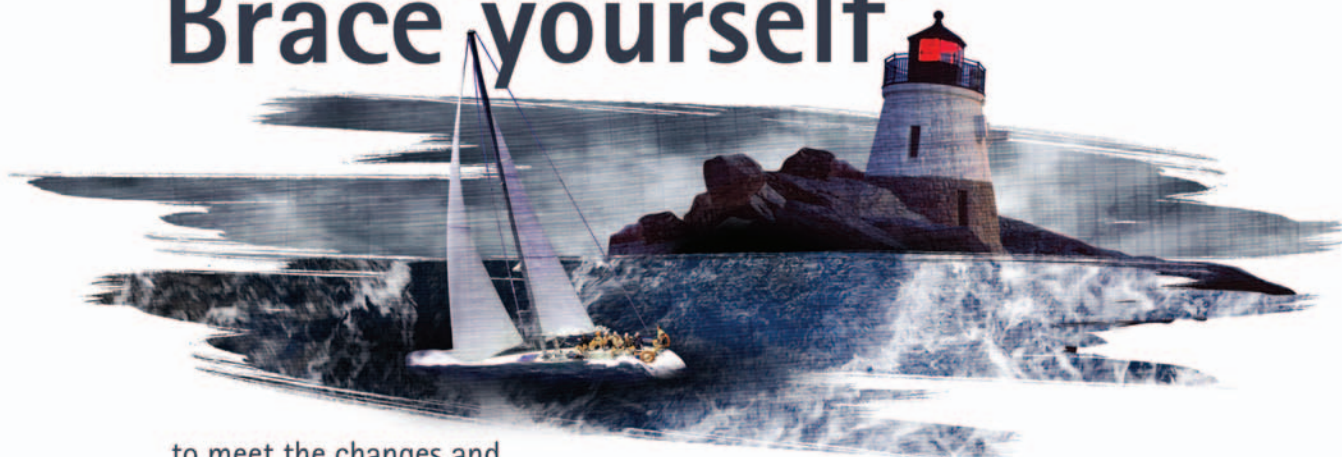


33°54'37.7"S 18°24'57.3"E

Brace yourself



to meet the changes and challenges facing the retirement industry

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.

CONTENTS

Introduction	2
Retiring comfortably – keeping the promise of old-age security	3
Survey Results	6
Summary report	18
Contact details	87

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



Dawie de Villiers



Elias Masilela

INTRODUCTION

Sanlam Employee Benefits takes great pleasure in publishing the findings of our latest annual survey on retirement funds in South Africa. This comprehensive survey provides an essential tool for all stakeholders in the industry to manage their funds. It serves as a benchmark of current trends in the industry, providing vital input in the ongoing pension reform discussions.

The level of quantitative detail in the survey can make the results difficult to interpret and fully appreciate, so we have again extended the analysis to consider the policy implications of these results.

Given the considerable interest in Government's proposed National Social Security System (NSSS), we included a section to gauge our respondents' attitudes and expectations in this regard. The concerns and possible benefits highlighted may provide vital input to the discussions going forward.

Because of the importance of the new reform taking place and its potential effect on individuals, we have for the first time interviewed individual pension fund members throughout the country to get their perspective of the pension fund environment and to see how their responses differ from those in our survey. This feedback is not included in the statistics contained in this document, but we will make use of it at our symposium presentations during the year.

We extend our sincere thanks to all the participants for taking the time to add their valuable contribution, making this benchmark publication possible.

We also thank our colleagues, Danie van Zyl, Karen de Kock, Bernadine Petersen, Victor Willemsse and Viresh Maharaj, for their invaluable assistance in reviewing the questionnaire, studying the data and formulating the results.

Dawie de Villiers
CHIEF EXECUTIVE OFFICER
SANLAM STRUCTURED SOLUTIONS

Elias Masilela
CHIEF STRATEGIST: FINANCIAL SECTOR DEVELOPMENTS
SANLAM EMPLOYEE BENEFITS

RETIRING COMFORTABLY – KEEPING THE PROMISE OF OLD-AGE SECURITY¹

In last year's survey, we concentrated on the macro policy aspects of pension reform, particularly as they pertain to South Africa.

In line with the underlying aims of the Annual Sanlam Survey, namely to arm economic players with essential industry data for making sound decisions about their retirement, this year we focus on some of the details that will make any new dispensation work optimally to ensure that contributors retire with sufficient savings. This is further in line with the long-term objectives of the reform process unfolding in South Africa.

The theme is about focusing minds to the end of one's productive life and keeping the individual and collective promise of old age security. Stated differently, we are trying to answer the question in most people's minds, which is: "How much do I need to maintain my standard of living in retirement?" Clearly, this question is not just about how much to target for retirement and certainty of income, but rather how much is adequate. It is this mindset that savers should to be driven by going forward.

However, we do appreciate that the adequacy objective will be constrained by various factors, ranging from inability to save, income inequalities, poverty, poor information and appreciation for long-term savings, poor capital market performance, to sub-optimal drawdown programmes. These broadly characterise the South African context.

In raising attention to adequacy we make use of the concept of replacement ratios, which can be used by individuals as a tool to determine whether or not their savings will be sufficient for their circumstances. This is particularly essential in a defined contribution environment where an individual gets out what he/she puts in, taking account of costs and investment returns. In this environment, the individual shoulders all the risks of investment performance, which imposes a bigger decision-making and management burden on him/her. However, it can be shown that the same principle applies to a defined benefit environment, which only secures an income without guaranteeing adequacy.

Understanding the application of the replacement ratio principle, to suit the unique circumstances of each individual, is critical. Applying this concept requires understanding complex relationships as well as having to be able to predict very difficult likely outcomes, including knowing when one will die.

While the Sanlam Survey will provide people with key data, it cannot provide all the data that is required, as we shall see below.

In determining whether savings will be adequate and what drawdown strategy to follow, an individual will have to work out how much to contribute, for how long, what costs and investment returns are optimal, how his/her expenditure patterns will change between his/her productive years and retirement, as well as how long he/she will live after retirement. Without a fair level of understanding, this series of decisions will be a steep mountain to climb for the majority of savers in South Africa, but a necessary one.

Here we show that the level of savings and investment performance are the most critical variables towards realising healthy replacement ratios.

However, this concept is subject to differing interpretations. It also tends to be expressed in many different ways, namely as:

- i. a percentage of your final annual salary;
- ii. average salary over several years, or your lifetime; and
- iii. the average wage in the economy.

Each of these can be calculated based on a net or gross basis. However, whichever way you look at it, a replacement ratio should be able to give you an indication of the proportion of income you will receive in retirement, in relation to what you earned during your working life.

A simple formula for calculating replacement ratios is as follows:

$$RR = \text{Yar/Ybr}$$

where: RR = Replacement ratio, applied over your life in retirement

Ybr = Gross income before retirement

Yar = Gross income after retirement

and where the gross incomes in the two periods will be distributed across different requirements, given the different circumstances facing the individual:

$$Y = \text{Distributed over (Ty, Tss, S, A\&WRE)}$$

where: Ty = Income taxes

Tss = Social security taxes

S = Savings

A&WRE = Age and work related expenditure

Each of these requirements will consume your gross income in a differentiated manner, between your productive years and retirement period. Whilst the first three have a

fairly certain impact on your income, and are expected to be lower in retirement, the fourth is ambiguous, as reflected in the below.

Changes in expenditure patterns in retirement:	
Expenditure category	Direction of change
Own: reading and education	Negative
Children: reading and education	Ambiguous
Health care	Positive
Utilities	Negative
Household operations	Negative
Shelter	Negative
Debt service	Negative
Other financial services related costs	Negative
Entertainment	Negative
Travelling	Ambiguous
Transportation	Negative
Food	Negative
Clothing	Negative
Grants and gifts	Negative

With the rising cost of living, it is likely that people will prioritise consumption over saving during their productive years. Whilst during retirement, most of the factors that militate against saving will decline, apart from health costs. These are key inputs in the calculation of your replacement ratio.

In the South African discourse, the concept of replacement ratios has not gained sufficient attention, either because:

- i. people fear raising expectations too high;
- ii. Government is loathe to overcommit and thus raise risks to fiscus;
- iii. it is found to be a difficult concept to communicate at the societal level; and finally
- iv. it is difficult to regulate for.

Whatever the true reason, the concept is used here as a tool to:

- i. educate the public about the importance of saving enough; and
- ii. focus the mind and increase the importance and awareness of adequacy, as opposed to mere certainty of income.

Ideally, the starting point for reforming a retirement system would be to decide on the optimal replacement ratio that a country would want to see. This variable will provide an

important indication of what level of retirement savings (RS) an individual should ideally set aside. It will force us to think about the number of years people will spend in retirement. This will, in turn, be determined by a country's social conditions and its objective function(?).

Your replacement ratio will be sensitive to these variables:

- i. contribution period;
- ii. contribution rate;
- iii. average real rate of return;
- iv. costs experienced;
- v. occurrence of premature withdrawals; and
- vi. years in retirement (longevity).

It is clear from the list above that the replacement ratio dynamic cannot be stable in South Africa, as a result of the fragile employment conditions, low average incomes and high dependency ratios due to high unemployment. Recently, item vi. has been complicated by observed rising life expectancy at retirement.

Below is one set of results that has been calculated representing a picture painted by funds under Sanlam's management. It clearly shows that, given a set of assumptions, the contribution period has a significant impact on the ultimate replacement ratio. However, what we also observe is that even with the best of investment periods, the replacement ratio remains very low. This is particularly concerning for the low income earners.

Years of contribution at time of retirement	Replacement ratio (%)
More than 35	38,63
30 – 35	32,25
25 – 30	28,11
20 – 25	23,49
15 – 20	18,85
10 - 15	15,78

Assumptions:

- Real returns = 3%
- Contribution rate = 10%
- Years after retirement = 15 years

The accumulation stage is the most critical part of the replacement ratio equation. That is where the decisions can be effectively converted into action. People have some scope to correct their decisions if they are found to be sub-optimal. The same cannot be said for the retirement stage.

To highlight the importance of this stage and to highlight the importance of appropriate consumer behaviour, we make

use of a simplified structural savings model, represented by the following equation:

$$RS = C + R - L - SIC$$

Where: RS = Retirement savings

C = Contributions

R = Returns

L = Leakages

SIC = Social insurance contributions

We use this equation because the savings rate is one of the major components in calculating the replacement ratio. It has a dual behavioural impact on expenditure. This variable can be seen as the Joker in the pack. While it helps to increase the assets over time, it also positively influences expenditure patterns in productive years, thus influencing beneficial expenditure changes in retirement.

This derives from the fact that an individual who is used to a high savings rate and a lower standard of living relative to his/her income, would require a lower replacement ratio than generally expected. People who save a lot get used to depriving themselves of a higher standard of living. This is one of the magic considerations in the application of the replacement ratio concept.

From this formulation, effort needs to be exerted towards enhancing those variables that have a positive impact on savings (C and R). Meanwhile, even more effort needs to be directed towards minimising the negative forces – mainly leakages, but to a lesser extent social security contributions, which should be given special consideration. These are seen to be a positive diversion of one's income, even though they ultimately have a negative impact on the replacement ratio.

Currently, with an average contribution rate of 15%, the proposal to divert as much as 33% of this contribution towards risk benefits in the new dispensation translates into a notable reduction in people's replacement ratios. Mind you, this is before taking account of costs, which currently average about 5%, according to the survey results.

Other internal modelling reveals that, to realise a 75% replacement ratio under a given set of conditions and a real return of 3%, you would have to contribute anything between 23% and 65%. This is a significant gap to what we will end up with under the new dispensation. That means the proposed diversion of income would have to be considered within this context, particularly for the middle to high income earners.

There are other variables that become more important at retirement. One of these is the risk of greater longevity. The longer one lives, the higher the risk of spending the rest of one's lifetime with insufficient income. This is particularly

important for females, given their longer life expectancy. This directly forces one to think carefully about the draw-down schedule.

Together, poor contribution patterns, inflation corrosion and poor investment performance need to be watched carefully.

In conclusion, given the South African context where working life is short and choppy, contributions are predominantly inadequate and infrequent, dependency ratios are high, the majority of workers are in the low income bracket and the prevalence of premature withdrawals from the system are high, it is clear that our accumulation will fare poorly, relative to other economies. Under normal conditions, and for a fair proportion of savers in South Africa, it may be suggested that to ensure a healthy replacement ratio one should save more and for longer, implying retiring later as well as investing wisely. For the rest, the issue of job security and higher income levels remain a challenging prerequisite.

¹ For the full report visit www.sanlam.co.za

SELECT REFERENCES

AON Consulting – *Replacement Ratio Study; A Measurement Tool for Retirement Planning*, 2004

Connolly E – *The Effect of the Australian Superannuation Guarantee on Household Saving Behaviour*, Reserve Bank of Australia, 2007

Holzmann R and Hinz R – *Old Age Income Support in the 21st Century*, IBDR/World Bank, 2005

Kay Stephen and Sinha T – *Lessons from Pension Reform in the Americas*, Oxford University Press, 2008

Mitchell O S and Muermann A – *The Demand for Guarantees in Social Security Personal Retirement Accounts*, University of Michigan, 2003

Pai Y – *Comparing Individual Retirement Accounts in Asia: Singapore, Thailand, Hong Kong and PRC*

Palacios R and Pallares-Miralles - *Social Protection Patterns of Pension Provision*

Whitehouse E – *Pensions Panorama: Retirement Income Systems in 53 Countries*, World Bank, 2007

World Bank – *Averting Old Age Crisis*, Oxford University Press,

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

SURVEY RESULTS

Methodology and sample

The 2008 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 (5 001+ members) funds in South Africa. These included pension (35%) and provident (64%) structured on a defined contribution basis as well as umbrella funds. 27% of the principal employers are from the manufacturing sector and 15% from financial services, being the two largest sectors represented.

The survey was conducted by the independent market research agency BDRC, via 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 of funds and their principal officers 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.

Training

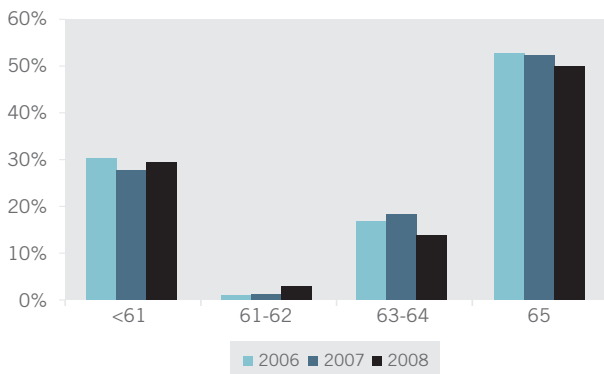
In the 2008 survey, 40% of funds indicated that their trustees receive training from their administrator, 36% from their fund consultants and 20% from independent trustee trainers. These figures are in line with the 2007 results.

38% of funds indicated that training by administrators is done annually while 24% responded that training is conducted on a quarterly basis. Training provided by fund consultants is done annually (31%) and quarterly (29%). Most of the training provided by independent trustee trainers occurs annually. This feedback is once again in line with the 2007 results.

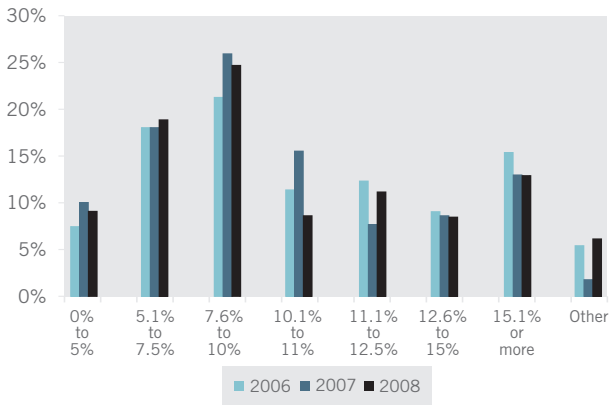
Training by administrators and fund consultants predominantly occurs through formal presentations, trustee meetings and written documents.

In 2008 as well as in 2007, 53% of new male entrants had a normal retirement age of 65. In both years the mean retirement age was 63.

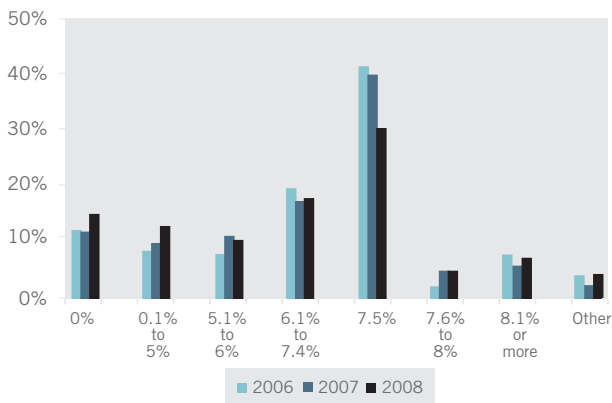
Normal retirement age of new male members



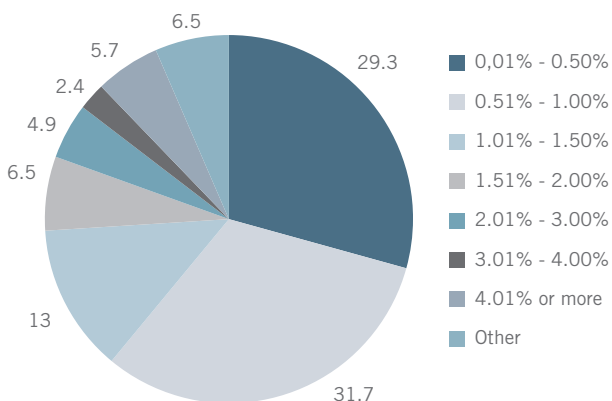
Employer Contributions



Employee Contributions



Cost of administration



Contributions

59% of funds indicated that the employer's remuneration package is based on a total cost to company, broadly in line with the 54% in the 2007 survey. This percentage is fairly evenly split between pension and provident funds. 19% of the balance mostly pension funds are contemplating such a structure.

The average employer contribution is 9,5%. This is down from 9,67% in the 2007 survey. The average employer contribution for pension and provident funds was slightly up on the total average, at 9,6% and 9,7% respectively. Large funds (funds with 5 000 and more members) had an average employer contribution of 10,9%, well above the total average.

The average employee contribution is 5,5%, in line with 5,5% in 2007. Members belonging to pension funds contribute 6,2% on average, compared to members of provident funds who contribute 5,1% on average. Members belonging to funds with a total membership of between 100 and 500 contribute 4,7% on average, which is 0,8% below the total average. Members belonging to funds with a total membership of between 500 and 5 000 contribute 6,1% on average.

Cost of administration

About 51% (2007: 55%) of funds stated that their administrator bills separately for each item. 28% (2007: 29%) pay administration fees including all expenses, while 20% (2007: 14%) pay additional expenses not specified in the administration agreement.

Meanwhile, 54% (2007: 51%) of funds do not operate a contingency reserve account. Of those that do, 37% (2007: 23%) fund the reserve by way of a deduction from employer contributions, while 14% (2007: 23%) express their contribution to the reserve account as a percentage of the administration fee.

About 62% of funds are billed on a percentage of salary basis, as opposed to 65% in 2007. Only 24,5% (2007: 17,5%) are charged on a fixed cost basis per member, while 8% (2007: 8%) are billed on a percentage of assets basis. The average fixed cost per member is R33, up from R29 in 2007.

The fixed cost approach implies the lowest level of cross-subsidy, but this is one instance where cross-subsidy may be preferred. The total cost of administration is between 0,5% and 1% of payroll for 32% of funds. The average cost is 1,1%, slightly up from 1,0% in 2007.

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 using this cost recovery method 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 illustrated in the pie chart.

The proportion of funds that rebroke their risk business annually has dropped considerably from 65,5% in 2007 to 47,5% in 2008

More funds are capping the cost of disability benefits. The proportion has increased from 42% in 2006 to 47% in 2008

Retirement benefits

69% of members can buy any annuity product of their choice on retirement. 15% of these funds offer one or several specified insurers while 85% allow members to shop around and buy an annuity from any insurer.

Risk benefits

The average cost of death benefits under a fund is 1,74% of salary, compared to last year's average cost of 1,76%. The average cost of these benefits under a separate scheme has remained at 1,38% of salary.

There has been an increase in the average cost of disability benefits offered under a fund and under a separate scheme. Costs have increased from 1,2% of salary in 2007 to 1,27% in 2008 and from 0,94% in 2007 to 1,12% in 2008 respectively.

There has been a slight decrease in flexible benefit offerings over the past year, with 15% of respondents in 2008 indicating that they have flexible benefits, compared to 19% in 2007. This is a change of direction, compared to the steadily increasing trend observed from 2004 to 2007. Those with flexible benefits have an average total risk cost of 2,11% of salary. This cost has decreased by 21% over the last year.

Risk rebrokes

A few trends have emerged in this particular area. The proportion of funds that rebroke their risk business annually has dropped considerably from 65,5% in 2007 to 47,5% in 2008. The rate of advanced renewals may have increased and contributed to this trend. There has been a marked increase in the number of funds that rebroke every two years. This proportion has jumped from 10,6% in 2006 to 26% in 2008. There have also been modest increases in the proportions of funds that rebroke every three years and every five years. The number of funds that never rebroke or are happy with their current insurer has decreased from 3,5% in 2007 to 1% in 2008.

Umbrella funds are the only structure that rebrokes every two years (40.5%) versus annually (27%). A higher proportion of umbrella funds rebroke every two years compared to any other structure, followed by pension funds at 27,1%.

There is a tendency for more funds to rebroke annually as the size of the assets under management increases.

Capping of the costs of risk benefits

An increasing proportion of schemes are applying caps to the costs of disability benefits. This proportion has increased from 42% in 2006 to 47% in 2008. The proportion of schemes applying caps to death benefits is stable at around 44%.

The use of caps tends to be the most popular with pension funds.

The proportion of funds using caps broadly increases as the size of the funds increase. This applies to increases both in

More employers pay for the cost of death benefits under separate schemes with a notable increase from 31% in 2006 to 43% in 2008

asset size and in membership. This trend is especially strong in the case of disability caps.

Funds are more likely to have caps on the costs of death and/or disability benefits when one or more of the following characteristics apply:

- They offer financial advice;
- They do not use a total cost to company basis; or
- There is an HIV/AIDS programme in place.

The average death benefit cost is capped at 2,1% of salary, in line with 2007. The average size of the cap on death benefit costs is the greatest for pension funds (2,23%). The average size of the cap on death benefit costs tends to decrease as the membership size of the funds increase. The level of the cap is seen to be quite high for funds offering financial advice (2,36%).

The average cap on the cost of disability benefits dipped from 2,3% of salary in 2006 to 1,86% in 2007. This has now increased to 2,05% in 2008. The average size of the cap on disability benefit costs is the greatest for provident funds (2,13%). Consistent with the results above, funds offering financial advice have a higher than average cap (2,34%). The average cap for funds that do not offer financial advice is 1,57%, which is significantly lower than the overall average.

There has been a large decrease in the proportion of respondents who are unsure about the level of capping on risk benefits over the last three years (15% of respondents were unsure of the level of the disability cap in 2008 compared to 33% in 2006). This may indicate that greater attention is being paid to caps.

Death benefits

Nearly all funds provide lump sum death benefits. There has been a trend of a decreasing proportion of funds offering a spouse's pension. This is evident in a decline from 20% in 2006 to 14% in 2008. A decrease in the proportion of schemes offering a child's pension benefit mirrors this trend, falling from 17% to 12% over the same period.

Most of the funds providing a spouse's pension 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 just over 3 times salary.

Just less than a third of the respondents provide death benefits under a separate scheme. The average death benefit has returned to its 2006 level of 3.2 times salary, from a high of 3.6 times salary in 2007.

The proportion of employers that pay for the costs of death benefits under separate schemes has risen from 31% in 2006 to 43,4% in 2008.

33,8% of the death benefit paid includes the member's equitable share. This is the latest outcome in what has been

More funds choose to offer a lump sum disability benefit alone. This has increased from 5.5% in 2007 to 10% in 2008

a falling trend over the last three years, from 48% in 2006 to 40% in 2007.

Of those offering flexible death benefits, the average minimum level of cover is 2.2 times salary. This represents an increase from 2 times in 2007 and 1.8 times in 2006. For those able to choose additional levels of cover, the average level has been increasing at a faster rate from 3.8 times annual salary in 2006 to 4 times in 2007 to 5.1 times in 2008.

In the past year, 56% of the respondents distributed death cover to minors. About 37% of the funds set up a trust, paid the trust or appointed a legal guardian to provide benefits to minors.

Disability benefits

In the 2008 survey, 48,5% of the respondents indicated that they provide a lump sum disability benefit. This is slightly higher than 45% in 2007, but still lower than 50% in 2006. Approximately 50% of funds offer the benefit under a separate scheme and 50% as an accelerator.

The average multiple provided is 2.15 times salary. This represents a 20% decrease in the average cover level of 2.68 times salary in 2006.

72% of funds offering a permanent disability benefit chose to use the permanent disability income benefit. There has been an increase in the number of funds choosing to offer a lump sum benefit alone, from 5,5% in 2007 to 10% in 2008.

86% of funds offering a temporary disability benefit chose to use the temporary disability income benefit only. Of these, an increasing majority provide income disabilities expressed as 75% of salary.

80% of respondents providing disability benefits allow for increases in these benefits. 14,5% indicated that they increase benefits by fixed percentages according to the rules, 23% increase their benefits linked to CPI with a fixed maximum (cap) and 13,5% increase their benefits linked to CPI with no maximum. The average fixed percentage used has decreased from 5,25% in 2006 to 4,85% in 2008. 100% of CPI is consistently the most popular option when increases are linked to CPI.

Other benefits under separate schemes

7,5% of respondents offer trauma (critical illness) cover under a separate scheme and 56,5% offer funeral cover. These percentages have been increasing by a small margin since 2006. The number of schemes offering trauma benefits is still comparatively low, indicating that there is not a great demand for this benefit. The number of respondents that do not offer any benefits under a separate scheme has continued to decrease from 46,8% in 2006 to 41% in 2008.

Of those respondents indicating that they offer funeral cover benefits, 95,6% also offer benefits for the children. There has been a significant increase in the number of funds that offer funeral benefits to any extended family, from 18,7% in 2007 to 94,7% in 2008. Almost all members are entitled to receive funeral cover (98,2% in 2008).

The mean level of funeral cover has risen for almost all categories of lives insured, compared to the 2007 level. However, this increase has not been as much as the increase between 2006 and 2007.

The most popular funeral benefit remains either R10 000 or R5 000 for the main member.

The R5 000 and R10 000 funeral benefits are selected in most cases for spouses and children between the ages of 14 and 21. R5 000 is the benefit selected in most cases for children aged between 6 and 13, while R2 500 and R5 000 are selected in most cases for children aged between 2 and 5. The benefit level selected for children under 2 is less than R4 000 cover.

50% of parents and parents-in-law receive a funeral benefit of R5 000 and below.

The employer meets the costs for the majority of respondents offering funeral benefits and the number of employers who do so has increased from 63,6% in 2007 to 71,7% in 2008.

The proportion of respondents that offer a conversion/continuation option on death or disability has continued to increase, from 21,3% in 2006 to 29% in 2008.

HIV/AIDS management programmes

64% of respondents indicated that the employer has an HIV/AIDS management programme in place. This is slightly down from the 2007 figure of 70%. Analysis shows that an employer is more likely to have a management programme in place when membership of the fund or the size of assets managed is high. For example, 91% of funds with more than 5 000 members offer such a programme. Umbrella funds tend to have the lowest proportion of employers with AIDS management programmes (43%).

Almost all the management programmes include providing members with information and creating awareness regarding the epidemic. The majority also provide counselling and testing. 48,4% of the management programmes in 2008 include medication. This has grown from the 2007 figure of 45,7%. There is a strong, positive relationship between the size of the fund, allowing for membership or asset value, and the proportion offering medication.

Impact of HIV/AIDS on risk costs

There has been a definite decline in the proportion of respondents that experienced an increase in risk costs as a result of HIV/AIDS over the last two years, from 26% in 2006 to 16% in 2008.

Almost 46% of the DC funds surveyed offer member-directed investment choice, which is approximately the same as in the 2007 survey (43%)

The proportion indicating that there has been no change to their rates due to HIV/AIDS has increased from 56,5% in 2007 to 67% in 2008. It is interesting that a higher proportion of funds without AIDS management programmes experienced no change to their premiums (71%), compared to those with AIDS management programmes (65%). This may indicate that companies with programmes have reduced the stigma attached to claiming due to HIV/AIDS and, hence, expect higher rates of HIV/AIDS related claims and increased premiums.

In the case of those who believed that their risk costs have increased due to HIV/AIDS, 50% indicated an increase of up to 4%, with the average increase slightly less than 8% -. This is almost half of the 2006 average increase of about 15%. The level of the average increase generally drops as the membership of the fund grows.

Most of the respondents expect no change in their premiums due to HIV/AIDS for the next two years. The proportion that has perspective has risen from 47% in 2007 to 58% in 2008. This is reflected in a drop in the number of respondents who expect an increase in the cost of their risk benefits for the same reason over the next two years. This proportion has fallen from 44% in 2007 to 34,5% in 2008.

Investments – member-directed investment choice

Almost 46% of funds surveyed offer member-directed investment choice, up from 43% in 2007. A further 13% of funds are considering it. Member-directed investment choice is particularly popular among umbrella funds, with 68% of these funds indicating that it is available to all/some members. Member-directed investment choice is also more popular when funds have 500 members or less, compared to larger funds (56% vs. 35%).

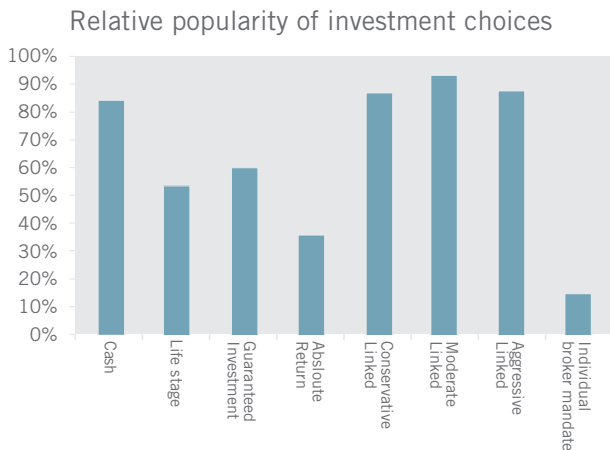
It is interesting to note that within funds with member-directed investment choice, respondents indicated that most members (58%) rely on the trustee or default choice and, as such, do not choose their own investments. This is similar to the previous survey results.

Funds that offer member-directed investment choice are also more likely to provide members with financial advice (62% do).

It is still common practice to charge all members the same administration fee, irrespective of whether they want or use member-directed investment choice. 81% of funds charge a flat fee, which is down from 91% in 2007. Only 8 funds indicated that members who do not choose their own investment options pay a lower administration fee (up from 3 in 2007).

Of the funds allowing members to choose their own investment options, most allow members to switch annually (32%) or monthly (30%).

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



Almost 84% of funds are either satisfied or very satisfied with their investment choices, with the main benefits seen as the variety of choices (37%), performance (21%) and member satisfaction (21%).

More than 80% of funds have a cash, conservative, moderate and an aggressive linked investment option. Absolute return options have decreased significantly from 49% in 2007 to 36% in 2008. Very few small funds offer absolute return-type portfolios (only 15% of funds with 500 or less members). Structured products, as part of the guaranteed investment range, have more than halved to 4,4% (10,5% in 2007).

Although only 54% of funds offer life-stage solutions, these solutions tend to be primarily offered by larger funds (more than 500 members), where 74% include this as an option

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

Investments – trustee choice

54% of funds do not offer member-directed investment choice and rely on trustee investment decisions. The most popular investment choices are:

- Moderate linked portfolios (50%);
- Guaranteed/Smoothed bonus investments (45%); and
- Conservative linked portfolios (33%).

Only two funds listed direct corporate property holdings.

Stable returns and guarantees

Similar to last year, 86% of funds consider the ability of a portfolio to provide stable investment returns to be important. Smoothed bonus portfolios were rated the best at providing stable returns, followed by cash.

67% of funds also consider the guarantees provided by products to be important. This is especially true for smaller funds (less than 100 members) where 78% of respondents feel that guarantees are important. Cash and smoothed bonus portfolios were rated best at providing guarantees on benefit payments. Structured products and absolute return portfolios were considered to provide less of a guarantee on benefit payments.

Feedback on investments

90% of funds provide investment feedback to members. Quarterly feedback (35%) is still the most popular option, followed by annual feedback (33%). Less than 4% of funds provide daily feedback.

The most popular form of feedback is written communication (74% of funds) followed by internet/intranet (29%). The feedback usually includes portfolio returns (75%) vs. benchmark returns (52,8%) and risk analysis (31%).

Most funds (45%) compare against a CPI+% benchmark

Benchmark and returns

45% of funds utilise a CPI+% benchmark to compare their fund's investment performance. This is slightly up from 42% in 2007. Measuring against either the investment mandate benchmark (37%) or a survey peer group (29%) is also very common.

Most of the respondents knew their fund's investment return for the past year and reported it to be between 20% and 30%. This is significantly higher than the median return on global balanced portfolios of 14,78% for 2007.

There were four funds that reported investment returns of less than 5% in 2007. No funds reported returns of more than 40%.

70% of respondents expect investment returns for 2008 to be lower than for 2007, but still positive. Some 7% of respondents are optimistic that returns will be better than those achieved in 2007, while a similar number expect negative returns in the year ahead.

Socially responsible investments

Only 16.5% of funds have a policy to invest a portion of assets in socially responsible investments. This is up from 10.5% in 2007.

Communication with members

The annual benefit statement remains the most popular means of communication. with 95% of funds using it to provide information. 68% of funds provide a rule booklet, 44% an annual trustee report and 39% a membership certificate.

Topics communicated to members

The topics most regularly communicated to members remain the benefit structure (86%), investment performance (84%), interpretation of the annual benefit statement (75%) and how the fund works (72%).

More than 80% of funds offering member level investment choice (MLIC) and financial advice and funds that have a socially responsible investment (SRI) policy in place, find that their members regularly request investment performance. As expected, 85% of funds with MLIC regularly communicate member investment choice.

Retirement fund queries are mostly addressed by the administrator. This is up from 51% in 2006 to 58% in 2008. Retirement fund enquiries are directed less to the principal officer (down from 53% in 2006 to 42%). According to the survey, the majority of umbrella funds and hybrid funds direct their retirement fund related queries to the human resources department.

Financial advice

An increasing number of funds, especially funds offering MLIC and financial advice, have a formalised strategy for rendering

Retirement fund enquiries are directed less to the principal officer (down from 53% in 2006 to 42%)

As many as 60% of fund members obtain fund related information directly by accessing the fund's Internet/Intranet facility

financial advice to members – up from 32% in 2004 to 54% in 2008. Of these, the majority (71%) indicated that a worksite adviser would assist the member, while 34% indicated that members consult their own adviser/broker.

Providing financial advice on a one-on-one basis in the event of withdrawal, disablement, retirement and death remains popular, as the majority of funds offer advice on this basis. However, in the event of induction, the majority of funds provide financial advice using a group discussion strategy. More than 40% of funds claim they arrange annual discussions with groups of employees.

93% of senior staff (up from 88% in 2006) and about 50% of the rest of the staff understand more than half of the information provided. This is in line with the findings of the previous surveys.

25% of funds (where the majority are smaller funds) have not considered any specific steps to improve members' understanding. 56% of funds regard the provision of basic financial education, training at work or through a third party, or paying for members to seek financial advice, as a means of enhancing members' knowledge. These findings do not differ much from the 2007 survey results. Of the funds that take steps to enhance members' knowledge, most are large funds (5 000 members and more and with an asset value of more than R500m). Funds that have a formalised strategy for rendering financial advice to members provide basic financial education and training at work. 5% of funds prefer a presentation or an annual road show.

Internet/intranet facility

There is a growing trend in the number of funds using the intra/internet to give members access to information, with between 60% and 65% of funds (55% in 2006) using these facilities. More fund members (up from 52% in 2006 to 68% in 2008) obtain access directly to fund information. According to the survey, the majority of funds that offer MLIC and provide a financial advice service use the intra/internet as a means of communication.

The majority of funds claim that more than 70% of members have direct access to pension fund information via work or private internet/intranet facilities. Consistent with recent survey findings, the internet/intranet is mostly used to provide the fund rules (77%), investment portfolio information (68%), the member booklet (62%) and investment returns (52%). Personal information that is typically available includes a monthly updated member benefit statement (60%) and an annual benefit statement (59%). In addition, the internet/intranet is used to provide member training and support. Almost 70% of funds offer an online modeller or calculator, investment training material and relevant articles.

43% of funds (compared to 45% in 2006) allow members to update personal information on the intranet/internet and 29%

Notable decrease in the number of funds 26% (38% in 2007) rebroke their administration on an annual basis

allow investment switches. The majority of these funds offer MLIC and financial advice. 12% of funds allow risk benefit selections and 19% of funds update member payroll data online.

Home loans/housing sureties

There was a slight increase in the number of funds that provide neither home loans nor housing sureties directly to members (36% in 2007 and 41% in 2008). Most funds, especially larger funds, offer housing sureties.

Rebroking services

	Annually	Every 2	Every 3	Longer
Administration	26%	24%	15%	14%
Risk benefits	47,5%	26%	10%	6%
Investments	37%	23%	12%	10%

51% of funds use multiple service providers for their administration, benefit consulting and risk benefits. The other 49% use a single provider.

National Social Security System (NSSS)

There has been considerable discussion recently around Government's proposals for a National Social Security System (NSSS). When asked whether they felt positive or negative about these developments, 43% of respondents were negative about the NSSS, while 35% felt positive.

Possible benefits were seen as:

- Giving a wider range of employees access to retirement fund benefits (48 respondents);
- Better benefits for members (15 respondents);
- Less hassle for employers (15 respondents).

Key concerns included:

- Government's ability to manage such a fund (142 respondents);
- Government's ability to manage death benefits (76 respondents);
- Cost to the taxpayer (67 respondents);
- Lower benefits for members (63 respondents);
- Potential demise of employer funds (50 respondents).

Only 61% of respondents believe that the NSSS will be implemented in South Africa, and only 9% believe that it will be implemented by 2010.

If implemented, 49% of respondents believe that members should be allowed to opt out of the NSSS, while 35% feel it

should be compulsory for everyone earning below a certain income threshold. Only 5% of respondents believe it should be compulsory for all.

Assuming that the proposals for the NSSF will be passed, respondents indicated that they expect the following changes in member behaviour prior to its implementation:

- A greater demand on employer funds for communication and information (42%);
- A higher level of resignations to access fund values prior to implementation (42%);
- Members not having access to their retirement savings (3%);
- Smaller employers not being able to afford contributions (2%);
- Labour unrest because of misunderstanding/if they think they are being short-changed (2%);
- Dissatisfaction amongst lower income earners (2%).

Key indicators (percentage of salary)

	2008%	2007%	2006%
Employer contributions	9.5	9.7	10.0
Death benefit premiums	(1.7)	(1.8)	(1.9)
Disability benefit premiums	(1.3)	(1.1)	(1.4)
Administration and operating costs	(1.1)	(1.0)	(1.2)
Retirement provision	5.4	5.8	5.5
Employee contributions	5.5	5.5	6.0
Total provision for retirement	10.9	11.3	11.5



to meet the changes and challenges facing the retirement industry