10th Biennial Survey

of Retirement Benefits in South Africa 2000

Sanlam

Employee Benefits

Sanlam Employee Benefits takes pleasure in publishing the results of the 10th Biennial Survey of Retirement Benefits in South Africa.

The findings have been grouped as follows:

- General areas of interest: defined benefit and defined contribution funds
- Defined contribution fund specifics
- Defined benefit fund specifics
- Disability benefits

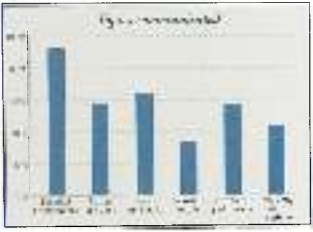
General areas of interest

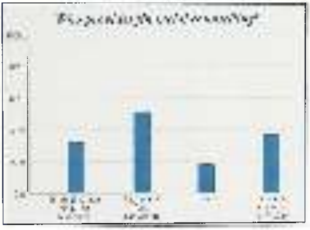
Legal concerns

17% of all funds are in breach of accepted minimum communication requirements. This is not the only area in which trustees are exposing themselves to the threat of legal action. The following are also potential problem areas:

- parties providing financial counselling
- communication of rule changes
- termination of spouse's pension on remarriage

It is accepted practice for funds to supply annual benefit statements. However, 17% do not do so. Such statements help members to make informed decisions. Another source of aid in decision making is financial counselling. It is a matter of concern that this service is provided by the trustees or the human resources department in a number of instances. They can, among other things, be held legally accountable for any flawed advice given.



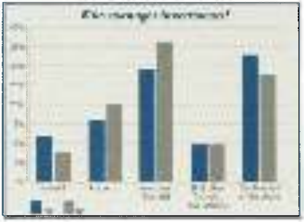


It is a requirement that rule change resolutions be disclosed to fund members. Less than 60% of funds, however, communicate trustee decisions to members.

Fund rules that require that spouses' pension payments be summarily ceased or reduced on remarriage are likely to run foul of the law if ever challenged.

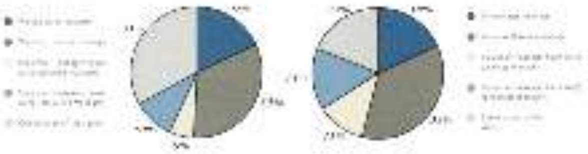
Investments

The graph below shows who is responsible for managing retirement fund assets.



Trustees seem to be placing greater importance on the old adage of not placing all one's eggs in one basket. The majority are splitting their investments amongst more than one investment manager. This awareness may be due to the formalising of investment goals and a mission statement.

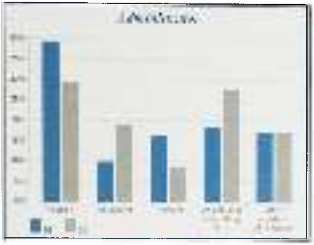
DB: Assets invested ***DC: Assets invested***



58% of defined benefit funds have less than a quarter of their portfolio in guaranteed funds/products. In the case of defined contribution funds, this figure is 45%.

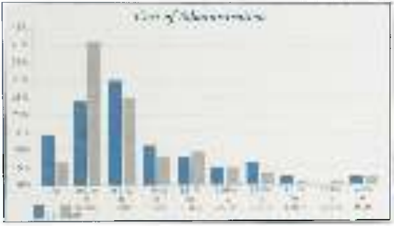
Self-administration

There is a shift in administration management away from brokers and insurers towards actuarial consulting firms and self-administration. The latter comes as somewhat of a surprise as retirement fund administration has become increasingly complex in an increasingly litigious environment.

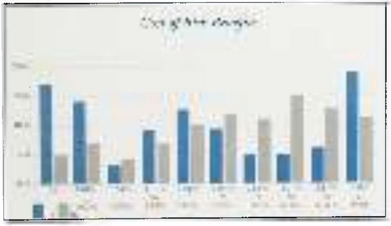


Costs

The weighted average administration costs per defined contribution and defined benefit funds are 2% and 2,5% respectively. These percentages for insured risk costs are 1% and 0,9% respectively.



Many funds appear to be attempting to curtail future risk costs. The approach amongst defined contribution and defined benefit funds differs. Defined benefit funds cut benefits directly, whilst the approach of the majority of defined contribution funds is to cap their contributions towards risk benefits. In addition, 28% of defined contribution funds have set up a reserve account out of which they may subsidise risk costs.

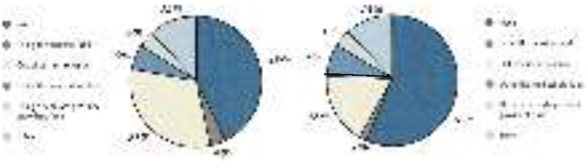


Subsidisation of medical aid contributions

Employers are less prepared to subsidise the medical aid contributions of future pensioners.

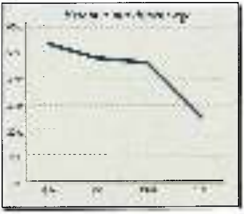
Medical aid contribution sources: current pensioners

Medical aid contribution sources: future pensioners



Entrance requirements

Many funds have altered their entrance requirements. The fact that fewer now have a maximum age restriction may be ascribed to the constitutional prohibition of age-based discrimination.



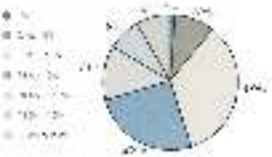
Defined Contribution Specifics

Contributions

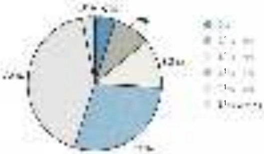
60% of employers' contributions towards retirement provision lie between 5% and 10% of salaries. A quarter of employers contribute more than this. The average total contribution rate of employers is about 8.5%

Two fifths of defined contribution fund members contribute between 5% and 7% of their annual salary towards retirement benefits. 45% of the members contribute more.

Employer contributions



Member contributions



Individual Investment Choice

Trustees need to be aware that permitting members investment choice does not remove their duty to ensure that their fund's investment position and strategy is sound. This is especially important in the light of the increased individual investment choice, both in the number of funds offering choice (up from 13% in 1998 to 36% in 2000) and the number of options available. Approximately two fifths of those offering individual choice give members 5 or more risk characteristic options to choose from. Most funds allow their members to switch investment funds at least twice a year.

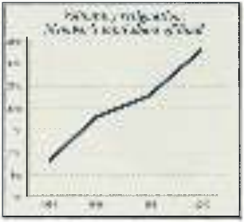
With the advent of greater member choice it is clearly important for members to receive information concerning the effects of their choices. This is important to enable members to monitor the choices made and review the choice in light of what actually happens. It is therefore alarming that only 64% of defined contribution funds communicate investment performance to their members.

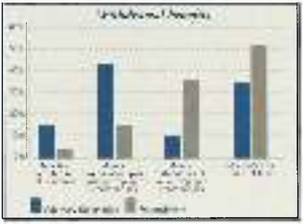
Benefits

The majority of funds allow members to purchase an annuity in their own name from any insurer.

Of those funds that allow members a choice in the level of death cover, approximately a quarter permit unconditional alterations in this choice. Such practice leaves the fund open to members selecting against the fund, increasing the likelihood of future risk premium escalation.

Unsurprisingly, funds provide larger benefits on retrenchment than on voluntary resignation. Over the last six years there has been a fourfold increase in the percentage of funds paying a "share of fund" benefit in case of voluntary resignation.





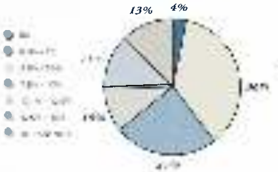
Defined Benefit Specifics

Funding levels

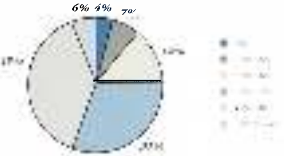
15% of defined benefit funds have no surplus. If actual experience is much worse than expected, such employers may be faced with the decision to either increase contributions or decrease future benefits in order to secure accrued benefits. Only 38% of defined benefit fund members are informed about their fund's valuation results.

Most employers contribute between 5% and 10% of their annual payroll towards retirement provision. The average rate is about 9%. Three quarters of employees contribute 5% or more of their annual earnings towards retirement benefits.

Employer contributions



Member contributions

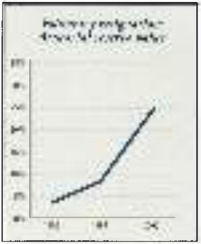


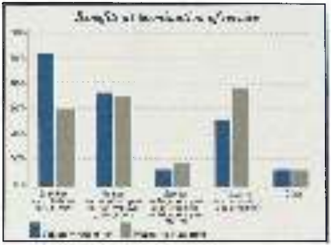
Two thirds of defined benefit fund members accrue retirement benefits at a rate of between 2% and 2,22% of their salary each year.

81% of defined benefit funds base retirement benefits on member's salary over the last year of service or a shorter period. This helps to protect initial pension benefits against inflation erosion that can occur if long averaging periods are used. However, it may pose a threat to the fund (employer) if larger than expected average salary increases are granted in the last year of service, as larger liability is then created than has been funded for. Specifying a maximum percentage salary increase for use in benefit determination in the last year of service can prevent this.

8% of fund rules make no allowance for an increase in pensions being paid. It is, however, encouraging to note that 44% of funds have granted an additional pension increase over the past 3 years in order to protect pensioners who have been receiving pensions for a long period against inflation.

In a pattern similar to that of defined contribution funds, defined benefit funds provide better benefits on retrenchment than on voluntary resignation. Approximately three quarters of all funds pay more than a straight refund of the employee's contributions plus interest on retrenchment. Half of those members who resign are treated in this manner. There is an overwhelming trend towards the payment of actuarial reserves in case of voluntary resignation. Over the last 4 years, the percentage of funds paying actuarial reserves has increased from 3% to 25%.



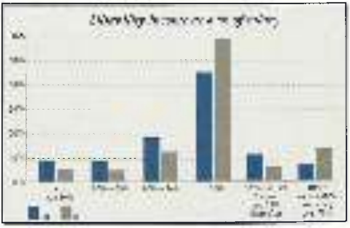


The majority of funds permit early and ill-health retirement. The size of the ill-health retirement benefit is normally based on service to date of ill-health retirement.

Disability Benefits

The majority of funds still provide both permanent and temporary disability benefits, even though the percentage of funds providing the latter has dropped. The overall levels of disability income granted have also declined, although most still provide 75% of annual salary on permanent disability.

22% of all funds that provide disability income benefits do not increase these payments.



More Information

The information contained in this document is merely an overview of the survey results. For more information or to determine how your fund compares against the survey results, please visit our website at www.seb.co.za or contact your Sanlam Employee Benefits consultant.

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