

# Benchmark 2019

Enabling Financial Resilience

## Make retirement great again

David Gluckman

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Head: Special Projects  
Sanlam Employee Benefits





# Jose Pinera

Architect of Chilean pensions reform  
Sanlam Benchmark keynote speaker 2007



# 10 YEARS AT BENCHMARK ON RETIREMENT REFORM!



Year	Topic
2009	NSSS versus Free Market Retirement Reform
2010	2nd Umbrella Funds Benchmark Study & Charges Analysis
2011	3rd Umbrella Funds Benchmark Study
2012	Reform ... the Umbrella Fund Response
2013	Retirement Fund Charges
2014	Crunch Time for Umbrella Funds
2015	Retirement Reform in Action
2017	South Africa and the EB Industry in 2030
2018	Default Regulations – A Tipping Point

A photograph of a conductor in a dark suit with arms outstretched, overlaid with a blue umbrella graphic. The text "How do we reform as an industry?" is centered within the umbrella's canopy.

**How do we reform as an industry?**



“

Sanlam's practical solution going forward is premised on using all of its intellectual capital to build the best multiemployer packaged retirement savings, risk insurance and administration offering in the market

”



- Harmonisation
- Defaults
- Increasing preservation
- Decreasing charges
- Industry consolidation
- Sponsor role clearly defined



# 2009

... We imagined what the ensuing decade could look like

# RAYMOND ACKERMAN

PICK 'N PAY FOUNDER



“Doing good is good business”





## FORTHCOMING ATTRACTIONS



- default investment strategy
- default preservation strategy
- default annuitisation strategy
- employer level replacement
- mini-fund governance model
- asset based pricing options
- lower charges
- large fund customisation



# The Final Scene





**“It was an unbelievable moment, when you got up from your stool and delivered the line ... "would you stand up?”**

**... I suddenly became aware of a rustle in the audience and turned round to see almost everyone in the room getting to their feet.**

**Some people had tears streaming down their faces, ... I have to confess, so did I”**

*Paul Tomes*



**SHIFT HAPPENS**

# SANLAM UMBRELLA FUND FIRSTS FROM 2008



50% genuinely  
independent  
trustees

Pricing simplicity  
and  
transparency

SIM Enhanced  
Tracker  
Balanced Fund

Technological  
investment and  
automation

No commissions  
– entirely fee for  
service



**Are charges to be considered, or costs?** The former concern the actual levies, administration fees, or policy deductions that reduce the retirement savings of an individual over their lifetime. The latter refer to the expenses incurred by the provider of the administration or investment service. For any given saver, charges and costs are unlikely to be the same. Over time, however, **charges in aggregate are likely to match actual costs** reasonably well, assuming that competition drives down profit to roughly equivalent levels among providers.

Regardless of these arguments, since the objective of the research is to determine the effect of these expenses on the retirement savings of the individual, the **measurement of charges is more important than the determination of the costs** incurred in provision of the services. The focus of this study, for this reason, is on the actual charges levied for services offered.

*Rob Rusconi, 2005*

# 2009 NATIONAL PENSIONS STUDY



ASISA

“Umbrella schemes need to grow, in order to spread the largely fixed costs and investment infrastructure. The current membership of around 786,000 needs to grow to around 1.6m in order to optimise current infrastructure.”

“Umbrella administrators still need to find 38% savings to compete with International Reference Group”

# SANLAM EMPLOYEE BENEFITS - A DECADE OF EFFICIENCY GAINS



Administration Costs per member per month (excluding ACA) 2009 v 2019

2009

Standalone

**R 37.44**

Umbrella

**R 62.37**

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# SANLAM EMPLOYEE BENEFITS - A DECADE OF EFFICIENCY GAINS



2009 numbers inflation-proofed to 2019

Standalone

**R 62.23**

Umbrella

**R 103.67**

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# SANLAM EMPLOYEE BENEFITS - A DECADE OF EFFICIENCY GAINS



2019

Standalone

**R46.80**

Umbrella

**R 52.30**

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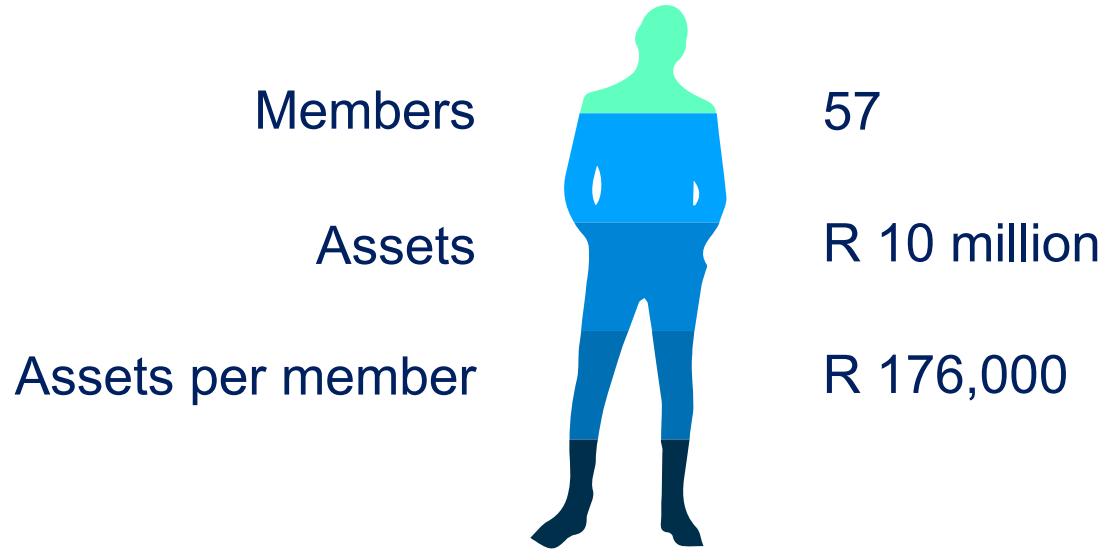
# SANLAM EMPLOYEE BENEFITS - A DECADE OF EFFICIENCY GAINS



efficiency gains

Standalone	<b>+ 25%</b>
Umbrella	<b>+ 50%</b>

# AVERAGE SANLAM UMBRELLA FUND PARTICIPATING EMPLOYER



# SHARED VALUES



Provider Costs  
Down

Price increases  
contained below  
inflation

SEB profits  
increased almost  
fourfold

Enhanced client  
service delivery

SEB staff  
happier



**25 June 2010.** The end of an era – a historic day – the last staff leave the SUFA Wynberg office to join the Sanlam Umbrella Solutions team based in Sanlam's Bellville Head Office.



**NO ZERO SUM GAME!**





# TOP 10 COMMERCIAL UMBRELLA FUND SPONSORS



Sponsor	Total Assets	# Members
Old Mutual	R 110,836,377,720	442,145
Alexander Forbes	R 79,626,293,231	381,063
MMI	R 52,818,894,445	386,348
Liberty	R 36,649,408,982	356,613
Sanlam	R 32,091,496,403	229,380
Willis Towers Watson	R 6,710,441,509	13,402
NMG	R 6,224,142,328	41,718
Grant Thornton	R 5,630,583,754	36,108
Sygnia	R 3,584,651,424	15,528
10X	R 3,499,033,092	32,320
<b>Total</b>	<b>R 337,671,322,888</b>	<b>1,934,625</b>



**R50 BILLION**





Governance design debate – if we started the law and practice afresh: what should this look like for umbrella funds

Jonathan Mort  
Jonathan Mort Inc

Rowan Burger  
Momentum Investments

PENSION LAWYERS  
ASSOCIATION



## Presentation to FSCA on Batseta Commercial Umbrella Forum

Prepared by Kobus Hanekom, Director  
12 April 2019



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Dear Madam

**BATSETA UMBRELLA FORUM & PROPOSED AMENDMENTS TO THE RULES OF UMBRELLA FUNDS RELATING TO THE ROLE OF THE SPONSOR**



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





## Ismail Momoniat

Deputy Director General  
National Treasury



## Olano Makhubela

Divisional Executive: Retirement Fund Supervision  
Financial Sector Conduct Authority





## David McCarthy

Advisor on Retirement Policy to National Treasury  
Sanlam Benchmark Keynote Speaker 2008 & 2012

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Sanlam Employee  
Benefits' future  
positioning and research.



By David Gluckman | Head, SEB's  
Future Positioning and Research

**'informal sector'**

**'prudence of partially funded'**

**'transition costs and risks'**

**'views of trade unions'**

**'regressive nature of DB'**

**'affordability constraints'**

**'adverse impact on unemployment levels'**

**'South Africa's cost of capital'**

**'Government Employees' Pension Fund'**

**'investor sentiment'**

**'NHI priorities'**



President  
**Cyril Ramaphosa**





CHOOSING  
A RETIREMENT  
FUND INVESTMENT?

do great things



Weekend Argus

# PERSONAL FINANCE

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GROWTH YOU WANT  
WITH THE PROTECTION YOU NEED

Full story inside

do great things



November 5, 2011

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RESEARCHERS DEVELOP MODEL FOR ACCURATELY COMPARING CHARGES ACROSS STAND-ALONE AND UMBRELLA FUNDS

## Taking the guesswork out of how costs can eat up your retirement savings



It is essential that employers and trustees have accurate data about costs when deciding on the type of fund in which to put your retirement savings. **Bruce Cameron** reports

Employers and retirement fund trustees are blithely making decisions about members' retirement savings, switching from employer-sponsored funds to umbrella funds and between umbrella funds, without much idea of the cost implications for members.

This is one of the conclusions that can be drawn from a paper due to be delivered at the annual convention of the Actuarial Society of South Africa next week. The paper, entitled "A critique of the umbrella retirement fund charging model", is based on research by David Gluckman, the head of Sanlam's umbrella fund business, and Sanlam actuarial student Megan Esterhuysen.

One of the aims of the research is to develop "an industry-agreed method of comparing charges across all defined contribution retirement funds (employer-sponsored stand-alone funds and financial services industry umbrella retirement funds)".

The model developed by the research offers employers and retirement fund trustees, for the first time, a tool with which to assess properly the cost-effectiveness of whether your retirement savings in

### DEFINITIONS

- **Reduction in yield (RIY):** The amount by which the annual returns on your savings will be reduced by costs.
- **Average RIY:** The total RIY of all members of a fund divided by the number of members.
- **Charge ratio:** The percentage or rand amount by which costs will reduce your retirement savings. It is also known as a reduction in maturity value.
- **Umbrella retirement fund:** An umbrella retirement fund is made up of a number of sub-funds. Each sub-fund in a financial services sector umbrella fund is for a separate participating employer.
- **Net replacement rate (NRR):** The percentage by which you can expect your pension (based on your retirement savings) to replace your final salary. Most retirement funds seek to provide you with a pension of 75 to 80 percent (NRR) of your final salary.



The less you contribute to retirement savings, the greater the impact of costs

### Inadequate pensions mainly due to not preserving savings

The behaviour of umbrella retirement fund members, and not costs, is the main reason that members retire without sufficient savings to fund an adequate pension.

Younger members of umbrella funds who stick to their retirement plans "appear to pay reasonable charges", and at the start of their careers can anticipate that their fund will deliver reasonable payouts after 40 years of membership. And yet few members will retire financially secure, because they will not preserve their savings when changing jobs.

The low levels of preservation of retirement savings has a knock-on effect, increasing the cost of saving for retirement and therefore reducing the retirement benefits of all members, even those who preserve their savings.

Finance Minister Peter Gordon announced in his Budget earlier this year that the government intends to introduce legislation to ensure that you preserve your retirement savings for a pension in retirement.

The above conclusions about the impact of not preserving retirement savings are some of the key findings of research by David Gluckman, the head of Sanlam's umbrella fund business, and Sanlam actuarial student Megan Esterhuysen.

According to their research, the average member of an umbrella fund

pensionable income.

The research shows that the average member who starts to save at age 20 will have an anticipated net replacement ratio (NRR) of more than 100 percent. The potential average NRR drops to slightly less than 75 percent if the member starts to save at age 30 and to below 50 percent if the member starts saving at age 40.

An actual NRR of less than 20 percent at age 64 equates to a capital amount of 2.67 times annual pensionable salary. The rules of thumb for the desired capital amount at retirement is 15 times annual pensionable salary, to provide an NRR of between 75 and 80 percent.

Gluckman and Esterhuysen say that by imposing a minimum contribution of five percent of pensionable income (and assuming no one leaves the fund as an asset), the average reduction in yield (RIY) for all members decreases from 1.9 percent to 1.74 percent.

Up the contribution level to 10 percent of pensionable income and the average RIY drops from 1.9 percent to 1.53 percent.

Gluckman and Esterhuysen say their figures are not 100-percent accurate, because the Sanlam database used in the research did not reflect other savings of members nor



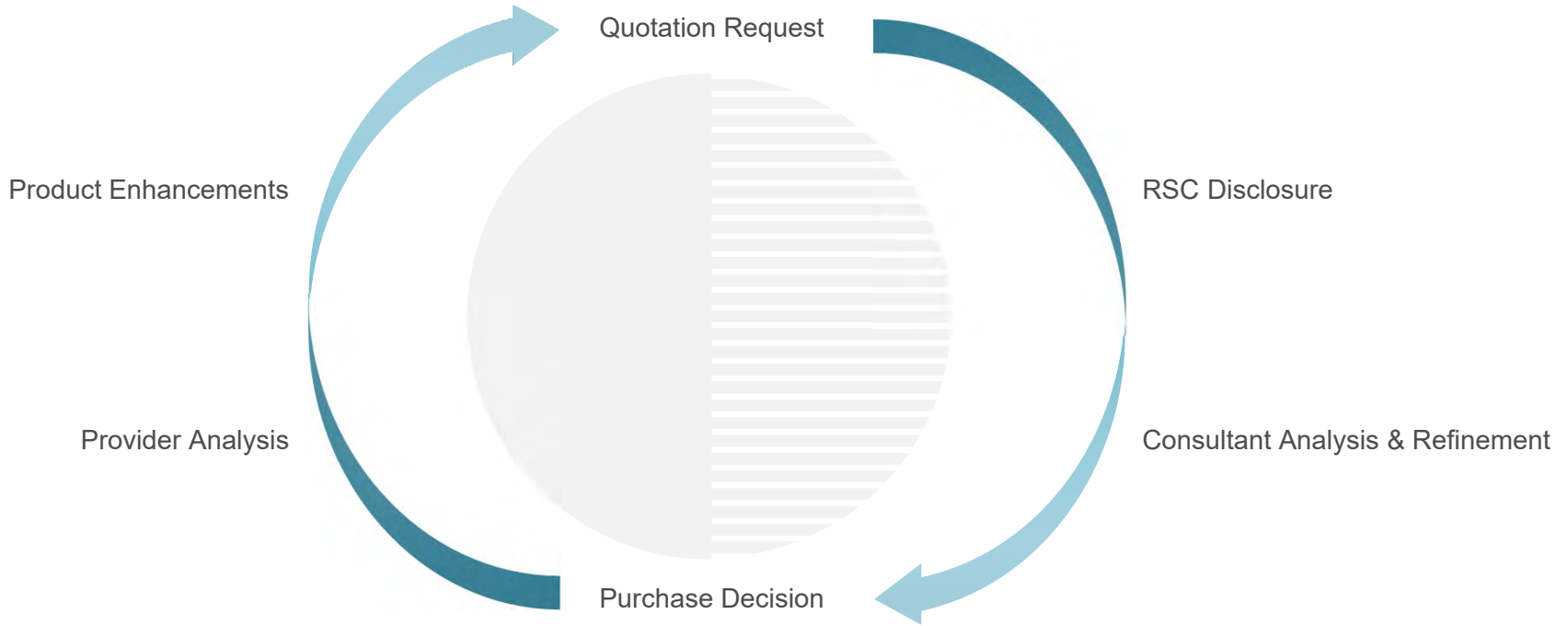
**EAC or RSC?**

# ASISA RETIREMENT FUND COST DISCLOSURES



<b>Retirement Savings Cost (RSC) Charges Table (as a % of assets)</b>				
<b>Charges</b>	<b>1 Year</b>	<b>1-3 Years</b>	<b>1-5 Years</b>	<b>1-10 Years</b>
Investment Management	1.25 %	1.25 %	1.25 %	1.25 %
Advisory	0.27 %	0.25 %	0.23 %	0.19 %
Administration	0.09 %	0.08 %	0.07 %	0.06 %
Other	0.01 %	0.01 %	0.01 %	0.01 %
<b>Total</b>	<b>1.61 %</b>	<b>1.58 %</b>	<b>1.56 %</b>	<b>1.51 %</b>

# A GAME CHANGER!





# DEFAULT REGULATIONS – A TIPPING POINT

David Gluckman

# TRADE OFF



Compliance

Better retirement outcomes

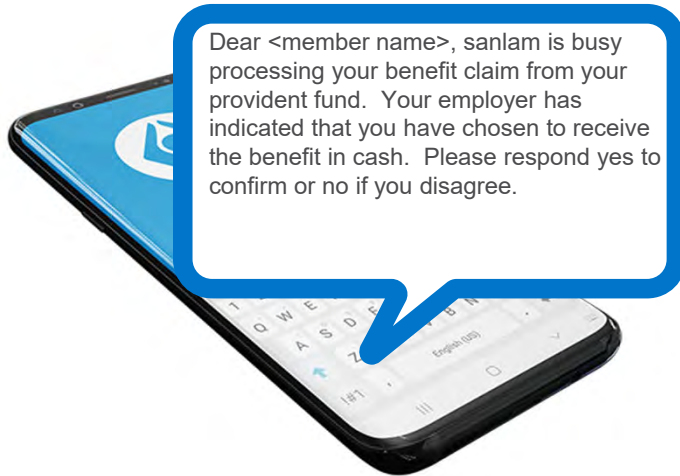
# PENSION FUNDS BUY TIME ON NEW RULES



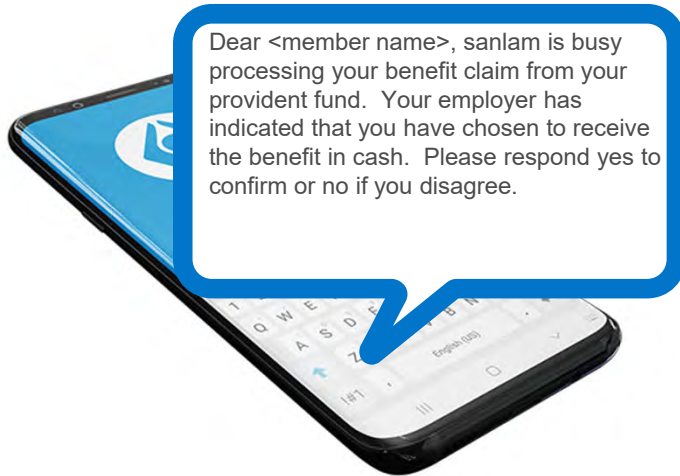
“According to Essop, the FSCA received 90 applications for exemptions in the 17 months leading up to January 31 2019. Over February, the FSCA received 451 applications and, of these, 318 were lodged in the last week of February and 154 on the last day, he says. On February 28, the online system for filing exemptions crashed.”

*Business Day - 10 March 2019*

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# # ONE INDUSTRY CHANGE ... 100 PRINCIPAL OFFICERS



1.Compulsory preservation	22%
2.Simplification of regulations	11%
3.Better leadership from FSCA	10%
4.Better member communication / education	9%

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## # ONE INDUSTRY CHANGE ... 100 INDEPENDENT EB CONSULTANTS



- |   |     |
|---|-----|
| 1. Clients to stop fixating on costs over value | 21% |
| 2. Licensing of specialist EB consultants       | 20% |
| 3. Reducing compliance burden                   | 19% |
| 4. Reducing complexity                          | 14% |
-

# KEY TRENDS FOR NEXT DECADE



1. Institutional versus Retail
  2. “Data is the new oil”
  3. Security ... Security ... Security ...
  4. Fewer but better consultants
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