GOVERNMENT NOTICE

RETIREMENT FUNDS

NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

No. X 2018

STANDARDS MADE UNDER THE FINANCIAL INSTITUTIONS AND MARKETS ACT, 2018

The Namibia Financial Institutions Supervisory Authority has under section 410 of the Financial Institutions and Markets Act, 2018 (Act No. X of 2018), made the standards set out in the Schedule.

Gersom Katjimune
Chairperson **Windhoek,** **2018**

FINANCIAL INSTITUTIONS AND MARKETS ACT, 2018 [Act No. • of 2018]

DRAFT STANDARD

THE DETERMINATION OF THE SOUNDNESS OF THE FINANCIAL POSITION OF A FUND FOR THE PURPOSES OF SECTION 272(3)

NAMIBIA FINANCIAL INSTITUTIONS SUPERVISORY AUTHORITY

Standard No: RF.S.5.5

FINANCIAL INSTITUTIONS AND MARKETS ACT, 2018 [Act No. • of 2018]

The determination of the soundness of the financial position of a fund for the purposes of section 272(3)

Standard No. RF.S.5.5

issued by NAMFISA under section 410(6)(n) of the Financial Institutions and Markets Act, 2018

Definitions

1. (1) In this Standard-

(a) “accrued benefits” means the retirement benefits of members at the valuation date;

(b) “accrued benefits funding method” is a funding method where the technical provisions are based on the accrued benefits up to the valuation date;

(c) “Act” means the Financial Institutions and Markets Act, 2018 [Act No. • of 2018], and includes the regulations prescribed under the Act and the standards and other subordinate measures issued by NAMFISA under the Act;

(d) “actuarial value of assets” means the value of the assets of the fund determined by the valuator in terms of clauses 1.1.112, 1.1.113 and 1.1.114;

(e) “current liabilities” means any liabilities of the retirement fund, other than the technical provisions;

(f) “discretionary retirement or other benefits increase” means an increase in the retirement or other benefits awarded to members, spouses or beneficiaries at the discretion of the board;

(g) “funding ratio” means the actuarial value of the assets to the total liabilities, expressed as a percentage;

(h) “insured benefit” means a death, disability or funeral benefit or any other contingent benefit which does not form part of the retirement benefit, for which the retirement fund holds an insurance policy;

(i) report by a valuator” means a written report, prepared and signed by a valuator, valuing the assets of the retirement fund and determining the technical provisions of the fund, and on the financial soundness requirement of the retirement fund since the last actuarial valuation;

(j) "solvency" means a funding ratio of at least 100%;

(k) "technical provisions" means

(i) the systematic determination of accrued liabilities for retirement and other benefits;

(ii) the concomitant prudent investment of accruing contributions and investment income in assets; and

(iii) the systematic determination of contribution rates sufficient to fund emerging benefits in accordance with this Standard RF.S.5.5;

all so as to ensure the ongoing solvency of the retirement fund and the fulfillment of members' reasonable benefit expectations;

(l) "total liabilities" means the sum of the liabilities in respect of accrued benefits referred to above in the definition of "technical provisions" and the current liabilities of the fund.

(2) Words and phrases defined in the Act have the same meaning in this Standard, unless the context indicates otherwise, including without limitation, the following-

(a) as defined in section 1 of the Act:

(i) NAMFISA;

(ii) retirement fund;

(iii) valuator

(b) as defined in section 249 of the Act:

(i) defined benefit fund;

(ii) defined contribution fund;

(iii) employer;

(iv) fair value;

(v) fund;

(vi) member;

(vii) retirement benefits; and

(viii) sponsor;

Applicability

2. This Standard shall apply to all retirement funds registered under the Act.

3. This Standard is not exhaustive and should be read in conjunction with the Act and Regulations and Standards made under the Act relevant to the determination of the financial position of the fund, or guidelines which NAMFISA may issue from time to time.

Requirements for the soundness of the financial position

4. A retirement fund meets the financial soundness requirement if:-

(a) the funding ratio is at least 100%; and

(b) the rates of contributions to the fund are such that the condition in clause 4(a) can be expected to be met for the period for which the contribution schedule is in force.

5. The board must prepare, and from time to time review and if necessary revise, a written statement of financial soundness principles for ensuring that the financial soundness requirement is met.

6. The statement of financial soundnesss principles must, at a minimum, include:

(a) the method and assumptions to be used in calculating the fund's technical provisions and rates of contributions and confirmation that both are based on the same method and assumptions; otherwise any differences must be explained; and

(b) the period within which, and the manner in which, failure to meet the financial soundness requirement is to be rectified.

7. To determine whether the retirement fund meets the financial soundness requirement, the board must:

(a) in the case of a defined benefit fund, obtain a report by a valuator at intervals of not more than three years;

(b) in the case of a defined contribution fund, obtain a report by a valuator at intervals of not more than three years, unless such defined contribution fund has been exempted from requiring regular investigations by a valuator.

8. The report by a valuator must be submitted to NAMFISA within 180 days of the financial year end of the retirement fund.

9. In determining whether the retirement fund meets the financial soundness requirement, the assets of the retirement fund exclude:

   (a) assets that are prohibited by the provisions of the Regulation/s for investments; and

   (b) where the valuator deems it appropriate, any rights under an insurance policy or annuity contract.

10. In determining whether the retirement fund meets the financial soundness requirement, the total liabilities of the retirement fund are:

   (a) any liabilities in relation to the accrued benefits of members; and

   (b) current liabilities.

11. Where the valuator has excluded any rights under an insurance policy or annuity contract in terms of clause 9(b), the liabilities secured by the insurance policy shall be disregarded for the purposes of clause 10(a).

12. The assets and total liabilities of the retirement fund shall be valued by reference to the same date.

13. In the case of a defined contribution fund, the actuarial value of the assets shall be the fair value of assets.

14. In the case of a defined benefit fund, the actuarial value of the assets:

   (a) must be consistent with the basis used to determine the liabilities and contribution rates as per the technical provisions and clauses 16, 18, 19 and 20; and

   (b) must be compared with the fair value of the assets on the valuation date.

15. In the case of a defined contribution fund, the technical provision for any individual member is equal to the member's individual account. The technical provisions for the retirement fund are the aggregate of the technical provisions of all the individual members of the retirement fund.

16. In determining the technical provisions of a retirement fund that is a defined benefit fund, the fund and its valuator must use a generally accepted actuarial valuation method (e.g. the projected unit credit method or a variant thereof, or the projected the accrued benefits funding method) as stipulated in the board's statement of financial soundness principles, using prudent assumptions.

17. In determining the technical provisions of a defined contribution fund, the fund and its valuator must use a generally accepted actuarial valuation method appropriate to the liabilities and costs for which the technical provisions are required and as stipulated in the board's statement of financial soundness principles.

18. In adopting the projected unit credit method or the projected accrued benefits funding method, the board of the retirement fund should consider:

    (a) taking into account expected future salary increases of members;

    (b) how the application of the method may affect the incidence of the required future contributions to the retirement fund;

    (c) the total liabilities in respect of all members of the retirement fund;

    (d) the current and future demographics of the retirement fund;

    (e) the ability and willingness of the sponsoring employer to make advance provision for future adverse events in the technical provisions; and

    (f) the allowance for expenses.

19. In determining the assumptions to be used, the board and the valuator must have regard to the following principles:

    (a) the assumptions must be chosen prudently, taking into account, appropriate margins for adverse deviation;

    (b) the rates of interest used to discount future payments of retirement and other benefits must be chosen prudently and consistent with the manner in which the valuation of assets is made;

    (c) the mortality and demographic assumptions must be based on prudent principles, having regard to the current and expected characteristics of the members of the fund;

    (d) the evidence for, and rationale supporting each assumption; and

(e) sensitivity of the technical provisions to the assumptions.

20. Any change in the method or assumptions used in determining the technical provisions of the retirement fund must be justified by a change in legal, demographic or economic circumstances.

21. Where the funding ratio of a fund is less than 100%, the board, with the approval of the valuator, must notify NAMFISA and the sponsoring employer(s) of such funding ratio, and must further either:

(a) instruct the sponsoring employer(s) to make a payment into the fund within a period not in excess of three (3) months that will suffice to ensure that the funding ratio is at least 100%; or

(b) with the approval of the sponsoring employer(s), the valuator and NAMFISA, develop and undertake, within a period not in excess of three (3) months, a rehabilitation plan that, in the opinion of the valuator, may be regarded as reasonably certain to ensure that the funding ratio will be at least 100% within a specific timeframe, which timeframe must not exceed five (5) years.

22. A copy of the rehabilitation plan referred to in clause 21(b) must be submitted to NAMFISA within a period of three (3) months from the date of notification referred to in clause 21.

23. The rehabilitation plan must:

(a) state the timeframe within which the funding ratio of the retirement fund will be restored to 100%, which timeframe is subject to clause 21(b);

(b) state whether the underfunding of the retirement fund will be rectified by:

(i) an increase in contributions;

(ii) periodic payments by the employer;

(iii) any other method, which method must be adequately explained; or

(iv) a combination of (i), (ii) and (iii); and

(c) include the valuator's certification of the rehabilitation plan as per Schedule 1.

24. In preparing or revising a rehabilitation plan, the board, with the approval of the valuator, must take account of the following matters –

(a) the asset and liability structure of the retirement fund;

(b) its risk profile;

(c) its liquidity requirements;

(d) the age profile of the members; and

(e) in the case of a fund under which the rates of contributions payable by the employer are determined –

(i) by or in accordance with the advice of a person other than the board; and

(ii) without the agreement of the employer;

the recommendations of that person.

25. NAMFISA may require a rehabilitation plan to be revised from time to time, and where NAMFISA has issued a directive under section 412 of the Act as to the period within which, and as to the manner in which, a failure to meet the financial soundness requirement is to be remedied, the rehabilitation plan must be reviewed, and if necessary revised within a specified period determined by NAMFISA.

26. A rehabilitation plan may be reviewed, and if necessary revised, where the board considers it appropriate.

27. A rehabilitation plan must specify the date on which it was prepared, or, if it has been revised, the date on which it was last revised.

28. A copy of any rehabilitation plan sent to NAMFISA by the board must be accompanied –

(a) in a case where the plan has been prepared or revised following a report by a valuator, by a summary of the information contained in the report; and

(b) in a case where the plan has been revised in the circumstances described in clause 26, by an explanation of the reasons for the revision.

Schedule 1

VALUATOR'S CERTIFICATES

Form of valuator's certification of rehabilitation plan

Name of fund

Rehabilitation plan

I, undersigned, certify that, in my opinion, the rehabilitation plan dated [dd/mm/yyyy] is expected to restore the funding ratio of the fund to 100% by [dd/mm/yyyy].
The certification of the adequacy of the rates of contributions [*and/or*] payments by the employer to the fund for the purpose of ensuring that the funding ratio is restored to 100%, is not a certification of their adequacy for the purpose of securing the fund's liabilities by the purchase of annuities, if the fund were to be wound up.

______________________	______________________
SIGNATURE	DATE
______________________	______________________
FULL NAME IN PRINT	QUALIFICATIONS
______________________	______________________
ADDRESS	NAME OF VALUATOR'S EMPLOYER (If applicable)