

Employers must act in employees' interests

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The question that should be asked when an employer decides to switch from a stand-alone fund to an umbrella retirement fund, or to switch from one umbrella fund to another, is whether the move will provide the best outcome for members, Viresh Maharaj, the chief marketing actuary at Sanlam Employee Benefits, says.

Commercial occupational umbrella retirement funds are continuing to increase their share of the retirement fund market, as more stand-alone funds shut up shop and more employers provide retirement incentives to employees via umbrella funds.

There are about 1.7 million members of umbrella funds, with retirement savings of about R269 billion.

Maharaj says the Sanlam Benchmark survey shows there is a need for a comprehensive score-card to facilitate proper decision-making when stand-alone funds consider moving their members to an umbrella fund, and to highlight what participating employers should take into account when moving from one umbrella fund to another.

He says the survey reveals that ease of administration has replaced cost-saving as the main reason for employers switching from stand-alone funds to commercial umbrella funds.

“Cost is what you pay and value is what you get. We find that many stakeholders are sacrificing the material long-term value that comes from being with a [fund service] provider that has a reinforcing ecosystem of capabilities that move members towards better outcomes in favour of the absolute lowest-cost provider.”

The survey shows that the average cost of umbrella funds started to drop slightly this year, as these funds become more cost-effective.

The main reasons given by the 100 employers surveyed for moving to an umbrella fund were: ease of administration (59 percent); cost savings (55 percent); less fiduciary responsibility (27 percent); wanting to focus on core business (21 percent); and investment management (21 percent).

Maharaj says it is worrying that only one employer considered that service to members and communication with members were important factors when deciding whether to move to an umbrella fund. This shows that insufficient attention is being paid to such value-delivering components.

He says 43 percent of stand-alone funds surveyed have considered moving to an umbrella fund. Their main reasons for considering the move were lower fees, better efficiencies and the reputation of the sponsor of the fund. The main reason given for not moving was losing control over decision-making.

Maharaj says the board of trustees of a stand-alone fund has a high degree of control and takes accountability for all decisions. Trustees have to be educated, trained and capable of making the right decisions. This takes time and effort and is expensive. With an umbrella fund, control is outsourced to the fund's board of trustees. There are pros and cons to either approach.

He also expressed concern about participating employers staying with the same umbrella fund. He says 74 percent of employers have never moved to a different umbrella fund and 78 percent have never even considered moving to another fund, despite the fact that there are material differences between the providers of commercial umbrella funds.

“The decision by an employer to outsource a fund to an umbrella fund cannot be a once-off decision. Employers should review their decisions at least every three years,” Maharaj says.

MEMBERS ARE PROTECTED

The Pension Funds Act protects the interests of members of stand-alone occupational retirement funds whose employers want to move them to commercial umbrella funds.

In terms of the Act, any scheme to transfer members and their savings from one fund to another must be approved by at least 75 percent of the members of the fund.

However, members cannot prevent a transfer if it is a condition of employment that they belong to a fund chosen by their employer. But they can object to the transfer if they believe they are being prejudiced by the structure and scheme used to facilitate the move.

Any transfer of members between occupational retirement funds – from a stand-alone fund to an umbrella fund, or between umbrella funds, or between stand-alone funds – or an amalgamation of funds must comply with section 14 of the Pension Funds Act, which sets out the duties of the fund's trustees.

The trustees have to take account of any objections they receive from members. If an objection cannot be resolved, it must be brought to the attention of the Financial Services Board.