



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**

CHIEF EXECUTIVE OFFICER

SANLAM STRUCTURED SOLUTIONS

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SANLAM EMPLOYEE BENEFITS

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

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

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# Methodology and sample

For the first time the 2009 BENCHMARK Survey included a separate study conducted amongst 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) 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 100 participating employers in umbrella funds.

The sample size is 100 but in some instances the base size ( $n \neq 100$ ),

- Where  $n < 100$  the question was not applicable to all participating employers.
- Where  $n > 100$  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.

# Contributions

67% of funds indicated that the employer's remuneration package is based on a total cost to company. A split based on the type of fund revealed that this percentage is fairly evenly split between pension funds (63%) and provident funds (69%). Also, 39% of the balance (mostly provident funds) is contemplating such a structure.

The average employer contribution is 8.7%. The average employer contribution for pension funds was slightly up on the total average at 9.1% and the average employer contribution for provident funds was slightly down on the total average at 8.5%. A split based on fund size, showed that funds with 100 to 500 members had an average employer contribution of 9% and those with less than 100 members, 8%, well below the total average. Also, 75% of funds indicated that the members cannot choose the level of contribution by the employer whereas 72% of funds indicated that members cannot choose their own level of contribution.

The average employee contribution as a percentage of salary is 5.4%. A split based on the fund type showed that members belonging to pension funds contributed on average 6.4% compared to those members belonging to provident funds which contributed 4.9% on average. 51% of funds allow members to make voluntary contributions. The average additional voluntary contribution rate as a percentage of salary is 2.1%

## Cost of administration

The administration fee is expressed as a rand value per month for 16% of funds. For 43% of funds it is expressed as a percentage of salary and for 26% of funds it is expressed as a percentage of contributions. About 21% of funds indicated that they prefer to pay for administration costs on a rand value basis per month, 42% prefer to pay a percentage of salary and 25% prefer to pay a percentage of contributions. Close to 47% of funds stated that their administrator bills

separately for each item. A split based on type of fund showed that of this percentage, 53.1% are pension funds and 44.4% are provident funds.

38% of funds stated that the administration fee includes all other expenses. Also, 9% of funds stated that they pay for additional expenses not specified in the administration agreement. Other costs e.g. FSB levies, auditing fees, reimbursements, etc. are recovered from the contingency reserve for 15% of funds, deducted from member accounts for 38% of funds and paid as part of the administration or management fee for 13% of funds.

The average cost of administration as a percentage of salary was about 0.7%. This figure is much lower than the comparable cost for standalone funds – and is lower than we had anticipated even taking into account the economies of scale inherent to umbrella funds. The result possibly points to clients not properly appreciating all their costs, or sponsoring companies subsidising administration costs taking account of other income streams. Another reason could be that the average cost could be skewed by very big funds with very low charges. More than likely the result is a consequence of a combination of all the abovementioned issues. It will be interesting to monitor this result in future Benchmark Surveys.

## Key indicators

	2009
Employer contributions	8.7
Death benefit premiums	(1.7)
Disability benefit premiums	(1.8)
Administration and operating costs	(0.7)
Retirement provision	4.5
Employee contributions	5.4
<b>Total provision for retirement</b>	<b>9.9</b>

# Investments – member-directed investment choice

Almost 52% of umbrella funds (similar percentage of to stand alone funds) surveyed offer member-directed investment choice. It is interesting to note that within funds with member-directed investment choice, respondents indicated that most members (89%) rely on the trustee or default choice and, as such, do not choose their own investments. 44% state that Trustees choose the default option, whilst 35% say employer chooses the default option.

Of the funds that offer member-directed investment choice, life stage mandates constituted the most important component of the trustee or default choice (42% of respondents).

79% of umbrella funds pay same admin fee regardless of whether member investment choice is exercised.

Most funds that permit members to choose their own investment options, allow members to switch daily (39%) or annually (25%). Only 15% allow members to switch monthly.

Almost 83% of funds are either satisfied or very satisfied with their investment choices 74% state that a good variety of choices as the reason for the positive response. 52 funds in total offer member investment choice and only 1 fund is dissatisfied with the investment choice range. According to this fund, investment choice is poor and greater scope could be offered.

Similar to stand-alone funds, more than 70% of funds have a cash, conservative, moderate and an aggressive linked investment option. More funds invest in investment vehicles managed by with multi-managers than those managed by single-managers across the conservative, moderate and aggressive risk profiles.

Only 15% of funds offer Absolute return options. Compared to stand-alone funds, more umbrella funds (35%) offer smoothed bonus options. 8% offer a structured/derivative based products.

Majority of funds offer life-stage solutions (54% of funds), especially larger funds (more than 500 members and assets more than R12m), where between 64% and 70% include this as an option.

39% of Umbrella Funds include a Shari'ah compliant investment option to members (this is more than double the portion of stand alone funds that offer this option).

## Investments – trustee choice

48% of funds do not offer member-directed investment choice. The most popular investment choices are:

- Cash/money market (44%)
- Smoothed bonus portfolios (35%).

59% of those that invest in Smoothed Bonus portfolios invest 100% of their assets in these products.

## In-house investment portfolios

43% of funds are not automatically invested in in house investment portfolios that are associated with the sponsor. 21% are uncertain.

## Stable returns and guarantees

From the employer's perspective, 94% consider it to be important for a portfolio to provide stable investment returns. Similar to stand-alone funds, cash and Smoothed bonus portfolios were rated the best at providing stable returns.

73% 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.

## Feedback on investments

Investment feedback is provided to members by 84% of funds. Annual feedback (41%) is more common than quarterly feedback (21%).

Written communication (75% of funds) seems to be the most common type of feedback followed by road shows (29%) and internet/intranet (23%). Portfolio returns (80%), returns vs. benchmark returns (52%) and risk analysis (30%) are mostly covered in the feedback.

42% responded that investment returns are credited to members' accounts monthly and 21% said annually.

## Governance instruments and benchmarks

Most Funds (52%) conduct an investment performance review followed by an investment policy statement (IPS) (47%). Only 38% have mandates for each investment product / portfolio.

A large portion of funds (37%) are not sure how often performance is measured against the benchmark by the fund. 28% stated it to occur quarterly whilst 15% said annually;

16% of funds are not sure how often performance is measured against the benchmark by the participating employer. 30% stated it to occur quarterly and 28% said annually.

23% of respondents do not know their fund's investment return for the past year. 23% reported it to be between 0% and 10%. 25% reported negative investment returns for 2008. Three funds out of 100 reported returns of more than 20%.

35% of respondents expect investment returns for

2009 to be lower than for 2008, but still positive. 21% expect returns to be better than those achieved in 2008, while 20% expect negative returns in the year ahead.

## Socially responsible investments

A mere 8% of funds have a policy to invest a portion of assets in socially responsible investments. Of these, 17% of large funds (more than 500 members) have such a policy.

Funds with a policy to invest in socially responsible investments invest on average 4% of their portfolio in such investment. 38% do not know how much is invested; 50% invest 3%-5% of their assets. Majority (38%) is of the impression that 3%-5% should be invested in SRI.

## 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.

40% of respondents pointed out that 15% is an ideal allocation for offshore investment. 18% indicated it to be 20% of the total assets.

## Advice

The majority (75%) of respondents indicated that Trustees are advised by an investment consultant.

# Risk Benefits

49% of the funds showed no change in their risk charges while 32% indicated that their risk charges had increased over the last year.

The proportion of umbrella funds offering flexible benefits stand at 17%.

62% of responses indicated that members valued retirement savings more than risk cover. A markedly higher proportion of the funds value savings and risk equally when compared to the smaller funds.

74% of respondents from the umbrella funds indicated that processes are in place to ensure the ongoing sound actuarial management of its risk pool. 81% indicated that they were satisfied with the completeness of the fund's risk benefits product range as well as its appropriateness to meet member requirements.

## Risk Rebrokes

46% of umbrella funds have their insured benefits automatically underwritten by an in house insurance company that is associated with the sponsor. This is more common amongst the provident funds than the pension funds. 40% of the umbrella funds also indicated that they rebroke their risk business on a regular basis.

## Death Benefits

Nearly all funds provide lump sum death benefits. On average, a higher lump sum is paid on death by schemes without a spouse's pension than those with. The average death benefit is 3.5 times salary for umbrella funds. The average levels of the core and the flex benefits stand at 1.81 times and 3.6 times respectively. 34% of umbrella funds distributed death cover to minors.

## Disability Benefits

The majority of funds utilize an occupational disability

type definition to assess qualifying criteria for disability benefits with 52% indicating so umbrella funds. The proportion using a functional impairment approach is 17%.

46% of the umbrella fund respondents indicated that they provide a lump sum disability benefit with an average cover of 2.5 times salary.

24% of umbrella 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 4 years.

69% of the umbrella funds that offered a permanent disability benefit chose to use the disability income benefit only. 90% 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 umbrella funds.

61% of funds providing disability income benefits allow for increases in these benefits. The average fixed percentage used is 5.2% for the umbrella funds. 100% of CPI is consistently the most popular option when increases are linked to CPI.

## Other Benefits under Separate Schemes

10% of umbrella funds offer the critical illness benefit. 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, 30% also allow for reinstatement of life cover and 40% provide an option

to convert that cover so a similar individual life policy on withdrawal.

About 60% of all funds offer funeral cover. Of those respondents indicating that they offered funeral cover benefits, almost all also offered benefits for the children. 22% of funds offer funeral benefits to any extended family. Almost all categories of members are entitled to receive funeral cover.

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

57% of the umbrella funds indicated that the employer had an HIV/AIDS management programmes in place.

The proportion of funds indicating that there has been no change to their rates due to HIV/AIDS is 72% for umbrellas.

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.

# Communication

## Tools used to communicate

Technology as a means of communication is more popular amongst umbrella funds than face to face communication (72%). Of those that prefer face to face communication include mostly large funds.

## Topics communicated

Investment performance and the benefit structure are the most favourite topics communicated (83% and 79% respectively).

## Topics communicated

Only 14% of umbrella funds rely on Trustees to answer their queries. The Human Resources Department, on the other hand, handles the majority of the funds' queries.

## Topics communicated

More than 80% of umbrella funds (100% of funds where a consultant is present) find member information and data accurate, reliable and up-to-date.

## Financial advice

57% of funds have a formalized strategy for rendering financial advice. However, the majority of small funds, funds not offering MLIC and funds where a consultant is present understand do not have a formalized strategy in place.

## Member understanding

Similar to other funds, senior members have a better understanding of the financial advice given than younger members. Yet it was found that the majority (more than 55%) of the younger employees of funds with less than 100 members and funds where a

consultant is present understand more than half of the advice.

It is possible that these funds with less than 100 members consist of a small number of young, educated members.

Where a consultant is present in a fund, it is to be expected that members of these funds are well informed regarding their retirement.

## Steps taken to improve understanding

The bulk of umbrella funds provide basic financial education/training at work, with the exclusion of small funds and funds where MLIC is not offered. The majority of these funds provide no training.

This could stem from the finding that younger staff of funds with less than 100 members already has a good understanding of the advice given. Consequently, steps taken to improve understanding are seen as unnecessary.

Funds not offering MLIC may find improvement of financial understanding trivial, as members do not have to choose between investment funds.

## Financial education

About half of umbrella funds might/would consider paying for more financial education to members, again excluding funds not offering MLIC and funds where a consultant is present.

The majority of these funds as well as funds with a small number of members (less than 100) do not see the need to further the financial education of their members. Also, as mentioned before, the greater part of these funds do not have a formalized strategy for rendering financial advice.

## Internet/intranet facilities

As with other funds, the majority (68%) of umbrella funds make use of the internet/intranet facility.

Similar to other funds, the greater part of umbrella funds offer no online training.

Important aspects of retirement fund administration

As with other funds, the most important aspects to umbrella funds are paying claims and loading and investing contributions timeously.

On the other hand, umbrella funds find regular update of information on the internet and issuing benefit statements timeously, least important.

## Advice

### Auditor

The majority (57%) does not know who the auditors to the umbrella funds are.

### Investment Consultant/Broker

- The majority (62%) knows who the investment consultants are.

- 98% confirmed that the consultant/broker is accredited by the Financial Services Board (FSB) to provide advice.
- For the majority (74%) of the funds the investment consultant/broker is independent of the umbrella fund sponsor.
- The services of the consultant/broker are contracted in writing for the majority (84%) of the funds.
- The majority of funds (67% for funds where consultant is present; 38% - 50% for the rest) use statutory commission as basis for their consultant/broker's remuneration. 27% is unsure about the basis of their consultant/broker's remuneration.
- According to the majority of funds where a consultant is present, the current annualised consulting fee, expressed as a % of salary according to most, is between R20 000 and R50 000. The majority of the rest of the funds do not know.
- The bulk of funds where a consultant is present feel that the level of remuneration is commensurate with the consulting services provided.