



➤ **ASISA Standard for  
Umbrella Fund Cost Disclosures**

**A Game Changer?**

**David Gluckman**

Head: Special Projects

Sanlam Employee Benefits

Insurance

Financial Planning

Retirement

Investments

Wealth

## It's all about retirement outcomes



*“These are structural changes and a paradigm shift. At the end of the day **government has one interest** and that is to ensure that the **beneficiaries of the retirement process benefit from their own savings.**”*



Finance Minister: **Pravin Gordhan**

Media release:

‘Strengthening Retirement Savings’

May 2012

## Regulator berates service providers for overcharging pension funds

Exploitation spans the spectrum of professions, industry regulator says

04 MARCH 2019 - 19:49 by LONDIWE BUTHELEZI



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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 likely 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 Sarlem 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 an employer-sponsored fund should

### DEFINITIONS

• **Reduction in yield (RIY):** The amount by which the annual return 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 ratio (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 investment 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 Pravin Gordhan 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 Sarlem actuarial student Megan Esterhuysen.

According to their research, the average member of an umbrella fund will retire with a pension of less than

personeable 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 rule 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 a result), 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

invest in the interests of members.

## What affects member outcomes most?



1. Whether the member preserves
2. Whether the contributions are a meaningful proportion of their salary (and is not reduced by pensionable pay choice)
3. When contributions start
4. The allocation of contributions between risk benefits vs retirement savings
- 5. Costs**
6. Long-term asset allocation strategy
7. The additional value from fund managers above the long-term asset allocation strategy (alpha)

*Source : Alexander Forbes Benefits Barometer 2014*

# More to choosing an umbrella fund than costs



Personal Finance recently published reports on two new products: an enhanced with-profit pension offered by Just Retirement and an umbrella retirement fund launched by Sygnia Asset Management. Both reports drew some criticism.

The issues raised by Just Retirement and Sygnia and their critics are serious, because financial security in retirement is often determined by whether the correct decisions were taken many years earlier.

When Sygnia launched its technology-driven, simply structured, low-cost umbrella retirement fund earlier this month, it took the opportunity to criticise the umbrella fund structures of its competitors and how these impact on costs.

There is little doubt that there are significant problems with how umbrella funds are structured.

Umbrella funds provided by the financial services industry enable a number of different employers to provide their employees with retirement-savings vehicles, particularly where it is not cost-effective for an employer to provide its own (stand-alone) fund.

Sygnia's criticisms of its competitors' umbrella funds included complex, high-cost structures and, consequently, lower returns.

But not all umbrella funds are guilty of these sins. For example, the Sanlam Umbrella Fund was one of the worst offenders when it was previously called the Wizard Umbrella Fund, with high

whole, took issue with many of Sygnia's criticisms. His response is too comprehensive to publish here.

Many of Gluckman's points are valid, particularly in the case of the Sanlam Umbrella Fund.

It is not that most of Sygnia's criticisms are invalid; they simply do not apply to all funds all of the time.

What Sygnia's initial claims, and Sanlam's response, highlight is that the decision by an employer to join an umbrella fund should be based on well-considered factors.

The main selling point of Sygnia's fund is that it charges a single fee

(apart from some underlying asset management fees) for all the services a member requires. Gluckman says there is a lot more to the umbrella-fund-purchase decision than trying to pay the lowest fees.

He says the Sanlam Umbrella Fund could easily reduce its fees if it jettisoned governance, communication, access to independent advice, a significant investment in technology or adminis-

ing an umbrella fund. The issues include:



An important aspect of costs is the commissions and/or fees paid to consultants or financial advisers. Fees based on a percentage of assets under management, a percentage of payroll, a percentage of contributions, or a rand amount per member (particularly when members are not provided with advice) should be avoided. It is preferable for employers to negotiate an hourly rate, and to be quite specific about the information and advice they require.

• **Administration.**

Effective administration is an important aspect of umbrella fund management. In recent years, there have been some really nasty administrative failures, with dire consequences for fund members.

• **Governance,** encompasses a wide range

of issues, from the appointment or election of trustees to how members are kept informed about their fund and their savings, and whether they have



Passing comment  
**Bruce Cameron**

# SA Broker Market Insights – 2015 Report



## LISP Stated Buyer Values

Ranking	Factor	Rating
1	Operational Service	9.1
2	Price	8.0
3	Technology	8.0
4	Financial Strength	7.7
5	Fund Range	7.7
6	Product Features	7.5
7	Remuneration	7.5
8	Relationship Management	7.3
9	Investment Advice	6.8
10	Brand Strength	6.6



# Survey of 16 independent Employee Benefits consultants



Key considerations in recommending an Umbrella Fund

Factor	Umbrella Fund Benchmark Weighting
Administration delivery	22%
<b>Charges and costs</b>	<b>20%</b>
Investments	11%
Transparency	10%
Flexibility	7%
Communication delivery	6%
Track record	4%
Governance infrastructure	4%
Insured benefits	4%
Client satisfaction / retention	3%
Quality of advice	2%
Preservation and annuitisation	2%
Experience	2%
Sponsor covenant	1%
Black economic empowerment	1%
National footprint	1%
	100%

BENCHMARK SYMPOSIUM 2017



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# PERSONAL FINANCE

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2nd  
Quarter 2013

‘The work on a single cost-declaration structure is being undertaken by a standing committee of the financial services industry organisation, the Association for Savings & Investment SA (ASISA).’ The ASISA committee, the Universal Disclosures Standing Committee, ... was established by ASISA in 2009 to look at ways information, particularly about costs, could be disclosed to all investors in a meaningful and comparable way’. Four years later it has not reached its goal. ASISA ... says the work is progressing well, but is slow because of the **complexities involved in standardising disclosure of costs for products that are fundamentally different in structure**. The standing committee aims to complete this piece of work during 2013.’

## ASISA finalises standardised cost disclosure for umbrella funds



Employers will find it much easier to select the most cost effective umbrella retirement fund solutions for their employees from March next year when the new ASISA Retirement Savings Cost (RSC) Disclosure Standard comes into effect.

Media Release:  
Association for Savings and Investment South Africa (ASISA)  
**16 May 2018**

ASISA

“The new RSC Disclosure Standard commits members of the Association for Savings and Investment South Africa (ASISA) to present all costs (based on certain assumptions) relating to **umbrella retirement fund solutions in a standardised manner**, enabling employers to compare like with like when considering quotations from different ASISA members. This will also make it easier for the Boards of Trustees of umbrella funds to consider costs as part of their fiduciary duties.”

“... it is important to understand that the current RSC Disclosure Standard is only relevant at an employer and trustee level. It is not a fund member cost disclosure standard and is **not designed for disclosure to individual fund members**. It should therefore not be confused with the Retail EAC Standard.”

The ASISA logo is a dark purple rounded rectangle with the letters 'ASISA' in white, bold, sans-serif font. It is positioned in the bottom right corner of the slide.

ASISA

“This RSC Disclosure Standard shall be **effective from 1 March 2019, with the final date for implementation by all members being 1 September 2019**, from which latter date the cost disclosure measure must be calculated and disclosed in point of sale client documentation, including but not limited to quotations or proposals by all ASISA members.”

# General Principles & Key Assumptions



- ⊗ All charges and costs must be included on best estimate basis.
- ⊗ 4 buckets – investment management, advice, administration & other
- ⊗ Project over 10 years using standard assumptions
  - ⊗ 6% per annum for investment returns, price inflation & salary increases
  - ⊗ Assume S14 assets transferred at inception date
  - ⊗ All assets invested in employer's desired default investment strategy
  - ⊗ Exclude risk premiums (savings element only)
  - ⊗ No member movements
  - ⊗ Reflect actual charging methodology (e.g. % assets, % salary, Rand pm pm)
  - ⊗ Free notes for explanations
  - ⊗ Standard formatting for disclosures

# Investment Management Costs



## **ASISA Standard:**

### Calculation and Disclosure of Total Expense Ratios and Transaction Costs

- Retail standard effective since 1 January 2016
- Actual costs that would apply if implemented with default investment strategy as per quotation
- Revised quotation to be issued with revised RSC disclosures if different default investment strategy ultimately selected.
- Total Expense Ratio (“TER”) + Transaction Costs (“TC”) = Total Investment Charge (“TIC”)
  - Base management fees + performance fees (averaged over 3 years) + all underlying charges, costs and taxes (explicit and implicit) on best estimate basis and look through basis

# Investment Management Costs

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## Sanlam Umbrella Fund Implementation Plans

... a staggered approach starting from 13 March 2019



1. 4 trustee-approved default investment strategies (except mini-funds)
2. Tailored default investment strategies & Comprehensive Plus arrangements
3. Existing clients
4. Mini-funds ( $\leq$  R10m assets or  $\leq$ 50 members)
5. Sanlam Unity

Sanlam Umbrella Fund

## Retirement Savings Cost Disclosure:

ABC within Sanlam Umbrella Fund



### Annexure A

This retirement savings cost (RSC) disclosure is a measure which has been introduced to standardise disclosure to clients (as either the employer or board of trustees), of the savings cost incurred in a retirement fund. It is a simplified, practical illustration of the estimated costs, allowing for consistent comparison across the industry. It is not a fund member level cost disclosure standard and was not designed for individual fund members. It should therefore not be confused with the ASISA Retail Standard: EAC. The RSC is expressed as a percentage of the investment amount. The total cost is made up of four charges, which are added together, as shown in the charges table below. Some of the charges may vary, depending on the investment period. The calculation assumes four different investment periods as shown in the charges table and is based on the following summary of inputs:



## Summary of inputs for RSC output



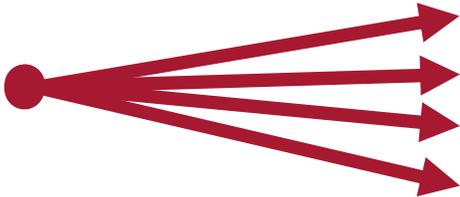
Number of members:	<b>60</b>	
Investment choice/Investment default Portfolio	<b>Sanlam Lifestage</b>	
Assets at Commencement:	<b>R 20,000,000</b>	
Total Annual Pensionable Salary:	<b>R 22,945,151</b>	
Gross Total Employer Contributions (Rands per annum in year 1) and Employer Contribution Rate (% of total pensionable salary):	<b>R 3,245,731</b>	<b>14.15 %</b>
Gross Total Member Contributions (Rands per annum in year 1) and Member Contribution Rate (% of total pensionable salary):	<b>R 2,065,064</b>	<b>9.00 %</b>
Total Premiums Applied to Risk Benefits (Rands per annum in year 1) and Risk Premium Rate (% of total pensionable salary)	<b>R 573,057</b>	<b>2.50 %</b>
Total Contributions Applied to Savings (Rands per annum in year 1 net of any risk premiums but before deduction of other charges) and Savings Contribution Rate (% of total pensionable salary):	<b>R 4,737,738</b>	<b>20.65 %</b>
Is the Employer paying any other related costs in addition to the costs disclosed here?:	<b>No</b>	



# Sanlam Umbrella Fund practice vindicated!



- ⊕ split charges into 4 components
- ⊕ quote all inclusive & best estimate charges



mandatory to show splits

Retirement Savings Cost (RSC) Charges Table (as a % of assets)				
	1 Year	1-3 Years	1-5 Years	1-10 Years
<b>Investment Management</b>	1.21 %	1.21 %	1.21 %	1.21 %
<b>Advisory</b>	0.35 %	0.31 %	0.28 %	0.23 %
<b>Administration</b>	0.07 %	0.06 %	0.05 %	0.04 %
<b>Other</b>	0.01 %	0.01 %	0.01 %	0.00%
<b>Total</b>	<b>1.64 %</b>	<b>1.59 %</b>	<b>1.55 %</b>	<b>1.48 %</b>

# Potential Retirement Savings Cost (RSC) Ranges



## % Salary Charging Basis

Illustrating how RSC (as a % of assets) could differ for different member

<b>Total 10-year RSC (as a % of assets)</b>		<b>1.48 %</b>		
<b>Sample Member: 30 yrs old RSC</b>		<b>Annual Salary</b>		
<b>Term: 10 years</b>		<b>R 60,000</b>	<b>R 240,000</b>	<b>R 600,000</b>
<b>Current Member Share</b>	<b>R 0</b>	2.57 %	2.45 %	2.43 %
	<b>R 100,000</b>	1.45 %	1.70 %	1.91 %
	<b>R 500,000</b>	1.28 %	1.41 %	1.54 %



# Potential Retirement Savings Cost (RSC) Ranges



## Rand pm pm Charging Basis

Illustrating how RSC (as a % of assets) could differ for different member

<b>Total 10-year RSC (as a % of assets)</b>		<b>1.48 %</b>		
<b>Sample Member: 30 yrs old RSC</b>		<b>Annual Salary</b>		
<b>Term: 10 years</b>		<b>R 60,000</b>	<b>R 240,000</b>	<b>R 600,000</b>
<b>Current Member Share</b>	<b>R 0</b>	10.79 %	3.27 %	2.01 %
	<b>R 100,000</b>	2.75 %	2.02 %	1.67 %
	<b>R 500,000</b>	1.63 %	1.53 %	1.44 %



# Potential Retirement Savings Cost (RSC) Ranges



## % Assets Charging Basis

Illustrating how RSC (as a % of assets) could differ for different member

<b>Total 10-year RSC (as a % of assets)</b>		<b>1.66 %</b>		
<b>Sample Member: 30 yrs old RSC</b>		<b>Annual Salary</b>		
<b>Term: 10 years</b>		<b>R 60,000</b>	<b>R 240,000</b>	<b>R 600,000</b>
<b>Current Member Share</b>	<b>R 0</b>	1.79 %	1.69 %	1.67 %
	<b>R 100,000</b>	1.68 %	1.67 %	1.67 %
	<b>R 500,000</b>	1.67 %	1.67 %	1.66 %



## Current State of Play



- RSC disclosure only meaningful on a comparative basis
- 6 month window - umbrella funds might implement from different dates

*“In theory there is no difference  
between theory and practice.  
In practice there is.”*

**Yogi Berra**, *American Baseball Player*



## apples with apples disclosures but ...



- Costs are just one element of the overall value proposition
- Disclosure requires analytical ability to interpret
- Standard assumptions ... important to consider applicability per case
- Free notes will require particularly careful scrutiny
- Anticipate teething problems and differences in applying details

## Your product choices influence RSC Disclosure numbers e.g.



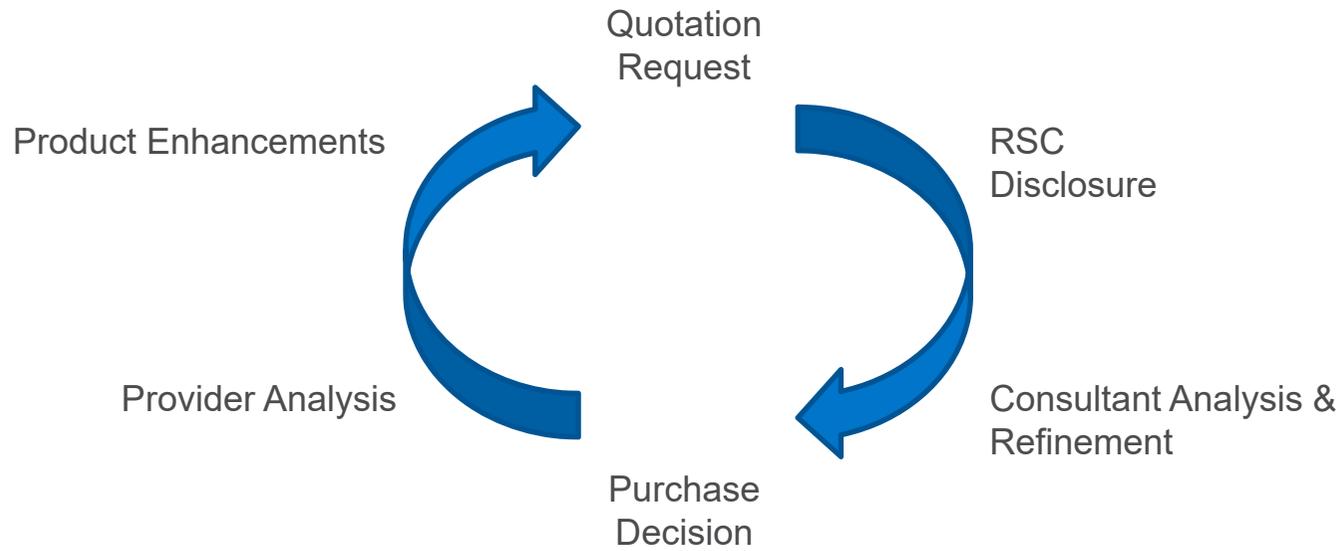
- Benefit design
- Default investment strategy
- Client's preferred cross-subsidy philosophy
  - % salary v Rand pm pm v % assets

# WHICH MEANS



- A big step forward for the industry (long overdue)
- But arguably analytical consultants become even more important
  - Sanlam willing to assist with interpretation and analyses
- Product providers will undoubtedly review product offerings to score higher in market comparisons as regards RSC disclosures
- Competitive pressures heightened ... good for consumers

# A Game Changer!



thank you 