



COST VERSUS VALUE

WHAT REALLY MATTERS WHEN CHOOSING AN UMBRELLA FUND?

The past two decades have seen a large migration of stand-alone employer retirement funds into umbrella funds. According to the FSCA, the total number of stand-alone funds registered in terms of the Pension Funds Act in South Africa has declined from more than 15 000 in the 1990s to under 1 000 at the start of 2019.

Given this growth in popularity of umbrella funds, it's not surprising that there are many umbrella funds from which to choose. While this is good news for employers and members, it has also added a layer of complexity to the decision-making process around which umbrella fund to choose.

One of these complexities relates to doing effective cost comparisons. Given that each umbrella fund calculates and currently presents its costs differently, comparing these costs accurately has been challenging.

ENTER RETIREMENT SAVINGS COST (RSC)

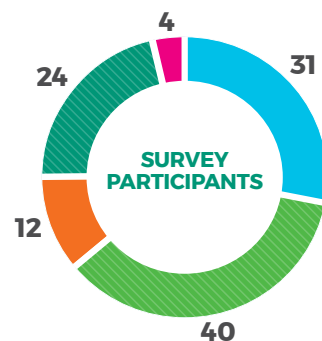
As of 1 September 2019, the process of comparing fund costs should become significantly easier and less complicated, thanks to the introduction of the new Retirement Savings Cost (RSC) disclosure standard by The Association for Savings and Investment South Africa (ASISA).

The RSC effectively requires that all commercial umbrella funds, that are sponsored by ASISA members, must present all costs relating to their umbrella retirement fund solutions as a percentage of assets, using prescribed assumptions and disclosure tables. This will help employers and intermediaries to compare umbrella fund costs more easily when considering quotations from different ASISA members.

111 SURVEY PARTICIPANTS

BUSINESSES

INTERMEDIARIES



- Old Mutual Umbrella Fund Clients
- Clients of other Umbrella Fund Providers
- Intermediaries (Imeds) from Old Mutual contacts
- Imeds from contacts outside of Old Mutual
- Standalone fund representatives



CORPORATE

DO GREAT THINGS EVERY DAY

MORE TO VALUE THAN COST

The introduction of RSC is of great value when it comes to ensuring pricing transparency, in that it allows prospective umbrella fund clients to compare umbrella fund costs. But how big a factor is cost to a prospective participating employer when making their umbrella fund decision?

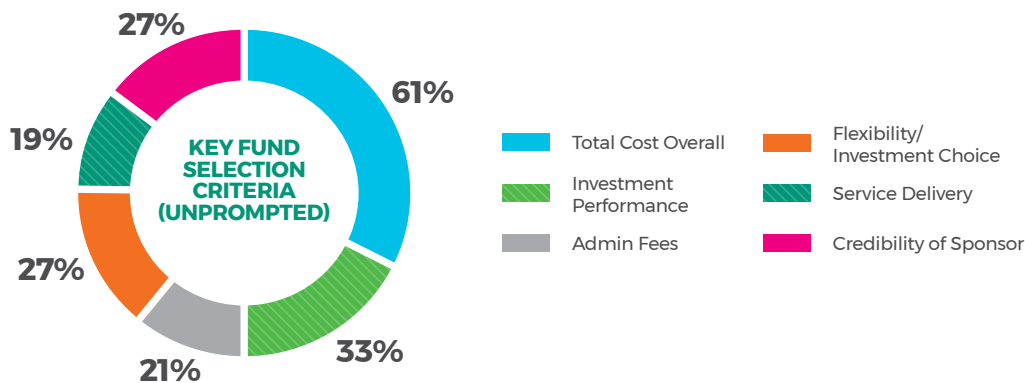
To find out more, Old Mutual surveyed employers and intermediaries to find out what really matters to them when choosing an umbrella fund.

The survey involved 111 face-to-face interviews with intermediaries, umbrella fund participating employers and standalone fund sponsors. It provided worthwhile insights into what prospective umbrella fund clients would be considering when making this very important decision.

SO WHAT DOES MATTER? COST IS NOT THE ONLY CONSIDERATION...

The survey was structured initially to get a raw, unprompted response from participants. These unprompted responses revealed, perhaps unsurprisingly, that overall fund costs (not any specific cost component) was indeed a key consideration, with 61% of the participants saying such costs were critical to their decision making.

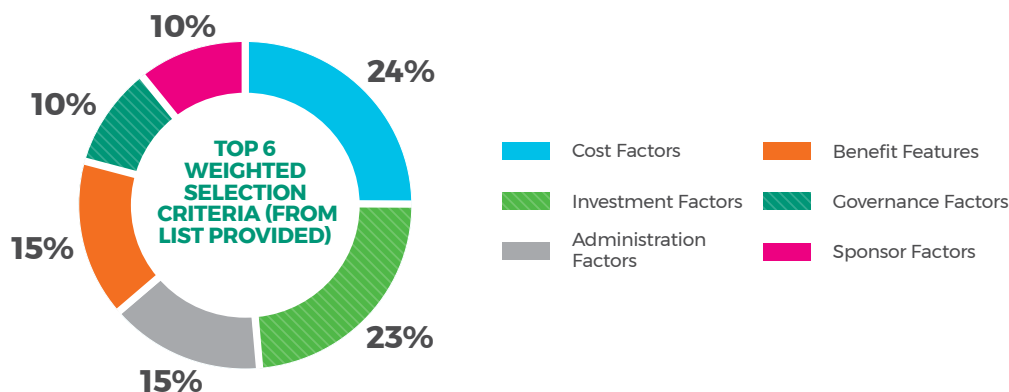
However, costs were not the only consideration. Participants also pointed to investment performance, flexibility and choice of other investments, the credibility and reputation of the fund sponsor, administration fees, service delivery and ease of doing business as important criteria that would influence their umbrella selection. The importance ascribed to these factors, based on the percentage of respondents that listed each one, is illustrated in the graph below.



These initial, unprompted responses were then followed by a second round of exploratory questions that asked participants to weight the relative importance of a provided list of factors in fund selection. These weightings in effect provide the average level of prioritisation that decision-makers apply when evaluating different umbrella fund providers.

The weightings confirmed that the combination of cost and investment factors were the two leading influencers in the umbrella fund selections or recommendations, with intermediaries giving slightly higher priority to cost factors and employers weighting investment factors higher. The remainder of the selection factors shared a relatively equal weighting across the respondents.

The results of this weighted selection criteria exercise are shown in the graph and table below.



6 MAIN FUND SELECTION CRITERIA

PRIORITY	SELECTION FACTOR	WEIGHTING OUT OF 100	
		COMPANIES	IMEDS
1	Cost	22	26
2	Investment and performance	26	20
3	Administration	15	15
4	Benefits and value adds	15	15
5	Governance	11	9
6	Sponsor/Provider	10	9

WHAT DOES ALL THIS MEAN FOR THOSE FACED WITH A DECISION ABOUT THE BEST UMBRELLA FUND FOR THEM?

Firstly, the results of Old Mutual's RSC survey confirm that fund costs are indeed a very important consideration when choosing an umbrella fund. However, they also confirm that there are many other factors of high importance.

Whilst it is evident from the survey that prospective participating employers do not base their fund choice only on costs, the inclusion of the RSC tables will now make the cost components the easiest factors to compare across fund offerings, allowing prospective participating employers to be able to focus instead on the other areas of value. Other factors, including investment performance, administration proficiency, proven governance excellence, sponsor credibility and the full range of member benefits, remain critical in selecting the most suitable umbrella fund for a particular employer.

Ultimately, the best umbrella fund is not necessarily the cheapest one. It is the one that adds the most value to the lives and futures of fund members in exchange for the fees they pay.

Based on this survey, Old Mutual SuperFund has enhanced their proposal document to provide an overview of all of these factors, in addition to the formal Retirement Savings Cost disclosure tables, to make the process of choosing a fund as easy and fair as possible for all involved. We hope that you find this new information useful and look forward to any feedback you may have.

