2012

BENCHMARK | SYMPOSIUM

THE RETIREMENT INDUSTRY NEEDS
HEROES MORE THAN EVER

Sanlam
Employee Benefits

CONTENTS

Foreword

By Robert Roux
Acting CEO:
Sanlam Employee Benefits

It has been said that the capital working people are able to generate through their retirement savings is often their biggest asset, second only to any property they own. With this in mind, Sanlam strives to make a difference to all South Africans by ensuring all research insights are available to help ordinary working people make informed decisions to enable a dignified retirement.

Given that according to Stats SA, South Africa is dealing with an unemployment rate of 25.2% as at the end of Q1 2012, this is indeed a challenging and mammoth task. The retirement industry is directly impacted by this growing unemployment base. More than 50% of the unemployed people are in their most productive years which is indeed a cause for concern.

This dilemma is in no way limited to South Africa, considering that the developed world is facing increasing sovereign challenges, where Governments are forced to apply austerity measures resulting in fundamental shifts in national budgets spend which has a severe impact on social and economic development. Across the globe issues of national budget deficits, unemployment and health reforms remain a priority.

Meanwhile the South African retirement industry is facing equally daunting challenges of pending retirement and health reforms. We are at the cusp of yet another series of retirement reform papers due to be released between August and October, and again the Sanlam BENCHMARK™ survey aims to provide retirement fund trustees and other key industry decision-makers with valuable research insights ahead of the release of these papers.

A slight shift in the focus of the research this year includes a sample of qualitative interviews with senior decision-makers of umbrella fund sponsors. The objective was to highlight the challenges umbrella funds have to overcome in the face of on-going regulatory changes and the shift in retirement fund demographics.

As in previous years, we trust that you will continue to find our contribution to the retirement fund industry meaningful and insightful.

The research would not have been possible without the valuable contribution and participation of retirement fund principal officers, sponsoring umbrella funds, the members and pensioners who willingly give up of their time to share their insights with us. Clearly, an industry of savings and investment heroes working together with a common goal of creating a better South Africa, for all retired individuals.

Research Methodology

Over the last three years we have observed that there are not many notable year-on-year shifts in the research data. As a result, we have decided not to conduct all four quantitative studies as we had done in the past five years. We still maintain that it is critical for Sanlam to continue with the research and to share our findings with the industry. We believe that on merit it makes more sense to conduct a full review on a bi-annual basis as opposed to annually.

We have however retained the critical elements of investments, risk benefits and costs to ensure continued annual trend analysis.

By Wagieda Suliman, *Lead Business Partner: Sanlam Group Intelligence*

The quantitative survey amongst Principal Officers of stand-alone retirement funds and the qualitative survey amongst key decision-makers at sponsoring umbrella funds were conducted by the independent market research agency BDRC, via face-to-face interviews. Once again, the high number of participants is indicative of the positive attitude and willingness of the industry representatives to participate in shaping the future of the South Africa's retirement environment.

The qualitative study with members and pensioners in the form of focus group discussions, which were supplemented by one-on-one interviews, were conducted by Evolve Research. All participants have provided us with permission to video tape their input and to use their insights.

As always the research was conducted under the SAMRA (South African Marketing Research Association) Code of Conduct and all the information gathered is held in strict confidence. All respondents in the retirement and umbrella funds components remain anonymous and only the aggregated results of the survey have been reported on.

This year we have conducted the following research:

- 188 face-to face interviews with Principal Officers of stand-alone retirement funds
- qualitative interviews with 6 out of 9 sponsoring umbrella funds, representing the bulk of the umbrella fund industry 6 focus groups in Cape Town and Johannesburg covering a cross spectrum of employed and retired individuals. Each group consisted of 8-10 participants.

Our research this year is more qualitative in nature with a view to provide deeper insights of the challenges facing the retirement industry.

The struggle continues ...

By Leon Naidoo
Client Solutions Manager: Growth Market

In order to provide appropriate solutions to individuals, it is important that we understand those individuals not only in terms of demographics, but also in the context of what is deemed important according to their social, cultural, attitudinal and psychological backgrounds.

The 2012 Sanlam BENCHMARK™ survey differed from previous years. Focus group discussions were conducted using a semi-structured discussion guide in an effort to understand what makes an individual a responsible investor and participants were asked for their views on savings and retirement. So, have we learnt about what defines a responsible investor? Do they focus on their children to provide better opportunities for them or do they believe their children will take care of them in retirement?

Based on their responses, it seems as though a responsible investor is someone who usually has a family to answer to (whether immediate, extended or both); puts the family first and knows that he/she needs to have financial products that will work towards the success of the family unit (and particular individuals within).

There is a consistent sense of struggle shining through for the majority of respondents in this study due to job insecurity, due to previous or future threats of retrenchments. Many are cash-strapped and finding it difficult to make ends meet. They also lead busy and hectic lifestyles, making them 'time poor'. There are also ageing and health concerns and high levels of stress brought on by money issues.

Although money is tight and the cost of living is an area of concern, the majority of respondents tend to find solace in simplicity. They have:

- a sense of gratitude = enjoying being alive;
- family and social bonds = time spent with family, socialising with friends and watching kids grow up;
- a sense of purpose = having hobbies, helping the community, still being able to make a living.

Unfortunately most respondents are not where they thought they would be financially, career- or education-wise. The personal challenge, mainly among Black households, is that they are sole breadwinners with everyone depending on one salary. They are also financially responsible for parents, siblings and other extended family. The typical family structure is clearly defined in racial terms. Black respondents generally tend to have some responsibility towards both immediate and extended family; whilst white respondents are typically from a nuclear family structure.

Most of the respondents in this study still play a positive and encouraging role in their families, either as provider, home-maker, advisor or emotional supporter. In essence the role of care-giver is multifaceted. It is not only limited to financial provision, but extends to providing some level of emotional well-being to loved ones.

Financial planning is approached in a manner that blends in with respondents' dreams and aspirations. In most cases family takes precedence and becomes the main motivator for good financial planning. However financial planning is also self-driven i.e. respondents try to cater for their own needs in the process. With good financial planning, the majority hope to attain peace of mind and assurance.

The harsh reality is that most respondents do not earn enough money to fulfil their dreams and struggle to save money. The end result is that most respondents cannot plan financially for their ideal future, although they may be aware of what they need to do. The challenge for financial services company is not to force the growth market segment towards the ideal future, but rather offer solutions that can assist them to get close. This market segment are survivors and have been able to stretch their limited income in the past to take care of kids' education, shelter, safety and health needs. There's no doubt that the struggle will continue, but they will survive as they have always done, but we can assist by providing simple, affordable and accessible solutions.

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A comfortable retirement is within everyone's reach

By Samkelo Zwane,
Product Manager
at Glacier by Sanlam

Historically the Sanlam BENCHMARK™ Survey has focused on institutional investors and pension funds. This year however there is a very strong focus on the individual member and their experiences of pre- and post-retirement. This has allowed us to draw meaningful conclusions about the behaviour of the individuals within these groups. It has also made the study more personal and has created findings that are more direct and insightful.

1

One of the questions that we asked the retirees is **"What advice would you give to young people who are still working and preparing for retirement?"** Even though we have asked this question in previous years, the only difference this year is that we did not give the respondents a list of answers from which to select.

What was clear from all respondents was that saving for retirement should start very early in one's working career. The earlier you start saving for retirement the better. You should aim to put money aside no matter how small the amount may be. It seems many people just don't understand the effects of compound interest. If you start saving early, you earn interest on interest. Over a longer time period this can significantly improve the amount you receive on retirement. This is generally referred to as the principle of compound interest. To show the impact of not starting to save for retirement as early as possible, we estimate that for each year you delay saving for retirement, you will have to save an additional 2% of your annual salary over time - all other things being equal.

2

The second message which came through clearly is that **individuals need to limit their debt**. This is a nationwide problem. Statistics compiled by National Treasury show that the ratio of national debt to disposal income deteriorated from 50% in year 2000 to about 75% in 2011. Therefore for every R10 of disposable income, people on average use R 7.50 to repay debt. Given that consumers then have less than 25% of disposal income competing for savings, consumption, education etc. it comes as no surprise that people give less priority to savings.

3

The third message was that **people should take retirement seriously**. The Sanlam BENCHMARK™ Survey statistics show that about 65% of retirees receive retirement advice 15 years before retirement. This is too late given that if you want to replace 70% of your income before retirement you will have to save at least 21% of your income for a period of 30 years. The BENCHMARK™ Survey statistics also show that only 60% of individuals who seek retirement advice get this advice from their financial adviser. An alarming 40% consult their company human resource department for retirement advice. This raises a concern since human resource consultants are not retirement experts.

4

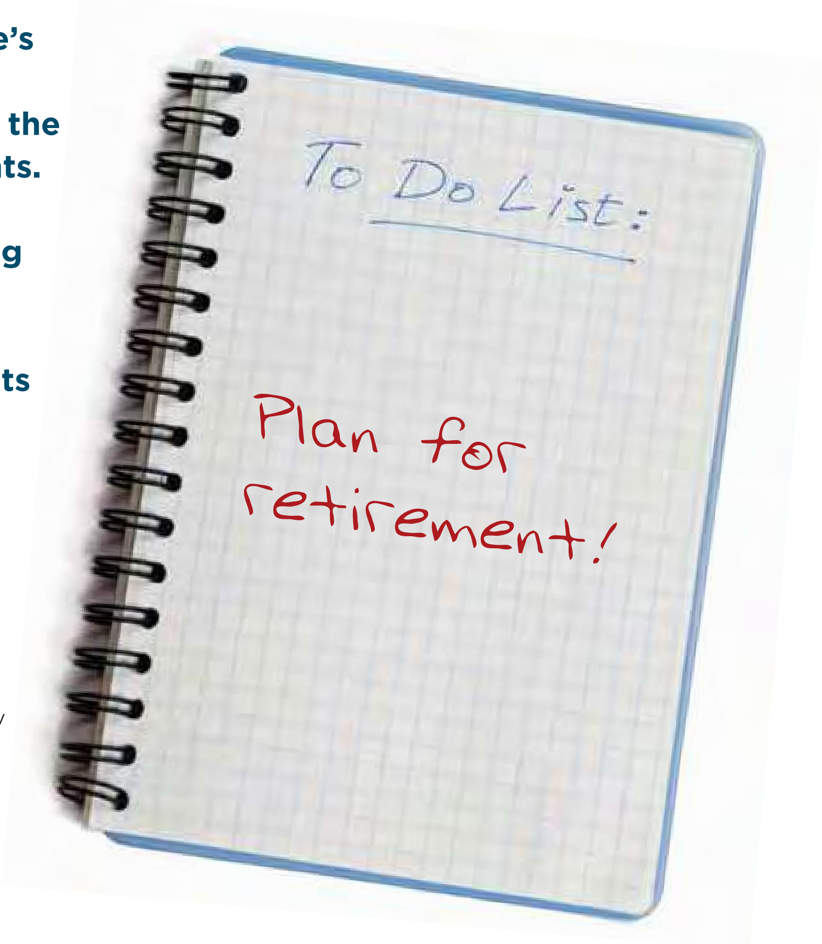
The final message is that **people should prioritise health and medical care when saving for retirement**. The message was simple: "Nothing is enjoyable without good health". Retirees spend most of their retirement income on housing, medical aid costs and groceries. What makes matters worse is that statistics show that 53% of retirees were not prepared for the high medical costs' inflation which fluctuates between 10% and 15% per annum. About 64% of the retirees use state medical facilities to deal with a shortfall in medical aid contributions.

By saving enough, regularly, and starting early, you will not become a liability to either yourself or society. It was clear from this year's BENCHMARK™ Survey that you do not have to earn large amounts in order to afford to save for retirement. Regardless of challenging individual circumstances we have retirees who managed to save for a comfortable retirement, saved for their children's tertiary education, and saved to meet all medical costs in retirement. These are often retirees who are earning less than R10 000 per month and they are, in many instances, the bread winners in their families. These savings heroes share some common characteristics. Chief amongst these is that they are willing to forgo instant gratification in favour of long-term gain. They view a comfortable retirement, good education for their children and affording health care in retirement as more important than satisfying their short-term wants.

Heroes in our midst

By Victor Kambule
Regional Manager:
Sanlam Employee Benefits Distribution

Saving for the future is on everyone's to do list but has a tendency of being forever procrastinated under the pretext of day– to- day commitments. Only those who dare to forego the daily chores of compulsive spending on depreciating material enjoy life in their ageing years. The following groups of different income segments were interviewed and gave their perspectives on the subject of saving and investment.



The tendency of members of society with family responsibility and who earned less than R10 000 per month in their working lives, has been that there has not been an opportunity to save for the future. Any small saving never lasts for more than six months due to real/unreal daily commitment demands. The only commitment to any type of monthly savings vehicle were the stokvels as they created a sense of belonging, societal interaction and a view to sharing the accumulated growth in savings at year-end where most spending takes effect.

A worrying factor is that a lot of them do not appreciate the significance of retirement savings vehicles such as retirement annuity. Their view on Retirement Annuities is that they do not yield the required or promised returns exacerbated by non-access to the funds until age 55. Their view on saving was more on the purchase of day-to-day commodities in terms of special offers on such items. Investments were not well appreciated in the context of accumulation of wealth and sadly could not be integrated in planning for the future, notwithstanding the earning capacity. Despite a non-savings culture by a majority in this segment we were able to identify some savings heroes. These were individuals who were able to save for their children's education, retirement and health care. A common factor amongst these heroes was their mind set. They are willing to forgo short term material consumption for the long term satisfaction of a comfortable retirement and good health care.

The population who earned above R10 000 per month believed they could afford most of what life had to offer. The view on saving by the majority was compromised by a sense of instant gratification in acquiring material possessions. Only a small percentage of this population steered away from credit and instilled a discipline of saving for material possessions and for the future.

The heroes that can be heralded from this generation owe their success in saving to access to information on savings and investment through their financial planners, self-start reading and the willingness to appreciate how much more difficult life will be at retirement topped up by added healthcare requirements.

As such, that small percentage has retired reasonably comfortable as they ensured they sourced information on investments and disciplined themselves on saving. Furthermore, they educated their children to give them freedom and not to be a perpetual burden. This approach has ensured self-sufficiency in their golden years and has created a powerful blueprint for the next generation.

The group who currently earns above R10 000 per month has shown an improvement in that they are looking and implementing any form of savings, from stokvels to JSE shareholding. They understand the difference between saving and investment and are more akin to the long-term nature of investments and appreciate the challenges faced by the current pensioners in terms of still looking after their grandchildren who await to be subsidised by their children over and above the government grants. The grave challenge they face is the material acquisitions which define their social standing and acceptance.

Even though a handful, savings heroes were identified in both segments. This dispels the ideology that savings is only for people who can afford to save. Our savings heroes from both segments share one common mind set. They are willing to forgo short term materialism for long term satisfaction.

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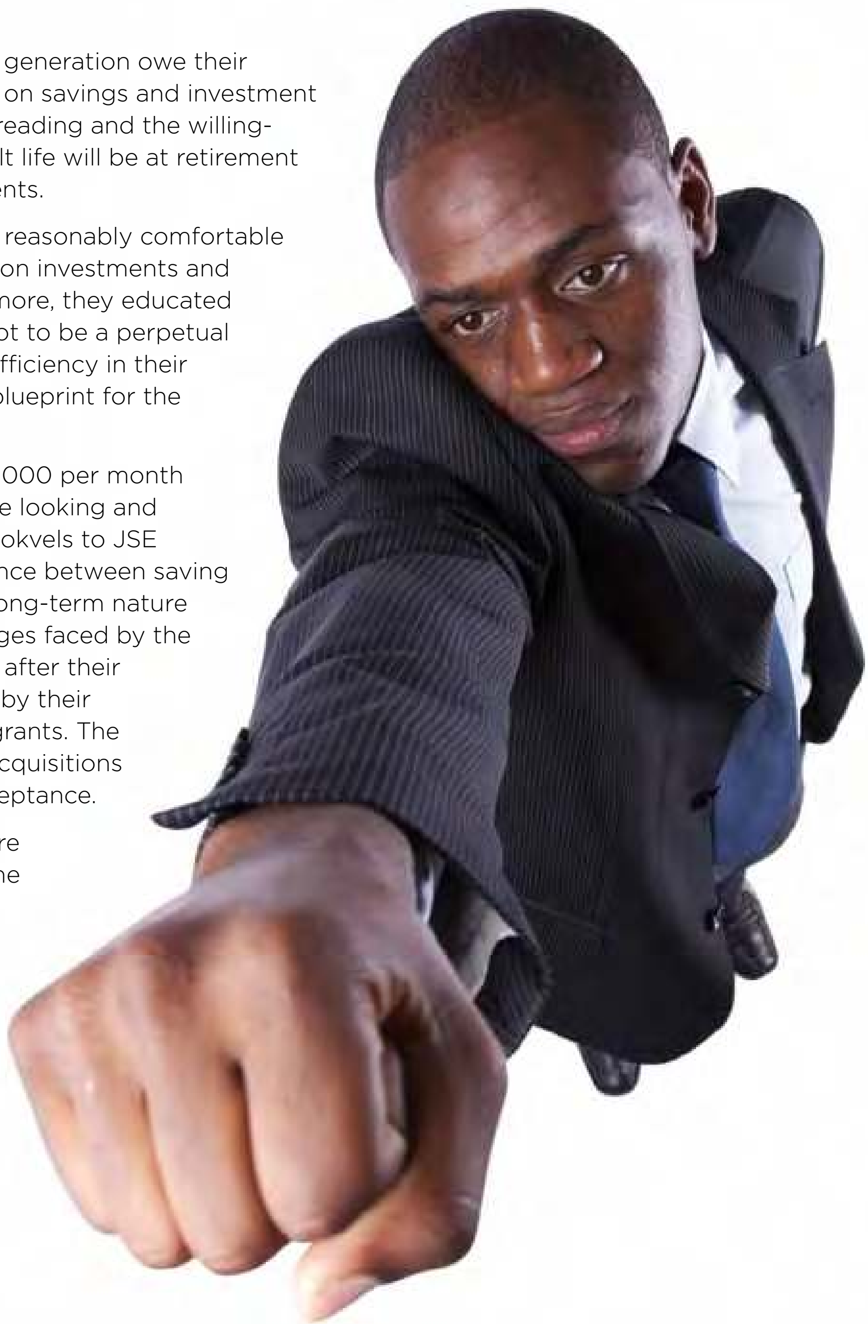


How can employers respond to retirement reform pressures?

By Kobus Hanekom
Head Strategy Governance and Compliance: Simeka Consultants & Actuaries

The questions that an employer should ask in the face of retirement reform are: How efficient is my fund and does it really give members the inside track to a dignified retirement?

Around 80% of members earn less than R150 000 p.a. Based on life expectancy statistics a large percentage will not live to retirement age – so they need life cover more than anything else. But if they survive to age 65, they may live on average for another 20 years, which means that they will be very dependent on a good pension. They will change jobs between 5 and 7 times and left to their own devices, benefits will more than 80% of the time be withdrawn in cash and not saved for retirement.

Member surveys tell us that members are generally apathetic and pay little attention to their retirement fund affairs. In the context of behavioural finance, this behaviour is perfectly understandable and as we pointed out last year, the right thing to do is to accept it as a business reality and revise your fund structure to guide and support members to the most appropriate result. (We should of course continue with member education programmes, but recognise that they are unlikely to provide results in the shorter term).

Let's assume that when our Pension Funds Act was passed in 1956, a visionary employer took time to devise an efficient group retirement plan, established a board of trustees to run the fund and prepared a set of rules to guide them. Today, a half century later, the visionary employer may no longer be around and if you ask about the fund, those in charge will in all likelihood give you the rules to read. So over time, the visionary plan has more than likely been reduced to a set of rules and entitlements. The benefit structure may have been subject to a number of ad hoc changes and may have lost its essence. The trustees, (at least on paper) are often lay persons under pressure to ensure compliance with the law - and the fund rules.

The legislative framework does much the same. Member protection is almost entirely focused on compliance with the rules of the fund. It still allows leakage and there are no measures in place to reduce costs even though these are the single biggest concerns identified as far back as 2004 in the National Treasury paper. Whether the group retirement plan is still compelling and efficient is not a requirement in the rules and certainly not a requirement in law.

Is it possible that we could have lost the plot in the last 50 years? Should there not be a person, a body charged with the duty to make sure that the plan still hangs together? Let's look at the fundamentals.

WHY A **RETIREMENT FUND**?

Because retirement funds are virtual tax havens and are very tax efficient.

> "Very few South Africans appreciate that retirement funds are now virtual tax havens. Where else can one invest with up to a 40% tax incentive and thereafter the fund grows free of Income Tax and Capital Gains Tax and Dividend Withholding Tax and is protected against Estate Duty? "
> - Professor Matthew Lester, Professor of Taxation Studies, Rhodes University, Grahamstown.

In a non-retirement fund investment the investment is made with after tax money. A person who earns R10 000 that he wishes to save for retirement will only be able to invest R6 000 after tax at 40% (we assume the highest rate of tax to show the full effect). The interest thereon is subject to income tax at up to 40%. Dividend income is subject to a 15% tax and gains realised are subject to Capital Gains tax at 13.3%. At death, benefits are subject to capital gains tax as well as estate duty at a rate of 20%. In a pension fund investment, members enjoy a tax deduction on contributions of up to 40%. That means that the person in our example will be able to invest the full R10 000, which will, in addition, also be exempt from all the other taxes mentioned above. Any lump sum taken at retirement will however be subject to tax at the retirement tax table and any monthly annuity will be taxed as normal income. Based on a R10 000 pm investment over 25 years Professor Lester's calculations show that the retirement fund investment produces a result that is more than a 100% better. Our own calculations over 35 years with maximum deductible contributions on an income of R300 000 shows a 122% better return than a non-retirement investment.

These are incredible benefits. Group retirement funds are simply the most tax efficient retirement vehicles available. They are also the most cost effective (as we will discuss later) and from a planning perspective every member who has a shortfall in his or her retirement savings (that is more than 90% of us) should as a first step increase their retirement fund contributions up to the maximum.

WHAT DOES A GOOD RETIREMENT FUND LOOK LIKE?

The next question employers should ask themselves is: What does a good retirement fund look like?

It will of course depend on the amount of pension payable. In a DC fund the member's "member share" (that is, all contributions net of costs and risk premiums adjusted with the investment returns earned thereon) will be used to purchase the pension. Projected into the future, this number will mean very little to most members. As a result, what many funds do is to provide each member with a net replacement ratio (NRR). The NRR tells a member what percentage of final salary his or her monthly pension is projected to be. This number provides members with a context and a better understanding of their position.

Members who have taken their withdrawal benefits in cash one or more times will likely have a NRR on the low side. The question that such a member may ask: Is it because the fund I belong to is not good or is it only because I have contributed for a short period of time? We know that for most members a low NRR number has everything to do with the level of contributions and the number of years they are in the fund. But it still does not help one to answer the question, how good is my fund?

The net replacement ratio (NRR) tells a member what percentage of final salary his or her monthly pension is projected to be.

WHAT IS THE HORSE POWER OF MY FUND?

To determine the "horsepower" or net replacement ratio capacity (NRRC) of a fund requires a fairly complex calculation. When we do a "NRRC and cost comparison report" we investigate and take all costs into account: All those that are deducted from the monthly contributions, as well as those that are deducted directly from the assets invested. Because it is difficult to calculate and compare these costs, we use a number of member profiles and express the costs that will be incurred to each on a monthly basis. Once we have calculated the costs in respect of the fund under investigation we compare the results with those of compelling umbrella funds. This gives us a very clear picture of the cost efficiency of the fund compared to alternatives available in the market.

The next step is to prepare the NRR of a member who remains in the fund for 35 years, contributes at the default contribution rate, invests in the default investment portfolio and follows the fund's default annuitisation strategy. The results are based on long term assumptions and can therefore be no more than a projection. The calculation however accurately projects the outcome of the assumptions and targets we set for ourselves today and allows us to calculate and compare the "horsepower" of a fund.

To determine the "horsepower" or net replacement ratio capacity (NRRC) of a fund requires a fairly complex calculation.

WHY WOULD YOU WANT TO KNOW THE "HORSEPOWER" OF YOUR FUND?

An objective we have in common with National Treasury is our desire to identify and remove all inefficiencies in the plan so we can reduce the cost of running the fund and increase the pension payable to the member on retirement.

The calculation helps one to flush out inefficiencies in the system that lead to additional costs that make the fund uncompetitive. In this way significant improvement to the retirement benefits payable to members on retirement can be realised. If costs can be reduced to allow just 1% of the monthly contributions to be redirected to retirement funding from overhead costs, the retirement benefit can be increased by around 5% over 35 years.

A LEGISLATIVE FRAMEWORK THAT SERVES A **SHARED VISION** AND A **COMMON OBJECTIVE**

There are however certain aspects of the outlined strategy that can only be dealt with effectively by legislation. Preservation is a good example. There is no way in which retirement funds can even attempt to try to enforce preservation if the law allows for withdrawal prior to retirement. The same goes for certain disclosures and charges.

We look forward to working with National Treasury to develop an appropriate solution for South Africa. In doing so, we must agree on a number of key criteria. One of them will no doubt be costs. Going forward it should be the responsibility of all the stakeholders to honour and protect these criteria. We now have a situation where the reporting requirements in respect of regulation 28 could cost a fund R150 000 p.a. and more, depending on the formula used by the service providers. Going forward we would require that all proposed new legislation be assessed and a cost benefit analysis done. It will not serve the SA consumer if on the one hand we squeeze the service providers to the narrowest margin and on the other we heap on compliance costs that offer no real benefit.

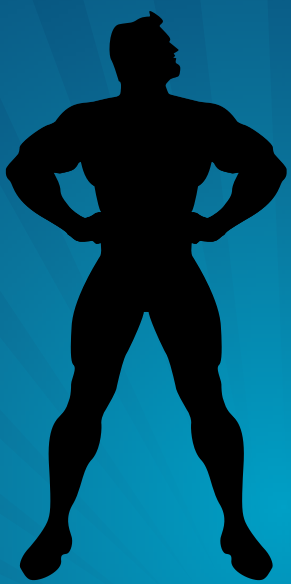
EMPLOYERS HAVE TO BE THE **SAVINGS HEROES**

Behavioural finance tells us that members, worldwide, are apathetic. Employers and trustees have to accept member apathy as a business reality and have to adjust the benefit structure as well as their communication and support structures to make sure that members are guided to a dignified retirement. The problem is that it may not be the employer or the trustees' understanding that they have such a responsibility or the clear authority in terms of the fund rules. In the evolution of retirement funds over the last few decades this important aspect was clearly not top of mind.

In occupational retirement funds the employer needs to reclaim his position as the visionary leader and custodian of the group retirement plan and be the retirement savings hero. Employers have to make sure that the retirement plans they sponsor are efficient and will give members the inside track to a dignified retirement.

Stand-alone Summary

By Danie van Zyl
Head: Guaranteed Investments
Sanlam Structured Solutions
and
Viresh Maharaj
Actuary, Sanlam Employee Benefits: Group Risk



The **2012 BENCHMARK™ Survey** was conducted among 188 principal officers of stand-alone retirement funds. Interviews were conducted between January and April 2012. Respondents were selected at random to represent the following retirement funds:

small
(< 100 members)

medium
(100-500 members)

large
(501-5 000 members)

very large
(5 001+ members)

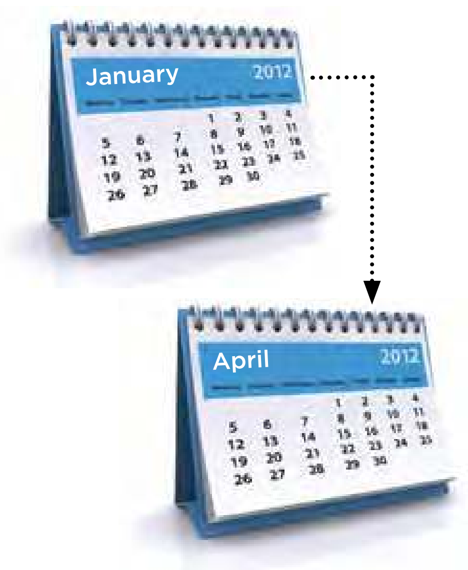
The majority **(25%)** of the principal employers are from the manufacturing industry as in the previous years.

Organisations offer on average **2** retirement funds to employees.

Majority **(48%)** of the funds that participated in the survey are provident funds.

There are on average **2 266** active members belonging to the fund. The number of active members increased slightly from 1 787 in 2009 to 2 266.

The average total value of assets of the fund is **R533m** (R348m in 2009).



KEY INDICATORS

Figures as a percentage of salary	Average across all funds	Funds with 101 to 500 members	Funds with more than 5000 members
Employer contribution	10.24	10.25	10.38
Employee contribution	5.96	5.88	6.06
Total contributions	**16.20**	**16.13**	**16.45**
Less death benefit premiums	1.59	1.37	1.59
Less disability benefit premiums	1.11	1.22	1.04
Less administration and operating costs	1.07	1.24	0.56
Total provision for retirement	**12.43**	**12.30**	**13.26**

Members of bigger funds save nearly 1% of salary more than smaller funds towards retirement. It is therefore hardly surprising that smaller retirement funds are increasingly moving into umbrella fund arrangements, standardising the benefits and allowing for more efficient administration of these funds.

CONTRIBUTIONS AND **COSTS**

1 Almost 70% of funds have an annual total contribution (members' plus employers' contrib-ution) of more than R5m (about 60% in 2009).

3 Only 7% of funds calculate the cost of the pure administration fee of the fund as a % of the total asset value of the fund (decreased from 12% in 2009 to 6%-7% in 2010 and 2011). On average 1.33% of the total asset value of the fund goes toward the cost of administration.

Average % of salary

2 Most funds (57%) calculate the cost of the pure administration fee of the fund as a % of the member's salary (the same trend has been followed since 2009).

4 28% of funds calculate the cost of the pure administration fee of the fund as a fixed cost per member per month. This amounts to about R34 per month per member on average.

RISK BENEFITS

The big story this year is that the industry appears to be more price competitive than ever as pricing pressures are driving costs down to historic lows.

This trend may be as the result of an ever increasing understanding of the impact of HIV/AIDS on mortality and morbidity, increased pressure from intermediaries and clients to cut prices and/or positive changes in the risk factors being used in pricing models. This trend suggests that the group risk industry is efficiently managing the insurance needs of employed South Africans by engaging in near perfect competition.

Given this observed trend, it will be interesting to note the impact of the ASISA guidelines prohibiting insurers from distributing current risk costs to other insurers at rebroke stage on the risk costs going forward. This guideline was implemented to mitigate the risk of potential anti-competitive practices but may serve to lever up risk prices as competitors will not view the existing rate and will therefore not be able to actively undercut the incumbent insurer.

	2012	2011	2010
Total GLA benefits	**1.74%**	2.23%	2.58%
Core risk benefits	**0.96**	1.14	1.56
Flexible risk benefits	**1.17**	1.35	1.55
Death benefits under the fund	**1.59**	1.6	1.72
Death benefits under a separate scheme	**1.19**	1.52	1.4
Disability benefits under the fund	**1.11**	1.22	1.31
Disability benefits under a separate scheme	**1.03**	1.21	1.13

Still the majority of funds (85%) do not offer flexible death benefits.

The employer of 49% of the funds surveyed pay a fixed contribution only. 40% include the cost of administration and the cost of risk benefits. The same trend was followed in previous years.

The average members' and employers' total contributions approximately remained the same over the years (employers contributed between 9% and 10% and members between 5% and 6%).

TARGET PENSION

Only 35% of funds have a target pension that they actively work towards. 79% of these funds have a default strategy in place to help ensure that the target pension can be achieved.

MEMBER INVESTMENT CHOICE

58% of funds offer member investment choice, offering on average four investment choices.

85% of funds stated that all members pay the same administration fee regardless of whether they exercise investment choice or not (majority since 2009).

SOCIALLY RESPONSIBLE INVESTING (SRI)

Still the minority (26%) of funds have a policy to invest a portion of its funds in socially responsible nvestment portfolios.

However, there was an increase in the number of funds with this policy in place:

	2012	2011	2010	2009
Yes	26%	17%	18%	10%
No	69%	76%	78%	82%

The majority (56%) of funds invest 1% to 9% of its assets in SRI. In 2009, 20% of funds had no investments in SRI.

GOVERNANCE

According to the Investment Policy Statement (IPS), an average of 6.27% of the total assets of the fund can potentially be allocated to Socially Responsible Investments.

The percentage of funds which use and properly document the following governance instruments relating to investments (the majority still use IPS and only 21% use Code for Responsible Investments in South Africa (CRISA)):

	2012	2011	2010	2009
Investment Policy Statement (IPS)	86%	88.0 %	81.5 %	79.5 %
Investment performance review	74%	68.5 %	75.0 %	68.5 %
Mandates for each investment product / portfolio	71%	61.0 %	58.0 %	52.0 %
Code for responsible investing in South Africa	21%	-	-	-
United Nations Principles of Responsible Investing (UNPRI)	4%	3.0 %	0.0 %	0.0 %

INVESTMENTS

More funds (increase from 39% in 2011 to 53% in 2012) review performance and compliance with mandates quarterly, rather than annually.

Increasingly more funds (33% in 2009, 56% in 2011 and 63% in 2012) use inflation in their investment mandates to assess their investment manager's performance followed by peer performance in a published survey (52% in 2012).

From 2009 to 2011, peer performance in a published survey was considered the most important benchmark by the majority of funds when deciding whether or not to retain the fund's investment manager. In 2012, most funds (35%) consider inflation most important.

60% of funds use life staging as an investment vehicle.

The number of years prior to retirement that members are moved to a less volatile phase, is on average between six and seven years (2010 to 2012).

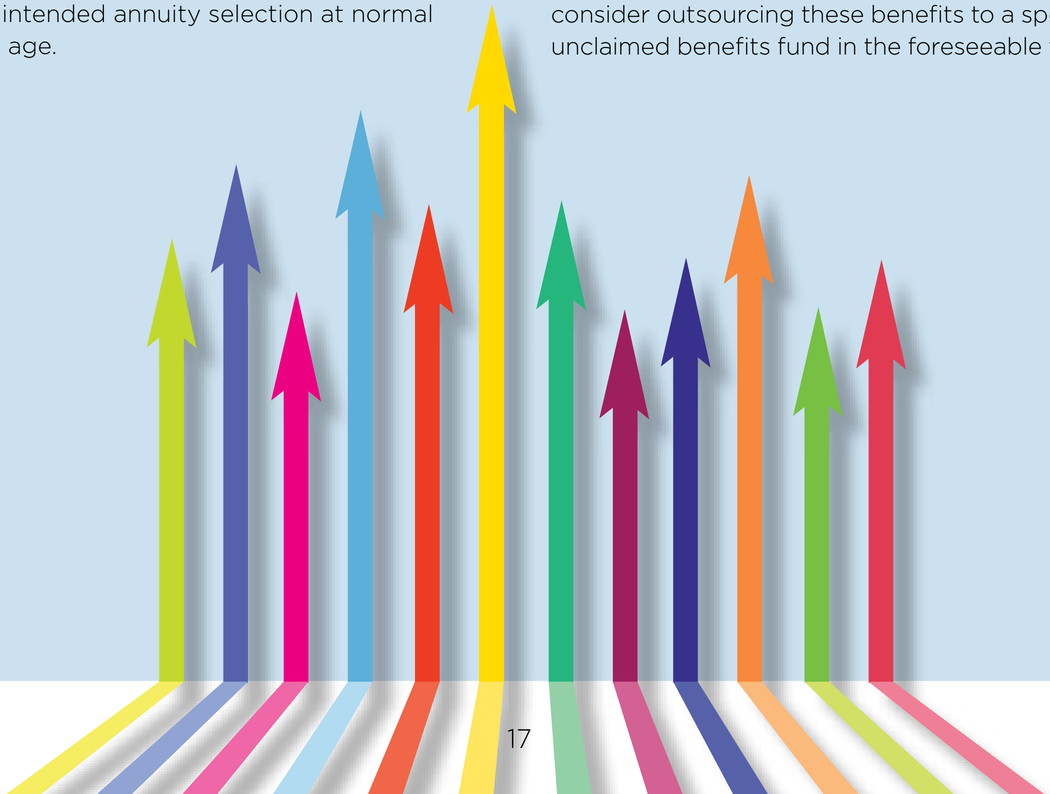
Approximately half of the funds stated that the different end stage portfolios are based on members' intended annuity selection at normal retirement age.

In 2010, the majority of the funds allowed Guaranteed Annuity (100%) and Inflation linked (59%) as the type of annuity for the different end stages. In 2011, the majority allowed for Inflation linked (53%) and Living Annuity (53%), whilst in 2012 Guaranteed Annuity (37%) and Living Annuity (36%) were allowed for. However, 25% of funds did not know which annuities were allowed for.

The asset allocation used by the majority of funds for the end stage in the life stage option is conservative equity (less than 30%) and/or cash (100%). More funds make use of moderate equity (5.4% in 2010, 16% in 2012).

	2012	2011	2010
Conservative equity (<30)	32%	35.1 %	35.1 %
Cash (100%)	29%	35.1 %	39.2 %
Moderate equity (30%+)	16%	6.8 %	5.4 %

On average funds have about 24 unclaimed benefits and more than half of funds with unclaimed benefits consider outsourcing these benefits to a specialised unclaimed benefits fund in the foreseeable future.



LEGAL

7% of funds dealt with between 1 and 10 divorce orders in 2011. Only 31% had no divorce orders.

An overwhelming 92% of funds confirmed that they are fully compliant with the new provisions of Regulation 28. 5% are busy implementing it.

2% of funds made changes to the investment strategy as a result of the new requirements of the Regulation 28. Changes made were prompted by:

- requirements by regulation/governance (44%)
- gaining of greater access to offshore investment options (15%)
- introduction of asset classes / investment vehicles that are regulated by Regulation 28

The requirements of Regulation 28 discouraged only 6% of funds from using hedge funds.

Most funds (46%) confirmed that the administrator is tasked to provide Regulation 28 reports to the fund. An investment consultant is assigned by 35% of the funds.

40% of funds do not pay for a Regulation 28 report, whilst 55% are not sure whether they pay or not.

The principles promoted by the Code for Responsible Investing in South Africa (CRISA) had no influence on 73% of the funds interviewed. Only 11% of funds were affected by CRISA. 45% of these adapted their funds' IPS for CRISA whilst 35% implemented more oversight /monitoring of assets by trustees.

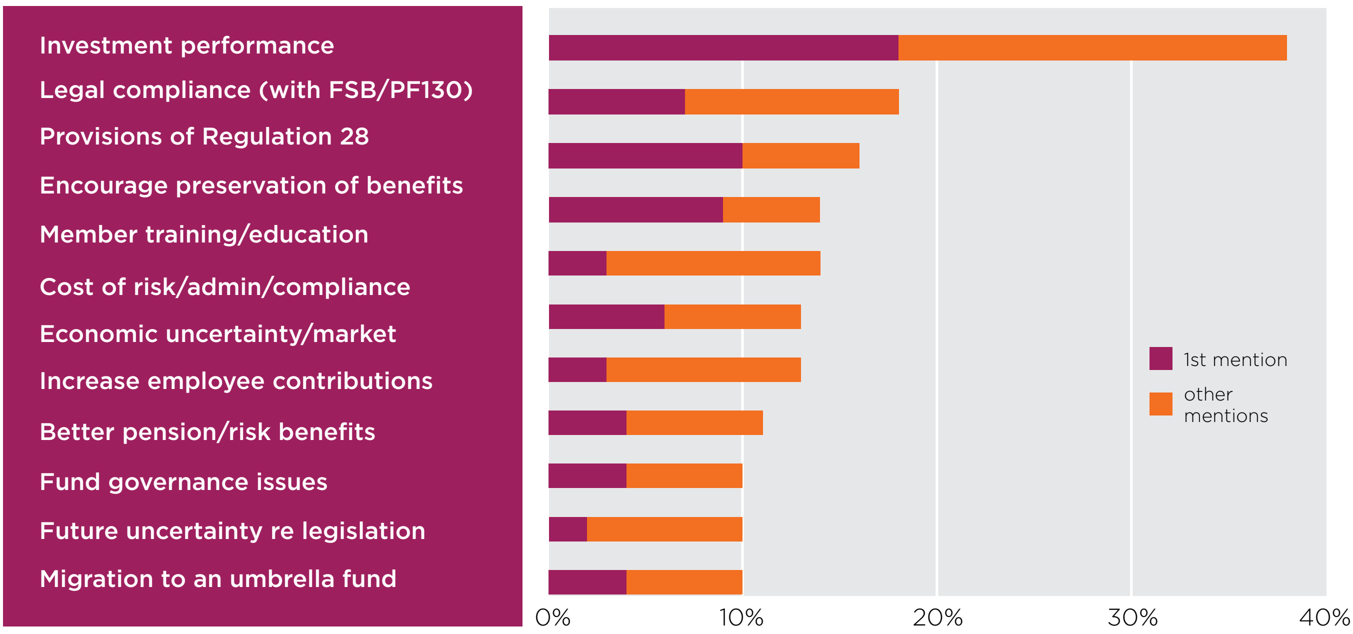
Only 19% of funds have an Environmental, Social and Corporate Governance (ESG) policy in place which was implemented by 29% within the last 6 to 12 months.

77% formally implement ESG issues in their IPS. An inclusion of an ESG policy was found to be more onerous on the Board of trustees by 26% of funds. 31% stated that it had little or no impact and that it is already part of the trustees' duty.

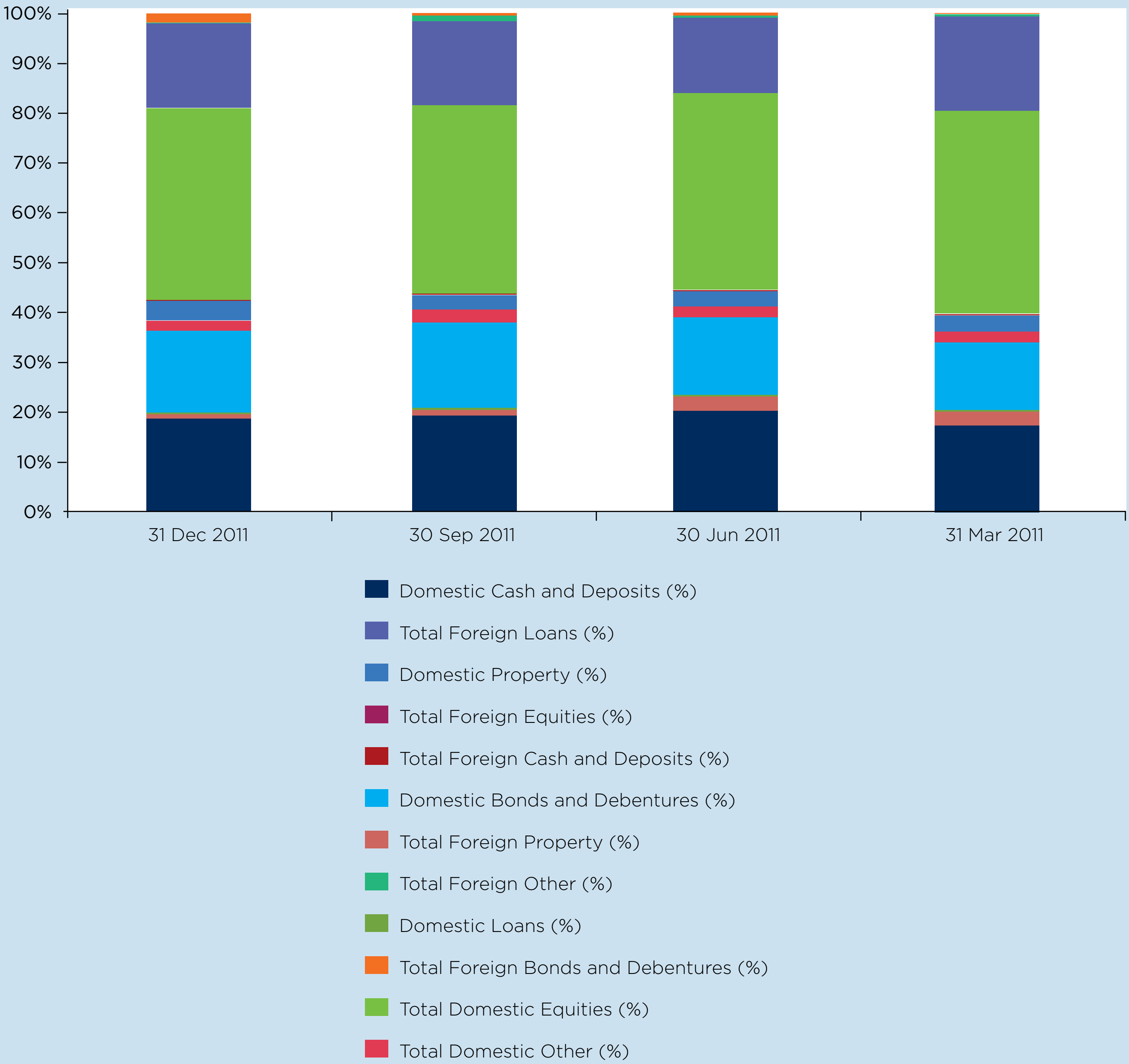
On average 2.4% of members currently contribute more than the amount that may be deducted for income tax.

SPECIAL TOPICS

24% funds stated that members resigned during the past 12 months in order specifically to access their retirement savings. Most funds indicated that investment performance and the provisions of Regulation 28 are the burning issues that trustees are currently dealing with.

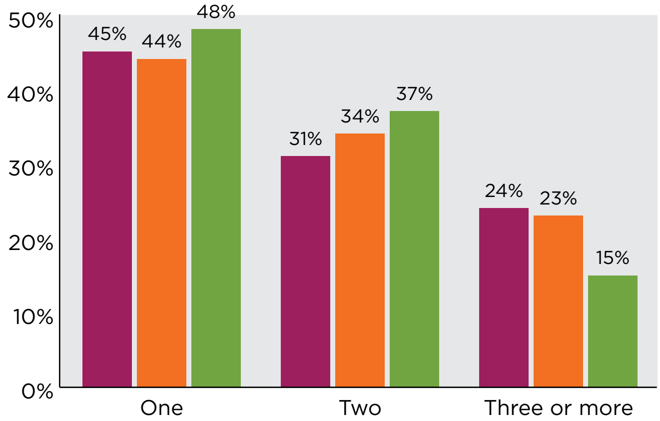


SARB REPORTING: AVERAGE ALLOCATION PER QUARTER



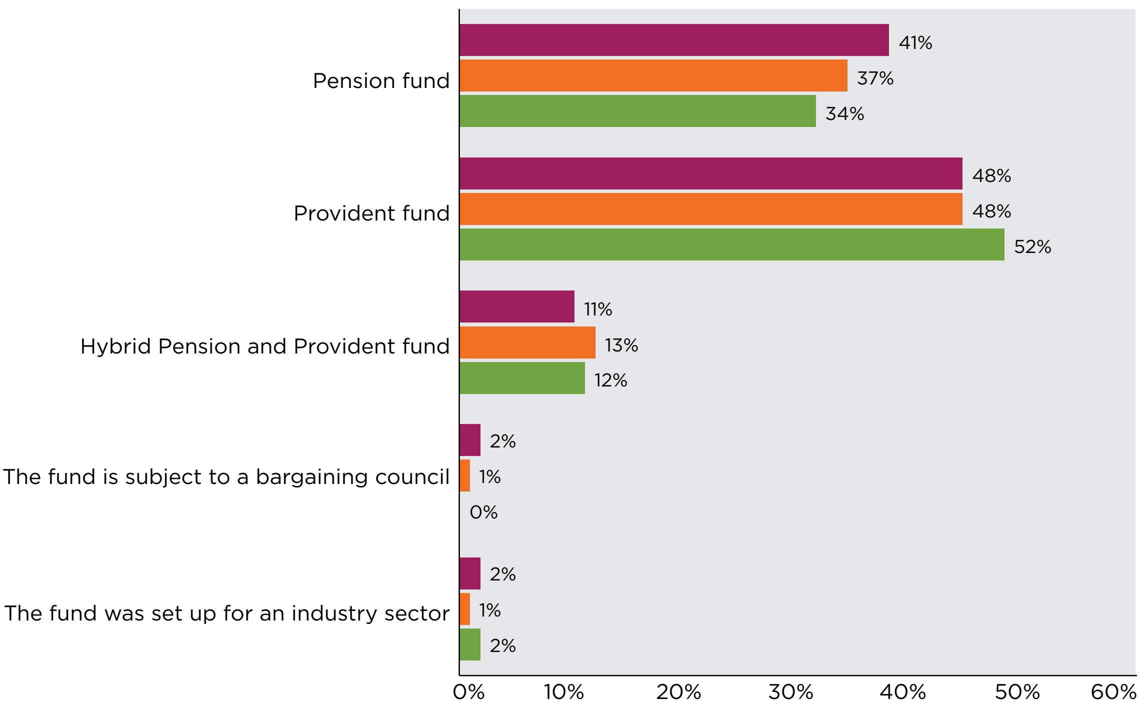
Summary of Survey results

How many retirement funds does your organisation offer to employees?



	2012	2011	2010
Mean	1,8	1,79	1,68
Total	100%	100%	1005
Base: All Resondents	188	200	200

Which of the following descriptions applies to the fund participating in the survey?



	2012	2011	2010
Table size	195	1,79	1,68
Total	104%	101.5%	101.5%
Base: All Resondents	188	200	200

How many active members belong to the fund?

	2012	2011	2010
41 to 100	10%	12%	11%
101 to 300	23%	21%	20%
301 to 500	10%	11%	13%
501 to 1 000	13%	12%	15%
1 001 to 5 000	27%	32%	28%
5 001 or more	17%	12%	13%
Mean	2266	2022	2019
Total	100%	100%	100%
Base: All Respondents	188	200	200

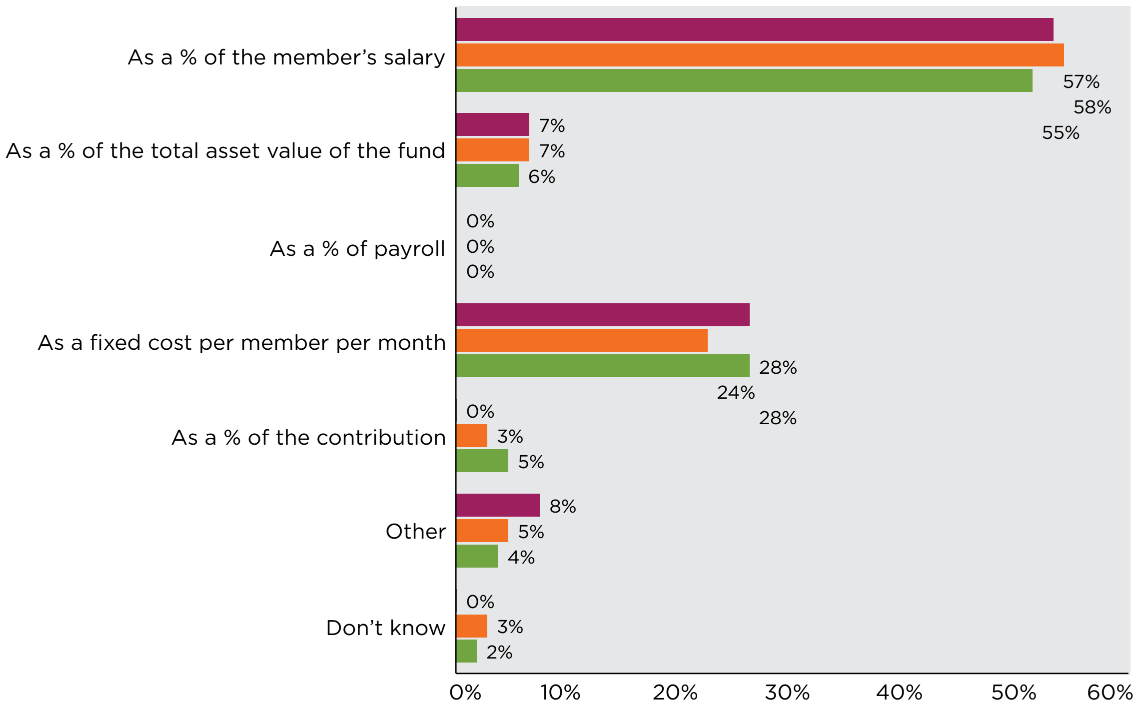
What is the total annual contribution category of the fund (i.e. member's plus employer's contribution)?

	2012	2011	2010
Less than R1 million	4%	6%	4%
R1 million to R5 million	26%	26%	24%
More than R5 million	69%	64%	69%
Don't know	1%	4%	3%
Total	100%	100 %	100 %
Base: All Respondents	188	200	200

What is the total value of assets of the fund?

	2012	2011	2010
Less than R12 million	4%	5%	6%
R 12,1 mil to R 30 mill	10%	13%	8%
R 30,1 mil to R 60 mill	13%	9%	14%
R 60,1 mil to R 120 mill	8%	11%	12%
R 120,1 mil to R 300 mill	18%	13%	16%
R 300,1 mil to R 500 mill	9%	10%	10%
R 500,1 mill to R 1 bn	13%	19%	13%
More than R1 billion	22%	16%	18%
Don't know	3%	4%	3%
Mean	533,3	478,81	461,86
Total	100%	100%	100%
Base: All Respondents	188	200	200

How is the cost of the pure administration fee of the fund calculated?

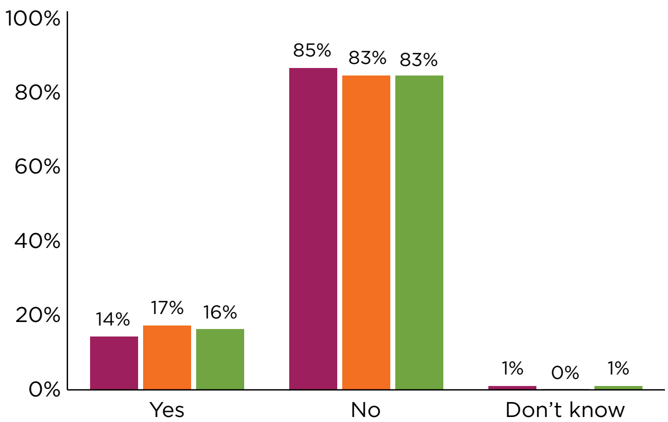


	2012	2011	2010
Total	100%	100%	100.5%
Base: All Respondents	188	200	200

What % of each member's salary goes towards fund administration?

	2012	2011	2010
0.01% to 0.50%	36%	32%	33%
0.51% to 1.00%	32%	29%	39%
1.01% to 1.50%	10%	13%	7%
1.51% to 2.00%	1%	5%	5%
2.01% to 2.50%	2%	2%	3%
2.51% to 3.00%	2%	3%	0%
3.01% to 3.50%	0%	1%	1%
3.51% to 4.00%	1%	2%	1%
4.01% or more	9%	3%	5%
Other	0%	2%	0%
Don't know	6%	8%	6%
Mean	1,07	0,89	0,93
Total	100%	100 %	100%
Base: All Respondents	108	118	109

Does the fund offer flexible death benefits (i.e. member can choose the level of cover within certain limits set by the fund)? In this instance members receive a basic level of life cover (core cover) and can then choose additional (flexible) cover to suit their needs. Savings due to members not choosing the maximum cover will be applied to their retirement provision.



	2012	2011	2010
Total	100%	100%	100%
Base: all resondents	188	200	200

What percentage of salaries is applied to the cost of death benefits/life cover under the fund and under a separate scheme? Under the fund.

	2012	2011	2010
0%	2%	2%	1%
0.01% to 0.50%	11%	8%	4%
0.51% to 1.00%	12%	14%	14%
1.01% to 1.50%	17%	10%	15%
1.51% to 2.00%	11%	15%	12%
2.01% to 2.50%	7%	8%	10%
2.51% to 3.00%	5%	4%	4%
3.01% to 3.50%	4%	3%	1%
3.51% to 4.00%	1%	1%	4%
4.01% or more	4%	4%	4%
No benefit	19%	24%	23%
3.51 to 4% combined death and disability	0%	1%	0%
Other	0%	2%	1%
Don't know	6%	4%	7%
Mean	1,59	1,6	1,72
Table Size	161	166	169
Total	100%	100 %	100%
Base: All Respondents	161	166	169

What percentage of salaries is applied to the cost of death benefits/life cover under the fund and under a separate scheme? Under a separate scheme.

	2012	2011	2010
0%	6%	2%	2%
0.01% to 0.50%	3%	5%	4%
0.51% to 1.00%	9%	5%	2%
1.01% to 1.50%	6%	5%	5%
1.51% to 2.00%	7%	5%	5%
2.01% to 2.50%	2%	1%	4%
2.51% to 3.00%	2%	1%	2%
3.01% to 3.50%	1%	2%	0%
3.51% to 4.00%	0%	1%	1%
4.01% or more	1%	2%	0%
Death and disability combined at 1.26%	0%	0%	1%
Other	0%	2%	1%
No benefit	61%	67%	70%
Don't know	3%	2%	3%
Mean	1,19	1,52	1,4
Table Size	161	166	169
Total	100%	100%	100 %
Base: All Respondents	161	166	169

What percentage of salaries is applied to the cost of disability benefits under the fund and under a separate scheme? Under the fund.

	2012	2011	2010
0%	6%	3%	2%
0.01% to 0.50%	9%	7%	9%
0.51% to 1.00%	20%	18%	16%
1.01% to 1.50%	13%	13%	13%
1.51% to 2.00%	7%	6%	7%
2.01% to 2.50%	0%	4%	4%
2.51% to 3.00%	1%	2%	1%
3.01% to 3.50%	2%	1%	1%
3.51% to 4.00%	1%	2%	2%
4.01% or more	3%	1%	3%
No benefit	32%	33%	32%
Don't know	7%	10%	10%
Mean	1,11	1,22	1,31
Table Size	188	200	200
Total	100%	100%	100%
Base: All Respondents	188	200	200

What percentage of salaries is applied to the cost of disability benefits under the fund and under a separate scheme? Under a seperate scheme.

	2012	2011	2010
0%	6%	2%	2%
0.01% to 0.50%	10%	6%	6%
0.51% to 1.00%	12%	13%	9%
1.01% to 1.50%	9%	6%	6%
1.51% to 2.00%	4%	4%	5%
2.01% to 2.50%	1%	2%	2%
2.51% to 3.00%	1%	1%	2%
3.01% to 3.50%	2%	1%	1%
3.51% to 4.00%	0%	1%	1%
4.01% or more	2%	2%	0%
No benefit	51%	57%	59%
Other	0%	1%	2%
Don't know	4%	4%	5%
Mean	1,03	1,21	1,13
Table Size	188	200	200
Total	100%	100%	100%
Base: All Respondents	188	200	200

Which of the following does the employer pay?

	2012	2011	2010
Fixed contribution only (i.e. total cost to company - no additional costs)	49%	41%	45%
Fixed contribution plus the cost of administration	3%	5%	5%
Fixed contribution plus the cost of risk benefits	5%	5%	4%
Fixed contribution plus the cost of administration and the cost of risk benefits	40%	44%	43%
Other	3%	5%	3%
Table Size	188	203	200
Total	100%	101.5 %	100.0 %
Base: All Respondents	188	200	200

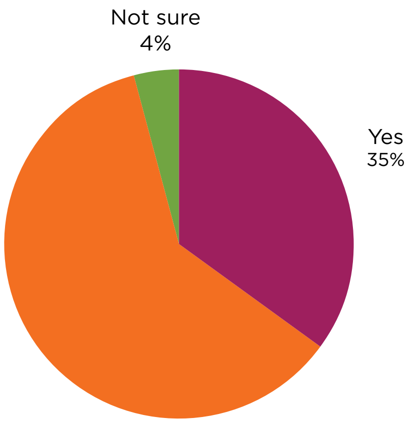
What on average are the employer's total contributions (excluding any contributions made to a separate scheme), expressed as a percentage of total average annual salary?

	2012	2011	2010
0%	2%	1%	2%
0.1% to 5%	4%	4%	4%
5.1% to 7.5%	15%	15%	19%
7.6% to 10%	21%	27%	23%
10.1% to 11%	12%	13%	17%
11.1% to 12.5%	13%	11%	10%
12.6% to 15%	14%	10%	12%
15.1% or more	14%	15%	11%
Varies	3%	3%	0%
Don't know	2%	1%	2%
Mean	10,24	10,13	9,76
Table Size	188	200	200
Total	100%	100.0 %	100.0 %
Base: All Respondents	188	200	200

What contribution (as a percentage of salary and excluding any additional voluntary contributions) is made by members on average?

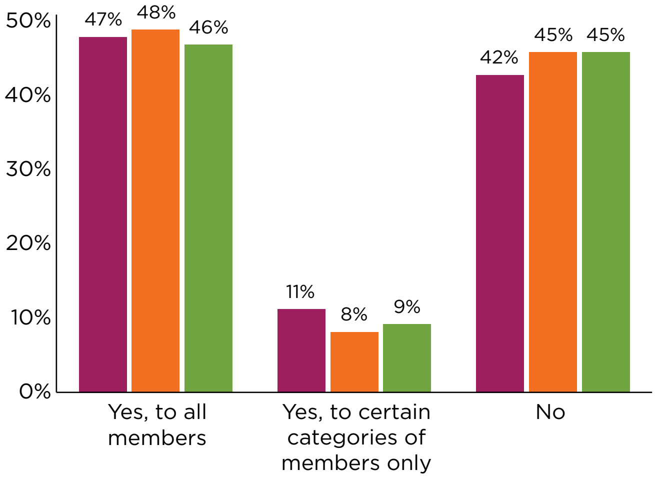
	2012	2011	2010
0%	13%	10%	15%
0.1% to 5%	6%	7%	7%
5.1% to 6%	7%	9%	4%
6.1% to 7.4%	16%	21%	18%
7,50%	45%	38%	40%
7.6% to 8%	2%	3%	2%
8.1% or more	8%	7%	10%
Other	2%	3%	1%
Don't know	1%	2%	3%
Mean	5,96	6,14	5,84
Table Size	188	200	200
Total	100%	100.0 %	100.0 %
Base: All Respondents	188	200	200

Does your fund have a stated target pension that the trustees actively work towards?



	2012
Table Size	188
Total	100%
Base: All Resondents	188

Does the fund provide for member investment choice?

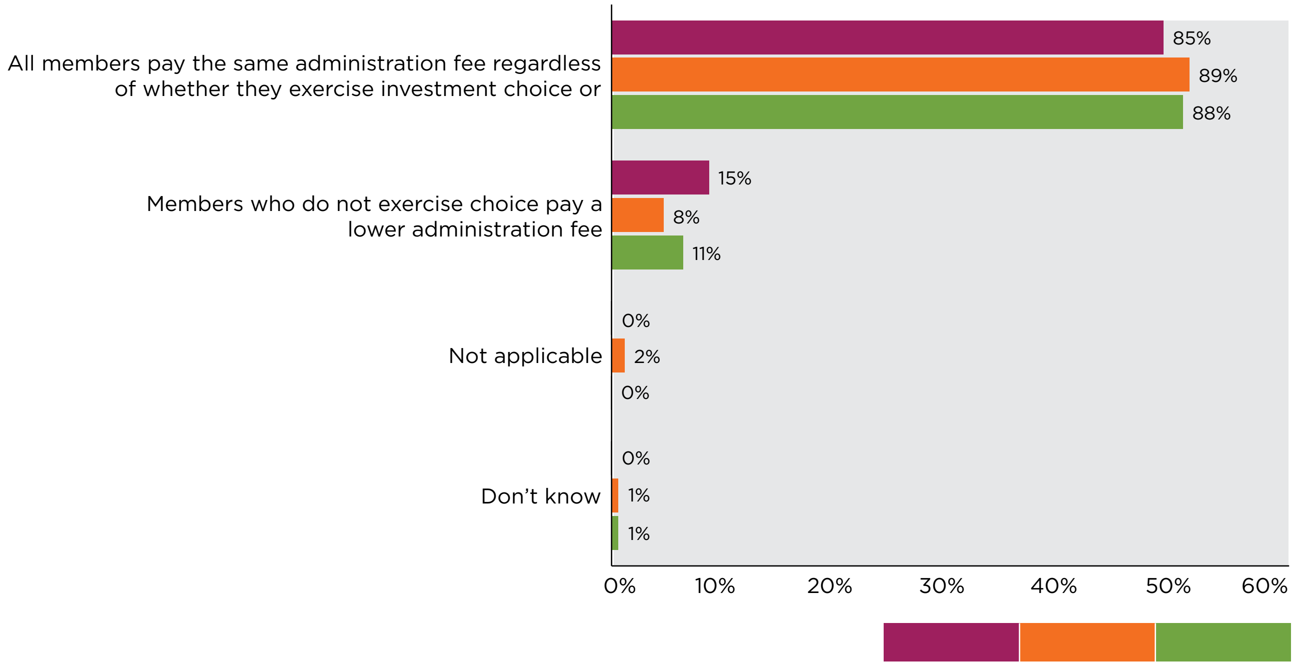


	2012	2011	2010
Table Size	188	200	200
Total	100%	100.0 %	100.0 %
Base: All Respondents	188	200	200

How many investment options does the fund offer to members?

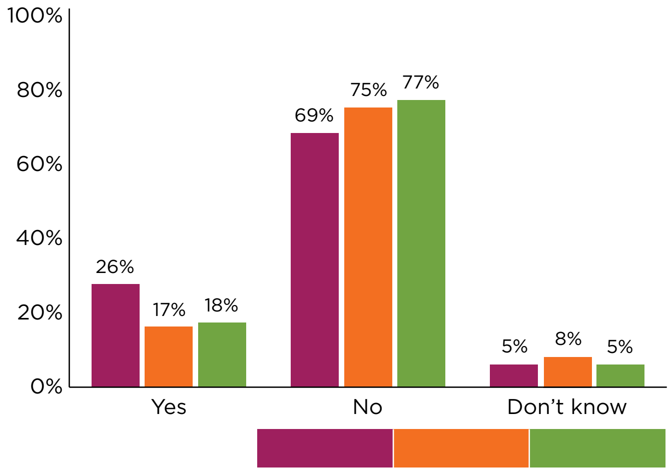
	2012	2011	2010
One	5%	0%	3%
Two	7%	11%	12%
Three	27%	25%	20%
Four	24%	0%	0%
Five	11%	60%	65%
6 or more	25%	0%	0%
Other	2%	4%	0%
Mean	4,9	3,51	3,48
Table Size	109	111	110
Total	100%	100.0 %	100.0 %
Base: All Respondents	109	111	110

Which of the following best describes how the basic admin fee is charged in respect to member investment choice?



	2012	2011	2010
Table Size	109	111	110
Total	100%	100.0 %	100.0 %
Base: All Respondents	109	111	110

Does the fund have a policy to invest a proportion of its fund assets in Socially Responsible Investment Portfolios (SRI)?



	2012	2011	2010
Table Size	188	200	200
Total	100%	100.0 %	100.0 %
Base: All Respondents	188	200	200

Which of the following Governance Instruments relating to investments are used (and properly documented)?

	2012	2011	2010
Investment Policy Statement (IPS)	86%	88%	82%
Mandates for each investment product / portfolio	71%	61%	58%
Investment performance review	74%	69%	75%
United Nations Principles of Responsible Investing (UNPRI)	4%	3%	0%
Code for Responsible investing in SA	21%	0%	0%
Other	0%	1%	0%
Don't know	0%	2%	1%
Table Size	484	446	430
Total	257%	223.0 %	215.0 %
Base: All Respondents	188	200	200

How often are performance and compliance with mandates reviewed?

	2012	2011	2010
Monthly	9%	8%	5%
Every 2 months	0%	1%	0%
Quarterly	52%	38%	44%
Tri-Annually	2%	1%	2%
Half-yearly	9%	7%	15%
Annually	20%	35%	27%
Less often than annu-ally	1%	1%	2%
Other	2%	1%	0%
Not applicable	0%	0%	0%
Not reviewed	0%	3%	1%
Not sure	5%	5%	4%
Table Size	163	153	166
Total	100%	100.0 %	100.0 %
Base: All Respondents	163	153	166

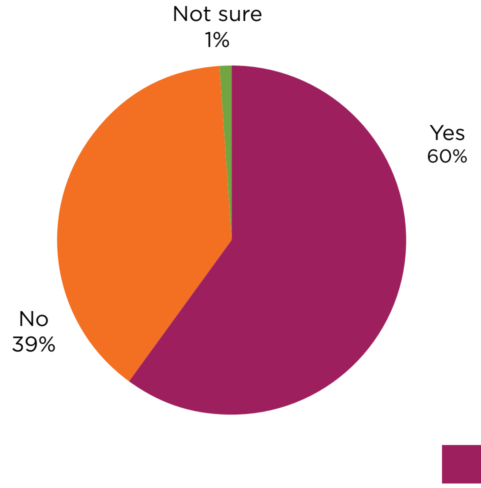
What benchmark is described in your investment mandates to assess your investment manager's performance?

	2012	2011	2010
Peer performance in a published survey	52%	56%	50%
Published Index e.g. FTSE/JSE All Share Index or weighted combination of indices	51%	51%	50%
Inflation	63%	56%	44%
Own benchmark	5%	4%	4%
Other	6%	4%	4%
Don't use benchmark in our IPS	2%	5%	6%
Don't Know	0%	1%	0%
Table Size	336	350	312
Total	178,70%	175.0 %	156.0 %
Base: All Respondents	188	200	200

Which benchmark is most important when deciding whether or not to retain your investment manager?

	2012	2011	2010
Peer performance in a published survey	32%	35%	52%
Published Index e.g. FTSE/JSE All Share Index or weighted combination of indices	20%	20%	0%
Inflation	35%	30%	31%
Own benchmark	4%	4%	4%
Other	6%	6%	3%
Don't use benchmark in our IPS	3%	4%	8%
Don't know	0%	2%	2%
Table Size	188	200	155
Total	100%	100.0 %	102.6 %
Base: All Respondents	188	200	151

Does your fund use life staging as an investment vehicle or not?

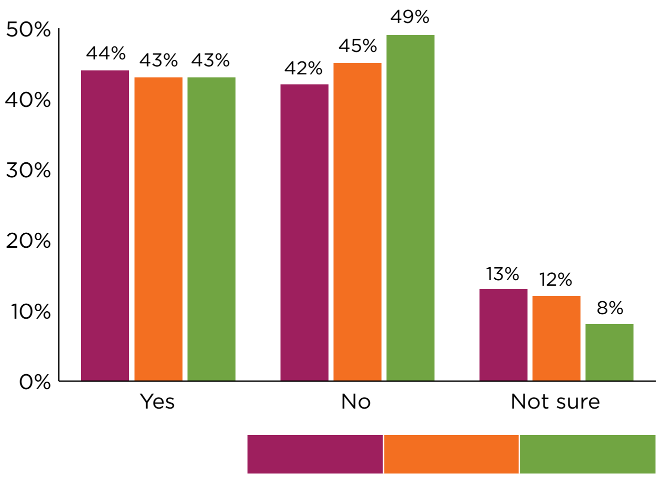


	2012
Table Size	188
Total	100%
Base: All Resondents	188

In a life stage vehicle members are switched to a less volatile phase in the investment portfolios for the period prior to normal retirement age. How many years prior to retirement do you start moving members to that phase, i.e. how long is the phase out period?

	2012	2011	2010
2 years	4%	3%	5%
3 years	4%	7%	3%
4 years	0%	0%	1%
5 years	41%	41%	43%
6 years	2%	3%	3%
7 years	21%	18%	18%
8 years	6%	8%	5%
9 years	2%	1%	0%
10 years	17%	15%	15%
11 years	1%	0%	1%
13 years	1%	3%	1%
More than 13 years	2%	1%	4%
Don't know/not sure	1%	0%	0%
Mean	6,68	6,44	6,66
Table Size	113	74	74
Total	100%	100.0 %	100.0 %
Base: All Respondents	113	74	74

Are the different end stage portfolios based on members' intended annuity selection at normal retirement age?



	2012	2011	2010
Table Size	113	74	74
Total	100%	100.0 %	100.0 %
Base: All Respondents	113	74	74

Which type of annuities do the different end stages allow for?

	2012	2011	2010
Guaranteed annuity (level or increasing)	37%	47%	100%
Living annuity (ILLA)	36%	53%	47%
Inflation linked	31%	53%	59%
With profit	24%	34%	25%
Other	17%	3%	16%
Not applicable	0%	3%	0%
Don't know	25%	3%	9%
Table Size	192	63	82
Total	169,90%	196.9 %	256.3 %
Base: All Respondents	113	32	32

Which of the following asset allocations best describes the end stage in the lifestage option?

	2012	2011	2010
Cash (100%)	29%	35%	39%
Bonds (100%)	4%	1%	3%
Smooth bonus	10%	7%	11%
Conservative equity (<30)	32%	35%	35%
Moderate equity (30%+)	16%	7%	5%
Other	5%	11%	4%
Don't know	4%	4%	3%
Table Size	113	74	74
Total	100%	100.0 %	100.0 %
Base: All Respondents	113	74	74

Umbrella Funds Study

By David Gluckman
Head: Sanlam Employee Benefits
Future Positioning & Research

UMBRELLA FUND INDUSTRY OVERVIEW

Our previous research has indicated that significant consolidation has taken place within the retirement funds industry over the past few years, and we have seen the emergence of a significant and increasingly important umbrella fund sector.

How big is the South African commercial umbrella fund market? Gluckman & Esterhuysen (2011) estimated 2010 market size with reference to Financial Services Board data (based on audited fund financial statements). They reported on 26 major commercial umbrella funds backed by 9 sponsoring companies and comprising approximately R69 billion of assets in respect of approximately 1,085,000 members.

We have estimated market size one year later and using identical methodology. The Financial Services Board report in excess of 500 Type A umbrella funds comprising approximately R110 billion of assets in respect of approximately 1,500,000 members, and the comparable 2011 figures for the identical 26 major commercial umbrella funds sponsored by the identical 9 companies are:

Sponsor	# Umbrella Funds	Total Assets	# Members
Alexander Forbes	4	R 26,676,682,326	209,226
First Light	2	R 1,493,408,902	12,491
Liberty Group	6	R 19,914,364,558	305,790
MMI	2	R 11,533,746,261	167,940
NBC	1	R 757,864,444	12,177
NMG	2	R 726,181,140	12,146
Old Mutual	4	R 17,277,154,867	269,302
Sanlam	3	R 6,601,784,924	96,115
Towers Watson	2	R 2,811,796,181	46,442
	26	**R 87,792,983,603**	**1,131,629**

These major umbrella funds thus represent some 80% of the commercial umbrella fund sector, and it is becoming increasingly apparent that the market is now dominated by 5 major umbrella fund sponsors. The above numbers imply that total assets increased by 26.8% and members increased by 4.3% from 2010 to 2011 for these 26 umbrella funds.

METHODOLOGY

We have undertaken 3 prior umbrella fund studies in years 2009, 2010 and 2011. In each study, we surveyed 100 employers that participated in umbrella funds.

This year we decided to analyse umbrella funds from a different perspective viz. that of the sponsoring company. Our thinking is that this should reveal new insights that were not apparent from our previous 3 studies – specifically the major challenges faced by umbrella fund sponsors and their views on the retirement fund reform process.

We plan to revert to surveying participating employers in future years as it is also important to continue to monitor these trends. One possibility is that we analyse participating employers and sponsors in alternate years.

The survey was once again conducted by the independent market research agency BDRC via face-to-face interviews on average 1.5 hours in length. The brief was to survey the person within each sponsoring company that heads the umbrella fund business, and also to concentrate on the larger commercial umbrella funds.

Ideally we would have wanted to survey no less than 10 umbrella fund sponsors, but it is apparent that there was some reluctance from some sponsors to participate presumably for competitive reasons. This 2012 BENCHMARK™ Survey was conducted among 6 umbrella fund sponsors with the face-to-face interviews taking place in April and May 2012.

Although it is disappointing that a greater number of umbrella fund sponsors were not included in the survey, we are nonetheless satisfied that the sample represents a significant proportion of the South African commercial umbrella fund market, and that the responses are therefore of great interest from a research and policy development perspective.

As in prior years, all respondents remain anonymous and only aggregated / summarised results have been reported on. In order to avoid outliers skewing the reported responses, averages have been reported as the median response (or the average of the third and fourth highest response in the case of six responses).

STUDY DEMOGRAPHICS

The 6 umbrella fund sponsors were asked to supply their umbrella fund summary demographics at the end of calendar years 2010 and 2011.

This reveals the following summary statistics:

	31 December 2011	31 December 2010	% Growth
# Members	793,657	754,305	5.2%
# Employers	14,231	14,400	(1.2%)
Total Assets	R76.8 billion	R66.8 billion	14.9%

These statistics reveal that a very substantial proportion of the South African commercial umbrella fund market is included in this study. We deduce that almost certainly the survey includes 4 of the 5 major commercial umbrella fund sponsors plus 2 mid-size umbrella fund sponsors.

GOVERNANCE

It appears that great efforts have been made over the past few years to enhance the governance of umbrella funds, and similar findings are evident from our 2009 to 2011 surveys of umbrella fund participating employers.

Some of the interesting findings include:

1. In 3 cases, there is a 50/50 split between sponsor-appointed and independent trustees. In 3 cases, the independent trustees outnumber the sponsor-appointed trustees.

2. Because of logistical challenges, 5 of the 6 sponsors report that independent trustees are not elected by members.

3. In all cases, great efforts are made to ensure that the boards of trustees comprise competent professionals with the necessary technical expertise.

4. The responses appear to indicate that participating employer meetings (Joint Forums) are the accepted model for larger participating employers, but significant challenges remain in implementing this governance model for smaller participating employers In all cases where such meetings take place, the sponsors report that member representatives are present.

In all cases, great efforts are made to ensure that the boards of trustees comprise competent professionals with the necessary technical expertise.

COMMUNICATION

The survey found that the most significant member communication challenges are (in order of priority):

1. Ensuring that communication material actually reaches the members.

2. Making communication understandable to members.

3. Lack of interest amongst members and employers, and in some cases inter-mediaries.

Another important challenge is the difficulty in evaluating the effectiveness of member communication.

As part of the ongoing efforts to reduce costs, and also to ensure the messages are consistent, there is a greater emphasis on generic communication rather than customised communication in umbrella funds compared to standalone funds. The umbrella fund economies of scale allow for the increased use of dedicated communication professionals, and the belief expressed is that material is thus of a higher quality than for standalone funds with a wider variety of channels / technologies being used for communication.

ADMINISTRATION

Employers not adhering to the administrator's required processes was a common theme amongst the respondents. This appears to be a much greater challenge for smaller participating employers who possibly don't use sophisticated payroll systems, or alternatively don't use these adequately.

A robust information technology platform was identified as the most important attribute to be a successful umbrella fund administrator. Such systems are the backbone of streamlining administration processes and automation.

Other important attributes include effective training of participating employers to help them understand their responsibilities so as to facilitate efficient processing, and the competence and experience of administration staff.

All six respondents indicated that the current Section 14 transfer process represents a major practical challenge for the umbrella fund industry, and Section 14 transfer between different administrators takes significantly longer than is ideal or as envisaged by the regulator or as expected by clients.

Responses included:

"There needs to be faster turnaround time because the process is slow. The timing is an issue for legal processes because it is too cumbersome and the client loses out. A reasonable expectation to client is that it should not take more than a month and we are not close to that."

"Some employers who know that they ought to change their administrators do not because they have a fear of the Section 14 process."

"There is minimal interest from the administrator because the administrator is having to do the work as a value add and not generating profit from the additional work."

INVESTMENTS

The sponsors report a range of different default investment strategies are available to members, but a lifestage model was a common theme for 4 of the 6 respondents.

Increasing interest in passive investment management strategies was a common theme amongst the responses.

A very high proportion (>80%) of participating employers invest in the umbrella funds' default investment strategies.

The average (median) response was that 20% of members make use of member investment choices,

These proportions were mainly unchanged from prior years.

Although umbrella funds offer significant investment flexibility, a common theme is that the pressure is to reduce the number of available investment portfolios for product simplification, cost-cutting and governance reasons.

The responses indicated that umbrella funds have not made any significant progress in implementing the Code for Responsible Investing in South Africa ("CRISA").

Although umbrella funds offer significant investment flexibility, a common theme is that the pressure is to reduce the number of available investment portfolios for product simplification, cost-cutting and governance reasons.

RISK BENEFITS

The respondents report a wide variety of responses as regards risk benefit arrangements:

1 Some report that risk is insured by an in house insurer, others limit the range of risk insurers and others have adopted an open architecture philosophy. There is little commonality in the number of risk insurers approved by the trustees with the number of insurers varying significantly between 1 and 10 insurers.

2 Regular risk rebroking exercises appear to be the norm with the average (median) frequency of such exercises being reported as being one year. There is little commonality as to who drives this exercise with the responses including the sponsor, the administrator, the benefit consultant, the broker and the employer.

3 A wide variety of risk benefits are offered to participating employers either as part of the umbrella fund package or as a separate risk scheme.

RETIREMENT FUND REFORM

A count of responses to the possible introduction of a National Social Security Fund ("NSSF") indicated different opinions and industry uncertainty on this issue:

	Will NSSF be implemented in South Africa within the next 5 years?	If NSSF is implemented, will opt out be permitted?
Yes	2	2
No	2	3
Not sure	2	1

The umbrella fund sponsors were also surveyed on their estimates of the current number of active standalone retirement funds and commercial umbrella funds, and how they believe these numbers will change over the medium term.

	Lowest response	Highest response	Median Response
# standalone funds in 2012	3,000	8,000	4,000
# standalone funds in 2015	300	4,000	3,500
# standalone funds in 2017	150	3,200	2,500
# umbrella funds in 2012	9	350	250
# umbrella funds in 2015	5	350	138
# umbrella funds in 2017	3	280	15
Ideal # umbrella funds	4	100	12

There are a wide range of responses recorded above, but the direction of the responses is consistently in the direction of continuing and significant retirement industry consolidation.

The respondents were also surveyed on their thoughts as to the minimum membership and minimum assets for both standalone funds and umbrella funds to be regarded as sustainable entities.

	Lowest response	Highest response	Median Response
Standalone funds:			
Minimum membership	200	10,000	2,225
Minimum assets	R10 million	R1 billion	R175 million
Umbrella funds:			
Minimum membership	1,000	175,000	52,500
Minimum assets	R10 million	R10 billion	R875 million

Some of the likely outcomes of the retirement fund reform process were listed as:

- Reduced revenues
- Necessity for cost cutting
- Product simplification (investments & risk)
- Consolidation of umbrella funds
- Reduction in number of intermediaries

Responses included:

"So need to cut down on the servicing model to bring down costs because as long as we keep presenting a free-standing type fund ... meeting agenda is expensive with back office costs incurred. It is expensive to personalise the sub-fund to each participating employer in the umbrella fund."

"Mass market does not need all sorts of investment choices – so the elements of the product offering – be it risk or investments – needs to be simple."

"Shifts in distribution – making use of fewer independent brokers."

The **2** most popular recommended regulatory changes were:

- Simplification of regulatory regime.
- Mandatory standardisation of cost disclosures.

Other recommendations included:

- Abolish commissions in favour of fee-for-service models
- Streamline Section 14 transfer process.
- Integrate unapproved risk benefits within product offerings.

GENERAL ISSUES

The most significant issues / challenges facing commercial umbrella fund sponsors were identified as follows (in order of priority):

1. Industry consolidation
2. Margin attrition / commercial viability
3. Good governance
4. Reform & NSSF uncertainty
5. Cost of regulation
6. Increasing preservation / decreasing leakage

The main reasons why employers join the surveyed umbrella funds were reported as follows (in order of priority):

1. Cost effectiveness
2. Investments
3. Professional governance
4. Brand strength

The main reasons why employers leave the surveyed umbrella funds were reported as follows (in order of priority):

1. Cost savings
2. Consultant recommendation
3. Service / administration
4. Company mergers

Preservation was not surprisingly identified as a major issue for the retirement funds industry, and the median estimate was that 90% of withdrawing members take benefits as cash rather than preserving benefits.

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Employee Benefits