

# Guidelines for this Webinar

- ④ Your cameras and microphones have been disabled for this webinar
- ④ Send through Questions via the Q&A button on the toolbar, these will be addressed at the end
- ④ A recording of this webinar will be made available to you.



# SOME THOUGHTS ON THE BUDGET



## Plenty of honesty

"Further increases in personal income taxes would put additional pressure on households that have been negatively affected by the pandemic and undermine the chance of a stronger economic recovery. **There is no compelling case for increasing these rates at this time.**"

Chapter 4

"South Africa does not get good value for money in public spending. Waste and inefficiency reduce developmental impact, and become a glaring problem in the context of limited state resources."

Chapter 1

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# BUDGET 2021

Focus on retirement industry




- ④ Proposal re “various” annuities
  - ④ Tax on withdrawals – no longer tax resident
  - ④ Transfer between funds (older than 55)
  - ④ Access to retirement assets in disaster (linked to mandatory preservation)
  - ④ Regulation 28 (infrastructure / private equity)
  - ④ Auto-enrolment and comprehensive social security system
  - ④ Revised targets re FSC
-



# CONDITIONS FOR DEFAULT SMOOTHED BONUS POLICIES

Danie van Zyl  
Sanlam Smooth Bonus Centre of Excellence

A green rectangular highway sign with rounded corners and a white border. The sign is mounted on a metal lattice structure with five black brackets along its bottom edge. The background is a clear blue sky above a yellowish ground.

NEW REGULATION  
AHEAD

# SMOOTHED BONUS PORTFOLIOS

- ④ Saving for retirement can be bumpy
- ④ Need to navigate uneven terrain and obstacles





**four-wheel drive ...**

**giving members greater stability and control**



# SMOOTHED BONUS CONDUCT STANDARD



**Why?**

**What?**

**By when?**

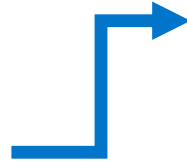
**Who?**



# HOW DOES IT ALL FIT TOGETHER?

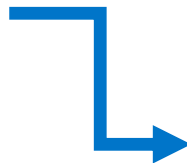


Pension Funds Act  
Default regulations  
Reg. 37 - 40



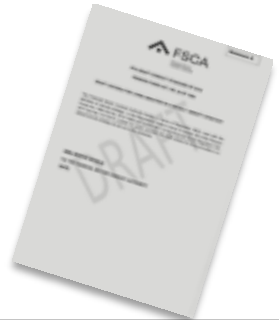
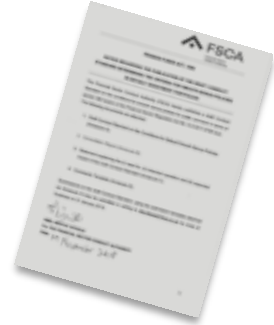
Default investment  
portfolio Reg. 37

Can use smoothed bonus  
portfolio if comply with  
Standard



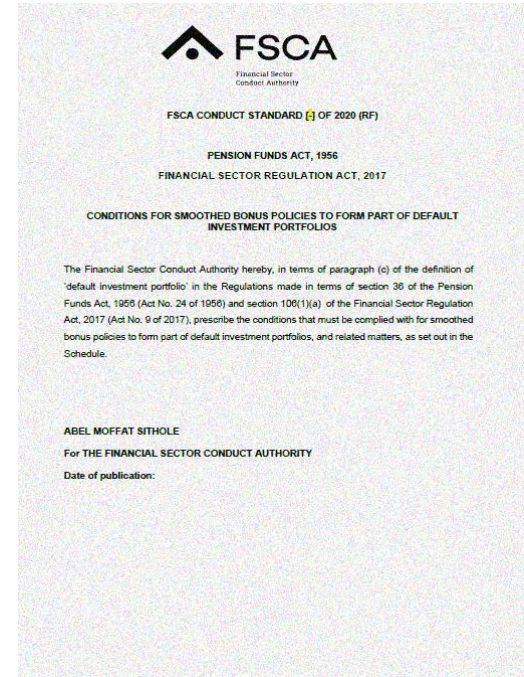
Default annuity  
strategy Reg. 39

Can use living annuity if  
comply with criteria



# WHY?

- Smoothed bonus portfolios are perceived to be complex
- Poorly understood by members defaulted into them
- Aims to provide additional security to members
- Place onus on retirement funds



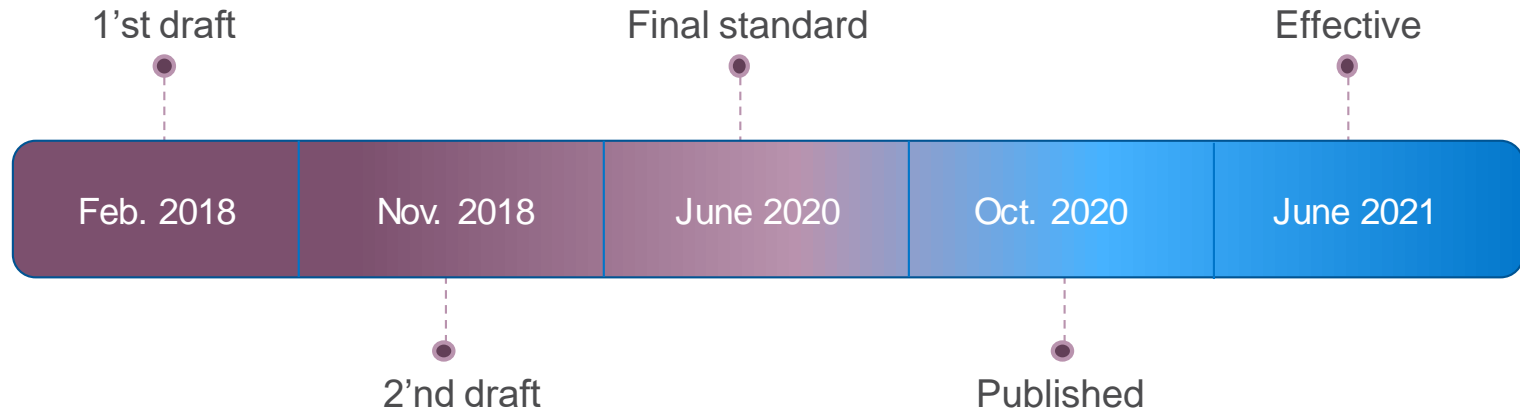
# BUT PLAY IMPORTANT ROLE



Smoothed bonus portfolios are often used by retirement funds

- ④ For members close to retirement
    - example in a lifestage
  - ④ For members who are loss averse
  - ④ Benefits illustrated during March 2020
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# TIMELINE



Sanlam started engagement with FSCA in 2017  
Feedback via ASISA

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# APPLIES TO



## **Retirement funds**

- ⌄ with a DC category, using smoothed bonus portfolios as their default

## **Although aimed at retirement funds**

- ⌄ insurers need to provide trustees with sufficient comfort

## **Excludes**

- ⌄ member choice portfolios
-

# WHAT DOES THIS MEAN FOR TRUSTEES

## Reg 37 - Demonstrate to Authority on request

- ④ Default investment portfolio is appropriate
- ④ Consider fees and charges
- ④ Expected risk and return
- ④ Other factors



# PORTFOLIO RANGE AFFECTED

Portfolio	Need to comply?
Monthly Bonus Fund (incl. Volatility Protection Strategy in umbrella fund)	Y
Stable Bonus Portfolio (incl. Capital Protection Portfolio in umbrella fund)	Y
SMM Vesting Fund	Y
Progressive Smooth Bonus Fund	Y



# STANDARD CONSISTS OF DIFFERENT SECTIONS



## Relevant sections

1	Definitions
2(1) – 2 (4)	Product related requirement
2(5) – 2(6)	Investment strategy
3	TCF Communication

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# PRODUCT RELATED REQUIREMENT



## **Bonuses = formulaic**

- ④ Disclosed to all stakeholders
  - ④ Also disclose fees & charges (commensurate with risk)
    - Sanlam disclose all fees, also TER & TIC
  - ④ Limit deviations to 2% p.a.
  
  - ④ Will show additional requirement using our bonus formula as an example
-

# EXAMPLE BONUS FORMULA



Stable Bonus Portfolio

$$\text{Bonus} = i + (\text{FL} - 103\%) / (24 - m) - \text{fees}$$

$i$  : expected long-term monthly return on the product

$\text{FL}$  : funding level of the product

$m$  : months

$\text{FL} > 115\%$	$m=12$
For $97.5\% \leq \text{FL} \leq 115\%$	$m= 0$
$92.5\% \leq \text{FL} < 97.5\%$	$m= 10$
$\text{FL} < 92.5\%$	bonus = 0% net of fees

*Requirement.* How vested and non-vested bonuses are calculated

Vested bonus = 40% of total bonus      Non-vested bonus = 60%

Except when very overfunded, additional bonus added to non-vested bonus

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FL > 115%	m=12
For 97.5% <= FL <= 115%	m= 0
92.5% <= FL < 97.5%	m= 10
FL < 92.5%	bonus = 0% net of fees

*Requirement. Specify Min & Max funding level and remedial action*

Funding level below 92.5%, declare a zero net bonus

Funding level above 115%, reduce smoothing period, accelerate distribution of surplus

# EXAMPLE BONUS FORMULA



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*Requirement.* Limit the smoothing period ... not exceeding 24 months

Our maximum is 24 months

May deviate in exceptional circumstances (with prior notification to Authority)

# EXAMPLE BONUS FORMULA



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*Requirement.* Do not target a long-term funding level exceeding 105%

We use 103%

# PRODUCT RELATED REQUIREMENT



Stable Bonus Portfolio

## Factors/triggers for removing non-vested bonuses

- ① Funding level below 90% for 12 consecutive monthly bonus declarations
- ① Funding level below 80%

All clients non-vested bonuses reduced by the same percentage

This will reduce their book value

In conjunction with the provision of shareholder capital

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# PRODUCT RELATED REQUIREMENT



Stable Bonus Portfolio

## Factors/triggers for providing shareholder support (loan vs cash injection)

- ⌚ Statutory requirement if deficit not expected to be eliminated - next three years
  - ⌚ Permanent support (capital injection) when the funding level remains below 80% (in conjunction with the removal of non-vested bonuses)
  - ⌚ Sanlam may also decide to provide support under other circumstances. Normally be in the form of interest-free loans – example 2002
-

# PRODUCT RELATED REQUIREMENT



## Market value adjustment

- ⌚ Pre-determined circumstances
- ⌚ Not on death, retrenchment\*, retirement

Sanlam pays book value on death, disability, retrenchment, resignation and retirement

## No disinvestment penalties

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# PRODUCT RELATED REQUIREMENT



## Issue

- ⊗ Limitation on deviations (2% p.a.)
- ⊗ Think back to April last year
- ⊗ OM's AGP Stable Growth was supposed to declare -15%
- ⊗ OM used their discretion to only declare -5%

In theory this is not allowed anymore, BUT ....

## There is still some rough with the most popular smoothed bonus portfolio

Old Mutual declares a negative bonus

08 JUNE 2020 - 16:50 LAURA DU PREEZ

The declaration of a negative bonus on a large insurer's smoothed bonus portfolio after the recent stock market fall, has left the local retirement fund industry a little stunned.

It has been many years since any large smoothed bonus provider has removed bonuses — they remained intact after the 2008 financial crisis — and Fedsure was the last big insurer to do so, back in 1999.

Old Mutual says technically it did not remove any bonuses this time either — in its words it applied a negative bonus rate — but the effect was to remove 5% of the value of investors' funds in the portfolio in April, amounting to an estimated R6.7bn. The life company believes it was the best way to be fair to all investors.

# INVESTMENT STRATEGY



## **Less flexibility**

- ④ Remain within stated SAA range
  - ④ Comply with Reg. 28
  - ④ Material change in SAA, notify clients and FSCA
  - ④ Material changes not in line with investment philosophy – client opt out at book value
  - ④ Where change to protect solvency, notify clients and FSCA
-

# INVESTMENT STRATEGY



## Issues

- ③ Investment philosophy = moderate balanced fund
  - ③ Does not define “material”
  - ③ FSCA did confirm “notify” does not mean “wait for a reply”
-

# ASSET ALLOCATION RANGE



Stable Bonus Portfolio

Asset Category	Benchmark weight %	Long-term range
RSA Equities	32	10 – 50
RSA Interest Bearing Assets	34	10 – 60
RSA Alternatives (incl. direct property)	6.5	0 – 25
Foreign Equity	17.5	10 – 30
Foreign Interest Bearing Assets	7.5	0 – 15
Foreign Alternatives	2.5	0 – 10

# TCF AND COMMUNICATION



- ④ Ensure fair treatment of members
- ④ Insurer communication to Fund  
is “accurate, relevant, simple, easy to understand”
- ④ Fund communication to members  
provide “clear information”
- ④ Fund ensure - appropriate channels submit  
complaints re default portfolios



**accurate**  
**easy**  
**simple**  
**relevant**  
**clear**



# MY VIEW



## Insurers have less flexibility

- ⌚ Not too restrictive, will not impact portfolio negatively
- ⌚ Levels playing field

## Requires lots more disclosure

- ⌚ Hence 9 months implementation period

## Overall

- ⌚ Supportive, our portfolios will comply



# WHAT CLIENTS WILL RECEIVE



## Need to enhance our disclosure

Mostly in Principles and Practices of Financial Management (PPFM) document

## From end Feb

- ① Updated policy wording
- ① Updated PPFM
- ① Certificate by statutory actuary
- ① FAQ document



# ROLL-OUT



**Oct – Dec**

General “newsletter” and video communication to consultants

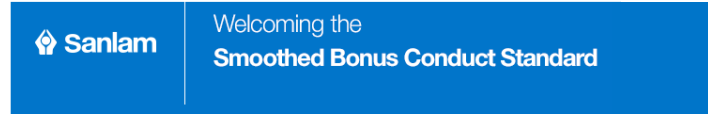
**Jan - Feb**

Webinar

Issue updated documentation

**Mar - May**

Engage with clients



## Welcoming the Smoothed Bonus Conduct Standard

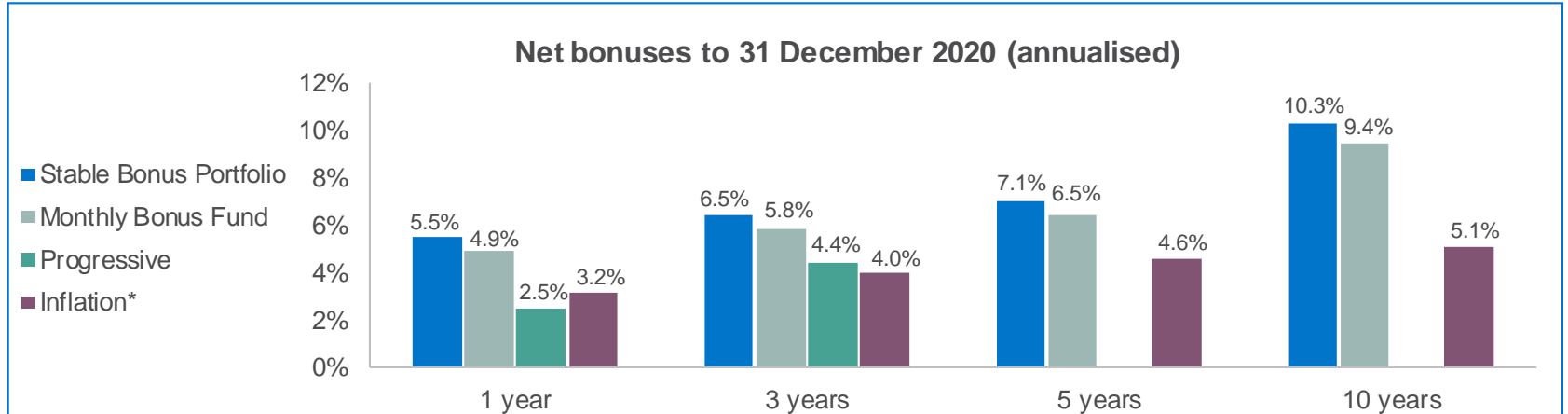
The FSCA released the much awaited Smooth Bonus Conduct Standard (Conduct Standard 5 of 2020 regulating retirement funds) on 9 October 2020 with the conditions for smoothed bonus portfolios to form part of default investment portfolios. This gives retirement funds using a smoothed bonus portfolio as part of their default investment portfolios nine months to comply with the standard.



Given the renewed focus on default portfolios, we believe that the release of the final Smooth Bonus Conduct Standard was timely and relevant. It also levels the playing field to some extent by ensuring that all insurers provide benefits consistent with the standard. The fee disclosure will also make it easier for members to compare different portfolios.

Sanlam doesn't have to make specific changes to its portfolios, but we will need to enhance our disclosure in line with the standard. We look forward to engaging with trustees on this over the next nine months.

# QUICK LOOK AT PERFORMANCE



<b>REAL RETURNS</b>	<b>1 year</b>	<b>3 years</b>	<b>5 years</b>	<b>10 years</b>
<b>Stable Bonus Portfolio</b>	2.3%	2.5%	2.5%	5.2%
<b>Monthly Bonus Fund</b>	1.7%	1.8%	1.9%	4.3%
<b>Progressive</b>	-0.7%	0.4%		

\* CPI FIGURES UP TO 30 NOVEMBER 2020



## PROVEN PERFORMANCE ...

- four-wheel drive solution
- at the heart of each model same fundamental engine technology
- 100-years of track testing
- trusted brand

questions 

thank you 





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