2014

BENCHMARK I SURVEY

Retire... ANOTHER DAY!

LEADERSHIP I RETIREMENT I CHALLENGES I SOLUTIONS

Research Insights Report

Sanlam Employee Benefits

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FOREWORD

Dawie De Villiers, Chief Executive Officer: Sanlam Employee Benefits

We are pleased to share with you the results of our 34th annual BENCHMARK™ Survey.

We have conducted over nine hundred interviews collectively with retirement fund members, pensioners, trustees and principal officers. This report covers some of our research insights based on the survey results.

For the second consecutive year, we have included a subset of interviews with trade union retirement funds with an average of R3.3 billion assets under management. We believe that it is important to explore the benefit design trends as they develop over the next few years in this sector.

This is indeed a landmark year for South Africa as we celebrate 20 years of democracy. A number of union funds, in particular some of our clients, will celebrate the extent to which South Africans have gained independence and workers have been empowered through representation in the retirement fund industry since 1994.

As we reflect on our nation's accomplishments over the past two decades, we recognise and appreciate that there is much work to be done to realise the full extent of our democracy. Like all economic sectors, the retirement fund industry is faced with overwhelming challenges. Despite the growth in aggregate assets of retirement funds in South Africa, from R171 billion to R2 749 billion and active members having increased from 7 838 533 to 15 005 306, (as at 31 December 1994 and 2012) our current survey suggests that only 29% of retirees are able to maintain their standard of living in retirement.

With this in mind, National Treasury is proposing that every retiring member must be enrolled in a default annuity product as selected by the trustees, unless the retiring member opts for a different post-retirement product. The majority (89.1%) of trustees are aware of it, while 79.2% are in favour of this proposal.

As employers experience fiscal pressures with increasing costs due to regulatory compliance requirements, we see a continuing shift from stand-alone to commercial umbrella retirement funds, with 54% of boards already having considered making the transfer.

Global studies indicate that the low level of retirement provision is not unique to South Africa. However, it is evident from the findings of our member and pensioner surveys that South Africans are not ready to retire at 65 years and the problem is exacerbated year-on-year.

According to Prof Roux from the Institute of Futures Research at Stellenbosch University, an economy is most economically viable when its population comprises 30% of individuals below the age of 15 and 15% of individuals older than 65 years. This talks to the composition of the economically active proportion of an economy. Prof. Roux further states that South Africa embarked on this viable opportunity in 2010. We should, however, be mindful that our economy has many structural inefficiencies that hold us back from fully realising this viable economic opportunity. The most pressing being the 25% unemployment rate amongst 15 to 34 year olds, comprising 70.5% as a proportion of total unemployed. This age segment is essentially the cornerstone of our economy and potential future retirement fund members. Many retirees have cited that they had to seek a second career after they had retired. Some would like to delay or defer their normal retirement date, but is this option fiscally viable for employers now and into the future?

One of the trends which developed nations such as Germany, Denmark and others have been debating since the early 1990's, is the issue of longevity and its impact on economies and industries, particularly insurance and retirement funds globally. Secondary implications as a consequence of longevity are the demographic shifts in the labour force and family structures. Actuarial assumptions based on life expectancy, family structures and capital requirements at retirement no longer hold true and require fresh insight.

In essence, people have less money to live on at retirement, but are living longer and have significantly greater financial burdens.

So where does this leave retirement fund members? Should they reconsider and retire another day?

I invite you to turn the pages of our 2014 Sanlam BENCHMARK report where my colleagues provide some insights into the survey data and will leave you with some thought-provoking questions to consider as you navigate your way through the year.

Remember all the data and research findings are freely available on our dedicated website www.sanlambenchmark.co.za.

My entire team is at your disposal for further engagement on our research results and insights.

As always, I trust that you find the contents of this report together with our survey insights meaningful.

DAWIE DE VILLIERS

Chief Executive Officer
Sanlam Employee Benefits

EXECUTIVE SUMMARY

by **Danie van Zyl**, Head, Guaranteed Investments: Sanlam Employee Benefits

and **Viresh Maharaj**, Chief Marketing Actuary: Sanlam Employee Benefits

This year's BENCHMARK survey highlights and places emphasis on the decisions taken at the point of retirement.

We share our insights on the state of South African's retirement provisions in the context of a perfect paradox. On the one hand, aggregate asset values and membership have increased exponentially over the last 20 years. On the other hand, the effect of inflation and poor decisions are eroding the size of the lump sums available at the point of retirement. Retirees are "spoilt for choice", possibly to their detriment, because the available products are complex and, in the absence of appropriate retirement advice, the wrong decisions can be value-destroying.

Sample

We interviewed 100 principal officers of stand-alone retirement funds, of which 10 represented trade union pension and provident funds. This year we've had a successful 72% year-on-year participation in the survey.

Default annuities

National Treasury's Retirement Reform paper addresses the perplexity fund members encounter when having to select an appropriate retirement annuity for their unique and specific individual circumstances.

Regulation proposes that retirement funds put default annuities in place to assist members and trustees alike to counter this perplexity. Our research shows that 90% of trustees are in favour of default annuities with at least 40% indicating that their funds will have these in place within the next 12 to 24 months.

Contribution trends

We provide a synopsis and comparison of contribution trends between the core sample and the unionised funds. The detailed statistics can be found in our stand-alone funds databook which can be downloaded from our research website on www.sanlambenchmark.co.za

The total provision for retirement has kept steady for the last four years at around 12%, with a marginal increase of 50 basis points to 12.5% this year. Average contribution rates for the core sample has remained fairly consistent at 9.6% by employers and 6.4% by employees.

Umbrella Funds

The shift continues with 54% compared to last year's 44% who considered transferring to an umbrella type arrangement. Twelve stand-alone retirement funds will be making this transfer in the next year.

Member survey

The normal retirement age for active members has remained constant at the 62-year age mark. What is strongly evident from the member survey this year is the effect of consumer price inflation pressures. The bulk of monthly expenses goes towards transport, food, mortgage bonds and utilities with little if anything towards long-term savings.

Pensioner survey

This year, 1 in 5 pensioners have indicated that they supplement their retirement income with part-time work. We've observed this growing trend both in South Africa and globally. There are a number of reasons for this trend, but in most instances it is out of pure financial necessity.

Consider the fact that the average age at which present-day retirees started to work was at 22 years.

This is in contrast to the average age at which retirees began making contributions to retirement savings vehicles, which was around 26 years. It's simple mathematics that the benefits of compounding (interest earned on interest) over four years is lost, albeit on low salary levels, typically experienced in the early stages of one's work life.

The term the "sandwich generation" is bandied around quite frequently without any real thought as to its impact on reality. The research this year highlights that retirees have at least one adult dependant and two child dependants who are financially dependent on them. Our research findings are further supported by studies in the shifts in demography and the changes in family structures which show that this 'sandwich generation' is a growing concern. The term "empty nesters" will in all likelihood become redundant overtime as household structures become more amorphous.

It is scary to note that 38.4% (previously 34.3%) of retirees have depleted their retirement lump sums early on in their retirement. It takes retirees on average 2.42 years (previously 3.11 years) to spend the capital accumulated over their working life. This is not surprising given that 40% of retirees still have debt in the form of mortgage bonds, credit cards, personal loans, store accounts and even vehicle finance.

This year we have included an additional subset of retirees earning R25 000 per month in retirement income. The insert, titled Success Strategies on page 38, makes for astounding revelation of the impact that incremental and subtle variations can have on overall retirement provisions. All of this can be accomplished with the help of qualified advice, the effects of compounding, the time value of money and, of course, patience.

The industry is concerned with member inertia and apathy as far as retirement goes. The indelible insight is that it does not require life-altering behavioural changes to realise your financial retirement goals. In fact, perhaps just a simple action from each member, like "one simple step for man, one giant leap for mankind…." by starting to save for retirement early, is really all that's required.

STAND-ALONE SURVEY

UNION FUNDS

By **Philip Mjoli**, Head, Sanlam Investments: Institutional Segment

This is the second year in which the BENCHMARK survey has included a subset of 10 union pension and provident funds as part of the stand-alone retirement fund survey. This year we've had a successful 60% year-on-year participation in this subset.

Lack of preservation

Trustees generally believe that around 17% of their fund members will be able to retain their current standard of living in retirement. Members of union funds display similar behavioural characteristics as members of non-unionised funds, with 85% taking their withdrawal benefit in cash. Provident funds were traditionally designed to allow members to take their full benefit in cash on withdrawal or retirement. But the lack of preservation remains a tenuous subject. Draft regulation is intended to equalise the tax treatment between pension and provident funds with a view to encouraging preservation at the point of retirement.

Contribution rates

Total employer contribution rates on average have increased marginally from 7.36% in 2013 to 7.55% in 2014. With concern, we observe the drop in member contribution rates from 6.94% to 5.93%.

We have to be mindful of the economic circumstances of our members when we interpret our research findings. This 1% reduction in contribution rate might translate into a nominal Rand value in disposable income for a financially distressed member. Union retirement funds members are typically in the lower income segment, where it is a daily struggle to survive financially. While it is encouraging to see that 70% of funds allow for additional voluntary contributions, we have not determined the percentage take-up of this option to draw any meaningful conclusions with regard to members' propensity for additional savings via their retirement fund.

Administration fee

More funds now apply a fixed cost per member per month to recoup administration fees (80% vs 40% in 2013), with many funds shifting away from levying administration fees as a percentage of members' salaries. The mean monthly administration fee per member per month has dropped from R26 in 2013 to R25 for standard benefit choices. On the other hand, the average fee for member choice options is slightly more at a cost of R27.75 per member per month.

Risk Benefits

A third of union funds offer flexible death benefits to members. Although this is up from 10% in 2013, the average lump sum available on death has decreased from 3.5 times annual salary to 3 times annual salary. Funeral benefits have decreased slightly from R12 833 in 2013 to R12 667 in 2014.

The typical turnaround time on the payment of death claims has reduced from 7.89 weeks in 2013 to 6.28 weeks in 2014. If we continue with the assumption that these fund members are largely lower income earners, the shorter time period in which to pay death benefit claims could be viewed as a positive trend, because this is where the financial need is greatest.

Our research indicates that the majority of funds re-broke their risk benefits annually and a slightly smaller proportion re-broke the employee benefits consulting services annually (40%).

Member communication and advice

From our research it appears that funds are improving their standard of communication and advice to members. Half of the funds have a formalised strategy for rendering financial advice, with 70% of them making greater use of technology (up from 50% in 2013). This is mainly through information on the internet and electronic newsletters. Funds now include information on annuity options at retirement in member communication. The medium of communication could essentially be another bone of contention. It is clear that the funds are making a lot of information available but, at the same time, we cannot say with any measure of certainty that members are accessing these communication platforms. We have also not tested whether members fully understand the different benefits which they enjoy as part of their retirement funds.

One in five funds has introduced a financial advisor who is either paid for or subsidized by the fund to provide members with financial advice. However trustees and principal officers retain a high degree of responsibility with 60% responding to members' retirement fund related queries.

Targeted Net Replacement Ratio

Only a third of the union funds have a targeted Net Replacement Ratio which is typically set at around 70% of pre-retirement income.

More than two thirds of trustees monitor the Net Replacement Ratio on a regular basis to assist members in achieving this target. (The replacement ratio is the conventional measure used to evaluate the extent to which individuals can replace their pre-retirement earnings with other sources of income in retirement).

Investments

With regard to investments, more funds have implemented default strategies to improve members' retirement outcomes. We observed that 44% of funds who have instituted a trustee choice have a lifestage strategy (a strategy that adjusts its asset allocation according to every stage of the members' life, ensuring the member is in a better position to secure a sufficient income at retirement) as their default portfolio.

Half of the union funds either already have, or plan to within the next 2 years, to have a default annuity in place. Of these, 60% believe that a guaranteed annuity (level or increasing at fixed percentage) is most suitable for the "average" fund member.

In terms of investment behaviour, all funds believe it is important that products provide stable investment returns. Here absolute return and structured products are viewed as the most suitable products for this need. Ninety percent believe it is important that products provide guarantees, with cash and absolute returns viewed as most ideal. The average gross investment return achieved by union funds over the last calendar year was 18.08%. Half of the trustees believe returns for this calendar year will be the same or similar to last year's returns, while 30% believe poorer returns should be expected.

From the research this year, it is clear that a marginal decrease in employee contribution rates together with anticipated lower investment returns will have longer term effects if this is to continue. Employees have to be educated on the tax and savings advantages and other benefits of being part of any retirement fund. If we get the balance right between finding the appropriate medium for communication and a language aimed at a suitable level, this will go a long way to improving the union members' level of understanding and appreciation for their retirement fund.

STAND-ALONE SURVEY

CONTRIBUTIONS

by **Danie van Zyl**, Head, Guaranteed Investments: Sanlam Employee Benefits

Employer contributions

The number of funds using a total cost to company basis to structure employee remuneration packages has increased to 55% from 52% in 2013.

The average employer contribution is 9.66%, in line with 2013 contributions but slightly down from the 5-year average of 9.91%. Average union fund employer contributions increased marginally from an average of 7.36% in 2013 to 7.55% in 2014.

The corresponding non-union average employer contribution rate is

9.89%

A split based on fund size showed that large funds (funds with more than 5000 members) tended to have a lower average contribution rate than the average, at 9.27%. Medium-sized funds (501 to 5 000 members) have a higher than average contribution rate of 10.29%, with small funds (less than 500 members) having the smallest average contribution rate of 9.24%.

Employee contributions

The average employee contribution rate is 6.44%, an increase from the 5-year average of 6.05%. Average union fund member contributions have declined from 6.94% in 2013 to 5.93% in 2014.

Non-union fund member contributions are

6.50%

Smaller funds (with fewer than 500 members) had relatively higher member contribution rates of 6.55%, with medium funds (501 – 5 000 members) having similar average contribution rates (6.52%). Larger funds (more than 5 000 members) had comparatively low contribution rates of 5.91%.

39% of funds allow members to choose their own contribution levels. This is an increase from 2013 when 29% of funds allowed this.

77% of funds allow for additional voluntary member contributions. The average additional voluntary contribution (as % of salary) is 2.65%. Union fund members' additional contributions are lower than this average at 1.88%.

Deductions

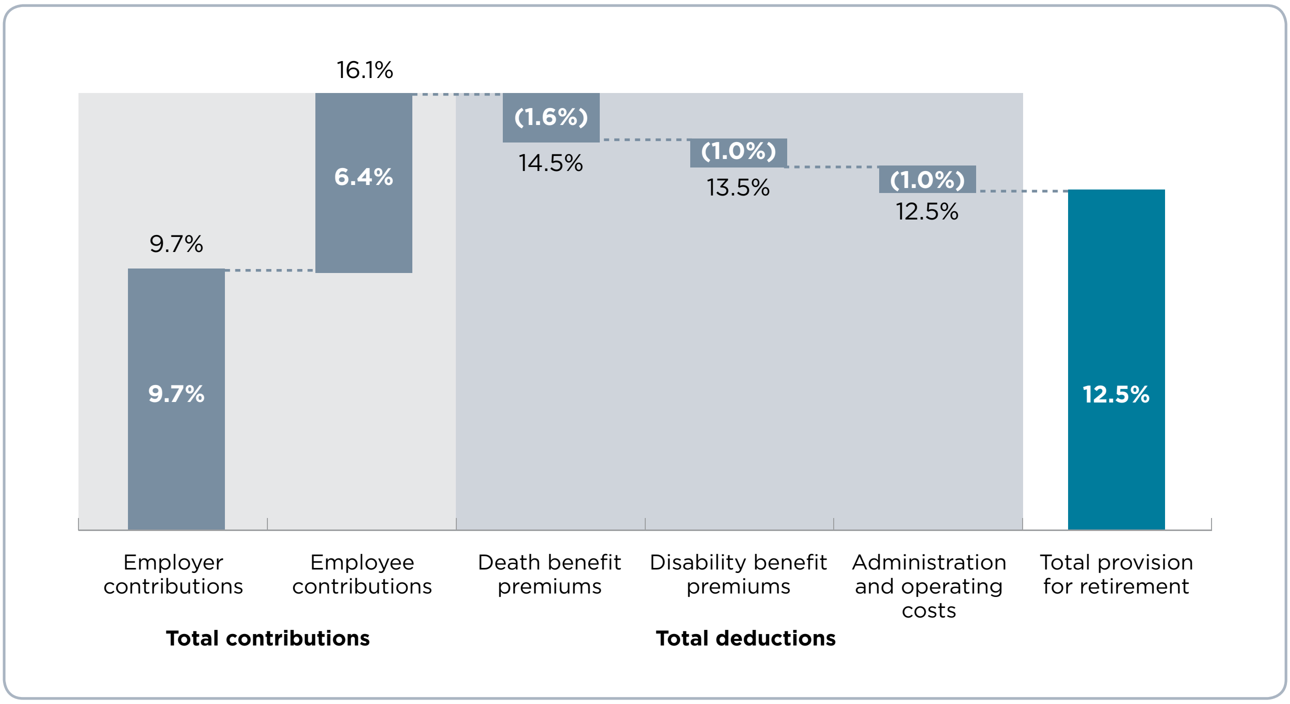
The majority of funds incur administration as a % of the member's salary (55%). 29% of funds have an administration fee expressed as a fixed cost per member per month. The average % of member's salary that goes towards administration fees is 0.98%. The average fixed fee per member per month for standard benefit options has decreased slightly from R36.36 in 2013 to R34.52, while the fixed fee for member choice administration has increased from R38.80 to R40.00.

63% of funds allow for additional billing. 24% of fund cap their administration fee at a certain fixed percentage, while 35% do the same for death benefits and 39% for disability benefits. The average cap for death benefits has increased to 2.62% from 2.16% in 2013, while the disability cap has increased to 2.25% from 1.9%.

Average death cover deductions are lower than the 5-year average of 1.63%, at 1.59%. There has been a corresponding decrease in average cover level from 3.6 times annual salary in 2013 to 3.4 times annual salary. Average disability cover deductions were also lower, at 1.01% (5-year average: 1.16%), with a decrease in cover from 2.8 times annual salary to 2.4 times annual salary. Overall total deductions for 2014 are 3.58% on average, compared with a 5-year average of 3.73%.

KEY INDICATORS

	2014	2013	2012	2011	2010
Employer contributions	9.7	9.7	10.2	10.1	9.8
Employee contributions	6.4	5.9	6.0	6.1	5.8
Death benefit premiums	(1.6)	(1.6)	(1.6)	(1.6)	(1.7)
Disability benefit premiums	(1.0)	(1.1)	(1.1)	(1.2)	(1.3)
Administration and operating costs	(1.0)	(0.9)	(1.1)	(0.9)	(0.9)
Total provision for retirement	12.5	12.0	12.4	12.5	11.7



STAND-ALONE SURVEY

INVESTMENTS

by **Rhoderic Nel**
CEO, Sanlam Employee Benefits: Investments

and **Willem le Roux**,
Head, Investment Consulting: Simeka Consultants & Actuaries

There has been a steady rise in popularity of lifestage investment portfolios over the past 3 years, with 57% of funds surveyed indicating that a lifestage portfolio is used (59% where the investment choice is Trustee-driven or where there is member choice with a default portfolio). This compares to 44% of funds offering a lifestage investment portfolio in 2013 and 37% in 2011. Union funds are still at this lower level, with 44% using lifestage portfolios currently.

The number of years prior to retirement that members are moved to a less volatile phase is on average between 5 and 6 years, showing a decrease from the 6.14 years (2013) and 6.68 years (2012) seen previously.

Asset allocation in the end-stage of the lifestage option is still heavily in favour of Conservative Equity (39%) and Cash (29%).

Just under half the funds using a lifestage portfolio align the strategy to the annuity options available to members at retirement. Guaranteed Annuities (level or increasing at a fixed percentage) and Living Annuities (ILLAs) have remained the most popular choices allowed for in the end-stage of lifestaging.

Interest in Africa funds has picked up. In 2013, 19% of funds had an asset allocation in an Africa fund, compared to 28% in the 2014 results.

Funds are growing more confident about the ability of Absolute Return portfolios to provide stable returns (64% indicating Absolute Return portfolios are 'good' or 'very good' for stability), showing a progressive increase from 54% (2013) and 51% (2011) saying the same in earlier surveys. Similarly, funds view the guarantees provided by cash portfolios more positively, with 63% saying cash provided 'good' or 'very good' guarantees compared to only 47% agreeing with this in 2011.

Union funds place more importance on providing stable returns to all members (100% vs. the average 84% of all funds). These funds see

Absolute Return portfolios and Structured Products as being ideal for this purpose. Union funds value guarantees more than the average fund (90% vs average response of 55%).

Almost 1/2 of funds believe that returns for the 2014 year will be poorer than previous years, but still positive.

32% of funds believe returns will be the same or similar to last year.

17% believe returns will be better than last year.

Most funds receive investment feedback on returns vs benchmark, and investment feedback now typically includes a market / economic overview (70%) compared with 60% in previous years. More funds set their own benchmarks in their investment mandates (30% vs. 21% in 2013, and less than 5% in 2012 and 2011), with fewer giving regard to competitor- or peer-based comparisons. However, when it comes to retaining an investment manager, 43% of funds use a benchmark of returns in excess of consumer price inflation (CPI) as the main determinant, and almost 20% of funds use their own benchmark as the required measure. More than half of funds surveyed review performance and compliance mandates quarterly.

DEFAULT ANNUITIES

STAND-ALONE SURVEY

By **Karen de Kock-Wentzel**, Head, Annuities: Sanlam Employee Benefits

In the past, most of the advice and education given to retirement fund members focused on building wealth leading up to (before) retirement, while little focus was placed on what to do with a retirement lump sum after retirement. Benchmark research has revealed that trustees still do not want further involvement with members after retirement, but there is now an acknowledgement that members require assistance with retirement decisions and managing their savings on retirement.

In attempting to address this phenomenon, National Treasury Retirement Reform papers gladly addressed one of the biggest fears faced by retirement fund members when retiring: How to make the right product and investment choices at retirement. Currently retirees are faced with the daunting task of trying to choose the right retirement product to secure a suitable income that will cover the cost of living during their golden years.

Trustees have a greater responsibility

Trustees will now be required to guide members through the retirement process and not leave them in a significantly vulnerable situation, where the wrong decision-making post retirement could effectively wipe out a portion of their valuable capital, or leave them with an income that does not meet their needs.

Identifying and implementing a preferred annuity strategy for members at retirement should form a vital component of the trustees' fiduciary duty. The Benchmark Survey indicated that almost half of standalone funds and a third of umbrella funds either have a preferred or default annuity in place already, or are planning to have one in place within the next two years.

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The question now is: how can the financial industry assist trustees with offering appropriate products to members?

The risks associated with investment-linked living annuities

Pension security and control of pension increases are of utmost importance to pensioners. Investment-linked living annuities (ILLA's) have been very popular, but the impact of the flexibility in both choosing the underlying investment strategy and the draw-down rate (level of income drawn from an investment), on the long-term sustainability of ILLA's is only now beginning to appear. Not everybody understands and can afford the risks associated with an investment-linked living annuity, i.e.

- volatile investment returns (and therefore volatile income levels), or potentially reduced income levels, and
- longevity risk – the effect of living longer and hence the sustainability of a liveable draw-down rate for life.

The big question is: leaving a legacy or sleeping peacefully?

A living annuity is a financial product that provides flexible income in exchange for a cash lump sum at retirement. The investor can draw a monthly pension for as long as there is money available in the fund. The most attractive features of living annuities are the flexibility in the draw-down rate (i.e. the level of income drawn) and investment choice, together with the advantage that the remaining capital at death is paid to the investor's estate. Unfortunately, the pensioner's dream of leaving a huge estate for children and grandchildren is often shattered by the reality of longevity.

The benefits of inflation-linked (guaranteed) annuities

Pensioners' day-to-day needs are to budget and cover their cost of living. Given that most South Africans have very low levels of financial literacy, it is vital that retirement funds provide their members with access to a simple, efficiently priced product that will help them meet their monthly budgets. Guaranteed annuities, in the form of inflation-linked annuities, address the need to protect the pensioner's purchasing power. By linking pension increases to inflation, a pensioner is able to maintain his/her cost of living. Inflation-linked annuities also provide a fair match to rising medical aid contributions. By selecting an inflation-linked annuity, pensioners do not carry any longevity or investment risk, as initial pensions and annual increases of inflation are guaranteed for life. Even if inflation is negative, pensions will not decrease. Appropriate levels of protection can also be provided by means of spouses' pensions for life or guaranteed periods.

When selecting an appropriate annuity at retirement, pensioners have to weigh up the dream of providing a legacy and having a flexible, yet uncertain pension versus the certainty of a known pension which could potentially be slightly lower at inception but which will maintain its purchasing power for life.

The value of financial advice

Standalone funds which have a default annuity in place, tend towards inflation-linked annuities (63%), while umbrella funds favour living annuities (47%), with guaranteed annuities either remaining level or increasing at a fixed percentage (40%). Members show a similar level of apathy towards post-retirement financial matters as they do towards pre-retirement savings, with 62% indicating they would prefer for their company to prove them with a pension, even if they do not know the form of such a pension, or expected increases in the pension amount over time.

Sanlam encourages its members to consider all available options at retirement and recognises the importance of obtaining appropriate financial advice leading up to and at retirement. We trust that the trustee-chosen default annuity will be a value-added benefit to ensuring members' comfortable, sustainable retirement.

RISK BENEFITS

STAND ALONE SURVEY

by **Virath Maharaj**, Actuarial Specialist, Sanlam Employee Benefits: Group Risk

The insured benefits of employees are offered under two different financial vehicles, namely **funds** and **separate schemes.** The funds are income tax-approved vehicles which offer better tax efficiency than separate schemes.

Risk benefits provided as part of a fund account for 53.5% of respondents with 20.8% indicating that risk benefits are provided as part of a separate scheme. These 2014 figures are marginally down from last year's results. However, risk benefits provided under both funds and schemes has increased from 15% in 2013 to 24.8% in 2014.

Only two of the funds surveyed indicated that they were dissatisfied with their existing life insurer, who provided risk benefits to the fund. This perception is consistent with the principal officers' views last year. This low level of dissatisfaction indicates that providers in the industry are continuously working towards meeting and maintaining the expectations of the market in terms of their product offerings. The provider's directive to meet the client's needs correctly is further exacerbated by the competiveness in the market, coupled with the ability to re-broke annually.

The trend of re-broking risk benefits by stand-alone funds and umbrella funds show some convergence. Two-thirds of funds re-broke risk benefits annually, compared to the 70% of schemes in umbrella funds. This reinforces what is typically seen in practice.

Death Benefits

The cost of group life cover provided under the funds has decreased from an average cost of 1.63% in 2013 to 1.59% in 2014. This may be as a result of the interaction between the effects of competitive pricing pressures, and the roll-out of improved ARV treatments impacting positively on mortality.

Death benefits are paid to dependents on the death of a member before retirement in the form of lump sums, spouse's pensions and children's pensions. Lump sum benefits are the main offering by 98% of funds, whereas spouse's pensions are offered by 19%, and children's pensions are offered by 16% of funds.

In our sample of 100 stand-alone retirement funds surveyed this year, only 16% of funds and 8% of schemes offered flexible risk benefits. The small percentage of funds and schemes offering flexible benefits are consistent with the practice of providing simple benefits that are easier for employees to understand.

There are various types of flexible benefits on offer but the core flex structure still remains the most common choice. The responses indicated that there are a variety of different levels offered by core-flex structures in the market. This is intuitive as core-flex benefits are tailored to the needs of each employer group.

The average turnaround time for a death claim to be processed and paid has decreased from last year by around 18%. The average turnaround time for funds has decreased from 7.06 weeks to 5.96 weeks.

Disability Benefits

The cost of disability benefits under these funds has remained largely consistent year-on year at 1% since 2012, just marginally down from 1.13% in 2013 to 1.10% in 2014. Similarly, the average cost of the disability benefits under a separate scheme has decreased from 1.03% in 2012 to 1.01% of salary in 2014. This decrease could be attributed to improvements in working conditions and better health and safety regulations. Competitive pressures could also play a significant role in driving the average cost down. Lastly there have been improvements in the medical and managed care fields which have increased the number of claimants that are able return to work.

The majority of respondents indicated that they offer a monthly disability income, with a few offering an additional lump sum after a given period. Disability benefits are either temporary or permanent disability, with a little more than a third of the funds and separate schemes offering both benefits. Only 24% of the funds indicated that they offer some form of lump sum disability. These lump sum disability benefits are typically expressed as a multiple of salary. The average benefit has declined from 2.82 times in 2013 to 2.42 times in 2014. This could be due to the market favoring a monthly disability benefit as opposed to a lump sum.

The 2014 results showed that all funds providing permanent disability benefits have an average waiting period of 4.8 months. The waiting period has reduced by 14% since 2013. Of the funds providing temporary disability benefits, the average waiting period has increased marginally from 3.31 month in 2013 to 3.39 months in 2014.

As in previous years, the Permanent Health Insurance (PHI) benefit is usually expressed as 75% of annual salary. 53.5% of respondents claimed that the increase in disability benefits increased as a defined percentage of CPI. Of these respondents, 22.8% indicated that a capped maximum increase was applied with a mean cap of 6.4%. Of the respondents, 12.9% claimed that disability benefits increased at a fixed percentage. The average fixed percentage of growth was 5.5%.

Other Benefits

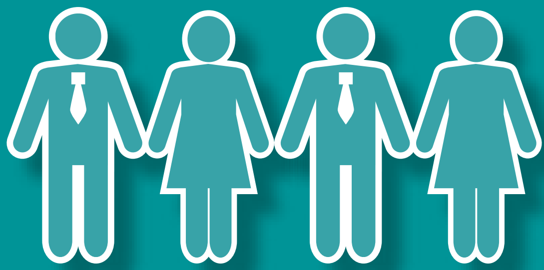
Other than life and disability risk benefits, funeral and critical illness benefits have to a lesser extent been on offer over the last five years.

Critical illness benefits in a separate scheme, based on a multiple of salary, is only offered by ten funds. Of the funds offering funeral benefits under a separate scheme, the level of funeral cover has increased by 16% from 2013, resulting in a new mean of R15 782 up from last year's R13 294.

NEW MEMBER

GUIDANCE AND SUPPORT STRATEGIES

STAND ALONE SURVEY



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

According to the 2014 benchmark survey the average contribution rate (net of risk and fund management fees) this year is 12.5%. That is a significant rate by any standard. With such a contribution rate the average projected pension should not be around 20% - as has been measured by a number of funds and providers, it should be much higher.

Based on our calculations a net contribution of 12.5% (of total guaranteed package (TGP)) over 40 years, earning an average investment return of CPI + 5.5% should provide a member with a projected pension of around 75% - a very dignified pension. For many funds a desirable default contribution rate therefore is 12.5% of TGP net of risk premiums and fund management fees.

We know that the biggest single reason why people do not retire with adequate provision is because too many members take their withdrawal benefits in cash when they change jobs. But even those with the discipline not to do so appear to face challenges. Why is it so difficult to retire comfortably? Why are so many members short of the mark?

Members underestimate the sensitivity of the projections

Our research shows that most members underestimate the sensitivity of the retirement projections. Minor variations on 40 year assumptions can have major impacts and when these errors are detected, it is often too late to make a meaningful change.

Let's say you join a company at age 25 and you make a net contribution of 12.5%. You will be shocked when you run the calculator and see that your projected pension is only 62%. This may be because you are contributing 12.5% net of pensionable remuneration (PEAR) and PEAR (as is the case with very many other South Africans) is only 80% of TGP. Your net contribution therefore is only 10% of TGP.

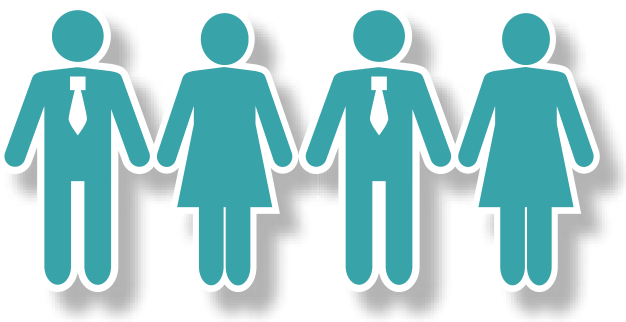
It will of course be worse if your PEAR is much less than 80% of TGP. The sad reality is that many funds allow employees to adjust their PEAR so they can increase their take home pay - not appreciating what effect this will have on their retirement planning.

Projected pension ratio

A projected pension ratio (PPR) is expressed as a percentage of TGP less your contributions to the fund. So if you earn a TGP of R120 000 pa and contribute R14 880 (15.5% gross) the amount that you have at your disposal is R105 120. That is the amount we are trying to replace - not the R120 000. With your bonds paid and children educated you should in principle be able to maintain your standard of living during retirement on a pension of 75% of your net remuneration / TGP (R78 840).

The net replacement ratio (NRR), a formula that may be more familiar to you, works a little different. It projects your pension as a percentage of PEAR but does not take your actual contributions into account so it is not as accurate. Death and disability benefits are also typically based on PEAR and members are often very disappointed when their benefits are so much less than what they expected. NRR is also not aligned with the new tax deduction tables. It could add to members' confusion and may make it even more difficult for them to get a handle on their retirement planning.

As a benefit consultancy we recommend that employers bite the bullet and change their contribution formulas in line with the new tax deduction formulas with effect from T-day and then implement measures to encourage members to make bigger contributions based on their needs. The most compelling way to do that is to make PEAR equal to TGP (or if incomes fluctuate, on an average remuneration over a period) and adjust the percentage contribution so that the actual amount contributed remains the same.



Phased retirement

Another aspect with a dramatic impact on the projected pension ratio is taking an "early" retirement.

Most South Africans dream of retiring early. More than 48% of the pensioners who participated in the 2013 benchmark survey retired between 56 and 60. They may not realise the very big price they had to pay to be able to do so.

Many members are in a similar position because they work for employers with young normal retirement dates. If your normal retirement date is 60 (not 65) your projected pension based on the previous calculation would drop to 43%. If you really wish to retire early with a 75% projected pension at age 60, your net contributions based on PEAR would have to increase to just above 20% net.

If the government responds positively to our requests you should in future be able to do a phased retirement. That means that when you retire from your first career at age 60, you will be allowed to remain in the system and continue to contribute to the retirement fund during a second career. This will allow you to continue to save for retirement and retire more comfortably at a later stage – based on your position and needs at the time.

If government does not implement phased retirement measures you will continue to be compelled to annuitise your retirement benefit when you retire from your first career - whether you need the money at that stage or not – and will lose out on the benefits of compound interest that works in your favour over the last few years. Compound interest in the last few years are significant. From age 60 to 65 (based on the default contribution rate) your PPR will jump from 55% to 79%. If you can postpone retirement by another 2 years your PPR will jump to 91%, a further 3 years and it will jump to 114%.

Most South Africans dream of retiring early. More than 48% of the pensioners who participated in the 2013 benchmark survey retired between 56 and 60. They may not realise the very big price they had to pay to be able to do so.

If you changed jobs at 45 and took your entire withdrawal benefit in cash, the default contribution rate will only provide you with a PPR of 27% at age 65. If you then contribute around 27.5% gross for the next 20 years the PPR will only increase to about 64%. Even if you contribute 30.4% gross, the PPR will increase to 75%.

New Day One member guidance and support procedure

The PPR calculator forms part of a Day One member guidance and support strategy that Simeka is rolling out. On joining, HR will sit new members down to listen to a short but informative audio visual. They will not be drowned in paper or stats - just enough information so they can make an informed decision. New members are then required to run the calculator so they can see first-hand what their projected retirement fund outcomes are and what they can do to improve those outcomes. Only then do they complete the retirement fund forms and tick all the appropriate boxes. Existing members are also taken through the procedure on a structured basis.

This procedure – for the first time in many instances – gives members a good understanding of their retirement fund, shows them the leverage points and empowers them to take appropriate action. Once they have done the exercise they are much more prepared to own and take responsibility for their personal retirement plan.

SPECIAL TOPICS

STAND-ALONE SURVEY

By **Mayuri Reddy**, Actuarial Specialist: Sanlam Employee Benefits

This year's results saw the trend of member apathy continuing, and in fact, strengthening. Interestingly, even though funds are doing more to educate and engage employees on retirement savings, members continue to delegate responsibility to trustees, employers and advisors.

Standalone trustees believe, on average, that 29% of their members will be able to retain their current standard of living, with participating employers in umbrella funds estimating this to be slightly lower for their members, at 26%

The majority of standalone trustees consider themselves responsible for the good financial retirement outcomes of their members (79%), and so are having to take active steps to combat member apathy.

To this end, more funds are putting in place a stated target pension (typically NRR) – 40% of funds in 2014, compared with 29% in 2013. To support this target, most trustees provide members with an NRR statement regularly (47%), monitor NRRs regularly (38%), and provide members with an NRR - or similar - calculator (38%).

52% of funds have a formalised strategy for rendering financial advice to active members; most standalone funds' strategy is executed by referring members to preferred financial advisers (78%), while most umbrella funds rely on a consultant or broker within the sub-fund to execute the advice strategy (86%).

Standalone funds have seen the proportion of members relying on the default investment option steadily increase, from 66% in 2011 and 73% in 2013 to 76% in this year's survey. The proportion is similarly high in the umbrella fund space, with participating employers indicating that 70% of members make use of the default investment option. 43% of members investing in the default said this choice was largely due to indifference. Female members, in particular, are more likely to rely on the default (55% compared to the 48% of their male counterparts who make use of the default). Additionally, younger members also rely heavily on the default investment strategy; 71% of members in the 36 – 45 age bracket invest in the default, compared to 58% of the 46 – 55 age bracket and 36% of the 56 – 65 age bracket.

Only 6% of members admit to revisiting their investment and risk choices after the initial

decisions made when joining the fund. This is a marked decline from the 10% that indicated they did so in 2013. In response to this, trustees are increasingly putting in place lifestage investment portfolios, in order to best match the needs of members over their lifetime in the fund, with 56% of funds currently using a lifestage model as the investment default.

1 in 10 active members admit to choosing their current investment portfolio on a random choice basis, with only 37% making use of a financial advisor or broker to assist in this decision. 26% expect to only seek financial advice less than 5 years before retirement, a figure which has stayed relatively constant since 2011. A startling result from the pensioners' survey is that only 58% of pensioners received advice prior to retirement, and of those roughly 1/3rd received advice only at the point of retirement.

It is not surprising, then, that we continue to see low levels of preservation, with 90% of participating employers in umbrella funds stating that the majority of members take their withdrawal benefits in cash (an increase from 83% in 2013 and 74% in 2011). Standalone funds estimate that this 'majority' is on average 71% of withdrawing members. Funds have responded to this by providing members with relevant information on preservation (66% of standalone funds) and introducing default strategies for preservation (49% of umbrella funds, 14% of standalone funds), even though the majority believe the encouragement of preservation is the responsibility of the employer / HR (54%) and/or the member's own responsibility (49%).

65% of female active members took their withdrawal benefit in cash on withdrawal, compared to **49%** of their male counterparts.

Again, younger members are also far more likely to take their full withdrawal benefit in cash;

69% of the 36 – 45 age bracket do this, compared with **48%** of the 46 – 55 age bracket and **43%** of the 56 – 65 age band.

On average 82% of employers or trustees do not want further involvement with members after retirement, but there is an acknowledgement that members require assistance with retirement decisions and managing their retirement savings. Almost half of stand-alone funds and one third of umbrella funds either have a default annuity in place or are planning to have one in place within the next two years.

EXECUTIVE SUMMARY

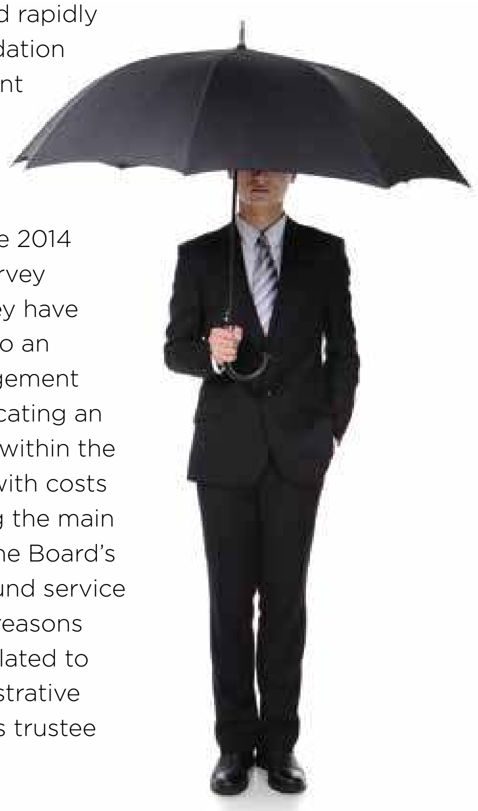
UMBRELLA SURVEY

By **Mike O'Donovan**, Chief Executive Officer: Sanlam Umbrella Solutions

This is the sixth year that we have undertaken a separate study on umbrella funds, and hence we have now accumulated sufficient history to meaningfully analyse the emerging trends. Once again, we have surveyed 100 employers that participate in umbrella funds, but one should be careful in appreciating some of the changes in the sample in drawing conclusions on trends. 29% of the respondents have belonged to an umbrella fund for less than 3 years.

The survey attempts to be representative of the entire South African umbrella fund market. Clients of the five major players in this market represented 80 of the 100 participants (83 in 2013), with the balance of clients being spread between other market players.

Larger, well established employers continue to join umbrella funds with the average sub-fund among the respondents this year having 484 members and R297 million assets. Of the 100 respondents, 59 of them transferred to an umbrella fund from an employer sponsored fund. The trend of larger funds joining umbrella arrangements is expected to continue and is perhaps a further indication of the continuing and rapidly accelerating consolidation trend in the retirement funds industry.



Out of the 100 standalone funds surveyed in the 2014 Standalone Fund Survey 55 indicated that they have considered moving to an umbrella fund arrangement and 12 of the 55 indicating an intention to transfer within the ensuing 12 months, with costs and reputation being the main factors influencing the Board's choice of umbrella fund service provider. The major reasons given were: issues related to cost savings, administrative convenience and less trustee fiduciary risk.

A key issue that we had to decide on in conducting the umbrella fund survey was who would be the right person to interview per sub-fund. For stand-alone funds, the appointed principal officer is the natural person to interview, but unfortunately no such position exists at sub-fund level within umbrella funds. We have tried to identify the key person responsible for retirement fund issues within each of the participating employers, and have interviewed this person. In some cases, the sub-funds' appointed consultants were present at the interviews.

Any survey naturally surveys the perceptions and the understanding of the interviewees, and will not usually give the same results as directly analysing the source data. This is a particular concern for us as regards umbrella funds, and there appears to be some evidence that the interviewees are not as aufait with all the technical issues as are the principal officers of stand-alone retirement funds. But surveying perceptions and understanding is nonetheless very powerful, and we believe should present very good insights into the workings of the umbrella fund industry.

The results of the survey are analysed further within the following topic summaries covering Contributions, Communication, Governance, Investments, Risk Benefits and Advice.

There does appear that there is evidence to suggest that there is an increased awareness of costs as well the need to save adequately for retirement, although understanding the cost complexities remain unsatisfactory. 41 of the 100 respondents indicated that they conduct a cost comparison exercise annually which up from 32% last year and 23% in 2011. We believe it is critical that the industry focuses attention on the better understanding of costs by clients in order that a truly competitive private sector umbrella fund market underpinned by consumer choice can thrive and grow.

Total contribution rates are marginally up over the previous five years on an unweighted basis and more members are being given the flexibility to choose their own contribution rates. This together with the containment of insured benefit and operating costs has resulted on a slight improvement in the average contribution made to retirement savings to an average of 10.5% of salary.

Although there is also slightly more confidence by employers that members will retire more comfortably than before, this confidence still resides with a very low 26% of respondents (2013: 18%). The savings levels are not sufficient to secure adequate pensions upon retirement for members (even assuming members preserve retirement savings when changing jobs noting that inadequate preservation is certainly the norm in South Africa), and this remains a very considerable challenge for both the retirement funds industry and the country as a whole.

While 45% of respondents indicated that their sub-fund has a default strategy to encourage preservation, 90% said the majority of members took their benefit in cash when their employment with the participating employer terminates.
This is up compared to 83% in 2013 and 74% in 2011, a concerning trend.

The majority of members took their benefit in cash when their employment with the participating employer terminates.

Contributions

UMBRELLA SURVEY

By **Mike O'Donovan**, Chief Executive Officer, Sanlam Umbrella Solutions

and **Chris Jacobs**, Head, Product Development: Sanlam Umbrella Solutions

64% of employers indicated that their remuneration packages are based on total cost to company compared to 72% of sub-funds in 2013. A split based on fund type revealed that 63% (2013: 73%) of both provident en pension funds operate on a cost to company basis compared to 83% of hybrid funds.

5.6% The average employee contribution as a percentage of salary is 5.6% (2013: 5.6%).

8.5% The average employer contribution as a percentage of salary is 8.5% which is up from 8.1% in 2013.

41% Also, 41% (2013: 39%) of sub-funds indicated that the members can choose their own level of contribution whereas only 25% (2013: 21%) of sub-funds indicated that members can choose the employer level of contribution.

77% % (2013: 70%) of employers allow members to make voluntary contributions. The average additional voluntary contribution rate as a percentage of salary is 2.0%, down from 2.4% in 2013.

Cost of administration

66% of sub-funds stated that their umbrella fund itemises separately for the cost of administration which is significantly higher than the 52% in 2013. 21% (significantly down from 40% in 2013) of funds stated that the administration fee includes all other expenses. Also, 9% (2013: 3%) of funds stated that they pay for additional expenses not specified in the administration agreement.

66% (2013: 70%) of sub-funds stated that the trustees appropriately manage other expenses, such as FSB levies, auditing fees and trustees' reimbursements, via formal budgeting and approvals processes. These expenses are recovered from a contingency reserve for 14% (2013: 19%) of sub-funds, deducted from member accounts for 47% (significantly up from 34% in 2013) of sub-funds and included in administration costs for 16% (2013: 25%) of sub-funds. The contingency reserve account is expressed as a rand value per member per month for the majority (57%) of umbrella funds and as a percentage of salary for a further 29% of funds.

The average cost of administration as a percentage of salary was about 0.8% (2013: 0.8%).

Similar to the Benchmark Surveys conducted in 2013 and 2011, this figure is lower than the comparable cost for standalone funds.

	2014	2013	2011
Employee contributions	5.6%	5.6%	5.4%
Employer contributions	8.5%	8.1%	8.3%
Death benefit premiums	(1.6%)	(1.6%)	(2.1%)
Disability benefit premiums	(1.2%)	(0.9%)	(1.4%)
Operating costs	(0.8%)	(0.8%)	(0.7%)
Total provision for retirement	10.5%	10.4%	9.5%

Governance

UMBRELLA SURVEY

70%

of respondents are aware of the composition of the board of trustees, including their qualifications and experience, which is consistent with the 2013 and 2011 results.

88% of respondents indicated that the trustees were fairly well or very well equipped to perform their fiduciary duties.

For 49% (2013: 43%) of respondents at least 50% of the board of trustees are elected by the members. 61% (2013: 51%) of respondents indicated that at least some if not all of the member elected trustees are completely independent of the umbrella fund sponsor. 61% (2013: 63%) of respondents feel that the election process is fair and democratic. 77% of umbrella funds allow member representation at participating employer level (up from 73% in 2013).

A forum, such as an annual general meeting, where member representatives can question the trustees on their performance and plans is in place for 69% of respondents (down from 77% in 2013). A formally approved governance plan is adopted by 89% of respondents, which is consistent with the 2013 and 2011 results.

Advice

UMBRELLA SURVEY

Investment Consultant

83% (2013: 79%) of respondents indicated that the trustees are advised by an investment consultant .

68% (2013: 63%) know who the appointed investment consultants are.

Consultant/Broker

52% (2013: 54%) of respondents indicated that their consultant/broker was independent of the sponsor

91% (2013: 83%) indicated that the service provided by their consultant/broker was contracted in writing.

31% (2013: 33%) of consultants/brokers are remunerated by statutory commission and 24% (2013: 27%) negotiate a fee with the employer.

64% (2013: 59%) of respondents felt that the level of remuneration was commensurate with the consulting services provided.

Financial Advice

69% 69% (2013: 69%) of sub-funds have a formalized strategy for rendering financial advice.

Investments

Member-directed investment choice

UMBRELLA SURVEY

74%

(2013: 66%) of employers surveyed offer member-directed investment choice. Where member directed investment choice is available 19% (2013: 5%) of sub-funds do not make the facility available to any of their members. The average number of investment options offered to members is 7 which is in line with previous years.

Default strategy

98% (2013: 95%) indicated that an appropriate default strategy was available for members that either do not wish, or are not sufficiently financially sophisticated to make investment choices. The default strategy is chosen by the trustees for 53% (2013: 48%) of sub-funds and by the employer for 37% (2013: 51%). The average proportion relying on the default strategy is 70% (2013: 71%).

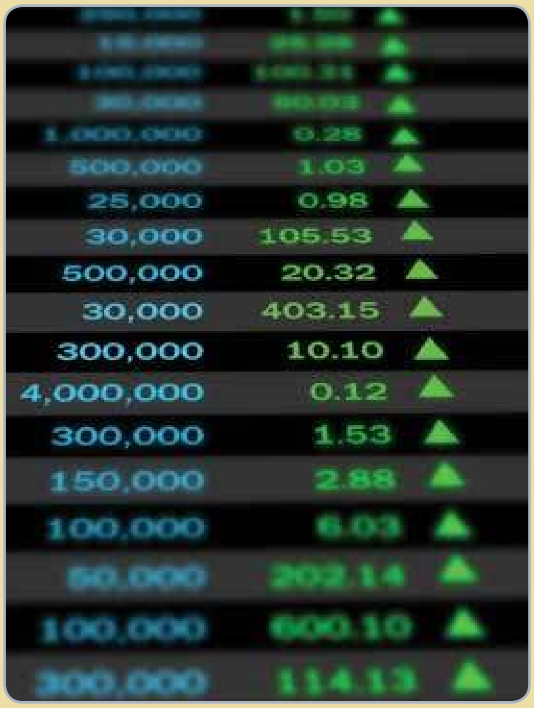
53% Life stage mandates are the most popular choice with 53% (2013: 59%) of sub-funds offering it as the default strategy.

On average employers expect 26% (2013: 18%) of their members to retire comfortably. The Funds were asked their opinion on the replacement ratio that would be needed on different salary bands. Their responses are shown below:

	<10k	10k-25k	>25k
For survival	65% (2013: 64%)	61% (2013: 59%)	57% (2013: 57%)
To maintain current living standards	77% (2013: 76%)	76% (2013: 73%)	73% (2013: 73%)
To live beyond current living standards	81% (2013: 86%)	81% (2013: 85%)	79% (2013: 85%)

Only 35% (2013: 16%) of employers surveyed have a target pension for trustees to work towards. Of these funds, only 57% are targeting a replacement ratio of between 80% or more.

The investment strategy largely does not discriminate between white collar and blue collar workers. The main reason for this is to treat everyone fairly.



Respondents indicated the frequency that members are allowed to switch investments as daily 31% (2013: 36%), annually 37% (2013: 27%), monthly 25% (2013: 20%).

93% (2013: 94%) of employers are either satisfied or very satisfied with their investment choices, with 71% (2013: 57%) stating that a good variety of choices as the reason for the positive response, and 29% (2013: 36%) stating good investment returns as the reason.

29% of respondents state that their chosen umbrella fund includes a Shari'ah compliant investment option to members compared to 38% in 2013 and 62% in 2011.

74% of respondents stated that member investment choice is provided by their fund, up from 66% in 2013.

15% of respondents indicated the principles espoused by CRISA (the Code for Responsible Investing in South Africa) influenced their sub-fund in any way when setting its IPS.

84% There is an increased awareness of the use of an Investment Policy Statement as a governance instrument with 84% (2013: 74%) of respondents stating their umbrella fund has one in place.

Feedback on Investments

Investment feedback to members is provided annually by 32% (2013: 28%) of umbrella funds, half-yearly by 13% (2013: 10%) and quarterly by 37% (2013: 46%).

The main topics covered in the investment feedback are:

77%	Returns
66%	Returns vs. benchmarks
63%	Portfolio asset allocation
60%	Market/economic overview
41%	Risk analysis

Performance measurement

The respondents indicated that the frequency that the participating employers and the umbrella funds formally measure investment performance versus benchmarks is as follows:

	2014		2013		2011	
	Employer	Umbrella Fund	Employer	Umbrella Fund	Employer	Umbrella Fund
Monthly	6	21	8	19	7	14
Quarterly	29	30	30	41	33	31
Biannually	22	16	18	8	14	9
Annually	30	18	27	18	33	26
Less often / Unsure	13	15	17	14	13	20

Life stage investing

In a life stage vehicle members are switched to less volatile portfolios in the period prior to normal retirement age, the phase out period.

The most popular phase out periods is 5 years (43% of respondents) and 6 - 7 years (28% of respondents).

The majority of life stage models have more than three end stages and the most common type of annuities that the end stage allows for is, living annuities 53% (2013: 57%), inflation linked annuities 47% (2013: 51%) and guaranteed annuities (level or increasing) 53% (2013: 46%).

The most popular asset allocation in the end stage is conservative equity [53% (2013: 37%)] and 100% cash [34% (2013: 27%)].

91% (2013: 86%) of respondents indicated that members received advice when they enter the phase out period of the life stage model.

Risk Benefits

UMBRELLA SURVEY

66%

(2013: 68%) of employers provide risk benefits as part of the umbrella fund package, and 23% (2013: 23%) provide risk benefits by way of a separate scheme, while 11% (2013: 9%) provide risk benefits as part of the umbrella fund package and by way of a separate scheme.

84% (2013: 83%) of the respondents' selected umbrella funds that have processes in place to ensure the ongoing sound actuarial management of its risk pool.

48% (2013: 51%) of the respondents' selected umbrella funds have their insured benefits automatically underwritten by an in house insurance company that is associated with the sponsor.

95% (2013: 94%) of respondents indicated that they were satisfied that the risk benefits product range was comprehensive and appropriate to satisfy members' requirements.

35% of employers showed no change in their risk charges while 47% indicated an increase and 18% experienced a decrease over the past year which is consistent with the results of previous years.

69% of respondents indicated that their chosen umbrella fund does a rebroke for risk benefits on an annual basis, which is significantly up from 58% in 2013.

100% The most popular risk benefits provided as part of the umbrella fund package are death benefits 100% (2013: 100%), disability benefits 95% 2013: (95%) and funeral benefits 64% (2013: 70%).

The average lump sum death benefit is 3.1 (2013: 3.2) times salary.

The most common level of funeral cover is R10 000 which is consistent with the 2013 and 2011 results.

Separate Schemes

Employers reported that for the separate risk schemes 53% showed no change in their risk charges over the past year, while 25% had experienced a premium rate increase and 22% had experienced a decrease.

71% of employers rebroke these separate risk schemes on an annual basis, which is significantly up from 53% in 2013.

The Most Popular Risk Benefits Provided under Seperate Risk Schemes

Death Benefits

77%

(2013: 78%)

Disablility Benefits

79%

(2013: 72%)

Funeral Benefits

74%

(2013: 69%)

The average lump sum death benefit is 3.5 (2013: 3.2) times salary.

The most common level of funeral cover is R10 000 which is consistent with the 2013 and 2011 results.

Communication

UMBRELLA SURVEY

Tools used to communicate

The majority of member communication is delivered via printed material, followed by technology and face to face which is consistent with the 2013 and 2011 results.

Topics communicated

Investment performance (87%) (2013: 89%) and the benefit structure (87%) (2013: 83%) are still the most popular topics communicated.

61% (2013: 59%) of umbrella funds communicate legislative changes to their members.

The most popular method of distribution is electronic member newsletters followed by paper based member newsletters and emails.

The majority of members' retirement fund related queries are handled by their Human Resources department (56%) (2013: 66%), the retirement fund consultant/broker (50%) (2013: 53%), and the administrator (50%) (2013: 46%).

98% (2013: 97%) of sub-funds find member information and data accurate, reliable and up-to date.

Internet/intranet facilities

77% (2013: 78%) of funds make use of an internet/intranet facility.

Retirement

UMBRELLA SURVEY

42% of employers provide members with access to a Net Replacement Ratio (NRR) or similar calculator, while a further 45% of employers provide each member with an NRR statement each year/regularly.

20% of respondents indicated that the Trustees or employer monitors NRR per member a regular basis.

11% of employers do not have a NRR or similar calculator.

78% (2013: 70%) of employers are concerned about how members utilize their retirement benefits, and 86% (2013: 80%) of employers do not want to have further involvement with members after retirement.

Employers consider the following annuities as most appropriate for an 'average' member:

Living annuity	30% (2013: 30%)
Guaranteed annuity (level or increasing at a fixed percentage)	23% (2013: 15%)
Combination of different annuities	20% (2013: 0%)
Inflation linked annuity	19% (2013: 35%)

72% of employers are aware that National Treasury is proposing that every retiring member must be enrolled in a default annuity product as selected by the Trustees of the umbrella fund, unless the retiring member opts for a different post-retirement product. 71% of employers are in favour of this idea, 18% of employers are not, and 11% of employers are unsure.

78% of members do not take retirement planning seriously or leave it too late to start saving for retirement.

34% of employers have indicated that the Trustees of the umbrella fund have determined an appropriate default annuity product for their members, or are working on this and will be done within the next 24 months. For 46% of employers this is not the case, while 20% of employers are unsure if this is being done.

From the 15% of employers who have already selected a default annuity product, 47% of employers selected the living annuity and 40% of the employers the guaranteed annuity. A further 13% selected a combination of different annuities.

53% of employers do not know if the Trustees of the umbrella fund negotiated preferential fees for the default annuity taking into account the fund's membership size, while a further 27% have not negotiated preferential fees.

The following are indicated as the biggest mistakes that members make when saving for retirement:

78%	Member apathy, i.e. not taking retirement planning seriously or leaving it too late to start saving for retirement.
70%	Not preserving retirement benefits and therefore having too little investment or insufficient time to save for retirement.
44%	Low levels of contribution rates in retirement savings.

Fund Selection

UMBRELLA SURVEY

41% (2013: 43%) of employers have been in an umbrella fund for at least 10 years, while 29% (2013: 24%) have been in an umbrella fund for 3 years or less.

The 5 main reasons why employers joined an umbrella fund are:

Ease of administration	50% (2013: 52%)
More cost effective	50% (2013: 45%)
Less responsibility/Less fiduciary responsibility	42% (2013: 40%)
Better benefits for employees	24% (2013: 13%)
Expertise in fund governance/ compliance with legislation	23% (2013: 18%)

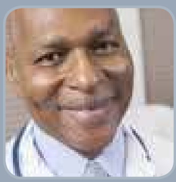
75% of employers, up significantly from 63% in 2013, have in the past transferred from another fund. Of these employers, 79% (2013: 60%) transferred from an employer sponsored fund and 21% (2013: 32%) from another umbrella fund.

The 5 main reasons why employers have transferred from other funds are:

Cost saving	57% (2013: 45%)
Better / Easier administration	40% (2013: 53%)
Better expertise	35% (2013: 26%)
Better benefits for members	27% (2013: 0%)
Better investment returns	24% (2013: 21%)

41% (2013: 32%) of employers seek comparable quotes from other umbrella funds on an annual basis, while a further 29% (2013: 34%) of employers do so at least every 5 years. 18% (2013: 23%) of employers have never done so.

PLANNING PAYS!



By **Karin Muller**, Head, Sanlam Growth Markets

Sanlam's annual Symposium offers the retirement industry and retirement fund members invaluable insight into the South African retirement planning landscape, helping them to understand trends and influencing retirement decision making.

MEMBER SURVEY

The advice imperative

The fourth members' survey presents concerning evidence that even though retirement fund members have an express need to talk to a professional, most spend insufficient time and energy on the all-important exercise of obtaining professional advice when it comes to financial decisions about retirement planning.

The decisions made by retirement members can greatly influence their retirement outcomes. It is therefore important to know whether members are aware of the impact of their decisions and if these decisions are made with the best possible advice.

Many funds offer their members a range of choices, which enable them to structure their retirement savings to suit their personal circumstances. This includes their level of contribution to the fund, the level of benefits, such as risk benefits, member investment choices as well choices at retirement, such as the preservation of their retirement savings and other benefit choices.

For members of retirement funds, decision making about their retirement starts when they join a fund. Last year, Sanlam included a set of questions relating to the process which retirement members go through when they join a fund.

Results from this year's research again show that retirement fund members are not given sufficient opportunity to obtain professional advice when they make financial decisions. When asked how much time they were given to take these decisions, half of the members indicated that they were required to complete their retirement forms within a day or two.

- 90% of members made their decisions and completed their forms within a week of receiving them.

- Most retirement fund members did not have sufficient opportunity to get financial advice.

The importance of these decisions is underplayed - retirement fund members are required to "complete" their forms quickly.

Retirement decisions have less to do with members completing forms, but more about making one of the biggest financial decisions of their lives.

Members do not review their financial decisions

Critically, Sanlam's research shows that 90% of retirement fund members do not reassess their choices after making their initial decisions, i.e. review their decisions with a professional. Despite the fact that so few members reassess their choices, one third indicated that they were happy with their initial choices.

- Retirement fund members still prefer to speak to a qualified professional for advice about their decisions.
- More than 50% prefer face-to-face interaction for the initial engagement and when they were about to withdraw or transfer to another fund.
- Most retirement members obtain professional advice 10.8 years before retirement.
- More than 25% said they would seek advice less than 5 years before retirement.
- Retirement members see advice applying more to the decisions at retirement rather than the period leading up to retirement.
- 40% of members want advice on how to invest and how to prepare for retirement.

Only 14% of retirement fund members contact a personal financial adviser or broker for advice and assistance.

Where do members go for help about retirement fund matters?

When asked about their first point of contact for advice, two thirds of members indicated they would contact their human resources (HR) officer. This number has increased from last year's survey where half the members indicated they would contact their HR officer. Only 14% of retirement fund members contact a personal financial adviser or broker for advice and assistance.

Shifting the time frame to retirement, almost half of retirement fund members indicated that, at this point, they would seek financial advice from a human resources officer.

Two thirds of members' decisions regarding their current investment portfolio were informed by professionals, specifically:

- 37% relied on advice from an accredited financial adviser or broker;
- 17% choose a default option; and
- 3% did not have a choice.

The remaining third relied on their own knowledge, that of a colleague, HR or employer recommendation.

It is especially concerning that the number of retirement fund members whose investment decision are based on advice from a financial adviser or broker decreased from 50% last year to 37% in this year's survey.

There would probably have been less concern about the lack of informed decisions if more members relied on default options. Default options are an important safeguard in the retirement system even though they don't address all members' needs.

Some conclusions

From the Sanlam Symposium Member's Study it is clear that retirement fund members do not understand that retirement planning and retirement provision start on day one of their employment or date of joining the fund.

The retirement saving decisions people make while they are employed will ultimately affect how comfortably they are able to live during retirement. Unfortunately most members only start to consider retirement when they get closer to retirement.

As an industry, our challenge is to help members to understand that retirement decisions are not only made at retirement, but that they are part of an on-going process and should be made with professional financial advice from qualified people.

The industry, retirement fund trustees, administrators, product providers and advice professionals are faced with a challenge to help change the retirement landscape from an administrative HR process to an informed decision-making process.

SUCCESS STRATEGIES

PENSIONER SURVEY

By **Jaco-Chris Koorts**, Product Manager, Glacier by Sanlam

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2014 Marks the 34th annual Retirement Benchmark Survey conducted by Sanlam. The results of this year's survey once again provide the market with valuable insights into the trends and behaviour of individual members and pensioners.

250 PARTICIPANTS

Focusing on the post-retirement space, a core group of 250 participants took part in this year's survey. An additional booster sample of 50 pensioners, representing the affluent sector of the market, was also interviewed. An affluent retired individual is defined as having income in retirement in excess of R25 000 per month. This enabled, for the first time, a thorough analysis of the retirement needs of affluent individuals.

Comparing this year's results of the pensioner benchmark survey against 2013, the consensus feedback remains that members should start planning and investing for retirement from an earlier age.

In light of National Treasury's retirement reform imperatives and the possible introduction of a default pension product, pensioners were asked what retirement options they would have preferred at retirement age. 63.3% Of respondents in the core group indicated that they would have preferred complete freedom of choice, with no restrictions from trustees and the rest indicated they would have preferred some level of interaction with, or recommendations from, trustees. The opposite can be seen in the booster sample, with 38% of affluent pensioners prefering freedom of choice and 62% showing confidence in considering input from trustees.

The percentage of pensioners who believe that they have not saved enough capital to last them during retirement remained fairly consistent at 52.4% in 2014 – slightly down from 53.4% in 2013 but still relatively high when compared with 2011 which, at that stage represented 31.0% of respondents. Evidently, only 24% of the affluent group reported not having saved enough, with 66% believing they have enough capital saved to last them through retirement. What is a growing concern is the percentage of average pensioners with a shortfall between their monthly income and expenses that continues to rise (59.2% in 2014, 51.0% in 2013 and 33.3% in 2011). When asked how this shortfall was dealt with, the pensioners in the core sample mentioned reducing non-essential expenses and cancelling their private medical aid to rely on the state healthcare. On the other hand, affluent individuals seemed less inclined to cut back on expenditure and opted to continue working to supplement their income, with a few dipping into additional savings or investments.

What is a growing concern is the percentage of average pensioners with a shortfall between their monthly income and expenses that continues to rise (59.2% in 2014, 51.0% in 2013 and 33.3% in 2011).

The survey results also show that the core group's retirement age increased slightly from 59 in 2013 to 60 in 2014, whereas the average period of contribution lasted 29.8 years in the 2014 survey compared with 28.5 years in the 2013 survey. This positive trend shows that individuals had saved longer towards retirement but clearly not enough when compared with the booster sample which shows approximately 33.2 years of long-term contributions. However, based on the survey results formal employment begins at age 22 for the core group of pensioners. This leaves a period of 8 years' contributions unaccounted for, which is consistent with last year's results. The same trend is seen in the booster sample as formal employment began at an earlier age of 20.8 years, leaving approximately 6.96 years of contributions unaccounted for.

There is evidence during formal working employment that some individuals stopped their retirement contributions through withdrawal at either resignation or retrenchment with 20.8% of respondents in 2014 replying "Yes" to this question as compared with 17.1% in 2013. Of the individuals who made a withdrawal, 63.5% withdrew their full benefit in cash as opposed to 48.8% taking the benefit in cash in 2013. The cash was used to pay for the rising living expenses for 52.4% of respondents in 2014 compared with 29.4% in 2013.

This trend is very different among affluent retirees as only 12% of respondents indicated that they withdrew from their retirement savings at resignation or retrenchment. From those that withdrew, 50% preserved part of their benefit or purchased a retirement annuity and the other 50% opted to withdraw their full benefit in cash. Only 20% of these individuals used the cash to pay for living expenses with 80% either saving or investing in investment instruments or business ventures or settling/reducing their mortgage bonds.

Keeping in mind the importance of financial advice, the prevalence of general pensioners receiving financial advice before retirement has dropped slightly from 60% in 2013 to 57.6% in 2014. On average, these pensioners received financial advice 11 years before retirement, whereas, ideally, active members should receive financial advice from much earlier on in their working career. The proportion of general pensioners who did receive financial advice from their company's HR office continues to rise.

If we look at the source of financial advice, we see that 72% of affluent retirees seek financial advice from professional financial advisers as opposed to only 34% of the general pensioners who look mainly towards human resources departments, fund trustees or fund administers for guidance.

Pensioners, who opt for a lump sum at retirement, are encouraged to stay within the tax-free limit and the lump sum should ideally be used to repay debt. Based on the survey results, the proportion of general pensioners spending the lump sum on living expenses is still relatively high. There is a bit of concern as it was noted that the proportion of general pensioners who reported they had not yet depleted their lump sums reduced to 58.0% in 2014 from 65.7% in 2013. However, savings is on the top of pensioners' minds as indicated by the results which show an increase in savings accounts and annuities purchased. When compared with the booster sample, 72% of respondents have not depleted their lump sum at all.

As far as post-retirement vehicles are concerned, the market appears to have shifted away from level guaranteed life annuities (23.9% in 2013 as opposed to 20.4% in 2014) towards guaranteed life annuities escalating at a specified rate, with the percentage of pensioners purchasing these annuities increasing from 19.1% in 2013 to 29.2% in 2014.

The 2014 Pensioner Benchmark Survey has once again demonstrated the tough financial circumstances faced by South African retirees today. The introduction of an affluent pensioner booster sample allowed for very insightful conclusions to be drawn that are applicable specifically to affluent pensioners. The results of the 2014 pensioner benchmark survey highlighted the importance of obtaining quality financial advice and the benefits of starting to save early for your retirement years. With these two building blocks in place, retirees are able to look forward to making their retirement years the best years of their life.

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