
27 March 2019

Default Regulations for Retirement Funds

Back in 2017, the Minister of Finance, Malusi Gigaba, issued the Default Regulations with effect from 1 September 2017. The Default Regulations prescribe conditions for default investment portfolios, default preservation and portability, and annuity strategies for funds.

All new default arrangements that came into operation on or after 1 September 2017 must comply with the requirements set out in the Default Regulations.

Existing default arrangements must be fully aligned to the Default Regulations by 1 March 2019 and the Financial Sector Conduct Authority (FSCA) will examine funds' compliance with the Default Regulations from 1 March 2019.

The FSCA released Guidance Notice Number 8 in 2018 and may be found here: [Guidance note](#).

It is a requirement of the majority of retirement funds in South Africa to have in place the following:

1. Default Investment Portfolios (Regulation 37) – The Investment Policy Statements (IPS) of all funds must provide for a default investment portfolio that complies with the regulation. Trustees must be able to prove that it is appropriate for their members, fairly priced, and that it has been clearly communicated to them. This regulation only applies to defined contribution employer-sponsored funds.

2. Default preservation and portability (Regulation 38) - Funds must include preservation and deferred retirement options in their rules. Members will be defaulted into these unless they specifically opt out. There are no additional charges for these defaults. This regulation only applies to employer sponsored funds.

3. Annuity Strategy (Regulation 39) - The Board of a fund must establish an annuity strategy with Trustee-endorsed annuities in or out of fund. Trustees must be able to prove that the strategy is appropriate for members and offered at reasonable fees, and that it has been clearly communicated to them. This regulation applies to all funds whose rules provide for the payment / purchase of pension at retirement.

In February 2019, the FSCA granted an exemption to funds who intend including a living annuity option from the requirement to comply with regulation 39(3)(a), subject to the conditions as per the notice, until the final living annuities conduct standard, which will contain the prescribed drawdown levels, is published. This exemption may be downloaded here: [Notice #2](#).

Reference Acts: Financial Sector Regulation Act, 2017 (Act 9 of 2017)
 Pension Funds Act, 1956 (Act 24 of 1956)