Understanding Actuarial Valuation Reports

Actuarial Valuations

Tests future funding or current solvency of the value of the pension fund's assets with its liabilities.

Various assumptions are made in order to estimate future liabilities.

The assumptions used are generally derived from long-term data and based on a mix of statistical information and previous experience.

Types of pension funds

Defined Benefit (DB) Pension Funds

Defined Contribution (DC) Pension Funds

Hybrid Pension Funds

Type of administration models

Standalone Pension Funds

Self Administration Pension Funds

Insured Funds

Major differences

	Stand alone	Self administration	Insured
Ownership of assets	Own assets	Own assets	Assets owned by insurer
Guaranteed benefit	If DC – no If DB – yes by employer	If DC – no If DB – yes by employer	Vested portion guaranteed by life company Non-vested portion not guaranteed
Investment returns distribution	All returns distributed to members' accounts Except if there is a Reserve account then minor portion to reserve	All returns distributed to members' accounts Except if there is a Reserve account then minor portion to reserve	Part to vested Part to non vested Part to Bonus Smoothing Account (BSA)
Bonus smoothing	Usually no/limited smoothing can result in negative returns in some years	Usually no/limited smoothing can result in negative returns in some years	BSA acts as buffer and smoothens bonuses such that it is rare to get negative returns

Frequency of Actuarial Valuations

Currently required to be carried out once a year as at the 31st of December.

DB Valuation reports: Members' accumulations

The future liability(members' balances) is estimated based on projected pensionable benefits at retirement or death.

For active members, it is calculated based on current salary, estimated future salary increments and years of service.

For pensioners and beneficiaries, it is based on expected future pensions including any increments.

DB: Financial position of fund

Valuation report at	31 Dec
Net Assets	**Xxx**
Actives	Xxx
Pensioners	Xxx
Reserves	Xxx
Total Actuarial Liabilities	**Xxx**
Deficit / Surplus	**Xxx**
Funding level	xxx

DB Funding ratio

- Funding ratios above 100% show that the fund's assets are enough to cater for expected future liabilities.
- Funding level below 100% show that the fund's assets are not adequate to meet future liabilities.
- If the funding level is below 100%, the employer should inject funds to cater for the difference.
- IPEC regulations require that funds should be at least 75% funded.

DC fund Accumulations

- Member's accumulated credit is made up of:
  1. Employer's contributions
  2. Employees contribution
  3. Any transfers in
  4. Bonus declarations

DC: Financial position of fund

Valuation report at	31 Dec XXX
Net Assets	**Xxx**
Actives	Xxx
Pensioners	Xxx
Reserves	Xxx
Total Actuarial Liabilities	**Xxx**
Deficit / Surplus	**Xxx**
Funding level	xxx

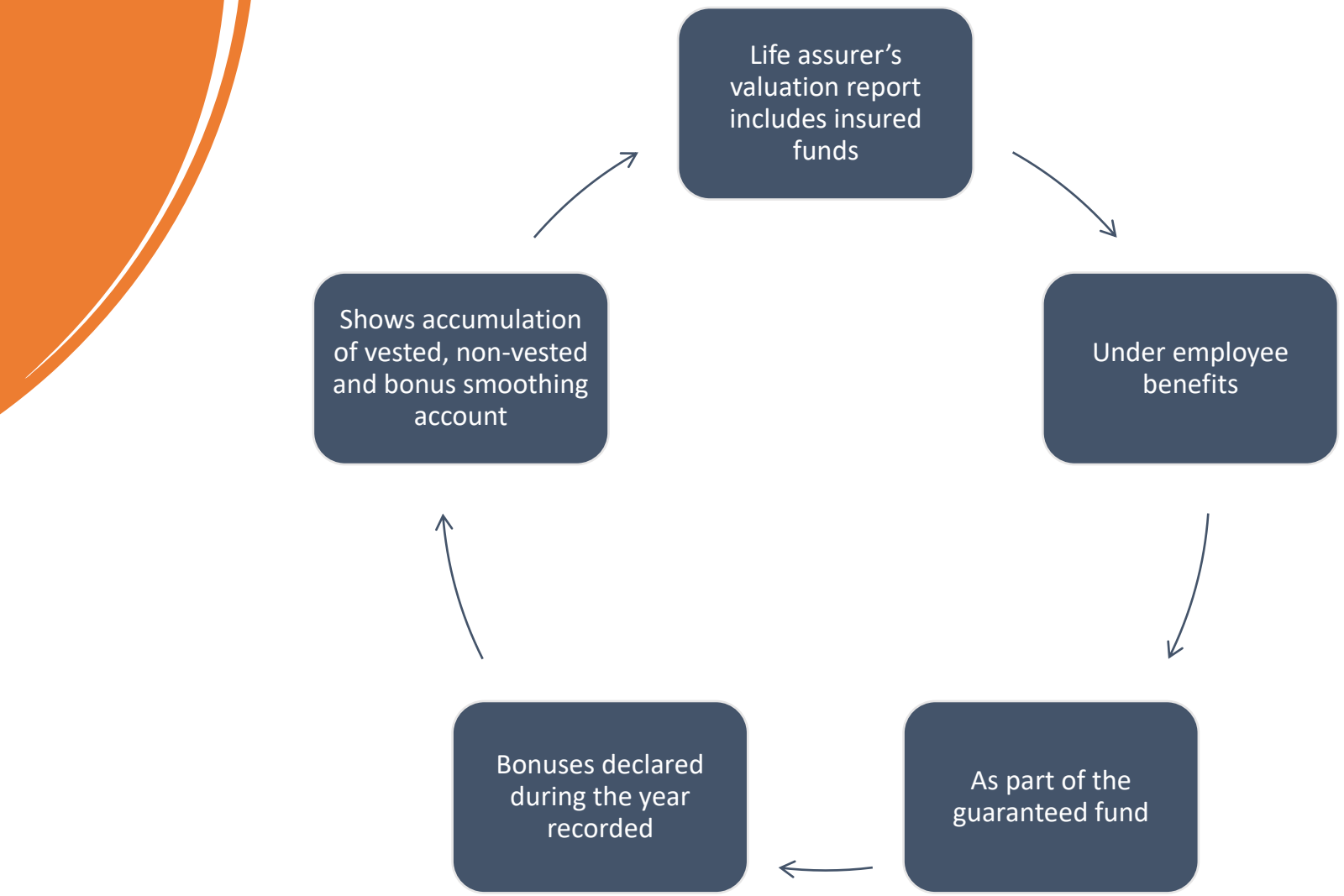
DC Funding ratio

- If the funding level is above 100%, then the fund is regarded as financially sound.
- Excess assets be declared as a bonus to members of the fund and some to be added to the Reserve Account.
- If funding level is below 100%, part of the Reserve Account caters for deficit and if there is no reserve then the expenses will have to be funded from members' accumulations.

Insured funds

- Assets are in the name of the insurer
- Pooled in a guaranteed fund
- Only vested position is guaranteed
- Non vested bonus might cushion for negative returns
- After Bonus smoothing Account is depleted
- Therefore, no individual valuation report per fund

Valuation report



Solvency position

Solvency position of life company important to insured fund

Members' vested portion guaranteed by the shareholders

Capital cover should be more than 100%

Check ZICARP based solvency capital requirement versus own funds

Guidance Paper

1

Ensure fair and equitable treatment of pension fund members

2

Guide to make sure there is no inter generational transfer of wealth

3

Sub accounts created.

THANK YOU !!!!

ANY QUESTIONS?