

DE BEERS PENSION FUND

FUND PRACTICE NOTE

RETIREMENT BENEFITS COUNSELLING

<u>Revision no</u>	<u>Review cycle</u>	<u>Effective date</u>
002	At least every two years	November 2021



DEFINED BENEFIT



DEFINED CONTRIBUTION

DE BEERS PENSION FUND

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Subject	Practice Note on Retirement Benefits Counselling				
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1. BACKGROUND

1.1 Legislation

Regulations 37, 38, 39 and 40 (referred to herein as the “*default Regulations*”) made in terms of the Pension Funds Act, 1956, as amended (“*the Act*”) deal with the following:

- the provision of retirement benefits counselling, as defined;
- the establishment of a default investment strategy;
- the requirement to facilitate the preservation of benefits on changes in employment; and
- the requirement to provide an annuity strategy for retiring members.

Regulations 38 and 39 issued in terms of Section 36 of the Act require that, with effect from 1 March 2019, all retirement funds provide “*retirement benefits counselling*” under certain circumstances. Retirement benefits counselling is defined in the default Regulations as:

“the disclosure and explanation, in a clear and understandable language, including risks, costs and charges, of:

- a) the available investment portfolios;*
- b) the terms of the fund's annuity strategy;*
- c) the terms and process by which a fund, handles preserved benefits in terms of regulation 38; and*
- d) any other options made available to members.”*

Regulations 38(2) and 39(2) require the following:

“38(2) “The fund rules must with respect to paid-up members specify that-

- (a)*
- (e) members are given access to retirement benefits counselling before any such withdrawal benefit as determined in the fund rules is paid to them or any transfer is made to another fund.”*

“39(2) “Boards must ensure, and be able to demonstrate to the Registrar on request, that-

- (a)*
- (e) members are given access to retirement benefits counselling not less than three (3) months before their normal retirement age as determined in the rules of the fund and as may be prescribed;”*

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1.2 Rules of the Fund

The rules of the De Beers Pension Fund (*“the Fund”*) specify as follows in respect of retirement benefits counselling:

- “A.4.17.1 DB members or DC members who leave the service of the employer as a result of resignation, retrenchment or dismissal, shall be given access to retirement benefits counselling before any benefit is paid to them or transferred on their behalf to another approved fund or to a registered insurer.”*
- A.4.17.2 DB members, DC members, DC deferred pensioners, deferred members, DB deferred pensioners or paid-up pensioners who are entitled to receive a retirement benefit from the Fund in terms of the rules shall be given access to retirement benefits counselling not less than three months before attaining the pension age.”*

1.3 Guidance issued by the regulator

The Financial Sector Conduct Authority (*“FSCA”*) issued PFA Guidance Notice No.8, entitled: *Guidance on the application of ‘Default Regulations’ contained in Regulations 37, 38, 39 and 40*” on 12 December 2018.

- (a) Unless otherwise stipulated, retirement benefits counselling may be provided either in person or in a written format. In either event, a fund must retain a record of the retirement benefits counselling provided to each member.*
- (b) A person appointed by a fund to provide retirement benefits counselling does not need to be a registered FSP or financial advisor in terms of the Financial Advisory and Intermediary Service Act, 2002. However, the board of a fund giving access to retirement benefits counselling in person must be satisfied that the person who provides the retirement benefits counselling is suitably qualified and experienced and is able to properly manage any conflicts of interest.*
- (c) Retirement benefits counselling does not include advice, even on tax matters, and members should be expressly informed of this fact. If, in conjunction with providing retirement benefits counselling, advice, including tax advice, is also provided, then the person providing the advice must be registered as a financial advisor with the Authority or tax practitioner in terms of the Income Tax Act, 1962 for tax matters.*
- (d) It is recommended that access to retirement benefits counselling, as required in terms of Regulation 39(2)(e), should be provided no longer than 6 months before a member's retirement from the fund and the board should make every effort to ensure that the information provided during the retirement benefits counselling is still relevant and appropriate at retirement age.*
- (e) Whenever members are given access to retirement benefits counselling, a disclosure and explanation must be provided in a clear and understandable language, including risks, costs, fees and charges, of all of the items mentioned in the definition of “retirement benefits*

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counselling"; except that in respect of Regulation 39(2)(e), it is expected that there be compliance only with items (b) and (d) of the definition."

Although the guidance issued by the regulator in the form of Guidance Note 8 does not have the force of legislation, it is considered best practice and should be adhered to unless there is good cause to do otherwise. Any deviations from guidance issued by the regulator, including the reasons for such deviation, should be documented by the Fund.

2. EFFECTIVE DATE

Notwithstanding the date of approval of the retirement benefit counselling provisions in the rules of the Fund by the FSCA, this practice note shall apply from 1 March 2019.

3. PURPOSE

The purpose of this practice note is to document the Fund's approach to retirement benefits counselling (referred to hereinafter as "*counselling*"), as defined in the default Regulations.

Counselling forms part of the Fund's holistic communication strategy. As such, this practice note forms part of and should be read in conjunction with the Fund's Communication Policy and Communication Strategy.

4. THE FUND'S APPROACH TO COUNSELLING

The default Regulations only require the disclosure and explanation of information and do not require the provision of advice – this position is enforced in PFA Guidance Notice No.8. Furthermore, the Regulations do not stipulate the format of retirement counselling, i.e. this can be written, verbal, one-on-one or delivered to a wide audience (or a combination of these) provided that a fund must retain a record of the retirement benefits counselling provided to each member.

The primary aim of the of the Regulations is to ensure that members have sufficient information about their benefits, the Fund's defaults and options to empower them to make informed choices regarding their benefits in the Fund, specifically when a decision is available to the member (for example on withdrawal or retirement). This counselling is not financial advice, as its purpose is not to make recommendations, but it should ensure that members have access to all the key information they need to make informed decisions about their retirement savings – including the need to obtain professional advice. As per the Regulations, from 1 March 2019, all retirement funds must offer retirement benefits counselling at three key stages to ensure that members have the information they need.

The first instance of counselling should occur when a new member joins a retirement fund and is asked to choose their investment strategy and portfolios. Retirement benefits counselling at this stage should explain the fund's default investment portfolio/s, how they work, and what the costs are. New members must also be informed of the option to bring across any retirement savings from other funds.

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Secondly, retirement benefits counselling should be available to those members who have left employment and thereby become paid-up in their retirement fund. If members wish to defer, withdraw or transfer their benefits to another fund, information on the tax implications and long-term financial impacts of doing so must be made available to them.

Finally, at least three to six months prior to their retirement date, every member should be provided with access to counselling that provides details of the options available for converting their retirement capital into an annuity.

This counselling must provide and explain, in clear and easily understandable language, what options are available to the member and the costs, risks and tax implications. As regulation does not specify exactly how this should be done, the counselling may be offered in writing, through a contact centre or face-to-face.

No matter how it is offered, the intention must always be to improve outcomes for members, and it must always be delivered in a way that members can relate to. By disclosing the options and risks facing members at these key moments, members will better understand their circumstances and be in a better position to protect their interests.

This practice note aligns to the objectives of the Fund's current Communication Policy. Further details are provided below:

4.1 The provision of financial advice

In considering whether it was appropriate to include "financial advice" in the Fund's counselling offering, the Board noted the following material pitfalls in implementing this approach:

- **Independence:** Unless the Fund recruits, trains and manages additional staff to provide the advice (this includes ensuring that they obtain the appropriate qualifications), this function would have to be outsourced to financial advisors (most of whom are tied to an administrator or an insurer, which, itself sells products) and the independence of advice from these individuals cannot be guaranteed. This may result in members being advised to invest in more expensive out-of-Fund options when the in-Fund options may be the best fit for the majority of exiting members.
- **Remuneration model:** The current model for advice to members leaving retirement funds is largely a commission driven model. As such, remuneration on a fixed fee basis may not be attractive to higher calibre advisors, as the commission model can be a very lucrative model for such advisors.
- **Costs:** Regardless of how the model was implemented, it would result in significant additional costs, which would be borne by all Fund members, whereas, in reality, only a very small proportion would either make use of the facility or derive value from it.
- **Quality of advice:** As the Fund cannot reasonably monitor the advice being provided to all of its members, it will take on significant risk that the advice provided by its counsellors may not be in the best interests of members.

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- **Suitably qualified individuals:** If all retirement funds were to implement an individual counselling approach, there would be insufficient experienced and qualified advisors to service the industry. This may result in an influx of inexperienced advisors into the industry, advisors stretching themselves too thinly, potentially inappropriate advice and (again) higher costs.

Bearing in mind the issues listed above and the associated costs and risks, the Board is of the view that it is not practical to employ individual benefit counsellors who are also able to provide financial advice.

In this regard, the Communication Policy notes the following:

“Financial advice is not provided by the Fund as the independence of the advice dispensed may be questionable, the remuneration of such advisors would be extremely costly to the Fund, the quality of the advice dispensed cannot be guaranteed and the availability of suitably qualified individuals to all Fund members will also be problematic given the geographic spread of members”.

Considering the above, the Board has agreed that counselling will not include financial advice. Should a member (including a pensioner or other beneficiary) require advice of any nature regarding his or her benefits or options, he or she will be advised by the Fund to obtain this independently from a suitably qualified third party external to the Fund and this recommendation is also contained in all relevant Fund publications. Costs in this regard are borne by the individual member. The Fund and its officials provide comprehensive factual information to members but are not permitted to provide financial advice of any sort. The Fund does not provide referrals to specific financial advisors, other than referring members to listings of professional advisors as provided by professional bodies.

In discussions and communications with members or beneficiaries, Fund officials make it clear that they represent the Fund and that they only provide information about the options available from the Fund. The members or beneficiaries are advised that they should obtain independent financial advice from a suitably qualified third-party financial advisor external to the Fund as to which option or options (from the wide range available in the market) is best suited to their individual personal circumstances.

4.2 Nature of counselling initiatives

Counselling provided by the Fund will be delivered in the following forms:

- **Written material:** This includes the Fund’s member and pensioner guides (which are updated at least annually), comprehensive information available on the Fund’s website, annual benefit statements, the regular Fund Focus publication and written approximate quotations (in respect of Fund options) made available to members.
- **Group information sessions:** Voluntary pre-retirement workshops are offered to members (45 years and over) with reading material on the characteristics and the risks and rewards of the various annuity options available. Furthermore, member information sessions are held on a regular basis for in-service members, where circumstances allow for such sessions to take place. These sessions may take place

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in person or via Microsoft teams.

- **Individual member telephonic discussions:** Fund officials attempt to conduct individual telephonic discussions with withdrawing members, beneficiaries of deceased working members and retiring members to provide personalised information on the options available to such members. These individual discussions are either part of an automated Fund process or may be initiated by individual members/beneficiaries of deceased working members.

In line with the Fund's Communication Policy regarding all Fund communication, the disclosure and explanation of information provided as part of the Fund's counselling initiatives is provided in clear and understandable language. It includes, where appropriate, the disclosure and explanation of risks, costs, fees, and charges.

The Fund has implemented communication initiatives which aim to reach as many members as possible. The Board is confident that all members will have been provided with access to counselling (and will know where and how to access such counselling should they choose to do so), as required by the default Regulations. Fund officials will take all reasonable steps to ensure that members receive counselling, but it may not be possible to reach all members (specifically those who do not want to make use of the counselling service made available to them by the Fund).

The Board is firmly of the view that each member must take responsibility for their own retirement planning – the Fund is able to provide information and assistance, but each member is ultimately responsible for making use of the wealth of information made available by the Fund.

5. INVESTMENT RELATED COUNSELLING

The default Regulations require that the Fund provide members (including DC deferred pensioners and living annuitants) who have investment choice with counselling regarding their investment options. Such counselling is done primarily in written form. Members have access to written information regarding the Fund's investment portfolios, options and costs, as follows:

- Up-to-date DC member guide;
- Annual benefit statements distributed to all working members;
- Monthly benefit statements distributed to all living annuitants;
- Monthly portfolio fact sheets are published on the Fund's website for all life-stage portfolios;
- An annual Replacement Ratio Projection statement for all working members aged 55 and under;
- Online access to updated monthly benefit statements are available to working DC members , DC deferred pensioners and to in-Fund DC living annuitants who have registered for this facility;
- Online details of the life-stage investment portfolios for DC Section members and in-Fund living annuitants, the make-up of the portfolios and their associated costs, their monthly performance and how members can go about switching portfolios if they wish;

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- Members who have opted out of the default life stage, letters are sent twice a year to these members; and
- Written confirmation of member instructions (e.g., change in life-stage investment portfolio).

In addition to the above, the Fund has trained staff available to assist members who may submit questions or requests for information relating to the Fund's investment strategy. Such responses will, ordinarily be in the same format in which they were received, either verbal, telephonic or in writing (or a combination of the above).

6. COUNSELLING TO MEMBERS ON TERMINATION OF EMPLOYMENT (OTHER THAN ON RETIREMENT OR DEATH)

When the Fund is notified that a member intends to resign from service (or the member is being retrenched or dismissed), the member is informed that specific counselling is available and how such counselling can be accessed. In addition to standard counselling documents available to members, the following additional counselling initiatives have been put in place in respect of members withdrawing from service:

- **Individual member quotations:** These quotations are provided by the Fund when it becomes aware that a member is withdrawing from employment. They include comprehensive information on the member's estimated withdrawal benefit as well as the options available to the member on exit.
- **Individual member telephonic discussions:** Fund officials attempt to hold individual telephonic discussions with withdrawing members to provide personalised information on the options available to such members. These individual discussions are initiated by the Fund where the Fund has been notified of a withdrawal from service (either by the member or his or her employer). The Fund will take all reasonable steps to contact a withdrawing member telephonically after receiving notification of the pending exit from employment. Alternatively, telephonic contact may be initiated by a member at any time if they are considering an exit from employment.
- **Exit form:** The member must acknowledge that he or she is aware of the availability of counselling from the Fund before an exit will be processed.

7. COUNSELLING TO BENEFICIARIES OF DECEASED WORKING MEMBERS

Although it is not a specific requirement of the default Regulations to provide counselling to the beneficiaries of a deceased working member, the Board believes that such counselling is necessary and should form part of a holistic approach to counselling. As such, the Fund's approach to counselling provided to these beneficiaries has also been documented herein.

When a member dies in service or when a living annuitant dies, the beneficiaries who have been allocated a portion of the death benefit in terms of the rules of the Fund and/or Section 37C of the Pension Funds Act (the Act), will be informed that specific counselling is available and how such counselling can be accessed.

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- **Individual beneficiary quotations:** These quotations are provided by the Fund after a death benefit has been allocated in terms of the rules of the Fund and/or Section 37C of the Act. They include comprehensive information on the allocated death benefit as well as the options available to the beneficiary.
- **Individual beneficiary telephonic discussions:** Fund officials attempt to hold individual telephonic discussions with beneficiaries to provide personalised information on the options available. These individual discussions are initiated by the Fund where the member has died in service or when a living annuitant dies and the death benefits have been allocated per the rules of the Fund and/or Section 37C of the Act. The Fund will take all reasonable steps to contact a beneficiary telephonically. Alternatively, telephonic contact may be initiated by a beneficiary after they have been notified of their allocated benefit
- **Death benefit option form:** The beneficiary must acknowledge that he or she is aware of the availability of counselling from the Fund before payment is processed.

8. COUNSELLING TO MEMBERS ON RETIREMENT FROM EMPLOYMENT

The Fund will initiate contact with all retiring members within the period of 3 months to 6 months of their normal retirement age and will provide such members with counselling documents and information automatically. Alternatively, in respect of members electing to retire early (before the normal retirement age), when the Fund is notified that a member intends to retire from service prior to the normal retirement date, the member is informed that specific counselling is available and how such counselling can be accessed.

In addition to the standard counselling documents available to members, the following additional counselling initiatives have been put in place in respect of retirements from service:

- **Voluntary pre-retirement workshops:** Such workshops are offered to all members aged 45 years and older. Members attending these (either in person or via Microsoft Teams) workshops are provided with information presented by a Fund official as well as comprehensive reading material on the characteristics and the risks and rewards of the various annuity options available (including the Fund's "default" annuity strategy).
- **Individual member quotations:** These quotations are provided by the Fund either automatically (for members within 6 months of the normal retirement age) or when it becomes aware that a member is retiring from employment. They include comprehensive information on the member's estimated retirement benefit as well as the options available to the member on retirement.
- **Individual member telephonic discussions:** Fund officials attempt to hold individual telephonic discussions with retiring members to provide personalised information on the options available to such members. These individual discussions are initiated by the Fund automatically (for members within 6 months of the normal retirement age) or where the Fund has been notified of an early retirement from service (either by the member or his or her employer). The Fund will take reasonable steps to contact a retiring member telephonically after receiving notification of the pending retirement from employment. Alternatively, telephonic contact may be initiated by a member at any time if they are

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considering retirement from employment.

- **Retirement form:** The member must acknowledge that he or she is aware of the availability of counselling from the Fund before a retirement will be processed.

9. COUNSELLING TO MEMBERS ON WITHDRAWAL OR RETIREMENT AFTER BECOMING A DEFERRED PENSIONER

Members who have withdrawn or retired from service and who have become deferred pensioners (either automatically as a result of not making an election or by having made an active election to enter this category on exit from employment) will have had access to counselling whilst they are deferred pensioners and when they withdraw or retire from the Fund. These deferred pensioners will receive regular communication from the Fund and will also have access to the same information available to in-service members on the Fund's website.

It is the responsibility of such deferred pensioners, when they are contemplating withdrawal or retirement from the Fund, to make contact with the Fund and request counselling information and documentation. At that stage, deferred pensioners will have access to individual member quotations and an individual telephonic discussion as described in Sections 6 and 8 above.

Each deferred pensioner must acknowledge that he or she is aware of the availability of counselling from the Fund before a withdrawal or retirement will be processed.

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10. RETENTION OF RECORDS OF COUNSELLING

The Fund shall retain records of counselling as follows:

Nature	Description	Record of counselling
Written material	Fund Focus	None – this is distributed to all members.
Written material	Information available on Fund website	None – this is accessed by members as and when required.
Written material	Member booklet, provided on entry into the Fund and otherwise on request, and on the Fund website	None in respect of new entrants (as this is transmitted to all new entrants).
Written material	Individual approximate quotations (on various modes of exit)	Record of quotations are retained by the Fund and once the member /beneficiaries have made their decisions, the last quotation is scanned on their personal record in the administration system and kept indefinitely.
Group information sessions	Voluntary pre-retirement workshops (including written material)	Registers of attendance are retained by the Fund.
Group information sessions	Member information sessions held on a regular basis for in-service members	Registers of attendance are retained by the Fund.
Individual member discussions	Telephonic discussions as described in Sections 6 (withdrawal), 7 (death in service or living annuity deaths/beneficiaries) 8 (retirement) and 9 (deferred pensioners)	Written record of such discussions retained by the Fund and once the member /beneficiaries have made their decisions and before payment is made, the written record is scanned on their personal record in the administration system and kept indefinitely.
Individual member discussions	Requests for information or assistance, either telephonically, via e-mail or in person at the Fund's offices	Record of such discussions are retained by the Fund. All written requests for assistance with the Fund's response are scanned to the member's personal record on the administration system.

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11. AUTHORISATION AND APPROVAL

At the September 2021 Board meeting, the Trustees approved the review cycles, the approval framework and responsibility of policies and governance documentation in the Schedule of Policies and Other Governance Documents.

This practice note is approved by the Principal Officer.

M.S. Mathonzi

Principal Officer

Date: 01 December 2021

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REVISION HISTORY

Revision no	Description	Effective date	Approval date	BoT minute number
001	Practice Note created	1 March 2019	4 July 2019	July 2019 Minute 28.19.13
002	Biennial review	November 2021	01 December 2021	n/a