

Default regulations paid-up members

Practice Note 12 - February 2019



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Introduction

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

- Increase awareness and provide insight into the best practices and procedures adopted by AlexForbes for the effective administration of your fund
- Clarify our administration role
- Align expectation between AlexForbes, 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 highlight the effect of the Default Regulations and the effect this has on your retirement fund in relation to the newly introduced paid-up members.

Default Regulations – **Regulations 37 to 39 of the Pension Funds Act**

Background

The final default regulations to the Pension Funds Act took effect on 1 September 2017. All new default arrangements that come into operation on or after 1 September 2017 must comply with the requirements set out in the regulations. Existing default arrangements must be fully aligned to the regulations by 1 March 2019.

A few funds have already changed their rules to cater for default regulations, whereas other funds still need to align their rules with effect from 1 March 2019. This

practice note deals with the administration process regarding default regulations. Note that paid-up members are referred to in this practice note as preserved members, which is in line with most fund rules.

Paid-up status

Legislation dictates that members who leave their employer (other than through death and retirement) and do not claim their withdrawal benefits from the fund would automatically become a preserved member in the fund by not completing a withdrawal notification form or not making an election on how the withdrawal benefit must be paid out.



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What is AlexForbes administration division's best practice regarding preserved members?

AlexForbes best practice is that the receipt of the withdrawal notification form indicating 'No payment option selected' triggers the member's preserved status in the fund. Where the employer or paypoint has notified AlexForbes that the member has left the employer's service, a fully completed withdrawal notification form (online or manual) will be requested from the employer to confirm the exit event. This is to ensure that AlexForbes has all the required information for the preserved member in order to issue a paid-up member certificate and to contact the member at any later point in time, for example member communication, benefit statements, investment statements and other documents.

The preserved member would be treated as an active non-contributory member in the fund and will not be covered for any insured risk benefits. From a fund-reporting perspective, paid-up membership will be reflected as a separate category of active members on trustee administration reports.

What confirmation will be sent to the member confirming the member's preserved status?

A paid-up membership certificate will be issued by a fund upon electronic receipt of the withdrawal notification form indicating 'No payment option selected'. In the case where the withdrawal notification form indicating 'No payment option selected' is submitted manually, a paid-up membership certificate will be issued by a fund within the prescribed period. Where the fund has the member's email address, the paid-up membership certificate will be emailed to the member and where there is no email address, the paid-up membership certificate will be posted to the member. Should a preserved member for some reason require a copy of their paid-up membership certificate at a future date, this can be requested from our call centre.

Should the certificate be returned to the fund as 'address unknown', the principal officer of the fund will be notified to trace the preserved member.

The preserved member will also receive documentation informing them of the registration process to access their record on AF Online to view their static and financial details, capture their nominated beneficiaries and dependants, etc.

Where will the investments of the paid-up benefits be invested?

The preserved member benefit will remain invested in the fund in the same investment strategy or the investment strategy (if applicable) as agreed to by the trustees of the fund. Depending on the investment strategy and switch rules of the fund, the preserved member will be allowed to switch their benefit from one investment portfolio to another. If this is allowed by the fund, the member would need to complete an investment switch form and forward it to AlexForbes in line with the current procedure.

How will any Section 37D deductions be treated when a member becomes a preserved member?

Prior to a member being made paid-up (preserved) on the fund, all Section 37D deductions that are reflected on the withdrawal notification form or endorsed on the member's record or both will be settled. Examples are housing loans, divorce orders, maintenance orders, and amounts owed to the employer arising from theft, dishonesty, fraud or misconduct. The deductions will be grossed up to allow for the applicable tax deductions. Any balance of funds will be invested according to the above investment strategy.

How long will a member remain on the nil contributors list before the member becomes a preserved member?

Should AlexForbes identify a member during the contributions update process where no contributions were received, the standard Section 13A contribution reporting process will be followed to the employer or paypoint and to the principal officer or monitoring person of the fund until such time that a fully completed withdrawal notification form has been received from the employer that will determine the member's exit status. It is important to note that the regulations are compulsory from 1 March 2019, therefore any member who leaves their employer on or before 28 February 2019 will be treated in line with the current fund practice prior to 1 March 2019.

What will the administration fees be for a preserved member?

The administration fees that will be levied per member will be in terms of the agreed fee structure in the fund's service level agreement or trustee minutes or both and deducted from the member's paid-up benefit every month together with any other applicable fees

(consulting, ad hoc, etc.) subject to the fund rules allowing for such deductions. If you are unsure, you can obtain the fee structure from the fund consultant of your fund.

What process needs to be followed when the preserved member requests payment of the benefit?

Should a preserved member decide to make an election about payment of their benefit after they become paid up, the preserved member should contact AlexForbes directly.

The following process will apply:

- AlexForbes will forward the standard paid-up or deferred withdrawal claim form directly (email, fax or post) to the preserved member to be completed. This form has been amended and the employer declaration has been removed, which means that the employer does not need to sign the form. The preserved member must complete the form and return it directly to AlexForbes using the contact details on the claim form.

The following documents will also be required:

- A copy of the member's identity document
- One of the following:
 - a copy of a letter from the member's bank, on the bank's letterhead, confirming bank account details (not older than three months)
 - a copy of the latest bank statement (not older than three months)
 - a copy of a cancelled cheque
- Divorce or maintenance court orders (if applicable)
- On receipt of the new claim form completed by the member and the required supporting documents, the benefit will be settled in terms of the member's election on the claim form.

What benefit will be paid to the preserved member in the event of a retirement?

The benefit that will be paid out will be in terms of the rules of the fund.

What benefit will be paid out to the member in the event of a death?

The benefit that will be paid out will be in terms of the rules of the fund. As mentioned above, the

preserved member would be treated as an active non-contributory member in the fund and will not be covered for any insured risk benefits, such as group life benefit, disability benefit, funeral benefit, etc. Section 37C of the Pension Funds Act will apply to the distribution of any death benefits (fund credits).

Will the fund communicate with the member during the member's preserved status in the fund?

Yes. The preserved member will be treated as an 'active' non-contributory member of the fund. Fund communication, such as trustee reports, benefit statements, investment statements, and other documents, will be distributed to the member according to the fund's communication plan.

How does retirement benefit counselling (RBC) impact on the administration of the fund?

The fund is responsible for ensuring all members have access to retirement benefit counselling before members make a payment election and not less than three months before normal retirement date or retirement age.

When a preserved member contacts AlexForbes to make a payment election, the member will be provided with the fund consultant's contact details to obtain information in line with the fund's retirement benefit counselling approach.

What is AlexForbes's role in transferring prior paid-up benefits into the fund?

The regulations state that new members who join a fund should be requested, within four months from date of joining the new fund, to provide copies of all of their paid-up membership certificates from previous funds.

AlexForbes:

- Will provide new entrant certificates to the new fund members. Included in the certificate is a request for the member to submit all prior fund paid-up membership certificates to the fund. The new entrant certificate will be distributed to new members automatically when the new member record is captured upon notification received from the employer in the prescribed format.

- Does not have direct contact with the members and is only able to distribute new entrant certificates to new members where the employer has provided sufficient contact details. To ensure new entrants receive the request to provide copies of all their prior paid-up membership certificates to the fund, the employer should incorporate this request as part of their onboarding process.
- Will receive and store the prior paid-up membership certificates.

Should the member wish to transfer their prior paid-up benefits from other funds into the new fund, the member must instruct the transferring fund(s) to initiate and drive the process to effect the required transfer to the new fund. AlexForbes will complete the required recognition of transfer (ROT) to aid with the transfer. Upon receipt of such funds, the necessary allocation to the member record will be completed. AlexForbes will neither monitor nor control the transfer process. Further information or documentation can be obtained from AlexForbes that outlines the ROT process.