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Rising claim levels could offset retirement pension administration savings

Sanlam Employee Benefits head of specialist projects David Gluckman says despite cutting costs of administering funds, continues to rise

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Picture: ISTOCK

Hundreds of pension funds have halved their administration costs in the past decade, however, there are concerns that these savings have been passed on to members because of rising claims, said Sanlam Employee Benefits on Wednesday.

David Gluckman, head of specialist projects at Sanlam Employee Benefits, told attendees at the Sanlam Retirement umbrella funds administered by Sanlam reduced their administration costs per member by 50% and big standstill between 2009 and 2019. Umbrella funds house multiple unrelated retirement funds of different employers with one employer.

“The cost of running umbrella funds, given their scale is now on average almost at a level with big standalone funds. With automation, it’s standardisation of costs,” said Gluckman, explaining reasons behind the cost efficiencies.

According to Gluckman, monthly administration costs were R103.67 per member for umbrella funds and R62.20 for standalone funds. Inflation is factored in. By 2019, these costs had decreased to R53.20 and R46.80 respectively.

The reduction in costs has also helped Sanlam Employee Benefits move from a R72m loss in 2017 to a profit on administration for the first time in 2018.

“To me this means true market retirement reform doesn’t have to be a zero-sum game. You can do it and it’s a win-win,” said Gluckman.

Administration costs are deducted from contributions that people make to their retirement schemes, reducing retirement savings. The other deduction that reduces retirement savings is the amount that goes towards growth.

Michelle Jennings, CEO of Sanlam Employee Benefits Group Risk, said insurers were facing a steep rise in costs as smaller players were pushing down premiums to gain market share while disability claims sky-rocketed.

“Yes, the administration cost is separate from the risk premium, but administrators are working so hard to get the administration side while on the risk side you are getting the increase,” said Jennings.

She said over the last year, the average increase in risk premiums for Sanlam-administered schemes that imply increasing disability claims.

Jennings said there was a link between the state of the economy and the rise in disability claims. For instance, claims in one week to Sanlam just before it began retrenchment processes.

“In some instances, the employees probably qualify for disability but they’ve been accommodated at the employer to accommodate them. Now when they can’t afford to keep them, the employer outsources the person to an insurer who probably qualify for disability,” said Jennings.

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