

New members

Practice Note 6 version 2 - November 2019
Member investment choice funds



Introduction

The Operations & Administration division (O&A) issue practice notes to:

- increase awareness and provide insight into the best practices and procedures adopted by Alexander Forbes for the effective administration of your fund
- clarify our administration role
- align expectation between Alexander Forbes, trustees, employers and members of the retirement funds.

Please note that in an event of a conflict, the fund's rules, applicable legislation or the signed service level agreement will take precedence over the processes set out in this practice note.

In this issue, we deal with new employees joining a retirement fund that offers member investment choice (MIC). This Practice Note highlights the different scenarios that may occur and the Alexander Forbes best practice in respect of these scenarios.

Background

Funds offering MIC provide new members joining the fund with the option to invest member and employer contributions towards retirement funding (referred to as 'monthly contributions') in an investment portfolio of their choice.

In order to allocate the 'monthly contributions' to the portfolios of choice for new members it's important for the fund to identify default portfolios in which to invest in.

If members choose investment portfolios that are different from the default portfolio identified by the fund, the

employer or payroll must ensure that the investment choice form is delivered to the fund administrator. This must be done before the end of the month that the new member joins and before the delivery of the monthly contribution schedule in which the new member's first contribution appears.

About the investment choice form

- Investment percentages must add up to 100%.
- The employee signature and employer stamp must be on the form.
- The employer signature should match the list of authorised signatories.



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The investment choice form versus an investment switch form

An investment choice form is used to indicate a new member's portfolio selection, if it's different from the fund's default portfolio. An investment switch form is used by existing members in the fund to indicate which portfolios their current fund credit and ongoing contributions should be invested in.

Where the member doesn't complete an investment choice form, the contributions are automatically invested in the default investment portfolio. When the member sends an investment choice form at a later date, the current fund credit and all future member and company contributions are invested in the investment portfolios as selected by the member. This is treated as an investment switch. An investment switch fee may be charged to effect the switch, depending on the rules of the fund.

Some funds offer their members a range of contribution rates (6% or 7.5% of pensionable salary). How does the employer indicate a new member's contribution rate?

The employer should notify Alexander Forbes of the applicable contribution rate by adding an additional field to the monthly contribution schedule. The rate amount is usually specified and not the members' contribution rate.

Some funds offer their members different risk benefits to choose from, known as Flexible Risk (2 x annual salary or 5 x annual salary). How does the employer indicate a new member's risk cover?

It's important for the fund to identify a default level of risk cover (2 x annual salary or 5 x annual salary) where no flexible risk selection is received in respect of new members.

If members choose a risk cover that's different from the default level of risk cover offered by the fund, the employer or payroll must ensure that the appropriate Flexible Risk Choice Form is delivered to the fund administrator. This must be done before the end of the month that the new member joins and before the delivery of the monthly contribution schedule in which the new member's first contribution appears.

The multiple risk cover rates should also be indicated on the monthly schedules for each member (if applicable to the fund).

Differentiating between new members and transfers from one unit to another within the same employer

New entrants and their static details like identity numbers, date of birth, surname and full names are reflected on the monthly contribution schedules received from the employers. Employee numbers are unique identifiers and should remain the same throughout an employee's term of employment. Therefore, care should be taken by the employer not to change the employee numbers when they transfer from one unit to another. The employer should also add a note to the schedule to indicate if the member moved to or from another branch or division.

Transferring a new member's fund credit from the previous employer's fund to the new employer's fund

Alexander Forbes' best practice is to invest the transfer value in the same portfolio all future contributions will be invested in. Where monies are invested in a default portfolio, the transfer value will also be invested in the default portfolio.

There are funds that have different practices in place and this is normally based on special instructions from the trustees of the fund.



The above is Alexander Forbes standard best practice and there may be funds that operate differently, as instructed by the fund's trustees.

Timeous investment of fund monies is an important aspect of the day-to-day administration of the fund. Fund administrators rely on receiving correct data from employers in order to meet their service level agreements.



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