



NATIONAL PENSION COMMISSION

FRAMEWORK AND IMPLEMENTATION GUIDELINES FOR RSA RETIREE FUND

I. NATURE OF THE FUND

The Fund shall be strictly for RSA Retirees in both the Private and Public Sectors.

II. COVERAGE

The Fund shall be restricted to RSA retirees in the first instance. AES & CPFAs shall continue in line with the rules governing their approved schemes. It shall be for retirees operating the Programmed Withdrawal retirement option. In essence, any retiree who had temporarily accessed his RSA by withdrawing 25% of RSA balance shall still remain under the RSA Fund and not the Retiree Fund.

III. RATIONALE FOR THE RETIREE FUND

The current practice where active workers and retirees' fund are invested together under the RSA is fraught with the following challenges:

- Diminution in the value of equities due to market dynamics have caused retirees to lose part of their RSA balances between the date of retirement and date of receipt of lump sum/first pension.
- The presence of variable income security (equities) will cause retirees' fund to further diminish during the period of market downturn.
- Although an appreciation in value of retirees' fund is desirable, the most important concern of the retiree is safety/security of their funds.
- Given the general age of retirement (60 years and above), the retirees' risk appetite is not as high as that of active contributors.

In order to address the above challenges, a separate retirees' fund comprising safe and fixed income securities is considered as the immediate way out.

IV. OBJECTIVES OF THE FUND

The main objectives of the Fund shall be:

- To ensure that the fund does not diminish, between the point of retirement and at the point of collection of lump sum/commencement of pension
- To ensure that retirees' pension does not lose value after commencement of receipt of monthly pension
- To ensure that funds attributable to retirees are exposed to little or no risk.
- To ensure that retirees' fund generate fair income to cope with inflation.
- To ensure that appropriate fees which match the portfolio structure are charged.

V. INVESTMENT GUIDELINES

The current Regulation on Investment of Pension Fund Assets shall apply, in respect of authorized markets for trading; quality of instruments/securities; performance benchmarks etc. However, the investment portfolio limits shall vary.

- The Retiree Fund shall be wholly invested in fixed income securities, based on the following maximum portfolio limits in these asset classes:
 - a. Government Securities: 100%
 - b. Money market Instruments: 60%
 - c. Corporate Debt Instruments: 40%
- Per Issue/Per Issuer limits shall remain in line with the current Regulation on Investment of Pension Fund Assets.

VI. VALUATION AND REPORTING

The Retiree Fund shall be valued daily by the PFAs in line with the Commission's guidelines on valuation of pension assets. However, PFAs shall submit the batched returns to the Commission on monthly basis. The essence of daily valuation is to accommodate new retirees that may be retiring in the course of the month, while batched returns shall be sent to the Commission at month-end since the fund valuation can easily be confirmed at any point in time within the month based on the applicable interest rates on the investment instruments.

VII. FEES STRUCTURE

- Administration Fees: PFAs shall be allowed to charge a maximum monthly administrative fee of N50 per retiree to partly offset expenses relating to monthly rendition of statement of account; processing & payment of periodic pensions; etc.
- Asset Based Fees: The fees shall be based on net asset value rather than return on investment. The Commission considered a

number of options and adopted a maximum of 0.75%p.a of daily Net Asset Value (NAV) of the Fund to be charged as asset based fees. This shall be distributed as follows:

- PFA : 0.50%p.a
- PFC : 0.15%p.a;
- PenCom: 0.10%p.a.

The fees shall be accrued daily, as in RSA Fund, and charged at end of the month.

- This fee structure (which is based on net asset value) is being adopted because it is simple to implement. Therefore, the fee structure in the current programmed withdrawal template will be discarded.

VIII. IMPLEMENTATION MODALITIES

1. PFAs shall determine existing retirees in their portfolio and the total accounting units held.
2. PFAs shall redeem total accounting units attributable to retirees based on the prevailing value of accounting unit (i.e. previous day's closing value of an accounting unit of RSA Fund multiplied by total accounting units of retirees)
3. The total naira value redeemed shall be transferred to purchase new units in the Retirees' Fund at a nominal value of N1.00 each e.g a total of N1million redeemed from RSA shall buy N1million units at N1 each in Retirees Fund (PFC shall be instructed to move funds from RSA Fund to Retiree Fund)
4. New retirees joining the Retirees' Fund (i.e. subsequent to the takeoff date shall buy into the Retiree Fund at prevailing value of an accounting unit of the Retiree Fund.
5. Transfer of retirees' RSA account balance from RSA Fund to Retiree Fund will be at the point when retiree's accrued rights have been transferred to PFAs by the Commission. This will be used to purchase units in the fund at the value of an accounting unit ruling on the date of such transfer.
6. Transfer of private sector retirees' RSA account balance from RSA Fund to Retiree Fund will be on the day following the transfer of any accrued rights by employer.
7. PFAs shall invest Retirees' Fund in line with the approved investment limits prescribed above (item VII).
8. Periodic payment of pension shall be effected by redemption of units at the prevailing value of an accounting unit.

9. PFAs shall value the Retiree Fund on daily basis but forward the batched daily valuation reports to the Commission on monthly basis.
10. Asset Based fees shall be accrued daily upon portfolio valuation, while the actual charge of the total fees, as accrued on daily basis, shall be effected against the fund within five (5) working days of the month end.

IX. EFFECTIVE COMMENCEMENT DATE

The effective date for commencement of the Retiree Fund is 1 January, 2009.