PRUDENTIALGUIDELINE NUMBER RBA 001

Retirement Benefits Authority

Safeguarding your retirement benefits

PRUDENTIAL GUIDELINE FOR THE IMPLEMENTATION OF REGULATION 16 OF THE RETIREMENT BENEFITS (OCCUPATIONAL RETIREMENT BENEFITS SCHEMES) REGULATIONS, 2000 ON CONVERSION OF SCHEMES FROM DEFINED BENEFIT TO DEFINED CONTRIBUTION DESIGNS

1. Introduction

This Prudential Guideline encompasses a summary of the implications of Regulation 16, 31 and 32 of the Retirement Benefits (Occupational Retirement Benefits Schemes) Regulations, 2000 on scheme conversion. The purpose of the Prudential Guideline is to outline the key principles and the evaluation criteria that the Authority shall consider in approving the conversion of schemes from Defined Benefit to Defined Contribution designs. The Prudential Guideline is meant to guide scheme trustees on the processes and documentation necessary in redesigning a scheme.

It is intended that this Prudential Guideline shall be effective and apply from the date of publication. Trustees of schemes which are in the process of conversion shall be required to regularize the incomplete conversion process in line with the provisions of this Prudential Guideline.

2. Amendments to Schemes

2.1 Scheme rules may be amended to change the nature and level of benefits earned in the future, provided that such amendments are in accordance with the provisions of the Retirement Benefits Act and Regulations.

2.2 Conversion in the context of an amendment to a retirement benefits scheme may refer to:

a) The closure of an existing defined benefit scheme to new members and freezing of accrued benefits for existing members;
b) The closure of an existing defined benefit scheme to new members and the determination of existing members' accrued actuarial reserves for transfer to a new defined contribution scheme account.

2.3 If future benefit accrual is to be on a Defined Contribution basis, then the scheme sponsor shall establish and register with the RBA a new Defined Contribution scheme.

3. Treatment of Benefits Accrued as at the Conversion Date

3.1Two options are available to scheme trustees with respect to the treatment of benefits accrued prior or up to the conversion date:

3.1.1 Retain the accrued benefits on a defined benefits basis;

3.1.2 Offer to each member the option to transfer their accrued actuarial reserve to a defined contribution account.

3.2 If accrued benefits are retained on a defined benefit basis, two broad options are available to scheme trustees:

3.2.1 Maintain the scheme for the frozen accrued benefits. The trustees shall be required to increase these benefits annually with a revaluation rate that is reflective of the long term average inflation rate. The minimum guaranteed revaluation rate that will be approved by the Authority shall be no less than eighty percent (80%) of the average long term inflation rate with the minimum period of reference being ten (10) years. Such revaluation rates shall apply to the frozen accrued benefit over the period from conversion date to retirement date or the earlier exit of a member.

3.2.2 Purchase immediate annuities for pensioners and/or deferred annuities for in-service and deferred members respectively. The annuities so purchased shall provide as a minimum the same benefits as provided under the scheme rules. The terms may include death benefits and any guaranteed indexation.

3.3 If members are offered the option to transfer their accrued actuarial reserves to a new defined contribution scheme account, the trustees shall:

3.3.1 Ensure that the calculation of accrued reserves prior to conversion recognizes all benefits provided under the scheme's Trust Deed and Rules including any ancillary benefits, minimum underpins and any guaranteed indexation.

3.3.2 Ensure that the actuarial reserves to be transferred to individual member accounts are apportioned between the employer and employee accounts appropriately. In the absence of other considerations, two thirds of the actuarial reserve shall be apportioned to the employer account and one third to the employee account.

3.4 The actuarial basis used in the calculation of accrued benefits shall be consistent with the basis used in previous valuations. Any deviations shall be reasonably explained and the financial impact on member's benefits made clear.

4. Submission of Documentation after Conversion

4.1 If the trustees opt to maintain a Defined Benefit scheme arrangement, triennial actuarial valuation reports shall continue to be filed with the Authority.

4.2The scheme sponsor may guarantee that, if members transfer the actuarial reserves into defined contribution accounts, the accrued retirement benefit shall not be less than the equivalent value of the defined benefit relating to service prior to conversion. In this case, regular actuarial valuations shall be required. The sponsor shall be liable to top up any deficit that may be revealed by these valuations.

4.3If the Defined Benefit scheme remains operational after the conversion exercise, an updated Investment Policy Statement taking note of the likely significant changes in the scheme's liability profile shall be submitted to the Authority immediately after the conversion and on a triennial basis thereafter.

5. Treatment of Actuarial Surplus Upon Conversion

5.1 Regulation 32 of The Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000 in principle prohibits a refund of the scheme surplus to the sponsor.

5.2 If a scheme has an actuarial surplus as at the date of conversion, then the surplus shall be used to enhance member benefits as provided for in Regulation 32 (1) or as may from time to time be amended.

5.3 Any remaining surplus after application of sub clause 7.2 above shall only be refunded to the sponsor if the scheme is wound up as provided for in Regulation 32 (2) (i) of The Retirement Benefits (Occupational Retirement Benefit Schemes) Regulations, 2000.

6. Conversion of Underfunded Schemes

6.1 An underfunded scheme may nevertheless commence the process of conversion. The shortfall between assets and liabilities on the conversion date may be addressed in one of the following ways:

6.1.1 For each scheme member, their full accrued actuarial reserves are transferred to their individual Defined Contribution accounts. The trustees shall be required to top up the shortfall amount upfront.

6.1.2 Transfers into the defined contribution accounts are limited to the value of the member's entitlement multiplied by the scheme's funding ratio. Solvency liabilities associated with converted benefits shall be equal to those members' post conversion accounts. The trustees shall then set up a remedial plan to fund the deficit within an appropriate period of time, but not more than three (3) years. Each member's individual account shall receive a pro-rata portion of the special payments as they are made. At the end of the remedial period, an actuarial review shall be conducted to determine if the interest on the unfunded portion is at least as great as the one that it would have earned if it was paid upfront. The trustees shall top up any interest shortfall that may arise.

Members leaving before the end of the remedial period shall have their full benefit entitlements paid (i.e., the benefit value on the date of exit plus any amount owing). The trustees shall remain liable and shall ensure that the sponsor tops up any shortfall in the members' benefits.

6.1.3 The trustees sets up a remedial action plan to fund the scheme's deficit within an appropriate period but no more than six (6) years. No transfers to the Defined Contribution scheme shall be made from the Defined Benefit scheme until the deficit has been cleared. Statutory valuations of the Defined Benefit scheme shall be carried out as long as it's operational.

7. Interest Credited Between Date of Conversion and Date of Transfer

If the transfer of lump sum amounts to the Defined Contribution accounts takes more than three (3) months after actuarial determination, the transfer values shall be appraised as at the date of transfer.

8. Treatment of Pensioners and Deferred Members

8.1 A Defined Benefit Scheme which has been paying pensions from the fund and holding benefits of deferred members shall either continue to hold the funds and make the payments or transfer the liabilities to another party. If the former is chosen, triennial valuations shall continue to be required as the fund still has defined benefits for which a deficiency could arise.

8.2 If these liabilities are moved to another party, individual annuities shall be purchased for pensioners. This may also be done for deferred members. However, deferred members shall first be provided with the option to transfer the benefits to an alternative retirement plan.

9. Documents to Be Filed Prior to RBA's Approval of a Scheme Conversion

The following documents shall be submitted to the Authority prior to the granting of an approval to convert the scheme:

a. An application requesting for approval to convert a scheme.

b. The Sponsor's resolution regarding the intended scheme conversion.

c. A resolution by the scheme trustees owning the sponsor's resolution submitted to the Authority within 30 days after its adoption.

d. A copy of the Actuarial Valuation Report as at the date of conversion. This report must be submitted within 3 months of the proposed conversion date.

e. Documentation for registration of a new Defined Contribution scheme if future benefits are intended to accrue on a Defined Contribution basis.

f. Evidence of member education as well as the content and scope of materials used to explain the implication of the scheme redesign to the members.

g. An amended Trust Deed and Rules of the old Defined Benefit scheme taking note of the proposed scheme changes.

h. Duly signed members' informed consent forms

i. Samples of the notice of the scheme conversion and statement of benefits and options distributed to members which should include:

   i. Name or member identification number

   ii. Sex, date of birth and assumed retirement age

   iii. Current and projected salary (if salary is projected)

   iv. Length of credited service

   v. Accrued pension benefits

   vi. Additional Voluntary Contributions if any

Issued this **17th** day of **August, 2012**
CHIEF EXECUTIVE OFFICER