

Provident / Pension Fund Maladministration

What every employer needs to know

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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

