Trustee Matters Newsletter

Volume 1
Issue:2

FTS
FIDUCIARY TRUSTEESHIP SERVICES


selecting the president
Duty of Care
making sense
best fiduciary practices
experience
fidelity
make sure boards are educated
sound judgment
Reputation
Loyalty, faith, trust
integrity
mission
quality of fiduciary stewardship
insight
protect the institution's future health
Consequential work
meaningful role
moral compass
Fiduciary
inquirer, not a prosecutor
students
crucial relationship with the president
Behavior
wealth, wisdom, wit
general policy matters
faculty
institution's reputation
no conflicts of interest
decision making
university's culture
well-informed?
proper boundaries
support and review the president
concern about the future
questions?
Framing the
conservation of core values
Philanthropic trustees
access to the president
to hold in trust or in faith

WELCOME NOTE

Welcome to the second edition of Trustee Matters. This newsletter provides you with information and insights on a range of topical issues related to the retirement fund industry in the Kingdom of Eswatini and beyond its borders. Trustee Matters is published by Fiduciary Trusteeship Services (FTS), a company established primarily to support the management function of Boards of Trustees in the Kingdom.

In this edition of the newsletter, we give you detail on the conversion of the Swaziland National Provident Fund (SNPF) to the Eswatini National Pension Fund (ENPF), comment on developments related to severance allowance and we profile Ms Zethu Nkala-Shongwe who is a Managing Partner at FTS. Zethu, a Certified Financial Planner CFP®, and Lead Trainer, will discuss the various components of employee benefits in a separate article.

At Fiduciary Trusteeship Service we are pleased at the accreditation recently granted to us by the Financial Services Regulatory Authority (FSRA), to provide Trustee Training to Retirement Fund Officials. We will cover this milestone in more detail under the Editor's Comment.

In an effort to impart as much relevant knowledge and information to the retirement fund sector as we can, we will be issuing this publication every quarter. Please feel free to send any comments and queries on retirement fund matters to us at info@fiduciaryts.com. You are also welcome to visit our website at www.fiduciaryts.com for more information about our company and the services we offer.

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FIDUCIARY TRUSTEESHIP SERVICES

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In the first issue of Trustee Matters published in March 2016, we highlighted the Fit and Proper Guidelines of 2009, drawing attention to the criteria and some minimum competency requirements geared to heighten the functionary role of Trustees, Principal Officers and other key Fund Officials. We further encouraged Fund Officials to familiarise themselves with the criteria.

As you will be aware, the FSRA has since issued an Industry Note compelling key functionaries to attain a minimum academic qualification in Retirement Funds. It therefore seems fitting that our company is accredited by the FSRA to provide Trustee Training to Retirement Fund Officials. We are pleased to announce that the FTS has developed a programme in Fundamentals of Retirement Funds Trusteeship, in collaboration with the Institute of Development Management (IDM).

The course which has been approved by the FSRA provides an in-depth understanding of the role and responsibilities of Retirement Fund Officials, including but not limited, to legislative, funding, governance and investment aspects. We look forward to you registering for the Trustee Training Programme to equip yourself with the necessary skills to successfully undertake the responsibility of Trustee or Principal Officer.

Fit and Proper Guidelines

The critical function of Trustees and Principal Officers in ensuring the effectiveness of the operational activities of retirement funds is clearly recognised by the industry Regulator. To provide assurance that the objectives of a retirement fund are met, Trustees and Principal Officers should therefore demonstrate minimum competency levels as prescribed by the Fit and Proper Guidelines issued by the Financial Services Regulatory Authority (FSRA).

Trustee and Principal Officer Association

In an effort to further promote professionalism as well as advocate for the interests of Retirement Fund Officials, the need to form an association for Trustees and Principal Officers in Swaziland has been identified. The benefits of industry specific associations that provide a support mechanism to members is evident in other jurisdictions such as Batseta Council of Retirement Funds in South Africa.

We believe that the formation of such an association in Eswatini would be ideal. To achieve this ideal and begin forming the association, we request that you indicate your interest by sending an email to muzi@fiduciaryts.com.

Enjoy the rest of your reading and best wishes.

Muzi Dlamini

What's All The Fuss About?

When His Majesty King Sobhuza II launched the SNPF in 1974, in his speech he stated; "It is time for reflections and introspection! As a nation, we have a collective responsibility to move our country to a better strategic position for its survival, for the security of ourselves and for the better future of our younger generations".

More than 40 years later, these words carry so much wisdom and are still relevant today. Clearly King Sobhuza II recognised that the world was changing and our value system was not what it used to be. A simple example of how our lives have changed can be demonstrated by the fact that for the majority of the current working generation, the expectation is that they will support their parents in later years. The question that arises in this scenario is, how many of this generation's own children will do this for them when they retire? Whatever the answer, this is something that should be considered in the context of any conversation about retirement planning.

Understanding the Eswatini National Pension Fund

The Swaziland National Provident Fund has embarked on a transformation process from being a Provident Fund to becoming a Pension Fund, a move that has unsettled some. So what's all the fuss about concerning the conversion? To answer this question, we will need to look more closely at the proposed Eswatini National Pension Fund (ENPF), the reasons behind the conversion, and what it means to you and other eligible employees.

The conversion is intended to achieve the following;

- ✓ Change the benefit structure from lump sum payment (provident) to periodic payments (pension)
- ✓ Change the financing structure from Defined by Contribution (DC) to Defined by Benefit or formula (DB)
- ✓ Widen participation to include every employer and employee, as well as persons who are self-employed and every other worker (religious organisations, migrant and domestic workers, etc).
- ✓ Broaden the benefit structure to include invalidity (i.e. disability) and a survivor benefit (i.e. spouse pension)
- ✓ Specify the contribution rate at 10% split equally between employee and employer with a contributory remuneration ceiling

It is widely accepted that headlines sell newspapers. The dramatic headline regarding the SNPF conversion that appeared in one of the daily newspapers, no doubt attracted broad attention. The headline read as follows *"Government has concocted a grand plan to compel the country's entire workforce to shoulder the burden of paying grants for the elderly and vulnerable"*. Given that the Bill, in Section 86, suggests that the new National Pension Fund shall be responsible for the payment of social grants, such headlines ought to be handled with caution as they lead to much misunderstanding.

What should happen in practice?

So, what can be expected in practice? We need to begin by considering the proposed new funding model which will change from a Defined Contribution (DC) to a

Defined Benefit (DB). The main difference is that the former depends on the accumulated amounts you and your employer pay into the scheme as well as investment performance, while the latter promises a specific income calculated by a formula defined in the Fund Rules. In its simplest form, a Defined Benefit Plan states the promised benefit, thus providing workers with a secure and predictable benefit for life. On the other hand, the anticipated retirement income and longevity of the benefit may not be as predictable in a Defined Contribution Plan. Therefore, in practice, it is generally accepted that regardless of any other social security obligations, the Eswatini National Pension Fund will effectively guarantee that workers will receive the benefits promised.

Global Retirement System

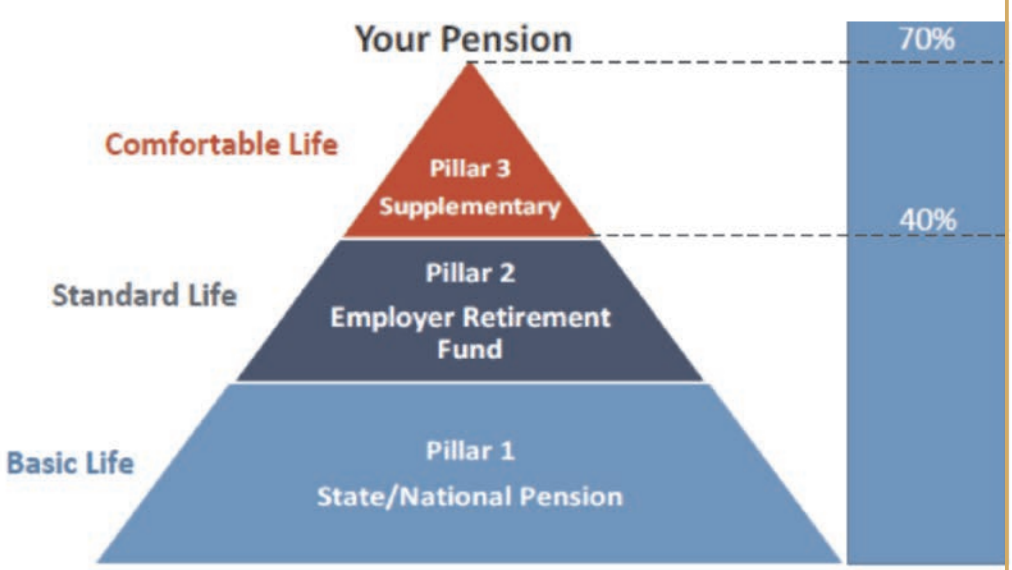
No doubt, we all want to live a comfortable life at retirement with the "Three Tier Retirement System" considered the international benchmark with respect to citizens of a country attaining this objective, including those of Eswatini. The model recommends that workers participate in all three spheres of the system as demonstrated in this illustration;

Furthermore, there have been a number of studies that have been conducted to determine how much money a person generally needs at retirement. From the research, it is generally accepted that a person will need an income of around 70% of their final salary as a retirement income. For example, should someone be earning a pre-retirement salary of E10,000 a month, need to earn an income of E7,000 a month at retirement to live a comfortable life. Based on standard assumptions, one would need to contribute 15% of their salary over 40 years in order to achieve the expected pension (or replacement ratio of approximately 70%).

Replacement Ratio Defined

A replacement ratio is a person's gross income after retirement divided by the gross income before retirement. It is generally accepted that a replacement ratio of 70% is required to sustain your standard of living at retirement.

With the exception of public employees, the majority of workers are unlikely to remain with a single employer during the course of their working life, making the propensity to consistently set aside 15% of their salary over 40 years extremely challenging. Conventional wisdom therefore suggests that participation in the combination of retirement plans promoted by the "Three Tier Retirement System" is the most sensible based on the following;



Three tier system to guarantee a comfortable retirement recomended by OEDC and World Bank

Pillar 1 - National Social Security (Eswatini National Pension Fund)

Pillar 2 - Occupational Pension (Private Employer Schemes)

Pillar 3 - Supplementary (Personal Savings and Investments)

Social Security

To appreciate the reasons for the conversion, an understanding of the concept of Social Security is important. Across the world, rapidly ageing populations have given rise to the need to ensure financial security for the growing number of older persons. The reason why most people live longer has been due to the general improvement in the standard of living, including advancement in health care systems. It is widely accepted that protection against the lack of income was originally performed by immediate family members and within our communities prior to the modern state we now live. Consequently, modern states have evolved to where institutions are established with the responsibility of protecting citizens. The current SNPF and the proposed ENPF are an example of these establishments.

Social Security Defined

Social security is the protection that a society provides to individuals and households to ensure access to health care and to guarantee income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a breadwinner

International Labour Organization

From an International Labour Organization (ILO) perspective, every citizen needs social security to be able to deal with life's uncertainty as well as guarantee financial security. According to the ILO World Social Security Report 2017-2019, only 45% of the global population is covered by at least one (1) of the recommended social protection benefits. The situation appears somewhat bleaker on the African continent where only 18% receive any type of social protection.

Given that Social Security is a basic human right and the Kingdom is party to a number of ILO (international) and SADC (regional) agreements on Social Security, Eswatini is required to develop and improve its social security systems. Furthermore, there are many examples demonstrating the high linkage between economic development and social security, with the various forms of social protection regarded as one way of reducing hopeless poverty by helping to cover the basic needs of the older generation.

Transition Arrangements

With over 60,000 contributing members, what arrangements are in place to deal with the transition? The Third Schedule of the proposed Bill deals with this issue and provides for the following scenarios;

- ✓ Workers who are 45 years and younger shall convert and continue to make contributions to the new pension scheme
- ✓ Workers older than 45, shall be given an option to purchase the required credits to qualify for conversion to pension or to remain on the provident fund system and be paid a lump sum when they qualify for it.

Then again, the tax implications related to the conversion from a provident to a pension fund are also an issue to contemplate. In order to gain further insight, this subject will be considered from a legislative perspective. The Income Tax Order, 1975, as amended, offers members of retirement funds a number of tax concessions on the contributions made to a retirement fund as well as the benefits collected. The principle behind the tax reprieve is that it encourages participation in retirement funds, hence supporting the Kingdom's social security initiatives. In practice, members of provident funds receive little relief on their contributions (currently receive a rebate of E360 per annum) while members of pension funds are able to obtain tax concessions of up to 10% of pensionable salary. Conversely, benefits from a provident fund are tax-free while the income from a pension fund is subject to taxation.

What does the conversion mean for you?

- ✓ As a member, you will be required to contribute 5% of your salary (subject to a specified salary ceiling) to the fund with your employer matching this contribution
- ✓ The pension fund has a contribution remuneration floor of E600 (minimum monthly salary)
- ✓ Contributions will be based on a rising remuneration ceiling
- ✓ The retirement benefit will be defined by formula with pension payable for life
- ✓ Benefits include ;
  - ❍ Retirement payout
  - ❍ Death pension to a survivor including funeral support
  - ❍ Invalidity benefits (physical or mental disability payable as an income)
  - ❍ Supplementary contributions

No doubt, the tax implications will continue to be debated depending on which side of the fence you are standing. The truth is that the Income Tax Order offers special tax consideration to members of both provident and pension funds, albeit the tax relief is either obtained during a member's working life in respect of a pension fund or at the time the benefit is paid out, in the case of a provident fund.

Conclusion

While there has been much debate about the intentions related to the conversion of the SNPF from a Provident Fund to a Pension Fund, it does seem that the conversion has been well considered for a number of reasons. Firstly, it is widely accepted that retirement funds play an important role in maintaining the standard of living of workers upon retirement. Secondly, social security is a basic human right which contributes towards poverty reduction as well as reducing income inequality. Lastly, due to the modern way of life which has resulted in changing values, it has become unavoidable that we take it upon ourselves to secure our own financial freedom in order to live a comfortable life at retirement.

Muzi Dlamini

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ZETHU NKALA-SHONGWE CFP ®
MANAGING PARTNER AT FIDUCIARY TRUSTEESHIP SERVICES (FTS)

Zethu under took study for a Post Graduate Diploma in Financial Planning in 2013 and successfully completed all 4 modules of the programme, namely, Financial Planning Environment, Corporate Financial Planning, Personal Financial Planning and Case study, in the same year. Subsequently, she attained her professional designation as a Certified Financial Planner ®. Key to Zethu's personal development was harnessing the power of teamwork. Amid her studies, Zethu headed a successful work-based committee which had a lot of financial targets and expectations. This was a period that shaped and instilled her leadership and organisation skills.

Zethu is one of only two Certified Financial Planners ® practicing in Eswatini. This, she believes presents a new challenge and opportunities in terms of understanding and profiling financial consumers, as well as providing financial planning solutions applicable to citizens of Eswatini.

Her work at Fiduciary Trusteeship Services (FTS), involves being the lead trainer for the FSRA accredited course, Fundamentals Of Retirement Funds Trusteeship. She is also licensed by the FSRA as an Investment Advisor Representative. Being affiliated to the Financial Planning Institute of Southern Africa (FPI), means that she adheres to a strict code of conduct and provides financial advice based on the highest international standards of financial planning.

Zethu Nkala-Shongwe
Certified Financial Planner (CFP)®

Post Graduate Diploma Financial Planning (University of the Free State, 2014)
B.Com (Wits University, 2011)
B.Sc (UNISWA, 2007)

Zethu is an ardent financial services professional with more than six years industry experience, with expert knowledge in risk products, employee benefits, investments and retirement planning. She has spent a majority of her career providing training support to Sanlam financial planners, pension fund officials, brokers and business managers in South Africa.

Introduction

Employee Benefits (EB) are non-cash benefits provided to employees in addition to salary, covering, retirement, death, disability and medical expenses. Employee benefit programmes are meant to be managed carefully to enhance recruitment, retain employees and motivate greater effort and performance from people in the workplace. There is a growing trend of employees seeking more value from employee benefit packages as opposed to the financial package itself.

There are different types of employee benefits, these are: statutory employee benefits as well as voluntary benefits. Statutory employee benefits are provided for in the Employment Act, 1980, and these include workman's compensation, retirement benefits and paid leave to name a few, while voluntary benefits include medical aid, group life assurance and retention bonuses.

Background

The economic working time of any person is limited in that the earning capacity of a person ceases when he/she is physically or mentally no longer able to work. The industrial revolution served as the impetus for income-protection schemes whereby the idea that money should be saved regularly during an employee's working lifetime to make provision for an income when the employee is not able to earn an income, originated. In 1935, the American President Franklin Roosevelt signed the first Social Security Act. Employee Benefits structures have evolved over the years in an effort to adapt to employee needs.

Packages

Typically employee benefit schemes comprise of the following:

- ✓ Retirement fund (savings for retirement funded by employer and employee contributions): pension or provident fund
- ✓ Group Life Assurance benefits: Life cover, Income protection (mainly funded by the employer)
- ✓ Funeral assistance scheme (funded by the employer)

Retirement Funds:

Governed by the Retirement Funds Act, 2005, retirement funds typically fall under two distinct categories, with both the employer and employees contributing to either pension or provident fund. The retirement fund's main objective is providing benefits to members (lump sum or income benefits depending on the type of fund) at retirement or dependants of the members upon the death of a member.

Group Life Assurance:

The employer or the retirement fund typically takes out life cover for members in the event of death. For the reason that the cover is taken out for the group, the scheme is typically underwritten at a rate lower than individual rates.

- ✓ **Group Life Cover (GLA):** There are two types of life cover: approved and unapproved. Approved group cover is held in the name of the retirement fund and the trustees decide who is eligible to receive the benefits. Premiums are paid by the fund, and in most instances, payments are deducted from the portion of the employer's contribution. Unapproved group life policies are owned by the employer and not the fund. In both instances, the level of the cover is usually a multiple employee annual salary. Notably cover cannot be ceded to credit institutions.

- ✓ **Income protection:** This type of insurance covers employees in the event of a disruptive life event or disability. It is calculated as a percentage of employee salary (normally 75%) and paid as a monthly income or in other instances the benefit can be paid as a lump sum in the case of capital disability cover.

Funeral Assistance:

This is a lump sum benefit that covers the cost of providing a funeral to the family of a deceased member or dependant. This benefit aims to pay dependants within 24 hours of claiming. Depending on the type of funeral assistance chosen, cover may extend to

Swaziland Revenue Authority Tax implications on Retirement Funds

In an attempt to encourage participation in retirement funds, the state provides tax relief on contributions as well as concessions on certain benefit payments as follows;

	Pension Fund	Provident Fund
Contributions	Employer contributes: Min= 5%, Max= 20% Employee contributions: Min= 5%, Max= 10%	Employer contributes: Min= 5%, Max= 20% Employee contributions: Min= 5%,
Tax	Employer receives a deduction based on actual contribution Employee receives a deduction of maximum 10% of pensionable salary if contributed (if pension fund is approved).	Employer receives a deduction based on actual contribution Employee receives E360/annum rebate
Withdrawal Benefits	1/3 withdrawal is advisable but can receive full benefit	Full benefit received
Tax	1/3 portion tax free 2/3 employer portion and interest portion taxable	0% Tax exempt in full as it was after tax contribution
Retrenchment benefits	Can receive full benefit, if annual pension is less than E3,500	Receives full benefit
Tax	E60,000 is concession usually associated with terminal benefits but employee becomes entitled where employer has not paid terminal benefits 1/3 tax free and 2/3 employer portion and interest portion taxable	Employee contribution never taxed unless fund was not approved for taxation purposes
Retirement benefits	Receive: 1/3 as a lump sum 2/3 used to purchase an income	Full benefit received
Tax	1/3 of benefit is tax free 2/3 of the benefit received as income is taxed monthly(annuity taxable only when it reaches taxable bracket for retirees (E3,888+-)	0% tax

The above table is provided for illustration purposes and is a summary of tax applicable to retirement funds in terms of the Income Tax Order, 1975.

Zethu Nkala-Shongwe CFP ®
For more information or to comment, please email to zethu@fiduciaryts.com

PROFILE:
THE PROGRAMME IN FUNDAMENTALS OF RETIREMENT FUNDS TRUSTEESHIP

Brought to you by

The Fundamentals of Retirement Funds Trusteeship is a specialized programme for retirement fund officials which provides specific competency to successfully undertake the responsibility of the role of Trustee or Principal Officer, allowing for the fulfillment of the Fit and Proper Guidelines, 2014.

Programme Convenor: Zethu Nkala-Shongwe:
7977 5948, *zethu@fiduciaryts.com*

Objectives

Upon completion of this course participants should be able to-

a) Understand the basics of retirement funds. This includes different types of funds, differentiating funding methods, basic risk benefit concepts and cost management strategies for retirement funds.
b) Understand the roles and responsibilities of the different parties to retirement funds. This includes legislative requirements related to compliance, retirement fund governance issues and the proper management of retirement funds.
c) Have an appreciation of the key elements of developing retirement fund risk management, investment strategy and other policies and procedures.
d) Apply basic concepts of Section 33 of the Retirement Funds Act (RFA), 2005
e) Understand responsibilities of Trustees pertaining to investments including basic investment concepts.

Admission Requirements

Junior certificate or equivalent in line with the Fit and Proper Guidelines, 2014. Candidates with prior work experience and learning will be recognized.

Admission to Examination

- ✓ Examinations will be conducted at the end of each module or at the end of the programme
- ✓ Students will be admitted to examination if they have attended at least 80% of lectures or have read study material (for the online class) of the lectures in that specific module and have attempted 80% of the online assessments.
- ✓ Have made all tuition fee payments in full and provided proof of payment

The Fundamentals of Retirement Funds is a comprehensive programme which consists of (4) Modules and 22 units, as presented below:

Module I : Introduction to Retirement Funds	
Unit 1	Purpose and origins of retirement funds
Unit 2	Parties to a retirement fund
Unit 3	Funding methods
Unit 4	Types of retirement funds
Unit 5	The different funding methods of pension fund defined benefit (DB) and defined contribution (DC)
Unit 6	Types of risk benefits
Module 2: Duties of Trustees and Governance Issues	
Unit 7	The legal standing of retirement funds including fiduciary duties of fund officials
Unit 8	Understanding the role of a Trustee and the Principal Officer
Unit 9	What legislation and rules require of Trustees
Unit 10	Governance Structures
Unit 11	Developing and good governance structures
Unit 12	Dispute Resolution
Module 3: Section 33- Death benefits	
Unit 13	Primary objective of Section 33
Unit 14	Duty to identify dependants and nominees of deceased members
Unit 15	The Duty to effect equitable distribution
Unit 16	Distribution Mechanism
Module 4: Introduction to Investments	
Unit 17	Trustees' responsibilities regarding investments
Unit 18	Types of Asset Classes
Unit 19	Risk and Return Trade-off
Unit 20	Trustee investment decisions and processes
Unit 21	Volatility, Diversification and Asset Allocation explained
Unit 22	Investment strategy guidelines

For more information contact the Programme Convenor (details provided above).

What we now know

Following the advent of the Retirement Funds Act, 2005, payment of severance allowance has been a contentious subject matter and one that has generated glaringly opposing views. One of the major areas of discourse has been due to the fact that prior to the enactment of the legislation governing retirement funds, pension and provident funds could recover the portion of the employer contribution paid to a retirement fund on behalf of a member, should that member be entitled to receive severance allowance. The provision enabled an employer to offset any payment made in terms Section 34(1) of The Employment Act, 1980, by recovering the portion of the employer contributions, which had been a standard clause in the Rules of many, if not all, retirement funds in Swaziland.

The ability for the employer to recover any severance allowance paid from the contributions made on behalf of an employee into a registered retirement fund, had the intention to guard against undue burden to the company related to the duty to pay "double benefits" relating to a single event such as retirement. All of a sudden, when the Retirement Funds Act, 2005 was enacted, Section 32 of the Act effectively nullified the provision and restricted what could be deducted from a member's benefit to amounts representing debts arising from a housing loan, loss suffered by an employer due to an unlawful activity of a member for which judgment has been obtained or a written acknowledgement of culpability that has been signed by the member. The inconsistency between the two laws begs the question of whether or not the unintended consequences related to the contradiction is clearly understood.

Addressing the apparent inconsistency, Walter Shabangu in a written piece for the Conciliation Mediation & Arbitration Commission titled "Payment of Severance", referring to Appeal Case No. 1442/1993 writes "When it was argued on the basis of Section 34(3) of The Employment Act that paying both amounts would amount to "double severance pay", the Court of Appeal of Swaziland dismissed this submission. The Court reasoned that the one has got nothing to do with the other; the severance is statutorily imposed by Section 34(1) of The Employment Act and yet the gratuity is a contractual condition of employment (meaning it's something that is agreed upon by the parties)."

In recent years, the Industrial Court of Appeal has made a further pronouncement on the matter related to severance allowance in Thring vs. Dunns Swaziland, Case No. 08/2013. The Appellant lodged a claim for payment of severance allowance at the Industrial Court after retiring from employment. The initial claim was dismissed by the lower court because the contract of employment was not terminated by the employer, but rather by effluxion of time (meaning passage of time). The Court of Appeal upheld the decision on the basis that Severance Allowance is payable when the services of an employee are unfairly terminated by the employer. In the case of retirement, the Court noted that the termination of employment was not at the instance of the employer, but rather the employment contract expires automatically by passage of time.

When reading the judgement, it is evident that the Court regards the application of Severance Allowance in terms of Section 34 of the Employment Act, 1980 to be in instances where the services of an employee are terminated by the employer prematurely or unfairly. From the perspective of the employer, the Court Ruling offers much needed clarity by providing confirmation that severance allowance is not payable at retirement. Given this clarity, does the apparent inconsistency in the statutes really matter any longer? Well, there is still the issue related to unfair dismissal, which may continue to be questioned, but is probably less of a concern. For the reason that Section 34 of the Employment Act, 1980 is primarily concerned with fairness, it limits payment of Severance Allowance to instances where the employer is at fault in relation to the termination of service. As we have ascertained, occurrences such as retirement as well as redundancy and retrenchment are excluded from this provision.

The issue that perhaps remains to be addressed is that which relates to unfair dismissal. It seems that the Employment Act provides clear rules on what constitutes fair and unfair dismissal in so far as protecting the rights of both employee and employer. Where dismissal has been at the instance of the employer and has been conducted in the manner provided in terms of the Act, severance allowance is not payable, thus shouldn't be a matter of concern. Furthermore, where the dismissal has been procedural and the employer suffers loss due to an unlawful activity by a dismissed employee, Section 32 of the Retirement Funds Act, 2005 offers relief to the employer.

On the whole, the observation is that the two sets of laws may not be as completely opposed to each other as previously understood.

Muzi Dlamini

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Retirement Governance: Member Communication

Post-retirement product options

Communication to retirement fund members is one of the key requirements of the FSRA Retirement Fund Governance Guidelines (RF Guidelines). Section 6 of the RF Guidelines provides that, "The fund should give sufficient information to members for them to make informed decisions about their retirement options …". Part of the information members retiring from a defined contribution retirement fund should receive include details of the annuity options available at retirement, which are the Guaranteed Annuity or else Living Annuity.

The Guaranteed Annuity is also called a life annuity since it is considered a life insurance policy. The life assured's age, gender and prevailing interest rates largely determine the income to be paid during the life of the assured. There are a number of options that the annuitant can choose from such as; selecting to include a second life assured, escalation in income or guaranteed term. All of the aforementioned options, if selected reduce the income that the annuitant receives. The main drawback of the life annuity is the fact that, depending on the guaranteed period, the pension payment discontinues upon the death of the annuitant.

Traditionally, the life annuity has been the only pension option for many retirees, in cases where pension payments are outsourced by a retirement fund. However, recently a new product has been introduced to the market in the form of a Living Annuity. This type of annuity is more like an investment product in that the income is determined by the lump sum invested, investment returns and the discretional withdrawal rate. The following are key characteristics of the Living Annuity:

1) Multiple investment options;
2) Flexibility (in terms of adjusting income levels);
3) Transparency ; and
4) Availability of remaining investment amount upon death (payable to survivors)

Living annuities have the potential of improving one's retirement lifestyle in times when investment markets are performing well. However, the opposite situation can occur when investment markets decline, where close monitoring of the investment portfolio with the assistance of a financial planner is recommended. The main drawback of the Living Annuity is the risk of withdrawal rates being higher than the income generated by the investment product, which scenario erodes the capital invested over time.

In conclusion, both types of annuities have their advantages and disadvantages. Consequently, retirement fund officials should provide members with applicable information concerning the different products for educated choices to be made.

Ms Zethu Nkala-Shongwe

Highlights of the 3rd Retirement Funds Breakfast Seminar held in April 2018

THEME: **Investing in Swaziland and The Implications of the Retirement Funds Act Amendment on Local investment Requirements**

The breakfast seminar was attended by approximately 80 delegates including Mr Sandile Dlamini the Chief Executive Officer (CEO) of the Financial Services Regulatory Authority (FSRA) and Ms Sara Mezui-Engo, Manager - Alternative Investments, Government Institutions Pension Fund in Namibia. The event received wide coverage in both print and electronic media.

Following are some main points emerging from discussions held at the seminar:

- ✓ According to the FSRA, the majority of the 30 percent related to the domestic asset requirement, has been mainly directed towards commercial banks (money market/cash) instead of being invested in suitable assets that will help to support economic growth
- ✓ The FSRA noted that the proposed legislative will reduce the size of retirement fund assets are allowed to be held as cash, as this approach is unproductive
- ✓ The FSRA encouraged local Investment Managers to increase the local component of assets held by investing in the various sectors of the economy
- ✓ FSRA recognised the strides made by SNPF and PSPF given the significant investments the retirement funds have made locally
- ✓ The telecommunications industry was considered a growth sector and presented investment opportunities for both pension and provident funds
- ✓ It was noted that investment management companies should prioritize investments in suitable Swazi assets which should be reflected in the investment vehicles made available to retirement funds
- ✓ Namibia is third after SA and Nigeria in terms of exposure to local assets in Africa
- ✓ Prior to 1992, Namibian retirement funds invested only 10 percent of assets in that country
- ✓ In relation to domestic asset requirement, the concern has always revolved around the ability of retirement funds to secure comparable assets in the local market
- ✓ The unlisted market provides retirement funds in Eswatini with significant investment opportunities
- ✓ In Namibia, privatization of government owned entities provided increased investment opportunities for retirement funds, which could be a possible solution for Eswatini
- ✓ Issuance of bonds and other debt instruments by these institutions would increase the available instruments
- ✓ Eswatini has a good opportunity to absorb the proposed assets to be repatriated given the 25 percent allowance to alternative investments
- ✓ Investments in Infrastructure funds also presented a good investment opportunity for retirement funds (unlisted instruments)
- ✓ Research conducted by the Namibian Government Institutions Pension Fund suggests that investing in regional markets such as South Africa, did not excessively enhance portfolio returns
- ✓ Developments within the Swaziland Stock Exchange in terms of automation will be highly beneficial to the local market, which should result in more listings.

3rd Retirement Funds Breakfast Seminar Picture Gallery

The team from FTS and Swaziland Stock Exchange

Masotja Vilakati and Musa Hlatshwayo from the Public Service Pension Fund, in conversation.

Left to right: Key note Speaker Sara Mezui-Engo from the Nambian Government Institutions Pension Fund, Muzi Dlamini, Executive Director at FTS, Jolly Mokorosi from Mokorosi Financial Consulting and Sandile Dlamini, FSRA Chief Executive Officer.

The Panellists: Sandile Dlamini (FSRA), Jolly Mokorosi (MFC), Futhi Tembe (SNPF) and Andrew Le Roux (FSE/CC President) formed part of the panel.

A cross section of the participants representing the various retirement funds in Eswatini

Kevin Thring from Old Mutual posing a question.

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Design & Layout - Multimedia Int’l - 00268 2404 5284