosed to all stakeholders.

Any management actions that may be taken to reduce the risk of the policy must be properly disclosed and documented.

The cost of any guarantee provided in terms of the policy must be commensurate with the risk and there must be separate disclosure of guarantee charges and other costs relating to the policy.

There must be no disinvestment penalties or charges levied by the insurer.

The policy's asset allocation must remain within disclosed limits and must comply with Regulation 28. Full disclosure of any material change in the strategic asset allocation must be made to all affected parties and the Registrar.

Participants must be given the option to opt out of the portfolio if there is a material change in the exposure, without any penalties or market value adjustment applying.

**Policy must comply with the TCF outcomes**

Funds must ensure that any such policy complies with the six TCF fairness outcomes, namely:

- Members must be assured that they are dealing with firms where the fair treatment of customers is central to the firm culture.
- Products and services must be designed to meet the needs of identified customer groups.
- Members must be given clear information and kept appropriately informed before, during and after the time of contracting.
- Advice given to members must be appropriate and take account of their circumstances.
- Members are provided with products and services that perform as expected.
- Members do not face unreasonable post-sale barriers to change product, switch provider, submit a claim or make a complaint.