

SAPA

Is it time to reform your Fund?



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Keeping up with Government

- What can we expect from Retirement reform?
- In the longer term: Reform of Social Security
 - National Social Security Fund
 - Improved benefit framework for all social assistance
- In the short term: Reform of the industry
 - Increase lifetime savings
 - Improve preservation and portability
 - Less lump sums, more pensions
 - Reduce fees



Bringing the reform home

- Does this reform make sense?
- What are the actual objectives?
 - Ensure every person has **sufficient income in retirement**
 - By **reducing fees**
 - Making products **simple**
 - **Preventing mismanagement** and fraud
 - Stopping “**leakage**”
 - Making **good choices** about retirement
- Aligned with your objectives?



Over to you:

- Does your company have a retirement fund?
- Are you a trustee?
- Or an HR director?
- Compare the Fund to a business unit of your company:
 - What are the fund's **objectives**? Are they measurable? Are they monitored?
 - What are the **expenses** of the fund? How can they be reduced?
 - Who's managing the "Retirement Fund Project"? Is there a clearly assigned **responsibility**?

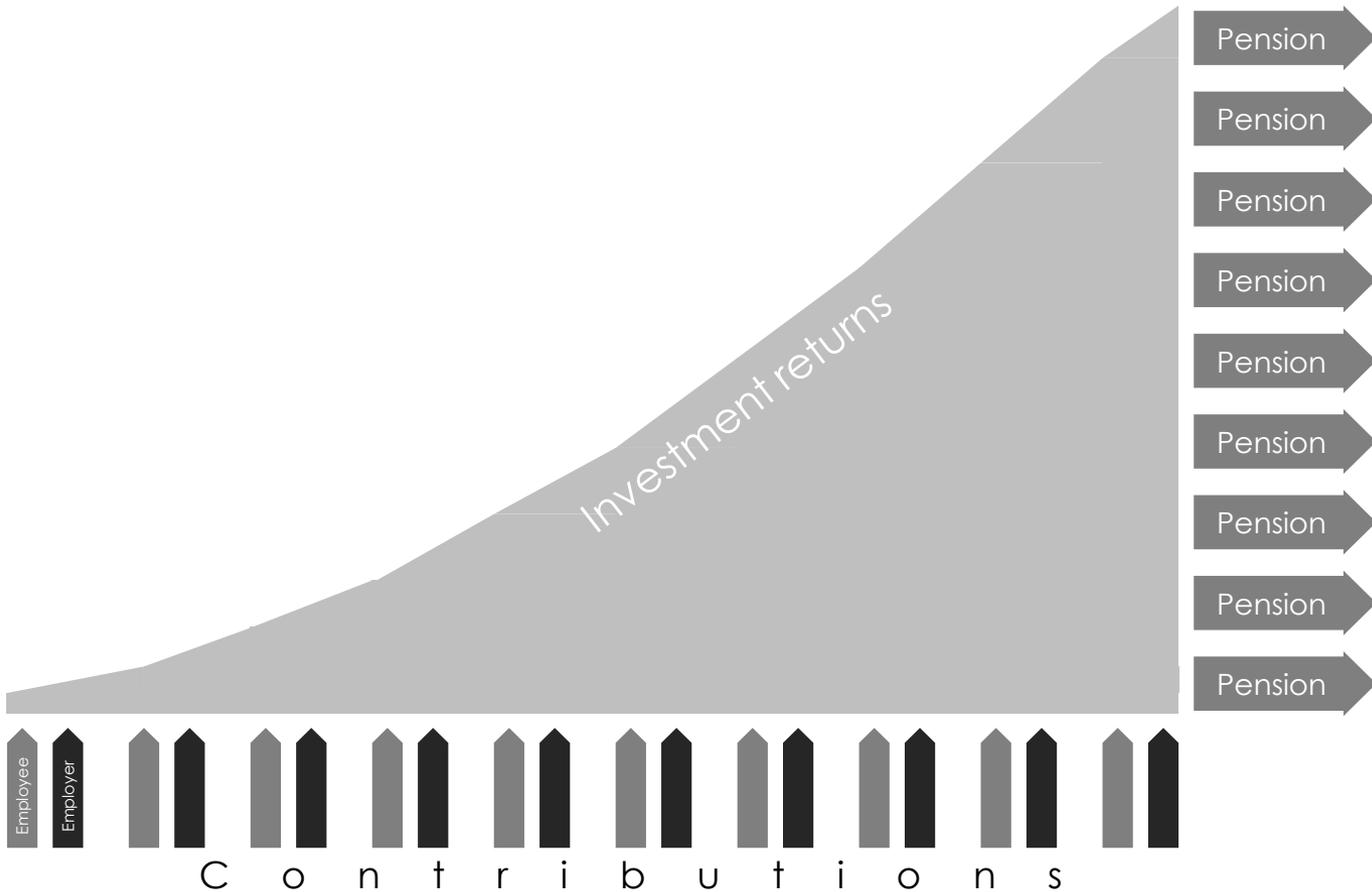


Whose job is it, anyway?

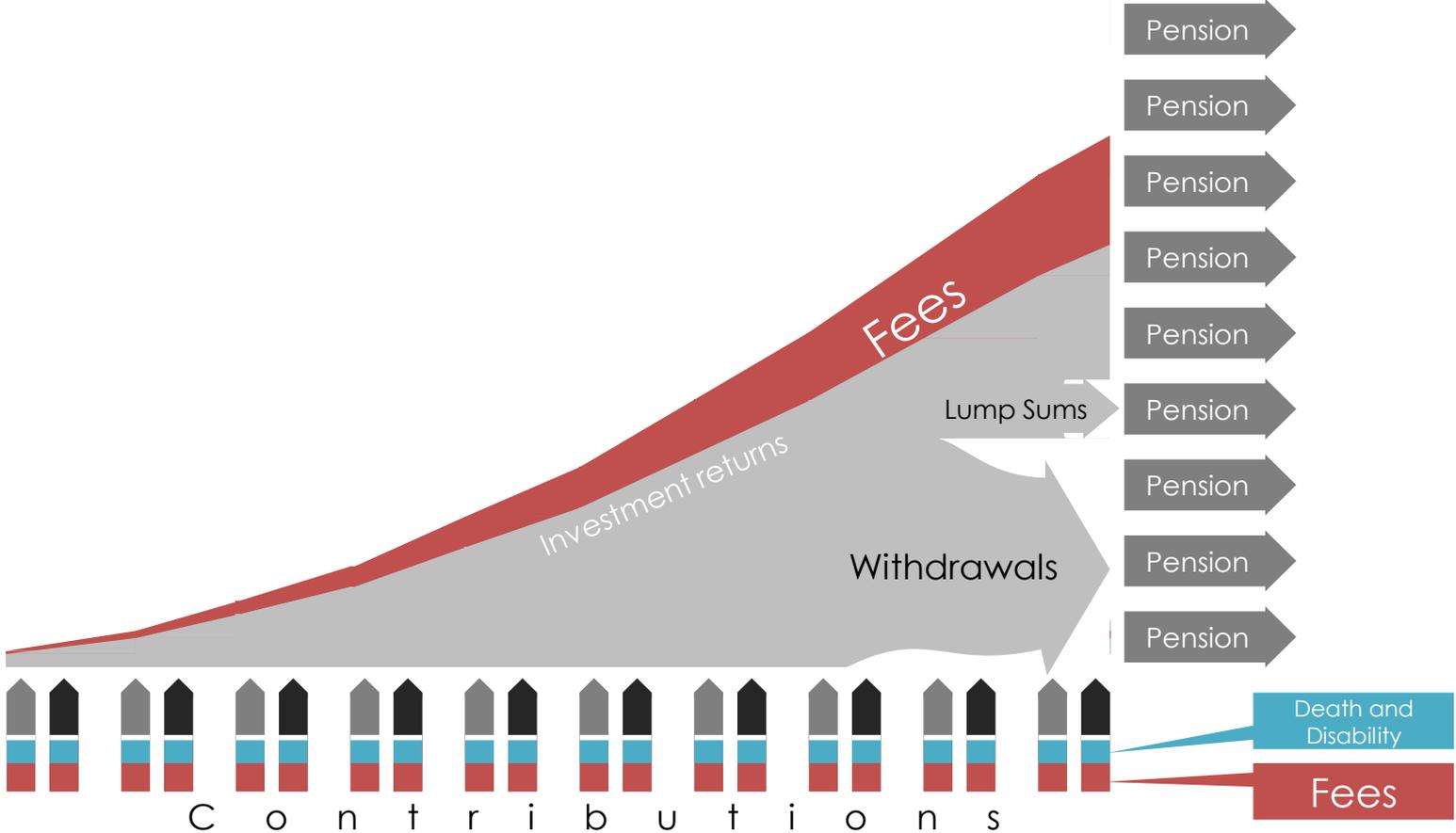
- Independent entity:
 - Set up by employer **but not managed by the employer**
 - Overseen by trustees who may have **limited expertise and interest**
 - “Belongs” to members who have **even less expertise, and little influence**
- Every other aspect of a business is optimised: Costs, revenues, efficiencies, communication channels
- Why should the retirement fund be different?
- Government retirement reform a response to funds not run optimally
- Challenge to Employers:
 - Take ownership of the fund
 - **Take reform into your own hands.**



The retirement savings process



The retirement savings process



Keys to fund optimisation:

1. **Pay** as little as possible
2. Maximise **investment returns** (but limit risk)
3. Assist members in making **good choices**



**Making
good
choices**

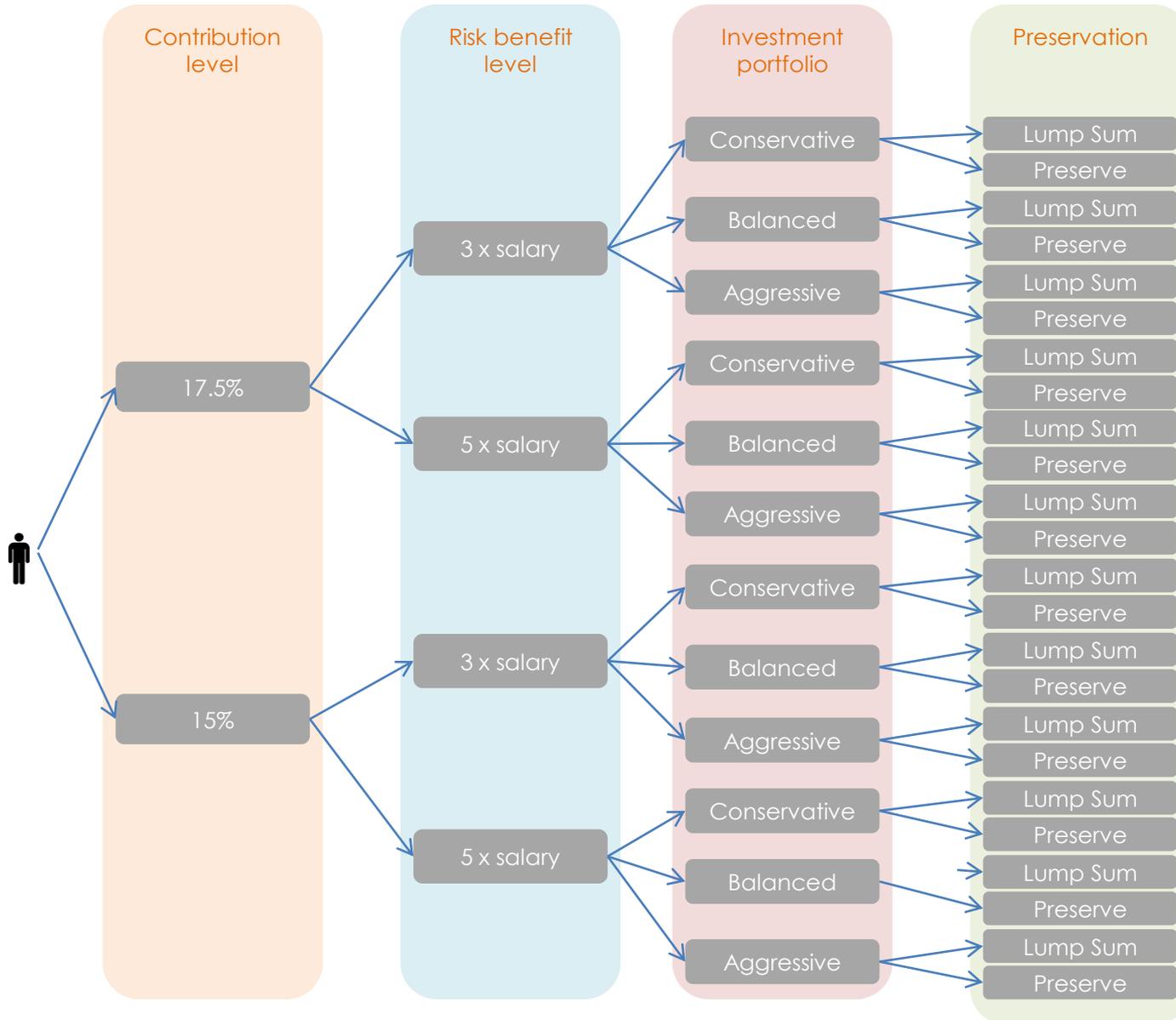


“Making Good Choices”

- Members expect control and flexibility of benefits
- Trend to offer more and more choices in retirement fund
- A member could face choices of
 - Contribution level
 - Risk benefit levels
 - Choice of investment portfolio
 - Choice of withdrawal benefits: transfer or cash?
 - Choice of LS/Annuity split on retirement
 - Choice of annuity type

58% of
funds offer
investment
choice*

Overwhelming choice



Dangers of choice

- Choice can have value:
 - Limited choice
 - Informed decision-makers
- But in retirement savings:
 - Choice can be overwhelming
 - Uninformed decision-makers
 - Consequences are decades away – hard to spot problems
 - Perception that “there is no wrong choice”
 - Perception that all alternatives are equally relevant

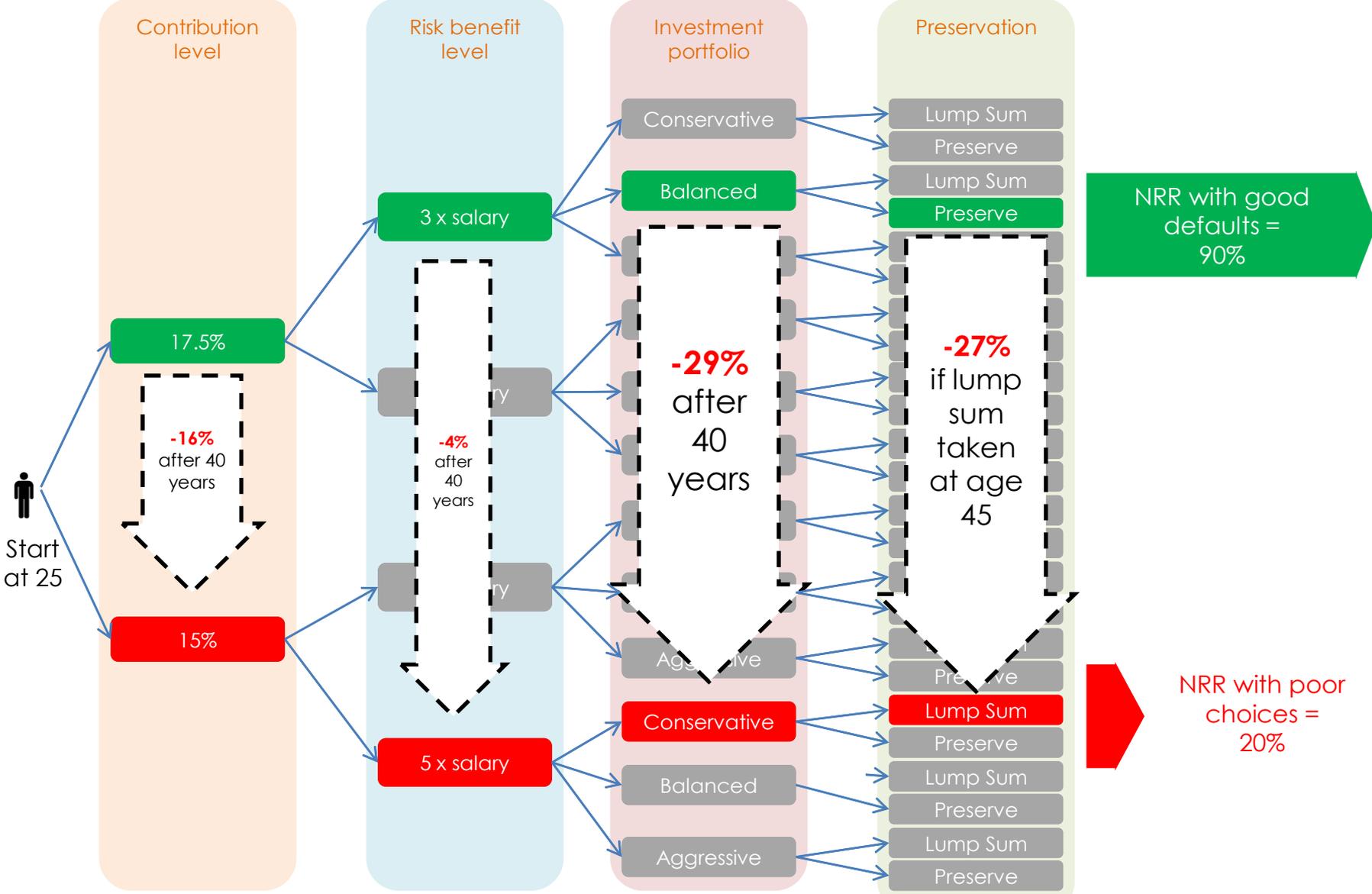


Solving the choice dilemma

- The usual solutions:
 - Educate!
 - Get financial advice!
- Limit choice
 - Fewer options is better.
- Curated Choice
 - Only offer “good” options.
- The power of defaults:
 - Defaults help the uninterested
 - Help the uninformed
 - Hint at the “right” choice
 - But informed, interested individuals will still make their own choice

72% of
umbrella fund
members are
in the default
portfolio*

The power of defaults



Reducing Fees



Fees, fees and more fees

Asset Based Fees

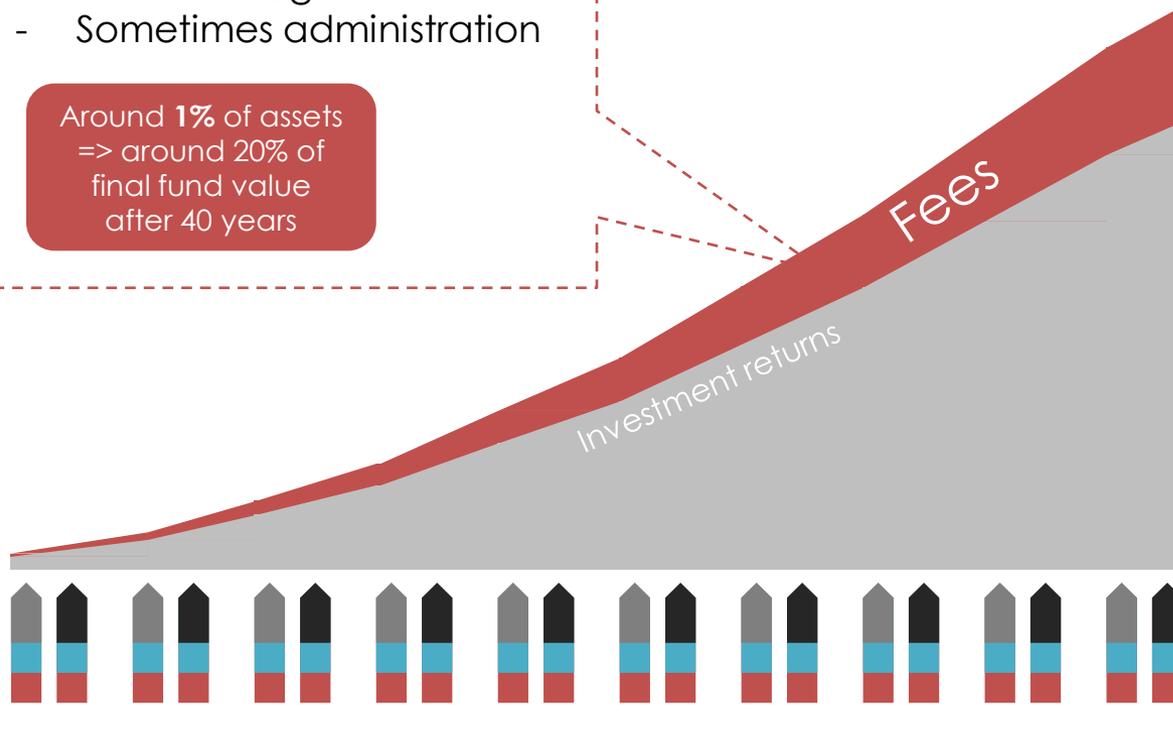
- Asset management
- Sometimes administration

Around 1% of assets
=> around 20% of
final fund value
after 40 years

Contribution and Rand based fees

- Administration
- Consulting
- Actuarial
- Audit
- Trustees
- Levies and sundry

Administration on
average =
1.07% of salaries*
=> 6% of final
fund value after
40 years



Fees

How can you reduce fees?

- PF130 recommends regular provider reviews, to control quality and fees
- To reform your fund, need a more fundamental review:
 - Do we need this service? At this level?
 - Actuaries: Valuation exemption?
 - Audits: Audit “Lite”?
 - Asset managers: What about passive management?
 - Active management fees: around 1% of assets
 - Passive management fees: around 0.3% of assets
 - Guarantees:
 - Long term investment strategy
 - High cost of guarantees
 - Is the stand alone fund model still affordable?
 - Umbrella funds are becoming the industry standard
 - Cost savings potential is significant

The Umbrella Fund decision

- This is the equivalent of a complete change in business model.
- Umbrella funds offer:
 - Economies of scale
 - Centralised, expert governance
- But:
 - Loss of flexibility
 - Simplified structures
 - Exposed to sponsor-bias?
- Not all umbrella funds are alike:
 - Different investment options
 - Different charge structures
 - Different insurance providers
 - Different levels of flexibility

Enough choice in the market to find a model that suits your needs at **minimum costs.**



Bottom line...

- Just like any other part of your business!
 - Maximise return
 - Cut costs
 - Ensure that people make good decisions
- It's time for big changes:
 - Umbrella fund option
 - Reducing costs can mean reducing services
 - Sensible defaults can have powerful effects.
- An opportunity for further engagement:
JSE Trustee Day in October



THE STRATEGIC TRUSTEE

The Future in your Hands

Join the JSE and industry expert for a Trustee Training day. This interactive day will explore and clarify the role of the trustee. Topics include:

- Trustee Empowerment** – The Financial Services Board Trustee Toolkit
- The Changing SA Retirement Landscape – Catching up with **Retirement Reform**
- How trustees can do a better job of ensuring **adequate delivery**
- Leading in a complex **investment world**
- The balancing act between **risk and reward**
- Integrating **ESG** to promote sustainable returns
- Exchange Traded Products**

DATE	Thursday, 4 October 2012
TIME	08h00 for 08h30 –14h30
VENUE	The JSE, One Exchange Square, Gwen Lane, Sandown

Email Hildegard.Wilson@jmca.co.za for an invitation

Attendance is **free of charge** for Trustees

Thank you



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