

PFR 7 - CONDITIONS FOR
EXEMPTION FROM ACTUARIAL
VALUATION
2024

NBFIRA/RS/RF/RUL007

NBFIRA

Non-Bank Financial
Institutions Regulatory
Authority



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1. PURPOSE

1.1 All Retirement Funds are required to submit an actuarial valuation report (PFR6 - Actuarial Triennial Report) to **the Regulatory Authority** triennially, unless exempt from actuarial valuation. This document sets out the conditions under which exemption from actuarial valuation is allowed.

1.2 These Rules are issued in terms of Section 64 of the Retirement Funds Act, 2022.

2. SCOPE

2.1 These Rules apply to all Retirement Funds licensed in terms of the Act.

2.2 These Rules are not exhaustive and should be read in conjunction with the Act, the NBFIRA Act, other relevant Acts, Regulations and other Rules.

3. ASSOCIATED DOCUMENTS

Document	Reference	Effective Date	Version
Retirement Funds Act and its Regulations			
PFR3 - annual Retirement Fund Return			
Audited Annual Financial Statements			
PFR9 - Risk Questionnaire			
PFR1 - Application for Exemption from Actuarial Valuation			
PFR 6- Actuarial Triennial Report			
PFR8 - Suitability of Retirement Fund Investments			
Fund Rules			
Other Rules			

4. DEFINITIONS

Terms	Definition
Act	means the Retirement Funds Act, 2022 or as amended from time to time.
Actuary	means an associate or a fellow of a professional actuarial body that is a member of the International Actuarial Association, or such other body as may be approved by <i>the Regulatory Authority</i> .
NBFIRA Act	Means the NBFIRA Act, 2023 or as amended from time to time.
The Regulatory Authority	means the Non-Bank Financial Institutions Regulatory Authority established under the Non-bank Financial Institutions Regulatory Act.

5. ABBREVIATIONS

Abbreviation	Full Phrase
PFR 6	Prudential Rule on the Actuary's Report.
PFR 8	Prudential Rule on Suitability of Retirement Fund Investments.

6. RESPONSIBILITY

All licensed Retirement Funds.

7. PFR 7 - CONDITIONS FOR EXEMPTION FROM ACTUARIAL VALUATION

7.1 Conditions of Exemption

- (a) A Board of Trustees may apply for a Retirement Fund to be exempted from actuarial valuation. Such application will be considered only if an actuary certifies that he/she has scrutinised the Fund Rules and method of operation of the Retirement Fund, a sample explanatory booklet given to members, and a sample of an individual member's benefit statement and has found that:

7.1.1 No Pensions are Paid from the Retirement Fund

- (a) Upon retirement, the Retirement Fund shall purchase an annuity policy from a licensed insurer on behalf of a retiring member, following written instruction from the retiring member based on annuity option selected

from the quotes obtained from licensed insurers. The Retirement Fund shall have no liability in respect of the pension payable that is not matched by this annuity policy. After purchase of the annuity policy and payment of any portion of the benefit in cash, the Retirement Fund shall have no liability towards the member.

7.1.2 Benefits are Secured for Members on a Defined Contribution Basis of Funding

(a) The Retirement Fund is operated in such a way that the assets will always match or exceed the liabilities at the end of the financial year. Either through an equitable share mechanism or proportional apportionment of gains or losses over the year.

- i. Assets and liabilities are equalised through an equitable share mechanism at the end of the financial year where, any surpluses or strains will be distributed amongst members in a manner which is equitable between classes of member and by duration of membership, and which is consistent with the nature of the surplus or strain; or
- ii. Any realised or unrealised capital gains or losses, any investment income, any expenses in excess of any amounts deducted from contributions prior to these being credited to a member's individual account, and any gains or losses experienced through operation of an interim bonus mechanism, must be credited or debited to members' individual accounts in proportion to the account balance prior to such apportionment at the end of the financial year, or expressed as a rate of fund return and applied for the benefit of members.

(b) Any strain arising in the Retirement Fund that is passed onto members does not conflict with the reasonable benefit expectations of members.

(c) The actuary should comment on the appropriateness of the assets in comparison with liabilities and, where known, reasonable expectations. A full asset-liability modelling exercise would not be necessary and a comment in general terms would suffice.

7.1.3 Allocation Method of Investment Returns and Expenses

- (a) The method used to allocate investment returns (positive or negative) and expenses (including premiums for the insurance of death and disability benefits) to members' individual accounts is reasonable.
- (b) The Actuary should take particular note of how non-vested bonuses will be treated in the event that such bonuses are reduced at some time in future. If there is no mechanism to protect the Retirement Fund from such an event, the Retirement Fund cannot be exempt.
- (c) The investment return credited to members can differ from the actual underlying returns. This in itself is not a reason to withhold the exemption. However, it is important that the method of operation is based on sound principles. It is advised that the Actuary discusses the matter with ***the Regulatory Authority*** and that they agree on the matter.
- (d) The method in which expenses had been allocated to individual member accounts, or deducted from contributions paid, and whether it is based on sound principles and do not endanger the financial position of the Retirement Fund. It does not mean that no cross-subsidies are allowed, but there should not be gross inequities between different groups of members or generations of members.

7.1.4 Smoothed Investment Return

- (a) If investment return credited to members' individual accounts is smoothed, the rate is reasonable in relation to the gross investment return earned by the Retirement Fund less such expenses as are reasonable to deduct from the investment return, the rate does not endanger the financial soundness of the Retirement Fund, and the corresponding investment reserve does not hold a debit balance at the end of the financial year.

7.1.5 Fully Insured Benefits

- (a) If any benefit payable to a member exceeds the value of the member's individual account, the excess is fully insured with one or more licensed insurers.
- (b) There must be a provision in the Fund Rules of the Retirement Fund that restricts the amount of any risk benefit to the amount that may be recovered from an insurer.

7.1.6 Reserve Accounts

- (a) No reserve accounts other than an investment reserve account and an expense reserve account are held. Neither the investment reserve account nor the expense reserve account may hold a debit balance after the end of the financial year – the equitable share or fund return mechanism is used to debit the members' individual account if there was a debit balance prior to the end of the financial year.

7.1.7 Investment Strategy

- (a) The investment strategy is suitable to the nature of the Retirement Fund and its expected liabilities.
- (b) A copy of a Certificate of Suitability of Retirement Fund Investments (PFR8) must be attached alongside the Certificate of Exemption.

7.2 Qualified Certification

- (a) It is permissible for an Actuary to provide qualified certification even if the Retirement Fund does not fully comply with the PFR7. However, the Actuary needs to justify very carefully why he/she believe that exemption is still appropriate in the particular case. **The Regulatory Authority** will then determine whether or not exemption can be granted despite the Actuary's qualified certification.

7.3 Other Matters

- (a) The Actuary may add any other matters relevant to the principles on which valuation is sought.
- (b) If the Actuary becomes aware of an event that may be grounds for exemption to be withdrawn, the Actuary must advise the Board of Trustees of the Retirement Fund and **the Regulatory Authority** that the Retirement Fund may no longer qualify for exemption within thirty (30) days of becoming aware of such event. Such an event may include a change to the Fund Rules or the manner in which the Retirement Fund is administered. Following such advice, the Retirement Fund shall either submit an actuarial valuation in format PFR6 or a certificate by an Actuary that the Retirement Fund continues to satisfy the conditions for exemption after such event.

7.4 Period Of Exemption

- (a) The exemption will only be granted for as long as there is no change that an Actuary and **the Regulatory Authority** deem necessitates the revocation of the exemption. The Retirement Fund must obtain a further certificate for the exemption to be renewed before the end of this period if applicable. In considering whether to issue such a certificate the actuary must examine the financial statements and method of operation of the Retirement Fund, before certifying that the Retirement Fund continues to satisfy the criteria above for exemption from actuarial valuation.
- (b) If the Retirement Fund no longer qualifies for exemption the Retirement Fund should submit PFR6 that is the Actuary's Report to **the Regulatory Authority**. This report is submitted for the financial year the exemption is no longer required.

7.5 Non-Compliance With These Rules

- (a) Non-compliance with these Rules will result in **the Regulatory Authority** imposing civil penalties on the non-complying persons as per Section 107 of the NBFIRA Act, 2023.

8. RECORDS

<u>Reference Number</u>	<u>Record (Description of records)</u>	<u>Location / Holder</u>	<u>Retention Period</u>	<u>Justification</u>
	Audited Financial Statements	Retirement Fund File/Procurement & Administration	Preserve Permanently	Monitoring
	Actuarial Valuation Reports	Retirement Fund File/Procurement & Administration	Preserve Permanently	Monitoring
	Certificate of Exemption	Retirement Fund File/Procurement & Administration	Preserve Permanently	Monitoring

	Onsite Report/Offsite Analysis	Retirement Fund File/Procurement & Administration	Preserve Permanently	Monitoring
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NBFIRA

Addendum: Certificate of Exemption (FORM PFR7)

CERTIFICATE BY THE ACTUARY IN SUPPORT OF AN APPLICATION FOR EXEMPTION OR CONTINUED EXEMPTION

Name of the Retirement Fund:

I have scrutinised:

- (a) the Fund Rules and the method of operation of the Retirement Fund since the issue of the previous certificate;
- (b) a sample explanatory booklet given to members; and
- (c) a sample of an individual member's benefit statement.

In respect of the period since the issue of the previous certificate:

- (a) The method used to allocate investment returns to individual account has been as follows:

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- (b) Expenses (including the premiums paid for the insurance of death and disability risks) have been handled as follows:

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- (c) Members of the Retirement Fund were/were not (delete whichever is not applicable) provided with projections of their expected ultimate benefits. If they were provided with such projections, the basis of such projections, the basis of such projections was/was not approved by an actuary (delete whichever is not applicable)

- (d) All risk benefits falling due were fully covered by insurance or reinsurance.

- (e) All pension payments falling due were fully recovered by annuities from an insurer.

- (f) The assets of the Retirement Fund at all times adequately matched its liabilities.

Having taken account of the manner in which expenses, including the premiums paid for the insurance of death and disability risks, investment returns and any surpluses or strains will be distributed between members in future, I am satisfied that:

- (i) all members of the Retirement Fund, other than pensioners, are entitled to a defined contribution type benefit;
- (ii) all risk benefits falling due were fully covered by insurance or reinsurance;
- (iii) the assets of the Retirement Fund at all times adequately matched its liabilities;
- (iv) all benefits, other than those fully secured by an insurer, are limited in value to the contributions, net of expenses including the premiums paid for the insurance of death and disability risks, accumulated with investments return as determined by the person managing the business of the Retirement Fund;
- (v) all periodic retirement benefit payments will be fully secured by the purchase of annuities from an insurer;
- (vi) any surplus or strains will be distributed amongst members such that the value of the accrued liabilities of the Retirement Fund will not exceed the market value of the assets of the Retirement Fund. Such method of distribution of surpluses or strains is equitable between classes of member and by duration of membership, is consistent with the nature of the surpluses or strains, and will not conflict with the reasonable benefit expectations of member;
- (vii) the Retirement Fund does not have any reserve accounts, other than an investment reserve account; and
- (viii) members of the Retirement Fund **were/were not** (delete whichever is not applicable) provided with projections of their expected ultimate benefits. If they were provided with such projections, the basis of such projections was/was not approved by an actuary (delete whichever is not applicable).

In my opinion, continued exemption in terms of the Fund Rules is warranted.

For Retirement Funds applying for the renewal of exemption from actuarial valuation

In respect of the period since the issue of the previous certificate:

- a. The method used to allocate investment returns to individual accounts is based on sound principles, and has been as follows:

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- b. The rate of investment return is not smoothed, that is the full net investment returns are passed on to members. Such mechanism does not endanger the financial soundness of the Retirement Fund;
or

- c. The rate of investment return passed on to members is smoothed, and I am satisfied that:

- i. the rate is reasonable in relation to the gross investment return earned by the Retirement Fund, net of reasonable expenses, and
- ii. the mechanism used to smooth the rate does not endanger the financial soundness of the Retirement Fund.

- d. The treatment of expenses (including the premiums paid for the insurance of death and disability risks) is based on sound principles and has been as follows:

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General provisions

The assets exceeded the liabilities of the Retirement Fund at the effective date of this certificate. The assets are suitable considering the liabilities of the Retirement Fund.

To the best of my knowledge, there is no danger of the Retirement Fund not complying with the conditions of the above.

The assets are suitable for the liabilities of the Retirement Fund (as per PFR8).

In my opinion, the appointment of an Actuary and triennial valuations as contemplated in PFR6 and PFR7 are unnecessary.

Signed:

Name:

Actuary:

Qualifications:

Date:

Notes:

- (1) Where the actuary is unable to make the statements above, without qualification, but feels that the refusal of exemption would be unduly harsh, the actuary must qualify the statement above, where appropriate, and give reasons why exemption should still be granted.
- (2) The actuary may add any other matters relevant to the principles upon which exemption is sought.