RETIREMENT FUND SURVEY

Sanlam recently published their annual retirement benefit survey. The annual survey is the product of interviews carried out by an independent market research agency with 200 retirement fund Principal officers. The respondents were selected at random to represent small (<100 members), medium (100 - 500 members), large (501 – 5 000 members) and very large (5 001+ members) funds in South Africa. These included pension (35%) and provident (64%) funds structured on a defined contribution basis as well as umbrella funds. Apparently 27% of the principal employers were from the manufacturing industry and 15% from financial services.

For the benefit of our clients we have summarized the lengthy survey document and produce the more pertinent issues below.

Retirement Ages

<table>
<tr><td>Age 65</td><td>53% of new male members</td><td rowspan="2">The longer the membership term the greater the retirement benefit!</td></tr>
<tr><td>Age 63</td><td>The average retirement age of fund members</td></tr>
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Member Contributions

<table>
<tr><td>5.5%</td><td>Average member contribution rate expressed as a percentage of salary to retirement funds</td><td rowspan="2">In order to enhance their retirement benefits members should contribute at the maximum tax deductible rate of 7.5% to a pension fund</td></tr>
<tr><td>6.2%</td><td>Average member contribution rate to pension funds</td></tr>
<tr><td>5.1%</td><td>Average member contribution rate to provident funds</td><td>Member contributions to a provident fund are not tax deductible.</td></tr>
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Employer Contributions

Based on total 'cost to company'	59% of funds	36.5% of these funds use between 90.1% to 100% of total remuneration as pensionable remuneration
9.5%	Average employer contribution rate expressed as a percentage of salary roll	This has shown a slight decrease since the 2007 survey

Cost of Administration

51%	Employers pay the administration costs in addition to the retirement fund contribution	The preferred method
62%	Funds' administration costs are based on a percentage of salary roll	This method implies a cross subsidy
24.5%	Funds' administration costs are charged on a fixed cost basis per member	This method weighs more heavily as a percentage reduction on small salaries
8%	Funds' administration costs are charged on a percentage of assets basis	Probably the most equitable basis on which to base costs
R33	Average fixed cost per member	Constitutes a large deduction for lower salaried members
1.1%	Average administration cost where this is based on a percentage of salary roll	These costs are showing an upward trend. Major challenges facing funds in future include effective control of the costs of running a fund. The migration to umbrella funds is providing a partial solution to this problem

Retirement Benefits

69%	Funds wherein members can purchase an annuity of their choice	This is to be encouraged as members have specific individual needs
15%	Funds which specify certain companies from which an annuity can be purchased	Could be considered to be restrictive
85%	Of the above can shop around and purchase an annuity from any insurer of their choice	Annuity rates and products differ from one provider to another

Risk Benefits

1.74%	Average cost, expressed as a percentage of salary roll, for schemes within a fund	Slight decrease from 1.76% in 2007's survey
1.38%	Average cost for schemes outside of a fund	
1.12%	Average cost expressed as a percentage of salary roll of disability benefits	Slight increase from 0.94% in 2007's survey
15%	Schemes which offer flexible benefits	Indications are that fewer funds are offering flexible benefits
47%	Funds that cap the costs of disability benefits	These will be funds where the employer pays the costs and where the risk benefit costs are not paid over and above the retirement fund contribution
44%	Funds that cap the costs of death benefits	

Death Benefits

3.2 X annual salary	The average lump sum death benefit	This is down from 3.6 X in 2007
2.2 X annual salary	The minimum level of cover in respect of employers that offer flexible benefits	
5.1 X annual salary	The average level of cover in respect of employers that offer flexible benefits	This perhaps indicates a greater need for higher death benefits
43.4%	The number of employers that have separate death benefit schemes	

Disability Benefits

48.5%	Employers offer a lump sum disability benefit	
2.15 X annual salary	The average lump sum disability benefit	
90%	Employers who offer income disability schemes	Benefits mostly equal 75% of salaries
80%	Employers who offer income disability schemes provide annual increases in these benefits	
23%	Employers link the increases to CPI with a maximum percentage cap	

Dread Disease Benefits

7.5%	The number of employers who offer these benefits	The number of schemes introduced is increasing slowly

Funeral Benefits

56.5%	The number of employers who offer these benefits	The most popular benefit is R10,000 for the main member
71.7%	The percentage of employers who pay for these benefits	
95.6%	The percentage of schemes that cover immediate family	
94.7%	The number of scheme that offer cover to extended family members	

Home Loans / Housing Sureties

41%	The number of funds either providing direct housing loans or providing surety for such loans	Most funds provide surety for such loans with the actual loans being provided by a financial institution

Investments

46%	The number of funds that offer their members direct investment choice	This indicates that this is a clear trend but is also an indication that a large number of members who have the facility do not actually make use of the ability to chose
13%	The number of funds considering offering individual investment choice	
58%	The number of members within funds that provide investment choice who rely on the Trustees to make a choice on their behalf	

62%	The number of funds that provide investment choice also offer financial advice	
81%	The number of funds who despite having investment choice still charge a flat administration fee to their members	
32%	The number of funds that allow annual investment reviews or switches	
84%	The number of funds that reported they were satisfied with their investment choices	
80%	The number of funds that have a cash, conservative, moderate and aggressive linked investment choices	
54%	The number of funds that offer 'Life-Stage' solutions	
54%	The number of funds that do not offer direct individual investment choice but rely on Trustee investment decisions	Of these 50% use moderate linked portfolios; 45% use smooth bonus / guaranteed funds; 33% utilize conservative linked portfolios
86%	The number funds that consider the stability of investment returns to be important	Smooth bonus portfolios were considered the best medium to provide stable returns & guarantees
78%	The number of the smaller funds that considered guarantees as being important	

90%	The number of funds that provide investment performance feedback to their members	33% of funds do this on an annual basis

Communication with Members

95%	The number of funds that made use of the member benefit statements to provide feedback	
68%	The number of funds that provided a 'rule booklet'	
44%	The number of funds that provided an annual Trustee report	
39%	The number of funds that provide a member certificate	

Topics Communicated to Members

86%	Benefit structure	
84%	Investment performance	
75%	Interpretation of member annual benefit statements	
72%	The mechanics of how the fund works	
85%	The number of funds offering member level investment choice that provide regular investment feedback	
34%	The number of funds who rely on the member's financial advisor to provide the investment feedback	

68%	The number of fund members who access fund information directly via the intranet and internet	

Understanding of the Fund Benefits / Financial Advice

72.5%	The percentage of senior staff that understand the majority of information provided	Clearly, despite the increase in communication a lot more work has to be done in this area.
35%	The percentage of staff members that understand less than half of the information provided	
11.5%	The percentage of staff members that understand hardly any of the information provided	

E.P. TALJAARD
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