



WHEN **ONE DAY** BECOMES
DAY ONE

RETIREMENT | DISABILITY | RETRENCHMENT | EMPLOYMENT

BENCHMARK | SYMPOSIUM | 2013

RESEARCH INSIGHTS REPORT

 **Sanlam**

Employee Benefits

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We are pleased to provide you with the results of our 33rd Annual BENCHMARK Survey.

South Africa has the largest domestic market in Africa and our substantial natural resources enable us to continually attract foreign investors. Ernst & Young has identified South Africa as one of fourteen attractive investment destinations in Africa. Since 2008 the relevance of emerging markets has increasingly gained confidence, over some developed nations, with South Africa included in the consideration set, as an emerging market investment geography.

FOREWORD

by Dawie de Villiers, Chief Executive Officer,
Sanlam Employee Benefits

Our institutional environment is relatively conducive to business with the financial sector being the most sophisticated on the continent. The Johannesburg Securities Exchange boasts world-class technology, surveillance and world-class settlement in an emerging market and offers investors a truly first world trading environment. Despite all these positives and South Africa commonly referred to as an “asset rich” country, we still face extreme income inequality with many people remaining in poverty. Our economy still struggles with infrastructural inefficiencies, and as a result of slow economic growth, unemployment hovers at 25.2% according to Statistics South Africa’s Labour Force Quarterly Survey for the first quarter of 2013.

At first glance Gross National household savings as a percentage of Gross Domestic Product (GDP), for 2012 is about 1.7% and one might be forgiven to think that this is a positive savings statistic. For a real indication on households’ financial stability, a key indicator is savings to disposable income. According to the South African Reserve Bank, for the period 2008 to 2012 households have experienced consistent year-on-year negative savings in the range of -1.1% to -0.1% with only slight improvements. At the core of households’ vulnerability is consumers’ indebtedness. **SA’s household’s debt to disposable income ratios have been on the rise since the beginning of 2011 and currently sit at around 76%.**

In response to our economic conundrum, in November 2011 the National Planning Committee formulated a vision statement and development plan for the country with the objective of alleviating poverty and the reduction of inequality by 2030. This paper has become the spat of many public debates between Labour and Government, and the future of the plan may hang in the balance.

On the subject of poverty it is indeed a sad reality that many South Africans are heading for and experiencing poverty in retirement. In this regard the Sanlam BENCHMARK Survey has researched and provided data over the last five years on how the low levels of savings is supported by fund members not making adequate retirement provision. Our survey is widely regarded as the definitive guide to retirement provision in South Africa. It delivers valuable information to the industry to enable those responsible for decision-making to make informed decisions around retirement planning, benefit provision and fund management.

RESEARCH OBJECTIVES



It is against this backdrop that we have set the following research objectives:

- Provide key industry stakeholders with a definitive view on the state of the retirement fund landscape.
- Ascertain how employers are preparing for the impact of changes in the retirement reform process.
- Present the industry with Sanlam Employee Benefit’s response to the retirement reform papers.
- Unpack the member’s circle of influence at the point of retirement.
- Have a clear understanding of the post retirement process.

A word of gratitude is extended to the Sanlam BENCHMARK team for effortlessly working around the clock to bring you detailed analysis on the four in-depth quantitative studies. I invite you, the retirement fund representative, to engage with us on the research content. We welcome any suggestions and improvements to ensure that our research enables value adding decision-making.

In retaining our commitment to the environment I am proud to share with you that this report has been printed on Triple Green paper. This is a double coated wood free art paper offering excellent printability. It has been manufactured using sugar cane pulp, making this paper environmentally friendly. It is not only farmed from an annually renewable resource but is also sourced from local suppliers, many of whom are previously disadvantaged tree growers.

I trust that we have once again met the research objectives which we have set. I hope that you continue to find the research results, together with Sanlam's insights, of value when assisting employers construct and design optimal benefit structures which enable all retirement fund members to retire with sufficient capital to sustain them in their retirement years.



Sample

We interviewed 100 Principal Officers of stand-alone retirement funds this year for the BENCHMARK Survey. The aim of our research was to identify developing trends in employee benefits structures and retirement fund management. The average asset under management value of the funds participating in the survey is around R500 million, with 20% of the stand-alone retirement funds having an asset value in excess of R1 billion.

Shift from stand-alone to Umbrella Funds trend

One of the key trends which we have reported on over the last five years is the shift from stand-alone retirement funds to umbrella funds. We observe that this trend is continuing with around 44% of trustees having considered providing benefits to members via an umbrella arrangement. This year we noted that 6% of the participants in our umbrella fund research, had participated in the 2012 BENCHMARK Survey as Principal Officers of stand-alone retirement funds.

Governance and education

As in previous years, fund governance remains topical for Principal Officers and Trustees. Most Trustee Boards constitute eight trustees and are compliant with having 50% member elected Trustees. About 85% of funds do not remunerate their trustees a trend which has remained fairly consistent year-on-year. As far as ensuring that the Trustees have the requisite

EXECUTIVE SUMMARY

by **Danie van Zyl**, Head: Guaranteed Investments, Structured Solutions and **Viresh Maharaj**, Actuary, Sanlam Group Risk

knowledge to exercise their duties, 43% of funds still rely on the Fund's Employee Benefits Consultant to provide Trustee Training.

The BENCHMARK Survey, included a few demographic questions around the level of experience and qualification of Principal Officers. One third of the Principal Officers who participated in the study had less than 5 years' experience, while 57% had between 6 and 20 years' experience as a Principal Officer. Respondents in the survey have a spread of Tertiary qualifications with 35% having a Bachelors Degree, 16% having an Honours Degree and 23% having a Diploma.

Costs

Compared to previous years less employers' remuneration packages are structured on a total cost to company basis, down to 52% from 61% in 2011. Pensionable remuneration remains consistent at around 84% of the employees' guaranteed package. We see that there is a slight reduction in administration and operating costs to slightly below 1% of salaries mark. The issue of costs and contribution levels is analysed in detail later in this report.

Advice

At first glance it appears as if fewer funds have a formalized strategy for rendering financial advice to active members yet it seems as if more funds or companies are making use of the services provided by worksite advisors.

Three quarters of Principal Officers indicate that retirement funds do provide some form of pre-retirement counseling which takes place on average within the last four to five years before a member's retirement date. Retirees have concurred that this is often left too late. Two thirds of retirees have indicated that they have sought advice prior to retirement, but the first time was on average around eleven years before their retirement date. With the benefit of hind sight, if there are any possible financial deficits in required retirement capital, the member could possibly still apply some corrective measures over a 10 year investment horizon to improve their financial position in retirement. It is interesting to note that of those individuals who went looking for retirement financial advice, 45% of retirees have approached their employer or the Human Resources office for assistance on the matter.

In this report we have attempted to share with you some of the top level results together with our insights on trends which we have reported on over the years.

We have compiled a detailed question and answer DATABOOK on each of the studies in the BENCHMARK Survey. These DATABOOKS can be downloaded at www.sanlambenchmark.co.za.

You are more than welcome to contact any of our colleagues listed at the end of the report should you require more information.

Thank you for your ongoing support of the BENCHMARK Survey. We trust that you continue to find value in our research insights.

I came across this quote at the Pension Lawyers Conference held just after the 2013 Budget. Let me explain why I think it is so appropriate.

Previous member surveys revealed that members tend to be apathetic, lack understanding, suffer from inertia, think in the shorter term and when they are offered choices, their decisions often destroy rather than build value. During the 2011 and 2012 symposia we pointed out that this disturbing picture is best interpreted and understood in the context of behavioural finance. From the perspective of behavioural finance, we should accept member apathy as a business reality and adjust not only our communication, but also our benefit structures accordingly. The way forward is to incorporate “choice architecture” in the design of the benefit structure. This means to implement appropriate defaults whenever we provide choice so that we can stack the odds in favour of a good outcome for our members. National Treasury took the same approach in the 2013 retirement reform proposals:

“The overall approach of these policy proposals is therefore to alter the defaults implicit in retirement fund design, where appropriate, to nudge, rather

“Things take longer to happen than you think. Then they happen faster than you think”

Anonymous, World Economic Forum 2013

THE 2013 BENEFIT STRUCTURE APPROACH

by **Kobus Hanekom**, Head: Strategy, Governance and Compliance

than force, individuals into making decisions which serve their long-run interests."

When members look for guidance and advice on withdrawal and retirement, trustees typically respond by saying "speak to your financial adviser". We indicated that this approach may amount to an abdication of responsibility, but that even if it's not, that it does not serve the member – the South African consumer. National Treasury is in full agreement and proposed the following in the 2013 proposals:

"Pension funds and provident funds will be required to identify a default preservation option for their members," and "All retirement funds will be required to select a default retirement product for their members."

Having identified the shift in the criteria for success of retirement funds we encouraged trustees to align with National Treasury, begin with the end in mind and focus on the South African consumer. That is, we have to focus on the pension that fund members will enjoy during retirement. Not just the way we ran the fund in compliance with the rules and the law in accumulating the lump sum retirement benefit. In the 2013 proposals National Treasury puts it like this:

"Although trustees' formal responsibilities may end at retirement, the primary purpose of a retirement fund is to provide income in retirement to members. It is therefore part of the responsibility of trustees to guide members through the process of converting their defined contribution lump sum accumulation into an income."

2013 BENCHMARK Survey Results

The results of the 2013 survey develop and confirm this approach even further.

We asked members whether they revisit the decisions they made on joining. 90% do not – half because they are happy with the decisions they made – 14% because they are not particularly interested in the detail. But 50% claim they have not received any feedback since ...

60% remain in the default. More than half of the members say that they trust the trustees will

make a sound decision and most of the rest were simply not interested in the detail.

A surprising statistic is that while 57% of members prefer email correspondence, 68% want a letter. My take on the matter is that many people do not read complex looking documents but will take the trouble to file them for later reference. A less surprising statistic is that 43% of members have not made use of a financial adviser. A whopping 63% are not prepared to pay for financial advice. Yet, 47% claim they understand most (but not all) of the benefit statement. Although the same percentage has access to the web almost a quarter have never visited it.

The Sanlam benefit structure approach

The Sanlam benefit structure approach consists of the following important principles:

Targeted retirement benefits: Every retirement fund should have a vision and a mission relating to the level of retirement benefits it aims to provide for its members. This is typically expressed as a net replacement ratio (NRR) or a percentage of final salary.

Default strategies: The four more important default strategies are contribution flexibility, investment choice, preservation and annuitisation. Retirement funds are virtual tax havens that produce outstanding tax favoured returns for members.

Member guidance and support: In addition to regular member information sessions, it is desirable for the fund to provide member with access to or to arrange financial advice when they join the fund, terminate membership and especially when they approach five years from retirement.

When you start with what you hope for, you do not leave the planning to "one day". It is best to get it right on "day one" of employment. This benefit structure approach does exactly that, and our clients love it.

Retirement reform has no doubt been taking "longer to happen than you think". We sense however that we are at something of a tipping point. From now on retirement reform may just "happen faster than you think."

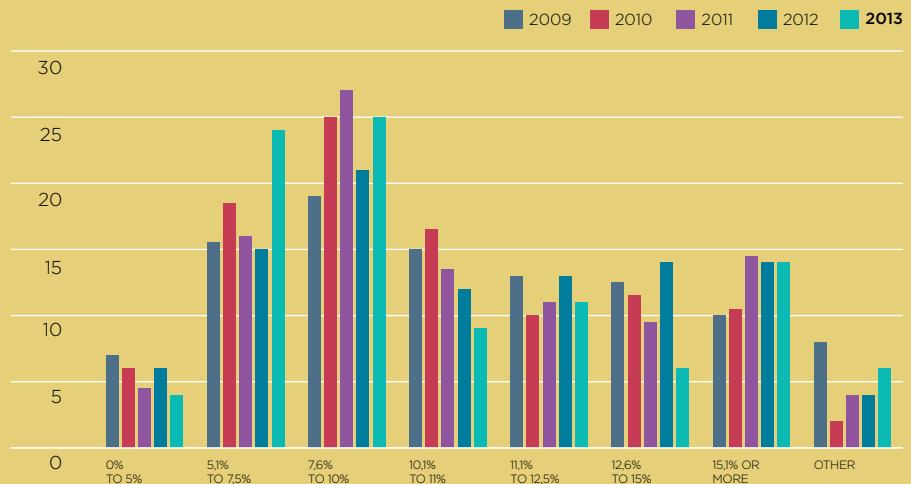
STAND ALONE SURVEY

CONTRIBUTIONS



Employer contributions

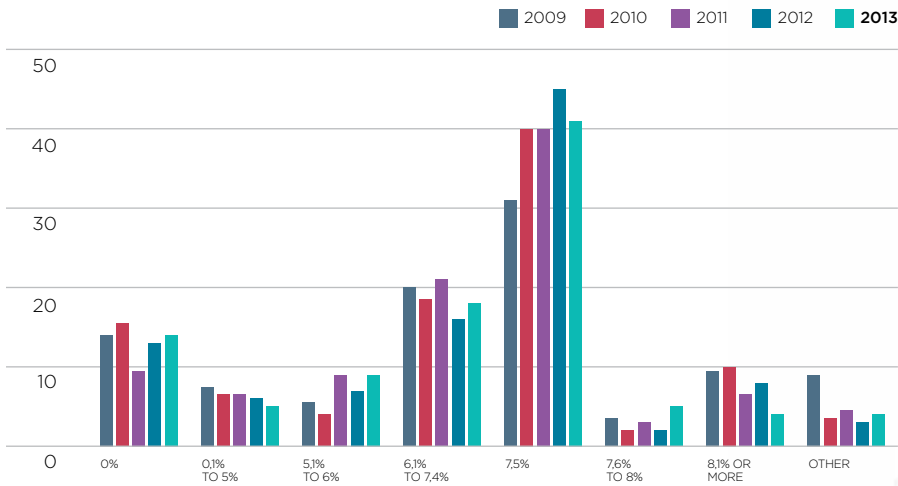
52% of funds indicated that the employer's remuneration package is based on a total cost to company, while 14.9% of the balance is contemplating such a structure.



The average employer contribution is 9.7%. This is significantly down on the 10.2% in the 2012 survey, in part due to the inclusion of more union based funds in this year's sample. The average employer contribution for union based funds is 7.4%. The corresponding figure for non-union based funds is 10%. The average employer contribution to pension funds was down on the total average at 9.3% and the average employer contribution for provident funds was up on the total average at 10.2%. A split based on fund size, showed that large funds (funds with 5 000 and more members) had an average employer contribution of 9.1%, well below the total average with small funds (funds with 1 to 500 members) at only 6.6% and medium funds at 10.2%.

A split based on fund size, showed that large non-union based funds (funds with 5 000 and more members) had an average employer contribution of 10.5% as opposed to the 10.25% of smaller funds (101 to 500 members).

Employee contributions



The average employee contribution is 5.9%, which is slightly down on the 6.0% in 2012. A split based on the fund type showed that members belonging to pension funds contributed on average 6.7% compared to those members belonging to provident funds which contributed 4.9% on average. A further split based on the size of the fund showed that members belonging to funds with a total membership of between 100 and 500 (as well as those funds with more than 5 000 members) contributed on average 6.1% above the total average, whereas members belonging to funds with a total membership of between 500 and 5 000 contributed on average 5.7%, below the total average with small funds even lower at 5% on average.

Cost of administration

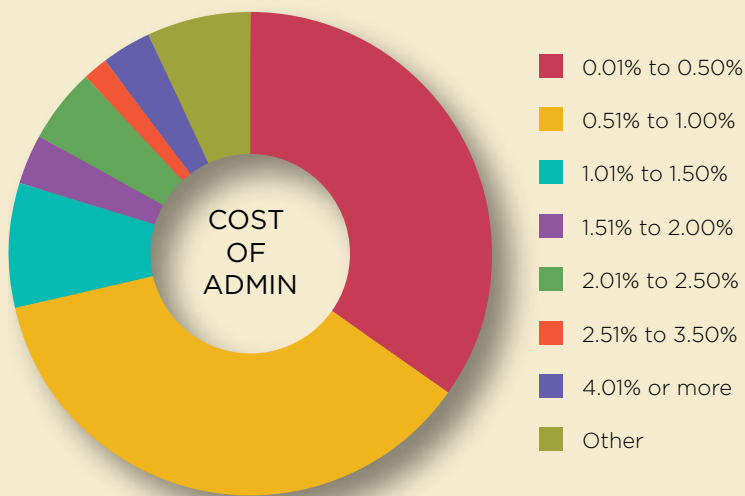
About 59% of funds stated that their administrator bills separately for each item. Also, about 20% of funds pay administration fees including all expenses and 16% pay additional expenses not specified in the administration agreement. Meanwhile, 54% of funds do not operate a contingency reserve account. Of those that do, 25.9% fund the reserve by way of a deduction from employer contributions, while 27.8% express their contribution to the reserve account as a percentage of the administration fee. About 59% of funds are billed as a percentage of salary. Only 30% are charged on a fixed cost basis per member, whilst 3% are billed as a percentage of assets. The average fixed cost per member is R36.



**AVERAGE
EMPLOYEE
CONTRIBUTION
= 5.9%**

**AVERAGE FIXED
COST PER MEMBER
= R36**

The fixed-cost approach implies the lowest level of cross-subsidy, but this is one instance where cross-subsidy may be preferred. The total cost of administration is between 0.5% and 1% of payroll for 37% of funds. The average cost is 0.9%, which is down from the 1.1% in 2012. It should be noted that fixed costs weigh more heavily as a percentage reduction on small salaries and have a much smaller effect on large salaries. Funds that use this method of cost recovery lose any cross-subsidies between higher paid and lower paid workers. Therefore, the effective reduction in yield to lower paid workers is proportionately higher than that of the higher paid workers. The distribution of cost as a percentage of payroll is as follows:



Key indicators

	2013	2012	2011	2010	2009
Employer contributions	9.7	10.2	10.1	9.8	9.9
Death benefit premiums	(1.6)	(1.6)	(1.6)	(1.7)	(1.9)
Disability benefit premiums	(1.1)	(1.1)	(1.2)	(1.3)	(1.3)
Administration and operating costs	(0.9)	(1.1)	(0.9)	(0.9)	(1.3)
Retirement provision	6.1	6.4	6.4	5.9	5.4
Employee contributions	5.9	6.0	6.1	5.8	5.9
Total provision for retirement	12.0	12.4	12.5	11.7	11.3

Booklet 2013

	All funds	Union Funds	Non Union
Employer	9.74%	7.36%	9.99%
Employee	5.87%	6.93%	5.76%
GLA	-1.63%	-1.26%	-1.66%
GOA	-1.13%	-1.05%	-1.14%
Admin	-0.87%	-0.50%	-0.88%
SAVE	11.98%	11.49%	12.07%

Excluding union based funds, the net saving for retirement of very large funds (more than 5000 members) average 13.8%, benefitting from better economies of scale.

STAND
ALONE
SURVEY

INVESTMENTS

INVESTMENT VEHICLES

The moderate market-linked, aggressive market-linked and life stage mandates are still the most common investment vehicles in 2013 at 49%, 44% and 44% respectively. However, the moderate and aggressive market-linked have decreased in popularity from 62% and 50% in 2011. In line with this declining trend the cash popularity moved from 61% in 2011 to 38% in 2013.

Of the investment vehicles described above, an average of 74% of the Funds' actual assets are invested in life stage mandates followed by moderate and aggressive market-linked at 46% each. There has been a decline in the average percentage of assets invested in hedge funds and absolute return (CPI type) from 15% and 27% in 2011 to 2% and 13% respectively in 2013. Most Funds still prefer multi manager portfolios to single manager options.

MOST COMMON INVESTMENT VEHICLES IN 2013

49%

MODERATE MARKET-LINKED MANDATE

44%

AGGRESSIVE MARKET-LINKED MANDATE

44%

LIFE STAGE MANDATE

MEMBER INVESTMENT CHOICE

47%

Over the past four years about 47% of funds provide **member choice** for all members.

33%
ALLOW
ANNUAL
SWITCHING



27%
ALLOW
DAILY
SWITCHING

Of the funds that allow member choice, 33% allow **annual** and 27% allow **daily** switching.

67%

67% of the funds have **four or more investment options** for members to choose from.



94%

The greater proportion (94%) is **satisfied or very satisfied** with member investment choice based on good variety of choices and/or good investment returns.

Of the funds that do not offer **investment choice** (these are mainly the smaller funds with less than 100 members and union funds), 63% do not plan to offer it in the future.

DEFAULT INVESTMENT STRATEGY

On average Funds expect 13.4% of their members to retire comfortably. The Funds were asked their opinion on the replacement ratio that would be needed on different salary bands. Their responses are shown below:

	<10k	10k-25k	>25k
For survival	62%	61%	58%
To maintain current living standards	76%	74%	72%
To live beyond current living standards	87%	87%	87%

The minority of funds (41%) have a target pension for trustees to work towards. Of these funds, the majority are targeting a replacement ratio of between 50-74%, the rest are aiming for either CPI +3.5% or one fund targets nine times annual salary. 96% of these funds have a default investment strategy in place to help meet the pension target. The default portfolio is largely (76%) the life stage mandate.

About 52% of Fund’s membership rely completely on the Trustee choice or default option up, 33% in 2011. The investment strategy largely (96%) does not discriminate between white collar and blue collar workers. The main reason for this is to treat everyone fairly.

STABLE RETURNS AND GUARANTEES

In line with previous years, 53% consider guarantees provided by products to be important or very important. Funds rate cash (52%), smoothed bonus (55%) and absolute returns (54%) and as being good or very good at providing stable returns to fund members. Similarly, the funds rate cash (60%), smoothed bonus (55%) and absolute returns (49%) as being good or very good at providing guarantees.

Considering BEE in choosing asset managers has not been considered by **82%** of the Funds.

53% consider guarantees provided by products to be important or very important.

On average Funds expect **13.4%** of their members to retire comfortably.

RESPONSIBLE INVESTMENT

- 43% of Funds have ESG policies in place. Of the three, Governance is ranked of most importance.
- 76% of the Funds are not Shari’ah compliant, while 72% do not have an asset allocation in an African portfolio.
- Considering BEE in choosing asset managers has not been considered by 82% of the Funds.
- Of the Funds that do consider BEE in selecting an asset manager, most weight is place on management control and equity ownership at 16% and 15% respectively.
- 39% of the funds have been influenced by the principles espoused in CRISA in setting its IPS.

LIFE STAGE

As indicated above the most funds have assets invested in the life stage mandate. 43% of these funds changed the composition/asset allocation of the life stage model compared to 49% in 2011.

Half of the funds start to move members to the less volatile end stage portfolio five years prior to retirement. Most of these portfolios are invested in either cash (32%) or conservative balanced fund

(with less than 30% in equity). In line with previous years, 70% of funds provide advice in this last phase before retirement. It is interesting to note however, that in 64% of the funds the end stage portfolio chosen is not related to the members' intended annuity selection at normal retirement age.

POPULAR RETIREMENT ANNUITY CHOICES

46% Guaranteed annuity (level or increasing)

50% Living annuity (ILLA)

32% Inflation linked

25% With profit



70% of funds do not have a default annuity strategy. Although in line with the National Treasury recommendations most funds are starting to consider this.

GOVERNANCE INSTRUMENTS AND BENCHMARKS

Performance and compliance with mandates are reviewed quarterly and annually by 49% and 34% of the funds.

The following benchmarks are used in the IPS or mandates:

- **60% in 2013, up from 56% in 2011, use CPI as a benchmark**
- **40% use published indexes, down from 51% in 2011**

These benchmarks are also used in the decision to retain asset managers.

A little less than half (49%) review performance annually. Funds reported a mean investment return of 16.3%, up 12.6% in 2011. No fund reported a negative return. 28% of respondents expect better investment returns than 2011. No fund expects negative return in 2013.





INFORMATION MANAGEMENT

Tools used to communicate

The annual benefit statement remains the most popular tool used to communicate since 2010. In tow are the following tools:

	2013	2011	2010
1 Annual benefit statement	98%	96%	95%
2 A rule booklet	77%	84%	76%
3 Information on Intranet/Internet	66%	72%	73%
4 Annual trustee report	65%	59%	61%

- There has been a decrease in popularity in the rule booklet and internet/intranet from 84% and 72% in 2011 to 77% and 66% respectively in 2013
- The annual trustee report has become more significant up from 59% in 2011 to 65% in 2013

Most popular topics communicated according to members



40% of funds provide investment feedback **quarterly**

The **annual benefit statements** (together with interpretation and implications) **are being communicated more at 75% in 2013** up from 70% in 2011

Member retirement fund queries

	2013	2011	2010
Principal Officer	68%	64%	56%
Administration	57%	59%	44%
Trustees	48%	46%	48%
Human resources department	47%	50%	51%

Queries are still mainly answered by the Principle Officer. There is a continued decline in the dependence on the HR department to answer queries. In terms of FAIS, 85% of financial advice is given by a worksite advisor (financial advisor/broker contracted by a company).

Funds use the internet/intranet to give members access to information. However this was down to 66% from 72% in 2011. Information accessed contains a modeller or calculator to calculate retirement needs and/or basic investment alternatives (55%) and performance of investment portfolios (59%) in 2013. This was up 33% and 48% respectively in 2011.

42% of the funds offer neither home loans nor housing securities. 43% offer housing securities to members.



PROCESSES: Order of importance

The order of importance has not changed significantly since 2009

	2013	2011	2010
Loading and investing contributions timeously	3	3	3
Paying claims	3	3	3
Effecting investment switches timeously	5	4	5

Processes that relate to members' cash flows are ranked more important than others such as relationship building and HR training which are rated 7th and 9th respectively.



RISK BENEFITS

by **Virath Maharaj**, Actuarial Specialist, Sanlam Employee
Benefits: Group Risk

The cost of risk benefits under the funds has decreased marginally from 1.72% in 2010 to 1.63% in 2013. This may be as a result of the interaction between the positive effects on pricing of competitive pressures and the roll-out of ARV treatments. In comparison, the cost of cover in separate schemes has remained relatively stable over the past 4 years at approximately 1.4%.

A consistent 15% of respondents indicated that they have a Core/Flex risk structure in place. The mean cost of total GLA benefit under a Core/Flex structure is 1.9% of salary in 2013, which has decreased from 2.58% of salary in 2010. There has been a 35% decrease for core benefits down to

1.08% and a 50% decrease for flex benefits to 0.78% since 2010. It must be noted that 60% of members who have Flex benefits utilized the services of a financial advisor when selecting their Flex cover.

The life cover for funds with a spouse's pension has increased marginally since 2010 from 3.1 to 3.5 times annual salary in 2013. The life cover for funds without a spouse's pension has remained consistent at about a multiple of 3.6 times annual salary.

1/3 of the lump sums payable on death include the member's equitable share the remaining 2/3 receive his/her equitable share in addition to the lump sum.

STAND
ALONE
SURVEY

A large proportion of respondents (60%) have provided benefits to minor orphans. This statistic has not changed over the years. The two most common ways of dealing with minor orphan benefits is to provide the benefits to the legal guardian or set up a trust.

The proportion of funds that treat permanent disablement as an acceleration of death benefit under the fund has decreased over the years from 17% in 2010 to 11% in 2013.

The proportion offering the lump sum disability benefit as a separate offering under the fund has increased from 8% in 2010 to 14% in 2013. The mean lump sum multiple for disability has increased from 2.6 to 2.82.

The decrease in cost under a fund is substantial for lump sum disability benefits, with the average cost for lump sum disability benefits under a fund reported as 1.13% in 2013 compared to 1.31% in 2010. Similarly, the average cost of the lump sum disability benefits under a separate scheme has decreased from 1.13% in 2010 to 1.03% of salary in 2013.

More than 85% of schemes and funds have an initial waiting period of less than 6 months, which has been a stable trend over the years.

About 60% of respondents offer disability income benefits.

As in previous years, the PHI benefit is usually 75% of annual salary. 47% of respondents claim that the increase in disability benefits increases as a defined percentage of CPI. Of these respondents, 45% indicated that a capped maximum increase was applied with a mean cap of 6%.

The mean fixed increase in PHI over the years is up from 5.83% to 6.25%.

Other than Life and Disability risk benefits, Funeral and Critical Illness are the most popular benefits on offer over the years.

The level of funeral cover has increased over the years, with a new mean of R13 000 from last year's R11 000.

43% of respondents said that they would require no change from their current insurer, while 23% indicated they would want lower rates. 13% responded that they would prefer faster turnaround times on claims processing.

Respondents indicated that price and confidence that valid claims would be paid were the two most critical decision criteria when placing their risk business.

43% of respondents said that they would require no change from their current insurer, while 23% indicated they would want lower rates. 13% responded that they would prefer faster turnaround times on claims processing.





SPECIAL TOPICS

STAND ALONE SURVEY

Service Providers

In line with previous years, 62% of funds use multiple providers for services like administration, benefit consulting and investment.

88% of the funds have one 'principal benefit consultant who takes a leading role in advising on fund management issues and co-ordination of different specialist providers. In addition the Fund has an investment consultant.





SHARE- HOLDER ACTIVISM

78% have not requested information on how the asset manager has voted on the Funds' behalf. The main two reasons is that Funds trust their knowledge and expertise or have never thought to do so. Similarly 83% did not engage the asset manager on how they voted at the AGMs. 73% of Funds do not have an investment mandate with asset managers which include voting principles which have been communicated to the manager on how to exercise voting on their investments. The majority believe that trustees abdicate the responsibility of voting to the asset managers.

The majority of funds (85%) have never debated proxy rules (mainly because the issue has not come up or saw no reason to) as long as the asset manager delivered on the mandate. 67% of Funds have never come across situations where conflict of interests have arisen in voting arrangements.

49% are not aware of their asset manager's minutes and resolutions being freely accessible. 82% believe that it adds value to have the fund's annual financial statements audited.

FIDELITY COVER

96%

Most (96%) Funds currently have fidelity cover in place (on average R25 million) which the majority had no difficulty obtaining.

PRINCIPLE AND TRUSTEE DEMOGRAPHICS

30%

30% have on average 11-20 years' experience of retirement funds.

28%

28% have 2-5 years' experience.

38%

38% of the total group are aged between 55-64 years.

The majority of Trustees and Principle Officers have a degree or an honours degree (51%), males (72%) and white (80%).


 UMBRELLA
SURVEY


By **Mike O'Donovan**, Chief Executive Officer: Sanlam Umbrella Solutions, Sanlam Employee Benefits and **Chris Jacobs**, Head Product Development: Sanlam Umbrella Solutions

This is the fifth year that we have undertaken a separate study on umbrella funds, and hence we have now accumulated sufficient history to meaningfully analyse the emerging trends.

Last year we focused our research on qualitative interviews with senior decision-makers of umbrella fund sponsors. This year we have reverted back to surveying the employers that participate in umbrella funds.

The survey attempts to be representative of the entire South African umbrella fund market. Clients of the five major players in this market represented 83 of the 100 participants (84 in 2011, 68 in 2010 and 78 in 2009), with the balance of clients being spread between other market players. One should be careful in appreciating some of the changes in the sample in drawing conclusions on trends.

EXECUTIVE SUMMARY

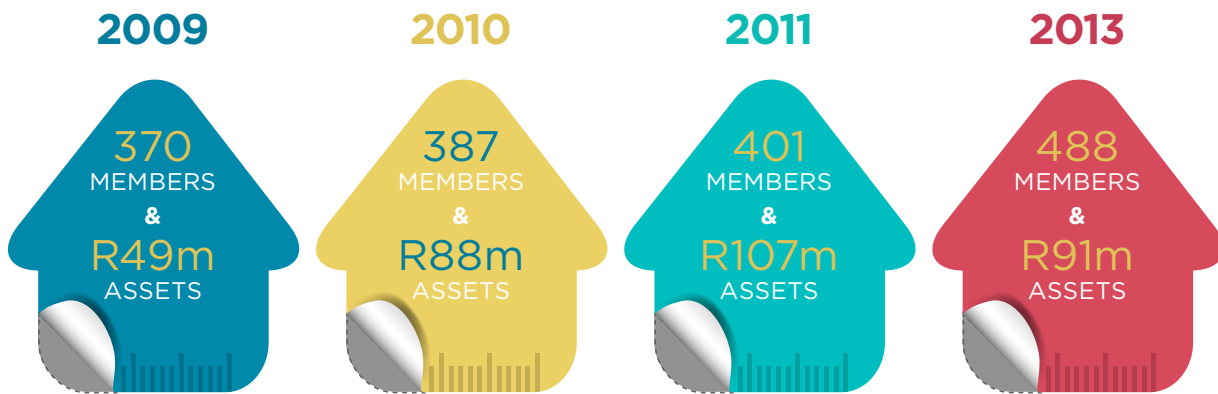


A major finding is that larger employers are continuing to consider umbrella funds as a viable alternative to employer-sponsored standalone funds with 44 out of 100 stand-alone funds surveyed in the 2013 Stand-alone Fund Survey indicating that they have considered moving to an umbrella fund arrangement and 12 out of the 44 indicating an intention to transfer into umbrella fund arrangements in the ensuing 12 months. The two major reasons being issues related to cost savings and administrative convenience, but with important subsidiary considerations such as time savings thus allowing more time to focus on core

business issues, avoiding trustee fiduciary risk and also the increasing complexity of fund governance and compliance.

As more large employers choose to join umbrella funds, **the profile of employers that we survey naturally changes to reflect the changing industry demographics.** 52 of the 100 surveyed participating employers in 2013 participated in the 2011 Benchmark Survey, 46 of these employers participated in the 2011 Umbrella Funds Survey and the other 6 employers participated as stand-alone funds in 2011.

THE AVERAGE SUB-FUND SIZE



The trend of larger funds joining umbrella arrangements is expected to continue and is perhaps a further indication of the continuing and rapidly accelerating consolidation trend in the retirement funds industry.

A key issue that we had to decide on in conducting the umbrella fund survey was who would be the right person to interview per sub-fund. For stand-alone funds, the appointed Principal Officer is the natural person to interview, but unfortunately no such position exists at sub-fund level within umbrella funds. We have tried to identify the key person responsible for retirement fund issues within each of the participating employers, and have interviewed this person. In some cases, the sub-funds' appointed consultants were present at the interviews.

Any survey naturally surveys the perceptions and the understanding of the interviewees, and will not usually give the same results as directly analysing the source data. This is a particular concern for us as regards umbrella funds, and there appears to be some evidence that the interviewees are not as au fait with all the technical issues as are the principal officers of stand-alone retirement funds. But surveying perceptions and understanding is nonetheless very powerful, and we believe should present very good insights into the workings of the umbrella fund industry.



The results of the survey are analysed further within the following topic summaries covering **Contributions, Communication, Governance, Investments, Risk Benefits** and **Advice**.

It does appear that there is some evidence emerging that the umbrella fund industry is steadily improving its overall value proposition with a continuation of the encouraging trends being reported in terms of both the Communication and Governance topics.

The survey showed that 63 of the 100 respondents (51 in 2011) feel the Trustee election process is fair and democratic and 77 (61 in 2011) were aware of a forum such as an annual general meeting where member representatives can question trustees on their performance.

The Survey shows that costs are on average lower in umbrella funds than in stand-alone funds and that client understanding of costs remain unsatisfactory.

We refined the methodology of capturing the breakdown of operating costs in 2013 compared to 2011, leading to a more detailed analysis of this element this year. The results were similar to previous years, being 0.8% of payroll on an unweighted basis and if anything, this serves to validate prior year results. The weighted average of costs across the 100 funds of different membership sizes was 0.5% of payroll.

We believe it is critical that the industry focuses attention on the better understanding of costs by clients in order that a truly competitive private sector umbrella fund market underpinned by consumer choice can thrive and grow.

The net retirement funding provision (after deducting risk costs and operating costs) rose from 9.5% of salaries in 2011 to 10.4% of salaries in 2013. Although it is encouraging to see this increase this was largely due to a reduction in a particular risk cost among the sample rather than an increase in retirement contributions. Combined employer and employee contributions remained static at 13.7%. These savings levels are not sufficient to secure adequate pensions upon retirement for members (even assuming members preserve retirement savings when changing jobs noting that inadequate preservation is certainly the norm in South Africa), and this remains a very considerable challenge for both the retirement funds industry and the country as a whole.


 UMBRELLA
SURVEY


 CONTRIBUTIONS

72%

72% of employers indicated that **their remuneration packages are based on total cost to company** compared to 72% of sub-funds in 2011.

A split based on fund type revealed that

73%

(2011: 73%) of provident funds **operate on a cost to company basis** compared to 61% (2011: 68%) of pension funds. Also, 18% (2011: 44%) of the balance of sub-funds are contemplating such a structure.

5.6% The **average employee contribution** as a percentage of salary is 5.6%. This is slightly up from 5.4% in 2011.

8.1% The **average employer contribution as a percentage of salary** is 8.1% which is slightly down from 8.3% in 2011.

78% Also, 78% (2011: 72%) of sub-funds indicated that the **members cannot choose the level of contribution by the employer** whereas 61% (2011: 61%) of sub-funds indicated that members cannot choose their own level of contribution

70% 70% (2011: 70%) of employers **allow members to make voluntary contributions**. The average additional voluntary contribution rate as a percentage of salary is 2.4% slightly higher than the 2.0% in 2011.

COST OF ADMINISTRATION

52% of sub-funds stated that their umbrella fund itemises separately for the cost of administration which is in line with 2011. 40% (significantly up from 28% in 2011) of funds stated that the administration fee includes all other expenses. Also, 3% (2011: 17%) of funds stated that they pay for additional expenses not specified in the administration agreement.

70% (2011: 68%) of sub-funds stated that the trustees appropriately manage other expenses, such as FSB levies, auditing fees and trustees' reimbursements, via formal budgeting and approvals processes. These expenses are recovered from a contingency reserve for 19% (2011: 19%) of sub-funds, deducted from member accounts for 34% (2011: 46%) of sub-funds and included in administration costs for 10% (2010: 21%) of sub-funds. The contingency reserve account is expressed as a rand value per member per month for the majority (58%) of umbrella funds, compared to a percentage of contribution which was applicable to the majority (46%) of umbrella funds in 2011.



The average cost of administration as a percentage of salary was about 0.8% (2011 and 2010: 0.7%). Similar to the Benchmark Surveys conducted in 2011 and 2010, this figure is lower than the comparable cost for standalone funds.



The result possibly points to clients not properly appreciating all their costs, or sponsoring companies subsidising administration costs taking account of other income streams. In fact, 16% (2011: 31%) of sub-funds indicated not to know what the annualised administration fee was. It is also possible that some of the assumptions we were compelled to make in analysing the surveyed data were not appropriate e.g. discarding or reworking some data that failed basic reasonability tests. Another reason could be that the average cost could be skewed by very big funds with very low charges. More than likely the result is a consequence of a combination of all the above mentioned issues. It will be interesting to continue to monitor this result in future Benchmark Surveys."



	2013	2011	2010
Employee contributions	5.6%	5.4%	5.5%
Employer contributions	8.1%	8.3%	8.1%
Death benefit premiums	(1.6%)	(2.1%)	(1.8%)
Disability benefit premiums	(0.9%)	(1.4%)	(1.5%)
Operating costs	(0.8%)	(0.7%)	(0.7%)
Total provision for retirement	10.4%	9.5%	9.6%

GOVERNANCE

UMBRELLA
SURVEY

71%



of respondents are aware of the composition of the board of trustees, including their qualifications and experience.

This is up from 70% in 2011 and 67% in 2010. 88% of respondents indicated that the trustees were fairly well or very well equipped to perform their fiduciary duties.

For 43% (2011: 43%) of respondents at least 50% of the board of trustees are elected by the members. 51% of respondents indicated that at least some if not all of the member elected trustees are completely independent of the umbrella fund sponsor. This is consistent with the 2011 and 2010 results. 63% of respondents feel that the election process is fair and democratic (significantly up from 51% in 2011). 73% of umbrella funds allow member representation at participating employer level (down from 78% in 2011).

A forum, such as an annual general meeting, where member representatives can question the trustees on their performance and plans is in place for 77% of respondents (significantly up from 61% in 2011). A formally approved governance plan is adopted by 86% of respondents, which is consistent with the 2011 and 2010 results.


 UMBRELLA
SURVEY

INVESTMENT CONSULTANT

79%

(2011: 78%) of respondents indicated that the trustees are advised by an investment consultant.

63%

(2011: 61%) know who the appointed investment consultants are.

CONSULTANT/BROKER

54%

(2011: 59%) of respondents indicated that their consultant/broker was independent of the sponsor.

83%

(2011: 86%) indicated that the service provided by their consultant/broker was contracted in writing.

33% (2011: 35%) of consultants/brokers are remunerated by statutory commission and 27% (2011: 27%) negotiate a fee with the employer.

59% (2011: 51%) of respondents felt that the level of remuneration was commensurate with the consulting services provided.

ADVICE

FINANCIAL ADVICE

69% (2011: 64%) of sub-funds have a formalized strategy for rendering financial advice.


 UMBRELLA
SURVEY



INVESTMENTS

MEMBER-DIRECTED INVESTMENT CHOICE



66%

(2011: 66%)
of employers
surveyed
offer

member-directed investment choice. Where member directed investment choice is available 5% (2011: 20%) of sub-funds do not make the facility available to any of their members. The average number of investment options offered to members is 7 (2011: 9).

Default strategy

95% (2011: 98%) indicated that an appropriate default strategy was available for members that either do not wish, or are not sufficiently financially sophisticated to make investment choices. The default strategy is chosen by the trustees for 48% (2010: 60%) of sub-funds and by the employer for 51% (2010: 42%). The average proportion relying on the default strategy is 71% (2011: 72%).

59% Life stage mandates are the most popular choice with 59% (2011: 62%) of sub-funds offering it as the default strategy.

On average Funds expect 18% of their members to retire comfortably. The Funds were asked their opinion on the replacement ratio that would be needed on different salary bands. Their responses are shown below:

	<10k	10k-25k	>25k
For survival	64%	59%	57%
To maintain current living standards	76%	73%	73%
To live beyond current living standards	86%	85%	85%

Only 16% of employers surveyed have a target pension for trustees to work towards. Of these funds, 50% are targeting a replacement ratio of between 75-79%, and a further 13% are aiming for a replacement ratio of 80% or more. 91% of these funds have a default investment strategy in place to help meet the pension target.

The investment strategy largely (92%) does not discriminate between white collar and blue collar workers. The main reason for this is to treat everyone fairly.

Respondents indicated the frequency that members are allowed to switch investments as daily 36% (2011: 49%), annually 27% (2011: 28%), monthly 20% (2011: 8%) and half-yearly 5% (2011: 8%).

94% Almost 94% (2011: 94%) of employers are either satisfied or very satisfied with their investment choices, with 57% (2011: 76%) stating that a good variety of choices as the reason for the positive response, and 36% (2011: 32%) stating good investment returns as the reason.



38%

of respondents state that their chosen umbrella fund **includes a Shari'ah compliant investment option** to members compared to 62% in 2011.

14%

of respondents indicated the **principles espoused by CRISA** (the Code for Responsible Investing in South Africa) influenced their sub-fund in any way when setting its IPS.

In-house investment portfolios

46% (2011: 40%) of respondents indicated that their chosen umbrella fund automatically invests in in-house investment portfolios that are associated with the sponsor.

Stable returns and guarantees

From the employer's perspective, 96% (2011: 92%) consider it to be important for a portfolio to provide stable investment returns and 80% (2011: 72%) of funds also consider guarantees provided by products to be important.

Feedback on Investments

Investment feedback to members is provided annually by 28% (2011: 35%) of umbrella funds, half-yearly by 10% (2011: 16%) and quarterly by 46% (2011: 33%).

The main topics covered in the investment feedback are:

84%	Returns
68%	Returns vs. benchmarks
68%	Market/economic overview
50%	Risk analysis

Performance measurement

The respondents indicated that the frequency that the participating employers and the umbrella funds formally measure investment performance versus benchmarks is as follows:

	2013 EMPLOYER	2013 UMBRELLA	2011 EMPLOYER	2011 UMBRELLA	2010 EMPLOYER	2010 UMBRELLA
Monthly	8	19	7	8	7	12
Quarterly	30	41	33	25	30	28
Biannually	18	18	14	20	10	8
Annually	27	33	33	28	28	15
Less often	10	8	4	4	6	0
Don't know	7	14	8	12	16	37

Life stage investing

In a life stage vehicle members are switched to less volatile portfolios in the period prior to normal retirement age, the phase out period.

The most popular (51% of respondents) phase out period is 5 years and the most common frequency with which the asset allocations of members are changed within the phase out period is annually (57% of respondents).

The majority of life stage models have more than three end stages and the most common type of annuities that the end stage allows for is, living annuities 57% (2011: 49%), inflation linked annuities 51% (2011: 44%) and guaranteed annuities (level or increasing) 46% (2011: 46%).

The most popular asset allocation in the end stage is conservative equity [37% (2011: 43%)] and 100% cash [27% (2011: 22%)].

86% (2011: 82%) of respondents indicated that members received advice when they enter the phase out period of the life stage model.



RISK BENEFITS

68% (2011: 63%) of employers provide risk benefits as part of the umbrella fund package, and 23% (2011: 42%) provide risk benefits by way of a separate scheme, while 9% provide risk benefits as part of the umbrella fund package and by way of a separate scheme.

Risk Benefits - Umbrella Funds

83% (2011: 83%) of the respondents' selected umbrella funds have processes in place to ensure the ongoing sound actuarial management of its risk pool.

51% (2011: 57%) of the respondents' selected umbrella funds have their insured benefits automatically underwritten by an in house insurance company that is associated with the sponsor.

94% (2011: 81%) of respondents indicated that they were satisfied that the risk benefits product range was comprehensive and appropriate to satisfy members' requirements.

35% (2011: 56%) of employers showed no change in their risk charges while 47% (2011: 24%) indicated an increase and 18% (2011: 19%) experienced a decrease over the last year.

58% of employers rebroke these separate risk schemes on an annual basis.



THE MOST POPULAR RISK BENEFITS PROVIDED AS PART OF THE UMBRELLA FUND PACKAGE



DEATH BENEFITS

100%

(2011: 98%),



DISABILITY BENEFITS

95%

2011: (94%) and



FUNERAL BENEFITS

70%

(2011: 68%)

- The average lump sum death benefit is 3.5 (2011: 3.2) times salary.
- The most common level of funeral cover is R10 000 which is consistent with the 2011 results.



Risk Benefits – Separate Schemes

Employers reported that for the separate risk schemes 53% (2011: 43%) showed no change in their risk charges over the previous year, while 25% (2011: 38%) had experienced a premium rate increase and 22% (2011: 7%) had experienced a decrease.

53% of employers rebroke these separate risk schemes on an annual basis.

The most popular risk benefits provided under separate risk schemes are death benefits 78% (2011: 86%), disability benefits 72% (2011: 81%) and funeral benefits 69% (2011: 57%).

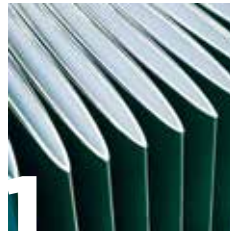
The average lump sum death benefit cover is 3.2 times salary, which is consistent with the 2011 results.

The most common level of funeral cover is R10 000 which is consistent with the 2011 results.

COMMUNICATION

Communication tools

The majority of member communication is delivered via printed material, followed by technology and face to face which is consistent with the 2011 and 2010 results.



Topics communicated

Investment performance (89%) (2011: 74%) and the **benefit structure** (83%) (2011: 90%) are still the most popular topics communicated.

59% (2011: 53%) of umbrella funds communicate legislative changes to their members.

The most popular method of distribution is electronic member newsletters followed by paper based member newsletters and emails.

The majority of members' retirement fund related queries are handled by their Human Resources department (66%) (2011: 62%), the retirement fund consultant/broker (55%) (2011: 42%), and the administrator (46%) (2011: 44%). 97% (2011: 88%) of sub-funds find member information and data accurate, reliable and up-to date.

Internet/intranet facilities

78% (significantly up from 2011: 66%) of funds make use of an internet/intranet facility.



MEMBER
SURVEY

COMMENTARY



by Karin Muller,
Head Sanlam
Growth Market
Solutions

The **‘what’** and the **‘why’** behind the choices made by retirement fund members

The Sanlam Symposium, an annual highlight on the South African retirement planning landscape, presents invaluable industry research – not least because of the depth of its engagement with members of retirement funds,

The third members’ survey in Sanlam’s research now enables the industry to consider possible trends and understand the extent to which the retirement industry is making progress in understanding and providing for retirement benefits.

Given that the financial services industry is moving closer to the implementation of regulations pertaining to Treating Customers Fairly (TCF), questions regarding TCF were included to assess members’ understanding and perception of fair treatment.

This year’s research focused on the decisions members make and the type and level of assistance they require in order to make these decisions. Ultimately, the financial decisions made by retirement fund members have a big impact on their benefits during retirement. Some of these critical decisions include the size of their retirement contributions, the extent to which they start to save early, and their choices in terms of asset allocation and preserving retirement savings.

How much to provide for

Two-thirds of retirement members surveyed indicated that they needed to start providing for retirement as early as age 20. What is, however, concerning is that this number has decreased from 75% in 2010.

When it comes to how much to provide for in retirement, about 50% of the members surveyed thought that they needed about 10 times their salary or less. This number has not changed much since 2010. This year, 10% noted that they did not know how much they needed for retirement. These two results indicate that retirement fund members do not understand how much they need to provide for in their retirement.

Financial advice

One aspect that showed a positive improvement is that 20% of members polled indicated the need to obtain advice regarding retirement 20 years prior to retirement.

It is, however, worrying that just over 25% of members still think that they need to obtain advice less than five years prior to retirement and 7% think that it is not necessary to seek any advice at all relating to retirement matters.

The investment decisions that members make have a big impact on retirement provision. While it is comforting to see that 50% of members polled made their investment decisions based on advice from an advisor or broker, 10,6% indicated that they randomly selected an investment fund while 21,2% of employees said they received advice from a colleague. 43% of members have not consulted a financial adviser or broker regarding their retirement savings and investments.

When asked who would be their first point of contact for queries regarding their retirement fund, 50% responded that they would speak to their HR professional. Only 25% indicated that they would speak to a personal financial advisor or broker.



20%

of members polled indicated the need to obtain advice regarding retirement 20 years prior to retirement

25% of members still think that they need to obtain advice less than five years prior to retirement

and 7% think that it is not necessary to seek any advice at all relating to retirement matters

50%

responded that they would speak to their HR professional.

Only 25% indicated that they would speak to a personal financial advisor or broker.

50%

of members polled made their investment decisions based on advice from an advisor or broker

New members

This year's research also included specific questions for new fund members.

The choices made by retirement fund members when they join an employer have a direct impact on their retirement outcome and the benefits they receive from their retirement fund. Choosing the appropriate level of cover or the investment choice that will suit the member's needs, risk profile and age is therefore an extremely important decision that should be taken with appropriate advice.

Almost 65% of members thought that they had the necessary knowledge to make an informed decision to complete their retirement funding documents.

Considering the time allowed to make retirement fund decisions and whether this allows an individual to obtain advice, results showed that:

18,6% indicated that they had to take a decision within a couple of hours; and

44,2% were offered a few days for this purpose

When we look at who provides assistance, 62% indicated that they were assisted by their HR department. The research presented no evidence that new members obtained financial advice from a professional.

Conclusion

While the financial services industry has gone to great lengths to ensure that financial advisors are accredited and trained, many retirement fund members tend to take decisions that will have a significant impact on their financial position with advice from their HR departments or without any advice.

For most people, saving for retirement is one of the biggest financial decisions they will ever make.

The Sanlam benchmark study shows that retirement saving is one of the three biggest expenses for 25% of retirement fund members. There is therefore reason for concern given that retirement fund members do not obtain sufficient advice when they make decisions about their retirement funding.



**ONE OF THE THREE
BIGGEST EXPENSES
FOR 25% OF RETIREMENT
FUND MEMBERS**

When confronted with members' biggest financial fears around retirement, there is a sense of overwhelming concern that the retirement provision will be insufficient to meet living expenses of which medical aid contribution and expenses is the biggest worry.

Consider that the average member currently contributes a little over R1 000 per month towards retirement funding via an employer sponsored scheme or as is the case with self-employed individuals, contributing to a retirement annuity.

Regardless of the retirement funding vehicle of choice, it is clear that the current levels of contribution is simply not enough to meet expenses 20 to 30 years into the future. It is ironic to observe that members do not consider medical aid contribution or expenses not covered by medical aid as one of their top three expenses.

The reason being, that 45% of employed individuals are members of the medical aid scheme provided by their employer or their spouse's employer.

POST-RETIREMENT MEDICAL AID CONTRIBUTION...

SO WHO IS REALLY GOING TO PAY FOR IT AFTER YOU RETIRE?

By **Victor Kambule**, Regional Manager, Sanlam Employee Benefits Distribution

**MEMBER
SURVEY**

The medical aid contributions are deducted pre-tax so the member does not regard this as an “expense”. Half of these employees are under the impression that their employer is currently prefunding for their post-retirement medical aid contributions. The reality is a rude awakening when the annuity which the pensioner receives now has to meet the financial obligation of covering medical aid expenses and contributions.

Principal Officers of 76% of funds have been very clear that the employer is not in a position to carry this liability. Only 5% offer some kind of post-retirement medical aid to employees and around 18% have indicated that it is a benefit only available to some employees who have joined before a certain date.



On the other hand it is encouraging to see that around 30% of members have indicated that they are personally saving towards post-retirement medical aid provision either as part of a retirement annuity or one or other separate investment vehicle.

The key take-out here is that employees should enquire from their Human Resources officers which, if any post-retirement benefits are available to them.

Why is this so important? Let’s consider the fact that 51% of retirees have cited that there is a shortfall between their retirement income and living expenses. One of the ways in which this shortfall is dealt with is to cancel private medical aid membership in exchange for health services

provided by State Hospitals. Often not the best solution as waiting lists for services such as cataract surgery may not be regarded as dire, especially if there are thousands of patience in line with more severe cases of eye defects. This is but one such example and perhaps a bit extreme. It does allow me to put situation into context.

The BENCHMARK Member Survey has for the last five years, reported on the lack of member engagement with their retirement fund matters. It has become evident that in most cases the retirement capital is the biggest asset which a member can accumulate in his/her lifetime. Retirement funds and employers have over the years made use of the most recent technology trends to keep members interested. We see an increase in the number of funds or employers now 52% (up from a 32% in 2010) offering a web-based facility for members to view their latest fund values.

Planning for retirement is a serious matter and members need to seek the requisite advice from an accredited service provider. It seems that at least more than quarter of members claim to review retirement plans annually. It is of little benefit to the member, if this financial assessment does not factor in the post-retirement medical aid contribution capital requirements.

START SAVING EARLY...

REAP THE BENEFITS AT RETIREMENT

by **Jaco-Chris Koorts**, Product Manager, Glacier by Sanlam and **Jayesh Kassen**, Product Manager, Glacier by Sanlam



The retirement industry in South Africa has undergone some notable transformations in recent years. Sanlam's Retirement Benchmark Survey, which was first conducted in 2010, allows for an easy and effective analysis of the trends and behaviours in the retirement market. This information can be used to the advantage of retirement industry role-players as well as active members.

This allows for the introduction of more visually interactive questions, which adds an interesting perspective to this year's Pensioner Benchmark Survey.

Comparing the results of the 2013 Benchmark Survey to the 2011 survey results reveals some interesting trends.

Looking at the advice pensioners would give to active members, the majority of pensioners still indicated that:

members should start saving and investing for retirement from an earlier age;

members should plan for retirement at an earlier age; and

members should seek professional financial advice. In 2013 we saw an increased number of pensioners stressing the importance of this last point, compared with the 2011 survey results.

2013 saw the introduction of face-to-face interviews with pensioners for the first time.

**PENSIONER
SURVEY**

The percentage of pensioners who believe that they have not saved enough capital to last them during retirement has increased substantially to 53% in 2013 from 31% in 2011. Correlated to this is the staggering increase in the percentage of pensioners who have a shortfall between their monthly income and expenses - up to 51% in 2013 from 33% in 2011.

The survey results show that the average retirement age increased slightly from 58 in 2011 to 59 in 2013, whereas the average period of contribution also increased from 25 to 28 years. This is a positive sign, as it shows that people are starting earlier to save towards retirement, on average, but clearly this is still not enough. In an ideal scenario, active members should start saving towards retirement as early as possible. However, if we look at the above information, and we assume that formal employment begins at age 23, this leaves a period of 8 years' contributions unaccounted for.

Keeping with the trend of an increase in the perceived importance of financial advice, the prevalence of pensioners receiving financial advice before retirement has increased slightly from 52% in 2011 to 60% in 2013. On average, these pensioners received financial advice 11 years before retirement, whereas, ideally, active members should receive financial advice from much earlier on in their working career.

The proportion of pensioners who receive financial advice from their company's HR office continues to rise with a staggering 45% of pensioners opting to go this route rather than approaching a qualified financial adviser. The impact of healthcare costs continues to be underestimated with an alarming 49% of pensioners not considering the fact that medical aid contributions would likely increase by 10% - 15%.

Pensioners who opt for a lump sum at retirement, are encouraged to stay within the tax free limit and the lump sum should be used to repay debt only. From the survey, however, the proportion of pensioners spending the lump sum on family, home improvements, or living expenses has increased substantially from 51% in 2011 to 78% in 2013.



THE AVERAGE PERIOD OF CONTRIBUTION INCREASED FROM

25 TO 28
YEARS YEARS



THIS IS A POSITIVE SIGN, AS IT SHOWS THAT PEOPLE ARE STARTING EARLIER TO SAVE TOWARDS RETIREMENT

The survey also revealed that there was an increase in the percentage of pensioners moving into retirement community homes and rental property. The percentage of pensioners using credit cards went up substantially from 5% in 2011 to 15% in 2013. These are clear indications of the financial difficulties faced by pensioners, especially because of the rising cost of living.

As far as post-retirement vehicles are concerned, there was a clear shift in the market towards guaranteed income annuities, with the percentage of pensioners buying Guaranteed Level Annuities increasing from 16% in 2011 to 24% in 2013. In contrast, the percentage of pensioners opting for Guaranteed Escalation and Investment Linked Living Annuities decreased compared to the findings of the 2011 survey.

The 2013 Pensioner Benchmark Survey once again serves as a reminder of the tough financial circumstances pensioners find themselves in. It is an invaluable roadmap of the ever-changing retirement landscape and reminds all role-players in the industry to continue to meet the needs of pensioners and to use innovation to enhance the financial wellbeing of both current and future retirees.

LIFE AS A PENSIONER

by Candice Paine, Head Retail, Sanlam Investment Management



The Sanlam Benchmark Survey canvasses both active members and pensioners collectively in a bid to understand issues affecting their pre- and post-retirement reality. Despite the less than adequate financial position that most retirees in the South African context find themselves in, it seems that the efforts to educate and change investor behaviour have a way to go to be truly effective and 'landscape altering'.

Year after year the survey reminds us that individuals save too little, start saving too late and for the most part do not seek out adequate financial advice or aren't offered it by employers. While we as an industry have a duty to help individuals make the best choices regarding their retirement, there is also some startling perspectives which comes out of the survey and in no way helps the situation.

Just focusing on the 'Demographics' section of the results, it is alarming to note that 50.3% of the pensioners surveyed are under the age of 65 (2010: 35.6%). 93.2% retired from formal employment or running their own business before the age of 65. While Europe and the rest of the developed world are encouraging and legislating that people work longer, it seems South Africans are retiring earlier notwithstanding the fact that this may be due to unavoidable job losses owing to the economic environment.

50%

of the pensioners surveyed are under the age of 65

While it is difficult to infer living standards from the survey, one can conclude that they aren't high.

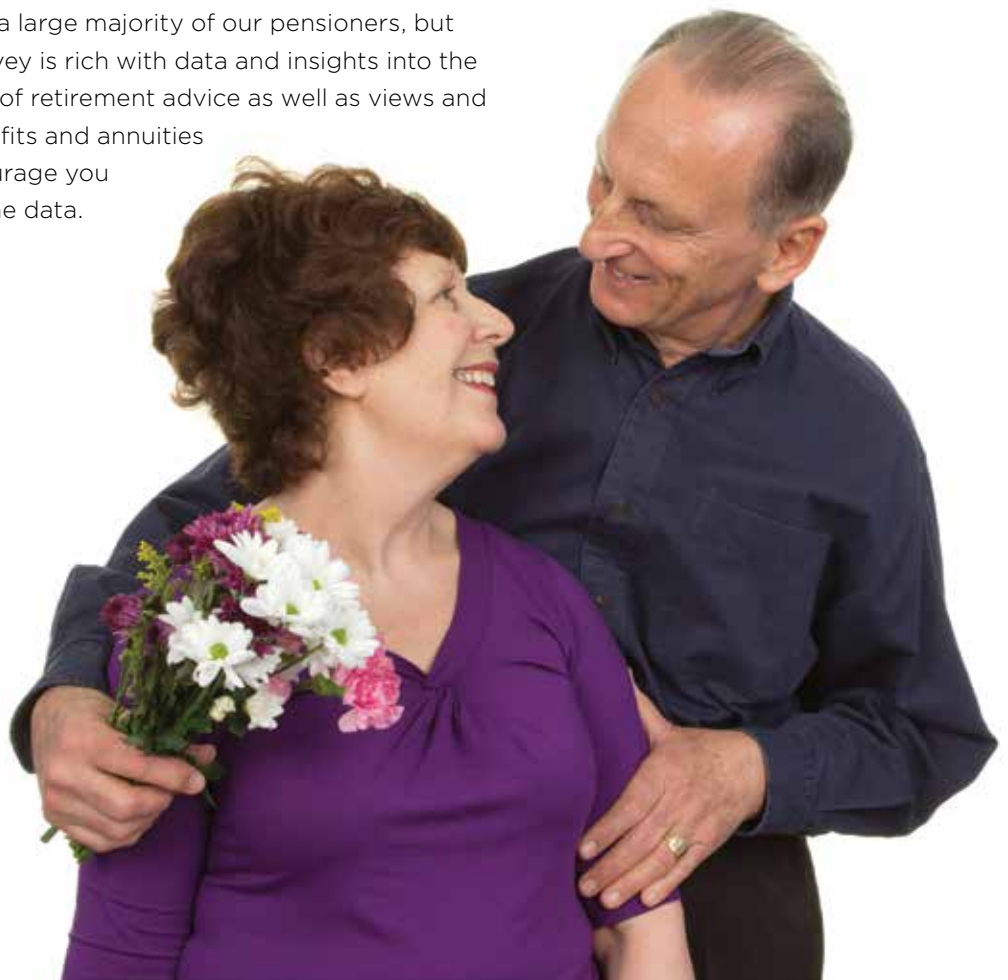
31% of pensioners live off between R3 000 – R5 999 per month with only 6% of the survey receiving above R20 000 per month.

63.3% of respondents still have dependants, whether they be a spouse (2013: 52.6% ; 2010: 39.6%), children (2013: 22.3% ; 2010: 20.4%) or someone else. Of the respondents supporting dependants, 35% are supporting 2 or more. 53% have adult dependants which might imply that these individuals can't work or alternately can't find work.

Although 51% of pensioners admitted to a shortfall between their current monthly retirement income and your monthly living expenses, some pensioners fortunately do have access to other sources of income. This comes from savings (2013: 37,1% down from 45.5% in 2010), investments (2013: 39% down from 61.95 in 2010) or property investments (2013: 7.2% down from 21.6% in 2010).

The decline in percentages since 2010 may mean that pensioners have had to dig into savings quite heavily already. 31.1% of pensioners replied N/A to the 'what other sources of income do you have?'. In 2010 there was a zero response to this question. Money to live on is becoming less and less. One silver lining is the fact that 76.9% own their own home and it is fully paid.

I have focused very much on the living circumstances or retirement lifestyle and demographics of a large majority of our pensioners, but the Benchmark Pensioner Survey is rich with data and insights into the frequency, quality and impact of retirement advice as well as views and experiences of lump sum benefits and annuities and much more. I would encourage you to really immerse yourself in the data. You'll be amazed at the things you'll discover.





PENSIONER
SURVEY

HOW MUCH IS ENOUGH FOR A PENSION?

by Willem le Roux, Investment Consultant &
Actuary, Simeka Consultants & Actuaries

Almost every retirement advisor, expert and consultant has been using the

75%

rule of thumb for retirement. It says that a retiree will, on average, not need the same amount (100%) of income in retirement as the salary he or she earned immediately before retirement, but rather would need about 75%. This measure is called the replacement ratio.

The rule of thumb could just as well have been 70% or 80%, etc. However, there is the appeal of simplicity to explain that a pensioner would need about three quarters of his or her final salary for comfortable retirement. It therefore represents a good starting point.

There is a strong rationale for suggesting that the replacement ratio can be less than 100%, which is described broadly below.

- 1 Pensioners, by definition, do not need to save for retirement any longer.
- 2 Taxation rates applicable to individuals above 65 is lower than for those younger than 65. For those that retire before 65, of course this benefit would only apply from age 65.
- 3 Since retirement income is generally less than the individual's pre-retirement salary, an even further reduction in tax payment can be expected.

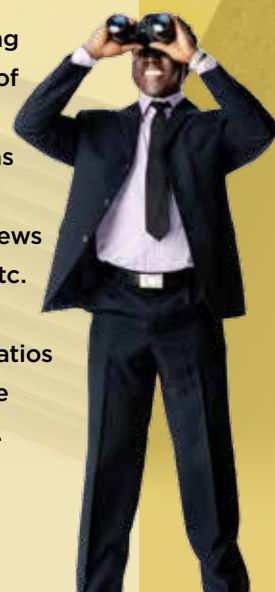
4 Broadly speaking, pensioners have no (or at least less) debt to repay, such as mortgages, etc. This does not apply to all pensioners though.

5 Expenses paid due to employment responsibilities, such as transport costs to and from work, reduce accordingly.

These suggested reductions in cashflow requirement of course imply that pensioners require less income. On the other hand, there could be increases in spending as well.

- Medical expenses tend to increase with age and therefore become a driving force behind cashflow requirement in retirement.
- Hobbies and pass-times would have an impact on the required income and could be in a broad range. This does not talk to a level of income required for survival, but rather to maintain a person's lifestyle from pre-retirement into post-retirement.

In this context, it would be interesting to compare the theory to the views of those "in the trenches" so to speak. The Sanlam BENCHMARK Survey has been leading the employee benefits industry in terms of gathering the views of Trustees, members, pensioners, etc. for many years. The survey for 2013 included a section on replacement ratios that the survey participants felt were sufficient in different circumstances.



Trustees of employer-sponsored retirement funds gave the view summarised in the table below.

Monthly income before retirement:	<R10K	R10K+
Replacement ratio considered necessary for survival	62%	60%
Replacement ratio considered necessary to maintain current living standard	76%	73%

This makes intuitive sense. A replacement ratio necessary for survival is considered to be around 60%, compared to the level for maintaining the pre-retirement standard of living for which 75% is considered sufficient. This level is probably influenced by the wide use of the 75% rule of thumb over many years. Furthermore, members with a higher salary before retirement are considered to need a lower replacement ratio at retirement than those with lower salaries or income. This makes intuitive sense since high-income earners may not be using their full income (pre-retirement) to live from and hence can afford a smaller replacement ratio. Furthermore, high-income earners have more room to move (or said differently, luxuries to cut) in order to allow the flow of cash to balance. The aggregate view of decision-makers in umbrella funds does not diverge significantly from the table shown above.

Monthly income before retirement:	<R10K	R10K+
Replacement ratio considered necessary for survival	64%	58%
Replacement ratio considered necessary to maintain current living standard	76%	73%

However, if one considers that both tables above are answered by decision-makers most of whom have themselves not yet retired. Let us take a leaf from those with the most experience in this regard – those who have retired and had to balance the books already. Pensioners' views are summarised below.

Monthly income in retirement:	<R10K	R10K+
Replacement ratio considered necessary for survival	52%	63%
Replacement ratio considered necessary to maintain current living standard	68%	79%

The survival level for members with higher income is positioned similarly to what we saw in the first two tables (just above 60%). However, that is the end of the similarities.

- Pensioners are on average of the opinion that higher income earners need closer to 80% replacement ratio to maintain their standard of living.
- Pensioners have more confidence that low-income earners can survive or maintain their standard of living on lower replacement ratios. This may reflect:
 - Lower income earners' greater dependence on family and children for support in old age; and
 - Some dependence on the Old Age Grant provided by the government for the lowest income earners and the safety net that this signifies.



In conclusion, based on the Sanlam BENCHMARK Survey, it seems that pensioners are generally more optimistic in terms of the income requirements of a low-income earner, than Trustees and advisors tend to be. However, the pensioners also caution that the “magic”

75%

-level may underestimate income requirements for higher income earners in order to maintain their standard of living.

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