



**... crunch time for umbrella funds?**

**2009**

NSSS

**2010**

detailed analysis  
of fund costs

**2011**

umbrella fund  
survey trends

**2012**

insights  
from major fund  
sponsors

**2013**

focus on charges  
and national  
treasury reform

- harmonisation
- defaults
- increasing preservation
- decreasing charges
- industry consolidation
- sponsor role clearly defined

... we imagined what 2015 could look like

2009

2010

2011

2012

2013



‘ It is **not economical** for every small employer to have their own employee fund.

Rather, small employers and their employees should **benefit by joining multi-employer schemes** of one kind or another. ’



While some multi-employer schemes **appear to be well run**, the National Treasury is **concerned about the governance** of others and the consequences of poor governance for the outcomes experienced by members.

Some of the governance challenges include the **over-dependence of ill-trained board members** on product and service providers for advice, and **conflicts between loyalties** to members and to those who elected or appointed the board members.

The rules of some funds also constitute an impediment to sound fund governance, management and administration because they **tie the funds to particular service providers.**



‘ In response to these problems, the National Treasury and the FSB will initiate a **consultation process** with umbrella fund providers in order to improve the governance, design and benefit portability of these schemes in order to **further protect the interests of members** who are enrolled in them. ’

trustees  
legislation  
liability  
risk



pivotal role  
of sponsor?

↓ buck stops here

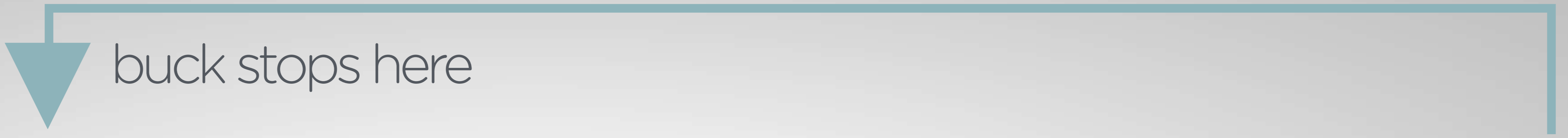
trustees  
legislation  
liability  
risk

meet  
once per  
quarter

make  
critical  
decisions

limited  
exposure  
to market  
and fund  
workings

support  
from  
consultants  
and  
administrators





← buck stops here

### Pension funds must be repaid R20m fees for admin bungle

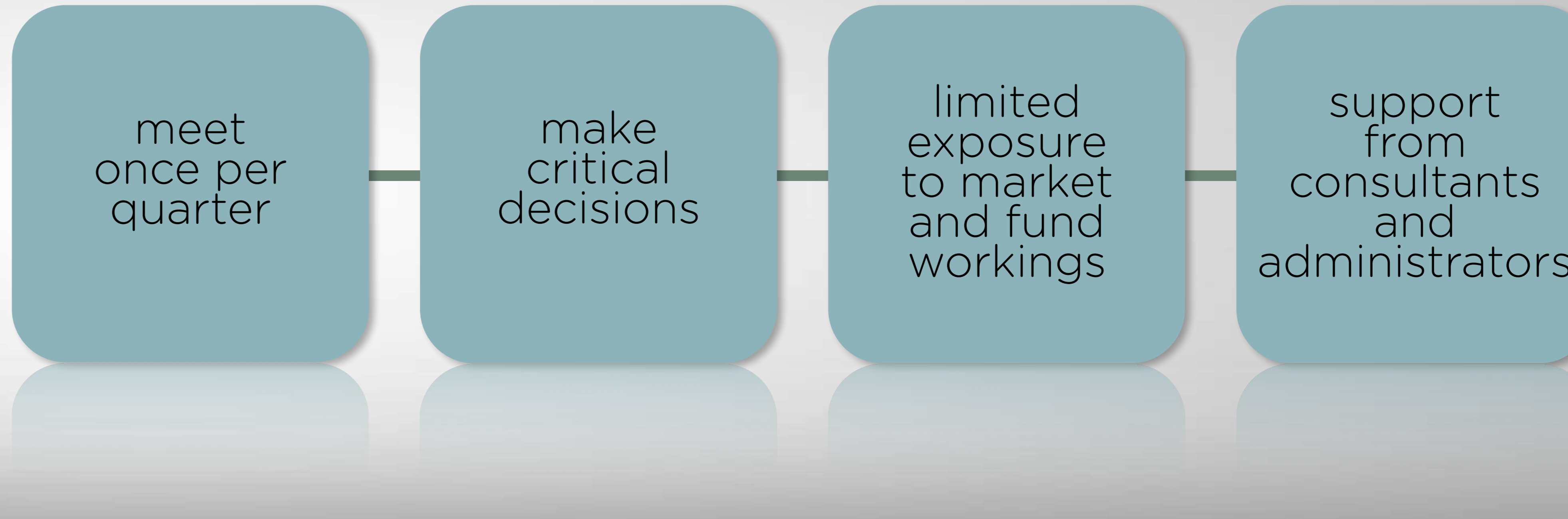
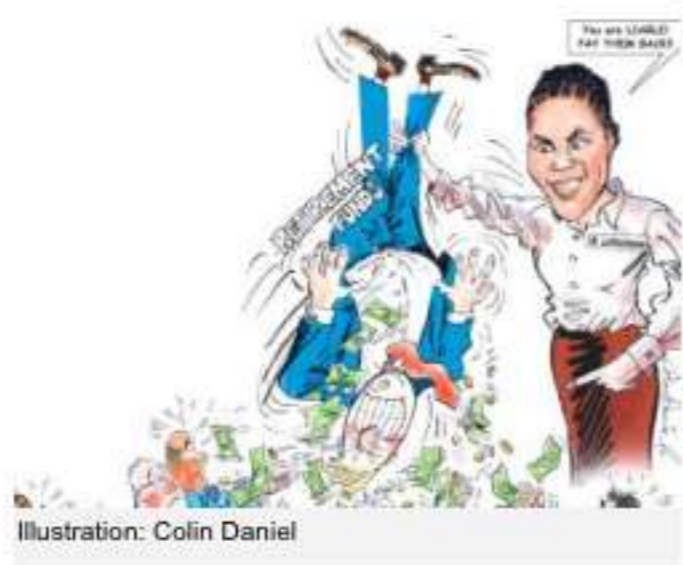
August 19 2012 at 12:30pm  
By Bruce Cameron

Former trustees of one of four troubled umbrella retirement funds "unlawfully" deducted about R20 million (2.5 percent) from the savings of 11 000 retirement fund members employed by 200 companies to reconstruct records left in a mess by the funds' former administrators and fund sponsors, Dynam-ique Consultants & Actuaries.

One of the four funds previously administered by Dynam-ique has now been ordered by newly appointed deputy Pension Funds Adjudicator Muvhango Lukhaimane to recalculate within three weeks the value of the holding of a member who complained to her about the reduction.

And the new administrator, Aon Hewitt, which has had problems with its own funds, was also criticised by Lukhaimane for not undertaking a proper due diligence into the state of the funds before it took over their administration (see "FSB lifts new-business ban on administrator Aon Hewitt", below).

However, the determination creates problems of its own, according to Ren Dunster, the attorney representing the new trustees, because the determination does not make it clear where the R20 million will be sourced. The funds hold only the reduced value, and the only way the funds can increase member values is to increase the value of the assets, and there is no indication of where the 2.5-percent improvement in value will come from within the deadline.



## can trustees deliver economies of scale?

lack relevant skills  
and resources ...

**distribution?**

**marketing?**

**product  
development?**

**access  
to capital?**

trustees

they are only human!

one step removed

limited resources

support  
from  
consultants  
and  
administrators

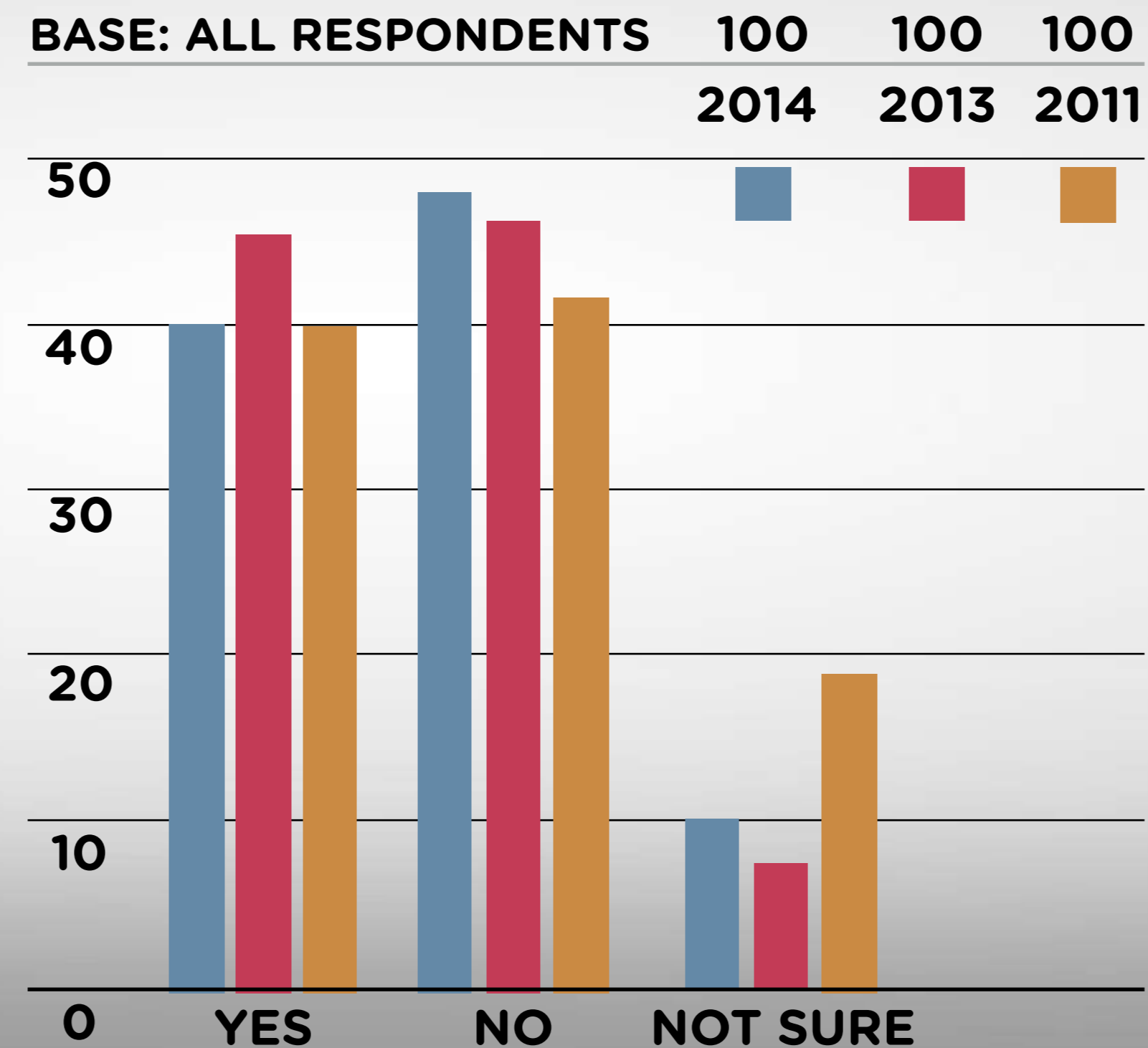
# independence ... theory vs practice



## Q6.3

Are funds automatically invested in 'in-house' investment portfolios that are associated with the sponsor?

participating employers



proportion of employers using this default investment strategy as their own ...

55%

proportion of portfolios managed by the in-house investment manager

72%

5

major umbrella fund sponsors

unclear industry  
accountability?

‘ if the wheels fall off, who is accountable? ’





7.3m

‘ vehicles recalled worldwide in 2012 ’



**trustees**

independence



**sponsors**

unclear accountability





5

major umbrella  
fund sponsors



why is the market  
not attracting more?



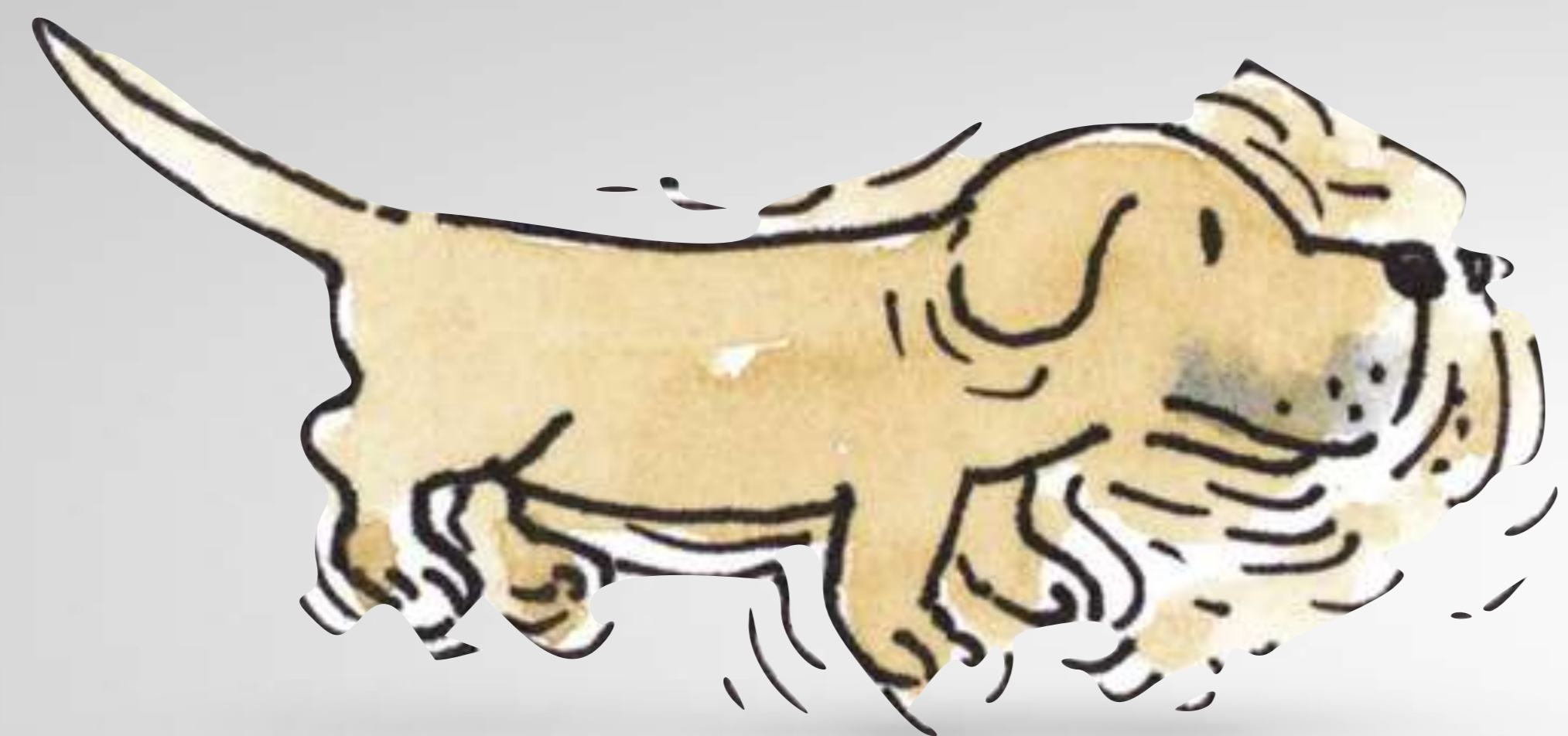
2

main  
reasons

- deep pockets needed
- independent trustees
- ... risk being fired



why is the market  
not attracting more?



**independence?**



versus the right to vote with your feet!

## five main reasons why employers transferred from other funds



	<b>2014</b>	<b>2013</b>
<b>cost saving</b>	57%	45%
<b>better / easier administration</b>	40%	53%
<b>better expertise</b>	35%	26%
<b>better benefits for members</b>	27%	0%
<b>better investment returns</b>	24%	21%



## detail of charges

	2014	2013
# participating employers	72	41
total members	28 840	21 903
average # members per employer	401	534
average monthly salary per member	17,822	R14,838
total assets	R6,617,573,564	R4,089,609,807
average assets per employer	R91,910,744	R99,748,556
average assets per member	R229,458	R186,718
operating expenses as % salaries	0,77%	0,78%
operating expenses as % contributions	5,47%	6,45%
operating expenses as % assets	0,71%	0,90%

5


are five major  
sponsors sufficient?

... market relatively small

**more sponsors to create healthy  
competition and drive down charges**

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**insufficient members per umbrella  
fund will hamper economies of scale**



	total assets	number of members	number of participating employers
Alexander Forbes	R 41,9 bn	221,559	979
Liberty Group	R 23,6 bn	315,442	7,952
MMI	R 17,8 bn	213,821	4,993
Old Mutual	R 24,0 bn	288,924	6,161
Sanlam	R 9,7 bn	106,605	2,163
<b>total</b>	<b>R 117,0 bn</b>	<b>1,146,351</b>	<b>22,248</b>

**big five umbrella fund providers**  
**FSB data 19/3/2014**

**5**  
Alexander Forbes  
Liberty Group  
MMI  
Old Mutual  
Sanlam

**1 183 599** members

**18 846** participating employers

**R122.6Bn** in assets



- identify sponsors' major challenges
- sponsors' views on reform process





ideal number of  
Umbrella Fund  
participants?

10

lowest

16

average

20

highest



- default preservation
- default annuitisation
- product simplification
- reducing number of investment options
- appropriate flexibility - different target markets
- lower cost product options

# vital industry issues



‘ From a regulatory perspective, establishing umbrella funds as a viable class in their own right - understanding that this is really the future of where retirement funding is going and making sure that the necessary competitive and governance structures to protect members and so on are in place. ’

*sponsor ‘A’*

# vital industry issues



‘ Something that intrigues me is that there is no specific legislation at all for umbrella funds, so we are acting as an umbrella fund ... yet legislation is not taken into account. So that is challenging. ’

*sponsor ‘B’*



## Q4.2

Are you comfortable with the financial strength of the organisation sponsoring the umbrella fund

**Base: all respondents**

**yes**

**no**

**not sure**

**2014**

**2013**

**2011**

100

100

100

98%

97%

98%

1%

2%

1%

1%

1%

1%



### Q4.3

Are you comfortable with the ethics of the organisation sponsoring the umbrella fund

Base: all respondents

	2014	2013	2011
	100	100	100
yes	98%	99%	96%
no	0%	1%	1%
not sure	2%	0%	3%

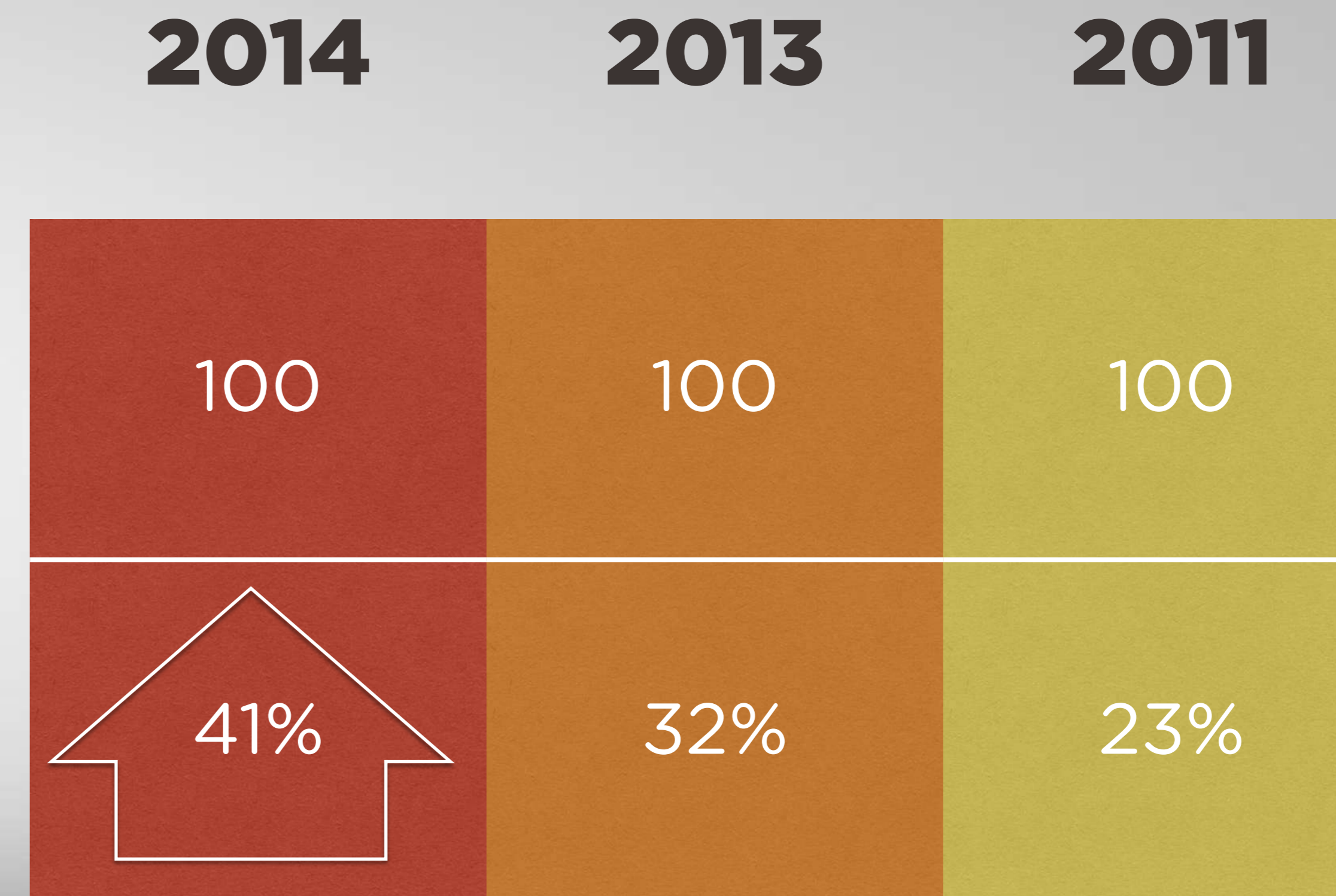


## Q12.7

How often does the sub-fund seek comparable quotes from other umbrella funds?

Base: all respondents

**annually**

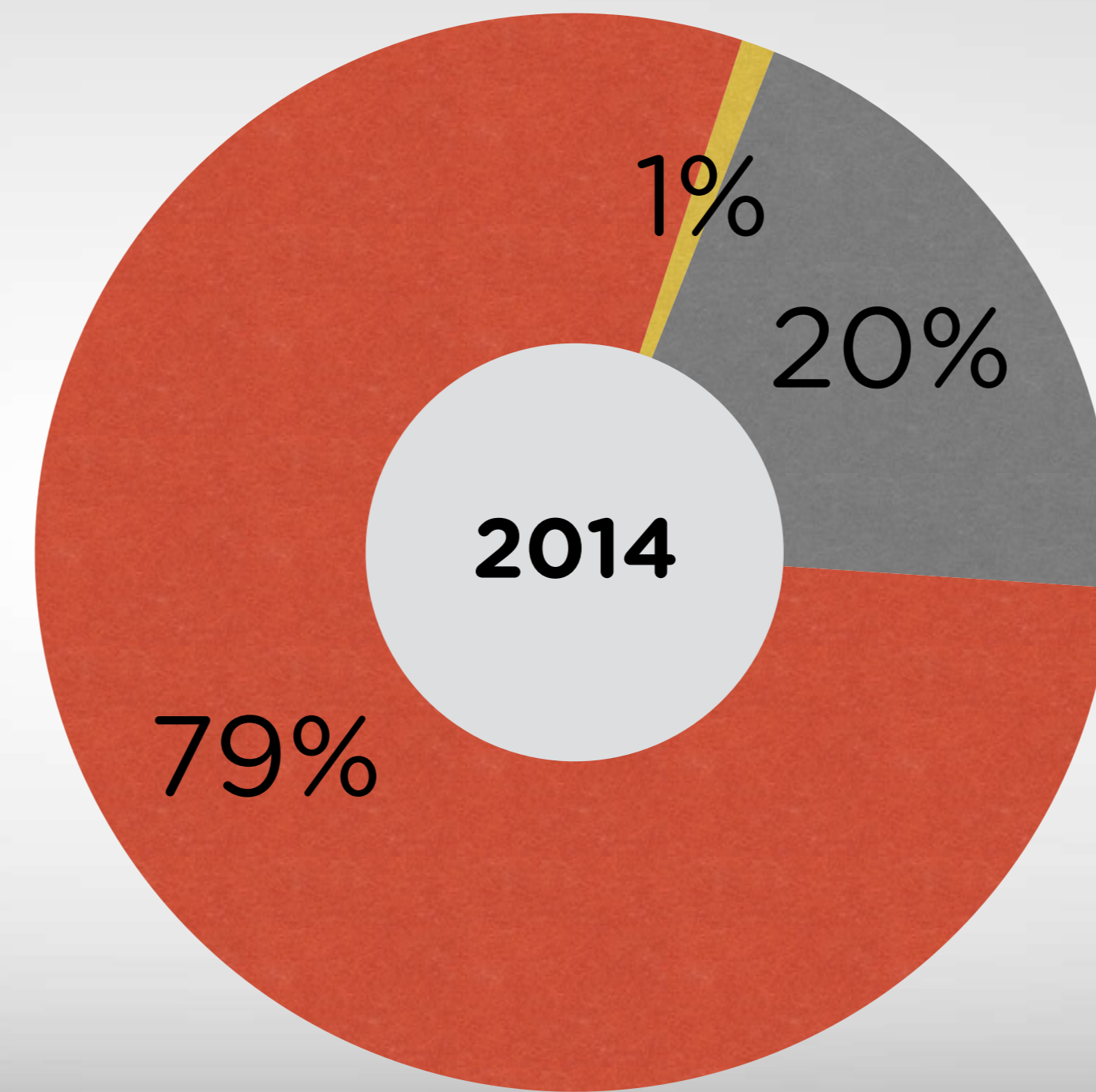




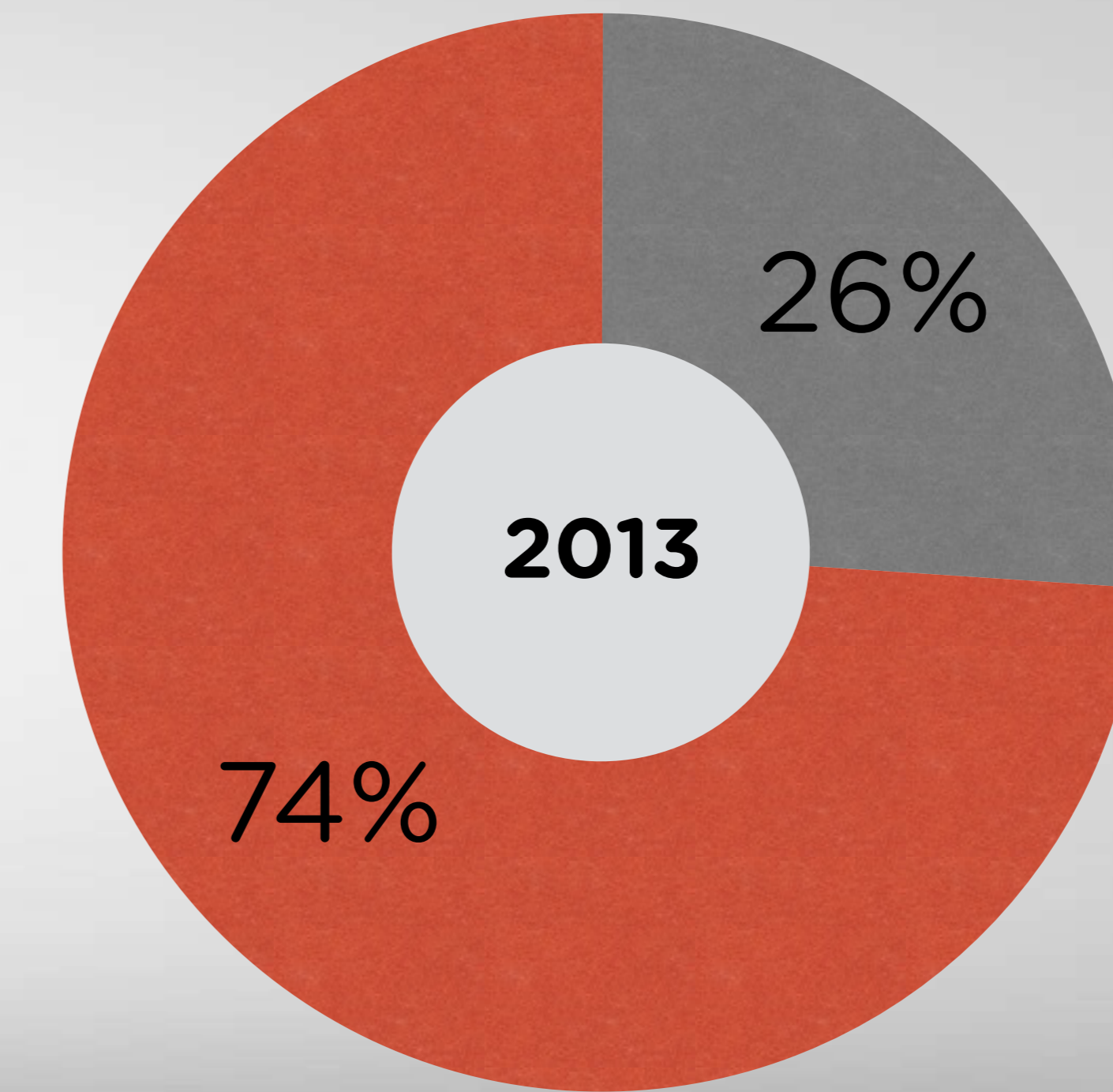
## Q12.8

Has the employer ever considered moving to another umbrella fund?

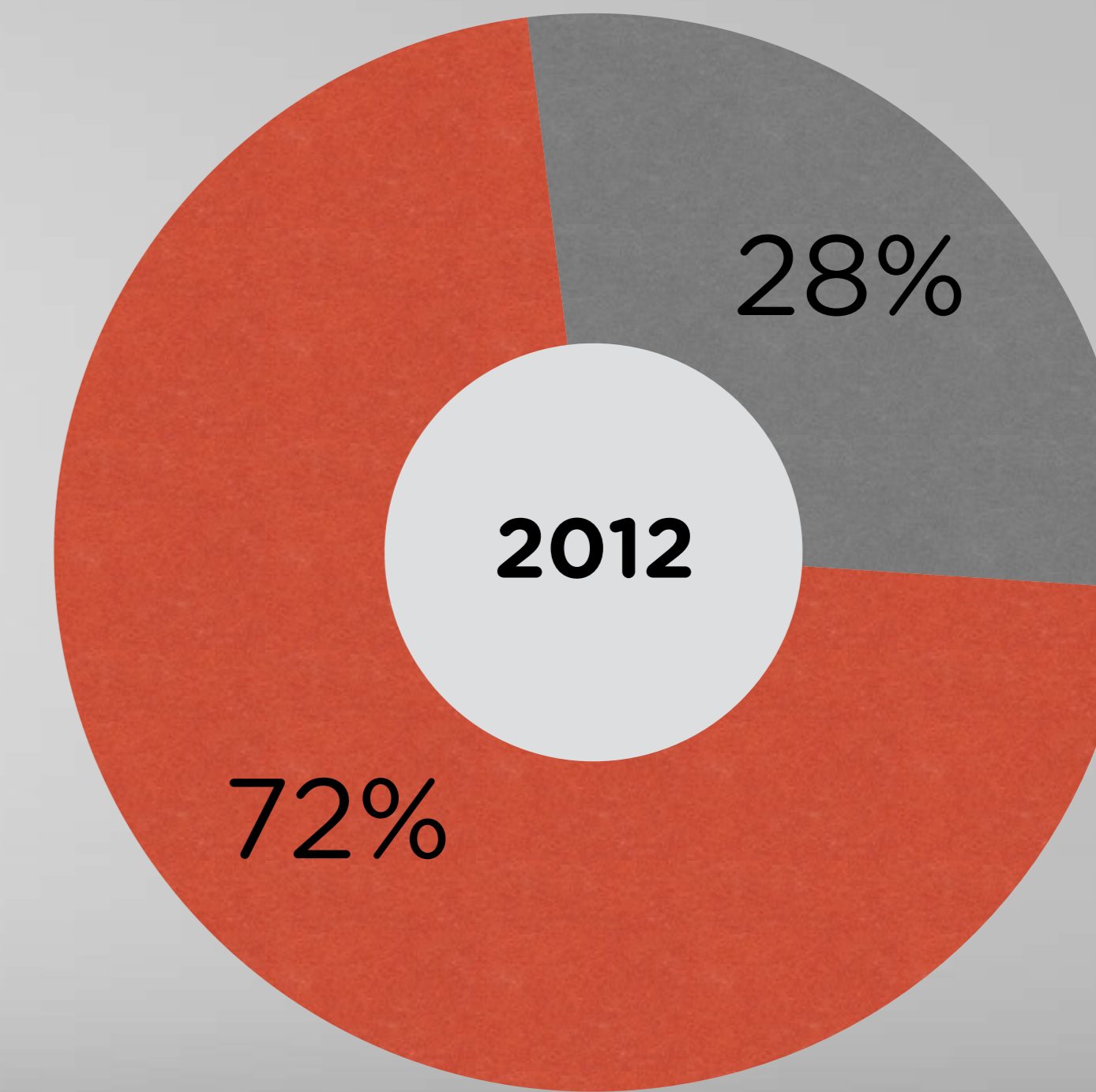
Base: all respondents



100



100



100

yes no not sure





crunch time for  
umbrella funds?

**more independence?  
conventional governance?**

**greater competition?  
better products?**

trustees have final accountability  
product sponsor role unclear

crunch time for  
umbrella funds?

product sponsor has final accountability  
trustees become a consultative forum

**more independence?  
conventional governance?**

**greater competition?  
better products?**



‘perhaps a more  
client-centric  
approach?’





# fresh

back-to-basics  
thinking needed

