

## RHODES UNIVERSITY PENSION FUND

Registration number 12/8/31401/1

Registered address: 256 Cape Road, Newton Park, Port Elizabeth

30 October 2021

Dear Pensioner

### **RESTRUCTURING THE PENSION FUND** **(Communique #3)**

Further to our previous communication, the Trustees of the Fund, together with the University, have undertaken an extensive exercise where they have reviewed the current defined benefit structure of the Fund. After reviewing the impact of the defined benefit structure and what alternative options are available, they have decided that it is no longer practical to continue providing retirement benefits within the Pension Fund other than those that have already been accrued on this basis.

The Trustees have therefore decided to keep the defined benefit structure of the Fund for active members in respect of their service up until 1 April 2022. With effect from 1 April 2022, active members in the employ of the university will join the Rhodes University Provident Fund and their new contributions from 1 April 2022 will accumulate on a defined contribution basis.

With the changes as at 1 April 2022, active members have been given the **choice** of leaving their actuarial reserve value benefit as at 1 April 2022 in the Rhodes University Pension Fund, which will result in their existing benefit in the Pension Fund continuing to be determined on a defined benefit basis. On retirement they can then become a pensioner in the Fund or can secure a pension outside of the Fund. Alternatively, they can voluntarily transfer their actuarial reserve value as at **1 April 2022** to the Rhodes University Provident Fund and have all their retirement benefits in the Provident Fund accumulating on a defined contribution basis. **None of the above affects you as a pensioner of the Fund.**

In deciding to make changes to the Pension Fund, the Trustees, together with the University, considered the latest trends and developments in the retirement benefits industry and the most appropriate retirement provision mechanisms. This includes the widespread move away from defined benefit arrangements to defined contribution arrangements. The trends illustrate that, until recently, Rhodes University was one of only two higher education institutions in South Africa with an open defined benefit fund. The decision to restructure the Rhodes University Pension Fund also took into account the consolidation of the staff retirement fund arrangements and at the same time takes into account the objectives of the University to de-risk its balance sheet and therefore support the future financial sustainability of Rhodes University. A further consideration for the timing of the restructuring is that the recent statutory valuation of the Fund indicates that this is an opportune time for the re-structuring as the Fund is in a healthy financial position.

It is important to note that the retirement funds are separate and distinct legal entities from the University and are governed by the Trustees of the Funds in accordance with the relevant legislation and the rules of the Funds. Nonetheless, as a defined benefit pension fund, the Rhodes University Pension Fund places an open-ended financial obligation on the resources of the University.

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The University has notified members and pensioners that under current financial circumstances it is unlikely that it would be able to inject further funds into the Pension Fund, should such a need arise unless the economic and financial context of higher education improves. The only option available to the Trustees in such a case would be to reduce benefits in real terms through reduced or zero annual increases in pensions. In an extreme case the Fund would have to close.

**With this change, the Trustees are providing all pensioners with an opportunity to voluntarily purchase their pension benefits through another provider.**

The Fund's rules are currently being amended to allow pensioners, subject to certain requirements, to elect permanently and irrevocably to uplift their pension capital in the fund and to use this capital to purchase a pension from another provider, such as a life insurance company. This will be a once off opportunity and pensioners will be able to make use of this option during a window period from 1 April 2022 until 30 June 2022, when it will expire. Please note that the ability to uplift the pension is conditional on the rule amendment being approved.

We would like to reassure pensioners that the upliftment option being provided to them is to allow pensioners the freedom to decide if an alternative arrangement of their own choice would be more appropriate to their specific circumstances. If they decide that remaining in the Fund is more appropriate, then that is a free choice available to them.

***You are only required to take any action regarding this letter should you wish to make use of this once-off option. If you wish to remain a pensioner of the Rhodes University Pension Fund, then you do not need to reply to this letter or to take any further action.***

It is critical to point out that this option does not enable pensioners to directly access their pension capital. In fact, the Income Tax Act and the Pension Funds Act expressly prohibit pension funds from allowing pensioners to simply take their pension capital out of the Fund. Rather it affords pensioners the opportunity to purchase a different kind of pension, in their own name, from an alternative provider.

### **Disclaimers and risk considerations**

The Trustees are in no way endorsing an uplift or encouraging pensioners to leave the Fund. Instead, we advise that pensioners thoroughly consider all the facts and circumstances applicable to their personal financial circumstances in order to make an informed decision. By remaining in the Fund, pensioners will continue to enjoy the oversight, governance, and cost-efficiencies of being a member of an expertly managed pension fund. The Fund is designed to meet the requirements of its pensioners and their beneficiaries.

If you choose to uplift your pension capital, then the risk of uncertain future investment returns, annuity rates and your *and your spouse's* longevity will become risks that *you* will need to manage. You will most likely need to appoint an accredited financial adviser to advise you in future but do note that this will be at an additional cost that will need to be met in future from your pension capital.

The ultimate guarantor of the Pension Fund is the University which has stated that it may not be able to meet calls for financial assistance in future depending upon its financial situation at that time. In the case of an external annuity, the guarantor will be the insurer from which the annuity is purchased.

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### Requirements for pensioners to take up the option to uplift their pension capital

There is a fair amount of paperwork that will be required to enable a pensioner to uplift their pension capital. This can be summarised as follows:

- i) You will firstly need to *register your interest* in taking up this option with the Fund. Note that registering your interest is non-binding and does not mean that you will have to uplift your pension capital. Rather it is a mechanism for the Fund to identify who might be interested in this option, and accordingly who it should engage with further.
- ii) The enclosed form should be completed and returned to the Fund by no later than **15 March 2022**. Again, we stress that you do not need to return this form if you do not want to take up this option. Having said that, the option is a once-off opportunity which the Trustees may not – for various financial reasons – make available again.
- iii) Note that the afore-mentioned form requires you to certify your and your spouse's personal information. It is essential that this information is correct as it will be used by the actuaries to calculate the value of your pension capital at your date of exit.

It is only once the Fund has this information that we will engage with you as to the illustrative value of your pension capital. The Fund is unfortunately not able to provide illustrative figures before then.

- iv) You will then need to consult with an accredited financial planner. A list of Alexander Forbes financial planners is provided in the FAQ attached, but you are welcome to make use of any accredited planner. Note that you will be required to certify to the Trustees that you have received such advice before any transfer is made from the Fund to your elected provider. The Fund strongly suggests that you include your spouse (if applicable) in such consultations, as the pension that you purchase outside of the Fund will need to factor in your and your spouse's longevity.
- v) At the appropriate time the Fund will need a completed and signed application form for the provider to whom you will be transferring your pension capital. So, for example, if you were to decide to purchase a living annuity from Investec, then you would need to provide the Fund with a signed Investec living annuity application form.
- vi) You will need to make the necessary arrangements for your medical aid premium, (if applicable), to be paid directly to the respective medial aid funds, and to confirm in writing to the Trustees that this has been done. For pensioners who retired with a subsidised post retirement medical aid benefit, this will continue as normal.
- vii) The same arrangements would need to be made for any other deductions or debit orders that the administrator currently makes from your monthly pension.

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To give legal effect to the transfer of assets between a pension fund and another provider (such as an insurance company), the Fund needs to apply for Financial Sector Conduct Authority approval. This process is known as a 'section 14 transfer application' – from the section of the Pension Funds Act that regulates such transfers. There is no action required from your side to give effect to this, but we would like to draw your attention to the process as it can be lengthy as it is dependent on the workflow at the Authority at the time of application. Delays are not uncommon. During this period your pension will continue to be paid by the Rhodes University Pension Fund.

### **Background to the changes in the Pension Fund**

- A special task team was established by the University, and they received expert advice from an independent actuary. The task team was established by the Council following the statutory valuation of the fund as at 31 December 2018. The objective of the task team was to investigate the best course of action to minimise the potential impact of the Pension Fund on the finances of the University. The University has already injected an additional R10 million in 2019 and R47.52 million in 2020 as a temporary measure to address what were then shortfalls in the Fund.
- The Trustees engaged independently, and various options were assessed with expert advice from the actuary to the Fund. The Trustees also had several engagements with the task team.
- The Trustees reviewed many options, including, closing the Fund to new entrants, reducing the accrual rate from 2.7% of final salary per year of service, capping pensionable salary increases, increasing the member contribution rate, changing the valuation basis, and changing the pension increase policy.
- The Trustees' opinion is that changing the accrual of future benefits for active members from a defined benefit basis to a defined contribution basis within the Provident Fund, and giving both active members and pensioners the option to transfer or leave their actuarial reserve value as at 1 April 2022 in the Pension Fund, are expected to be the most favourable outcomes for all members considering all the relevant facts.
- In addition to this document, group presentations will be provided to answer any questions you may have. An accredited individual financial adviser from Alexander Forbes will also be made available for one-on-one consultations. You are also welcome to contact your own financial adviser should you want independent advice on this matter.

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**Queries**

If you have any queries please contact the fund's consultants, as follows:

Mr Derek Munton and Ms Nikki Kurzyca
Fund Consultants
Alexander Forbes Financial Services
Tel: +27 41 392 8306
Email: <a href="mailto:muntond@forbes.com">muntond@forbes.com</a> or <a href="mailto:kurzycan@forbes.com">kurzycan@forbes.com</a> ; or <a href="http://consultwithalexanderforbes.com">consultwithalexanderforbes.com</a>

Yours sincerely



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**Mark Arendse**  
**Principal Officer of the Fund**

*For and on behalf of the Board of Trustees of the Rhodes University Pension Fund*

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### **FREQUENTLY ASKED QUESTIONS**

**Question: What exactly is my 'pension capital'?**

Answer: The fund has a liability to pay you and, if applicable, your surviving spouse a pension until you both pass away. The fund's actuary calculates the present value of this liability, by taking into account assumed rates of interest and inflation in future, together with your and your spouse's expected longevity. This value is commonly known as an 'actuarial reserve value'. We have called it your 'pension capital' for the purposes of this letter.

The actuary will calculate this value for you, only once you have registered your interest in taking up the option to uplift your pension capital.

**Question: Will I be able to get the same or higher amount of pension by uplifting my pension capital and 'going it alone', or am I better off in the Rhodes University Pension Fund?**

Answer: It is not possible to answer this question without knowing for certain how long you and your spouse will live, and, if you choose a living annuity, what investment returns will be earned by the living annuity investment portfolios that you select. Neither of these factors can be known in advance. It is worth noting that currently if you were to buy a guaranteed life pension in the open retail market, it is unlikely you will receive the same pension as the pension you receive currently from the Rhodes University Pension Fund. This is because an external financial institution's pricing structure is generally more expensive due to more conservative longevity risk assumptions along with its own profit margin requirements, which the Rhodes University Pension Fund does not have.

What the Trustees can say is that the fund is currently 100% funded. The latest actuarial valuation reveals that the fund is 100% funded.

Another issue to bear in mind is that the Fund bears all expenses involved in paying your pension. If you were to purchase a pension outside of the Fund, then these administrative costs will be met from your pension.

**Question: Will my spouse continue to receive a pension should I predecease him or her?**

Answer: It is firstly important to remind pensioners that the rules only provide a spouse's pension to the spouse of a member who retired from Rhodes University, and then provided that the member and spouse were married at the date of retirement. We can confirm that such spouse's pensions will be taken into account in the calculation of pension capital, as detailed above.

If you *do not uplift* your pension capital, then your spouse will remain entitled to the same contingent spouse's pension that she or he is currently entitled to.

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If you *uplift* your pension capital then it will be your responsibility, after taking appropriate advice from a financial adviser, to provide for a spouse's pension – either directly if you were to purchase a life annuity from an insurance company, or indirectly through the ongoing management of your investment balance and your drawdown rate should you purchase a living annuity.

**Question: Are the Trustees looking to close the Fund? Is this why this option is now being made available to us?**

Answer: The Trustees considered this option but decided that not closing the Fund was in the best interest of members. Down the line, it is possible that a decision might be taken to close the Fund, as the University no longer wants to carry the risk of a defined benefit fund on their balance sheet. If the Fund were to close, then the Trustees will look, together with their expert advisers, and in consultation with the pensioners, as to what would be a most suitable vehicle for the pensioners.

**Question: Do you have a list of accredited financial planners.**

Answer: You can contact Alexander Forbes on either the fund's dedicated share call line: **0860 TALK2AF** or on the following email address: **consultwithalexanderforbes.com**. It is important to note that accredited financial planners from Alexander Forbes will be proactively contacting pensioners to take them through their options. You are also welcome to use your own accredited financial advisor.

**What do I do next?**

- Presentations and one-on-one discussions with the fund's consultant will be carried out from November 2021 until mid-March 2022. Please be on the lookout for the presentation dates.
- ***You are only required to take any action regarding this letter should you wish to make use of this once-off option. In this regard, please complete the option form on the following page.***
- ***If you wish to remain a pensioner of the Rhodes University Pension Fund, then you do not need to reply to this letter or to take any further action.***



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**OPTION FORM: REGISTRATION OF INTEREST IN POSSIBLY TAKING UP OPTION TO RECEIVE YOUR PENSION CAPITAL FROM THE FUND AND USE THIS TO PURCHASE A PENSION OUTSIDE OF THE FUND**

By signing and returning the form below I hereby request the Rhodes University Pension Fund contact me further to discuss the possibility for me to uplift my pension capital in the fund.

Personal details	Details as per fund's records	Corrections (if any) by the undersigned
<b>Main pensioner details</b>		
Full name		
Date of birth		
Contact number (cell phone)		
Contact number (home)		
Email address		
Address details	as provided in the addressee details of this letter	
<b>Spouse's details (if applicable, that is if you were married at date of retirement)</b>		
Full name		
Date of birth		
Date of marriage		

Certification (tick, sign and return only if appropriate)	
I would like the Rhodes University Pension Fund to engage me further and discuss the possibility of me uplifting my pension capital from the fund	
Signed:	Date:

Return this form to: [consultwithalexanderforbes.com](http://consultwithalexanderforbes.com)