



Circular 2013/693

**TO: All members of the University of Johannesburg Defined Benefit Pension Fund**

**Suspension of conversion option - University of Johannesburg Defined Benefit Pension Fund**

The University of Johannesburg has two pension funds. First, the University of Johannesburg Pension Fund, the largest fund, with 1900 members. Second, the University of Johannesburg Defined Benefit Pension Fund, a closed fund, with 265 members. **This circular only applies to members of the University of Johannesburg Defined Benefit Pension Fund.** If you are unsure about the fund that you belong to, kindly look at the top of your most recent benefit statement where the name of your fund is presented.

The conversion option referred to in this circular has never been applicable to the university's largest pension fund, the University of Johannesburg Pension Fund. Both pension funds have life cover in place for all members so that members' beneficiaries get benefit payments in accordance with the rules of the two funds should a member die while working for the university. That cover remains unaffected by the information below.

Turning now to the University of Johannesburg Defined Benefit Pension Fund and its members to whom this circular applies. Each member of this fund qualifies for a death in service benefit from the fund if the member dies while working for the university. That cover is in place until a member resigns or retires or is dismissed. The Trustees of the fund re-insures that portion of the death benefit which is more than each member's Equitable Share (fund value built up over time) through an insurance policy. The benefit payments due after a death while in service are therefore covered by a combination of the insurance policy and the Equitable Share of that member.

The insurance policy is in the name of the fund and not in the name of individual members. It is referred to as a group policy and as the risk is spread over the entire membership, premiums can be kept relatively low. As with most policies in the market, there are optional benefits that the policy holder can add. One of the historical optional benefits that the fund has had, was the option that members can continue with their life cover after leaving the employ of the university. This benefit is referred to as the "conversion option". If, after leaving the employ of the university, someone takes up the conversion option for life cover, he/she would enter into his/her own agreement with the insurer, pay the premiums themselves etc. The premiums that the insurer will charge a member for the conversion option of the life cover is based on individual rates and depend on each person's circumstances. The nature of the policy then changes from group cover to an individual policy.

As part of its on-going monitoring of all costs and benefits in the fund, the Trustees of the University of Johannesburg Defined Benefit Pension Fund have closely monitored the number of requests from members who wanted the conversion option and the number of successful acceptances by the insurer. The number of members who have requested the option has been low. The number of members who have been successfully accepted by the insurer has been low.

When the insurer determines the level of life cover a member qualifies for when he/she requests the conversion option, it does a calculation to determine the difference between the member's

Equitable Share and the value of the death in service benefit promised in terms of the rules of the fund. If the member's Equitable Share is higher than the death benefit, the insurer will not hold any life cover for the member and therefore will not offer the conversion option to the member.

As the university's pension funds have done very well over the past few years in terms of investment performance, the Trustees noted that very few members get accepted for the conversion of life cover option as members' Equitable Share accounts are higher than their death in service benefit. Therefore, the Trustees applied their minds to whether value was still being derived from the conversion option. After careful deliberation, and based on the advice of its advisors, the Trustees have consequently suspended the conversion option from 1 October 2013.

The trustees will continue to monitor the relative strength of member values and reintroduce the conversion option if it is found that members will qualify for it in the future.

Sincerely,

**PROF. THEA VOOGT**  
**Assistant to the PRINCIPAL OFFICER**  
**University of Johannesburg Pension Fund**  
**University of Johannesburg Defined Benefit Pension Fund**  
**University of Johannesburg Disability Reserve Fund**  
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