NON-BANK FINANCIAL INSTITUTIONS REGULATORY AUTHORITY

(NBFIRA)

PENSIONS PRUDENTIAL RULES

In terms of Section 50 of the NBFIRA Act – Section 51 on Reporting

PFR6

Actuarial Triennial Report

Effective March 1, 2012

Contents

1. Introduction

1. The inclusion of an Actuary's report as part of the returns to the NBFIRA is mandatory for all pension funds that are not exempt from actuarial valuation (refer to PFR7).

2. This document sets out the requirements for the Actuary's report for pension funds, regarding both the format and minimum content of the report. The aim of this document is to help ensure consistency and completeness of disclosure.

3. The Actuary's report forms part of the required statutory returns, and comprises five sets of documents:

   a. PFR3 is the annual Pension Fund Return, which contains relevant financial data about the fund;
   b. Pension Fund Annual Financial Statements;
   c. PFR9 is the Risk Questionnaire, outlining the key risks faced by the fund and its management of those risks;
   d. PFR6 is the Actuary's Report;
   e. PFR7 Application for Exemption from Actuarial Valuation; and
   f. PFR8 Suitability of Investments for Pension Funds.

4. The Actuary's Report is adapted from professional guidance prepared by the Actuarial Society of South Africa ("ASSA"). PFR6 applies to Actuary's Reports in respect of all non-exempt pension funds operating in Botswana, regardless of the affiliated professional body of the Actuary.

5. The content of the Actuary's Report is aimed at providing necessary disclosures to allow adequate assessment of the financial position of the fund by the trustees of the fund, the sponsoring employer(s) and the NBFIRA. The focus of the Report is therefore on the Funding Valuation Rules.

2. Required Disclosures

6. The Actuary's report shall contain the following minimum information:

2.1. *Objectives*

7. The opening statement of the report should set out the objectives of the valuation and the dates on which the valuation and the previous valuation were conducted.

2.2. *Fund Developments and Significant Events*

8. A description of all relevant developments since the previous valuation of the fund, for example:

   a. Rule amendments;
   b. Changes in benefits;
   c. Discretionary benefits granted by trustees, including pension increases;
   d. Contribution rates paid and changes thereto;
   e. Extraordinary changes in membership;
   f. Bulk transfers; and
   g. Changes in investment strategy.

9. Comments on financially significant events that have occurred since the valuation date, or that may be imminent, and an explanation of the allowance for these events in the valuation, if applicable.

2.3. *Contributions and Benefits*

10. A summary of the benefits and contribution rates used in the valuation.

11. In the case of defined contribution funds, the summary should state whether the expenses, including the premiums paid for the insurance of death and disability risks, are:

   a. Included within the defined contribution;
   b. Paid in addition to them;
   c. Borne out of investment returns prior to distribution to members; or
   d. Borne out of reserve accounts.

2.4. *Membership Data*

12. A summary of the membership data used in the valuation of the liabilities, showing the membership details separately for pensioners, working members and deferred pensioners:

   a. The build-up of the number at this valuation from the corresponding number at the previous valuation, showing the number entering this category of member and the numbers leaving for reasons such as death, withdrawal, retirement;
   b. The average age of members and any change in the average age across the period since the last valuation;

c. The annual pensions valued in respect of the pensioners and deferred pensioners and the change across the period since the last valuation;

d. The annual pensionable remuneration of working members and the change across the period since the last valuation; and

e. The steps taken by the Actuary to verify the completeness and accuracy of the data, and to ensure that the data is suitable for a test of the financial soundness of the fund and the determination of the future contribution rates, including any tests performed on the data supplied to the Actuary.

13. If the Actuary has any reservations regarding the reliability of the data, the Actuary should indicate a qualification around data issues and state reasons for the data qualification.

2.5. *Valuation Methodology and Assumptions*

2.5.1. Valuation Method

14. The valuation method must be described, with an explanation given as to why it is considered appropriate for the particular valuation. Terms such as “projected unit method” must be explained if used.

15. A brief description of any material changes in valuation method since the previous reporting period shall be provided and reasons for changes should be explained. Disclosure of the financial effect thereof is provided for in section 2.6.2.

2.5.2. Assumptions

5 The report must include a summary of the assumptions used and an explanation of the derivation of the assumptions. Sufficient detail should be provided to enable an independent actuary to judge the financial soundness of the assumptions.

6 If any provisions have been made implicitly by margins in valuation assumptions, the rationale should be explained.

7 If these assumptions differ from those of the previous valuation, the reasons for the change must be explained in the report. Disclosure of the financial effect thereof is provided for in section 2.6.2.

2.5.3. Valuation of Assets

16. A summary of the assets valued should be given. The summary should detail the fair value and the actuarial value (if different), by class of asset, together with the basis for determination of the actuarial value of assets. Where the asset value is different from the value in the financial statements a reconciliation and explanation of the differences should be provided.

17. More detail on the valuation of assets is set out in PFR1 and PFR2.

18. Where a policy of insurance is an asset and it is not possible to determine the classes of assets held by the insurer underlying that policy, then the report should state the nature of the policy, and both the fair value and the actuarial value (if different) of that policy together with the

basis for determination of the actuarial value of the policy. In particular, if the policy includes vested and non-vested bonuses, the amounts of the vested and non-vested portions of the policy must be shown separately and the Actuary must state what proportion of the non-vested bonuses have been taken into account when determining the actuarial value of the policy.

19. Current liabilities and any pledge or other encumbrance of the assets must be deducted before determining the value that can be used to compare with the liabilities and full particulars must be provided of such deductions.

2.5.4. Valuation of Liabilities

20. The value of the fund's accrued liabilities, using assumptions consistent with the assumptions used to value the fund's assets. The accrued liabilities must make provision for the projection of pensionable remuneration to normal retirement age and of pensions throughout the period of retirement in a manner consistent with the fund's pension increase policy.

21. More detail on the valuation of liabilities of the fund is discussed in PFR11.

2.5.5. Valuation of Reserve Accounts

22. The value of any reserve accounts set up to meet liabilities and the reasons for the establishment of such reserve accounts. The Actuary should also indicate whether the reserves are adequate.

2.6. *Valuation Results*

23. The valuation results, dealing separately with pensionable service to the valuation date, and prospective future service.

2.6.1. Reconciliation of Results

24. A comparison of the valuation result with that at the previous valuation, quantifying the changes over the valuation period.

2.6.2. Analysis of surplus

25. The Actuary must analyse the change in the surplus or deficit since the previous valuation, and quantify the effect of each element affecting the financial condition of the fund.

26. The analysis should show the effect of any changes in methodology and assumptions and compare the actual experience of the fund with the actuarial assumptions used and show the implications of significant deviations on the future progress of the fund.

27. As this is an important check on the accuracy of the data and the continued applicability of the actuarial assumptions, this must be included in the report unless the Actuary obtains the approval of the regulator to leave it out. In the case of small funds, a full analysis may not be practical, and an indication of the main sources of surplus or deficit would be sufficient.

2.7. *Financial Soundness*

28. A comparison of the actuarial value of the assets with the fund's accrued liabilities plus the balances in reserve accounts that the Actuary considers necessary in order to meet the liabilities of the fund.

2.7.1. Recommendation for Financing Deficit

29. Recommendation for the financing of any deficit disclosed by the valuation and the additional contribution rate required to amortise it over a period acceptable to the regulator, as per PFR1

30. Where the Actuary has placed an actuarial value on the assets, which is greater than the market value, and there are not sufficient free assets available in other reserve accounts to cover the difference, the Actuary must comment on the steps that should be taken by the trustees if market values do not increase, within a reasonable period after the valuation date, to match or exceed the actuarial value of the assets.

2.7.2. Fund Surplus

31. The application of any surplus disclosed:

   a. Where an actuarial surplus is utilised to permit the employer to take a contribution holiday, the Actuary must state for how long such a contribution holiday may be taken;
   b. Where an actuarial surplus is distributed across individual members' accounts in a defined contribution fund, the Actuary must state the method used and comment on its fairness between different types or categories of member;
   c. If the actuarial surplus is credited to a reserve account, the amounts allocated to each account must be disclosed.

2.8. *Recommendation of Contribution Rates*

32. Recommendation regarding future contribution rates, indicating under what circumstances they are expected to remain constant, increase or decrease.

33. The total contribution rate recommended must then be compared with the contribution rate currently being paid by the employer and working members.

2.9. *Defined Contribution Funds*

34. For defined contribution funds, an analysis of the rates of investment return and expenses must be provided; this should include the premiums paid for death and disability benefits accrued to individual members' accounts across the period. Where this differs by category of members, the Actuary should comment on the equity of the distribution method.

35. Where benefits are being projected in future as part of the information provided to members, the Actuary should state the assumptions that will be used in such a projection.

36. Where reserves have been held for certain contingencies, the Actuary should quantify:

   a. Additional reserves and contributions or transfers from surplus or other resources, where reserves require strengthening; or

b. The reserve to be released to surplus, where there are excess reserves.

37. And recommend how these will be accommodated within the fund.

2.10. *Income Statement*

38. A consolidated income statement showing cash flows since the previous actuarial valuation.

2.11. *Asset Statements*

39. A summary of the assets of the fund broken down into classes of assets (equities, property, fixed interest, cash and other), unless such a breakdown of assets is not possible, e.g. with investments in insurance policies, in which case a description of the nature of the policy should be given.

2.12. *Suitability of Investments*

40. The Actuary must comment on the suitability of the fund's investments and the investment policy in relation to the nature of the fund and its liabilities. This comment must take particular account in the case of a defined contribution fund of the method used to accrue investment returns to individual member accounts and the communication of the investment risks to the member. Further information on the considerations around the Suitability of Investments is found in BSR5.

2.13. *Suitability of Insurance and Other Risk Measures*

41. Comment on the appropriateness of reinsurance or self-insurance of risk benefits (if necessary), covering any reserves held and the contributions recommended for the future.

2.14. *Presentation*

42. The valuation report should preferably be forwarded directly to the client. If the report is forwarded through a third party, the Actuary must ensure that the report is forwarded to the client without undue delay and without modification.

43. Where it is not feasible for the Actuary to explain the report in person, he/she should indicate that he/she is prepared to provide his/her professional advice should it be required.

2.15. *Summary and Certification*

44. A summary of the valuation results and a formal certification by the Actuary regarding the financial condition of the fund.

45. The Actuary's qualifications and the capacity in which he/she has signed the report.

46. The Actuary must draw any matters to the attention of the trustees and the regulator in the report which might endanger the current or future financial soundness of the fund. This will include any errors in, or concerns with, the data used for the valuation.

47. The Actuary may comment on the benefit structure and design, if appropriate. This is mandatory for new funds, in which case the Actuary should discuss the aspects of fund investigated to determine the fund viability.

48. The Actuary may accept the audited annual financial statements as giving a reasonable description of the fair value of the assets of the fund.

CERTIFICATION BY TRUSTEE

I …………………………………………………………………………
(Chairman Board of Trustees/authorised trustee)

Being a trustee of ……………………………………………
(Name and address of fund)

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hereby do declare that to the best of my knowledge and belief the information furnished to the Actuary for the purpose of the Actuarial valuation was correct and complete in every material respect and that a copy of the valuation report has been sent to the sponsor of the fund.

Date: …………………………….

………………………………

Signature