

Your clear view on retirement fund management

The TRUSTEE TIMES

The Consumer
Protection Act
and your
fund

Investing in
Africa

Not a wild card
decision

Old Mutual
Retirement
Monitor

Survey results show lack
of awareness around
retirement savings

Tackling
the Umbrella
Fund issue

Issue 47 | August 2011



OLD MUTUAL

Corporate



Our cover photo:
*Bongani Madikiza,
Managing Director,
Old Mutual Corporate*



A great prize is up for grabs - a Garmin GPS.

See page 23 for more details.

Please write to Trustee Times with any suggestions for topics or questions you may have.

We value your feedback.

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Foreword



Bongani Madikiza
Managing Director, Old Mutual Corporate

While it may not be possible to change the past, we at Old Mutual Corporate believe that there is a great deal to be learnt from it that can inform the future.

Nowhere is this more relevant than in the world of retirement saving - where an understanding of the events, circumstances and behaviours that brought people to their current financial situation is an invaluable tool in helping them to plan effectively for a more financially secure future. If not for themselves, then saving for their future generations becomes an important consideration.

Launched last year, we provide some of the key insights from this year's Old Mutual Retirement Monitor 2011 in

this issue of Trustee Times. This research represents our concerted efforts to achieving an understanding and insight into the financial situations and attitudes of South Africans, with particular focus on their approach to, and preparedness for, retirement saving.

We believe that the real value this research offers is the valuable information it presents to all retirement savings industry stakeholders - from employees preparing for their pension years to advisers who are helping them succeed to the trustees and principal officers managing a fund. That's because only by knowing where our clients are 'coming from', can we, as responsible retirement savings facilitators, help them get where they want to be.

“ If not for themselves, then saving for their future generations becomes an important consideration.

It is my hope that through this survey, and the many other pieces of research conducted every year by Old Mutual including the recent Old Mutual Savings Monitor, we will continue to contribute to the improvement of the South African retirement savings industry and, more importantly, to the financial wellbeing of those individuals who will one day be our nation's pensioners.

Happy reading!

Bongani

New survey reveals

South Africans lack awareness around retirement savings needs

The results of the 2011 Old Mutual Retirement Monitor released recently in Johannesburg reveal that a lack of awareness around personal retirement savings and contributions to retirement schemes is one of the key reasons why the majority of working South Africans

Furthermore, the majority of South Africans anticipate having to work for financial survival after formal retirement.

The survey comprised 1005 hour-long face-to-face interviews and examines pre-retirement perceptions among working South Africans, in particular their confidence regarding the financial provision they have made for their retirement.

rather than long term savings such as retirement savings.

According to the survey, respondents' primary savings motivation was the need to save for their children's education. Madikiza explains that this pressure on middle-aged people (35-49 years) to focus on saving for their children's education means that their retirement preparation is likely to fall short.

"The possibility exists that some respondents regard their children as a form of substitute retirement policy. However, irrespective of respondents views on the role of their children in their retirement, it remains very concerning that only 54% of respondents who are currently 10 years or less away from retirement are actually saving for that retirement," he says.

By their own admission, most individuals are not meeting their retirement goals.

Bongani Madikiza, Managing Director of Old Mutual Corporate, says the survey results reveal that because many South Africans are struggling financially they end up prioritising their income towards other needs,



Bongani Madikiza and Hugh Hacking



Bongani Madikiza



Hugh Hacking, Bongani Madikiza and Craig Aitchison

"By their own admission, most individuals are not meeting their retirement goals. While short-term solutions may be possible for those who already find themselves in this situation, it is clear that long term, mindset-changing interventions are needed in order to educate people regarding disciplined retirement savings from an earlier age. As a society we also need to investigate mechanisms that help make this affordable for the majority of South Africans," says Madikiza.

Furthermore, among respondents from lower income brackets, the importance of providing for death or funeral expenses competes directly with saving for retirement. Madikiza says many respondents are doubtful that they will in fact reach retirement age at all. For this reason 58% of respondents earning less than R3 000 feel that death, funeral and disability cover is more important than retirement savings. "This

mindset is concerning as it does not take inter-generational savings into account and contributes to the cycle of poverty," he says.

The data also revealed a significant lack of awareness among respondents regarding the size and adequacy of their contributions towards their

Some respondents regard their children as a form of substitute retirement policy

retirement. "Only 23% of respondents knew the approximate value of their retirement savings. In addition the respondents reported contributing on average only 8% of their salary, while it is generally accepted that on average people should contribute around 15% of salary," says Hugh Hacking, Umbrella Fund Manager at Old Mutual Corporate.

What makes this finding especially interesting, according to Hacking, is that although 70% of respondents believe that their contributions towards retirement are "about right" and only 15% of respondents felt

that they were contributing too little towards retirement; approximately 58% said they expect to need to work after retirement, primarily for financial reasons.

“Unfortunately this again points to the fact that individuals are not able to accurately assess their post-retirement needs and carefully calculate their pre-retirement funding requirements to meet those needs,” says Hacking.

A number of differences in responses between fund members and non-fund members also emerged. Fund members as a group tend to be more satisfied with the provisions they have in place for retirement, more confident in formal retirement products and less fearful about retirement.

Only 54% of respondents who are currently 10 years or less away from retirement are actually saving for that retirement.

Hacking partly attributes the low levels of awareness among fund members to dissatisfaction among members regarding the form, content and frequency of communication issued by the retirement funds. Funds still favour printed communication. However,

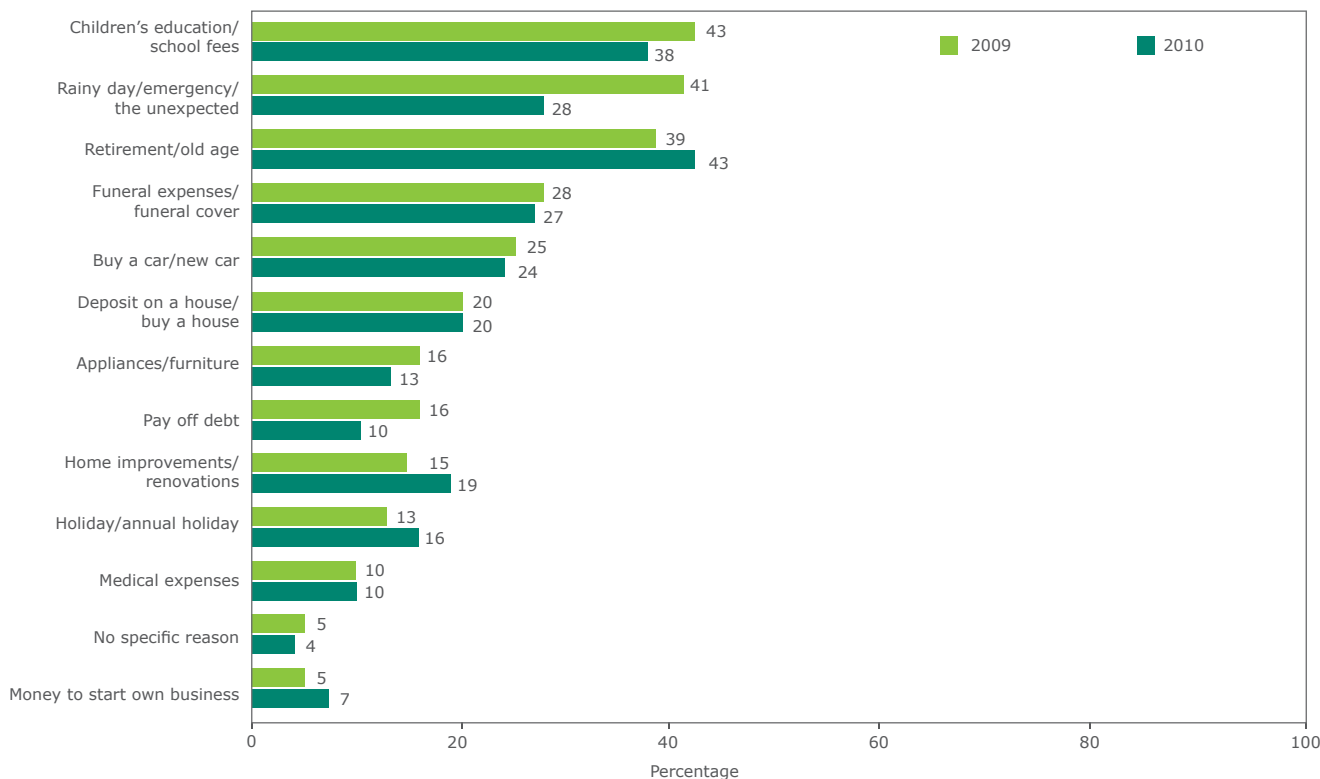
members indicate a clear desire for email, telephonic, cell phone and face-to-face communication.

Furthermore, while respondents indicated that they have been kept aware of fund basics and fund rules, few indicate that they have received communication around the value of their savings, administration and management costs, adequacy of provisions and education on how to improve their retirement provision.

“Results also revealed that the lack of communication around preservation of retirement funds at the time of leaving a fund is actually having the effect of discouraging preservation.

“Only 24% of respondents who had left employment in the last 15 years say that they were given any advice

The relative importance of providing for death or funeral expenses





Craig Aitchison

by their fund or employer as to what to do with their retirement funds on leaving," says Hacking.

When asked what they would do with their retirement savings should they resign, change jobs or be retrenched, 18% of respondents indicated that they would take 100% in cash on resignation, compared to 33% who said they would do so on retrenchment. However, when asked if they would take at least some part of their retirement savings in cash, 64% of those resigning and moving to another job said they would, while 75% said they would were they to be retrenched.

"Preservation is an area of retirement funding that requires urgent attention and focus. It needs to be made easier and more compelling for fund members to preserve their benefits," says Hacking.



Because many South Africans are struggling financially they end up prioritising their income towards other needs, rather than long term savings such as retirement savings.



Bongani Madikiza and Craig Aitchison

Retirement Index shows

South Africans losing confidence



Craig Aitchison
MD: OMAC Actuaries &
Consultants

The recent OMAC Actuaries & Consultants Member Retirement Index (MeRCI) for 2011 has revealed that confidence levels among members of retirement funds in South Africa have declined over the last year.

The MeRCI is an indication of aggregate confidence levels that occupational retirement fund members have in their funds to deliver a satisfactory retirement. Confidence levels are measured on a scale of 1 to 10 (where 1 is extremely unconfident and 10 is extremely confident) The 2011 MeRCI recorded a confidence level of 5.8, marking a decline from 2010's figure of 6.1.

According to Craig Aitchison MD of OMAC Actuaries & Consultants, a number of factors are taken into account in calculating the MeRCI. These include members' trust in various aspects of a retirement fund, knowledge and understanding of their funds and finally, their engagement and activity within their funds. "We believe

that this assessment provides a very real view of member confidence in their retirement funds," he says.

Aitchison warns that because there have only been two measures of this survey, it is still too early to tell if this is a continuing trend, however, it is possible to isolate areas of improvement and decline over the year.

Factors that have shown a decline from last year include additional savings put into retirement funds, member participation in trustee elections, understanding of how retirement fund assets are invested and which investment managers are being used also declined. Furthermore, Aitchison says, members indicated a growing dissatisfaction with communication.

"The areas of decline indicate a growing gap in communication which seems to be leading to a dwindling desire among members to engage with their funds. While we cannot tell if this is a downward spiral of confidence levels, it is clear that member engagement, understanding and satisfaction with communication remain challenges for the retirement industry as a whole," he says.

On the other hand, the results of this MeRCI indicated a slight improvement in satisfaction with current retirement planning and provision and trust in fund's ability to provide in retirement, death or disability. Confidence and trust in trustees, the administration of their fund and in trustee management of fund investments also improved slightly. A further improvement in MeRCI figures was noted in pensioner satisfaction.

For us, an award.
 For our clients,
 consistently
 strong returns.

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 OMIGSA ABSOLUTE RETURN INVESTMENTS**

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do great things



OLD MUTUAL
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Absolute Return
 Investments



For more information about our hedge fund offerings, which include a series of domestic and international funds, visit www.omigsa.com/absolute or call Theresa Delcarne at (021) 509 5230.

Investing in Africa



Not a wild card decision

Following the ruling by the Ministry of Finance allowing retirement funds to increase their offshore exposure to 25% with an additional 5% of their assets to be invested in Africa, industry focus has been on the potentially large returns from this market.

However, trustees should carefully consider both the advantages as well as the risk that they will need to manage when making such an investment.

This is according to Windall Bekker, Head of Investment Consulting at OMAC Actuaries & Consultants who says that many African economies have enormous potential for growth making them attractive investment destinations.

"Growth in these countries is driven by lower levels of debt on both fiscal and consumer levels, a growing middle class population of consumers and increasing investment into education, health and public infrastructure," he says.

“ An experienced investment consultant with actual experience in making African investments can be a valuable asset to the fund trustees

Furthermore, an increasing number of South African and developed market companies are expanding their businesses into the lucrative African markets through green field investments, acquisitions and partnerships. According to Bekker this will open up African markets, improving resource exploitation, which should translate into higher growth and attractive return on investments.

“ Many African economies have enormous potential for growth making them attractive investment destinations.

Bekker warns that, for a South African based investor, investing in Africa means exposure to a multi layer of currencies.

“Therefore, currency risk becomes one of the key factors in determining the suitability of this asset class. Most African currencies however, are relatively stable against both the Rand and the Dollar due to currency management regimes that are applied in most of these countries,” he says.

Another consideration is liquidity. According to Bekker, some African markets are still shallow and under repressive controls, making them very difficult to exit once one has invested. Furthermore, due to the closely-held nature of the businesses in these markets, there is a low level of free-float in some stocks which will make it difficult for investors to have large enough exposure to some preferred stocks.

Bekker recommends that, due to liquidity constraints investors should have a private equity mindset when approaching Africa. However he follows to say that liquidity should not be a huge impediment for investors willing to invest in Africa for two main reasons:

1. The maximum that could be invested in Africa is only 5% of the Fund, and this should make liquidity management much easier.

2. Managers managing money in Africa generally play in the upper end of the liquidity spectrum and have already factored liquidity as one of the key factors in their portfolio construction methodologies.

Bekker urges trustees to draw from the experience of managers that have considerable years of managing money in Africa and sufficient capacity in terms of research and physical representation within these economies.

He says that because fees are similar to international funds, which range from 1% to 2% per annum, it is vital to have a manager who adds value to a portfolio rather than just pick up fees on assets that could earn better elsewhere.

“An experienced investment consultant with actual experience in making African investments can be a valuable asset to the fund trustees,” says Bekker.



Windall Bekker
 Manager: Investment Consulting,
 OMAC Actuaries & Consultants

South Africa facing rough ride

in months ahead as global risks rise

South African investors should brace themselves for considerable market volatility in the months ahead, on the back of rising concerns over fiscal contraction in Europe, budget clashes and slow growth in the US, and slowing growth in China, among other issues, according to Rian le Roux, chief economist at Old Mutual Investment Group South Africa (OMIGSA).



Le Roux cautions that it is investors' negative perceptions around these issues that are dominating equity and bond markets around the globe, and will continue to do so for some time. "This will favour emerging markets, including South Africa, as investment destinations, but the local market is still likely to suffer from big swings driven by this newsflow for the rest of the year," he says. "Investor sentiment is particularly fragile right now and we certainly won't escape it."

With fiscal tightening looming large in many big economies including the US, UK and most of Europe, and the global recovery having lost momentum (again), it is the combination of slowing growth and the acute debt problems in Europe and the USA that is causing the most worry. Political brinkmanship in the US is threatening the triple-A rating of US Treasury bonds. Failure to raise the debt ceiling and/or to effect a meaningful reduction in the budget deficit over the medium term could cause considerable turmoil in global financial markets.

"While neither of these two scenarios is likely to materialise, it is simply the fact that they are being debated that is sparking increasing investor unease," notes Le Roux. "Just look at the price of gold, which is at an all-time record above US\$1600/oz – there seem to be very few safe-haven investments out there right now. The US economy is stuttering, China is slowing and Europe is overwhelmed by debt, while emerging markets are still perceived to be risky."

The implications of these deteriorating conditions, he says, are that the developed world is likely to maintain expansionary monetary policies for longer, and will



Inflation is not a significant threat to the economy, even though it is on the rise.

continue to underperform developing countries, where inflation is the primary risk. This will maintain the attractive interest rate differentials in developing countries, lending further support to developing country currencies at the expense of the euro and US dollar.

“For South Africa, this means the rand could well stay stronger for longer, which will help keep inflation under control and probably delay any interest rate hikes until late this year or early 2012. At the same time, though, it continues to undermine our exports. So although we’re experiencing a moderate recovery led by consumer spending, it remains uneven - investment and export growth are lagging so that we’re only likely to reach 3.7% GDP growth this year.”

Le Roux believes inflation is not a significant threat to the economy, even though it is on the rise. “Over the next few months we do expect CPI to rise from 5.0% y/y currently to around 6% at year-end, but core inflation (excluding food and petrol costs) remains relatively subdued at 3.5% y/y. We’re likely to see only a moderate up-cycle in inflation and interest rates ahead – barring an unexpected rand sell-off. For example, we’re pencilling in a total of 150 basis points in rate hikes through the cycle to the end of 2012.”

“

Investor sentiment is particularly fragile right now and we certainly won't escape it.

Risks, he says, mainly stem from the global environment, with the rand's exchange rate remaining key. “Right now investor sentiment towards emerging markets remains relatively positive, but the fragile nature of the world economy means that sentiment could change very quickly. We aren't immune to contagion from a worsening debt crisis in the Eurozone, for example. At the same time, conflicting messages we send around foreign investment in SA and government ownership policies create further uncertainty, undermining that positive sentiment and, eventually, our longer-term economic growth prospects.

About OMIGSA

Old Mutual Investment Group SA (OMIGSA) is one of South Africa's largest asset managers with over R464bn in assets under management as of December 2010. Our 16 specialist investment boutiques provide a wide offering of investment solutions for both retail and institutional investors across the risk and return spectrum, from more traditional equity, fixed income and index tracking investments to alternative assets like property, private equity, infrastructure and socially responsible investments (SRI).



Rian le Roux
Chief Economist at OMIGSA



Demystifying Disability

Nuts and bolts on partial benefits

The impact of illness or injury on a person's ability to work can range from no effect on productivity to complete inability to work. This wide scope creates the need for some flexibility in disability benefits.

All or nothing ... or something

For the full benefit, insurers usually define disability at a point where the impact is significant i.e. for employees who need financial assistance because they have become totally unable to work.

Some of the claimants become productive again through rehabilitation, training, new technology, adaptations at the workplace, etc. In line with sound work rehabilitation practice, one should allow for a return to work transition period before the benefit stops.

When an employer and employee agree on return to work on a basis of reduced time or reduced tasks, the salary is usually adjusted to reflect the lower level of output. If this plan is based on remaining health problems that limit the employee's productivity, the insurer comes to the party by providing a top-up for the income earned.

Doing the sums

When calculating such a partial benefit, the underlying principle is that the employee should be better off financially when working than on a disability income.

Let's look at an example.

Salary before disability	R10 000 per month
75% disability income benefit	R7 500 per month
Adjusted salary on return to work	R6 000 per month

The partial benefit will be based on the income lost i.e. 75% of the old salary minus the new salary. In this case 75% of R4 000 is R3 000.

On returning to reduced work the claimant now receives a salary of R6 000 plus a partial benefit of R3 000 per month, giving a combined income of R9 000.

In practice the calculation is a bit more complex, especially if the employee has been disabled for a while. Given the effect of inflation, basing the partial benefit on the salary at disability will be unfavourable for a claimant. To get around this, the partial benefit is calculated as the full disability benefit less the benefit based on the new salary. Using the above example, the partial benefit would be R7 500 less 75% of R6 000 (R4 500), which also comes to R3 000.

The actuarial calculation may seem a bit more complex but allows for the necessary inflationary adjustments.

One lump or a half?

This approach can also be applied to lump sum disability benefits. For example, the full benefit is typically paid when the employee has become permanently unable to work in the open labour market on the other hand the partial benefit is paid when the employee can no longer work at the same company.

This creates flexibility in the lump sum context and helps facilitate a career change between companies. To keep communication and calculations simple, the partial benefit in the case of lump sum benefits can be a set percentage of the full benefit, e.g. 50%.

Conclusion

The partial benefit is an additional product feature, which requires a separate assessment and benefit calculation based on somewhat different information.

So, whether you choose monthly income or lump sum cover, always opt for some flexibility, as occupational disability is not an all or nothing situation.

One of the key aspects of the new Regulation 28 is the introduction of principles requiring that a fund's assets must be appropriate for its liabilities.

The new Regulation 28

and what it means for asset/liability matching

This requires an understanding of the nature of the liabilities so as to be able to select appropriate assets. Focusing on funds with pensioners, pensioner liabilities consist of regular payments to pensioners for as long as they are alive, with increases according to a fund's pension increase policy (usually with a link to CPI).

So what is an appropriate asset for this liability? An asset with cash flows that match the pattern of expected pensioner cashflows including the increases certainly meets this requirement. Trustees can employ liability driven investing (LDI) specialists to structure portfolios of assets that match the expected cashflows.

These portfolios are normally centered around bonds. Derivatives such as swaps can be included in such portfolios to increase the flexibility to aspects such as the timing of asset inflows. As the use of derivatives is now explicitly catered for under Regulation 28, the LDI specialist will be able to make greater use of derivatives to improve matching.

Is a perfect match attainable?

Trustees should be aware that they will not always be able to fully match the expected cashflows because pensioner cashflows tend to go out longer than the range of available assets. There may be reinvestment risk as the assets backing these tail cashflows may be reinvested on unknown terms.

Matching and the funding Level

An important consideration here is the funding level:

- For an overfunded fund, one approach is to employ matching as far out as the range of available assets



Taruvona Mashamhanda
Actuary, Corporate Customisation,
Old Mutual Corporate

will allow and the assets backing the tail cashflows can be invested in the longest inflation linked instruments to provide inflation protection.

- For an underfunded fund, this approach can lock-in the underfunded position and reduce the chances of attaining a fully funded position. To get around this, matching can be employed for a limited period and the balance of assets invested in a return seeking portfolio. The LDI specialist can structure an optimal balance between the matched portion and the return seeking portion. The hope is that over time, as the return seeking portion grows, this can be used to increase the matched portion.

Summary

Many funds are already using LDI type strategies such as cashflow matching. With the principles introduced in Regulation 28 and the flexibility brought about by the inclusion of derivatives in the regulation, will we see an increased interest in such solutions? Probably!

OMAC Perspectives

Mako Mapfumo, Senior Investment Consultant at OMAC, unpacks the possible implications of the changes to Regulation 28 for trustees.

1. From rules based to principles based regulation

The objective of the amendments is to make the regulations less onerous to all stakeholders, including retirement fund trustees and beneficiaries, investment managers and regulators themselves. This is ideally achieved through clearly outlined principles which would broadly set the parameters within which decisions can be made with no incentive to avoid regulation.


For fund trustees, the principles approach means a broadened scope of responsibility and oversight on the funds. For example:

- Emphasis on performing reasonable due diligence on credit, market and liquidity risks, as well as on foreign assets for currency and country risks, pertaining to investments. This means that trustees have to play an active role in assessing, managing and monitoring of these risks.
- Requirement for the fund to consider factors that may impact the long term performance of their investments, including those of environmental, social and governance (ESG) in nature.
- Funds may use ratings issued by a recognised rating agency, but such ratings should not be relied upon in isolation for risk assessment or analysis of an asset. This means trustees will need to go an extra mile in their assessment of risks pertaining to their assets rather than merely relying on rating agencies.

Also, all the proposed principles should be included in the Investment Policy Statement (IPS) of the funds. This means the IPS will become expanded and more comprehensive as it should now set out the framework for measuring, managing and monitoring of the specified risks and inclusion of other factors such as ESG.

2. Investment limits - the main areas of interest explored

(i) **The look-through principle** – Generally, we do not expect this new requirement to affect most of our existing clients especially the active member funds as these are already invested in Regulation 28 compliant vehicles. However, for our clients who are invested in Retirement Annuities (RAs), the impact of the look-through might be significant. This will require the underlying investments held by the RAs to be Regulation 28 compliant. These restrictions may ultimately render the RA a fundamentally less desirable product, as RA clients who sought the apparent benefit of the tax deduction and the freedom to invest in pure equity or pure offshore exposures will no longer be afforded that discretion.

 It is important to note that clients invested in Old Mutual's Absolute Growth Portfolios will not be affected by this requirement as all the underlying investments are Regulation 28 compliant.

(ii) **The de minimis clause** – This requires that an underlying investment that constitutes less than 5% of the fund's total assets, which may be a subset of a vehicle that holds several other assets, will not be looked through. We believe this exemption is useful and necessary for situations where look through is complex, especially in foreign investments. This also applies to Hedge funds and Private equity funds (no further look through is required in these asset classes).

(iii) **Investing in unregistered schemes** – a welcome development that allows funds to consider those

investments that may not yet have been registered with the Financial Services Board (FSB) for reasons not of their own making. The new Regulation 28 allows funds to invest in unregistered asset classes (including unregistered debt, ordinary and preference shares, property, private equity and Hedge funds) up to 35% of the total assets of the fund, on an aggregate basis. For trustees, this dispensation will mean more opportunities to diversify risk and grow their funds. However, more due diligence work will be required in evaluating the appropriateness of investing in an unregistered asset classes, where necessary.

(iv) **A 15% aggregate limit on unlisted equity and Private Equity** – This means that funds will have to allocate the 15% between private equity and unlisted equity. The difference between the two asset classes is that a private equity is a fund that invests in unlisted companies, i.e it is a collection of holdings in different companies, whilst unlisted equity refers to shares of companies not listed on an exchange, and may not necessarily be held by a private equity fund. Recognition of these two asset classes is important especially given that there are different opportunity sets available in Africa for these assets. The 15% aggregate limit is a fair enough number given the risk profile of these assets.

3. Use of derivatives

The National Treasury seems to have dropped a stricter regulation of derivatives as previously indicated in the first and second drafts. The only mention made is that derivatives are defined in terms of Securities Services Act of 2004 and that funds may invest in derivatives subject to the condition that the fund may not suffer a loss in excess of its investment or contractual commitment in the asset. One of the areas of concern with regard to the use of derivatives was whether the regulator will consider the net or gross exposure of an asset class, where derivatives are used to offset or gain exposure in other asset classes. It appears the regulator is promoting the responsible use of derivatives to aid the efficient management of portfolios.

NB: It is important to note however, that the FSB is still to issue notices regarding derivatives as well as scrip



The new Regulation 28 allows funds to invest in unregistered asset classes up to 35% of the total assets of the Fund, on an aggregate basis.

lending and guaranteed policies in order to add more clarity in these areas. The Registrar of Pension Funds issued a notice on 10 June 2011, advising of its decision to declare a transition period from 01 July 2011 to 31 December 2011. This was done to give funds more time to adjust their monitoring and reporting systems. The registrar further cautioned funds not to interpret this as implying more laxity or less compliance to the limits set out in the new regulation.

The second notice issued by the FSB on 10 June 2011 exempts Funds from immediately informing the Registrar when they exceed any limits set in Regulation 28 as from the effective date of the new regulation (31 December 2011). Instead, funds will be required to report any breaches to limits on a quarterly basis, within one month after the end of each quarter, starting from the first quarter of 2012 (ending 31 March 2012).

For further comment or discussion, contact:

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omac
Actuaries & Consultants
Provoking thought. Engineering success

The Consumer Protection Act

and your fund

On 1 April 2011, the Consumer Protection Act (CPA) came into force in South Africa. Designed to give consumers the right to insist on quality service, transparent pricing, full disclosure and protection against false, confusing or misleading information, the Act has definite implications for those involved in the pension funds industry - whether as a provider of fund services or a member of a fund.



Lungile Xaba
Service Executive, Old Mutual Corporate

Lungile Xaba, Service Executive at Old Mutual Corporate, takes a quick look at three of the most important implications of the CPA for you as a trustee or employer offering membership of a pension fund, and what you need to do to make sure you don't fall foul of this new legislation:

1. Communicate clearly

By way of protecting and advancing consumer rights, the Act states that all consumer-focused documents must be clear and easily understandable. This has obvious implications for all your fund communications – including fund rules, benefit statements, general information and responses to queries or complaints.

The CPA gives consumers the right to select suppliers. This may allow a member to challenge a retirement fund rule or arrangement that limits the choice of annuity provider on retirement.

As a general rule, it is advisable that all fund communications are aimed at a person with average literacy

skills and little or no knowledge or experience of pension funds. All your fund members should be able to read and make sense of your communications, without “undue effort”. Use plain and simple language at all times and avoid jargon. If possible, it is also recommended that members receive communications and documents in their home language – although it is understandable that this isn't always possible.

The Act states that all consumer-focused documents must be clear and easily understandable.

2. Accept your responsibility

The Act prohibits product or service suppliers from requiring a consumer to give up any rights, assume any obligation, or waive any of that supplier's liability in terms of the 'transaction' they enter into.

While this doesn't mean that you as a trustee or employer are automatically liable to your fund members in your



Use plain and simple language at all times and avoid jargon.

personal capacity, it is worth your while to make sure that there are no liability exclusion clauses in your fund/trustee agreements that may be seen as “unfair, unreasonable or unjust” – to you or your fund members. The same goes for Indemnities. Make sure they are worded in a way that is fair, just and reasonable.

3. Give (and expect) great service

While, as a trustee, you are not necessarily providing a direct service to fund members, you still need to check that the services being received by those members – from any supplier connected to the fund – are of the highest possible standards.

Section 54 of the Act entitles consumers to services that are performed “in the manner and of the quality people are generally required to expect”. This means that a fund member could very well put in a claim for a refund of a portion of the price paid for any fund services that he or she may not be happy with.

Recommended next steps...

Making sure that you are acting within the parameters of the CPA is not difficult and doesn't require too much effort on your part. However, it is important that you take the following steps at the very least:

1. Make sure you, and all your fellow trustees, are fully trained on the requirements of the Act. (see page 24 for details on our Trustee Training workshops)
2. Review all your existing member communication documents and make sure that they are written in plain language and are easy to understand for all members. If they aren't, amend them as soon as possible.
3. Carefully check over your fund rules to make sure that there is nothing contained in them that can be seen as unfair, unreasonable or unjust by a fund member or legal expert.
4. If there are existing exclusion clauses in the fund rules, make a decision on how to communicate these to members and what actions need to be taken to prevent any risks in terms of the CPA.



Old Mutual launches a unique

100% disability cover product

Old Mutual Corporate has launched South Africa's first disability product that enables companies to provide employees with 100% income replacement cover for the duration of their disablement, inflation-beating annual increases and additional maternity benefits.

The Group Income Protection's 100% income replacement cover is a significant enhancement to the typical disability income benefit of 75% of a person's monthly earnings.

According to Dean Boshoff, Group Assurance Executive at Old Mutual Corporate, while there are a few local products that offer a top-up benefit which takes the 75% income replacement ratio to 100%, these are generally restrictive and based on certain severe or permanent medical conditions, which means that only a limited number of people qualify.

“

He says that for many people their salary is one of their greatest assets and should therefore be insured in full.

Boshoff says the traditional argument for not providing the 100% benefit is that doing so may be seen as a disincentive for disabled employees to return to work. However he believes that by taking a different approach to benefits, this restriction can be managed.



Dean Boshoff
Group Assurance Executive,
Old Mutual Corporate

“The truth is that most people actually want to work and earn an income. Additionally, every claimant of this benefit will of course need to continue to satisfy the definition of disability. This is a very careful and thorough assessment process and claimants cannot simply 'choose' to keep a disability benefit.”

He says that for many people their salary is one of their greatest assets and should therefore be insured in full.

“Many people are finding it tough to sustain themselves on their monthly salary as it is. These daily costs do not decrease when someone gets sick or becomes incapacitated. In fact, expenses often increase significantly. Furthermore, disability is not necessarily a temporary state. This means that, should a worker become disabled, their living costs will significantly increase until retirement. Therefore, in addition to the 100% income protection cover, employees can now also benefit from annual increases of CPI +1% and CPI +2% - another unique offering in the local market.”

“ The truth is that most people actually want to work and earn an income.

Boshoff explains that maternity leave is another event that impacts on female employees’ income and productivity. Employers can now add the Maternity Leave Cover option to their Income Protection package for refunds of up to 4 months of maternity leave benefits.

Boshoff says that implementing this comprehensive benefit requires a strong business model and best of breed disability management practices. These are areas Old Mutual Corporate specifically targets as a differentiator and not all service providers will be able to support such a design.

“We urge employers to consider insuring 100% of income – and the effect that a 25% decrease in salary would have on the lifestyle of their employees if they became disabled. The nature of this product is to start with what people need, rather than focussing on what ‘can’t be done,” he says.



Shireen Petersen and Kumenthran Naidoo from ABSA Consultants and Actuaries



Braam Kruger, Fatima Mookadan and Dean Boshoff



Hedda Rheeder, Adele Bezuidenhout and Glynis Pattison

Tackling the Umbrella Fund issue

To move or not to move - that is the question. As more and more trustees of funds are opting to move their funds to umbrella funds, how do you know whether your fund should do the same?

While there are no set criteria for a fund's suitability to move to an umbrella fund, there are some very important factors to consider before making the decision. Start by evaluating the pros and cons of umbrella funds relative to member needs, analyse potential service providers and finally, implement a managed process to ensure a smooth transition.

Evaluating the impact of the move on members

The most important issue when deciding whether or not to move to an umbrella fund is to determine whether the move will add value for members. Because member value typically has many dimensions, the best and simplest way to do this is to measure the impact of total costs on the members.

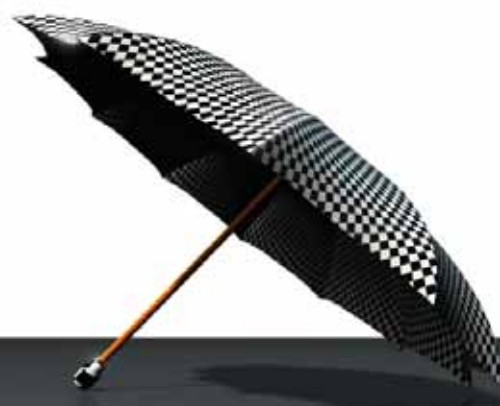
This analysis takes some time. However, even if it does not immediately suggest that a move to an umbrella fund is a good idea, it will provide valuable insight into the impact of the total charges on various members.

As a general rule of thumb, our analysis has shown that a fund with less than 3 000 members is likely to benefit from a move to an umbrella, whilst a fund of more than 8 000 members is unlikely to benefit. In the range of

3000 to 8000 members the outcome will typically be closer and will require careful thought.

The impact of changes to the risk benefit costs should generally be a separate evaluation, with the focus on the impact of costs on the savings portion. Therefore, the impact of total cost on the member savings can be assessed in the following way:

- 1) **Calculate the costs** – Total cost includes administration charges, the costs of managing the fund (audit fees, bank charges, Trustee costs, FSB and other regulatory levies, professional indemnity insurance, secretarial services, etc), communication costs (such as news-letters, member guides, member seminars, etc), consultant costs (investment, legal, communication and benefit consultants) and investment management costs.
- 2) **Analyse how the costs are charged** – Different charges impact members in specific ways. Typically, higher monthly charges deducted from contributions coupled with lower charges levied against the investments are preferred by high contributors. Conversely, lower monthly charges deducted from contributions, coupled with high charges levied against the investments, give low contributors a better outcome.



3) Calculate the reduction in yield for members –

Using the reduction in yield, is probably the best way of comparing charges. Ideally it should be performed for all the members individually, because so many factors impact the calculation.

Another important factor to consider when switching to an umbrella fund is the reduced risk for employers. An employer doesn't need to concern itself with fund governance and ensuring that its employer-sponsored fund complies with legislation – this becomes the responsibility of the umbrella fund itself and its sponsoring administrator. And what about the employer being liable for the actions of its employer appointed trustees? This also falls away, and employer and member trustees can now dedicate their entire work day to doing their core job functions, and not using part of the day to do trustee work. This work falls onto the trustees of the umbrella fund and its sponsoring administrator.

Evaluating service providers

If the cost-benefit analysis suggests that a move to an umbrella fund will offer value to the members, then the wide range of umbrella fund product providers in the market should be individually assessed before selection is made. This is a very important decision as a bad decision at this stage can be costly to reverse and can lead to dissatisfaction among members.

Providers should be evaluated on the following criteria:

- **Impact of total cost on the members** – As with calculating member costs, the most important part of this analysis is to ensure you have captured all costs. Because there is little standardisation between tenders received from different providers, it is crucial to read the detailed attachments in order to avoid surprise costs for required services later. Costs that generally require the most interrogation are costs that are charged to the assets.
- **Features and benefits offered** – Cost is typically the main dimension in selecting a provider. To accurately compare service providers, rank them according to the different benefits and services they offer. Specific benefits and services should be weighted in order of importance. Based on this, providers can be ranked according to a final score obtained as a result of adding up weighted rankings.



Hugh Hacking
Head of Retirement Fund Solutions,
Old Mutual Corporate

Making a smooth transition

Too often the trustees of the current fund and the employer simply step away from the process once the initial decision to move to an umbrella fund has been made. The transition is probably the most demanding of the whole process and it is imperative that it is managed step by step.

A managed transition process involves the following:

- **Assign a responsible person in the current fund** – Appoint one person who is accountable for all the deliveries in the existing fund (this is normally the Principal Officer). This person must remain in contact with the umbrella fund provider and the umbrella fund's Principal Officer.
- **Appoint a payroll person to handle the transition** – Most of the transition issues occur when the initial payroll data is processed by the new umbrella fund administrator. Make sure this process is well managed.
- **Appoint a member committee** – Set up regular meetings of a "Board of Management". The initial committee is normally made up of the current fund's trustees, led by the current Principal Officer. This body ensures that the umbrella fund arrangement is well managed into the future and is generally a key determinant as to whether the members will remain satisfied into the future.
- **Have a project plan for the transition** – A good plan that is regularly monitored will ensure a positive outcome.



Helping members to retire comfortably

The majority of South Africans are extremely lax when it comes to making retirement provisions, with the result that many come to the end of their working life having not put away enough to sustain them for the rest of their lives.

Why are people not saving enough to retire comfortably?

Research shows that members are currently retiring, on average with a 30% Replacement Ratio. This means they can expect, at best, a 70% drop in pre-tax earnings when they retire. If they use some of their retirement benefit for once off costs, then this ratio could go down even further. Interestingly, if one takes the average retirement fund, by which we mean a fund with contributions at the industry average, and a moderate investment strategy, this fund has the potential to give members a Replacement Ratio of 70 – 80% if they belong to the fund for their full working lifetime (of 40 years). So on average, members should be able to retire comfortably.

According to Bertie van Wyk, Chairperson of the Old Mutual SuperFund, there are several reasons which lead to members achieving the much lower replacement ratio of 30% in reality. These include:

- Members don't preserve their retirement savings when they move employers (this is a key cause).
- Members work less years, for instance, due to unemployment or self employment.
- Members may be in too conservative an investment option in their fund.
- Members may retire at a time their investment has fallen, for instance, due to a market crash.

How can members ensure that they have enough on retirement day?

- By contributing to their retirement saving for as long as they can. So members should start as early as possible, and retire as late as possible, and always preserve! *Time in* the market trumps timing the market.
- By contributing as much as you can to retirement savings. Members should aim for 15% of earnings as a rule of thumb.
- By having the right investment strategy – enough emphasis on growth and enough protection before and after retirement.

Can members consider their pension fund sufficient to save for retirement or should other options be considered?

Firstly, it is important to know what replacement ratio the fund is targeting. Some funds target a replacement ratio as high as 90 or 100%, while others are only aiming for 50%. This information may be available on the member statement, or can be requested from the fund's Principal Officer.

Secondly, it is important for members to know what they are on track to achieve, given what has been saved to date, and what contributions are being made into the future. An increasing number of funds publish this

information on member statements; alternatively a trusted financial adviser may be able to give a member this information.

Van Wyk explains that using this information members can evaluate whether to invest more for retirement. Given that experience shows that many members are not managing to preserve retirement savings, a good rule is for members to invest as much as possible.

What are the “other” investment options a private individual can make use of to supplement retirement savings (house, unit trusts etc?)

The first option is to consider vehicles that give one a tax concession for extra contributions. Retirement Annuities (RAs) are one of these options, however, it should be noted that the proposed change to limit the amount of tax deductible contributions may reduce the attractiveness of RAs from the next tax year. Many funds offer the facility to make additional voluntary contributions (AVC) into the retirement fund, over and above the contribution made by the employer and member.

Once the individual exhausts tax efficient options, then they should consider the investment that best meets their long term investment needs, given the rest of their investments and personal situation. They should consider their need to be able access funds at short notice (called liquidity), the costs of different options, and the tax implications of options (for instance Capital Gains Tax).

What is the biggest challenge at the moment for retirement fund trustees in South Africa?

The biggest challenge we have in SA at the moment is to put members of defined contribution funds in a position where they are able make good decisions on the options they face, be they at retirement, withdrawal or related to investments or benefit choices. It seems many members have delegated their personal retirement planning to their fund trustees, not realising that fund trustees are not responsible for individual member’s retirements, but are only responsible to run the retirement fund as a whole in members’ collective best interest.

Members are, in many cases, able to take steps to improve their retirement benefit, and we need to take positive steps to equip them to do this.

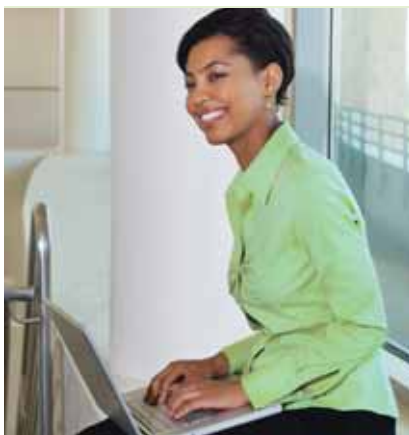
George Foreman once said when asked about retirement, *“the question isn’t at what age I want to retire, it’s at what income!”*

“It is in your hands to ensure that your pension one day matches your retirement expectations”
van Wyk concludes.



Bertie van Wyk
Chairperson, Old Mutual SuperFund

“ Unit Trusts and endowment policies continue to be popular savings vehicles for individuals.



Send us your questions or suggestions and stand a chance to

win!

A Garmin GPS is up for grabs.

To ensure that our articles remain relevant and keep you informed about fund issues, legislation and more, please send any questions (or suggestions) to cmurphy@oldmutual.com

Alternatively, let us know which questions you’d like explored in the next issue of Trustee Times.

Trustee Training Workshops

8 key factors separate OMAC trustee training workshops from others offered in the market.

OMAC Trustee Training Workshops:

- The rules of the funds are referred to during the training and important aspects highlighted.
- Over 30 examples in case laws are covered in a 2-day session to illustrate practical issues for trustees.
- On a month-to-month basis, information in the training is updated to keep abreast with the changing retirement fund environment.
- The trainer is from an actuarial background and has the technical knowledge, experience and understanding of retirement funds that most other trustee trainers do not have.
- After the workshops any outstanding queries/concerns (legal or otherwise) are investigated and this feedback is relayed to the trustees via email or through the account executives.
- The training is independent. The main focus is on educating trustees in their role and enabling them to make decisions that are best for their funds.
- All trustees are asked to complete feedback on the workshops. These comments and ratings are captured and available on request.
- OMAC has a personal passion for trustee training and cares deeply that the trustees leave the workshops empowered and armed with the tools that enable them to competently, effectively and efficiently run the business of the fund. The ultimate goal is to positively influence the future retirement benefit of every retirement member of every fund.



Annette Flower
Retirement Fund Training
Facilitator

2 DAY OPEN WORKSHOP DATES 2011

Cape Town:

- 16 and 17 August
- 1 and 2 November

Durban:

- 27 and 28 September

Gauteng:

- 6 and 7 September
- 25 and 26 October
- 29 and 30 November



News from Old Mutual

Trustee Times brings you some of the latest news from our business via recent media releases. For the full articles and more, please visit the media section on Old Mutual's website: www.oldmutual.co.za

Housing Fund raises R9.0bn to build 120,000 low-income homes

<http://www.oldmutual.co.za/about-us/>

Old Mutual Investment Group (SA) (OMIGSA) Alternative Investments has raised a total of R9.0bn (approximately US\$1.3bn) for its innovative Housing Impact Fund for South Africa, targeted primarily at helping South Africans earning less than R15 000 (\$2 200) a month meet their housing needs.

Not the daily grind: Cheesekids is opportunity to do great things

<http://www.oldmutual.co.za/about-us/>

30 Jun 2011 - Registrations are now open to serve and have fun. Financial services giant Old Mutual and Cheesekids, the youth organisation that encourages social activism and community service among 18-to-40-year-old South Africans, today launched the Cheesekids Mandela Day 2011 initiative, promoting volunteerism and community service.

Young savers pivotal to national growth

<http://www.oldmutual.co.za/about-us/>

15 Jun 2011 - It may be a crude generalisation that youth is wasted on the young. But it's also true that young people sometimes fail to see the opportunities available to them. One good example is saving: for people who're fortunate enough to be earning money, the years between age 18 and 34 are crucial for building financial security.

Everytime we win, you win.

As **experts in the field of retirement fund administration**, we have evolved our third party retirement services into an integrated, automated and a streamlined solution that helps our clients meet all their operational requirements. That's why, for the second year running, our Retirement Fund Administration has been awarded **Employee Benefits Administrator of the Year** in the Imbasa Yegolide Awards*. Because with value-added services like our Financial Wellbeing Programme, trustee training and member support services, we go beyond mere administration, putting our customers at the heart of everything we do.



*The Annual Imbasa Yegolide Awards, hosted by the Principal Officers Association (POA) in partnership with Global Pensions, rewards professional excellence by recognising service providers who are committed to outstanding service in the retirement fund industry.

do great things



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