The Leading Edge

SANLAM EMPLOYEE BENEFITS
Guiding you through the changes in the Retirement Industry

To stay ahead and manage funds effectively you need the best information and analysis available. The retirement industry in South Africa is in a state of change and thus Sanlam Employee Benefits is perfectly placed to offer guidance and education to all those in the industry during this time.

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INTRODUCTION

This comprehensive survey provides an essential tool for the management of retirement funds and constitutes a benchmark for all stakeholders to measure their funds against the latest benefit trends

Sanlam Employee Benefits takes pleasure in publishing the findings of the latest annual survey on retirement funds in South Africa. This comprehensive survey provides an essential tool for the management of retirement funds and constitutes a benchmark for all stakeholders to measure their funds against the latest benefit trends. Furthermore, within the context of pension reform, it provides an opportunity for industry participants to consider the reforms within an empirical context.

For the first time in 27 years this analysis is aimed at simplifying and putting the results of the 2007 Sanlam Survey into a policy context. Whilst the survey is widely distributed across the industry, as well as the rest of the economy, it has not been accessible to the level originally envisioned. Given its density and the level of quantitative detail, people have failed to optimally interpret the results into their respective circumstances. In particular, its policy relevance has not been fully appreciated. In order to bridge this gap and to render the survey more accessible, Sanlam has extended the analysis to take account of the policy implications of these results.

In light of these results, the analysis attempts to elevate some of the key issues that have been found to be pertinent in their own right and in the context of the second social security and retirement reform paper published by the National Treasury in February 2007.

We extend our sincere thanks to the principal officers for participating in the survey. Your contributions have made the compilation of this benchmark publication possible.

This year, the survey analysis has been extended to take account of policy developments and deepen the reader's appreciation of how the survey impacts on the average person and his or her future savings. This perspective has been made even more relevant by the reform proposals on Social Security and the Retirement Environment.

We also thank our colleagues, Bernadine Petersen (Member Communication), Annarita Wagner (HIV/Aids and Risk Benefits), Danie van Zyl (Investments) and Rob Baker (Investments) for assisting with reviewing the questionnaire, studying the data and formulating the findings of the results.

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POLICY ANALYSIS

Retirement environment and developments

The 2007 survey took place in an environment of heightened expectations about pension reform, as informed by the 2004 National Treasury discussion paper. The release of the results neatly coincided with the second discussion paper released in February 2007. Completely unexpected, the second paper emerged with a significantly expanded scope for the reform of South Africa's retirement landscape.

The second paper came up with a surprisingly enhanced fiscal stance when compared to the first one. It would seem the original conception was to have a reform that would have minimal impact on the fiscus, but rather significant improvement in the regulatory environment. This thinking was adjusted significantly, when considering the latest against the 2004 paper.

Key changes can be viewed as follows:

- Government has significantly upped the stakes with the scrapping of Retirement Fund Tax (RFT). This has enhanced its moral high ground, which throws the ball into the court of the private sector to edge the reforms forward. This removes the key and probably only criticism that government has been suffering over the years, as this tax was viewed as one of the significant contributors to 'leakage' from the system. The remaining source of leakage can easily be attributable to how the private sector does business. This is a major challenge for the industry.
- This has effectively shifted the tax regime to an exempt-exempt-tax (EET) environment, which is particularly poignant for signalling the intentions of government, namely that of increasing national savings through higher individual savings. This is a tax environment that exempts a taxpayer from paying tax at the stage of allocating his or her income to a retirement fund as well as the income earned from the investment of those funds. However, tax is payable at the point the taxpayer withdraws the money for expenditure purposes. Clearly this is important if the control is to stimulate sustainable investment and growth.
- Government has uniquely identified the need to use all available instruments to increase savings. In this case, it has chosen to use both 'a stick and a carrot' approach to move the economy in this direction. This it intends achieving through the introduction of mandatory participation side by side with tax incentives.

- Another unique feature is an attempt to lean towards enhancing the benefits to the low-income earner without detrimentally reducing benefits that accrued to the middle to high-income earner.

The sum total of these changes would be to:

- provide for retirement without risking job creation, which remains the key solution to poverty reduction in this architecture;
- create more competition among service providers to try and influence a change in the way in which they do business; and
- benefit the saver in the long term.

The challenge the industry is faced with is how service providers will be able to continue operating in this new dispensation without losing business and some even folding up. There are a few challenges that we have to contend with, namely:

- Given the conspicuous emphasis on the need to achieve cost efficiency in service provision, how does the industry raise its play to live up to this expectation?
- Establishing the Social Security Fund, effectively poses a new level of competition, which the industry has to contend with.

Finally, it is instructive to note that the proposal recognises the importance of the private sector in the current and future dispensation, which means government would not go out on a limb to destroy the industry. The private sector is critical in the completion of the multipillar framework. Besides, it has been an important aspect of South Africa's economic structure. The financial sector in South Africa is an essential national asset that needs to be preserved, despite the changes.

It is instructive to mention that the results of the 2007 survey will be a notable contribution to the debate that will unfold among South Africans over the next year or so. As a direct consequence, we structured the analysis to coincide with and contribute to the engagements that have started across the country.

This year's survey report has two parts. This is the first, which deals with the broader interpretational issues as they are influenced by current and future policy changes. The second part provides the reader with an analysis of the survey results. The two parts are congruent, which allows the reader to directly link the policy interpretation with the analysis of the results.

A select number of key issues, which have been identified as requiring attention, are highlighted on the next page.

Governance

This is an important aspect in the debate of trying to improve the quality and effectiveness of trustees and the choice of professional or non-professional trustees. Whilst this specific choice is not a major source of concern for the reform papers per se, it is sufficiently important to note that the Treasury is concerned about broader fund governance with respect to trustee and standards of conduct. The 2007 paper proposes "…a more systematic and consistent approach to trustee training…".

It is important to note that the issue of professional trustees is contentious, as organised labour feels it erodes their hard won battle to have member representatives on the boards of trustees. They also view the suggestion as one that seeks to exclude members from participating on boards of trustees.

The Treasury paper indicates government's level of concern with respect to governance. One of the indicators of good governance is the issue related to gift policy. Whilst this is not a conclusive indicator in its own right, it is a good signal to the appropriateness of governance among funds. The trend reveals that funds are increasingly moving in the direction of establishing gift policies and also leaning towards disallowing gifts.

Given the concern on objectivity and the independence of trustees, this issue is extremely important. The results show that the problem is still significant and Treasury needs to worry about how, if at all, this behaviour is regulated. It also means that service providers will have to concern themselves with how they engage trustees and the philosophy behind giving gifts may have to be more objective.

Related to this issue, is the matter of remuneration of trustees. The survey shows that the majority of funds do not pay trustees. Where trustees are remunerated, the rates are pitched mainly at compensating for costs associated with attending meetings.

Training

Clearly, with the ushering in of a new era, with members having to deal with individual accounts and being exposed to the defined contribution environment, it becomes imperative that their knowledge of retirement funding is enhanced. This objective will rely significantly on proper training. Currently training focuses on trustees as this is where the need is deepest and the risk biggest in terms of fund management. Looking ahead, such training will have to be broadened, as every beneficiary will have to know what is happening with his or her investment and this will require a higher level of participation

Underlying the achievement of most of these objectives of enhancing governance, is the development of a corps of well-trained trustees, who are independent – driven by principle and objectivity. If we cannot consider the route of professional trustees, we probably want to concentrate on training member trustees to raise their level of participation. The debate about who should provide the training is intensifying. The Treasury has no strong view on this, but organised labour has. For some time now, organised labour has been concerned about the objectivity or lack of service providers. As a result, their preference is not for service providers to offer training.

It does not matter what the view is out there, training cannot be stopped whilst the decision is being made. In the meantime, it is incumbent upon government to ensure that training takes place in an objective environment. This can be realised if some form of standardisation of the training takes place.

The results show that despite organised labour's preference that training should be provided by institutions other than service providers, service providers are still conducting the majority of trustee training. It can be objectively argued that this pattern will continue for the foreseeable future.

In the light of the reforms, training should be extended well beyond trustees to include all beneficiaries/members. It will be a serious indictment on every industry player to continue restricting the training to trustees whereas the risk burden will have notably shifted.

Cost of administration

Costs remain an area of deep interest for both the private and the public sector. The reform process in South Africa is fundamentally based on increasing access to low-income earners, through among other interventions, cost reduction. Results of the survey show mixed signals with regard to the success of the industry in bringing down the costs of providing services.

One of the key observations is the close correlation between the management of HIV/Aids by employers and the cost of risk benefits. There is no doubt that a coordinated programme towards the management and reduction of the impact of Aids will continue to assist in bringing down the cost of provision.

The number employers who have implemented an HIV/Aids programme are significant and the programmes are quite diverse in terms of their forms. As a result of these interventions, the bulk of funds (56.5%) feel there has been no change in the costs of risk provision over the past two years.

With regard to the costs of fund administration, we observe a bias towards costing this service as a percentage of members' salary, as opposed to a per cent of assets or even a flat rate.

Socially responsible investments (SRIs)

Given the social and economic structural backlogs in South Africa's economy, the level and participation of investment funds in SRIs remain embarrassingly poor.

The reform process proposed by government brings about a possibility for dealing with this dismal performance in a more determined and structured manner through the envisaged national fund. There is no doubt that such a fund would have the requisite asset base, clout and credence to undertake this responsibility. The PIC has been able to display the power and effectiveness of SRI, both from a financial and a social viewpoint. It is clear that the private sector is failing in this regard. However, there could be other forms of intervention that government could consider to increase participation by private sector funds.

Thinking ahead, the government is focusing on setting up a technical working group to advise it on the following:

- quantitative limits for various asset classes, including derivative instruments;
- an appropriate definition of socially responsible investment (SRI) in the South African context and its interaction with existing initiatives such as the Financial Sector Charter;
- how SRI should be actively encouraged; and
- the scope for shareholder activism in South Africa and the duties this would specifically entail for the relevant stakeholders.

The second and third bullets are policy areas highlighted in last year's symposium.

Communication

With the shift in philosophy to individual accounts, which is going to be underpinned by defined contribution principles, the 2007 paper further elevates the role of communication with members. This refers to and impacts the legal/governance relationship among the trustees, the principal officer and the members. As expected, the survey reveals that a substantial part of the communication with members is through the principal officer.

It is encouraging that the legal status of principal officers will be enhanced. This decision can only be correct, as it ensures that accountability is optimised on the ground, allowing boards of trustees to increase their focus on the strategic development of funds.

These are some of the key observations arising out of the 2007 Sanlam Survey. Clearly much more can be drawn from the results but it was not possible to analyse all the policy implications arising from the survey findings. In this regard we strongly recommend that readers study the survey, as well as the latest policy reform proposals, with the aim of anticipating the complexity or otherwise of implementing the reform.

The next section looks specifically at the results.

SURVEY RESULTS

Defined contribution funds

Methodology and sample

The 2007 Sanlam Survey was conducted among principal officers of retirement funds. Respondents were selected at random to represent small (<100 members), medium (100-500 members), large (501-5 000 members) and very large funds (5 001+ members) in South Africa. These included pension and provident funds structured on a defined contribution basis, as well as umbrella funds.

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The survey was conducted by the independent market research agency BDRC, by means of face-to-face interviews. The survey recorded a 100% response rate with a total of 200 funds responding. This is indicative of the positive attitude and willingness to participate in shaping the future of South Africa's retirement environment.

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

The graph shows the distribution of normal retirement age for 2007.

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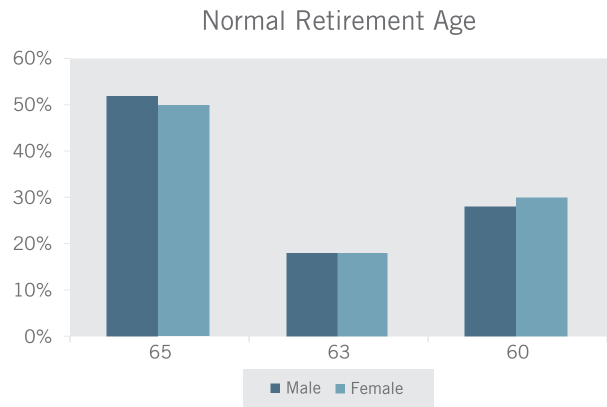


Fund governance

Just less than half of the defined contribution (DC) funds appointed a board consisting of six trustees or less – this is quite similar to the 2006 figure.

It is estimated that 86% of funds do not remunerate trustees. 1% of the funds surveyed pay a rate per hour and 3% pay a rand amount per meeting. Comparing the status of umbrella funds versus other funds, it was found that owing to the nature of the umbrella arrangement, incentivisation is more prevalent in this part of the industry. A much lower proportion of 45.2% of umbrella funds do not remunerate trustees, as opposed to 93.5% for other funds.

A notable 56% of funds have a policy on accepting gifts, up from 44% in the 2006 survey. Of these, 54% (2006: 44%) do not allow trustees to accept gifts, whilst 15% (2006: 10%) may accept gifts of any amount but must make full disclosure. 22% (2006: 13%) may only accept gifts below R250 and 5% (2006: 7%) may only accept gifts below R500, provided full disclosure is made.

Training

In the survey 43% of funds indicated that their trustees receive training from their administrator, 41% from their fund consultants, and 14% from independent trustee trainers. Note that the above percentages are not mutually exclusive, as trustees could receive training from more than one party. However, it clearly reveals that service providers to the funds currently perform most of the training.

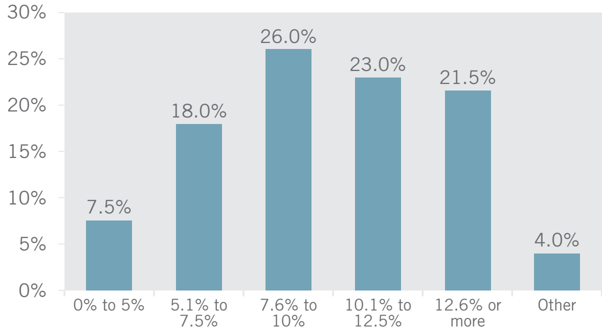
The most popular frequencies for training provided by fund consultants are quarterly (32%) and annually (31%). The most popular frequencies for training by administrators are also annually (29%) and quarterly (28%). Most of the training provided by independent trustee trainers occurs annually or less frequently.

Contributions

54% of funds indicated that the employer's remuneration package is based on a total cost to company, broadly in line with the 57% in the 2006 survey. 21% of the balance is contemplating such a structure.

The average employer contribution is 9.67%. This is down from 9.95% in the 2006 survey

Employer Contributions



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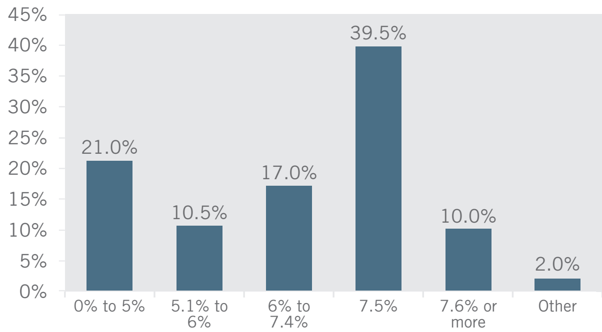
The average employee contribution is 5.5%, down from 5.95% in 2006

Employee Contributions



The average employee contribution is 5.5%, down from 5.95% in 2006.

Cost of administration

About 55% (2006: 57%) of funds stated that their administrator bills separately for each item. 29% (2006: 21%) pay administration fees including all expenses, and 14% (2006: 14%) pay additional expenses not specified in the administration agreement. Meanwhile, 51% (2006: 51%) of funds do not operate a contingency reserve account. Of those that do, 23% (2006: 32%) fund the reserve by way of a deduction from employer contributions, while 23% (2006: 16%) express their contribution to the reserve account as a percentage of the administration fee. About 65% of funds are billed as a percentage of salary, as opposed to 60% in 2006. Only 17.5% (2006:17%) are charged on a fixed cost basis per member, whilst 8% (2006:10%) are billed as a percentage of assets. The average fixed cost per member is R29. The fixed-cost approach implies the lowest level of cross-subsidy, but this is one instance where cross-subsidy may be preferred.

The average fixed cost per member is R29

The total cost of administration is between 0.5% and 1% of payroll for 32% of funds. The average cost is 1.0%, down from 1.2% in 2006.

It should be noted that fixed costs weigh more heavily as a percentage reduction on small salaries and have a much smaller effect on large salaries. Funds that use this method of cost recovery lose any cross-subsidies between higher paid and lower paid workers. Therefore, the effective reduction in yield to lower paid workers is proportionately higher than that of the higher paid workers.

The distribution of cost as a percentage of payroll is as follows:

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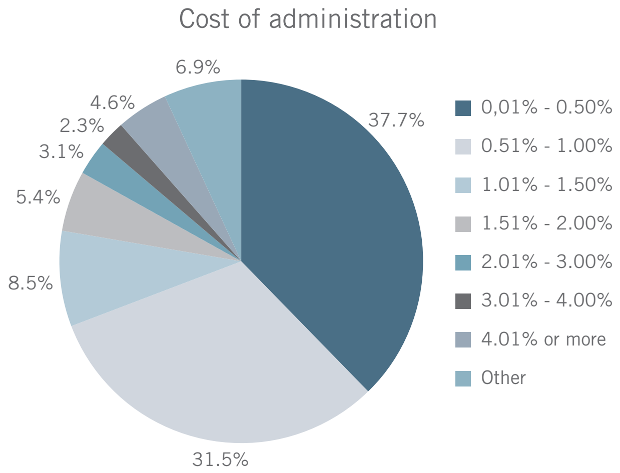

Retirement benefits

About 79% of the retirement funds surveyed allow retiring members to purchase an annuity product of their choice (up from 71% in 2006), with 6% of funds stipulating conditions for purchasing living annuities. Only 11% of retirement funds stipulate that the pensions must be purchased in the name of the fund (10% in 2006).

Withdrawal benefits

On withdrawal, 17% of funds allow members the option of a deferred pension (down from 18% in 2006). About 94% stipulate that the member must take a cash benefit or transfer to another fund. Meanwhile, 59% of funds provide their members with the information recommended in PF86 (up from 50% in 2006). A further 36% of funds arrange for an adviser to counsel members on withdrawal.

Risk benefits

According to the respondents, the average cost of risk benefits has decreased over the past year. The cost of the average death benefits under a fund is 1.76% compared to last year's average cost of 1.9%. The decrease in cost is even more substantial for disability benefits, with the average cost reported as 1.12% compared to the previous year's 1.4%. For risk benefits provided under a separate scheme, the average cost is approximately 1.8% of salaries for death benefits, and 1.1% of salaries for disability benefits.

There has been a slight increase in flexible benefit offerings over the past four years, with 19% of respondents indicating flexible benefits in 2007 compared to 15% in 2006 and 8% in 2004. Those with flexible benefits have an average total risk cost of 2.66% of salary.

As the previous survey has shown, more than 40% of the funds cap their risk benefits. The average reduction in risk cost is also apparent in the capping of risk benefits. Where capping is applied, the average death benefit is capped at 2.1% of salary compared to 2.7% in the previous year, whilst disability is capped at 1.86% on average compared to 2.3% of salary in 2006.

Death benefits

The majority of funds provide lump-sum death benefits. According to the 2007 survey, those providing spouse's pensions have decreased from 20% last year to 18% and those providing children's pensions also decreased from 17% in the previous study to 13%.

Most of the funds providing spouse's pensions provide a lump-sum death benefit of 2 to 3 times salary. Funds without a spouse's pension provide a lump-sum death benefit of 3 times salary.

As with the previous survey, one third of the respondents provide death benefits under a separate scheme, of which the average death benefit is 3.6 times salary. This is slightly higher than in 2006.

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The majority of funds provide lump-sum death benefits

40% of the death benefit paid includes the member's equitable share

About 37% of the costs under separate schemes are deducted from the employer contribution, indicating a slight increase from 2006, with 37% of employers making additional payments.

40% of the death benefit paid includes the member's equitable share. This has decreased since 2006, when 48% of the funds included the equitable share.

Of those offering flexible death benefits, the average minimum level of cover is 2 times salary. This is slightly higher than the 1.8 times reported in 2006. For those able to choose additional levels of cover, the average is 4 times salary.

In the past year 58% of respondents provided death cover to minors. Over 40% of the funds set up a trust, paid the trust or appointed a legal guardian to provide benefits to minors.

Disability benefits

The majority of funds provide income disability benefits expressed as 75% of salary

In the 2007 survey, 45% of respondents indicated that they provide a lump-sum disability benefit. This is lower than the 2006 result of 50%.

The average multiple provided is 2.4 times salary. This has decreased since 2006, when the average multiple reported was 2.7 times salary.

Since the 2006 survey, there has been a slight shift from providing lump-sum disability income benefits to providing permanent disability income benefits. In 2007, 40% provide a permanent disability income compared to 38% in 2006, 6% provide a lump sum only (12% last year) and 4% a lump sum and permanent disability income combined (6% last year).

35% of respondents provide a temporary disability income benefit compared to the 38% in the previous year.

The majority of funds provide income disability benefits expressed as 75% of salary.

Most respondents providing disability benefits allow for increases in these benefits. About 22% indicated that they increase benefits by fixed percentages according to the rules, 22% increase their benefits linked to CPI with a fixed maximum cap and 28% increase their benefits linked to CPI with no maximum. The average fixed percentage used is 5%.

A further 35% of respondents use a reinsured waiver of employer contributions with the average reinsured percentage being 8.2%.

Only 12% of respondents reinsure the waiver of employee contributions, where the average reinsured percentage is 6.4%.

Other benefits under separate schemes

Only 6% of the respondents offer trauma (critical illness) cover under a separate scheme and 54% offer funeral cover. These percentages are slightly higher than in 2006.

Of those offering trauma benefits, 75% of employers pay the cost with 1 times salary being the most popular level of benefit.

Of those respondents indicating that they offer funeral cover benefits, 94% also offer benefits for children and 19% offer benefits for the extended family.

The most popular funeral benefit remains either R10 000 or R5 000 for the main member, spouses and children aged between 14 and 21. For children aged between 6 and 13, the most popular level of cover is R5 000, and R2 500 for children under the age of 6. For parents and parents-in-law, 32% receive a funeral benefit of less than R4 000, whilst 40% of the additional spouses receive a benefit of R10 000.

For the majority of respondents offering funeral benefits the employer meets the costs.

HIV/Aids

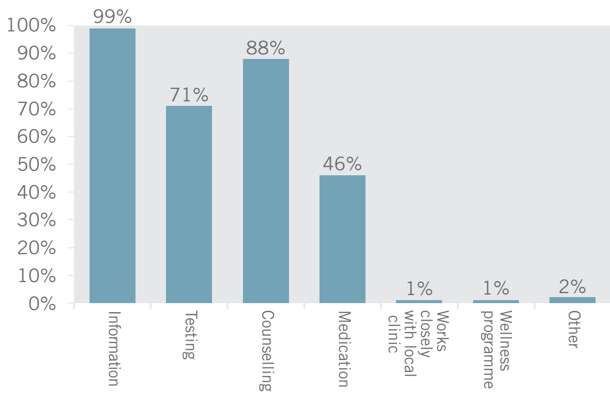
HIV/Aids remains an important factor that employers should consider. Not only does the epidemic have an enormous impact on the productivity levels of employees, it also contributes to increasing risk costs. One of the key observations is the close inverse correlation between the management of HIV/Aids by employers and the cost of risk benefits. There is no doubt that a coordinated programme towards the management and reduction of the impact of Aids will continue to assist in bringing down the cost of provision.

Aids management programmes

Employers are becoming more concerned about the impact of HIV/Aids on their employees as 70% of respondents indicated that Aids management programmes have been implemented over the last two years. This is almost a 20% increase since the 2006 survey.

Almost all the management programmes entail providing information and creating awareness regarding the epidemic and the majority provide counselling and testing. Less than half of the management programmes include medication.

The graph below sets out the various Aids management programmes showing their relative popularity.



Cost of group life and disability benefits

Over half of the respondents have not experienced any increase in risk costs as a result of HIV/Aids over the last two years. Interestingly, 15% of the respondents indicated that their risk premiums have decreased as a result of HIV/Aids. In the case of those who believe their risk costs have increased due to HIV/Aids, more than 80% have indicated an increase of up to 15%, with the average increase slightly less than 11%. This is marginally higher than the previous survey results.

About 44% of the respondents believe that the cost of their risk benefits will increase over the next two years. This figure has remained fairly stable since our last survey. The average expected increase is 8.6%, notably above expected inflation.

Investments

Almost 43% of the DC funds surveyed offer member-directed investment choice, which is approximately the same as in the 2006 survey (44%)

Almost 43% of the DC funds surveyed offer member-directed investment choice, which is approximately the same as in the 2006 survey (44%). There has been a significant increase in the number of funds offering a life-stage solution, from 5% in 2004 to 39% in 2006 and 54% in 2007, possibly reflecting the equity bull market. Smoothed-bonus products and structured products have shown a steady decline since 2004, with the decrease in the number of funds offering fully vesting options being particularly dramatic (from 45% in 2004, to 35% in 2006 and 29% in 2007).

Multimanager options are more popular than single-manager options across the conservative, moderate and aggressive risk profiles.

Multimanager options are more popular than single-manager options across the conservative, moderate and aggressive risk profiles. Unit trust mandates have shown steady growth in popularity from a small base. Absolute return mandates with an inflation target of plus 5% or less have grown in popularity, whilst absolute return mandates targeting more than 5% have fallen in popularity.

Investment policy statements

There has been an increase in the number of funds that use Investment Policy Statements, from 44% in 2004 to 67% in 2006. About 64% of funds review the Investment Policy Statement on an annual basis.

Member-directed investment choice

The practice of charging all members the same administration fee, irrespective of whether they want or use member-directed investment choice, is still widespread

The practice of charging all members the same administration fee, irrespective of whether they want or use member-directed investment choice, is still widespread – 91% of funds are charging a flat fee (up from 82% in 2006). Only 3 funds indicated that members who do not exercise their option to choose their own investments pay a lower administration fee.

Of the funds allowing members to choose their own investment options, most allow members to change their choice either monthly (40%) or annually (17%).

Smoothed-bonus products were rated the best at providing stable returns

Smoothed-bonus products were rated the best at providing guarantees on benefit payments

Most funds (42%) compare against a CPI+% benchmark.

Almost 89% of funds are either satisfied or very satisfied with their investment choices. The main benefits are seen as:

- the variety of choices (38%)
- investments comparing well with their benchmarks (29%)
- member satisfaction (15.6%)

Stable returns and guarantees

The vast majority of funds (85%) consider the ability of a product to provide stable investment returns as either important or very important. Smoothed-bonus products were rated the best at providing stable returns followed by structured products and cash. The investment returns of absolute-return portfolios were considered less stable than the above.

The majority of funds (62.5%) also consider the guarantees provided by products to be important or very important. Smoothed-bonus products were rated the best at providing guarantees on benefit payments followed by cash. Structured products and absolute-return portfolios were considered to provide less of a guarantee on benefit payments.

Feedback on investments

Nearly all funds (93.5%) provide investment feedback to members (up from 87% in 2006). The frequency of providing members with investment feedback has increased as follows, with quarterly feedback now being the most popular:

Investment feedback frequency	2006	2007
Daily	5%	4%
Weekly	1%	-
Monthly	14%	18%
Quarterly	**31%**	**37%**
Half-yearly	8%	13%
Annually	40%	28%

The most popular form of feedback on investment performance remains written notification (72% of funds) followed by internet/intranet (36%). Many funds (38%) do not provide feedback on investment returns versus the benchmark return.

Benchmarks and returns

When comparing their fund's investment performance, most funds (42%) compare against a CPI+% benchmark. Comparison against the investment mandate benchmark (40%) and survey peer group (33%) is also common. Very few (less than 1%) use a JSE All-Share benchmark.

Most of the respondents who knew their fund's investments returns reported them to be between 20% and 30%, with the most common range being between 25% and 30%. This is slightly less than the median return on global balanced portfolios, of about 31.5% during 2006.

There was one fund that reported investment returns of less than 5% in 2006. Unlike last year, no funds reported investment returns of more than 40%.

Socially Responsible Investments

A dismally low 10.5% of funds have a policy to invest a proportion of assets in Socially Responsible Investment portfolios. This is slightly up on last year's 9%

A dismally low 10.5% of funds have a policy to invest a proportion of assets in Socially Responsible Investment portfolios. This is slightly up on last year's 9%. With regard to umbrella funds, virtually no fund has such a policy.

Member communication

As many as 65% of funds use an intranet/internet facility to provide members with access to information

The majority of funds (93%) provide an annual benefit statement, whilst 70% provide a rule booklet to communicate with members. About 42% of funds supply an annual trustee report and only 33% a membership certificate. The trend in member communication seems to have stabilised.

Topics such as the benefit structure (88%), investment performance (88%), how the fund operates (77%) and the annual benefit statement (73%) are most frequently communicated to members.

The majority of funds stated that the administrator (58%) responds to retirement fund queries of their members. The human resources department (54%), the trustees (49%), the principal officer (52%) and the retirement fund consultant (33%) also tend to members' queries. More funds have a formalised strategy for rendering financial advice to members, up from 49% in 2006 to 59% in 2007. As many as 82% of these indicated that a worksite adviser provides financial advice to members, while 41% indicated that members also consult their own advisers/brokers.

A greater percentage of funds with a formalised strategy claim they provide financial advice on a one-to-one basis in the event of withdrawal, disablement, retirement or death. A regular annual discussion with groups of employees tends to be more popular than a one-to-one discussion, as about 50% of funds provide financial advice using a group discussion strategy. Funds believe that 93% of senior staff understand more than half of the information provided, compared to only 50% of the rest of staff.

As many as 65% of funds use an intranet/internet facility to provide members with access to information – a moderate increase of 10% since 2006. 61% of fund members have direct access to an intranet/internet facility and 12% via the HR or similar office.

The internet is mostly used to provide investment portfolio information (70%), fund rules (67%), a member booklet

(60%) and investment returns (47%). Personal information such as a monthly updated member benefit statement (60%), personal particulars (58%) and an annual member benefit statement (55%) is typically available.

About 38% of funds allow members to update personal information online, whilst 27% allow investment switches. Only 15% of funds (down from 25% in 2006) use the internet to update member data on a monthly basis.

As many as 68% of funds provide training and support via the internet/intranet. Of these, 30% use a modeller and calculator to calculate retirement needs of members and/or basic investment alternatives.

Almost 60% of funds are likely to consider paying more for financial education to be provided to members.

Only 19% of funds provide home loans to members directly, 48% provide housing sureties whilst 36% provide neither. These results are similar to those in 2006.

Topical issues

A qualitative research phase was implemented as a guide to the development of the questionnaire and to ensure that the quantitative survey remains relevant, current and forward looking.

The key objectives for the research study were to:

- explore the developments and recent trends shaping the South African pension fund industry;
- identify key issues that are relevant to market shareholders at present; and
- investigate industry matters that are likely to be 'hot topics' in the next two years.

In terms of the methodology used, 10 one-hour face-to-face interviews were conducted with financial intermediaries (who consult to retirement funds) and 20 with retirement funds, of which 10 were with principal officers (with retirement funds) and 10 with trustees. Six employee-appointed trustees were interviewed. The interviews were split evenly between Johannesburg and Cape Town and took place between 13 November and 7 December 2006.

As a result of the quantitative results, the survey was amended by adding some new questions and amending some existing ones.

Management of costs

50% of funds indicated that sound general housekeeping is employed to reduce costs, 17% by benchmarking costs and 24% by regular rebroking.

Rebroking administration

38% of funds rebroke their administration on an annual basis

38% of funds rebroke their administration on an annual basis, 13% every three years, 15% every five years and 11% every two years.

66% of funds rebroke their risk benefits on an annual basis

55% of funds use a single provider for all administration, benefit consulting, investments and risk benefits

Rebroking risk

66% of funds rebroke their risk benefits on an annual basis, 10% every two years and 10% every three years.

Rebroking investments

51% of funds rebroke their investment business annually, 10% every two years and 10% every three years.

Principal consultants

55% of funds use a single provider for all administration, benefit consulting, investments and risk benefits. The other 45% use a range of providers.

90% of funds have a principal consultant who plays a leading role in providing advice in terms of administration, risk and asset management.

In 36% of funds the benefit consultant plays the role of the principal consultant, in 46% the administrator and in 15% of cases the investment consultant.

Optimising retirement benefits or withdrawal benefits

When asked whether trustees should manage the fund to optimise retirement or withdrawal benefits, 46% of respondents indicated optimising retirement benefits compared to 3% who preferred to optimise withdrawal benefits. However, most respondents (48.5%) indicated that both should be optimised at the same time.

The majority of respondents (74%) felt that the strategies to optimise both retirement and withdrawal benefits are complementary. When asked why, most respondents (72%) indicated that optimising investment returns would benefit both retirement and withdrawal benefits. Some (15%) felt that it is the fund's responsibility to provide benefits for all.

Those respondents (22.5%) who felt that the strategies to optimise both retirement and withdrawal benefits come into conflict indicated that this is due to the following:

- It is not prudent to focus on short-term benefits (55.6%).
- These aims entail different investment strategies (26.7%).

When asked whether members are more concerned with retirement savings or death benefits, most respondents (51.5%) indicated that most members are concerned with retirement savings. This is rather encouraging, when one considers the struggle against low domestic savings. A significant portion of respondents (30.5%) indicated that members are equally concerned with retirement savings and death benefits.

Key indicators

	2007	2006
Employer contributions	9.7	10.0
Death benefit premiums	(1.8)	(1.9)
Disability benefit premiums	(1.1)	(1.4)
Administration and operating costs	(1.0)	(1.2)
Retirement provision	5.8	5.5
Employee contributions	5.5	6.0
Total provision for retirement	11.3	11.5