

## Trustees' Update



# New survey to assist trustees in choosing beneficiary funds

*Recent changes to the Pension Funds Act are set to increase the use of beneficiary funds by retirement fund trustees on the death of members.*

When a member of a retirement fund dies, the trustees of the fund have the task of distributing the death benefit among the member's dependants in terms of section 37C of the Pension Funds Act.



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Until recently, if the trustees determined that an adult dependant or the guardian of a minor dependant was unable to manage the benefit, they would typically have paid the money into an umbrella trust.

However, with effect from 1 November 2008, changes to section 37C prevent trustees from making payments to trusts nominated by them. This means trustees can only pay benefits to trusts selected by a member, major dependant, guardian or caregiver.

In order to address the situation that arises where no trust has been nominated, section 37C has also been altered to allow lump sum death benefits to be paid into a registered beneficiary fund as an alternative to direct payment to the dependant.

Benefits paid into the beneficiary fund may be distributed to the dependant's guardian or caregiver, or any other person authorised by a court of law to receive and administer payments on behalf of the dependant.

Trustees, however, are faced with the difficult task of having to select the most suitable beneficiary fund service provider amongst many within South Africa. The selection process has to be a rigorous one that not only looks at costs but also takes other factors into account.

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As a result, Old Mutual Actuaries and Consultants (OMAC) have launched the new Beneficiary Fund Benchmarking Survey. The content of the survey is designed to help trustees choose a service provider that best suits their needs.

The survey contains research on seven beneficiary funds, aimed at assisting retirement fund trustees to prepare a shortlist when reviewing their choice of beneficiary funds.

Due diligence investigations of service providers are undertaken. Various fields such as governance, processes, administrative charges, investments, service, transformation and communication are researched and reviewed.

There is also an interactive scorecard tool enabling trustees to specify their specific requirements regarding a beneficiary fund. These are summarised as a list of criteria. Trustees can decide on the order of importance of each criterion, and the outcomes are summarised in a rated scorecard format to assist them in their consideration of beneficiary funds. The trustees will make the final decision on where the business should be placed.

The criteria may be selected from the following:

- General Company Aspects – experience, office and client centre location;
- Governance – disaster recovery plans, succession planning, insurance cover, conflicts of interest, audits, compliance, transparency, service provide selection, beneficiary fund compliance;
- Processes – take-on, on-going and exit;
- Administrative Charges;
- Investments;

- Service Orientation – accountability, achievement of turnaround times and turnaround times;
- Transformation – ownership, employment equity and community investments;
- Communication – method, frequency and languages;
- Value Added Services – SMS notification, tracing teams, counselling, financial advice, assessment tools.

Once trustees have selected the three most suitable beneficiary fund providers it is recommended that each provider be invited to present to the board.

There are a number of benefits to using beneficiary funds:

- Beneficiary funds are regulated in terms of the Pension Funds Act and must be registered under the Act;
- As a registered fund, a beneficiary fund is subject to strict requirements for reporting and governance under the Act;
- A beneficiary fund will have its own board of trustees and principal officer;
- Investments must comply with Regulation 28 of the Pension Funds Act;
- Stakeholders have recourse to the Pension Funds Adjudicator in the event of complaints;
- An administrator of a beneficiary fund must be approved as an administrator in terms in terms of the Act. □