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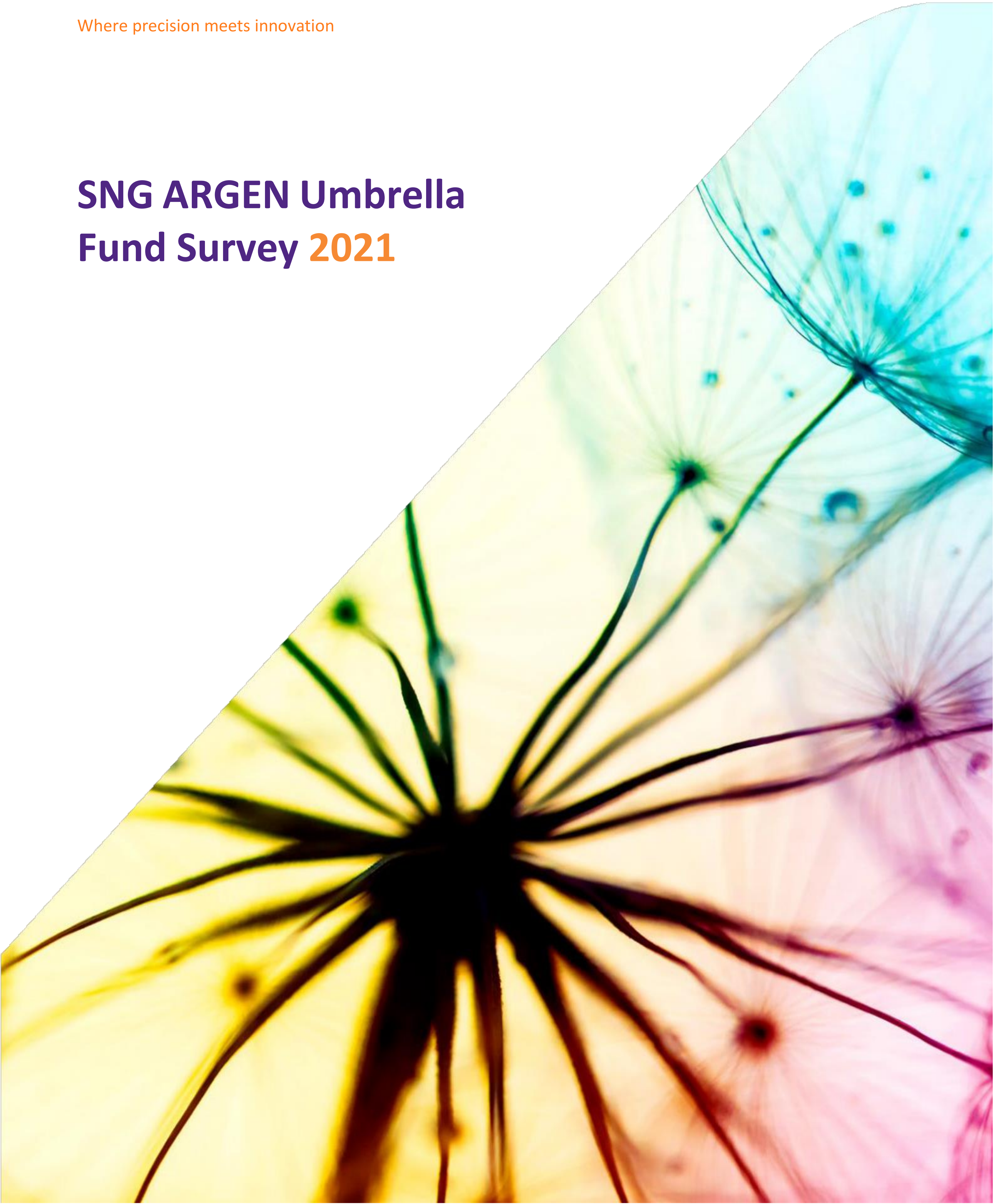
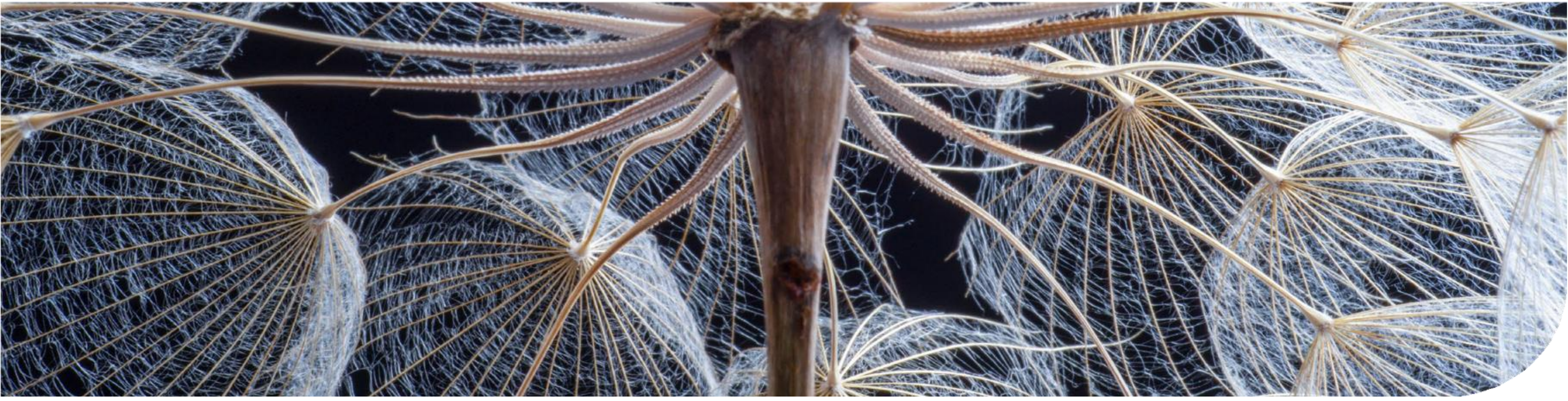
Where precision meets innovation

SNG ARGEN Umbrella Fund Survey 2021





Contents

Executive summary

Welcome to the inaugural SNG ARGEN Umbrella Fund Survey!

The survey provides comparisons of the umbrella fund offerings that are available for selection by key stakeholders using independently sourced information. The survey is aimed at existing stakeholders who wish to compare their fund against others and potential stakeholders who wish to transfer to an umbrella fund. The information provided within this survey will provide you the necessary insights to help you make the right decision in the best interest of members.

The survey covers active commercial umbrella funds open for new business and includes responses from 80% of the 10 largest funds based on assets and membership. Funds that are only available to certain employer groups or industries as well as sector- and union Funds are excluded from this survey.

The survey results and accompanying articles offer insight into the different aspects of umbrella funds covering demographics, governance, administration, investments and costs.

Introduction to umbrella funds

There has been a significant move to umbrella funds over the past decade and it is useful to recap on the structure of these funds. Funds differ by offering various options to employers and could have specific strengths and weaknesses. When comparing Funds, cost should not be the sole criteria reviewed, but rather, other criteria such as quality of governance and methods and quality of communication to members should also be considered.

Demographics

Throughout the retirement fund industry, one hears talk about the increasing coverage of umbrella funds, but what do the numbers suggest? As part of the survey, we investigated the demographics of umbrella funds, looking at membership, participating employers, total assets and contributions.

In this section of the survey, we see how the commercial umbrella fund market is dominated by five fund sponsors, indicating that the majority of participating employers opt to join one of these five funds. This naturally leads to the question: “Is bigger better?”. In order to attempt to answer this question, we considered a number of factors, such as: governance, quality of administration, investment versatility, risk benefits and costs and further assess how each of these factors relate to fund size.

Governance

The approach to governance may vary significantly from one fund to the next. One fund may insist on having all their bases fully covered with belts and braces, while the next may, in the interest of saving costs, be satisfied with meeting the minimum standards only.

In this highly regulated environment, the question is not so much if the fund meets the minimum governance requirements, but rather, whether the Trustees’ approach to governance aligns with that of the employer. We therefore compare the different approaches to governance and discuss the specific governance aspects that should be considered by employers to ensure their specific needs and expectations are met when choosing an umbrella fund.

Administration

Umbrella funds offer a “plug and play” solution to employers who wish to offer retirement benefits to their employees.

In this survey, we compare the difficult decision of choosing the correct fund akin to buying a new tech device. We highlight some of the important device features for consideration namely, admission criteria, administrative fees, contribution rates and benefit types. We also touch on the initial set-up and ongoing management of your “device”.

In the end, it’s about choosing the “device” that will give you the best value for money without the intimidation of technical terms and fancy marketing techniques.

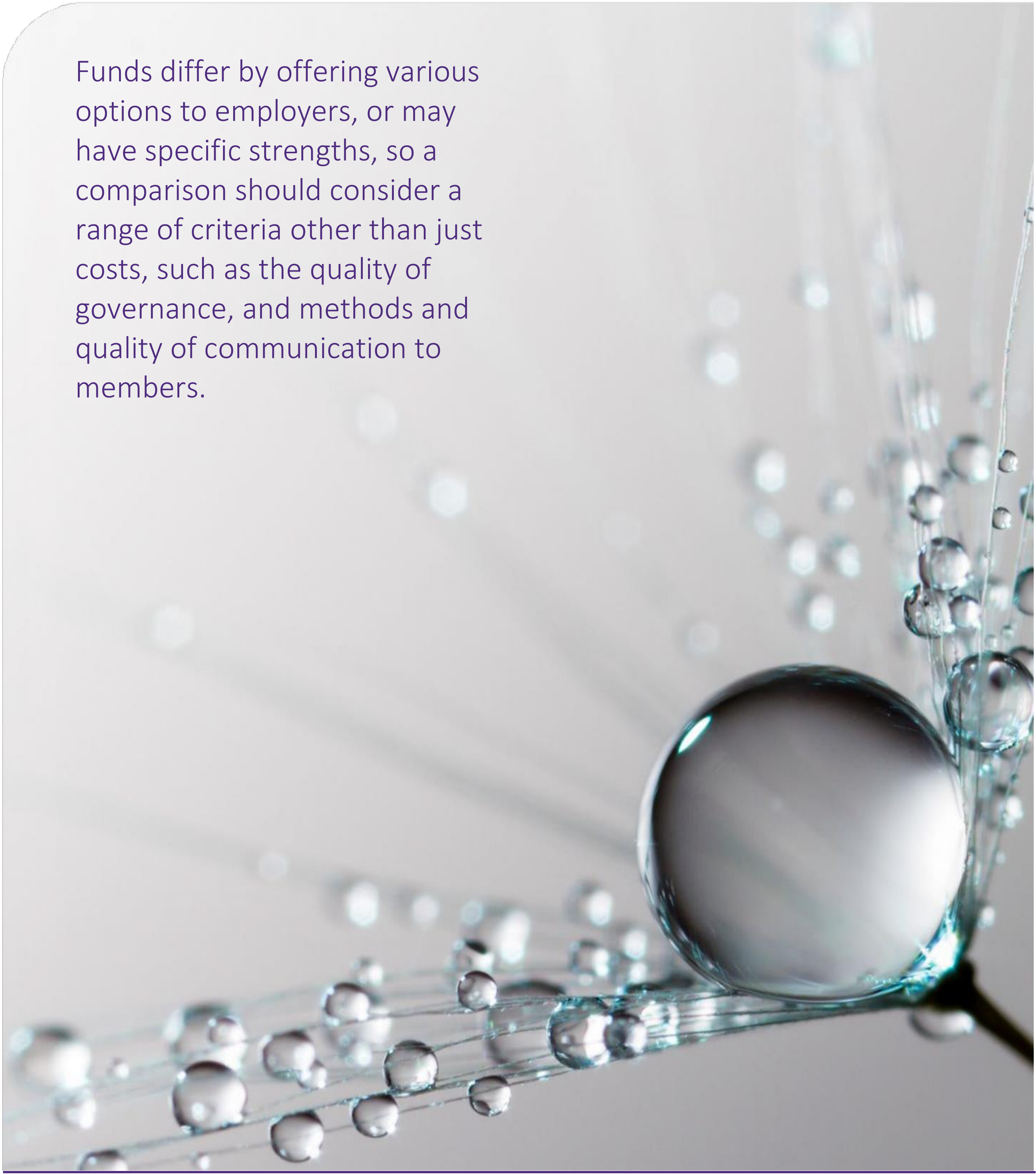
Investments

Investment returns, along with the contributions made, have the greatest impact on the final retirement benefits that employees will receive. It is important that umbrella funds have sufficient investment options available for employees to select the investment portfolio(s) that best meet their investment risk and return requirements. Each umbrella fund must also have a default investment strategy for those employees who do not wish to make investment decisions. It is crucial that the employer understands what the default investment strategy objectives are and if these meet the requirements of their employees.

Costs

Costs have a direct impact on a member's expected retirement benefit and is probably the single most important factor influencing an employer's decision when choosing an umbrella fund. This article covers important aspects to consider (i) when analysing and comparing fees, e.g. fee components, charging methods; (ii) the impact on individual members, etc., as well as (iii) an analysis of the RSC disclosure standard.

The comparison of funds' RSC quotes presents interesting findings and highlights that fee comparisons should always be based on a like-for-like basis from umbrella fund providers, taking into account all relevant fee components.



Survey background

A lot has been said and written about umbrella funds over the past few years, especially the significant move of both existing standalone funds and new retirement arrangements to umbrella funds.

GJ Mellet

However, articles may be biased to look favourably on certain funds or aspects where a fund may be particularly strong. Opinion pieces may therefore not be objective or independent.

"There is no doubt that commercial umbrella funds will continue to play a pivotal role in the South African retirement industry.

SNG ARGEN Actuarial Solutions undertook an independent survey into the largest umbrella fund providers in South Africa, surveying the funds on a number of aspects."

Being independent from any administrators, risk or investment providers, SNG ARGEN's Umbrella Fund Survey provides independent information and comparisons of the available umbrella fund offerings although some of our actuaries are the appointed valuators of commercial umbrella funds. This survey will assist existing and potential stakeholders as well as decision makers involved in umbrella fund arrangements to make the right decisions in the best interest of their employees and members. The survey covers active commercial umbrella funds open for new business, excluding sector- and union funds. All registered type A umbrella funds meeting the minimum criteria in respect of the fund's asset base and the number of participating employers and members, according to the publicly available FSCA database, were identified and invited to participate in the survey. We received responses in respect of 27 funds represented by 14 umbrella fund service providers.

The responses represent 80% of the 10 largest funds in respect of assets and membership.

This survey is not intended to analyse the advantages or disadvantages of the various retirement arrangements, but rather to compare and contrast the main umbrella funds available to employers.

For the purposes of presenting the survey results, the pension and provident fund of each umbrella fund provider were combined.

This is in line with the retirement fund reforms that came into effect on 1 March 2021, also known as T-Day, which allows for the annuitisation of provident funds and basically eliminates the differences between pension and provident funds for benefit accrual after T-Day. It is expected that most providers will over time merge their respective pension and provident funds into a single fund, allowing for vested provident fund benefits to benefit from economies of scale. The combination of the pension and provident results allows for the total membership, assets, etc. of both funds, while other factors, e.g. number of trustees or investment return targets, were based on the maximum of the responses provided for the separate funds.

We would like to express our appreciation to the Boards and Administrators of the following funds (in alphabetical order of administrator) for participating in the SNG ARGEN Umbrella Fund Survey:

Administrator	Fund(s)
10X Investment (Pty) Ltd	10X Umbrella Pension and Provident Funds
Acravest (Pty) Ltd	iRetire Pension and Provident Funds
Alexander Forbes Financial Services (Pty) Ltd	Alexander Forbes Retirement Fund (Pension and Provident Sections)
Fedgroup Employee Benefits (Pty) Ltd	Distinction Umbrella Pension and Provident Funds
GTC Employee Benefits Administration (Pty) Ltd	GTC Group Pension and Provident Funds
Liberty Group Limited	Corporate Selection Umbrella Pension and Retirement Funds
Momentum Metropolitan Life Limited	FundsAtWork Umbrella Pension and Provident Funds
NMG Consultants and Actuaries Administrators (Pty) Ltd	NMG Umbrella SmartFund (Pension and Provident Sections)
Robson Savage (Pty) Ltd	Acumen Pension and Provident Funds
Sanlam Life Insurance Limited	Sanlam Umbrella Pension and Provident Funds
Self-Administered	Sentinel Retirement Fund
Sygnia Benefit Administrators (Pty) Ltd	Sygnia Umbrella Retirement Fund (Pension and Provident Sections)
Tennant Administration Services	Diversified Umbrella Pension and Provident Funds
WA Davidson Financial Services (Pty) Ltd	Consolidated Benefit Pension and Provident Funds

The results of the SNG ARGEN Umbrella Fund Survey are published anonymously and where specific funds or providers are mentioned, it should be noted that this information is available in the public domain.

The survey results and accompanying articles offer insight into the different aspects of umbrella funds for all stakeholders (e.g. employers, members, umbrella fund providers, trustees, brokers) covering the following main topics:

- Introduction to umbrella funds;
- Demographics;
- Governance;
- Administration;
- Investments; and
- Costs.

Per section, we start with a brief interpretation of the results, followed by a summary of the responses relating to that aspect of the survey.

Interested parties are welcome to contact us for interviews, questions, comments and suggestions:

e umbrellasurvey@sng-argen.com

w www.umbrellafundsurvey.co.za

Introduction to umbrella funds

"There has been a significant move to umbrella funds in recent years, with boards of trustees and employers deciding to either start a new fund, or to transfer their existing retirement arrangement into an umbrella fund."

Tommie Doubell

Reasons for the move have varied, but can mainly be attributed to lower costs and a reduction in the time required from employees acting as trustees on funds.

What is an umbrella fund?

People save for retirement in various ways, but to take advantage of the tax benefits offered by SARS, such savings should take place within a registered and approved retirement vehicle, such as a retirement annuity or pension or provident fund. Employers normally prefer to offer a retirement fund to their employees, which offers fairly similar benefits to all eligible employees. These employees are referred to as members of the retirement fund. The benefits offered would mainly be a pension or lump sum on retirement as a result of contributions towards retirement savings as well as benefits on death and disability of the member (or dependants).

Retirement funds can be either a standalone fund, where the fund is administered separately and governed by its own set of rules and board of trustees, or an umbrella fund, where many different employers each have their own "sub-fund" within a larger umbrella fund. Standalone funds need to each have their own administrator, auditor, board of trustees, etc., while an umbrella fund only needs to have one such set of service providers. In an umbrella fund, an employer can become a "participating employer", where contributions will be made in a sub-fund of an umbrella fund, through which employees will then receive their benefits.

Umbrella funds are normally set up by insurers or other financial institutions, to offer a retirement solution to employers.

The organisation which sets up the umbrella fund is called the "sponsor" and is normally also the administrator of the fund.

An umbrella fund's board of trustees is responsible for the fund and will appoint various service providers to enable the fund to function effectively, such as investment managers, insurers (to provide risk cover), actuaries and auditors.

Within an umbrella fund a participating employer can select the benefits which apply to its employees, such as the contribution rates, death - and/or disability benefits, investment options, etc. There are therefore many different sub-funds in an umbrella fund, each having its own assets, contributions and benefits applicable to its members.

Because of the larger size of umbrella funds, compared to standalone funds, the costs of running the fund can be spread over more members, which could lead to lower costs. Other potential savings come from the reduced amount of time that employees, who act as trustees in a standalone fund, may need to spend on fund-related matters – in an umbrella fund these duties are performed by trustees appointed by the sponsor. Cost savings are not always guaranteed, since the cost of complex benefits or investment structures in umbrella funds may be high, and employees may still spend time acting in a "management committee", which acts as an advisory body representing the members and employer of a sub-fund.

How do umbrella funds differ?

Umbrella funds vary widely – in size and number of members, in the benefit and investment options offered, costs, quality of governance and service levels, communication style to members, etc. Within the same umbrella fund there could also be a vast range of different choices of investment and benefit options to consider. These could be simple and straight-forward, where all of the investment and insurance benefits are provided by the sponsor's company, or, on the other side of the spectrum, members may be able to choose from a range of investment options from different asset managers, or the participating employer may choose to have the option to shop around for the best priced risk benefits.

Typically, the simplified structures which offer the sponsor's products will be relatively cheap and cost-effective, while a participating employer will need to pay more if they want to offer all the bells and whistles to their members. Any additional cost means less money can go towards the retirement benefits. Employers need to decide on the balance between cost and flexibility.

Some employers may choose a large umbrella fund, or perhaps a familiar brand as a sponsor, so that members know that they deal with a well-known entity backing the fund. Others may prefer to deal with a smaller fund, where, they may be a more prominent entity in the fund and able to approach the sponsor more directly. For others, cost may be the most important issue. Whichever factors are important to an employer or board of trustees when considering a move to an umbrella arrangement, there is definitely an umbrella fund that offers the flexibility and benefits required by each employer.

How do you evaluate umbrella funds?

There are a number of important factors which differentiate umbrella funds. This survey attempts to provide information about some of these factors so that the different offerings can be contrasted.

Underlying these, the following could be considered:

Available options

It has already been mentioned that some umbrella funds offer a wide range of options to participating employers. Others choose to limit the options and to offer a simplified option, often at lower cost. Employers need to decide whether the added flexibility is worth the price that is charged for it.

Members are also often not equipped to deal with too many options. If, for example, members are able to choose where to invest their money, some may make poor investment decisions, or the employer may need to provide further services to enable members to access support in making these decisions. More options are therefore not always a good thing, even if it is available at no extra cost.

An option which is becoming more and more important, is the ability for a member to retire and receive a pension directly from the umbrella fund.

Previously the norm had been to provide the retirement capital to a retiree, who would then need to shop around to purchase an appropriate pension from an insurer. A more appropriate option, arguably, would be for the umbrella fund itself to provide a pension on retirement, thus reducing the complexity of choosing a suitable pension, with potential cost benefits.

Governance and independence

It is important that retirement savings are secure and that proper guidelines are being followed in all aspects of running the fund – administration, investments, communication, etc. An experienced and competent board of trustees is therefore crucial to the success of running an umbrella fund. There is an ever-increasing burden of compliance on retirement funds, as retirement funds are regulated by the Financial Sector Conduct Authority (the FSCA) to ensure that retirement savings are well protected.

There is a risk that a sponsor could act in their own self-interest and try to maximise the profit from the umbrella fund, by only offering its own investment funds and insurance products at relatively high fees and cost.

A board of trustees, who lacks independence, may not be able to challenge fees, or may not act if there is poor administration or service levels, thereby leading to a poor result for the members of the fund. Since it is not a simple process to move to a new fund, members and employers may effectively be locked into an unfavourable arrangement.

The independence of board members is therefore crucial to be able to challenge any areas where the fund is not operating efficiently. An evaluation of the people on the board, their experience and also their independence from the sponsor, would aid in understanding the governance risks within a sponsor. Queries could also be made about the complaints record of a fund, or of the outcome of compliance visits by the FSCA.

Communication

Members of retirement funds often do not have a good understanding of all the aspects of their retirement fund benefits, for example, before retirement, members need to understand the death and disability benefits offered while also considering the impact of investment returns in different investment portfolios. All this while keeping in mind that they need to save enough for retirement, or take action to save more if they face a shortfall.

Good communication of both the current state of the fund and members' share in it, as well as providing information about the potential future outcome in retirement, is important. Funds differ in the information that is provided, as well as the format in which it is done. Some funds provide individualised information on a website or even an app, while others may only rely on annual paper-based member benefit statements, providing the minimum information. An analysis of the format and quality of information provided to members could be useful in deciding which umbrella fund to use.

Costs

The fees charged for services in an umbrella fund is a very important factor to members, since it impacts the amount of money remaining to them to provide for their benefits. Because of all of the factors mentioned above, this is an extremely difficult element to analyse. Previously it was also difficult to compare between funds, since there was no standardised methodology available to do so.

However, since 2019, all members of ASISA, an industry body, are required to quote costs in a standardised way. The Retirement Savings Cost Standard is a standardised metric which shows the different cost elements in a consistent manner, making it much easier to compare.

Although costs are important, it should not be solely used to make decisions without combining it with the factors mentioned above - members should have a useful and appropriate retirement funding.

Demographics

"This section of the market is dominated by the five largest commercial umbrella funds, representing about 85% of the total membership in commercial umbrella funds."

Gerhard Myburgh

A lot has been said about the increasing coverage of umbrella funds, but what do the numbers suggest? In this article, we will investigate the demographics of umbrella funds in terms of the membership, participating employers, total assets and contributions.

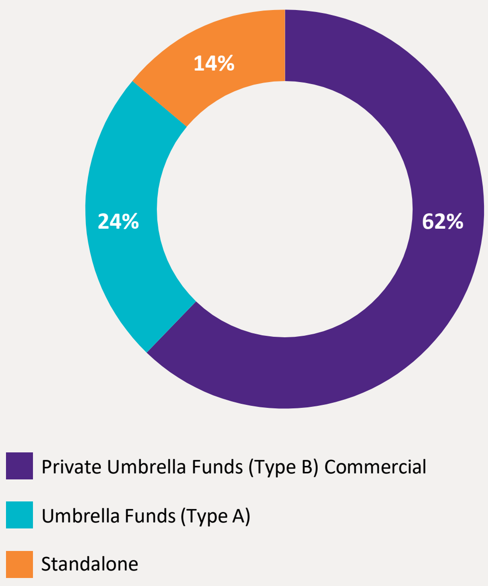
But are umbrella funds currently dominating the market? Well, yes and no.

Looking at the Financial Sector Conduct Authority's (FSCA) database of active funds, we see that **the combination of private umbrella funds[i] and standalone funds still represent the largest portion** (about 76%) of all retirement fund membership provided through an employer (i.e., excluding retirement annuities).

Currently, Type A umbrella funds, also known as commercial umbrella funds, cover about a quarter of this market. So, yes, umbrella funds dominate the retirement fund market in terms of membership. However, this is mostly represented by private umbrella funds, which we consider to be standalone funds with different sub-entities (i.e., participating employers). It will however be interesting to monitor this over the next few years to see if there is a substantial increase in the market share held by commercial umbrella funds.

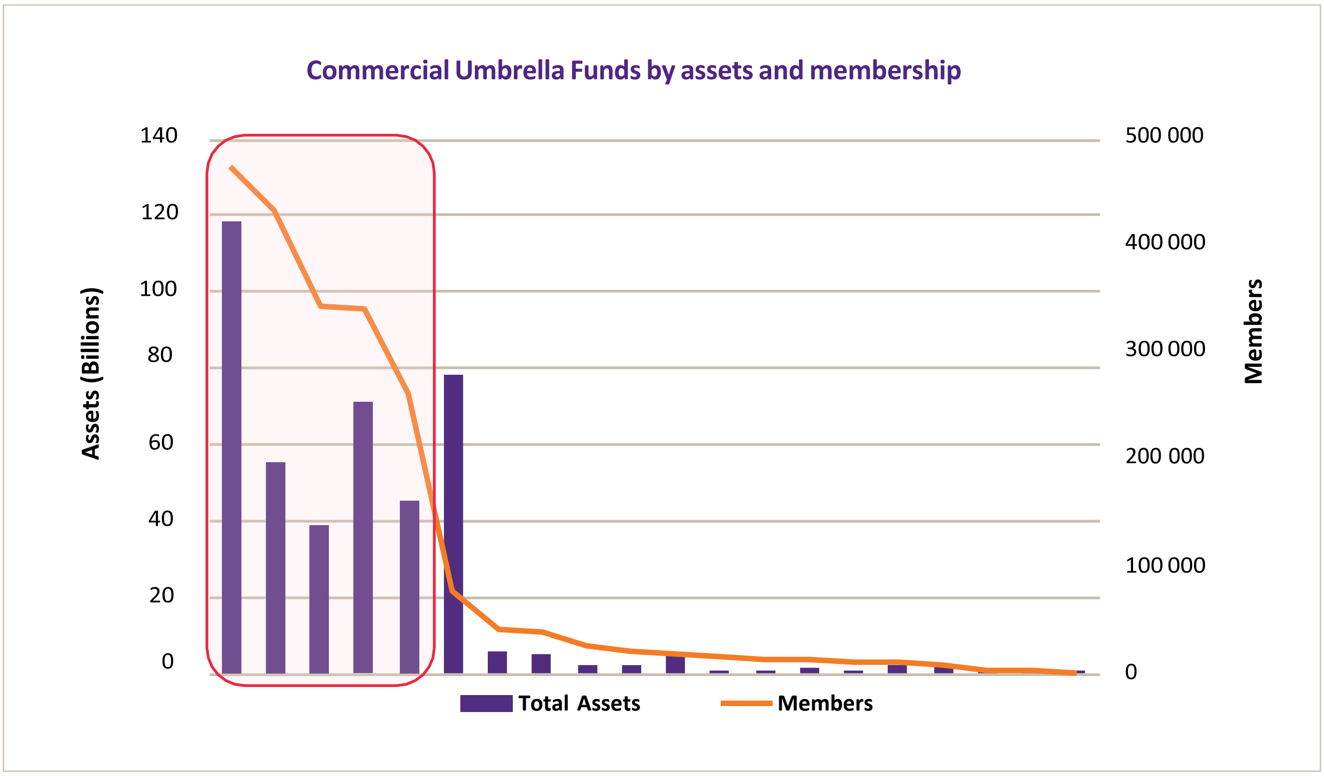
For now, let's focus on commercial umbrella funds. This section of the market is dominated by the five largest commercial umbrella funds, representing about 85% of the total membership in commercial umbrella funds.

These are the umbrella funds offered by Alexander Forbes, Liberty, Momentum, Old Mutual and Sanlam.



Retirement fund membership, split by type of fund

[i]We refer to Type B umbrella funds as "private", since all its participating employers are linked in some way (e.g. at industry- or union-level) and only employers who are linked in this way are eligible to participate.



Participating employers

> "...the average size of the participating employers depends on the balance between blue- and white-collar companies."

The observations above are substantiated when looking at the number of participating employers in these umbrella funds – the five large funds each have between 1 500 to 9 000 participating employers, with the next largest in terms of employers being only about 500.

Employer sizes

In terms of the number of members per participating employer, the average appears to lie between 60 and 80 members per employer. It is interesting to note that the average size of the participating employers depends on the balance between blue- and white-collar companies. For example, we found that where an umbrella fund has a greater proportion of blue-collar participating employers, the larger the number of members per participating employer. This makes sense, since you would expect mining or manufacturing employers to have a larger membership than, say, a financial services company.

One would think that the size of the participating employers would also be influenced by the minimum number of members required for an employer to join the umbrella fund, but this does not appear to be the case. Our survey showed that many of the umbrella funds have no limit in terms of minimum membership, and where there are limits, these tend to be very low (two or four members). There were however a few exceptions that require a minimum of 20 members, or even 40 that was noted in a single case.

Geographical areas

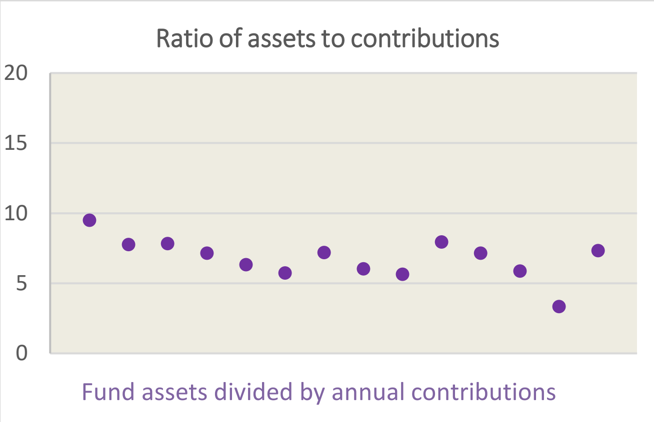
In terms of the geographical dispersion of participating employers, the five largest umbrella funds mentioned earlier, are all offered by large corporates with a national footprint and are therefore naturally not bound to any specific geographical area. This is also generally the case for most of the other umbrella funds, especially where the sponsors of these funds are well-known financial institutions. It appears that umbrella funds are only really confined to a specific geographical region where the administrator/sponsor is perhaps a less familiar name to the public and has a limited geographical footprint.

Contributions

> "… at this time, it does not appear as if any of the small or new umbrella funds are gaining a significant market share."

Given that membership and contributions are directly correlated with one another, it is no surprise that there is also a vast difference between the monthly contributions made towards the big five umbrella funds and the rest. In fact, the average contributions flowing into the big five is approximately R 660 million per month compared to an approximate average of R 60 million for the other funds.

What is interesting to note is that the ratio of total assets to contributions is fairly stable across all funds considered. A low ratio of assets to contributions could imply either a lowasset base (e.g., in the case of a fairly new fund) or a newly established but fast-growing fund.



Despite the various factors that could impact this ratio, at this time it does not appear as if any of the small or new umbrella funds are gaining a significant market share.

Membership

In the overview, we looked at the active membership of umbrella funds, but what about other member categories? Do any of the funds make provision for pensioners, and if so, do members generally elect to receive a pension from the funds after retirement? What about paid-up members and unclaimed benefits?

Pensioners

Out of the 14 funds that participated in the survey, 6 provide for the payment of living annuities from the fund and of these funds, two also provide for the payment of guaranteed (life) annuities. Only one of these two funds actually had pensioners in the fund at the time of conducting the survey. This fund coincidently was also the only one to have a pensioner pool of any significance, with some 33 000 in-fund pensioners. Only four other funds had pensioners in the form of living annuitants, with numbers ranging from 11 to 340 pensioners.

One possible explanation for these low figures is that in-fund living annuities may have only recently been introduced as part of the fund's offerings and members are not yet fully aware of this option. New default annuity strategies which propose in-fund annuities may lead to an increase in in-fund pensioners in future. Another explanation could be that some of the umbrella fund providers are insurance companies with an existing annuity business, allowing easy access to an annuity within the same company.

Unclaimed benefits

The number of unclaimed benefits in the umbrella funds that participated in the survey varies enormously, from less than 50 to more than 50 000. There is also no clear correlation between the number of unclaimed benefits and the active membership of the funds, with some of the big five having less than 20 unclaimed benefits.

The reasons for the large variation in the number of unclaimed benefits are unclear. It is possible that some funds prefer to retain unclaimed benefits and take it upon themselves to monitor the tracing and payment of these members, whereas other funds perhaps prefer passing on this responsibility to an unclaimed benefits fund.

Paid-up members

Most of the funds that participated in the survey had paid-up members, but as with the unclaimed benefits, showed no correlation to the size of the fund. One can probably expect the number of paid-up members to also increase into the future with the introduction of Regulation 38, which came into effect on 1 March 2019, and allows benefits to be preserved within a fund.

Is bigger better?

> "… is the herd correct and do you go for one of the well-known giants, or do you select one of the smaller funds in the hope of a more personalised offering and possibly even better service?"

Now that we have considered what the umbrella funds in the commercial market look like in terms of size and membership, let's see if this can aid in fund selection. Here is the key question: is bigger better?

In answering this question, there are a number of factors to consider, such as: governance, quality of administration, investment versatility, risk benefits and costs, which is discussed in more detail within the separate articles collated in this survey. In this article, we specifically consider how each of these factors relate to fund size.

Governance

Based on the survey, there is no discernible difference between the overall number of trustees and independent trustees appointed to large or smaller umbrella funds. As one would expect, we found that the fidelity cover held by each fund was directly related to the size of the fund and none (big or small) appear to be under-insured.

In terms of actuarial overview, most of the big five umbrella funds do not submit statutory valuations to the FSCA (i.e., they apply for valuation exemption) and only one has an independent actuary appointed as valuator to its fund(s). In the other cases, all actuarial oversight is performed by internal actuaries or actuaries employed by a subsidiary company. On the other end of the spectrum, some of the smaller funds have statutory- and interim valuations performed by independent actuaries, as an external check on the funds' operations and administration.

Administration

The survey shows that in terms of the administration services offered, there is also no notable difference between large and small umbrella funds – all allow for different contribution categories and provides individual member information through a web portal. The method of charging administration fees is either a fixed fee per member or a percentage of salary or a blend of the two.

The distinguishing factor would therefore be the quality of administration services, which can be very subjective. As an employer considering which umbrella fund to join, there could be a temptation to join one of the well-known sponsors' funds, as evidenced by the size of the large funds, even though it could be possible to receive better service in a smaller fund. In addition to the above considerations, an employer should also consider the level of oversight and the independency thereof, pointing back to the quality of governance and independent oversight by independent trustees or actuaries. In the end, one has to be comfortable that your chosen fund administrator will be diligent and professional in performing their duties.

Investments

All of the umbrella funds that participated in the survey offered life-staging investment strategies as well as individual member investment choices. We found that some of the smaller funds offer the same variety of choices of asset managers and portfolios as offered by the larger funds.

One should however be aware that, where the fund sponsor has its own investment management division or subsidiary, their investment offering will naturally be geared towards their own interests. For example, most of the portfolios that members will be able to choose from, will be in-house portfolios, as the other investment managers represent the competition and members would be encourage to choose from the in-house portfolios. We also found that the default investment portfolio in such funds is most likely to be one of the in-house portfolios.

With most of a fund's membership likely to be invested in this default portfolio, one needs to be comfortable that this portfolio is up to par with those available in the market, or as a participating employer, be allowed to select your own default portfolio.

Insured benefits

In terms of the insurance of the risk benefits offered, almost all of the umbrella funds that participated in the survey, allowed participating employers to select from different insurers. However, as with the investment options, this is often geared towards (or even limited to) in-house offerings where the sponsor is also linked to a life insurer. Therefore, if one elects to join a fund with limited insurance options, one has to be comfortable that the applicable insurer will provide competitive rates, now and into the future.

Conclusion

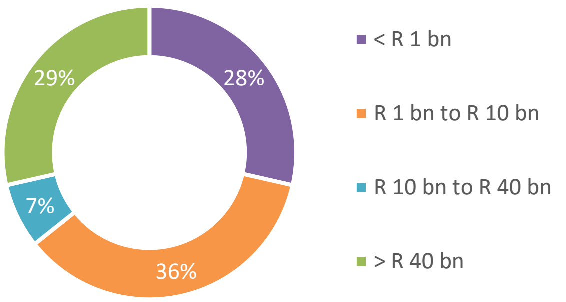
In this article, we have seen that when it comes to selecting a commercial umbrella fund, you stand before one big question: is the herd correct and do you go for one of the well-known giants, or do you select one of the smaller funds in the hope of a more personalised offering and possibly even better service? We asked: "is bigger better"?

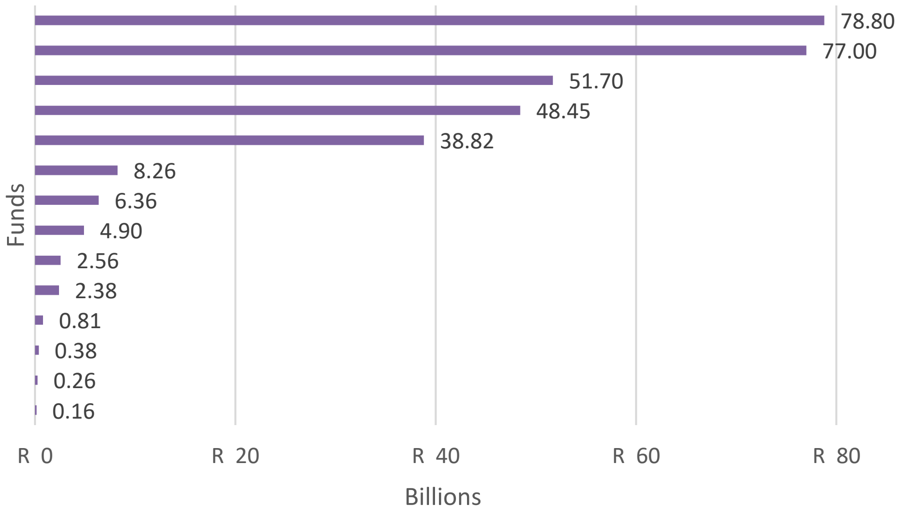
We found that (on paper at least) in terms of governance, administration, investments and reinsurance, there is no discernible difference between the big and smaller funds. One however needs to be aware of potential conflicts of interest present in your "one-stop-shop" funds, where there may be some pressure to make use of the sponsor's investment, advisory and insurance services.

It therefore appears bigger is not necessarily better and that it will probably boil down to cost – and understanding which provider is able to meet all of your specific needs, provide good service and do this in the most cost-efficient manner.

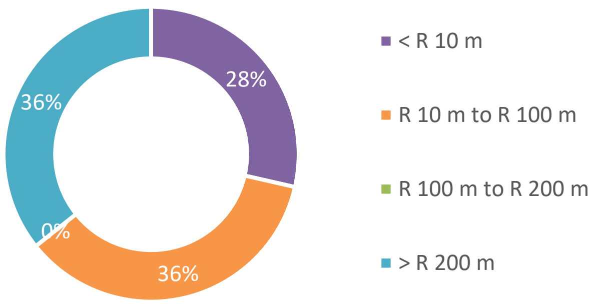
Survey Results

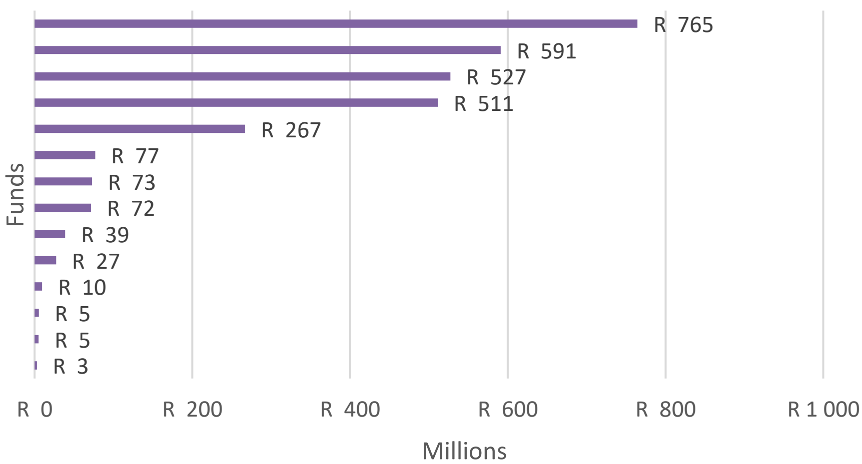
1. Total assets (R'bn)



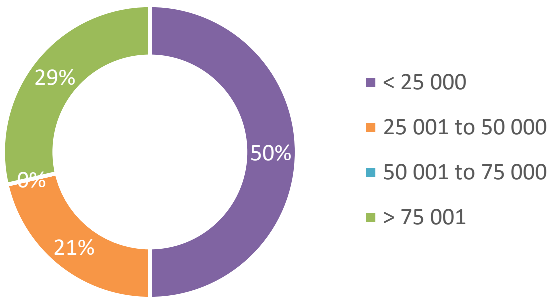


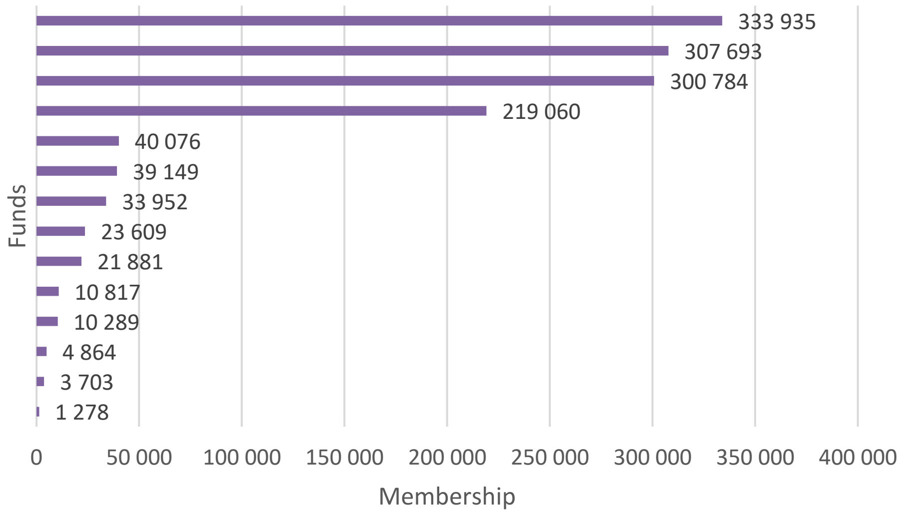
2. Gross total monthly contributions receivable (R'm)





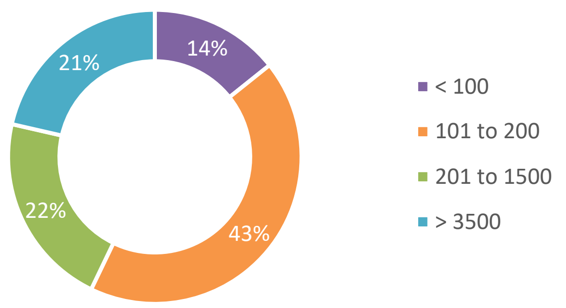
3. Number of active members

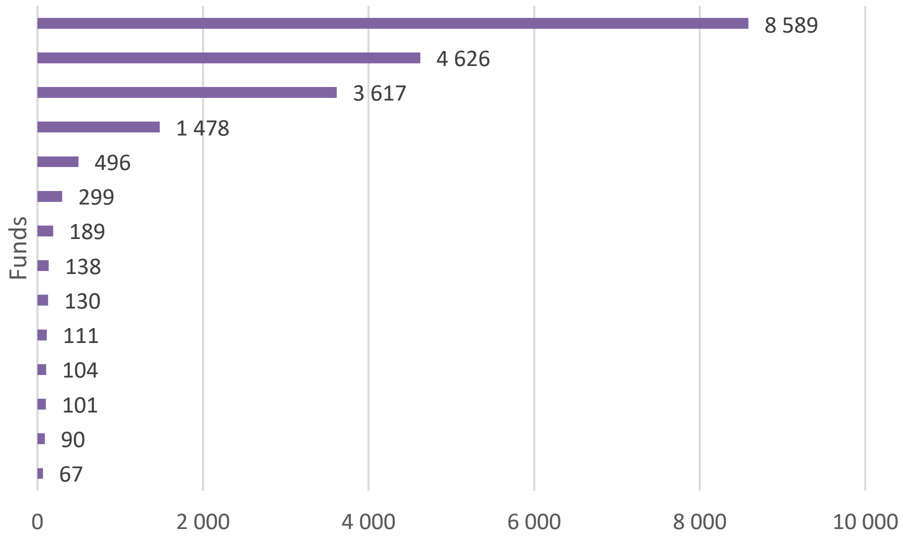




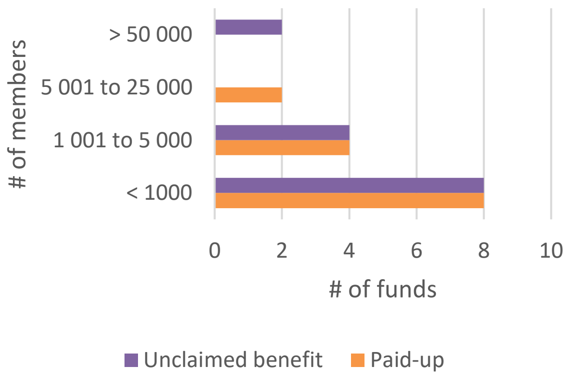
4. Assets vs members

5. Number of active participating employers

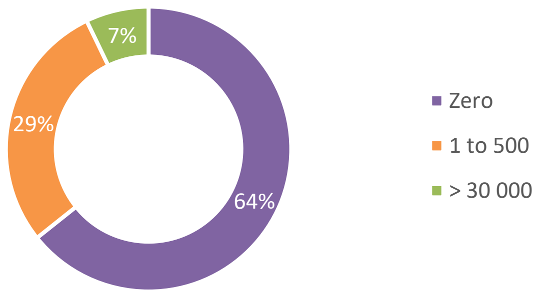




6. Number of Paid-up and Unclaimed benefits



7. Number of pensioners



Governance

Different strokes for different folks – approaches to retirement fund governance.

Corné Heymans

The approach to governance may vary significantly from one fund to the next. One fund may insist on having all their bases fully covered with bells and whistles, while the next may, in the interest of saving costs, be satisfied with only meeting the minimum standard.

Any leadership book on the shelve will confirm that there is no single management style that is necessarily more or less effective than the other. Successful managers can range from the dictator-inspired micro manager (let's call him Herr Heinz), to the one-foot-still-at-Woodstock manager, Mr. Frankie Flowers (I am sure he would not mind if we call him Flow).

Herr Heinz would insist on having insight into every bit of detail in his business, including today's very important order of business - the colour of soap which should be used in the staff restrooms and how often is should be changed, based on a detailed supply and demand analysis! Flow may, on the other hand, spend the day brainstorming new business ideas with his yoga instructor. Nevertheless, both managers may be equally successful for completely different reasons, even if they may differ in everything else that they do as managers.

When it comes to providing a retirement savings vehicle for their employees, these two managers will similarly have vastly different ideas on the ideal structure for such a savings vehicle. Heinz might long for the good old days when they still had a freestanding fund where he was the single largest contributor, employer nominated Trustee, Principal Officer and Chairman. Flow loves the idea of leaving his employees' savings in the capable hands of a trusted umbrella fund which requires minimal input from himself.

Again, both these approaches could be equally successful, but both also have their own unique features. In the end it comes down to a personal preference and style, provided that both Heinz and Flow have a full understanding of the respective pros and cons in order to make an informed decision on the fund that is right for them.

The decision is also not simply a choice between the one extreme or the other. There are numerous alternatives lying somewhere between these extremes. Now, let's compare some of the different approaches to governance in the South African umbrella fund landscape to see if there are solutions that will meet both Heinz and Flow's needs.

Legislated protection of members' interests

The highly regulated environment that umbrella funds operate in, should generally ensure that the minimum standards of good governance and regulatory requirements are met in all instances.

All retirement funds, including umbrella funds, are subject to the Pension Fund's Act, under supervision of the Financial Services Conduct Authority (FSCA). Every facet of governance of a retirement fund is highly regulated, these could include aspects like the Rules of the fund, the constitution, duties and responsibilities of the Board of Trustees, statutory reporting requirements, etc.

This must be music to Heinz's ears. Flow is cringing at the very thought of all this bureaucracy, but he does recognize that there is value in it, but only if someone else handles it.

There have been very few, if any, major umbrella fund failures in South Africa's retirement industry in the past. The protection offered to members by the Pension Funds Act, as supported by rigorous oversight by the FSCA and accountability from bodies like the FSCA Tribunal and the Pension Funds Adjudicator, is up there with the best in the world.

There is therefore little reason to believe any of the reputable umbrellas in our market do not have adequate governance structures in place.

Board of Trustees

The buck always stops with the Trustees who have all the decision-making powers, while being ultimately accountable for the fund's affairs.

The Board of Trustees accept ultimate responsibility for all aspects of the governance of the fund. While they may delegate some of their duties, like the administration function, and make decisions in consultation with appointed advisors or participating employers, the buck stops with them. Each Trustee takes responsibility for all decisions of the Board and can be held personally liable.

An Umbrella Fund does not have "member elected" or "employer nominated" Trustees. All Trustees are appointed by the sponsor of the Fund. The respondents to the survey indicated the number of Trustees range from 4, the minimum required number, up to 14. Most funds in this survey applied a 50/50 split between trustees who are employees of the Sponsor and independent professional trustees, and some funds chose to only have one or two independent Trustees on the Board.

There is a perceived conflict of interest where a Trustee who is also an employee of the sponsor could have a vested interest in the profitability of the sponsor over and above his fiduciary duty to act in the interest of members. A greater proportion of professional trustees would therefore give some additional comfort in respect of the independence of the Board.

However, this argument is countered to a large extent by the fact that each Trustee remains accountable for all decisions made on behalf of the members. For a Trustee to make any decision in the interest of the Sponsor and to the detriment of members' best interest will place him- or herself at significant personal risk which should serve as a great incentive to do the right thing notwithstanding any other conflicting pressures or interests.

The quality, i.e. knowledge and experience, of the Board of Trustees is probably even more important than the level of independence. However, this is not always easy to assess from the outside.

Management Committee

Umbrella funds often rely on input from the participating employer's management committees to convey the interests from the members on the ground to the Trustees.

This committee will be much closer to the members of the Fund and plays an important role to assist the Trustees with their duties. However, it is important to note that such a committee can only provide information or serve in an advisory capacity to the Board, who still makes all the final decisions and retains all accountability for the Fund.

In some instances, the management committee is run almost like a mini-Board of Trustees with member and employer representatives, regular meetings, voting on decisions, etc. Such decisions are then formally submitted to the Board of Trustees for consideration. In other cases, the management committee may consist of a single human resources representative providing information to the administrator and Trustees.

The downside of a very active management committee means that it can still take up more of management's time and energy than what they would have envisaged when they joined the umbrella fund, while still not having any real powers. On the other hand, it does keep the employer close to the operation of the fund.

While they may not have any decision-making powers over the Trustees, an employer still retains the power to move to an alternative fund if they are not satisfied with the way that the Fund is managed. Some level of oversight into the Fund's affairs is therefore advisable to be alert to any potential red flags.

Statutory reporting

All funds are required to submit audited annual financial statements. These statements are publicly available documents where the auditor's findings and opinion on the Fund's governance is available for all to see. For Heinz or anybody else interested into more technical detail, the financial statements will also give useful insight into the financial affairs of the Fund, for example the level of expenses, number of unclaimed benefits, whether the fund is growing, etc.

Most umbrella funds qualify for exemption from having to submit statutory actuarial valuations, if the Trustees should choose to apply for this exemption. About a third of the surveyed funds opted to have the statutory valuations performed, a third have non-statutory valuations performed and a third do not perform any actuarial valuations.

Just less than half of the funds that do perform valuations use independent external actuaries while the other half makes use of their own in-house actuaries. Similar arguments will apply here in respect of independence and potential conflicts of interests of the actuary, as noted in respect of independent trustees. However, an actuary is also appointed in his or her personal capacity and therefore accepts personal responsibility, which should outweigh any loyalty to, or pressure from, the sponsor.

An actuarial valuation generally sets out to perform a detailed review of the operation of the fund to ensure that the fund's information is accurate and consistent when looking at it from every different angle.

For example, are investment returns allocated to members consistent with those earned as per the investment manager statements? Is the information in the financial statements consistent with the administrator's records and investment statements? Is the allocation of contributions and benefits to members consistent with the Rules of the fund? How are unallocated amounts or processing variations handled?

The audit is performed at a more general level with a focus on the accounting matters, it should be noted that most of these aspects are also covered in an actuarial valuation.

This apparent duplication is exactly why some funds opt not to have any valuations performed. This is also, at least in part, why the Act does not make actuarial valuations compulsory under all circumstances.

On the other hand, Trustees who opt to have valuations performed on their funds see these valuations as an integral part of their internal risk management procedures. While it may introduce some duplication, with a corresponding additional layer of costs, these Trustees value the additional comfort that the actuary gives on the accuracy and compliance of the operation of the Fund.

Statutory valuations add yet another level of governance compared to non-statutory valuations, insofar as these valuations are also scrutinised by the FSCA for approval. However, this also introduces some additional administrative burdens which should be weighed up, for example the requirement for the valuator to sign off on all Section 14 transfers between funds.

There are valid arguments to be made for and against actuarial valuations, statutory or otherwise. Heinz might believe it to be irresponsible to apply for exemption from a statutory requirement to have an actuary review the Fund at least every three years just because the Act allows it. Flow, on the other hand, has full faith in the administrator and trusts that the annual audit should pick up any operational issues. In his view, it is a waste of his members' contributions to pay an actuary to add yet another layer of checks and balances.

It is again a question of preference and style. How much trust do you place in the administrator? Do you believe in bells and whistles or is one layer of oversight deemed adequate? These are very open-ended questions and explains why different funds are split down the middle on this matter. As actuaries on many different funds, our personal view is that a valuation is the most important independent check on whether a fund operates as it should. This is especially true in umbrella funds, since assets are held in one fund for many different employers and a small error or deviation can result in large errors over time.

Fidelity cover

The umbrella fund of choice should ideally be one that never makes any mistakes but that can obviously never be guaranteed. The important question to ask is, what cover is in place if something should go wrong?

The survey showed that different funds approach to fidelity cover differ vastly. It ranges with cover in place from 1% of assets, all the way up to 30% of assets. This may, admittedly, not be a good comparison since it does not take other factors into consideration, like the ability of the sponsoring company to absorb losses, terms and conditions applicable to the underlying cover, past claims experience, etc.

However, it is certainly one of the questions worth asking to understand how the Fund manages their internal risks.

In conclusion, what are the questions on governance that matter?

Each employer needs to choose an umbrella fund whose approachto governance meets their specificneeds and expectations.

All umbrella funds are expected to be properly governed in terms of the Act and the sponsors and Trustees have every incentive to ensure that this governance is in place. From a commercial incentive to grow their business by showcasing proper governance structures, to the threat of serious financial and reputational risk to the sponsoring company if things should go wrong and, probably the most effective incentive of all, the risk of personal liability to each Trustee if they do not properly fulfil their fiduciary duties. The exact governance structures within the respective umbrella funds may therefore be of lesser importance than what one might think.

The cost of governance, even if taken to the extreme, is generally not a major contributor to the total expenses of a fund. Therefore, the cost of governance does not necessarily need to be the driving factor when deciding on which umbrella fund to join.

Keeping an eye on the Fund's affairs is advisable in order to pick up any red flags. Whether through an active management committee, regular updates from a broker or from publicly available information. The auditor's report can serve as a valuable reference point to assess the ongoing governance and compliance of the Fund. Even more so, if this is also backed up by an independent report from the Fund's actuary.

Poor or inconsistent administration can serve as a more effective early warning system in respect of any flaws in the Fund's governance than any assessment of the actual governance processes. Employers should seriously reconsider their umbrella fund when these administrative alarm bells are ringing too often.

In the end, the governance structures that will be most suitable for any specific employer will rely very much on the management style and preference of that employer.

Herr Heinz's Ideal Fund

One would imagine that Herr Heinz will be most comfortable with a fund that has the most comprehensive governance structures in the form of a bigger Board of Trustees, most of whom are independent professional Trustees. He would similarly prefer a fund that does not only perform regular actuarial valuations by an independent actuary but would also like to see these being reviewed by the Regulator as a statutory submission. Heinz is also likely to run a very tight ship through his Management Committee, with direct line of sight into the activities of the Board of Trustees.

He may even be prepared to pay a premium for such extensive governance structures.

That is unfortunately not where the costs will end, since he will in all likelihood spend much of his time involved with the Fund's affairs. That is a price he should be prepared to pay to be sure that he constantly has his eye on his employees' benefits.

Flow's choice

On the other extreme we find Flow who obtained professional advice to help make an informed decision when he elected his umbrella fund. He then delegated all interaction with the Fund to his HR managers and fully trusts the Fund's duly elected Trustees. He is happy to abide by their decision on whether to do regular actuarial valuations, to appoint independent trustees or what level of fiduciary cover to carry. After all, who would know the Fund's needs better than they do?

Once a year he receives a benefit statement and annual report from the Fund, indicating that everything is still just fine, and he rests easy in the knowledge that he is providing his employees with a good value for money solution.

20 years later…

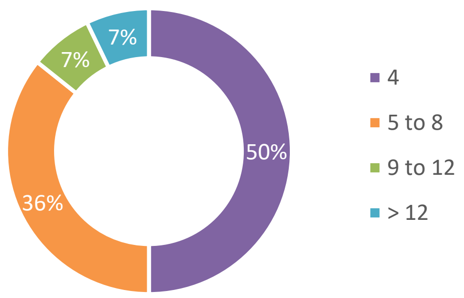
Both Heinz and Flow reached retirement after a very successful career and, as can be expected, neither of the funds that they chose had any serious administrative failures. In the end, they received similar benefits and the different governance styles employed by the respective funds had effectively no direct impact on their final retirement outcome.

When asked whether they were satisfied with their respective fund choices, they gave the exact same answer, for once, but for very different reasons:

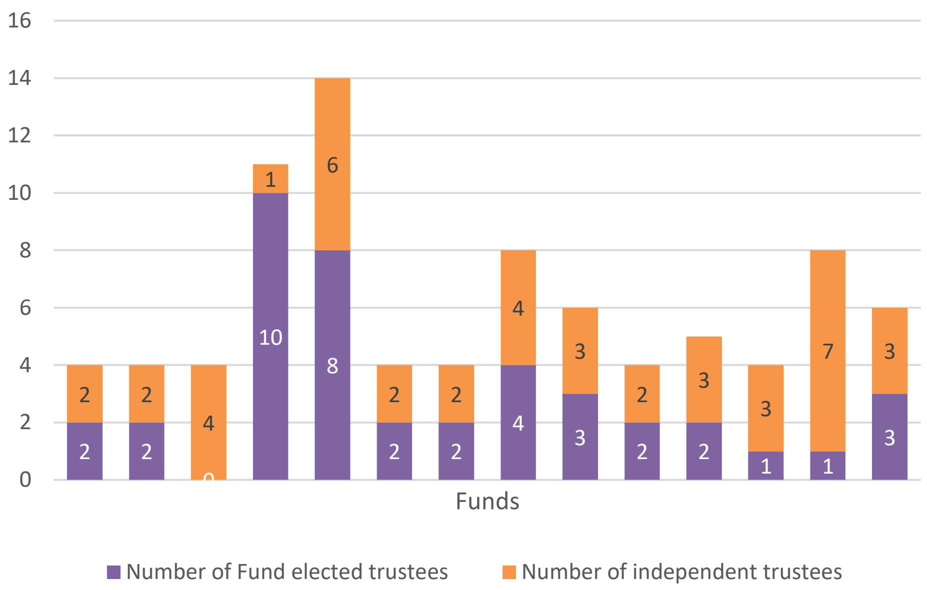
"I would never change my decision; this is clearly the only way that a fund should be run!"

Survey Results

8. Number of trustees



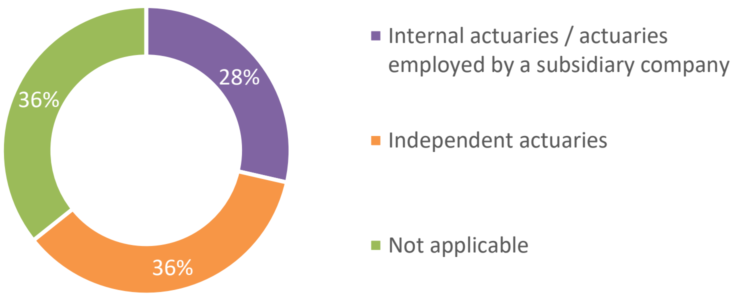
9. Number of trustees (split between fund elected and independent)



10. Are statutory triennial valuations performed?

11. Are interim valuations performed regularly?

12. Who performs valuations?



Administration

They say music can make you feel better, emotionally and even physically. When I have to define how music makes me feel, I would say relaxed and happy. Retirement planning on the other hand, is a whole different story and often leaves people distressed.

Manja Serfontein

Choosing made easy

As a result, people avoid planning for their retirement and want someone else to take over that responsibility. Retirement funding is an important employment benefit that employers could offer to their employees and they might want to offer such a benefit for a number of reasons, but, do they really want to be burdened with the ins and outs of providing such a benefit?

Experiencing the joy of music has been taken to a whole new level with modern technology. You connect your phone to your wireless speaker or headphones, choose your favourite playlist, sit back, relax and enjoy. But you can only start to enjoy the music after you have acquired the correct equipment. Similarly, you can only offer your employees the enjoyment of stress-free retirement planning once you have chosen the correct retirement fund arrangement.

Nowadays, deciding which tech device we need to fulfil our needs is only a few clicks away. A quick online search will tell you exactly which music apps are rated the best and why and what features to look for in a wireless speaker like portability, smart ability and whether it is waterproof. It will further list the prices and store availability for easy comparison.

If only choosing a retirement fund arrangement was that simple.
But it could be, if only we approached it in a similar way as buying a new device.

Let’s compare umbrella funds to a wireless speaker since it could provide employers with a “plug and play” solution to retirement funding.

As an employer you only need to choose your preferred device and music app, set up your playlist and recharge your device every so often to ensure that it keeps playing.

Choosing your preferred device

There are a large number of umbrella fund arrangements available in the South African market. Similar to choosing a device to play your music, there are a number of things to consider when choosing the fund that will best suit the needs of you, as the employer, and your employees. As the employer you would have to keep in mind that your preferred “device” is not necessarily the same as what your employees would prefer. This article will look at some of the points to consider from an administrative perspective.

Brand awareness

Whether you prefer Bose, JBL or Marshall we need to recognise that most of us are quite biased towards certain brands. People like to be associated with successful brands. Big brands create a sense of familiarity and trustworthiness. Often people will pay a hefty premium to buy a product from their most trusted brand. As an employer you therefore need to consider how the brand of the sponsor of the umbrella fund is perceived by your employees since this will have a big impact on how the retirement benefit is perceived.

Keep in mind that all speakers will play the music you want to listen to, it doesn’t matter the brand or the price. The quality may differ (substantially even), but consider all the options and facts before choosing your device.

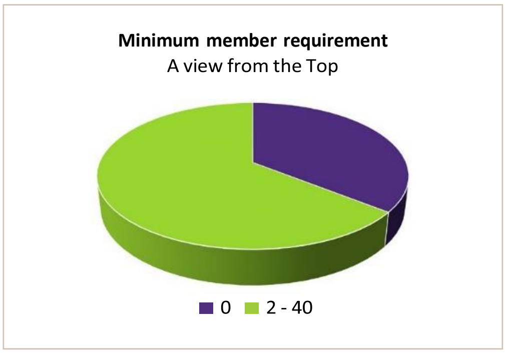
Device features

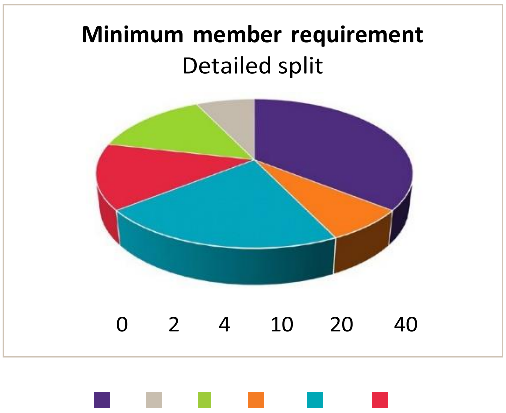
A flashy brochure can make one fund look much better than another. But all-in-all, there aren’t that many features that set umbrella funds apart.

Some of the features that you can look out for are discussed below.

Admission criteria

As can be seen in the graph below, most of the umbrella funds have a minimum entry requirement of between 2 and 40 members per participating employer, while about 36% have no minimum requirement. Therefore, depending on the size of your company, not all umbrella funds will be willing to accept your business.





Administrative fees

It is often difficult to compare the administrative fees of umbrella funds due to the fact that different charging structures are being used. The most common charging structure (about 50% of respondents) is to calculate the administration fee as a percentage of salaries. About 30% of the respondents charge a fixed fee per member, while some of them uses a combination of both depending on the size of the employer. There are also some funds that charge the admin fee as a percentage of assets.

Based on payroll and number of employees, an employer should therefore be able to do a quick price check and make a sensible fee comparison between the different funds even if they use different charging structures.

Contributions

The question of how much to contribute towards retirement is a sensitive one. People differ quite substantially on this topic and the option to choose is therefore a desirable one. All the respondents that participated in the survey allow an employer to choose his preferred contribution rate, within the limits as allowed by the Income Tax Act. It therefore appears as a rather common feature, but nonetheless an important one to ensure your chosen fund has.

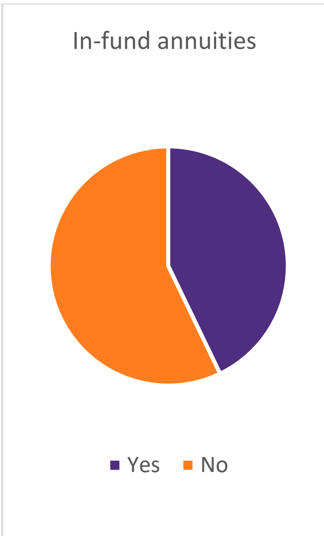
Benefits offered

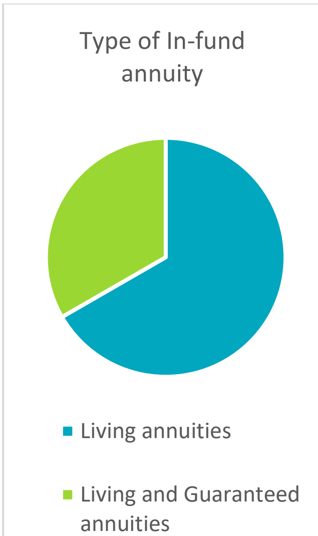
The benefits offered by umbrella funds are typically defined contribution in nature and are similar across all umbrella funds. The retirement benefit is therefore not an important distinguishing feature. However, in light of recent legislation that was passed, all funds are now obliged to offer members default options where members do not wish to make a choice by themselves. These defaults are applicable to investment choices, preservation of your benefit on leaving service prior to retirement and annuity options when you retire. It is therefore important to make sure that the umbrella fund you choose offers sensible default options that are suitable to your employees' circumstances.

> One of the most difficult decisions when it comes to retirement funding is deciding what pension or annuity to buy once you retire and members often tend to shy away from this responsibility when it comes to making this important choice.

The product offered by the umbrella fund as a default, at retirement, is therefore an important feature to consider. Not only the product, but also whether it is offered as an in-fund product or whether it is purchased from an external insurer. There are various pros and cons between the different annuity products and whether it is offered in-fund or not, but that's a topic for another day.

Only 6 out of 14 respondents offer an in-fund option of which 4 of the 6 only offer living annuities while the other 2 offer living annuities and guaranteed annuities. This is not surprising considering admin system constraints and the additional administrative work required to manage annuity products. Assuming that a member will be familiar with the fund by the time they reach retirement and would have formed a (hopefully) trusted relationship with the fund. I believe that in-fund annuities could be a valuable feature to consider.





Flexibility

One important factor that must be taken into consideration is the perceived value of flexibility. Some of the umbrella funds offer a lot of flexibility in contribution rates, investment products, risk benefits and even the insurers thereof. Although an attractive feature, it should be kept in mind that the more features a device offers, the more expensive it will be. Be sure that you don't pay extra for cool features that you will never use.

Communication with members

One should consider how employees would be able to interact with the fund, whether it is to check their benefit values or to submit a claim.

Most umbrella funds (70% of respondents) have a web portal and mobile application available for members to view their information. However, there are a few (30% of respondents) that only offer a web portal. In light of the fact that the majority of members have a smart phone but not necessarily a computer, a mobile application offering should be considered a big advantage. However, this is again dependent on the nature of your employees and the associated costs.

Another trend of the times we are living in is the fact that we want it all and we want it now!

Personally, I would favour a fund with a mobile app that gives me the functionality to manage my retirement funds, at a click of a button, from the convenience of my couch. For example, view and update personal information, view my benefit value and investment products, submit investment switch forms, beneficiary nomination forms, claim forms etc..

However, there is real risk of knee-jerk reactions for members with direct access via a state-of-the-art mobile app. Just because your speaker can blast away at 120 decibels which is suitable for an open- air rock concert, does not mean it is a good idea to put it on full blast when sitting in your car.

The frequency with which the information available to members is updated is another important factor. Most umbrella funds are unitised on a daily basis. Theoretically it should therefore be possible to have updated information on a daily basis.

The results of the survey show that 8 of the 14 respondents update their member information on a daily basis while 5 do it monthly and 1 respondent only updates the information annually.

As a member of a retirement fund myself, I would like to at a minimum be able to see updated values on a monthly basis.

In my opinion, daily updates do not add that much value since most people do not monitor their retirement savings that frequently.

Connecting and charging your device

No one likes to struggle to set up and manage their devices. Pairing your phone with your wireless speaker, setting up your account on the music app and creating a playlist must be a seamless exercise. It is therefore also important to compare the initial set-up requirements of the umbrella funds when making your decision.

Battery life, charging frequency and charging time is another important factor to consider when buying a device. Similarly, when choosing your umbrella fund arrangement, you should check the frequency on which regular communication with the fund will be required and the extent of the employer's involvement whether it will daily, monthly or yearly.

In most funds the communication requirements and involvement needed from the employer will be similar. In the beginning you will have to spend some time to set up your profile and your playlist i.e., select your contribution rates, investment options, risk benefits etc. and set up the list of the employees that must be added to the fund with all their required personal information.

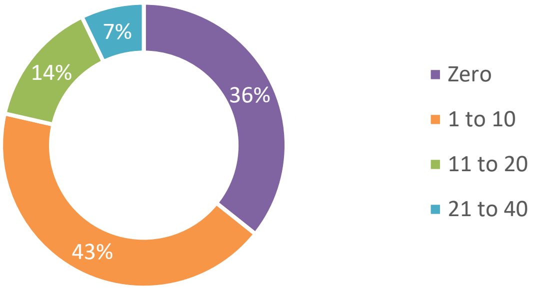
Once your profile is set up, you will have to ensure that your monthly subscription to the music app is paid and on an ad hoc basis, you will add and delete from your playlist.

Wrapping up this analogy, the employer will, at a bare minimum, interact with the fund on a monthly basis to submit contribution schedules and to ensure that the schedule correspond to the payment. Further interaction will mostly be on an ad hoc basis e.g., to submit claims of employees who left service and to add new employees.

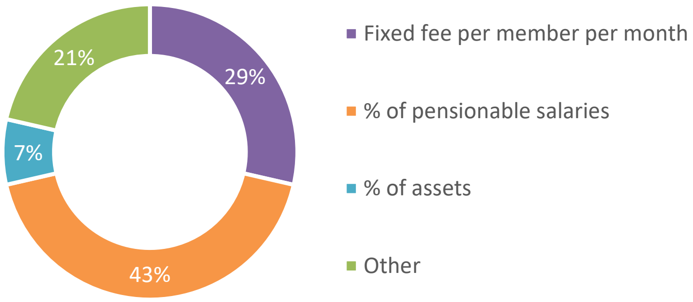
So, if you need to choose an umbrella fund, don't be intimidated by technical terms, fancy brochures and presentations. Focus on those features that will most likely add the most value to the retirement benefit and don't be swayed by cool features that will not necessarily add bang for your buck. When you approach choosing an umbrella fund in a similar way, we buy anything that we don't necessarily understand in everyday life, i.e., research, list and compare the key features that such a device must have, choosing becomes easy!

In the end, you get what you pay for. It is up to you to differentiate between your members' needs and additional nice-to-have features and, ultimately, how much value any added features actually provide.

13. Minimum number of members per participating employer



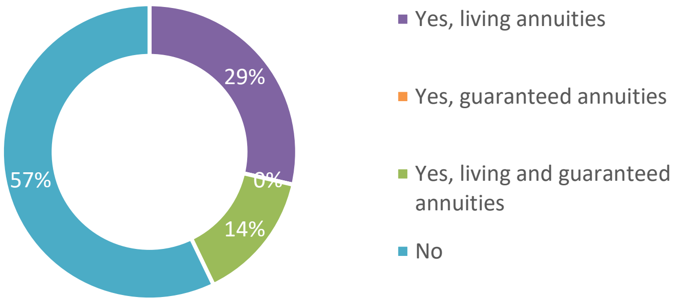
14. Administration fee charging method i.r.o. active members



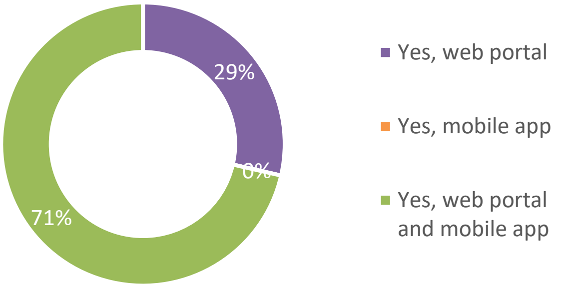
15. Are broker or other support fees payable directly by the employer (i.e. not fund related)?

16. Are different contribution categories allowed per participating employer?

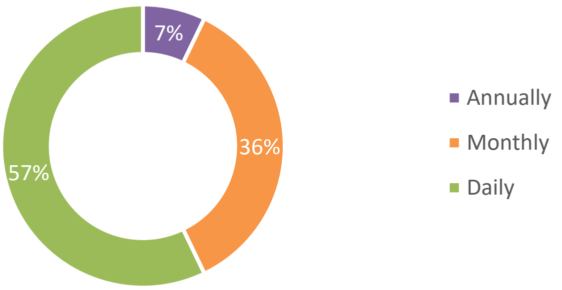
17. Are in-fund annuities offered to members?



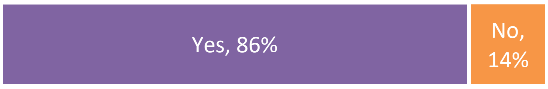
18. Is individual member information available online?



19. How frequently is individual member information updated?



20. Can a participating employer select from different insurers?



Investments

Ultimately, the retirement benefits an employee will receive depend on the contributions made and the investmentreturns earned prior to retirement.

Colin Hendriks

Investment options

Investments are a crucial element in achieving a comfortable retirement and the investment options available in an umbrella fund are an important consideration for the employer in deciding which umbrella fund to use.

Umbrella funds may use the number of investment options they offer as a distinguishing feature. The survey results reflected that about a third of the funds have less than 10 investment portfolios available, one fund offers 110 different investment portfolios to employees/employers, and the other funds offer between 10 and 50 portfolios.

The ability to elect investment portfolios at the employer level, and even at the employee level, is an important factor to consider. This flexibility will provide appropriate investment options for the employees as a whole and even to individual employees in some cases.

However, the risk with investment options, in particular too many investment options, is that employers and employees, make poor choices. Much like most people view themselves as above average drivers, most people tend to be over-confident in their ability to make sound investment choices.

Where an umbrella fund offers a wide range of investment options, an employer must decide which of these investment options it should make available to its employees. The default investment strategy (see below) does make this easier, but there is still a need to consider what additional investment options to make available and the implications thereof in terms of additional fees, employee communication, risk of poor choices etc.

Default investment strategy

In terms of Regulation 37 under the Pension Funds Act, all defined contribution retirement funds must have a default investment strategy. This strategy must be suitable for the average employee who does not want to, or does not feel comfortable to, make investment decisions. In the case of umbrella funds, the employer can usually select the default strategy that applies to its employees. If the employer does not want to do so, the fund's default strategy will then apply.

The survey results shows that the most common return targeted by the umbrella funds' default portfolio is inflation plus 5% per annum after deducting investment fees, with a minimum of inflation plus 4% per annum and a maximum of inflation plus 7% per annum. The default portfolio investment return is not a measure to use in selecting an umbrella fund. It is however something an employer must consider when deciding if they want to use the umbrella fund's default portfolio or have an employer specific default portfolio. For example, a default portfolio targeting inflation plus 4% per annum might be the result of the trustees wanting a lower risk investment portfolio as the default portfolio. The same umbrella fund may well also offer investment portfolios targeting a higher return.

It is important to understand what the default investment strategy aims to achieve. The default investment strategy will often target a retirement income that will be based on a specific type of annuity. The default investment strategy will look very different depending on the type of annuity being targeted. At younger ages, all default investment strategies will tend to have a balanced fund investment portfolio, with a higher weighting to growth assets like equities and property. Nearer to the retirement age, the default investment strategy will start to switch into an investment portfolio that best aligns to the targeted annuity. Electing a default investment strategy is in many cases effectively electing the type of annuity that is deemed to be appropriate for employees.

Ideally, employees who intend to purchase a different form of annuity in retirement, should be able to opt out of the default investment strategy as they approach retirement and invest in a portfolio that is more appropriate to their intended annuity.

The process above, where the underlying investment portfolios change as an employee nears retirement, is often referred to as "life stage investing".

Passive vs active investments

The debate around active versus passive investments is an ongoing one. Many umbrella funds now offer passive investment options together with active investment options. To confuse matters further, there are also passive investment options with some active investment management.

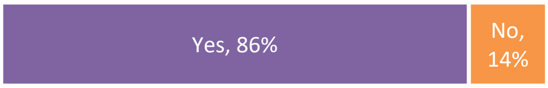
Generally, the fee associated with the investment option is a good indicator of what type of investment strategy is followed. Active investment is the most expensive, passive the least expensive with "active passive" lying somewhere in between.

At an employee level, a retirement fund's investment portfolio must consist of multiple asset classes (e.g. it cannot be 100% in equities). In assessing a passive investment option, one must understand both the underlying indices being tracked (e.g. the SWIX for local equities) as well as how these various assets class indices are combined and rebalanced from time to time to create the multiple asset class portfolios.

The survey results reflect that all funds offer the flexibility of investment choice to individual employees, but the extent of choices vary greatly between different umbrella funds.

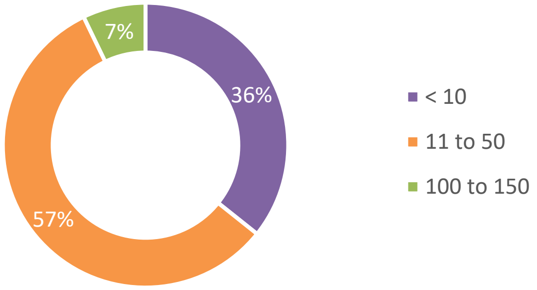
Survey Results

21. Can a participating employer select from different investment portfolios / managers?

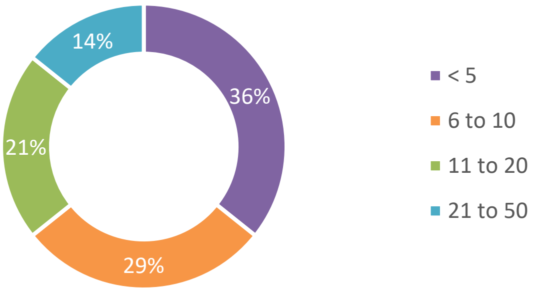


22. Is investment choice offered on individual employee level?

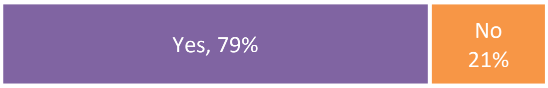
23. Number of investment portfolios available for investment choice



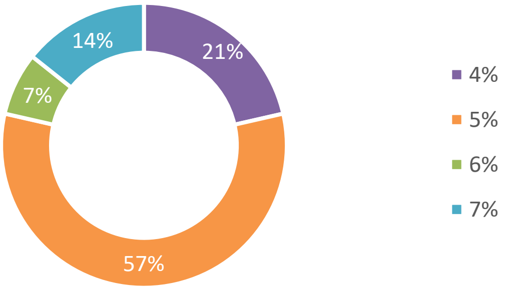
24. Number of asset managers available for investment choice



25. Is a life-staging option available?



26. Default investment portfolio target (% above inflation)



Costs

Flexibility, functionality, governance and reputation of the sponsor are some of the factors that are considered when comparing umbrella funds.

GJ Mellet

However, costs are probably the single most important factor for employers and employees, also known as the retirement fund members. Fees have a direct impact on how much of a member's retirement contributions remain to be invested and influences the expected retirement benefit. It is not unusual to read statements like "over time, paying 2% more in fees can mean 40% less for you when you retire". The comparison of fees used to be a very contentious issue and it was difficult, if not impossible, to make a fair and accurate comparison of fund costs. From 2020, a new standardised measure is available which will make comparisons much simpler.

ASISA RSC disclosure

The Association for Savings and Investment South Africa (ASISA) Retirement Savings Cost (RSC) disclosure standard sets out minimum disclosure requirements and will ensure that commercially sponsored umbrella funds which are members of ASISA present costs in a standardised and comparative way.

The RSC standard divides costs (charges) into four categories: investment management, advice, administration and other. Costs are projected over 1-, 3-, 5- and 10-year periods on a standard set of assumptions and are expressed as a percentage of projected assets.

Cost Disclosure Components

The Investment Management Charge

The Investment Management Charge includes all costs and charges for all underlying investments, as set out in the "ASISA Standard: Calculation and Disclosure of Total Expense Ratios and Transaction Costs."

The Investment Management Charge must reflect the costs and charges for the underlying investment portfolio(s) / fund(s) that the members will be invested in.

Total Investment Charge (TIC) = Total Expense Ratio (TER) + Transaction Costs (TC)

The Advice Charge

The advice/consultant charge component includes all charges for the provision of advice by intermediaries/consultants, commissions payable to intermediaries/consultants (excluding commission on risk premiums) and investment consulting fees not included within the investment management charge.

The Administration Charge

The administration charge component includes all retirement fund administration fees/charges, investment administration fees/charges not included within the investment management charge.

The Other Charges

The Other Charges component includes guarantee premiums/charges, contingency reserve account levies, FSCA levies, fidelity insurance and professional indemnity premiums, actuarial fees, audit fees, trustee and fund officials' remuneration and expenses, communication expenses, and all other fees and charges not listed above flowing via the fund/sub-fund.

The RSC disclosure is only done on a fund or participating employer level. Although this total cost comparison will be directly comparable between umbrella funds, the actual implementation and costs deducted from individual members could be very different. Costs which are charged as a percentage of salary, for example, will result in a much higher cost to a high salary earner, compared with another fund which may charge a fixed rand amount per member per month. RSC is definitely a useful tool and a move in the right direction, but the impact on individual members should not be ignored.

Such member comparisons should, however, also be available from 1 March 2021 since ASISA members are required to disclose costs at member level for commercial umbrella funds in terms of the new ASISA Retirement Fund Standard: Effective Annual Cost (EAC). This allows individual umbrella fund members to review and compare costs in their umbrella fund with other investment products. Members will receive communication at least once a year reminding them that they can request an EAC calculation. An analysis and comparison of EAC figures will be included in the next survey.

Not all sponsors of umbrella funds are ASISA members and therefore not all umbrella funds need to comply with the RSC and EAC standards. It is expected that that the market will push even the non-ASISA member funds to disclose costs according to these standards to make them directly comparable to other umbrella funds.

Quotes methodology and analysis

We requested quotes in line with the ASISA RSC disclosure standard as described above and received responses from 12 umbrella fund providers.

Quotes were only requested for each provider's pension fund (where applicable) and if different options are offered in the fund, the simplest ("vanilla") option was used for quote purposes. Funds were further instructed that all administration, consulting, advice and other costs should be payable within the quoted arrangement. Risk benefits were excluded in order to focus on the comparison of the costs as set out in the RSC disclosure standard. One respondent commented that it has a more cost-effective option that includes compulsory risk benefits. This has however not been taken into account.

To ensure that quotes are directly comparable between funds all quotes are based on 2 membership datasets, representative of a blue-collar and white-collar participating employer, as well as the following information:

	Quote 1	Quote 2
Employer name	Blue-collar	White-collar
Industry	Manufacturing	Finance
Number of members	200	50
Assets at commencement	R 13 602 132	R 43 690 299
Total annual pensionable salary	R 12 002 200	R 18 023 100
Gross employer contribution rate (% of pensionable salary)	5.0%	7.5%
Member contribution rate (% of pensionable salary)	5.0%	7.5%

The investment management charge has a significant impact on total costs and ranges from 35% to almost 90% of the total RSC for the different funds. Quotes are based on each umbrella fund's default investment portfolio, but it can be argued that a similar investment portfolio will be available from almost all funds at a similar cost. The 1–10-year cost breakdown excluding investment fees is therefore also included in the results and compares the advice, administration and other charges.

The potential RSC ranges are calculated based on a sample member aged 30 and an RSC term of 10 years. This highlights the impact of the administration fee charging method (fixed fee, % of salaries, % of assets) on an individual member's RSC. It is important to note that all quotes do not necessarily move in the expected directions as minimum and maximum fees are applicable for the % of salaries and % of assets charging methods in some cases

Since the investment management charge is such a large component of the costs, it made sense to contrast the costs for members who have already built-up retirement savings in their fund, with a new member who has no member share in the fund. Similarly, the costs may differ significantly for members with high or low salaries, this impact is also visible in the results below. The survey results include 6 graphs for each quote covering the potential RSC ranges for different Member Shares and salaries.

The following table illustrates the expected impact of different charging methods on an individual member's RSC based on the level of Member Shares and salaries at commencement:

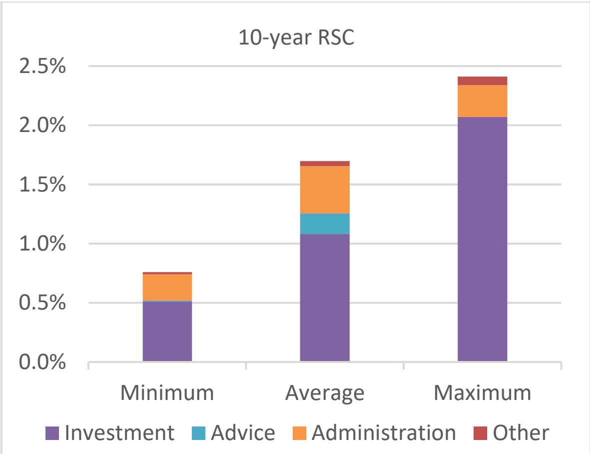
Charging method	Increase in Member Share	Increase in salary
Fixed fee	↓	↓
% of salaries	↓	↑
% of assets	↔	↔

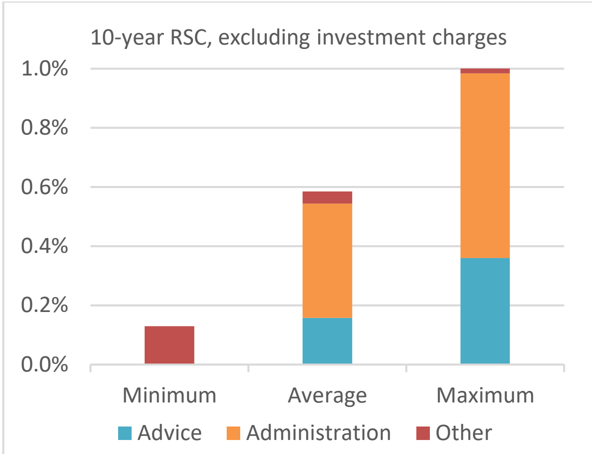
The quotes received are not necessarily indicative of the fees that will be charged to a specific employer, as fees are determined by various factors, e.g. specific servicing requirements of the participating employer, employment industry, number of members, salaries, assets at commencement, options/flexibility required, etc.

Although the quotes received are of limited practical use, it provides valuable insight into the different ways that umbrella fund providers could charge fees for exactly the same participating employer. The quotes give an indication of the expected costs for an employer interested in a basic option, in addition to the deciding factors discussed in the previous articles.

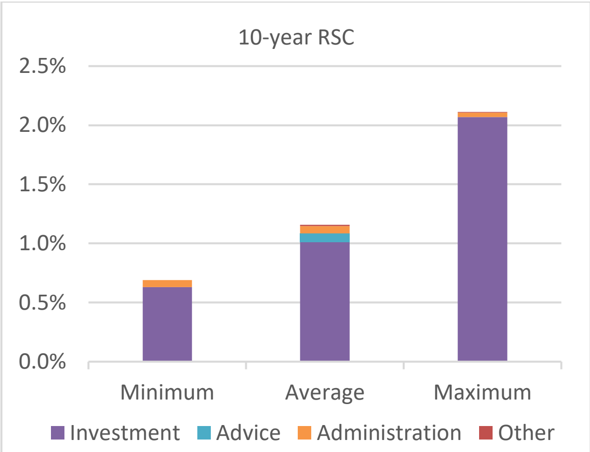
A high-level summary of the 10-year RSC quotes, including and excluding investment charges, is as follows:

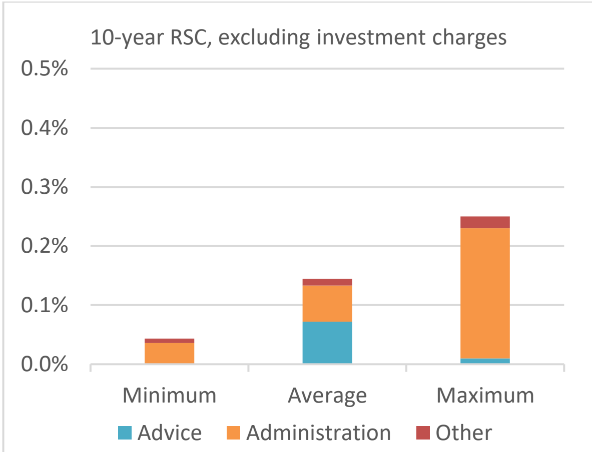
Quote 1 – blue-collar





Quote 2 – white-collar





The blue-collar 10-year RSC ranges from 0.8% to 2.4% (0.13% to 1% if investment charges are excluded) with an average RSC of 1.7%. This is significantly higher than the comparative white-collar RSC range of 0.7% to 2.1% (0.04% to 0.25% if investment charges are excluded) with an average RSC of 1.2%.

The differences between the blue-collar and white-collar quotes highlight the impact of assets at commencement and the relative size of net monthly cashflows on the RSC calculation and results. The white-collar assets at commencement are 3.2 times the comparative value of the blue-collar membership, while gross annual contributions for the white-collar membership is more than double the blue-collar annual contributions. This is notwithstanding the fact that the blue-collar membership has 200 members while the white-collar membership only has 50 members.

The denominator of the RSC calculation, projected assets, is the mostsignificant factor in determining the RSC value.

It is therefore important to understand that it is not sensible to compare different employers' RSCs with each other and if an employer compares the RSC values from different umbrella fund providers, they should ensure the same asset base and contributions are used.

It is further interesting to note that some funds charge no administration, advice or other fees. Some respondents noted that advice fees were excluded from the quotes as participating employers appoint independent advisors on its own terms.

Conclusion

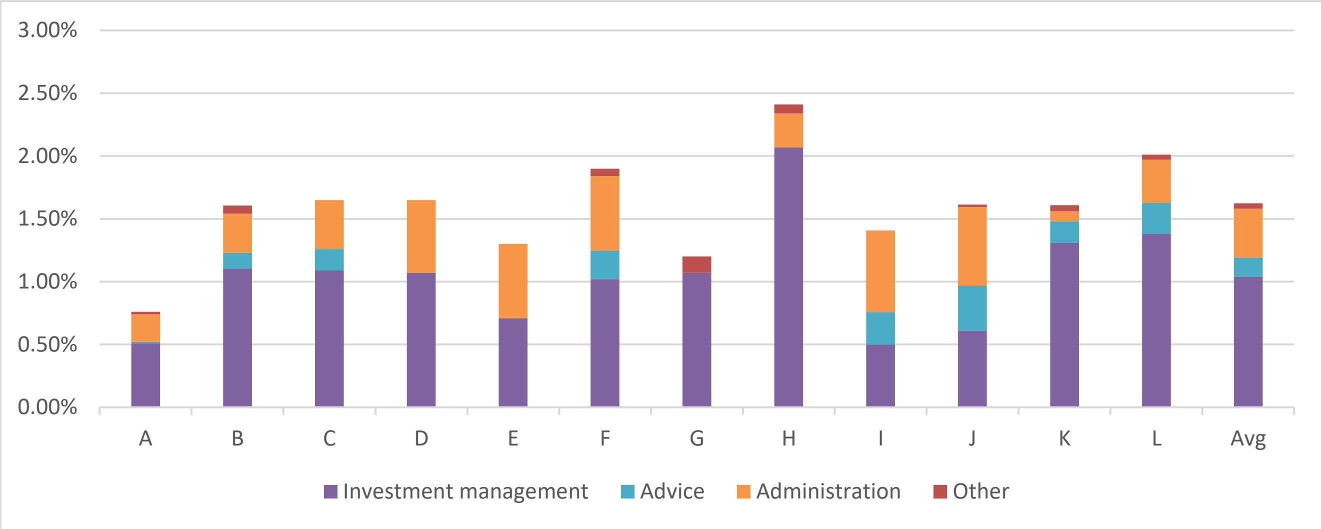
Costs is probably the most important factor influencing an employer's decision when choosing an umbrella fund. An employer should however not only consider the "quoted fee", but also the impact of the charging method on individual members and groups of members. Fee comparisons should always be based on like-for-like figures from umbrella fund providers taking into account all relevant fee components.

Survey Results – Quote 1 (blue-collar)

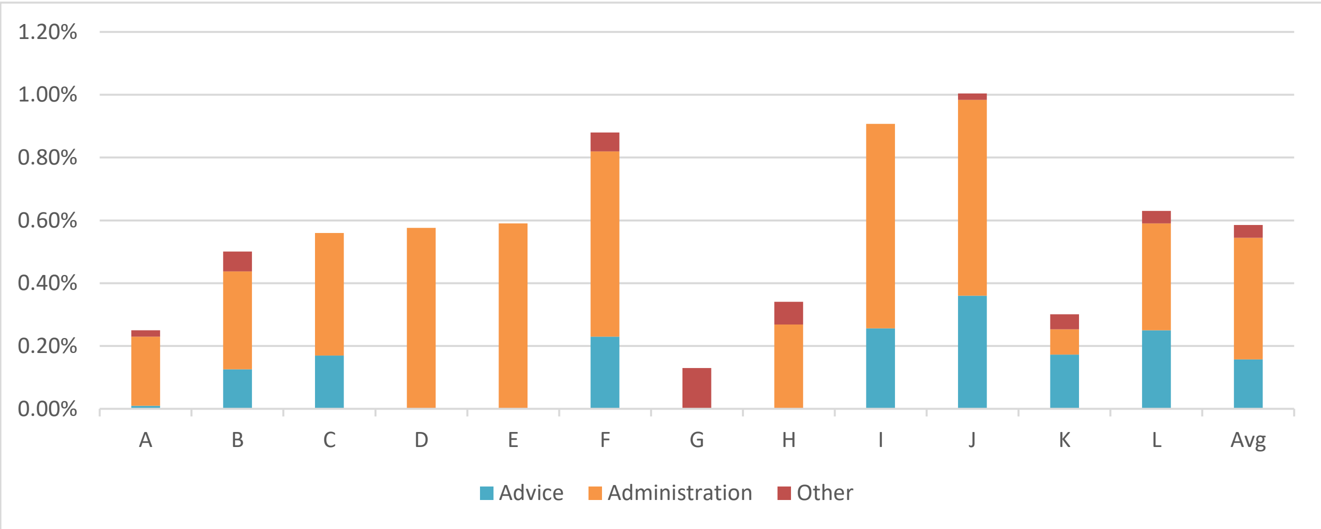
Quotes are shown in no particular order.

10-year RSC charges tables

27. 10-year RSC charges comparison



28. 10-year RSC charges comparison (excluding investment management charges)

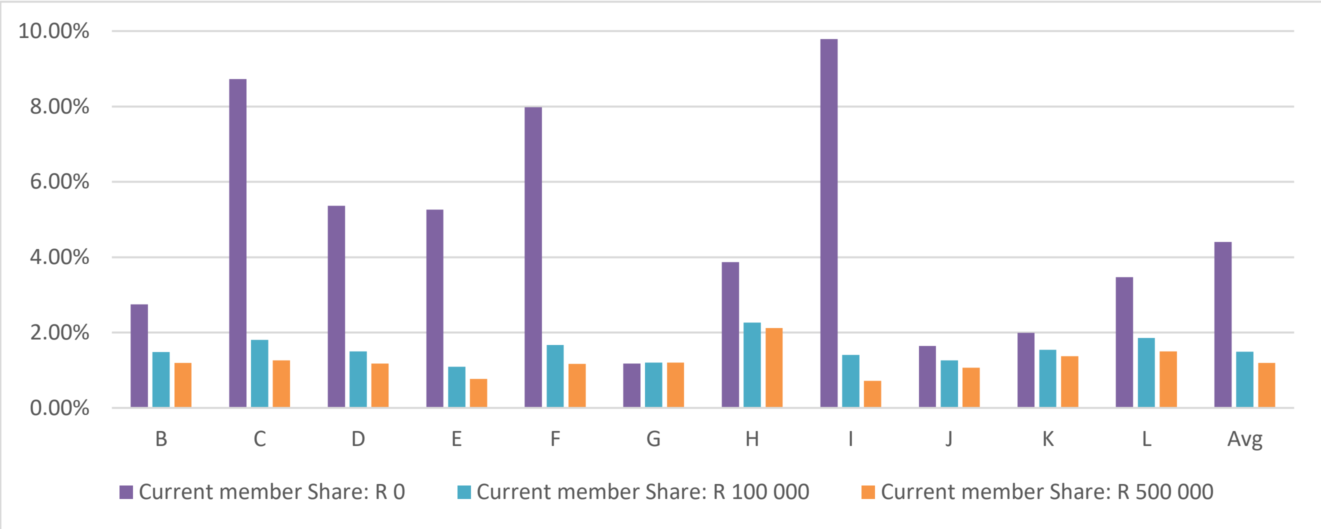


Potential RSC ranges

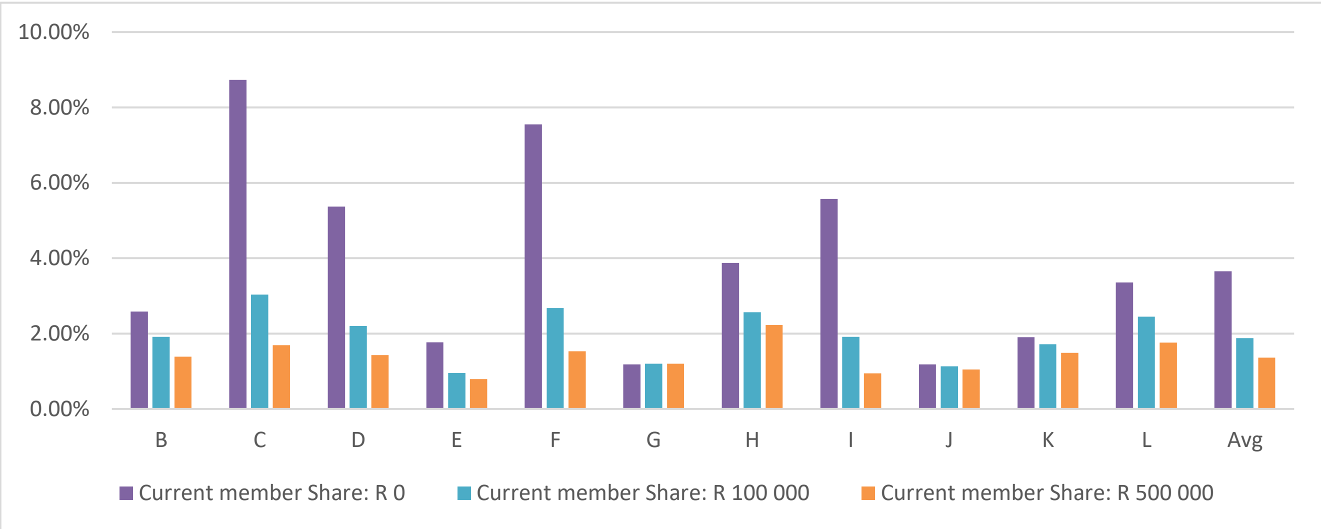
Sample member: 30 years old
RSC term: 10 years

Member Share at commencement comparisons

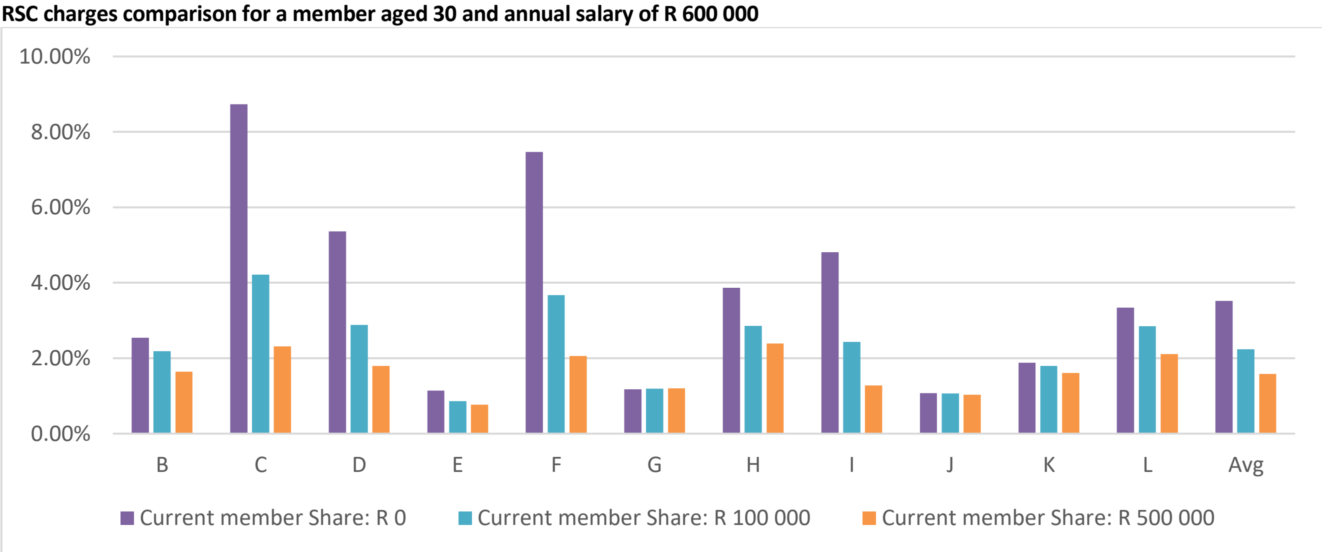
29. RSC charges comparison for a member aged 30 and annual salary of R 60 000



30. RSC charges comparison for a member aged 30 and annual salary of R 240 000



31. RSC charges comparison for a member aged 30 and annual salary of R 600 000

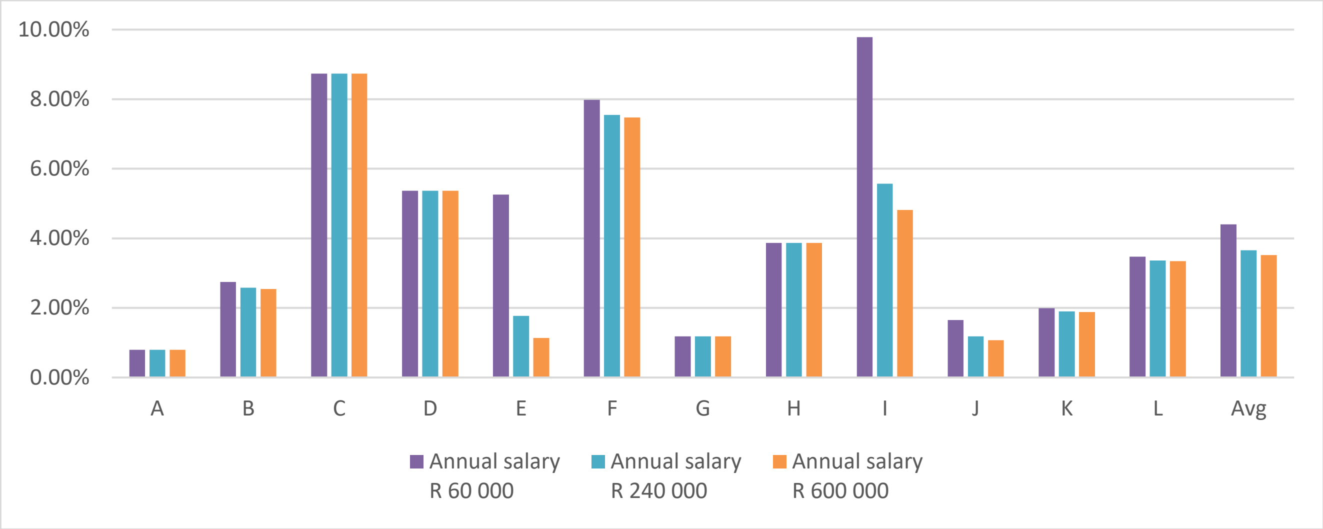


Potential RSC ranges

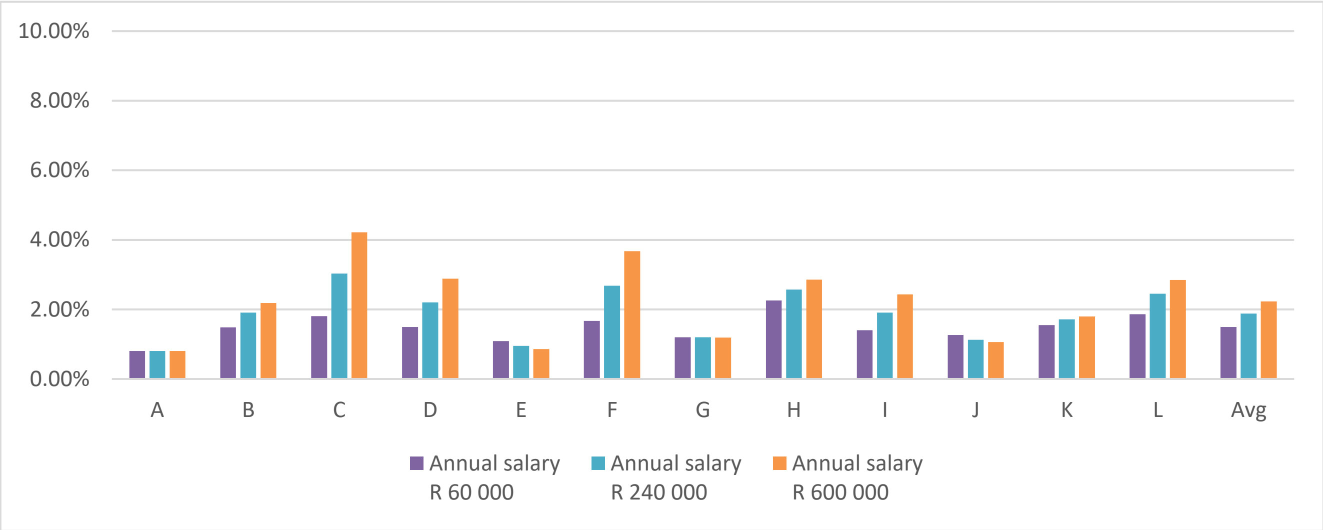
Sample member: 30 years old
RSC term: 10 years

Annual salary comparisons

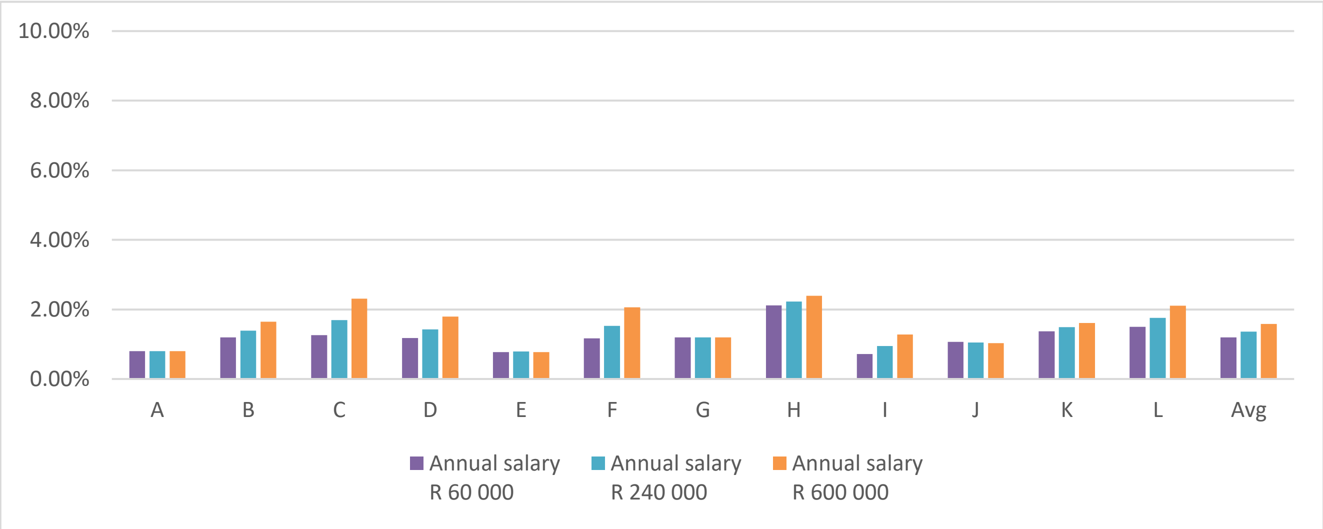
32. RSC charges comparison for a member aged 30 and member Share of R 0 at commencement



33. RSC charges comparison for a member aged 30 and Member Share of R 100 000 at commencement



34. RSC charges comparison for a member aged 30 and Member Share of R 500 000 at commencement

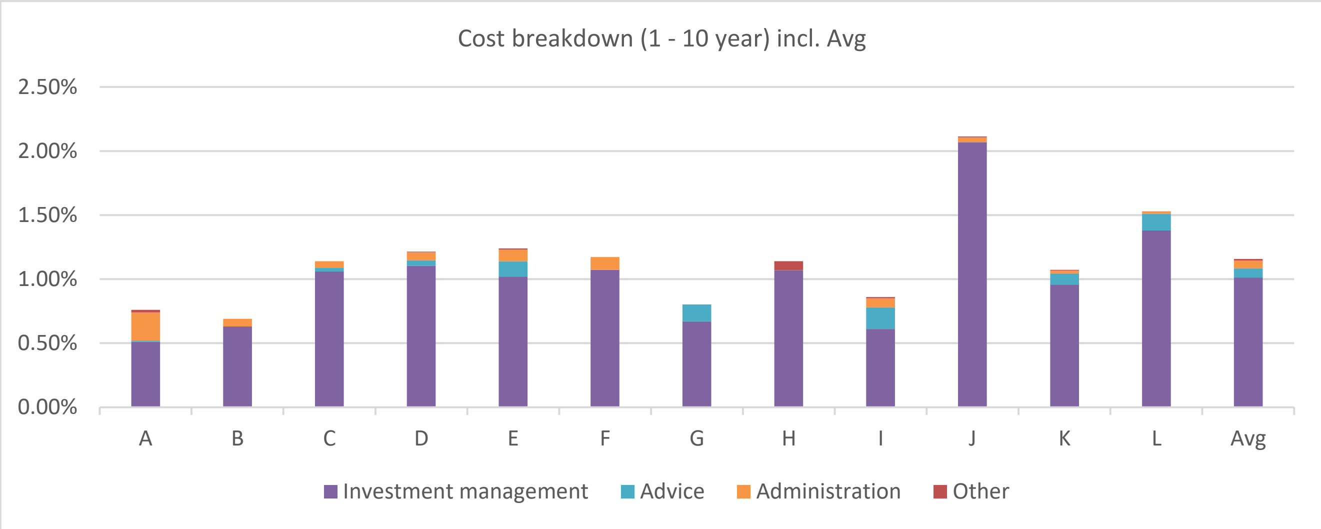


Survey Results – Quote 2 (white collar)

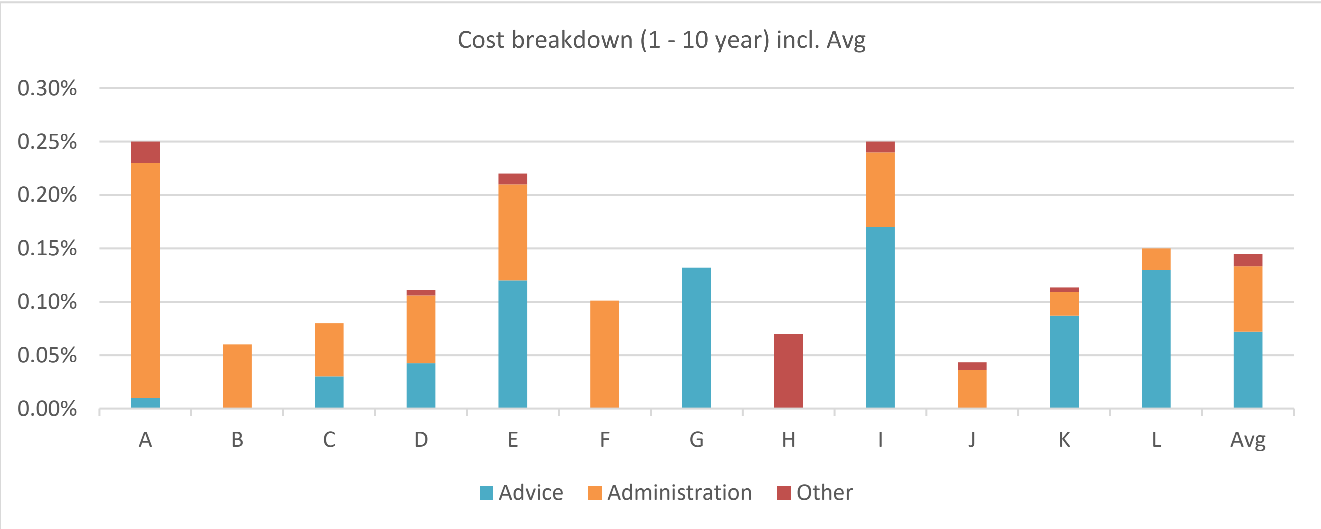
Quotes are shown in no particular order.

10-year RSC charges tables

35. RSC charges comparison



36. RSC charges comparison (excluding investment management charges)

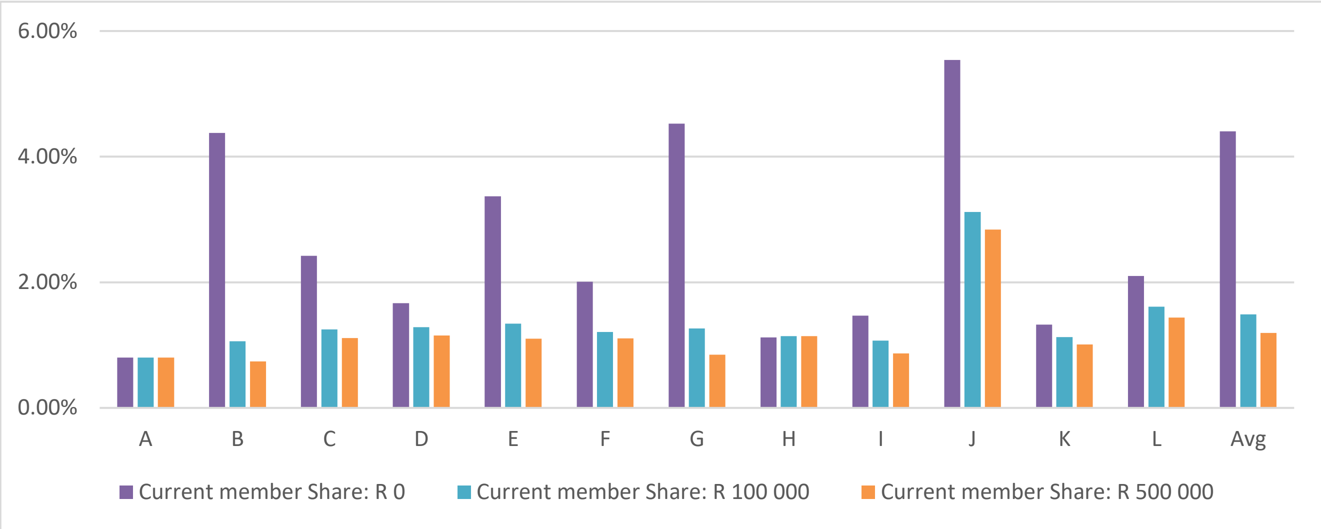


Potential RSC ranges

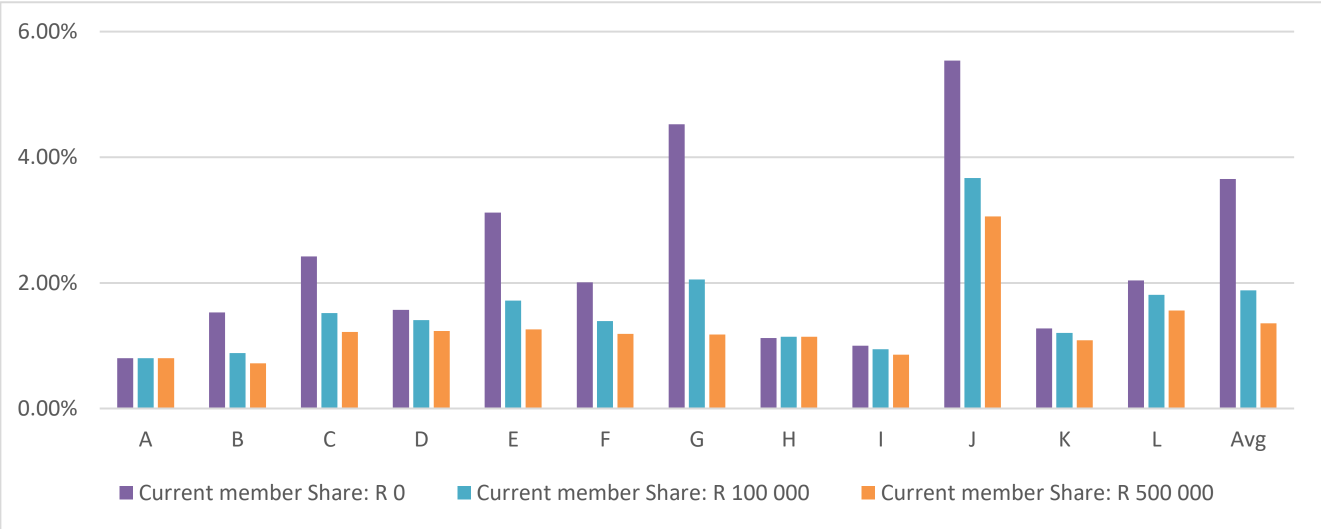
Sample member: 30 years old
RSC term: 10 years

Member Share at commencement comparisons

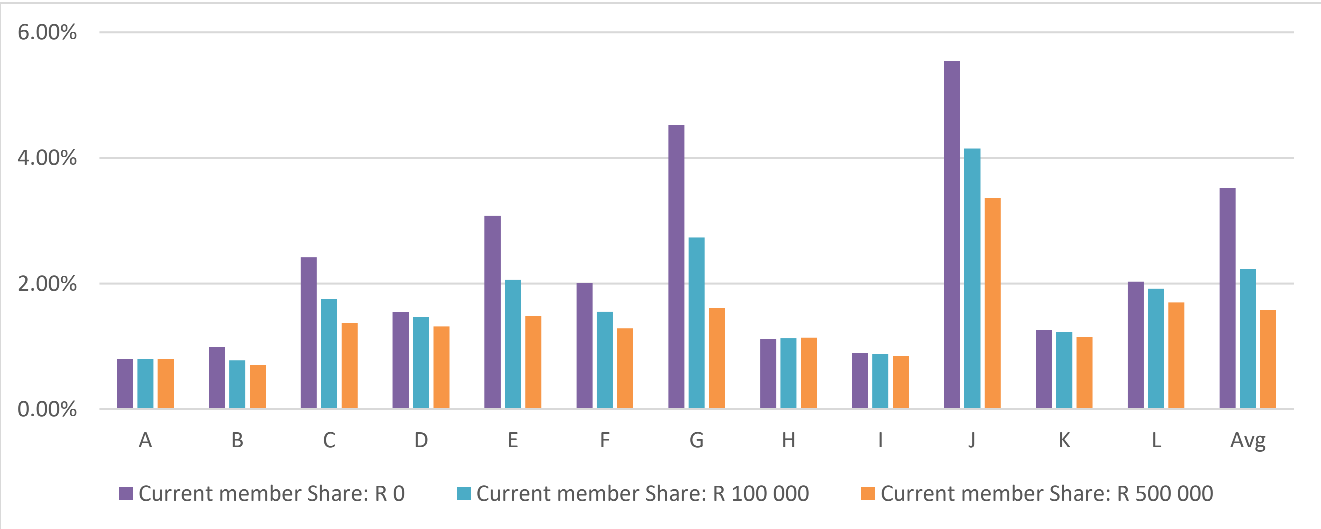
37. RSC charges comparison for a member aged 30 and annual salary of R 60 000



38. RSC charges comparison for a member aged 30 and annual salary of R 240 000



39. RSC charges comparison for a member aged 30 and annual salary of R 600 000

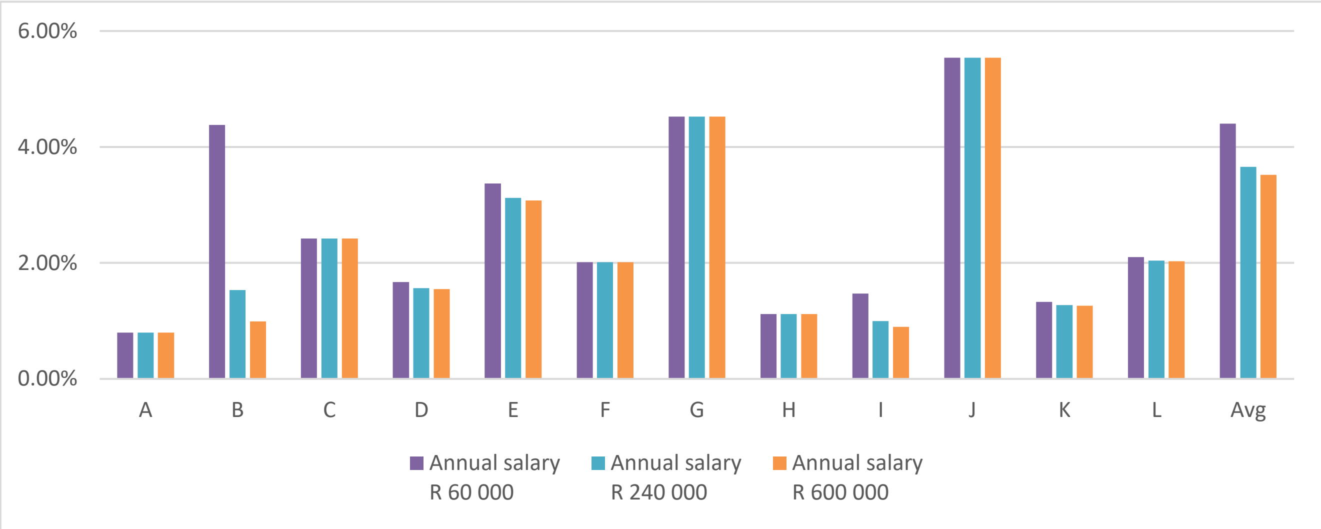


Potential RSC ranges

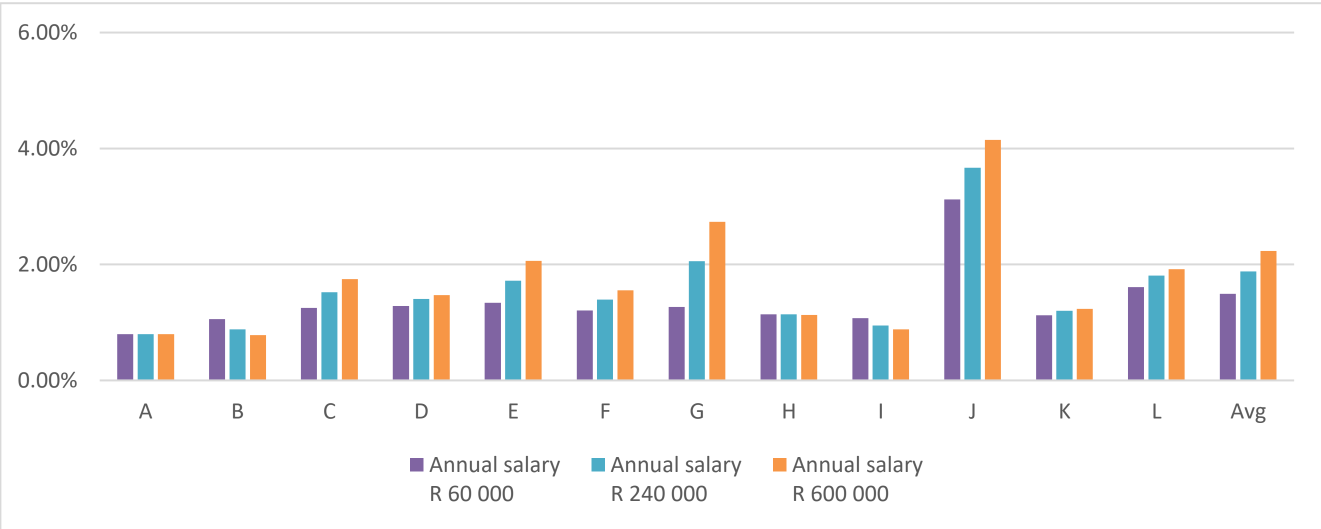
Sample member: 30 years old
RSC term: 10 years

Annual salary comparisons

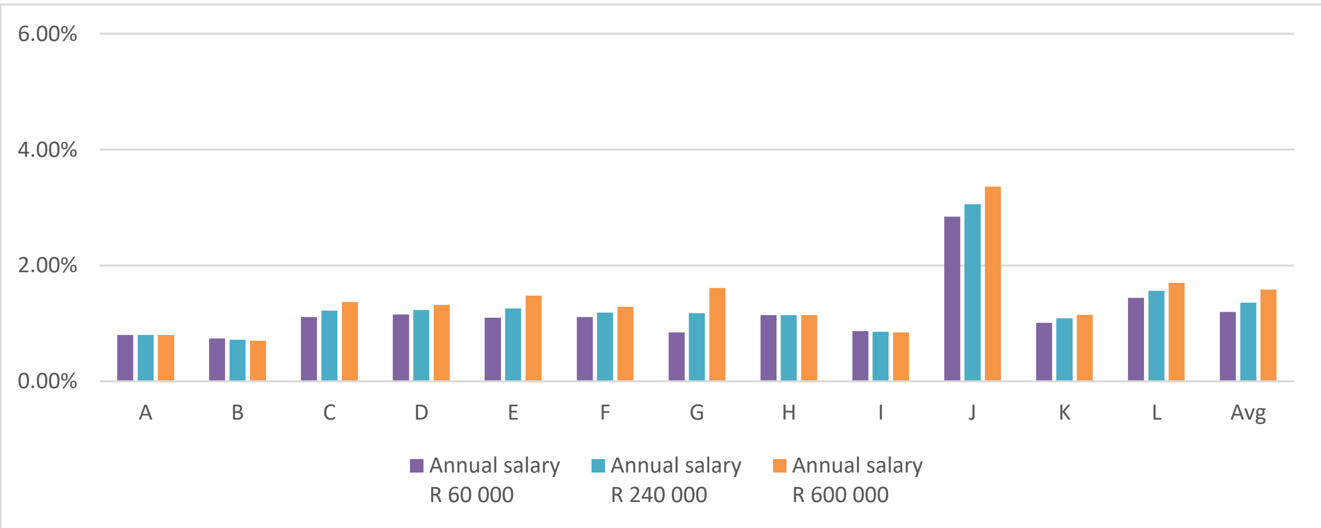
40. RSC charges comparison for a member aged 30 and Member Share of R 0 at commencement



41. RSC charges comparison for a member aged 30 and Member Share of R 100 000 at commencement



42. RSC charges comparison for a member aged 30 and Member Share of R 500 000 at commencement



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