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NATIONAL PENSION COMMISSION
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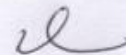
REGULATION ON ANNUITY UNDER SECTION 4.1 (B) OF THE PENSION REFORM ACT 2004

1.0 INTRODUCTION

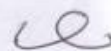
- 1.1 This regulation is jointly issued by National Insurance Commission (NAICOM) and the National Pension Commission (PenCom) for the purpose of giving effect to the provisions of the Pension Reform Act (PRA) 2004 as it relates to Life Annuity.
- 1.2 It is the primary responsibility of the National Insurance Commission to regulate the Annuity market.
- 1.3 It is the statutory responsibility of the National Pension Commission to ensure that a retiree receives his or her retirement benefit as and when due in accordance with Pension Reform Act 2004.
- 1.4 The National Insurance Commission and the National Pension Commission are to ensure effective enforcement of this Regulation and the realization of the above responsibilities.
- 1.5 This regulation specifies the modalities for the administration of retirement benefits in respect of retirees who have chosen Life Annuity under the Contributory Pension Scheme as contained in the Pension Reform Act 2004 herein referred to as Retiree Life Annuity.
- 1.6 While a retiring employee is allowed to purchase Life Annuity or Programmed Withdrawal or a combination of both, he or she shall not be compelled by any person or entity to choose between Life Annuity and Programmed Withdrawal.

2.0 GENERAL REQUIREMENT AND PROCEDURES

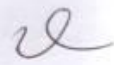
- 2.1 Annuity contracts, for the purpose of this regulation, shall be Life Annuity for the lifetime of the retiree.
- 2.2 The Retiree shall, within six (6) months to his/her retirement notify his/her PFA of the intention to retire from service in line with the Regulation on the Administration of Retirement Benefits issued by PenCom.
- 2.3 For the purpose of obtaining Annuity quotes from insurers, the PFA shall, within 7 days of receipt of application, provide to the retiring employee, the following information certified from its records in respect of the retiree:-
- a) Current RSA balance;
 - b) RSA balance projected to the date of retirement based on the monthly contribution;
 - c) Date of Birth;
 - d) Date of retirement;
 - e) Gender of the retiree;
 - f) Certified true copy of retiree's last pay slip; and
 - g) Other relevant documentation. E.g passport photograph, contact address, etc.
- 2.4 Where a retiree chooses the Retiree Life Annuity, the retiree shall, based on the RSA balance projected to the date of retirement, obtain quotes for Life Annuity from the list of approved eligible Insurance Companies, as will be provided every quarter by NAICOM.
- 2.5 The retiree shall obtain a provisional agreement from his chosen insurance company and submit same to his/her PFA within the 6 months notice period mentioned in 2.2 above.
- 2.6 Where a retiree has purchased life annuity, he/she shall not be allowed to change to programmed withdrawal.



- 2.7 Where a retiree chooses to withdraw a lump sum before purchasing annuity, the amount required to purchase annuity shall first be determined before any such lump sum withdrawal can be effected.
- 2.8 Such amount in 2.7 above shall be sufficient to procure an annuity that will not be less than 50% of his annual remuneration as at the date of his retirement as required by the PRA 2004.
- 2.9 Where the RSA balance is inadequate to guarantee at least 50% of the annual remuneration in 2.8 above, such balance shall be applied to procure life annuity for the appropriate feasible monthly/annual amount.
- 2.10 The provisional agreement for the purpose of annuity shall contain the following minimum information:
- a) The name of the proposed annuitant;
 - b) The full bio-data of the proposed annuitant;
 - c) The premium
 - i. With lump-sum; and
 - ii. Without lump-sum
 - d) The agreed monthly/quarterly annuity payments;
 - e) The agreed guaranteed period;
 - f) The expected commencement date;
 - g) The amount of arrears of annuity payments (if any); and
 - h) Retiree's bank details.
- 2.11 The PFA shall, within 7 days from the receipt of application from the retiree, seek approval from PenCom to transfer the agreed premium to the insurer. The requests should be accompanied with a copy of the provisional agreement specified in 2.5 above.
- 2.12 Copies of the approval specified in 2.11 above shall be sent to the PFC and NAICOM by PenCom.



- 2.13 The PFA shall instruct the PFC to issue cheque for the premium approved in 2.11 above, in favour of the insurance company within 7 working days of receipt of approval.
- 2.14 Upon receipt of the cheque from the PFC, the life insurance company shall within 7 days notify the proposed Annuitant of such receipt.
- 2.15 The Annuitant and his chosen life insurance company shall jointly execute an Annuity contract within 21 days from the date of receipt of payment.
- 2.16 The life Insurance Company shall cause a schedule of all policies written to be forwarded to NAICOM not later than 30 days of its execution. NAICOM shall forward a copy of the schedule to PenCom on a quarterly basis.
- 2.17 The life insurance company shall issue a Standing Payment Order to its banker to credit the designated bank account of the retiree for the amount of monthly/quarterly annuity payments.
- 2.18 A schedule containing names of annuitants, amounts of monthly/quarterly payments, banks with account numbers and any other information required, shall be filed with NAICOM not later than 15th of the following month.
- 2.19 All payments to the Annuitant shall be made not later than 25th of every month.
- 2.20 The life insurance company shall maintain separate books of account in respect of the Retiree Life Annuity Funds, which shall be audited annually by a firm of Chartered Accountants.
- 2.21 The retiree shall have the option of changing his/her insurer not earlier than 2 years once the life annuity contract has been executed.



2.22 For the purpose of annuity for retirees, the guaranteed period shall not be less than 10 years. Where the retiree dies within the guaranteed period, the surrender value of the remaining amount within the period shall be paid in lump-sum to the estate of the retiree or named beneficiary.

3.0 ELIGIBILITY OF INSURANCE COMPANIES

3.1 The purchase of annuity for the purpose of retirement benefits shall only be made from a Life insurance company duly licensed by the National Insurance Commission.

3.2 It is mandatory that Life Insurance companies apply to the National Insurance Commission and approval granted before a Retiree Life Annuity product is put on sale.

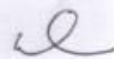
3.3 The application in 3.2 above shall be accompanied by the following:

- i. Mortality table;
- ii. The rates;
- iii. Actuarial reports on the product;
- iv. Samples of benefits derived from table in use; and
- v. Samples of application form and policy documents.

3.4 To qualify for the transaction of annuity business, all statutory filings required by NAICOM must have been complied with.

3.5 The life insurer is required to comply with solvency margin of not less than 30% of the annuity fund duly confirmed by its appointed Actuary approved by NAICOM. The solvency test report by the Actuary along with other statutory annual returns must be filed every year.

3.6 Life insurance companies intending to transact annuity business will be required to file with NAICOM, relevant training and human capital development programmes planned for its employees. These



programmes and evidence of implementation are to be filed half yearly.

- 3.7 Any life insurance company that is yet to comply with the transfer of its legacy pension portfolio as required by the Pension Reform Act (PRA 2004) shall not be allowed to transact the annuity business as relating to Retiree Life Annuity Funds.
- 3.8 Any life insurance company intending to transact annuity business must continue to comply with the PRA 2004 as regards remittance of employees' monthly contributions into the RSA.

4.0 INVESTMENT OF ANNUITY FUNDS

- 4.1 Investments of all funds relating to Retiree Life Annuity shall be recorded in a separate and distinct account from other funds managed by the insurance company.
- 4.2 The following rating requirements shall apply to the investment of Retiree Life Annuity Funds:
 - a) All debt instruments in which Annuity Funds are invested shall have a minimum investment grade level rating of "BBB" by at least, one (1) recognized Risk Rating Company.
 - b) Any bank/discount house in whose money market instruments, Life Annuity Funds are invested shall have a minimum corporate rating of "A" range by at least, one (1) recognized Risk Rating Company.
 - c) For any debt instrument proposed for listing on the floors of any recognized Securities Exchange through an initial public offer to enjoy Life Annuity Funds investment, it shall have a minimum acceptable rating of "A" range by, at least, one (1) recognized Risk Rating Company.



- d) All ratings shall be undertaken by Rating Companies recognized /registered by the Securities and Exchange Commission under the Investment and Securities Act 1999.
- 4.3 Life insurance companies are encouraged to invest Retiree Life Annuity Funds only in ordinary shares of companies that are rated by at least one (1) recognized Risk Rating Company.
- 4.4 Annuity Funds may be invested in Bonds issued by the Federal Government of Nigeria or Central Bank of Nigeria, if such securities;
- a) Have the full guarantee of the issuer.
 - b) Are readily marketable i.e. listed/proposed for listing on a registered Securities Exchange.
 - c) Are issued in accordance with existing relevant legislation(s).
- 4.5 Annuity Funds may be invested in Bonds issued by any State Governments, provided such securities;
- a) Have the full guarantee of the issuer.
 - b) Are readily marketable i.e. listed/proposed for listing on a registered Securities Exchange.
 - c) Are issued in accordance with existing relevant legislation(s).
 - d) Complies with the rating of other debt instruments.
- 4.6 Annuity Funds may be invested in Nigeria Treasury Bills (NTBs) and certificates issued by the CBN.
- 4.7 Annuity Funds may be invested in debt securities, redeemable preference shares and other debt instruments issued by corporate entities if:
- a) They have clearly defined term/maturity features, periodic and terminal payout, as well as interim, terminal and contingency redemption features except for zero coupon and convertible bonds.
 - b) They must have been lawfully issued.
 - c) They are listed/quoted on a registered Securities Exchange.
- 4.8 Annuity Funds may be invested in ordinary shares of public limited companies if:

- a) The public limited company has made taxable profits and paid dividends/issued bonus shares for at least, three (3) in the five (5) years preceding investment of the funds.
 - b) The issuing companies' shares are listed/quoted on a registered Securities Exchange.
- 4.9 Annuity Funds may be invested in deposits and financial instruments (Bankers Acceptances and Certificate of Deposit) of Banks and Discount Houses if:
- a) Such deposits and financial instruments issued by the Bank/Discount House on its own behalf are traded on a Money Market Electronic Platform open to the public and approved by the CBN or Money Market Association of Nigeria.
 - b) Such financial instrument issued by the Bank/Discount House on behalf of a third party, carries the guarantee of such Bank/Discount House.
- 4.10 Annuity Funds may be invested in certificates of Close-End Investment funds or hybrid investment funds if:
- a) The company managing the funds has minimum of three (3) years continuous experience managing assets of third parties.
 - b) They have memorandum listing on a registered Securities Exchange.
 - c) The fund has made taxable profits for at least three (3) years immediately preceding the investment.
 - d) The fund has paid dividends or issued bonuses for at least 3 years immediately preceding the investment.
 - e) In the case of newly floated funds, the Principal Fund Managers have not less than 10 years relevant experience.
- 4.11 Annuity Funds may be invested in units sold by open-end funds or specialist open-end funds if;
- a) The company managing the funds has minimum of three (3) years continuous experience managing assets of third parties.
 - b) Net asset value of the fund should not be less than N2billion.



c) The fund has made taxable profits for, at least, three (3) years immediately preceding the investment.

d) The fund has paid dividends or issued bonuses for, at least, 3 years immediately preceding the investment.

4.12 Annuity Funds may be invested directly in real estate. The investment in real estate, however, should not be more than 35% of the whole Annuity Fund.

4.12.1 Where a single property or collection of properties in a single location constitutes more than 10% of the total investment in real estate (either by acquisition or valuation), the insurance company is required to seek the approval of NAICOM.

4.12.2 Annuity Funds in real estate may be invested through instruments such as Mortgage Backed Securities (MBS) and Real Estate Investment Trusts (REITs).

i. Such MBS above shall satisfy the following requirements:

a) The face value of the issue is not less than N1 billion.

b) The market value of the mortgages securitizing the issued MBS shall not be lower than the ratio 1.5:1.

c) They must be quoted and listed on a registered Securities Exchange.

ii. Such REITs above, shall satisfy the following requirements:

a) The company managing the funds has minimum of three (3) years continuous experience managing assets of third parties.

b) The face value of the issue is not less than N1 billion.

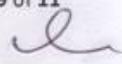
c) The Prospectus shall specifically state that the securities shall be subject to memorandum listing on a recognized Securities Exchange.

d) The fund has made taxable profits for, at least, three (3) years immediately preceding the investment.

e) The fund has paid dividends or issued bonuses for, at least, 3 years immediately preceding the investment.

4.12.3 Annuity Funds may be invested in Asset-Backed Securities, if the issuer and the securities meet the requirements stipulated in *Section 4.12.2* of this Regulation.

4.13 Insurance companies are prohibited from investing Annuity Fund Assets in the shares or any other securities issued by the following:-



- a) Owned shares;
- b) A shareholder of the insurance company.
- c) Subsidiaries or Affiliates of the company or its shareholders. Affiliates for the purpose of this guideline shall mean companies in which it has not less than 10% shareholding.

4.14 Annuity related funds shall not be pledged as collateral for any loan by an insurance company, Director, subsidiary or any related party.

4.15 Insurance companies shall not invest annuity fund assets in any securities/assets or a combination thereof not listed/traded on a registered Security Exchange.

4.16 The investment specified in 4.1 - 4.15 above shall be limited as stated hereunder:

| s/no | Investment | Maximum Percentage |
|------|--------------------------|--------------------|
| 1. | Real Estate | 35% |
| 2. | Equity (Quoted) | 20% |
| 3. | Money Market Instruments | 50% |
| 4. | Corporate Debts | 25% |
| 5. | Government Securities | 100% |
| 6. | Others | 5% |

5.0 RETURNS OF TRANSACTION

5.1 An insurance company shall, in respect of its annuity business, file with the National Insurance Commission, the following returns and as may be specified from time to time.

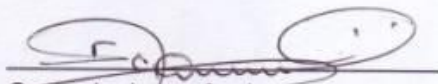
- a. Quarterly Statement of Annuity Business - RLA 001;
- b. Schedule of monthly payments – RLA 002;
- c. Monthly Statement of receipts and payments – RLA 003;

- d. Monthly Schedule of investments – RLA 004, and
- e. Monthly Statements of assets and liabilities – RLA 005;
- f. Annual Audit report;
- g. Annual Solvency Certificate;
- h. Actuarial Valuation reports; and
- i. Initial and half yearly returns on Training and Human Capital development programmes.

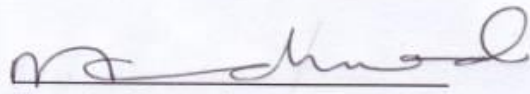
5.2 NAICOM and PenCom shall execute a Memorandum of Understanding (MOU) on exchange of information and other collaborative supervisory initiatives.

6.0 REVIEW

6.1 This regulation shall be subject to regular reviews as and when necessary.



Commissioner for Insurance
National Insurance Commission



Director General
National Pension Commission

