



# SPECIAL GREETING

At the close of 2021, we gratefully pause to wish you a warm and Happy Holiday Season.

Happy Holidays from The Rhodes Pension Fund Project Team

## Pensioner Options upon Leaving the Rhodes University Pension Fund – Professor Gavin Keeton

In terms of the restructuring of the Rhodes University Pension Fund, pensioners will have the choice of either remaining in the Fund with no change to their current benefits, or they may uplift their current actuarial reserve and buy a pension in the marketplace.

The decision on whether to remain or uplift will depend on each member's financial circumstances. If members choose to uplift, it is likely that the starting pension they buy in the marketplace will be less than what they currently receive from the Rhodes University Pension Fund. This is because the companies offering an alternative pension are seeking to make a profit, which the Rhodes University Pension Fund does not. Private providers thus build into their quotations a profit margin, and possibly more conservative estimates of life expectancy and investment returns than the Pension Fund's actuary.

In return a member purchasing such a pension gets to belong to a very much larger fund than the Rhodes University Pension Fund, and has greater flexibility in terms of available options. This is demonstrated in the following examples, taken from actual quotes from Old Mutual received on behalf of a member by Alexander Forbes.

Note that the values are illustrative and will differ for each member depending upon things like age and life expectancy at time of purchase.

### Capital Consideration

	Scenario A	R Scenario B	Scenario D	Scenario C	i.e. cash value of pension as at xxxx
Annuity Type Provider	With Profits 5% pricing interest rate Old Mutual	With Profits 3.5% pricing interest rate Old Mutual	Living Annuity Illustration Based on recommended draw down rate	Inflation Linked – 100% of CPI Old Mutual	Rhodes University Pension Fund As per quote. Provided. At 30. June 2021
Annual Pension as a percentage of Capital Invested	7.86%	7.04%	4.50%	6.86%	8.77%
Spouses Pension PA 75% after 5 yr guarantee period Spouses Pension PM 75% after 5 yr guarantee period			NA NA		
Comparison of the Alternative Pension Options expressed as a % of the Pension provided by Rhodes University Pension Fund	90%	80%	51%	78%	100%

# Rhodes University building and maintaining life-long relationships



## 5 options are illustrated in the Table

**1** The member can remain in the Rhodes University Pension Fund and their starting pension will be equal to their years of pensionable service x 2.7% x final salary at retirement. While the starting pension is guaranteed, increases are not. The Pension Fund targets annual pension increases equal to 60% of CPI inflation. The actual increase each year will be what the fund actuary calculates is affordable while still meeting the future liabilities of the Fund. If investment performance is inadequate to grant the targeted increase, then the trustees are forced to grant an increase below target, or even no increase at all. Note that the University has said that under its current financial circumstances it would be unable to inject additional funds into the Pension Fund to make a pension increase possible.

It was not possible to price in the marketplace a pension increase policy exactly equal to what the Rhodes University Pension Fund offers. Some alternatives are presented here for comparison.



**4** Note that in **Scenarios A and B** annual increases are not guaranteed. They depend upon the investment returns of the Old Mutual fund. If investment returns are higher than 10%, the annual increase will also be higher. But if investment returns are less than 10%, the increase will reduce by the same amount.

In **Scenario C** the pensioner is guaranteed annual pension increases equal to 100% of CPI inflation. But as payment for that guarantee, and for an increase higher than what the Rhodes University Pension Fund targets, the member's starting pension will be only 78% of what they would receive in Year 1 from the Rhodes University Pension Fund.

**5** In **Scenario D** the member purchases what is called a living annuity – an individual investment portfolio from which the member can draw maximum of 17.5% per annum and a minimum of 2.5%. Based on the age of the retiree in this particular example, the recommended draw down rate is 4.5%. In this example, the hope is that the portfolio will grow by at least  $4.5\% + 5\% = 9\%$  per annum, allowing the investor to preserve the value of their capital in real terms, and also draw an income that at least matches inflation over time. Higher returns will secure higher increases, and lower returns lower increases. If returns are really poor, the investor could be drawing 4.5% of a shrinking capital amount.

**2** In **Scenarios A and B** the pensioner joins the equivalent of a private pension fund run by Old Mutual. In **Scenario A**, annual pension increases are equal to the annual investment return achieved by this fund minus 5 percentage points.

Let's assume, for example, that CPI inflation is 5% and the Old Mutual Fund's investment performance is 10% per annum. In **Scenario A** the member would receive pension increases equal to 5% per annum (10%-5%). This is higher than the 3% per annum targeted in the Rhodes University Pension Fund (60% x 5% inflation). But to secure the possibility of this higher annual pension increase, the starting pension is 90% of what it would be in the Rhodes University Pension Fund.

**3** **Scenario B** works on the same assumptions as **Scenario A**, except now the member would receive pension increases equal to 6.5% per annum (10%-3.5%). To secure the possibility of this even higher annual pension increase, the starting pension is only 80% of what it would be in the Rhodes University Pension Fund.

**NOTE THAT** inflation of 5% and 10% annual investment returns are approximately the same values as used by the Rhodes University Pension fund actuary in estimating that a pension increase equal to 60% of CPI is affordable. Under such circumstances the increase granted by the Rhodes University Pension Fund will most probably also be below the target of 60% of CPI."

But the hope is that, unlike in a pension fund, the investor will still have capital available when they die and this will form part of their estate.

The starting pension from the living annuity is only 51% of that offered by the Rhodes University Pension Fund.

The options available are clearly complicated and must be tailored according to individual circumstances. Accordingly, members are urged to seek the advice of a professional financial advisor before making any decisions.

# Event Information

Date	Event	Content
18 November 2021 11am – 12pm	Funding for your future in the defined contribution provident fund	Rhodes University Provident Fund specific information, including contributions, the fund's investment strategy. Understanding the importance of long-term savings. AF Online.
17 January 2022 10am – 11am	Investment Planning	Six steps in the investment planning process Factors members need to consider when creating a personal investment strategy The role of the financial adviser How to choose a financial adviser
16 March 2022 10am to 11am	My retirement Picture	Build up phase to retirement
13 April 2022 10am to 11am	Understanding savings options	The investment process Asset classes Types of investment risks Retirement investment structures Personal investment structures Investment review process
18 May 2022 10am to 11am	Wills and Nomination of Beneficiary Forms	Death benefits provided on the fund Section 37C of the Pension Funds act Definition of dependence Importance of wills and nomination of beneficiaries forms Impact of divorce on your will Basic stages of estate planning

## RHODES PENSION FUND Additional QAs

**Q1** What communication channels are there to inform active members and pensioners about Rhodes Pension Fund restructuring

**A1** We communicate through: Rhodes University Pension Fund website, Letters sent to active and pensioners, Townhall meetings, One-on-one consultation, Newsletters, Call centre, and Alexander Forbes letters to both active members and pensioners.

**Q2** Are pensioners and active members being outsourced through the restructuring of the Rhodes Pension Fund?

**A2** The Pension Fund will continue to exist and both pensioners and active members can choose to remain members. For Active members all future monthly contributions from 1 April 2022 will be paid into the Provident Fund but they can choose to leave their existing actuarial reserve value in the Pension Fund if they so wish or

transfer their actuarial value to the RU Provident Fund. Pensioners may choose to transfer their actuarial reserve value to another fund, but they may also remain as members of the Pension Fund.

**Q3** Is it always better to remain in the Defined Benefit Pension Fund?

**A3** For those pensioners electing to remain in the pension fund, their pensions will continue being paid at the current levels. The trustees approve annual adjustments in pensions on the advice of the Fund's actuary. Increases granted are intended to provide some measure of protection against inflation and are subject to affordability. The University has indicated that in the case of any future deficits which may arise in the Fund, its ability to inject additional amounts into the Fund will be subject to affordability. Its current financial position would not allow such an injection. The choice between defined benefit and defined contribution depends on individual financial circumstances and preferences.

# Additional QAs

**Q4** Why do active members and pensioners have to join the Rhodes Provident Fund?

Rhodes University is restructuring the Pension Fund to de-risk its balance sheet. The University Council ruled in 2020 that the University could not under current financial circumstances afford to make further additional contributions to the Pension Fund. As a result, no new members may join the Pension Fund and new contributions by Active Members will be paid into the Provident Fund from 1 April 2022. Active members can choose to move their actuarial value to the Provident fund or leave it in the Pension Fund. No pensioners will join the Provident Fund.

**A4**

**Q5** Is it true that if you leave your contributions in the Rhodes Defined Benefit Pension Fund, you will only be entitled to a lump sum on retirement?

You can choose to become a pensioner on retirement, with your pension based on final salary and years of pensionable service up until 1 April 2022. You still have the option to commute up to one third of your pension for cash

**A5**

**Q6** Will Rhodes University lower salaries to staff in 2022 to reduce the actuarial valuation of people's funds intentionally?

As is the case every year, salary increases for 2022 will be negotiated with the Unions in line with the Recognition Agreements.

**A6**

**Q7** Are active members and pensioners of Rhodes Pension Fund entitled to view rules amendments submitted to the FSCA?

The rules and amendments become a public document the moment the FSCA approves them. After that, as an active member or pensioner, you have full access to the rule amendments.

**A7**

**Q8** Is this a unilateral change in the condition of employment?

It is not, as conditions of service are not being changed. The condition of service is to provide retirement funding which the University will continue to do. What is being changed is the type of retirement funding.

**A8**

**Q9** Does belonging to a Rhodes Pension Fund not promise all pensioners: 1) a for-life pension with 2) benefits that cannot be reduced, 3) a fund that targets increase in line with the increase policy in good faith and realistic economic assumptions, and 4) members would carry no risk of poor investment performance, and that the employer would have to cover any shortfall.

There is no agreement with the University that it will guarantee any pension increases that the Fund is unable to afford. The Fund has a pension increase policy adopted in accordance with the legislation. In accordance with the legislation affordability of the pension increase is the determining criteria and if the application of an increase causes the fund to become financially unsound, the

**A9**

increase is limited to the amount that will not cause the Fund to become unsound. In the past the University has agreed to pay lump sum injections into the Fund in order that pension increases in excess of affordability could be granted. What the communication is clearly stating is that in the event that this happens again in the future, under current financial circumstances the University would not be in a financial position to give further cash injections.

**Q10** Can Rhodes Pension Fund declare itself a "self-funding" Fund?

The Pension fund can not declare itself to be "self-funding". However, the University has warned that under current financial circumstances it would be unable to make additional payments to the Pension Fund, should the Fund find itself in deficit in the future. Under such circumstances the trustees would be forced to reduce annual pension increases, reduce the pension increase policy, or even close the Fund.

**A10**

**Q11** Has Rhodes University or the Trustees of the Fund imposed the plan to restructure the Rhodes Pension Fund on active members and pensioners?

The University and Trustees have closed the Fund to new members and announced that contributions for active members from 1 April 2022 will be made to the Provident Fund. No pensioners or active members will be forced to uplift existing accrued benefits in the Pension Fund. Active members and pensioners are being provided with appropriate information to make whatever decision they deem fit for their accrued benefits.

**A11**

**Q12** What happens to pensioners who choose to remain in the Pension Fund?

For those pensioners electing to remain in the pension fund, their pensions will continue being paid at the current levels. The trustees approve annual adjustments in pensions on the advice of the Fund's actuary. The Fund targets increases to be 60% of CPI inflation but are subject to affordability. The University has indicated that in the case of any future deficits which may arise in the Fund, its ability to inject additional amounts into the Fund will be subject to affordability. Its current financial position would not allow such an injection.

**A12**

## QUALITY EDUCATION FOR ALL

RHODES UNIVERSITY WHERE LEADERS LEARN