

# Provident / Pension Fund Maladministration

What every employer needs to know

Presented by  
David Brown

# How did this topic come about?

- As a result of service of comparing Medical Aid and Insurance policy statements against payroll, received and processed a EB statement
- Results startling
- Perhaps just a bad example and recons extended to include other EB Administrators
- Results varied from bad to good but NONE perfect
- That is what you are paying for

# Research and results

I am not an attorney

- Read the Pensions Funds Act 1956 to ascertain reasons for EB Administration methodology
- Read the regulations regarding EB Administration
- Know what administrators can and cannot do
- And what their informational requirements are as we have been providing EB information for 15+ years

# Payroll processes

- The payroll calculates EE and ER contribution from the RFI
- RFI is NOT a standard value
  - In some cases full CTC
  - In some cases a percentage of CTC
  - In some cases it includes commissions

# Payroll processes – Continued

- RFI Value used to calculate contributions often not stored on payroll
- If stored, is kept in a file not easily accessible by report writers, standard reports etc.
- Often multiple percentages applicable depending on EE level
- Each rule identifiable by a unique deduction code or sub-code
- Seldom if ever manually calculated and captured

# Data furnished to EB Administrator - Initial Contribution Statement

- Name of the fund; identification of the fund (e.g. registration number); period in respect of which the contribution is payable;
- Name and address of the employer or pay-point which made the deduction; responsible person to contact at the employer or pay-point
- Full name, date of birth, ID number or employee pay number, or other means of identification, date of membership, pensionable emoluments of member and percentage

**OR**

- amount of contributions, split between member and employer as well as an indication of any voluntary contributions paid.

# Subsequent Contribution Statement

- (i) Either all the information required in paragraph (a)(i) and (ii) above and part or all of the information contained in paragraph (iii) above;

OR

- (ii) a reconciliation with the contribution statement for the previous period showing any differences in the data such as
  - additions as a result of new members,
  - reductions as a result of membership terminations,
  - adjustments as a result of changes in pensionable emoluments
  - or the payment of additional voluntary contributions
  - or other information and corrections due to error.

# Historical system design

- RFI used as a means of contribution calculation
- This requires that their EB system has the same calculation parameters as your payroll system
- Requires that changes to the calculation on the payroll be synchronised with changes to EB system

OR

- Used reconciliation method to affect changes only
- Requires the payroll administrator to have good Excel skills
- If change missed can be in effect wrong until NEXT change

Two data sets **ALWAYS** get out of sync



# What does the law require?

- Amount of contributions, split between member and employer as well as an indication of any voluntary contributions paid.
- Your payroll has calculated it perfectly, why should it be recalculated
- Payroll is the most audited system in the company
- Use the data provided
- If EB Administrator considers data to be incorrect, take issue with calculation, not value provided

# An example of EB maladministration

	Payroll	Statement	Variance
On Payroll Only	4627.11	0.00	4627.11
Matched (No Variance)	302371.78	302371.78	0.00
Matched (+ Variance)	44278.34	43888.64	389.70
Matched (- Variance)	226106.12	315525.40	-89419.28
On Statement Only	0.00	5053.20	-5053.20
Totals	577383.35	666839.02	-89455.67

# Maladministration – Continued

## Significant errors

- 4 members on payroll whose contributions NOT allocated to them
- 3 members allocated payments NOT on payroll
- EVERY member allocated almost 50% more ER pension contribution than deducted or paid
- Only a 320 member fund

# Group risk contributions

- Often EB administrator also responsible for Group risk i.e. GLA, Disability and Funeral
- Sometimes included in ER contribution percentage
- Benefit calculated on EB Administrators record of the contribution
- Member dead or incapacitated, unable to verify payout
- 15.9% VARIANCE ON Group Life payout

Trn Type	Payroll Value	Statement Value	Variance
003-Risk	479.12	413.28	65.84

# What can the Employers do

- Insist on receiving a DETAILED schedule of contributions allocated by member
- The Overs and Unders report does not cut it
- Compare the post-EB update schedule with your payroll system
- Monitor and investigate variances
- Insist that your payroll author stores the RFI as used in the calculation of the contribution

# What can the Employers do – Continued

- Split the Risk contributions from the Fund contributions
- Insist that the payroll system stores the Salary used to calculate the risk elements
- Request detailed schedule of Risk elements and compare back to payroll
- Provide as much detail as possible to the EB administrator
- If RFI not available, request EB Administrator to use absolute value provided
- Remember GIGO – EB administrator can only do the best with what they are provided
- If sufficient details provided, there should be NO excuse for shoddy administration

# In summary

- You are the client – you are entitled to know what they have done with the money
- Audit your EB administrator – it is your financial future they have in their hands
- Ensure that they provide you with the information AFTER update and insist on SLA regarding accuracy of update

# A little mistake can make a big difference

