



# Unpacking Actuarial Provisions (PPFA Chapter 24:32)

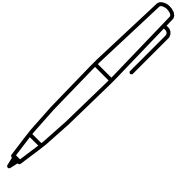
21 March 2022

# Presentation Outline

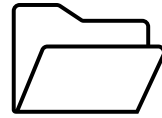


- New Definitions (**Interpretation section**)
- Minimum Individual Reserves
- Actuarial Surplus
- Actuarial Valuations
- Asset Separation
- Currency Conversion
- Conversion of Fund
- Other areas of actuarial involvement

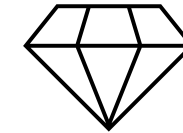
# New Definitions/Interpretations



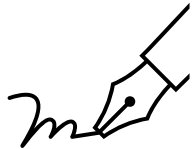
Actuary-  
strictly Fellow,  
not associates



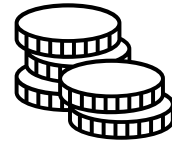
DB and DC  
categories



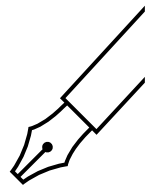
Minimum  
Individual  
Reserve,  
transfer value



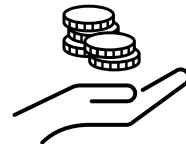
Valuator-  
includes,  
actuary.  
Others are  
approved by  
Commission



Deposit  
administration  
policy



Actuarial  
Valuation &  
Actuarial  
surplus



Contingency  
Reserve  
Account &  
Reserve  
account

# Minimum Individual Reserve (MIR)- Section 18



- No clear guidance in Old Act + regulations
- New Requirement: Need to ensure MRE are safeguarded
- MIR as per fund design
- Easy for public to know what to expect at a minimum
- Helps in resolution of complaints
- Detailed formulae is in the **proposed regulations**
- Reduction in MIR only allowable if fair value of assets is less than liabilities **for all members**
- Ex-gratia payments should be funded by employers, and not assets from the fund

# Actuarial Surplus- Section 20



- Discretionary powers on use of surplus by trustees, no requirement for regulatory approval
- Incidences where employers unfairly benefited from the surpluses in the past were observed
- Limited regulatory powers resulted in prejudice to members of the Fund
- New requirement: Regulatory approval should be sought before use of actuarial surplus
- Minimisation of unfair access to the surplus by employers

# Actuarial Surplus- Section 20...



Main uses of actuarial surplus in the new Act

- to improve benefits for existing members and additionally, or alternatively, pensioners;
- to supplement benefits previously paid to former members or to supplement transfer values previously transferred in respect of former members;
- to reduce current contributions due from participating employers of a defined benefit fund;
- for transfer, wholly or partly, to a contingency reserve account

# Asset Separation- Section 32



- Life insurers carrying on pension business required to set up **“Pensions Fund”**
- Designate assets (physically) of the Pensions Fund from those of other lines of business
- ...based on an **actuarial value** of liabilities
- Separate statement of comprehensive income (inflows & outflows)
- Investment into shares of holding into Holding company/subsidiary of insurer allowed subject to cap

# Asset Separation- Section 32...



- Filing of separate returns to the Commission in respect of the **“Pensions Fund”**
- Publication of performance of the Fund in newspapers, unless exempted
- Assets of fund are ring-fenced at dissolution of the insurer



# Actuarial Valuations- Section 33



- Statutory role of an actuary
- IPEC to stipulate frequency in regulations from time to time
- Submission of actuarial report + a summary of key findings
- Exemptions in exceptional cases by Commissioner
  - Funds which pay lumpsum at retirement, used to purchase pension
  - Insured schemes

# Currency Conversion- Section 48



- New requirement/provision
- COI observed lack of guidance upon currency conversion
  - Lack of standardisation
  - Significant expert judgement/ subjectivity
- Objects of the new requirement
  - guide process of conversion of benefits following any currency conversion within Zimbabwe
  - minimise the risk of loss of value as occurred during the 2009 currency conversion as a result of the absence of adequate guidance
  - Sets out the processes to be observed by the fund in conversion of assets and liabilities from one currency to another.

# Currency Conversion- Section 48...



Key matters in the new Act

- Definitions: Currency conversion date, former currency, new currency, existing fund
- For DB funds, an **actuary** to calculate
  - liabilities taking into account a number of factors,
  - calculate fair value of assets +
  - apportion fair value of assets to members and beneficiaries
- For DC funds, a **valuator (includes an actuary)** to value
  - Liabilities in the former and new currencies
  - Value assets in the former and new currencies
  - Apportion the assets to members and beneficiaries
- An increase in value of surviving assets to benefit members as at the currency conversion date (**some ring-fencing of surviving assets**)

# Conversion of Fund...Section 58



- Key issues/challenges observed
  - Lack of transparency and communication before, during and after conversions
  - Lack of mandatory requirement to seek regulatory approval
  - Clear losses arising from conversions
  - Difficult to rectify/ correct any real losses established/observed
- New requirement
  - Conversions from any scheme designed should be approved by IPEC before implementation
  - Enables the Commission to assess if due processes have been followed, and minimise any potential prejudice to members

# Other areas of actuarial involvement



- **Section 11: Dissolution of Pension Funds**

- Actuary can be appointed as valuator
- Should submit report of assets and liabilities to the liquidator

- **Section 34: Troubled funds**

- actuarial reports and other financial reports will be a basis to determine soundness

- **Section 46: Amalgamations/transfers/splits**

- Detailed procedure is provided
- For approval of these, part of the submissions include an actuarial report

Questions??

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