



**RFS Administrators (Pty) Ltd**  
Retirement Fund Solutions

passionately tomorrow

**RFS UMBRELLA PENSION FUND**  
**and**  
**RFS UMBRELLA PROVIDENT FUND**

**Amendments to the regulations issued in terms of Section 36  
of the Pension Funds Act, 1956 (act of 1956)**

**(Regulation 37 – 39)**

## Contents

|   |   |
|---|---|
| 1. Executive summary .....                                    | 3 |
| Regulation 37 – Default investment portfolio                  |   |
| Regulation 38 – Default preservation and portability          |   |
| Regulation 39 – Annuity strategy                              |   |
| 2. Default Investment Regulations (Regulation 37) .....       | 4 |
| 3. Default preservation and portability (Regulation 38) ..... | 6 |
| 4. Annuity strategy (Regulation 39) .....                     | 7 |
| 5. Retirement Benefit Counselling .....                       | 9 |

## 1. Executive summary

The amendments to the Regulations issued in terms of section 36 of the Pension Funds Act, require funds to comply with effect from 1 March 2019. The trustees of the RFS Umbrella Pension and Provident Funds have implemented policies and registered amendments to the fund rules to ensure that the Funds complies with the regulations. This document outlines the approach that the Funds have taken with respect to Regulations 37 to 39 of the Pension Funds Act – the “defaults regulations”. The regulations deal with three key events in the life of a member.

- Regulation 37 deals with members who join the Fund or are active members within the Fund
- Regulation 38 deals with how Funds should treat members who withdraw from the Fund
- Regulation 39 requires Funds to help members at retirement.

The Board of Trustees recognises that within an umbrella fund environment, member needs are unlikely to be the same. From the outset, the Trustees have wanted to structure the options available to members and advisors to the Fund in a manner where varying member needs can be addressed.

**The Fund thus allows advisors to construct participating employer defaults different to the Fund’s Default investment strategy. The Fund also allows advisors to be part of the Benefit Counselling process (at retirement or withdrawal), but also have a default for these processes.**

### **Default Investment Regulations (Regulation 37)**

Even prior to the issue of Regulation 37, the RFS Umbrella Pension and Provident Funds had adopted a life-staging model as the default investment strategy for the Funds.

“Life-staging” is a term used to describe the investment strategy whereby members are gradually switched into investments which are less susceptible to short term losses as they come closer to their retirement date.

The default investment strategy of the funds, previously utilized the Sasfin Horizon High Equity Portfolio (for members aged between 16 to 56), the Sasfin Horizon Medium Equity Portfolio (for members aged between 56 to 61), the Sasfin Horizon Low Equity Portfolio (for members aged between 61 to 63) and the Sasfin Horizon Stable Portfolio (for members 63 and older).

The Trustees have however approved a new set of default investment portfolios that can be used by advisors to construct a bespoke default investment strategy for their clients. These are the RFS Aggressive, Moderate and Conservative portfolios which became available on 1 June 2019.

The trustees wish to cater for different client preferences. Therefore, the Sasfin Horizon portfolios, will remain on the list of investment portfolios available to clients and advisors, but will no longer be the fund’s default investment portfolios.

**Default preservation and portability (Regulation 38)**

Regulation 38 requires a fund to allow its members the option to preserve retirement benefits within the fund when they leave the service of a participating employer; ‘default preservation’ and to transfer paid-up retirement benefits into the fund from previous employers; ‘portability’.

**Annuity strategy (Regulation 39)**

On reaching retirement, members may select an annuity from an authorized provider and invest their retirement saving in an annuity outside the fund. Members would then leave the fund.

**2. Default Investment Regulations (Regulation 37)**

**2.1 The Trustee Approved Default Investment Strategy**

The Trustees have approved a life-staging strategy as its default investment strategy. The strategy will involve the transition of members from an Aggressive Regulation 28 compliant balanced portfolio to a Conservative (low equity) portfolio over a 5-year period. The table below provides details of the transition.

| <b>Years to Normal Retirement Age</b> | <b>Portfolio Mix</b>                        |
|---------------------------------------|---|
| 6 years or more                       | 100% RFS Aggressive                         |
| 5 years                               | 66.7% RFS Aggressive + 33.3% RFS Moderate   |
| 4 years                               | 33.3% RFS Aggressive + 66.7% RFS Moderate   |
| 3 years                               | 66.7% RFS Moderate + 33.3% RFS Conservative |
| 2 years                               | 33.3% RFS Moderate + 66.7% RFS Conservative |
| 1 year                                | 100% RFS Conservative                       |

The table below provides the investment targets for each of the life-staging portfolio constituents:

| <b>Risk Profile Portfolio</b> | <b>Real Return Target</b> | <b>Measurement Period</b> | <b>Peer Group</b>                                 |
|-------------------------------|---------------------------|---------------------------|---|
| Aggressive                    | CPI + 6%                  | 5 Years                   | Regulation 28 Compliant Balanced Funds            |
| Moderate                      | CPI + 4.5%                | 5 Years                   | Absolute Return Funds (CPI + 4% to 5% objectives) |
| Conservative                  | CPI + 3%                  | 3 Years                   | Absolute Return Funds (CPI + 3% objectives)       |

The Fund's default portfolios are constructed on a multi-asset and multi-manager basis in conjunction with the Fund's asset consultants. The investment administration of the portfolios is performed by Momentum. The Fund will make factsheets available for each of the portfolio defaults.

## 2.2 Alternative Portfolios Available to Advisors and Participating Employers

In order to cater for various client needs, participating employers under the guidance of their advisors may elect to set up their own bespoke default investment strategy. The Trustees have approved the following list of investment portfolios that can be used to construct such a bespoke default strategy.

| <b>Portfolio</b>                     | <b>Benchmark / Target</b>                  | <b>Risk Profile</b> | <b>Description</b>                                   |
|--------------------------------------|--|---------------------|--|
| Sasfin Horizon High Equity           | SA Multi Asset Class High Equity Average   | Aggressive          | Reg 28, multi-asset, multi-manager, actively managed |
| Sasfin Horizon Medium Equity         | SA Multi Asset Class Medium Equity Average | Moderate            | Reg 28, multi-asset, multi-manager, actively managed |
| Sasfin Horizon Low Equity            | SA Multi Asset Class Low Equity Average    | Conservative        | Reg 28, multi-asset, multi-manager, actively managed |
| Sasfin Horizon Stable Portfolio      | SA Multi Asset Class Low Equity Average    | Conservative        | Reg 28, multi-asset, multi-manager, actively managed |
| Sygnia Signature 70 Fund             | Asset Allocation Benchmark                 | Aggressive          | Reg 28, multi-asset, multi-manager, actively managed |
| Sygnia Signature 60 Fund             | Asset Allocation Benchmark                 | Moderate            | Reg 28, multi-asset, multi-manager, actively managed |
| Sygnia Signature 50 Fund             | Asset Allocation Benchmark                 | Conservative        | Reg 28, multi-asset, multi-manager, actively managed |
| Sanlam Monthly Bonus Fund            | CPI + 3%                                   | Preservation        | Fully Vesting Smooth Bonus                           |
| Alexander Forbes Performer Portfolio | Median Large Manager Watch                 | Aggressive          | Reg 28, Blend of balanced funds, actively managed    |
| Alexander Forbes Conserver Portfolio | Median Large Manager Watch                 | Conservative        | Reg 28, Blend of balanced funds, actively managed    |

### 3. Default preservation and portability (Regulation 38)

Regulation 38 requires a fund to allow its members the option to preserve retirement benefits within the fund when they leave the service of a participating employer; 'default preservation' and to transfer paid-up retirement benefits into the fund from previous employers; 'portability'.

On leaving the services of a participating employer the fund preserves a member's retirement benefits as a paid-up benefit, by default, until the Fund is instructed by the member to preserve, pay out or transfer the benefit due.

Members with paid-up retirement benefits, either by choice or by default, will remain in the investment portfolio that was applicable to the member prior to becoming paid-up. That is, there is no change to the member's investment portfolio becoming paid-up.

Where the investment portfolio prior to leaving service is no longer available on the list of approved investment portfolios, the member's retirement benefit will be switched into the investment portfolio applicable in terms of the default life-stage investment strategy of the fund.

After receiving advice from an accredited financial advisor, a member may choose to remain in their originally selected investment portfolio or elect to move to a portfolio available on the approved list of investment portfolios as an individual member choice selection.

Members have the following options at withdrawal from a retirement fund:

- Remain a paid-up member in the Fund;
- Transfer to a preservation fund;
- Transfer to their new employer's retirement fund;
- Transfer to a retirement annuity; OR
- Take a cash lump sum in some cases.

In terms of the regulation, members will need to make the request in writing to the Fund.

The fees on preserving retirement benefits within the fund are as follows:

|   |        |  |
|---|--------|--|
| Paid-up member initial fee                              | Nil    |  |
| Monthly fund levy                                       | R6.00  | In respect of the operating expenses of the fund; this fee is deducted from the member's fund credit                           |
| Monthly administration fee (excluding VAT)              | R35.07 | Maintaining of the member record and allocating investment return and fees; this fee is deducted from the member's fund credit |
| Investment management fee and investment consulting fee |        | Fees payable to asset managers and investment consultants depending on the selected investment portfolio                       |

## 4. Annuity strategy (Regulation 39)

In constructing the Fund annuity strategy, the Board of Trustees considered various factors, namely:

- The needs at retirement for its members could be varied and any strategy must allow for members with different requirements at retirement.
- The members should be given access to cost effective options for members, but also not compromise on flexibility.
- As members should be seeking proper financial advice at this juncture, this could present an opportunity to the advisor responsible for the participating employer and the Fund should assist where possible.
- It may also be that some members would not have access to any advice or counselling services and hence the Fund would provide such a service to meet the requirements of Regulation 39.

### 4.1 Annuity Strategy Options Available to Members

The Fund has negotiated with Momentum to provide the following annuity options to the members of the RFS Umbrella Pension and Provident Funds.

|   |   |
|---|---|
| <b>Guaranteed Life Annuity</b>  | Pension payments are determined at retirement and are guaranteed into the future by Momentum Life   |
| <b>With-Profit Annuity<br/>(Momentum Golden Income<br/>With-Profit Annuity)</b> | An initial pension is determined based on a discount rate. The pension cannot decrease, but future increases will be driven by the investment returns achieved by Momentum Life   |
| <b>Investment Linked Annuity<br/>(Momentum Golden Living<br/>Annuity)</b>       | Members draw an amount of income (there are limits to this drawdown in terms of Regulation 39). The ability to draw income into the future will be based on the net investment return. On death, the balance in the member's account is made available to the member's estate |

## 4.2 Cost of Annuity Strategy Options

The Fund has negotiated the following fees for the Fund Annuity Strategy Options.

### Momentum Golden Income With-Profit Annuity

|                                   |   |
|-----------------------------------|---|
| <b>Once-off Fee</b>               | R3,900.00 per policy, that is in respect of services provided at installation that includes data verification.  |
| <b>Monthly Administration Fee</b> | An amount of R55.97 per annuitant per month, applicable for 2019. The monthly fee is in respect of ongoing administration functions. The monthly administration fee will be adjusted annually in line with inflation.   |
| <b>Annual Fee</b>                 | Set at 1.00% <i>per annum</i> and increases by 0.05% for every 0.50% of Post-Retirement Interest Rate above 2.50%. For example, for a 3.50% Post-Retirement Interest Rate the fee is 1.10%.   |
| <b>Foreign Bank Account Fee</b>   | Where the annuitant after his policy's commencement date requests that payments be made to an account outside of the Republic of South Africa, a fixed Rand amount fee is applicable. As at the commencement date, this fee amounts to R150.00 per affected annuitant per month. This monthly fee will be adjusted as and when such charges are adjusted by MMI's bank which facilitates such payments. This fee will lead to a reduction in the monthly annuity payable. |

### Momentum Golden Living Annuity

|                           |   |
|---------------------------|---|
| <b>Platform fees</b>      | The platform fee is an ongoing fee that applies to each annuitant's investment account.<br>Platform fee for OBI portfolios (no VAT applicable): <ul style="list-style-type: none"> <li>• 0.35% of the first R1m</li> <li>• 0.20% of the next R1.5m</li> <li>• 0.15% of the next R5m</li> <li>• 0.10% thereafter</li> </ul>  |
| <b>Investment Account</b> | The following portfolios will be available: <ul style="list-style-type: none"> <li>• Momentum GLA Target Cautious Growth Portfolio – 0.55%</li> <li>• Momentum GLA Target Diversified Growth Portfolio – 0.55%</li> <li>• Momentum Money Market portfolio – 0.29%</li> <li>• Momentum Diversified Income portfolio – 0.69%</li> </ul> More detail regarding the composition of the portfolios, management fees, total expense ratios and total investment cost are available on the fund factsheets and would be provided to members when presented with a Momentum Golden Living Annuity proposal. |



## **5. Retirement Benefit Counselling**

The Regulations require all members to receive retirement benefit counselling within 6 months of a member's retirement age. Two options are allowed for:

- The Participating Employer's financial advisor provides this service to the retiring members;

OR

- The member approaches the Fund directly.

In respect of the counselling service driven by the Participating Employer's advisor, in terms of the regulations, the advisor will need to provide evidence that this took place to the Fund.

Where a participating employer prefers the Fund to deal with a member's retirement, the Fund has contracted the services of Momentum to provide retirement benefit counselling services to members of the Fund. The counselling service will be telephonic. Members will have the opportunity to convert this to financial advice should it be needed. Bear in mind that in terms of the definitions, retirement benefit counselling, is financial advice.