



BENCHMARK | SURVEY

09

2009 BENCHMARK SYMPOSIUM BY SEB

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.

2009 BENCHMARK SURVEY BY SEB

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

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FOOTNOTES

Sample size

Please note that the base size for the result (n=200) with the exception of 2006 (n=188)

Results should be used with caution when doing any cross-tabulations or reviewing responses for a particular option. Where the no. of respondents to a particular question option is <30 (indicated by ★) we regard this as statistically insufficient from which to draw any significant industry conclusions.

Totals

The nature and format of certain questions allow for multiple responses, as a result, answers in a particular question may add up to >100%

Introduction



Sanlam Employee Benefits (SEB) has successfully completed its 29th survey of South Africa's retirement fund industry, including for the second year running, a complementary survey of retirement fund members.

This year, the team has exceeded previous efforts by giving the survey a distinguishing brand. Under the theme 'reality check', the 2009 BENCHMARK Survey once again provides the retirement fund industry with substantive information about South Africa's retirement landscape, putting into context some of the economic, social, political and regulatory factors affecting the industry's 'new reality'.

The most significant current reality is that of the global economic crisis. South Africa's economy and retirement fund industry have not been immune from its effects, and as a result, benefits for retirement fund members in defined contribution funds have been eroded, leaving some members to examine their retirement timeline and affordability.

Fundamentally, the BENCHMARK Survey aims to provide quantitative information to assist retirement fund stakeholders in the design

of benefit structures, communication and investment strategies. This year, effectively three studies were completed:

- 200 face-to-face interviews with principal officers of stand-alone funds,
- 100 face-to-face interviews with participating employers in umbrella funds
- 600 telephonic interviews with retirement fund members

One of the obvious highlights of the 2009 survey is the growing prevalence of umbrella solutions as consolidation continues in the industry. In an environment where it is no longer sustainable for smaller retirement funds to be administrated on their own, it was no surprise to learn that at least 41 percent of stand-alone retirement funds had investigated or are considering conversion to an umbrella platform.

As the size of funds continues to grow, however, retirement funds are increasingly attentive to members' needs, providing more frequent communication, complemented by additional education of trustees. Although there is still a long way to go to better inform and engage members, the need for information that is concise, uncluttered and effective is paramount if the industry is to increase member understanding of savings, investments and preservation of funds. A



lesson that the government should consider as it prepares to implement its National Social Security System (NSSS), still an important driving force in the industry.

We trust that the survey results continue to be successful in informing and influencing this process, and a valuable catalyst to further inform and empower stakeholders in the industry and the wider retirement landscape in South Africa.

We thank our colleagues from across Sanlam – including Coris Fund Administration, Sanlam Distribution, Marketing, Employee Benefits Actuarial and Market Intelligence – for their invaluable assistance in reviewing the

questionnaire, studying the data and formulating the results.

Thank you for your ongoing support of the BENCHMARK Survey. We trust that you continue to find value in all that we do at Sanlam Employee Benefits to generate and share these results.

Dawie de Villiers

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Balancing Opportunity with Protection

Introduction*

This year's BENCHMARK Symposium coincides with not only the worst but also the broadest economic slowdown in history due to the extent of citizens' participation in the economy. What started off as a financial crisis rapidly transformed into a multiple-crisis that threatens to result in long term structural weaknesses which could easily lead to a vicious circle. The financial crisis has led to an almost unstoppable domino effect of sectoral imbalances; a devastating asset price collapse; a global recession; a blow up in unemployment; a social crisis; growing fiscal imbalances; all of which threaten a long lasting global structural imbalance.

This ripple effect threatens worldwide long term savings as retirement funding, seems to be the biggest victim of this global crisis.

This harsh experience provides further evidence to dispel the notion that retirement reform is purely a legislative exercise.

The economy is faced with a unique challenge that requires increase efforts to seek far reaching solutions for a sustainable social security and retirement regime that:

- Takes account of economic cycles;
- Positions itself for the long term; and
- Ensures that both the well heeled and vulnerable citizens are fully catered for under any economic eventuality.

This challenge gave rise to the BENCHMARK Symposium theme of "Balancing Opportunity with Protection". We ask what policies should be put in place to take advantage of the economic conditions to improve the worth of the economy. Another key

question asked is how we may accomplish this whilst also ensuring that the vulnerable and dependent members of society are included in the mainstream and also capitalise on current conditions.

These challenges are especially relevant to South Africa as we are wrestling with social security and retirement reform.

In this context, the above questions can be crystalised into one: "What should the country do, such that when the economy turns, we are ready to ride the tide and enhance welfare?"

The research has therefore focused on understanding the macro and micro impact of an economic slowdown, through studying the experiences of other countries. Their experiences guide us to the most appropriate policy and household responses in the current economic climate.

What are the opportunities?

A balanced view of strengths and weaknesses of the South African economy is necessary to judge both whether and what opportunities are available to South Africa in the current economic maelstrom. The position that we find ourselves in provides certain valuable opportunities, which we should capitalise on, such as:

- Bringing macro stability back onto the global agenda and in particular to South Africa's reform agenda;
- Elevating the urgency of proper reforms;
- Forcing a rethink on early retirement; and
- Placing regulatory issues high on the agenda of reform.

* For the full version of the research, visit www.sanlam.co.za

In its recent economic outlook, the OECD is projecting a 9% fiscal deficit for 2009 and rising. Growth across this group of countries is expected to record a -4.7% with a sluggish turnaround in 2010 of 0.7%. The impact of this economic performance will result in unemployment rising by 2.2% in 2009, to 7.8%. This equates to an additional 11 million people becoming unemployed. Unemployment was recorded at 9.4% in May and is expected to rise further to 10% in 2010. All this takes place against the backdrop of an asset collapse of -23% (weighted) and -17.5% (unweighted). This economic data spells out the depth of the global crisis.

Whilst our economy was also caught off-guard by the slowdown it, unlike many others, was structurally stronger due to a decade of good macroeconomic planning and management. Shortly before the crisis, South Africa generated fiscal surpluses due to a more conservative stance, solid revenue experience and anticipated increases in obligations due to the social security and retirement reform. Coupled with this, is a solid capital expenditure programme enhancing the overall savings performance of the economy.

The characteristics that define the South African economy are described in the table below:

Strengths and weaknesses of the SA economy

Weakness/disadvantages	Strengths/advantages
<ul style="list-style-type: none"> • Poor domestic savings • Over-reliance on foreign savings to fund investment • Global slowdown will dry up resources, making borrowing costlier • Rising debt in developed world • Poor replacement ratios • Weak employment opportunities and retrenchments • High inflation and interest rate environment • Sticky wages and salaries • Weak global liquidity • Weak savings culture 	<ul style="list-style-type: none"> • Budget surplus • Low debt burden in the domestic economy • Robust infrastructure programme • Preparedness for next upswing • Balance sheets of South African corporates are healthier than those in the rest of the world • Reform is forcing an introspection across all sectors of the economy <ul style="list-style-type: none"> - Cost across production chains - Partnerships with the state • High interest rate environment allows for monetary room to inject growth impetus • Strong financial sector

The existing strengths of the economy have given South Africa an edge over other economies despite the existence of some underlying structural weaknesses. This may partly explain why South Africa has so far weathered the storm relatively better, but may still suffer from extended global recession.

The role of the economy

The link between the ongoing retirement and social security reform process and economic management cannot be denied as the right macroeconomic

environment is necessary to meet the social goals. Such an environment is a function of a healthy partnership between the private and public sectors. Adding further weight to the importance of the economy in the reform process is that the majority of the key objectives targeted by a reform programme are economic. Even the instruments for achieving the objectives are predominantly economic, for example, macroeconomic stability and inflation targeting.

The economic crisis has increased the challenge of retirement reform. It has the potential of dealing

a larger negative blow to economic performance, labour absorption and the fiscal programme than the various crises that have come before.

Haugh D. *et al*, find that economic downturns following banking crises are more severe than other downturns as:

- Output losses are typically 2 to 3 times greater;
- The period to recovery is at least twice as long;
- The recovery itself is much slower;
- Business investment and housing investment are disproportionately reduced; and
- There is a large reduction in fiscal performance.

Implications highlighted by Haugh *et al* include that the:

- Current downturn may be severe with output remaining below potential, for a number of years;
- Potential output growth is likely to be more adversely affected, and permanent, the longer it takes to resolve the immediate banking problems; and
- Structural unemployment is likely to increase.

Together, all these factors will have a devastating effect on the long term savings industry. In particular, the probable long term structural weaknesses resulting from the current crisis are a bigger snake in the room. However, there is hope as it is possible that the actual results may be muted or totally different to those painted above as the global response to this crisis may precipitate a much swifter resolution.

Reforming successfully

A key consideration for reform relates to “people saving adequately for retirement”. This theme underpinned the 2008 Sanlam Survey research and is driven by economic fundamentals. Ironically, this is the theme that preoccupies debate in the OECD today, in light of the global economic performance.

Economic growth, financial market stability and job

creation are essential to satisfying the consideration. The economic crisis shows how intertwined the real economy and the financial sector have become. What started off as a localised banking imbalance scenario has resulted in shrinking incomes, and a decline in employment. The long term effects of government responses are yet to be seen and may potentially give rise to longer term structural weakening.

The reform process ought to be aimed at dealing with income inequality, poverty and ensuring decent retirement incomes. The test of this objective will only occur some 20 years from the day of its implementation. We, therefore, we have to rely on interim indicators to guide the process towards maturity. Such indicators give an idea of how efficient the system is and how effectively it is serving society. These may include:

- Annual investment returns;
- Administrative costs and transition costs;
- Institutional and administrative capacity; and
- Transparency.

The global economic crisis has drawn policy makers’ attention to short term considerations. However, even if these are important, they are not the only concerns that need to be dealt with. Issues of a long term structural nature are even more important, as the reform has to deal with promises of a lifetime. Short-termism seems to be the growing monster and biggest risk, militating against sound and sustainable reform. Many economies which attempted in reform have had to balance growth promotion and social protection as one cannot go without the other. The OECD seems to be jettisoning, in the midst of short term pressures.

An essential characteristic of a sound system is its ability to respond to emerging risks as it looks forward to the long term goal of poverty eradication. Many challenges face reforms, ranging from political will and resistance; to capacity to deliver; to financial constraints; to macroeconomic stability and to sequencing (the order in which reforms are

implemented). The World Bank found sequencing to be extremely crucial in dealing with implementation and risk management. It identified a three pillar framework to deal with these risks, namely:

- Flexible and active labour market policies
- Pension and social insurance schemes
- Social assistance

As we move forward, we need to focus even more on principles underlying the microeconomic framework of insurance and saving. It is critical that we fully appreciate these micro fundamentals as they interrelate with the key objective of old age income security, efficient consumption smoothing and averting old age poverty.

Impact on South Africa's long term savings

The financial sector is key to successful reform. The basis for retirement funding is the lifetime promise given to the saver. This is particularly threatened given that the current crisis is driven to a large extent by historically low levels of confidence. The challenge is to now correct the imbalance that has been created by the financial crisis to ensure that trust and confidence return quickly to the global economy.

Despite the strengths mentioned earlier, South African retirement funds have not been spared the wrath of the crisis as it is estimated that retirement savings assets could have shrunk by about R300 billion. The slowing economy, declining returns and job shedding imply that that the replenishment of these assets will take a long time to be realised. The strong positive correlation between the economic fortunes of a society and the retirement savings pattern has been well established. The current state of the economy will have negative implications on the retirement industry. Most recent data from Stats-SA reveals that participation rates in the formal economy have shrunk from 62% in 2005 to 58% in the first quarter of 2009.

2009 BENCHMARK Survey Results

The 2009 iteration of the BENCHMARK Survey has yielded many interesting results. One of which is that on the back of the economic slowdown people are growing increasingly less optimistic about the successful implementation of the social security and reform programme. This is to be expected as people's abilities to save are waning due to the tightening of their belts and job losses.

However, an encouraging finding is that about 97% of those surveyed indicated that saving is very important. This positive attitude is to be promoted and supported. It is evident in that voluntary contributions have held up well despite harsh financial constraints as they have dropped marginally from 2.82% of salary in 2008 to 2.29% of salary in 2009.

Replacement Ratios

South Africans are becoming increasingly aware of the replacement ratio concept and are beginning to apply it to their individual circumstances. An amazing 75% of people surveyed are targeting a replacement ratio of between 80 and 100%. This is in stark contrast to the observed replacement ratio in South Africa of 30%. Last year's research may have had a role in influencing the shift as it revealed that economies similar to South Africa enjoy replacement ratios closer to 75%. The very small proportion of South Africans targeting a replacement ratio of less than 60% is thought provoking when considering that government has proposed a replacement ratio of a minimum of 40%.

Readiness to retire

It emerges that South Africans do not feel that they are ready for retirement. About 30% of respondents would opt to delay their retirement while 54% plan to work for a wage or salary in their retirement. Ironically, the observed average retirement age has dropped slightly from 63.2 years in 2007 to 62.87 years in 2009.

About 23% of respondents indicated that they do not think that they will recover from the financial crisis. Whilst concerning, this view is not based on a lack of confidence in the South African financial system. A convincing 58% of respondents revealed confidence in the financial system. This complements the latest Financial Sector Assessment Programme (FSAP) on South Africa by the IMF and the World Bank. These findings imply that South Africa does not suffer from an underlying confidence risk and that there is hope that the turnaround will be soon and possibly sustainable. The latest OECD prediction that the global turnaround will be led by emerging markets is supported by this result.

Preservation and Compulsion

Respondents have voted overwhelmingly to indicate a preference to preserve their benefits on withdrawal. Almost 78% of respondents indicated this preference, providing clear insight into how policy may be structured. This settles a long standing fear that such a policy would attract fierce resistance.

Another sticky question is whether compulsion should be enforced. The research did not provide as definitive an answer, as 48% of respondents indicated acceptance to being compelled to save for their retirement. Adding weight to the compulsion argument is the finding that 77% of respondents indicated that they would not reduce their contributions to increase their take home pay in spite of the current financial woes. Instead, there is a bias towards a preference for voluntary savings to top up the contribution prescribed by their fund.

Exits

There was a five-fold increase in the average exits from funds from 60 in 2008 to 310 in 2009. This negative result may be largely due to the toll of the economic slowdown.

An interesting point is that these exits have, up till now been driven by resignations. An average of 210 people exited on resignation compared to an average

of 30 on retirement. This may be a function of the notorious urge to cash-in retirement benefits amongst members. We do expect to see a switch in the cause as retrenchments take centre stage, on the back of negative recessionary effects and the underlying lagging characteristic of the labour variable.

Meanwhile the average number of new entrants into funds increased from 69 to 307 between 2008 and 2009 adding irony to this picture.

Conclusion

The key lesson for South Africa from the economic crisis is that we need to make economic growth restoration our immediate task if we are to see a successful reform. The reform we envision should be partnered with more growth, more jobs and significant and sustainable real financial returns.

The global crisis is increasingly social in nature and the solution, therefore, has to mirror this. The social impact is felt most in the retirement environment. We need to ensure that financial stability is the bedrock of our macroeconomic and microeconomic programmes. Underlying this would be low inflation, a stable currency and interest rates.

The internal factors driving stability are within our control and we need to apply sound reasoning to manage these economic fundamentals in order to implement a successful reform.

Selected Readings

D'Addio Anna C, Seisdedos Jose and Whitehouse Edward R, Investment Risk and Pensions; Measuring Uncertainty in Returns, OECD, June 2009

Haugh David, Ollivaud Patrice and Turner David; The Macroeconomic Consequences of Banking Crises in OECD Countries, OECD Economics Department Working Papers No. 683, 2009

Kaminsky L Graciela and Reinhart M Carmen; On Crises, Contagion and Confusion, JEL December 1998

Kaminsky L Graciela and Reinhart M Carmen; The Twin Crises: The Causes of Banking and Balance of Payments Problems, American Economic Review, November 1998

Kay Stephen J and Sinha Tapen; Lessons from Pension Reform in the America's, Oxford University Press, Oxford, 2008

Masilela Elias and Kaniki Sheshi, South Africans contributing towards a pension: evidence from the Labour Force Survey, Unpublished paper, South Africa, 2009

OECD, Pensions at a Glance; Retirement-Income Systems in OECD Countries, OECD, May 2009

OECD, Labour and the OECD: The Role of TUAC, OECD Observer, December 2008

OECD Observer (No 272), Economic Crisis, Don't Forget Development, April 2009

OECD Observer (No 273), The Crisis and Beyond, June 2009

OECD, OECD Private Pensions, Outlook 2008, OECD 2009

Think Tank, Thought Leadership in Asset Management, Building Long-Term Savings in Europe, The Case for UCITS in the post credit crunch era, January 2009

World Bank, Balancing Protection and Opportunity; A Strategy for Social Protection in Transition Economies, World Bank, Washington DC, September 2000

Methodology and sample

The 2009 Benchmark Survey was conducted among 200 principal officers of stand-alone retirement funds and 100 participating employers in umbrella Funds. Interviews were conducted between January and April 2009. 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 and employers in South Africa.

The survey was conducted by the independent market research agency BDRC, via face-to-face interviews. Once again, the survey recorded a 100% response rate with a total of 200 funds and 100 participating employers, responding. This is indicative of the positive attitude and willingness of the industry representatives 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.

Notes on summary tables

Sample size

The tables and graphs in this report are based on responses by 200 principal officers in stand-alone retirement funds. The data represented are for three consecutive years (2007 to 2009). To keep the results current, any questions from previous studies but not asked in 2009, have not been tabulated. However the historic data is available on request.

The sample size is 200 but in some instances the base size ($n \neq 200$),

- Where $n < 200$ the question was not applicable to all participating funds.
- Where $n > 200$ the question allowed for multiple responses.

Caution: Data should be used with care particularly where responses (base <30), as this is considered statistically insufficient from which to draw any significant industry conclusions.

Numbering

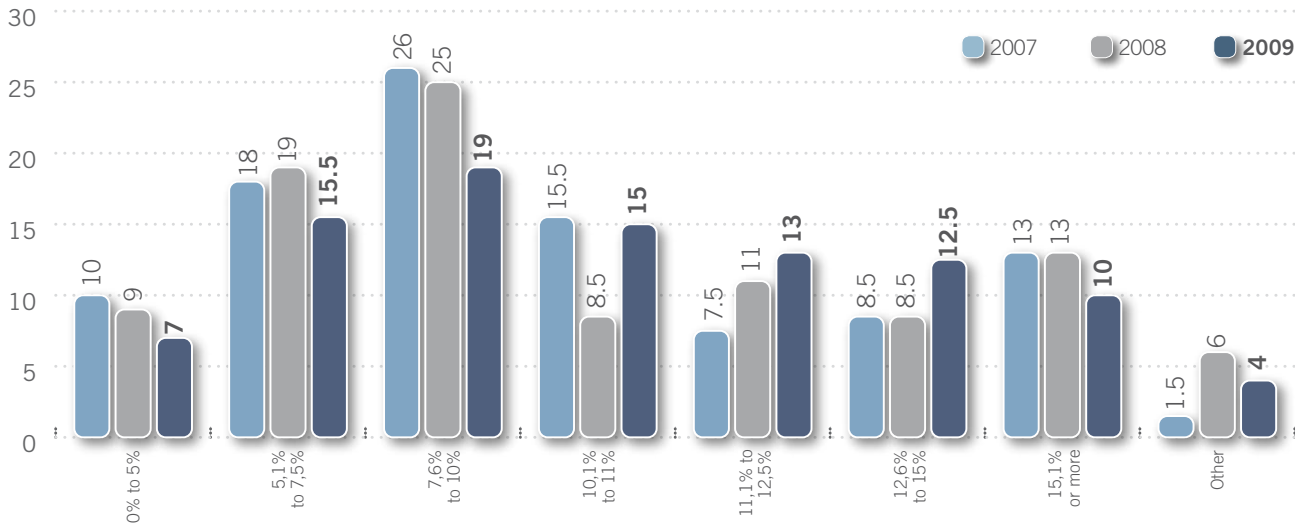
Over the years we have tracked responses to certain questions which allow us to determine trends for a specific period. As a result of this, question numbering may not be sequential in an attempt to retain original questions.

Contributions

58% of funds indicated that the employer's remuneration package is based on a total cost to company, broadly in line with the 59% in the 2008 survey. A split based on the type of fund revealed that

there is a significant shift towards provident funds in this regard. Also, 24% of the balance (mostly provident funds) is contemplating such a structure.

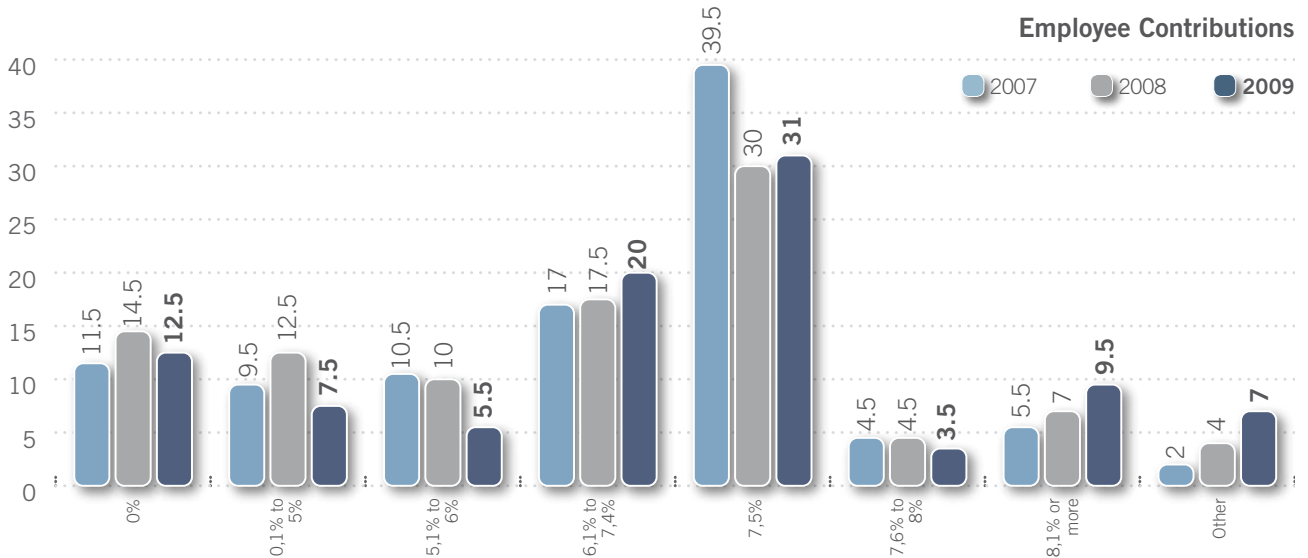
Employer Contributions



The average employer contribution is 9.9%. This is up from 9.5% in the 2008 survey. The average employer contribution for pension funds was slightly down on the total average at 9.6% and the average employer contribution for provident funds was slightly

up on the total average at 10.1%. A split based on fund size, showed that large funds (funds with 5000 and more members) had an average employer contribution of 10.9%, well above the total average.

Employee Contributions



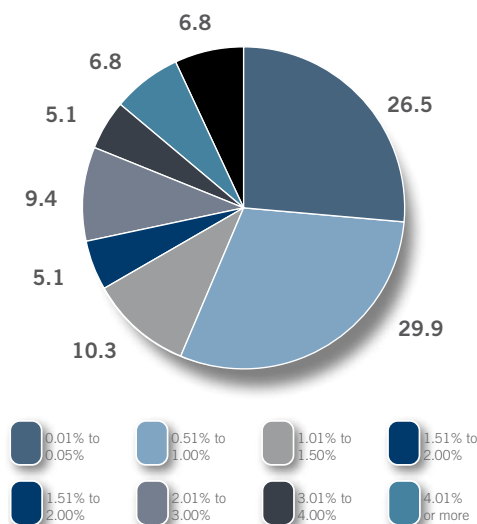
The average employee contribution is 5.9%, significantly higher than the 5.5% in 2008. A split based on the fund type showed that members belonging to pension funds contributed on average 7.0% compared to those members belonging to provident funds which contributed 5.1% on average. A further split based on the size of the fund showed that members belonging to funds with a total membership of between 100 and 500 contributed on average 5.8%, only 0.1% below the total average, whereas members belonging to funds with a total membership of between 500 and 5000 contributed on average 5.9%, in line with the total average.

Cost of administration

About 58% (2008: 51%) of funds stated that their administrator bills separately for each item. 23% (2008: 28%) pay administration fees including all expenses, and 18% (2008: 20%) pay additional expenses not specified in the administration agreement. Meanwhile, 49% (2008: 54%) of funds do not operate a contingency reserve account. Of those that do, 26% (2008: 37%) fund the reserve by way of a deduction from employer contributions, while 26% (2008: 14%) express their contribution to the reserve account as a percentage of the administration fee. About 59% of funds are billed as a percentage of salary, as opposed to 62% in 2008. Only 21% (2008: 24.5%) are charged on a fixed cost basis per member, whilst 12% (2008: 8%) are billed as a percentage of assets. The average fixed cost per member remains R33 in line with R33 in 2008.

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 30% of funds. The average cost is 1.3%, slightly up from 1.1% in 2008. 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:



Key indicators

	2009	2008	2007	2006
Employer contributions	9.9	9.5	9.7	10.0
Death benefit premiums	(1.9)	(1.7)	(1.8)	(1.9)
Disability benefit premiums	(1.3)	(1.3)	(1.1)	(1.4)
Administration and operating costs	(1.3)	(1.1)	(1.0)	(1.2)
Retirement provision	5.4	5.4	5.8	5.5
Employee contributions	5.9	5.5	5.5	6.0
Total provision for retirement	11.3	10.9	11.3	11.5

Investments – member-directed investment choice

Almost 52% of stand alone funds (and a similar percentage of umbrella funds) surveyed offer member-directed investment choice, up from 46% in 2008. A further 13% of funds are considering it. It is interesting to note that within funds with member-directed investment choice, respondents indicated that most members (64%) rely on the trustee or default choice and, as such, do not choose their own investments. This is similar to the previous survey results.

Of the funds that offer member-directed investment choice, life stage mandates constituted the most important component of the trustee or default choice (47% of respondents).

It is still common practice to charge all members the same administration fee, irrespective of whether they want or use member-directed investment choice or not, with 89% of funds charging a flat fee. Only 7 funds indicated that members who do not make their own investment choices pay a lower administration fee (down from 8 in 2008).

Of the funds allowing members to choose their own investment options, most allow members to switch annually (31%) or monthly (27%).

Almost 90% of funds are either satisfied or very satisfied with their investment choices compared with 84% in 2008. The main benefits are seen as the variety of choices, investment performance and member satisfaction. This positive response was echoed by 83% of umbrella funds.

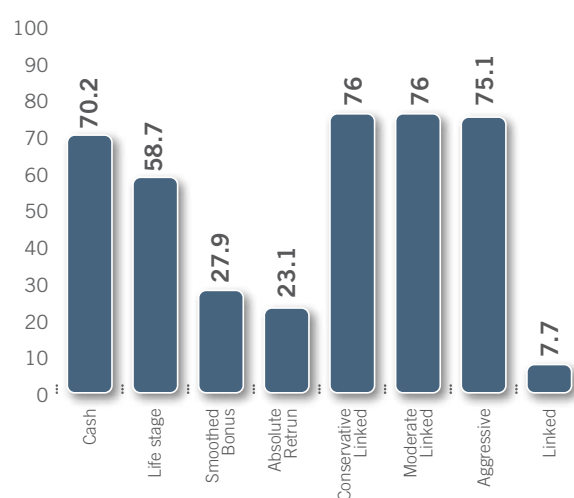
More than 70% of funds have a cash, conservative, moderate and an aggressive linked investment option. Multi-manager options are still more popular than single-manager options across the conservative, moderate and aggressive risk profiles.

Absolute return options have decreased significantly over the last three surveys, from 49% in 2007, 36% in 2008 to 23% in 2009. Very few small funds offer absolute return-type portfolios (only 14% of funds with 500 or less members). Amongst portfolios with guarantees, 28% of Funds offer a smoothed bonus option and 8% offer a structured/derivative based products.

Most Funds offer a life-stage solutions (59% of funds), these solutions are especially popular in larger funds (more than 500 members), where 76% include this as an option.

17% of Funds include a Shari'ah compliant investment option to members. Under umbrella fund the availability of this option more than doubles to 39%.

Relative popularity of investment choices



Investments – trustee choice

48% of funds do not offer member-directed investment choice and rely on trustee investment decisions. The most popular investment choices are:

- Cash/money market (54%)
- Moderate linked portfolios (44%)
- Conservative linked portfolios (33%) and
- Smoothed bonus portfolios (29%).

Stable returns and guarantees

Similar to last year, 88% of funds consider the ability of a portfolio to provide stable investment returns to be important. Cash and Smoothed bonus portfolios were rated the best at providing stable returns.

64% of funds also consider the guarantees provided by products to be important. Once again 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

96% of funds provide investment feedback to members, compared to 90% last year. Quarterly feedback (38%) is still the most popular option, followed by annual feedback (25%).

The most popular form of feedback is written communication (71% of funds) followed by internet/intranet (32%) and road shows (31%). The feedback usually includes portfolio returns (35%), returns vs. benchmark returns (67%) and risk analysis (44%).

Governance instruments and benchmarks

Most Funds (80%) utilise an investment policy statement (IPS). This is up from below 70% in previous surveys. 69% of Funds conduct a regular performance review and 52% have mandates for each investment product / portfolio.

IPS are normally reviewed on an annual basis (71% of Funds). Investment performance and compliance with mandates are mostly reviewed quarterly (41% of Funds) or annually (37% of Funds).

The following benchmark is normally used in the IPS or mandates:

- Peer performance in published survey (54%)
- Published index, e.g. FTSE/JSE All Share Index (36%)
- Inflation (35%)
- A weighted combination of indices (30%)

When deciding to retain an investment manager, most Funds consider peer performance in a published survey as the most important benchmark.

Most of the respondents knew their fund's investment return for the past year and reported it to be between 0% and 10%. This is significantly lower than the figure in last year's survey. There were 59 funds (30% of respondents) that reported negative investment returns for 2008. One fund reported returns of more than 30%.

57% of respondents expect investment returns for 2009 to be lower than for 2008, but still positive. Some 21% of respondents are optimistic that returns will be better than those achieved in 2008, while 18% expect negative returns in the year ahead.

Socially responsible investments

Only 10% of funds have a policy to invest a portion of assets in socially responsible investments, with very large funds (more than 5000 members) nearly three times more likely to invest in these investments. Funds with a policy to invest in socially responsible investments invest on average 6% of their portfolio in such investment. Their collective view is that Funds should invest 8% of its assets in socially responsible investments.

Offshore investments

The Minister of Finance has indicated that the maximum permissible offshore exposure for retirement funds will increase from 15% to 20%. In

the interim Funds can approach the South African Reserve Bank for exemption of the current 15% cap on offshore investment.

41% of respondents indicated that their Fund have already applied for exemption. Of those that have not applied for exemption, 10% are considering it. Respondents indicated that their ideal allocation to offshore assets are between 15% and 20% (mean 18.4%).

National Social Security System (NSSS)

There has been considerable discussion around Government's proposals for a National Social Security System (NSSS). If implemented, 56% of respondents believe that members should be allowed to opt out of the NSSS, while 23% feel it should be compulsory for everyone earning below a certain income threshold. Only 8% of respondents believe it should be compulsory for all members.

During 2008 most respondents learned about the NSSS for either the media (65%) or their consultant (56%).

Sub-prime crisis

The majority of respondents indicated that their Funds have a zero or insignificant exposure to toxic assets from the sub-prime crisis in their local assets (50% of respondents) and international assets (43%). However 7% of respondents indicated that their Fund had a large exposure to toxic assets, both locally and internationally.

More than 50% of respondents indicated that they will not be changing their credit exposure conditions for either their local or international assets. Only 8% of respondents are changing their credit exposure conditions with the rest considering it or unsure.

88% of respondents expect their investment returns to be negatively impacted by the sub-prime crisis during 2009 (36% of respondents expect a large impact).

On the local front, 87% of respondents believe that the local banking industry is stable and secure relative to US/global peers.

67% of respondents indicated that their company have been negatively impacted by the sub-prime crisis during 2009 (14% of respondents indicated a large extent).

Respondents indicated that their investment consultants reacted to the crisis by providing communication to members (44%) and described the reaction as pro-active (36%). Most respondents (75%) were positive about the reaction and feedback from their investment consultant.

Risk Benefits

The cost of the average death benefits under a fund is 1.86% of salary compared to last year's average cost of 1.74%. The average cost of these benefits under a separate scheme has increased to 1.68% from 1.38% last year.

The average cost of disability benefits offered under a fund and under a separate scheme has increased from 1.27% of salary in 2008 to 1.33% in 2009 and decreased from 1.12% in 2008 to 1.05% in 2009 respectively.

The proportion of schemes offering flexible benefits has remained steady at about 14% since the last survey. A higher proportion of the larger funds offer flexible death benefits than the smaller funds. This may reflect the increased heterogeneity within larger funds and enables members to select benefits that apply to their own particular circumstances. As would be expected, a higher proportion of funds that offer member level investment choice also offer flexible death benefits than those which do not as this is consistent with the principal of empowering the member to take ownership of their financial affairs. The larger funds would also benefit from economies of scale when handling the higher administration costs of these types of benefits compared to the smaller funds.

The average cost of the core benefit and flex benefit has decreased by 4% in the last year to 1.67% and by 40% to 1.03% respectively for the funds.

43% of the funds offering flexible benefits allow members to reduce their cover levels, which may allow them to increase their allocation to savings and/or to increase their disposable income.

The proportion of responses indicating that members valued retirement savings more than risk cover has consistently increased from 52% in 2007 to 59% in 2009. The member survey provided results

that paralleled these findings as 57% of members interviewed also felt this way. These results may be due to the increased media attention on saving for retirement as well as the impact of the NSSS on water-cooler discussions.

A higher proportion of the larger funds value savings and risk equally when compared to the smaller funds. Interestingly, a higher proportion of the members surveyed indicated that they value both death benefits and retirement saving equally compared to the respondents from Benchmark Survey itself.

Risk Rebroke

There have been a few trends emerging in this particular area for the funds. The proportion of funds that rebroke their risk business annually has dropped considerably from 65.5% in 2007 to 51% in 2009. 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 2009. The number of funds that never rebroke or has increased from 1% in 2008 to 6% in 2009. The proportion of respondents that indicated that they rebroke when risk charges are increased is also 6%.

Capping of the Costs of Risk Benefits

A decreasing proportion of schemes are applying caps to the costs of disability benefits. This proportion has decreased from 47% in 2007 to 42% in 2009. The proportion of schemes applying caps to death benefits has also decreased slightly to about the 41% mark.

Hybrid funds tend to make the most use of caps.

The proportion of funds using caps broadly increases as the size of the fund increases. This applies to both increases in asset size and especially membership.

This trend is especially strong when considering death benefit cost caps.

The average death benefit cost is capped at 2.56% of salary and has increased from last year's figure of 2.12%. The average size of the cap on death benefit cost is greatest for provident funds (2.73%). The average size of the cap on death benefit cost tends to increase as the membership size of the funds increases.

The average cap on the cost of disability benefits has increased steadily in the last three years from 1.86% in 2007 to 2.24% in 2009. The average size of the cap on disability benefit costs is largest for hybrid funds (2.44%).

Death Benefits

Nearly all funds provide lump sum death benefits. There has been a trend of a decreasing proportion of funds offering the spouse's pension. A higher proportion of larger funds pay spouse's and children's pensions compared to the smaller funds. On average, a higher lump sum is paid on death by schemes without a spouse's pension than those with.

The average death benefit under a separate scheme has increased to 3.5 times salary from 3.2 times salary in 2008.

33.3% of the death benefit paid includes the member's equitable share. This is the latest outcome in what has been a falling trend over the last four years from 48% in 2006 to 40% in 2007 to 33.8% in 2008.

Of those funds offering flexible death benefits, the average minimum level of cover is 2.5 times salary. This represents a stable increase from 1.8 times in 2006. For those able to choose additional levels of cover, the average level has decreased from 5.1 times in 2008 to 4.71 times in 2009.

In the past year, 63% of the fund respondents distributed death cover to minors. About 48% of

such funds set up a trust, paid the trust or appointed a legal guardian to provide benefits to minors. A much higher proportion of larger funds have had to distribute death benefits to minor orphans compared to the smaller funds.

Disability Benefits

The majority of funds utilize an occupational disability type definition to assess qualifying criteria for disability benefits with 60% indicating so. The proportion using a functional impairment approach is 20%.

In the 2009 survey, 37% of the fund respondents indicated that they provide a lump sum disability benefit. This is lower than the comparable 2008 figure of 49%. A higher proportion of larger funds provide lump sum disability benefits compared to the smaller funds.

There is an approximately equal split between the funds offering the benefit under a separate scheme and those offering it as an accelerator although a higher proportion of larger funds do pay this benefit as an acceleration of the death cover relative to the smaller funds.

The average cover provided is 2.7 times salary and represents a 27% increase in the average cover level of 2.2 times salary in 2008 for the funds.

31% of funds reduce the lump sum payable on disability as the member approaches their normal retirement age with the reduction spread over an average period of about 5 years.

74% of funds that offered a permanent disability benefit chose to use the disability income benefit only. 81% of funds that offered a temporary disability benefit chose to use the disability income benefit only. Of these, a progressively increasing majority provide income disabilities expressed as 75% of salary.

3 month waiting periods are the most common in permanent and temporary disability across the funds.

Larger funds tend to have longer waiting periods for permanent disability benefits than smaller funds on average. No such pattern exists for temporary disability benefits.

66% of funds allow for increases in these benefits. The average fixed percentage used has increased from 4.9% in 2008 to 5.6% in 2009 for the stand-alone funds. 100% of CPI is consistently the most popular option when increases are linked to CPI.

The proportion of schemes that reinsure a waiver of employer or employee contributions has remained stable at 37% and 12% respectively.

Other Benefits under Separate Schemes

There has been an increase in the proportion of respondents that offer this cover under a separate scheme from 8% in 2008 to 13% in 2009 and. About 60% of all funds offer funeral cover. These percentages have been steadily increasing by small amounts since 2006. As a result, the number of respondents that do not offer any benefits under a separate scheme has been decreasing from 47% in 2006 to 39% in 2009.

The most popular critical illness cover level across all funds is 1 times annual salary and employers tend to be the contributors towards this cover in the vast majority of the cases. Of the funds providing critical illness cover, 48% also allow for reinstatement of life cover with a reinstatement period of 1 month being most popular and 32% of funds provide an option to convert that cover so a similar individual life policy on withdrawal.

Of those respondents indicating that they offered funeral cover benefits, almost all also offered benefits for the children. There has been a dramatic decline in the proportion of funds that offer funeral benefits to any extended family from 95% in 2008 to 27% in 2009. Almost all categories of members are entitled to receive funeral cover.

The mean level of funeral cover has risen for almost all categories of lives insured from the 2007 level. The most popular funeral benefit remains either R10 000 or R5 000 for the main member. The employer meets the costs for the majority of respondents offering funeral benefits.

The proportion of all respondents that offer a conversion/continuation option for life, disability or funeral cover stands at about 50%

HIV/Aids Management Programmes

69% of the funds, up from the 2008 figure of 65%, indicated that the employer had an HIV/AIDS management programmes in place. Analysis shows that an employer is more likely to have a management programme in place the higher the membership of the fund. For example, 80% of funds with more than 5 000 members offered such programmes compared to 50% of funds with less than 100 members. This may be a result of the cost of such programmes and the economies of scale that are available to larger employers.

Almost all the management programmes entail providing information and awareness regarding the epidemic and the majority provides counselling and testing. The proportion of employers providing HIV/AIDS testing has grown from 67% in 2008 to 83% in 2009. 50% of the management programmes in 2009 include medication and this has grown from the 2007 figure of 46%. There continues to be a strong positive relationship between the size of the fund and the proportion that offers medication.

Impact Of HIV/Aids On Risk Costs

There has been a definite decline in the proportion of funds that had experienced any increase in risk costs as a result of HIV/AIDS over the last three years from 26% in 2006 to 12% in 2009.

The proportion of funds indicating that there has been no change to their rates due to HIV/AIDS has increased from 57% in 2007 to 68% in 2009.

This may be as a result of the greater insight into the impact of HIV/AIDS on the costs of risk benefits due to:

- Superior HIV/AIDS models being available
- Extensive research into the impact and progression of the epidemic
- Improved expertise within the industry leading to better understanding of the risk factors and their interdependencies

The AIDS epidemic itself is much less volatile than it was 5 years ago as it has entered the mature phase resulting in the stabilisation with regard to the

number of people infected with HIV. The availability of anti-retroviral treatments has also helped in the management and slowing down of the epidemic.

As a result, AIDS experience has become more established and hence easier to predict.

In the case of those who believed that their risk costs have increased due to HIV/AIDS, 38% indicated an increase of up to 4%, with the average increase slightly above 12%. The level of the average increase generally drops as the membership size of the fund grows.

Communication

Tools used to communicate

According to the survey results it was found that large funds prefer face to face communication more than smaller funds. 39% of all funds use member roadshows as a means of communication. Of these, about 70% of large funds employ this tool.

It was mentioned that smaller firms seem to focus on white collar funds, whilst larger firms report mainly blue collar funds amongst their client base. From this it can be derived that blue collar funds rely more on verbal communication.

Topics communicated

The benefit structure (89%) and investment performance (87%) are still the most popular topics communicated. Decisions made by Trustees and frequently asked questions showed quite an increase in popularity since 2007 (10% and 16% increase respectively). Large funds (about 86%) seem to value Trustee decisions more than the rest.

Retirement fund related Queries

10% more funds approach Trustees with retirement fund related queries (42% in 2008; 52% in 2009). This could be ascribed to PF130 which deals with the education and training of Trustees. Members seem to have gained confidence in Trustees' ability to handle queries.

Communication strategy

The majority of funds (70%) do not allocate either a rand amount or a % of assets towards a communication strategy. Of those that do, mostly large funds contribute. A rand amount is the most common type of contribution.

Of the 70% that do not allocate, still the greater part (89%) has no plans for future contributions.

Member understanding

Still the majority (91%) of senior members understand more than half of the financial advice and information given, whilst the vast majority (more than 80%) of the other staff understands less than half or nothing of the advice. There is no change since 2007.

Steps taken to improve understanding

	2009	2008
Provision of basic financial education / training at work	50.5	45.0
Use of different media, e.g. cellphone, role play etc.	24.0	13.0
None	18.0	25.0
Improve quality of communication/communicate to staff at their level	6.5	-

- 5% more funds provide basic financial education / training at work.
- More funds (11% more) use different media, e.g. cellphone, role play, etc. There seem to be more exposure to information and education via the media.
- Less funds (7% less) do not take any steps.
- Improvement of quality of communication and communication to staff at their level was asked for 1st time. Only 6.5% of funds recognize the importance of communicating to staff in an easily and understandable language.

From the above it can be seen that more funds have taken steps to improve members' understanding, yet the understanding of non-senior staff has not improved. The effects of these steps taken might only be visible in later years perhaps.

Financial education

There is no major change in the % of funds that would/might consider paying for education (55% might/would; 45% unlikely/would not).

Paying for financial education is clearly not one of the steps taken to improve understanding.

Internet/intranet facilities

Still more than 60% of funds utilize internet/intranet facilities. The majority of these still use a personal password to gain access.

General information available via internet/intranet	2009	2008	2007	2006
The fund rules	72	77.2	67.4	69.9
Investment portfolio information	63.2	68.3	69.8	61.2
Member booklet	61.6	61.8	59.7	59.2
Investment returns	59.2	52	47.3	59.2
Members newsletter	51.2	3.3	3.1	

Members newsletters are placed by more funds online (increased from 3% in 2007 & 2008 to 51% in 2009).

11% less funds (60% in 2008, 49% in 2009) place monthly updated benefit statements online, whilst 45% of funds place daily updated members benefit statements online. This could be as a result of more funds moving from monthly pricing to daily pricing.

Still more than 50% provide no training online.

Important aspects of retirement fund administration

Loading and investing contributions timeously and paying claims are very important aspects to all funds.

Building good relationships are the least important to all, except small funds. They are indifferent when it comes to building good relationships.

Regular asset and liability modeling is also seen as one of the least important aspects.