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Pension promises 'must fit reality'

FAIR TREATMENT: EXPECTATIONS NEED STRAIGHT TALK

» Actuaries need to ensure retirement funds are needs based and fit for purpose, rather than fit for (administrator's) profits.

Hanna Barry

Most retirees' complaints before the Pension Funds Adjudicator's (PFA) office involve promised profits that have not materialised.

PFA Muvhango Lukhaimane said retirees were expressing disappointment with their returns, while retirement fund administrators continued making handsome margins.

"There is a disconnect between what companies are making out of members and what members are making out of funds," Lukhaimane said, urging actuaries to give advice to retirement fund trustees in terms of its relevance to members realising their retirement benefits.

"Actuaries are taught to structure complex financial products to be profitable for businesses, rather than beneficial for individuals," agreed John Anderson, MD of research and product development at Alexander Forbes.

The actuarial syllabus needed a relook to emphasise the role actuaries played in generating value for clients, ensuring that the advice and solutions they provided to retirement funds were needs based and fit for purpose".

Anderson said Outcome 5 of new market conduct regulation, Treating Customers Fairly, created more responsibility for actuaries to provide members with reasonable expectations of retirement funds to deliver benefits.

Special exemptions

Outcome 5 says: "Customers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and what they have been led to expect."

Lukhaimane and Anderson addressed the Actuarial Society of SA (ASSA) Retirement Matters Conference early this week, where it was suggested exemptions granted to retirement funds from valuation obligations – set out in section 16 of the Pension Funds Act (PFA) – be withdrawn.

Deputy registrar of retirement funds and friendly societies at the Financial Services Board Rosemary Hunter said the FSB was debating whether to withdraw the exemption from statutory valuation by an actuary enjoyed by defined contribution (DC) funds.

In evaluating a fund, actuaries essentially ensure funds are solvent and can meet their liabilities. However, DC funds transfer investment-returns risk to individuals and do not guarantee benefits (as with defined benefit funds), therefore they have been exempt from such valuations.

"This is something we need to consider as we review and adapt our approach to risk-based supervision," Hunter said. "As we all know, DC funds can suffer losses, whether as a result of maladministration, theft or fraud. We need more early warning signals. This is why principal officers, auditors, valuators, administrators – and now board members – have been given whistle-blowing obligations in terms of the Pension Funds Act."

Compliance obligation

Lizzie Vambe, senior legal advisor at Alexander Forbes, said retirement funds needed to do a Treating Customers Fairly gap analysis, ensuring members' reasonable benefit expectations were informing valuation assumptions, investment policies and product design.

For example, fund actuaries needed to scrutinise product performance and whether this was in line with the market segment for which it was designed.

Funds needed to communicate with members, pointing out gaps in their retirement provision and assisting them where possible, Vambe said.

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The section of the Pension Funds Act pension fund experts would like to see amended