

# The COVID-19 National State of Disaster

## Retirement fund solutions for employers in distress

### 1. Employers in distress

The Sanlam Umbrella Fund is very aware of the fact that many employers may face cash flow or business survival challenges as a result of the COVID-19 National State of Disaster.

The scenarios can range from:

- ⌚ Reduction in remuneration (general or targeted)
- ⌚ Shortened hours
- ⌚ Reduction in benefits
- ⌚ Temporary closures and layoffs
- ⌚ Downsizing with the retrenchment of some staff
- ⌚ Closure of business

In the schedule below we highlight some of the operational requirements:

#### Distress scenario 1: Reduction in remuneration, shortened hours

Admin requirements	Future contributions	Admin requires member's signature / proof of communication
Reduced "percentage based" payment (as long as risk premiums are covered).	Reduced "percentage based" payment.	Normal admin procedures. (FSCA communication 11/20 requires communication to members of rule changes).

#### Distress scenario 2: Temporary closures and layoffs

##### Absence with consent

Admin requirements	Future contributions	Admin requires member's signature / proof of communication
Adjust contributions on the employer portal and use AVC for savings.	Only risk premium and admin costs payable.	Proof of communication to members.

##### Temporary suspension (with maintenance of insured benefits)

Admin requirements	Future contributions	Admin requires member's signature / proof of communication
Apply for temporary suspension of contributions. <a href="#">Link to the application form</a>	Only risk premium and admin and consulting fees payable.	Proof of communication to members. <a href="#">Link to concept member communication</a>

### Temporary suspension (no insured benefits)

Admin requirements	Future contributions	Admin requires member's signature / proof of communication
Apply for temporary suspension of contributions. <a href="#">Link to the application form</a>	Zero contributions payable.	Proof of communication to members. <a href="#">Link to concept member communication</a>

### Distress scenario 3: Downsizing with the retrenchment of some staff

Admin requirements	Future contributions	Admin requires member's signature / proof of communication
Payment of retrenchment benefits.	Contributions in respect of remaining staff.	Normal benefit payment procedures.

### Distress scenario 4: Closure of business (notice of termination of participation)

Admin requirements	Future contributions	Admin requires member's signature / proof of communication
Liquidation of sub fund (6 to 12 months).	Zero, but all outstanding contributions plus penalty interest to be recovered from the employer and/or directors.	Normal liquidation procedures.

The fund will go out of its way to assist employers who are in financial distress to survive the State of Disaster, even if it means a temporary suspension of contributions or a reduction in salaries and benefits (in accordance with the fund rules and the Act) in order to keep members in employment.

A pressing need for employers who need to reduce their costs in order to remain operational is to reduce or suspend future retirement fund contributions for an agreed period.

A pressing need for members during this period is not to lose their group life cover.

## 2. Absence with the employers consent

"Absence with the employers consent" is a facility that was designed for e.g. sabbaticals and extended maternity leave but can be a good option for those employers who have to lay off all or some employees for a period. The following implications are important, whatever the continued remuneration arrangements may be (extract of the rule attached)

- ⦿ All affected employees have to agree, the employer must provide proof of this consent
- ⦿ A minimum of the risk premium and admin fees will continue to be payable by the employer.

Implementation:

STeP employers (the majority) need to tick zero member and zero employer contributions per employee on the portal. Insured benefits and fee remain. Should the employer want to add some savings, this would have to be captured under the AVC field.

Non-step employers need to show temporary absence on the schedule from employer and will apply rules as above.

### 3. Temporary suspension of contributions going forward

A temporary suspension will have the following implications. (The application form in terms of which the board can agree to a temporary suspension from participation in the fund is enclosed)

- ② The employer and its members continue to participate in the fund but the special rules will be amended to the effect that no contributions will be payable from a future date for the suspension period or to the effect that a minimum contribution remain payable by the employer to maintain the group life insurance benefits.
- ② A communication must be sent to members by the employer to inform them and explain the implications of the suspension. The fund will in addition use the SMS member communication facility with a link to the communication.
- ② It is a requirement that joint forum meetings be held and that the contracted benefit consultant report to the fund on member engagement.

#### Temporary suspension with no insured benefits

- ② During the period of the State of Disaster no fund contributions will be payable by the employer and no deductions will be made from member salaries.
- ② Life cover will lapse. In the event of a death of a member the fund will therefore not be in a position to pay any insured death benefit. The member may however, depending on the terms of their agreements in place, be able to recover the benefit from the employer.

#### Temporary suspension with the maintenance of insured benefits

- ② On application only the risk premium, admin and consulting fees will continue to be payable by the employer to the fund and no deductions will be made from member salaries.

#### What if a member resigns during the period of suspension?

Should a member resign during the temporary suspension the withdrawal benefit will be payable provided. The administrator agreed to the following interim arrangement, should any contributions be in arrears at this time, payment will be made of the fund share held and a further payment will be made once the arrears have been paid.

### 4. Special Government Assistance - short term UIF benefit

In a statement made on 17 March 2020 Employment and Labour Minister, Thulas Nxesi recognised that individual companies are to feel the pinch and may lead to some of them being distressed. According to the Minister, to assist the distressed companies:

- ② A period of reprieve will be considered in order for companies not to contribute to the Unemployment Insurance Fund (UIF).
- ② In instances where companies decide to close for a short period as a precautionary measure, the short term UIF benefit will kick in. (If a company contemplates a short term shut down, they are required to inform the Unemployment Insurance Fund. Our team will visit these companies to provide assistance with the processing of the claims).
- ② Where an employee has to be self-quarantined for 14 days, such a leave will be recognised as a special leave which will be fully paid on condition that the reason for the quarantine meets the requirements and that employee can apply for UIF benefits.
- ② Where an employee is required to be quarantined for longer than 14 days as a result of having travelled or been in contact with an infected person, such a leave will be recognised as special leave and that employee will be eligible to apply for unemployment insurance benefits.

## **5. What if staff are retrenched or the employer closes its doors?**

If an employer gives notice of termination of participation, the sub fund has to be liquidated. The liquidation process can take 6 to 12 months especially if some of the contributions are in arrears.

Members who are retrenched before the liquidation process commences will receive their retrenchment benefits within the normal agreed periods. Note that if all the members of an employer are retrenched then the law requires the fund to treat it as a termination which will require the sub fund to be liquidated.

Members who are retrenched can apply and may qualify for unemployment insurance.

## **6. Who to contact in order to arrange for suspension of contributions?**

Please contact your Client Relationship Manager (Futura in the case of the Sanlam Unity Umbrella Fund) in order to assist you on this process.

## **7. Bargaining Council Funds**

This arrangement is a fund arrangement that will be sanctioned by the FSCA in terms of the Pension Funds Act. Employers that are a part of a Bargaining Council Funds will require additional approvals from the Bargaining Council. The fund will engage with and enter into a suspension arrangement on the understanding that it will be approved or condoned by the relevant Bargaining Council.

Sanlam Umbrella Fund

30 March 2020