Pension Funds

Changes in the Acts affecting pension funds during the last two years have been minimal. Government has, however, requested that an additional 2% of total assets be invested in Government Stock during 1976 in addition to the statutory requirement of 20% as an anti-inflationary measure.

Concern has been expressed at conferences of the Association of Pension and Provident Funds about the effect that the statutory requirement of 20% in Government stocks and 30% in public utility and local authority stocks has on pension funds in times of high rates of inflation. This is particularly a problem in South Africa because the rates of interest on these stocks are not determined by market considerations and are fixed by Government (although market pressures can result in adjustments to the "going" rates). As a result, the yields on stocks have been lower than would normally have been obtainable in the inflationary conditions of recent years.

The rate of inflation during 1974 and 1975 was around 15% a year, but the rate of increase in salaries and wages was greater. There has since been a slight reduction in the rate of inflation.

The Government has called for restraint in the granting of increases in salaries and wages, which has only been partially successful, and in many funds there has been evidence that in 1976 there has been a fall in staff turnover as a result of the more uncertain economic outlook. Unless current increases in salaries and wages are markedly lower than in recent years, the outlook for funding rates is gloomy.

The Registrar of Pension Funds has indicated that he is in favour of reducing the maximum period of five years between statutory valuations of pension funds to three years for 'final salary' funds, and this was supported by the South African Association of Consulting Actuaries. However, the Life Offices' Association stated that the life offices would find it extremely difficult to make the change at this stage, and no amendment to the law has been made. Most privately-administered funds are, in any case, being valued at intervals of three (or fewer) years.

The Government has announced that the establishment of a national contributory pension scheme to replace the present non-contributory means-tested old age pensions is being investigated.

Insurance Companies

There have been two main developments which have affected life insurance companies during the last two years. The minimum basis laid down in the Insurance Act for valuing assets and liabilities has been amended and the Life Offices' Association has reacted to pressure from the Registrar of Insurance and drafted an agreement to limit commission.

Valuation Basis

The minimum valuation basis is laid down in the third schedule of the Insurance Act 1943. Because rates of interest have increased substantially since the Act was introduced, the minimum basis had become severe and would have resulted in a number of the newer life insurance companies being insolvent in terms of the Act if it had not been amended. The amendments to the minimum basis are as follows:

(a) **Assets**

The amortisation method laid down for valuing government, municipal and other approved securities (which must form 30% of the liabilities) has been extended to other interest bearing redeemable securities, for example debentures and notes. The Registrar has power to apply market values if he considers the amortisation method should not be used in particular cases. Before the amendment, debentures, notes, etc. had to be valued at market values.

(b) **Liabilities**

The valuation method is a net premium method with a Zillmer allowance of 1,5% which is unchanged but the maximum rates of interest that may be used have been increased as follows. The former rates are shown in brackets.

(i) Immediate annuities – 8% (5%)

(ii) Pension business (investment income does not attract tax) – 5% (4,5%)

(iii) Other business (investment income attracts tax) – 4,5% (4%)

(c) **Income Tax**

The basis for the taxation of life insurance companies has not been altered. Tax at the Company rate is payable on 30% of taxable investment income (interest and 100% of dividends). At the present time the effective Company rate of tax is 43% (plus a compulsory loan to the Government of 6% of taxable income) and the tax payable by life insurance companies is 12,9% (plus a compulsory loan of 1,8%) of taxable investment income.

Commission

For a long time the Registrar has considered that excessive commission is paid by the life insurance industry. The Life Offices' Association has debated the matter for a number of years and has recently concluded a draft agreement to be introduced from 1st July 1976 to limit the commission payable. In all cases commission is based on the office premium. For whole life and endowment insurance the maximum commission in the first year is 95% of the premium and the maximum renewal commission is 6% of the first year's commission, payable for nine years. For an endowment policy

of 25 years or less the maximum first year commission is reduced to 3,75% of the premium for each year of the term. For a whole life policy where the age at entry is over 45, the maximum first year commission is reduced to 3,25% of the premium for each year to age 75, with a minimum of 32,5%.

For single premium policies the maximum commission is 2,5% of the premium.

For term assurances the maximum commission is 30% of premium in the first year and 10% in the second year. No further commission is payable. If the premium term is less than five years the total commission is 8% of premium for each year of the term.

For immediate annuity business the maximum commission is 0,5% of the consideration for compulsory purchases under untied pension and retirement annuities. No commission may be paid in the case of tied pension and retirement annuities. For other annuities the maximum commission is 1,5% of the consideration.

Many offices in South Africa employ direct selling sales staff and the agreement has been drawn in such a way as to ensure that the total remuneration payable to such persons is not more than would be paid to an outside broker or agent. The draft agreement has caused a lot of dissension and it is still being revised, particularly in order to deal with the claim by some brokers that they provide a high standard of service and should be entitled to greater commission. This problem has not been resolved and it seems that the Life Offices' Association agreement will be modified to permit differential maxima.

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