Today's decisions, tomorrow's rewards

Retirement fund strategic matters and remuneration survey

Third edition

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Contents

Foreword

The sheer scale of pension fund investments places an enormous responsibility on trustee boards.

We are pleased to present the findings of our latest South African retirement fund survey. This follows and builds on our groundbreaking survey on trustee remuneration in 2010 and our survey on the effective management of retirement funds in 2007.

In a recent global pension assets study by Towers Watson, total global assets of pension funds were reported as USD27 509 billion in 2011. South Africa's contribution to this total was reported as USD1 046 billion. The sheer scale of pension fund investments, coupled with the attendant economic, political and administrative risks, places an enormous responsibility on boards of trustees to govern these arrangements wisely. Clearly, trustees need to equip themselves with the required skills and knowledge to enable them to discharge their obligations towards fund members in the best possible manner.

Since 2010, there have been some significant regulatory changes. Perhaps the most far-reaching has been the introduction of the long-awaited revised Regulation 28. This imposes a much higher standard of governance on trustees in relation to investments, which now need to be monitored on a 'look-through' basis, and compliance is required not only at fund level but also at member level. For the first time, trustees are expressly obliged to take into account the members needs in deciding how to invest the assets to meet those needs.

Many funds have moved to increase their exposures to overseas investments in line with increased limits. The global financial system and the investment markets remain nervous and volatile, as does the rand. Thus, trustees face a rapidly evolving and challenging landscape on the investment front.

Over the last 12 years, South African inflation and interest rates moved from higher levels to much lower levels. Defined contribution retirement fund members' net replacement ratios have sagged accordingly. This is because the cost of annuities that insure against longevity increased sharply in line with the drop in yields in long government bonds from around 14% in 2000 to around 8% now. This unheralded funding gap has only recently started to receive attention.

The factors mentioned above prompted us to include some new questions in this survey on trustee education, on aspects of regulation and risk management and on the opportunities for streamlining and simplification of operations with a view to achieving cost reductions that can be passed on to fund members.

This survey covers four focus areas:

- Trustee remuneration;
- Trustee education (new);
- Principal officers and their remuneration, and
- Aspects of regulation and risk management (new).

The survey was conducted by PwC's retirement fund industry specialist group. Our aim was to identify trends in the roles and remuneration of trustees and principal officers and shed light on the stance retirement funds currently take on trustee education and on aspects of governance and risk management. Where relevant, we have compared the results of this survey with those of previous surveys. A high-level summary of findings from the 2012 PwC UK Survey on Pension Scheme Governance is also included.

With 228 respondents representing a total asset base of R708 billion and a wide spread of funds from large to small, and across all fund types, we believe that this survey is representative of existing practices. It offers a benchmark against which trustees can compare various aspects of their fund's workings and strategies with those of their peers.

We wish to thank all the participants for their time and responses. Individual responses will remain confidential. Our particular thanks go to the Principal Officers Association of South Africa for their support in encouraging participation in the survey. As ever, we would welcome feedback on the survey and suggestions as to additional topics to cover in future.

Gert Kapp
National Retirement Fund Leader
PwC South Africa

11 May 2012

Salient features of the survey

Funds that participated

	2012	2010
Private funds (which we define as standalone non-specialist funds)	153	143
Specialist funds (preservation funds, retirement annuity funds and umbrella funds)	75	100
Total funds	228	243

Asset base of respondents

	2012	2010
Private funds	R338 billion	R166 billion
Specialist funds	R370 billion	R141 billion
Total funds	R708 billion	R307 billion

Trustee representation among respondents

	Total trustees	Professional trustees	Proportion of professional trustees to total trustees	Average number of trustees per board
Private funds	1 266	29	2.3%	8
Specialist funds	505	172	34.0%	7

Proportion of funds that remunerated some or all trustees

	2012	2010
Private funds	23%	23%
Specialist funds	91%	78%

Proportion of funds that used professional principal officers

	2012	2010
Private funds	48%	34%
Specialist funds	79%	72%

Median range of annual remuneration for fund officials

Chairpersons	R50 000 – R100 000
Professional trustees	R10 000 – R 50 000
Other remunerated trustees	R10 000 – R50 000
Principal officers	R250 000 – R400 000

Key findings

Trustees and their remuneration

- The average trustee board has eight members.
- Specialised funds (retirement annuity, preservation and umbrella) remunerate fund officials more often than private funds and more often than in 2010.
- Chairpersons were remunerated by 73% of specialist funds, but by only 16% of standalone funds – generally at a fixed fee per meeting.
- The proportion of professional trustees to total trustees is 11% overall. This increases to 34% for the specialist funds and drops to 2% for the standalone funds.
- 76% of total funds surveyed do not remunerate trustees other than the chair or professional trustee.
- 88% of funds indicated that trustees that are remunerated would provide a higher level of care, undertake additional preparation or be available to take on more responsibilities.

Trustee education

- 66% of funds indicated that the training needs of the board had been assessed in the past two years.
- 79% of professional trustees have a postgraduate degree, compared to 20% for member trustees and 44% for employer trustees.
- On average, trustees spend 27 hours per year on training and industry events.
- The main focus of training has been on trustee roles and responsibilities, fund governance, the Pension Funds Act and understanding of investment products.
- Only 2% of respondents indicated trustees were trained on understanding financial statements or actuarial valuations.
- Several respondents suggested that training should be compulsory and measured on a points system and disclosed to the Financial Services Board (FSB).

Principal officers

- 73% of principal officers had five or more years' experience and 83% held at least a degree.
- 54% held a postgraduate degree.
- 46% of principal officers in standalone funds had more than 10 years' experience as opposed to only 25% for specialist funds.
- 51% of respondents have a full-time career as a principal officer.
- All principal officers attend at least three days' training per year.
- 67% of respondents were in favour of principal officers being regulated with a minimum qualification and accreditation with the FSB.
- 58% of funds remunerated the principal officer compared to 47% in our 2010 survey – a significant increase.
- All principal officers spend at least three days per month on fund matters, but this increases to between two to three weeks on average for large funds.

Regulatory aspects and risk management

- 73% of respondents indicated that compliance with the latest regulatory changes would result in additional costs for members.
- Most additional cost was expected to come from compliance with the revised Regulation 28 requirements.
- 68% of respondents believed there was scope for simplification and cost reductions in their funds.
- The most favoured ways identified to reduce costs were:
  - To move risk benefits outside the fund;
  - To make other arrangements around the transition on retirement so that member investment choice is not needed; and
  - To remove housing loans or guarantees.
- 81% of funds indicated a detailed risk review had been carried out in compliance with PF 130.
- One of the most favoured ways to manage/monitor risks was to use external auditors to perform testing on specific focus areas.

About the survey

The questions

The survey consisted of 58 questions covering the key aspects of remuneration, with special focus on four main areas:

- Trustee remuneration;
- Trustee education;
- Principal officers; and
- Regulation and risk management.

228 funds with total assets of R708 billion took part in the survey.

We also collected fund data, including fund type, asset size, the number of pensioners and active members. Where specific characteristics of the fund resulted in distinct differences in responses, we have endeavoured to highlight the major differences.

Respondents

The survey was undertaken across all types of funds in the South African retirement fund industry. In general, the principal officers of the funds completed the responses, but in some cases, the chairperson or another trustee board member did so on behalf of the fund.

In this report, we provide an overview of the survey findings and key themes that emerged. We also provide our own commentary and interpretation of the results.

Given the high number of respondents in this survey and the wide range of fund sizes and types covered, we believe that the trends and conclusions identified are likely to be representative of the industry as a whole.

Survey population

The survey was completed by 228 retirement funds of varying size during January and February 2012, with total assets of R708 billion. Responses were spread across small, medium and large funds (measured by total asset value as reported) as follows:

- Large: 37% >R1 000 million
- Medium: 49% R50million – R1,000 million; and
- Small: 14% <R50 million.

We also distinguished between specialist funds, namely preservation funds, retirement annuity funds and umbrella funds as opposed to standalone private funds. The standalone funds were analysed by type of fund: defined contribution (DC), defined benefit (DB) or hybrid. A hybrid fund is one that features both DC and DB elements.

Fund statistics

Please refer to Appendix 3 for details of the stratification of the fund population and the related statistics. As there are substantial differences between the membership profiles and asset bases of the standalone funds and the various types of specialist funds, we are of the view that it is not particularly meaningful to aggregate these.

Fund nature and size

We distinguished between standalone private funds and specialist funds. Umbrella, preservation and retirement annuity funds are regarded as specialist funds because of the non-standard nature of their fund rules.

Figure 1:

Type of fund

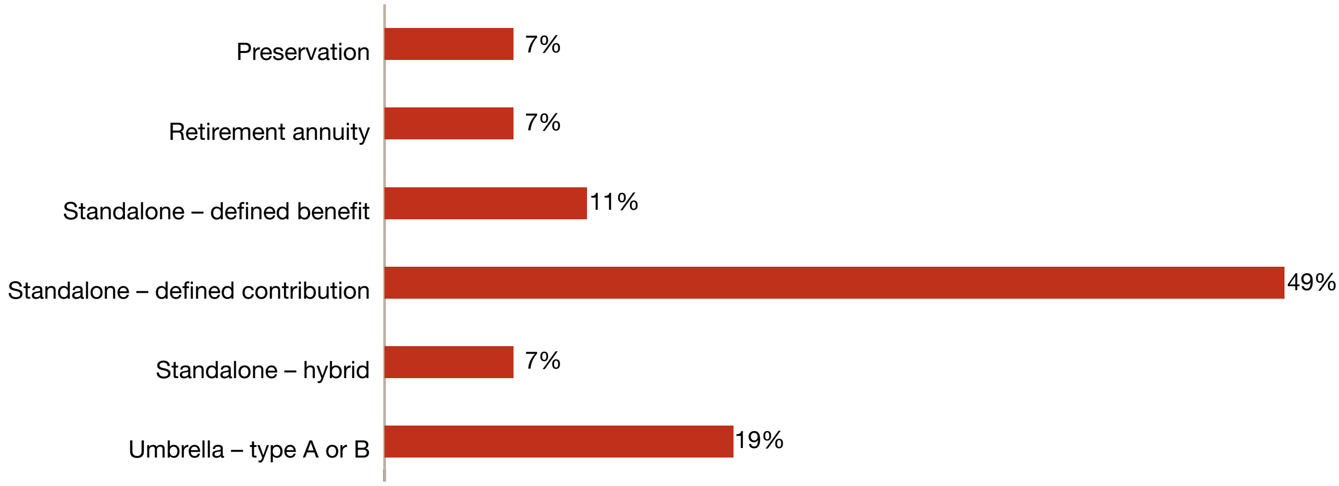
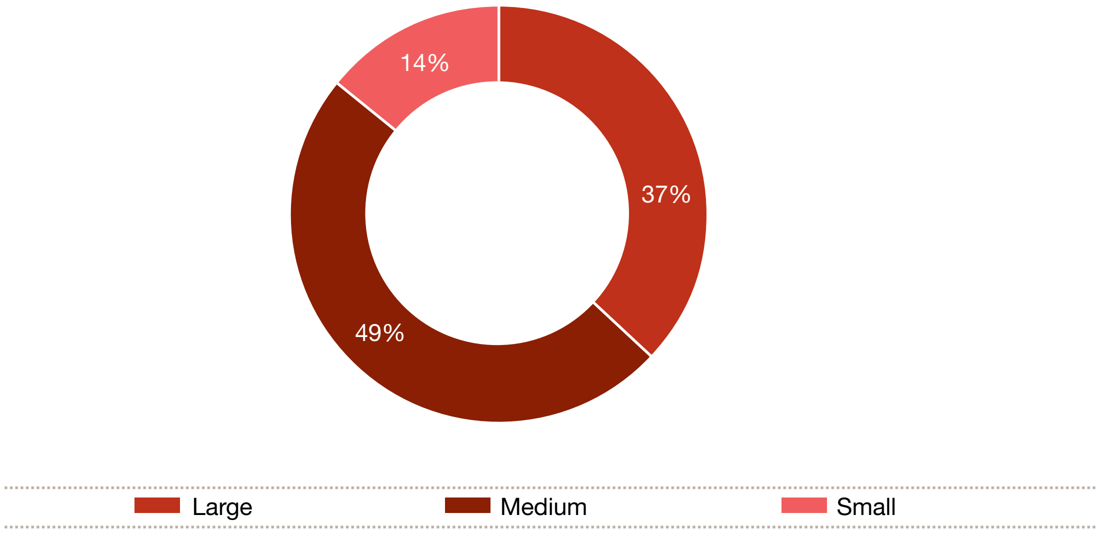


Figure 2:
Fund size



We defined large funds as having an asset base of R1 billion or more. Medium funds have assets from R50m up to R1 billion and small funds have assets of less than R50 million.

Figure 3:
Fund administration

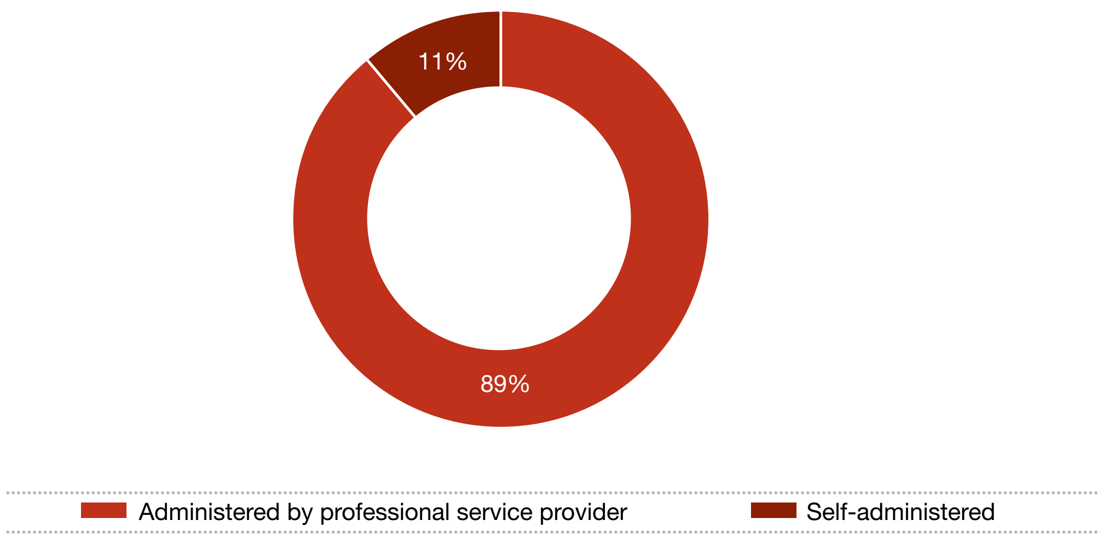


Figure 4:
Average number of active members

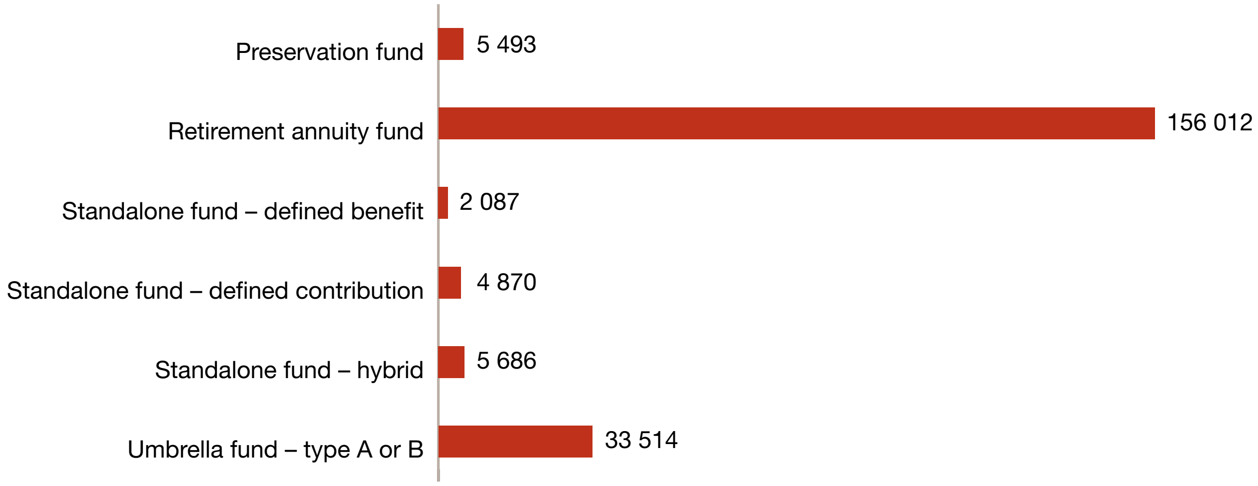
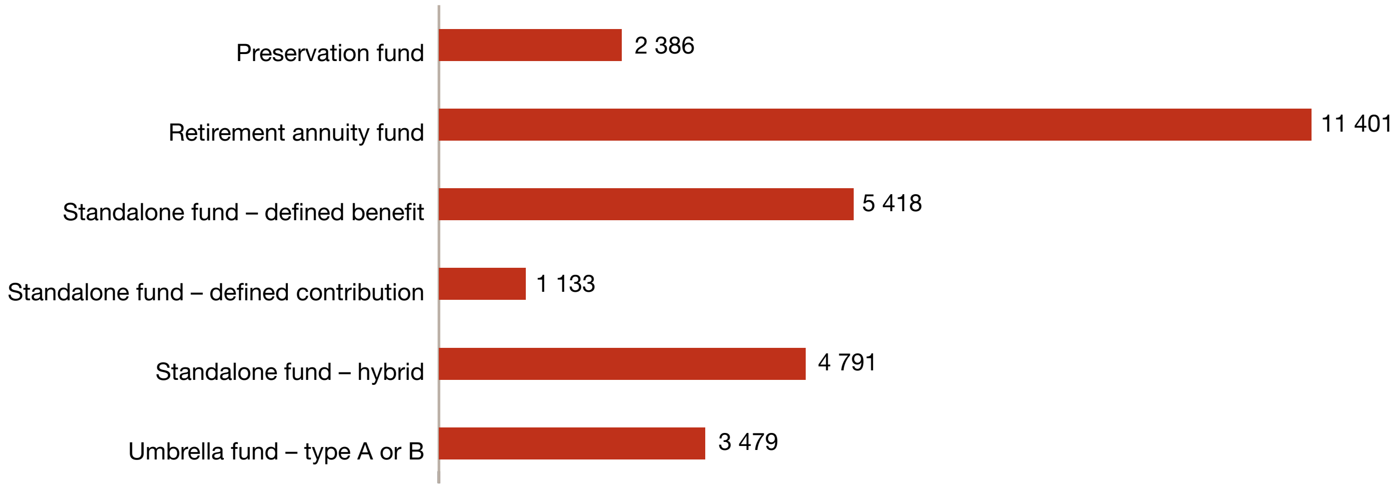


Figure 5:
Average total assets per fund (Rm)



Average fund credit per member per type of fund

Type of fund	Average assets per fund		Average members per fund		Average fund credit per member/ pensioner	
	2012	*2010*	*2012*	*2010*	*2012*	*2010*
	Rbn	*Rbn*			*R'000*	*R'000*
Private – standalone	2.211	1.145	5 434	2 480	407	462
Preservation	2.386	1.079	5 493	3 497	434	309
Retirement annuity	11.401	3.200	156 012	53 739	73	60
Umbrella	3.479	1.140	33 514	17 290	104	66

Institutional umbrella and retirement annuity funds have large member numbers, reflecting the marketing efforts of life insurance companies over the years. However, these funds have a relatively low average fund credit per member. Thus, the private sector funds (and preservation funds, which are arguably indirectly linked to them) still house the majority of individuals' retirement wealth.

Fund type

Defined contribution funds continue to dominate. The 7% drop in the proportion of defined contribution funds from 80% to 73% is partly due to a shift in the population that happened to be included in the survey, but it may also reflect some consolidation of small and medium-sized defined contribution funds into umbrella funds.

Figure 6:

Fund type

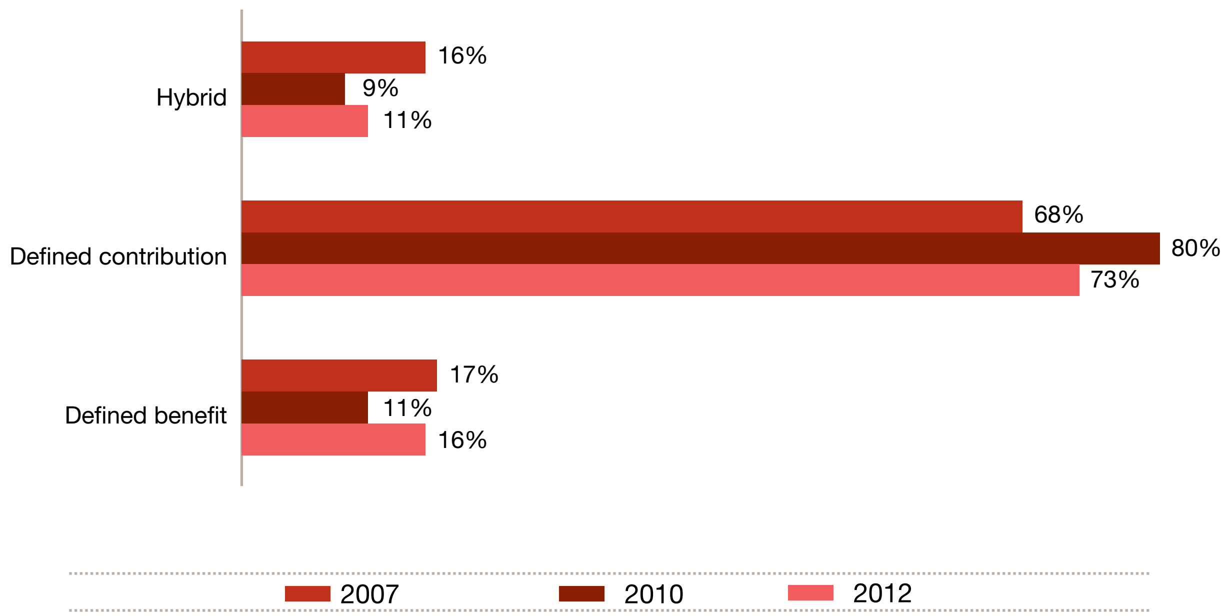
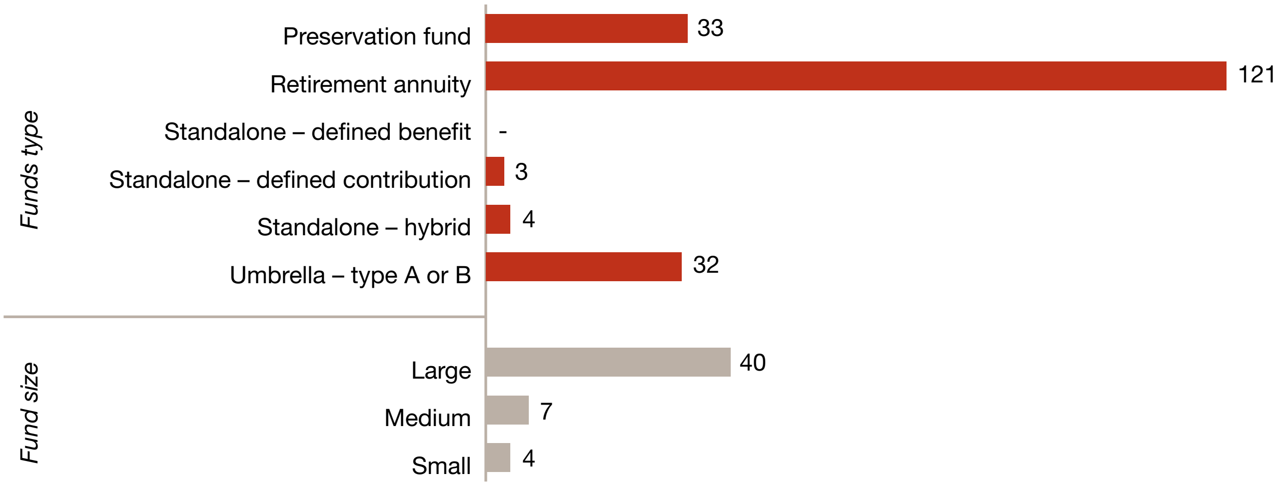


Figure 7:
Average number of investment choices per fund



Some 76% of standalone defined contribution funds offered individual member investment choice. Thus, this remains a prominent feature of South African funds, with the larger funds in terms of asset size offering this to their members more often and to a greater extent than smaller funds.

Trustee remuneration

Overview of transactions, balances and membership trustee boards look after

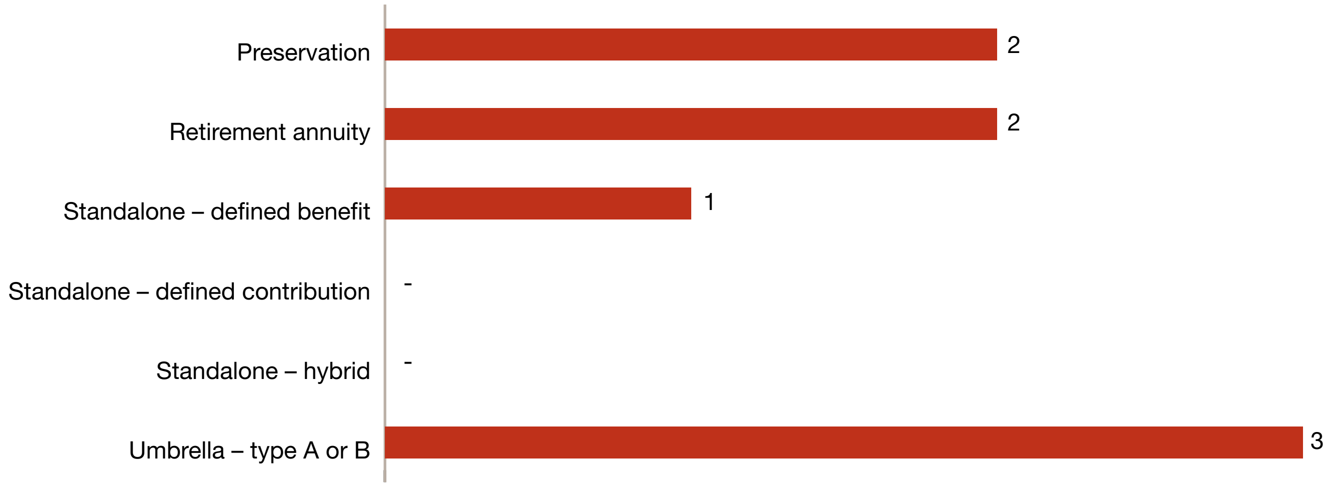
Statistics for South African retirement fund industry for 2009	Million
Contributions	R112 363
Benefits	R136 250
Assets under management	R1 874 999
Membership	11.68

Source: Financial Services Board 2011 annual report

It is clear from the above that boards of trustees have extensive responsibilities, both from a legislative as well as from a member expectation point of view. Trustees are not always directly remunerated for their efforts by funds as opposed to the employer or sponsor. This survey highlights the extent to which trustees are directly remunerated by funds and what the remuneration levels are.

Figure 8:
Average size of trustee boards (number of trustees)

Figure 9:
Average number of professional trustees per fund



The Pension Funds Act requires that a board of trustees should consist of at least four trustees.

The proportion of professional trustees to total trustees is only 2% for standalone funds.

To remunerate or not to remunerate?

In our 2010 survey, 45% of respondents remunerated some or all of their trustees. Contrary to our expectation of seeing some increase, this percentage remained unchanged this year.

Figure 10:
Trustees remunerated by the fund

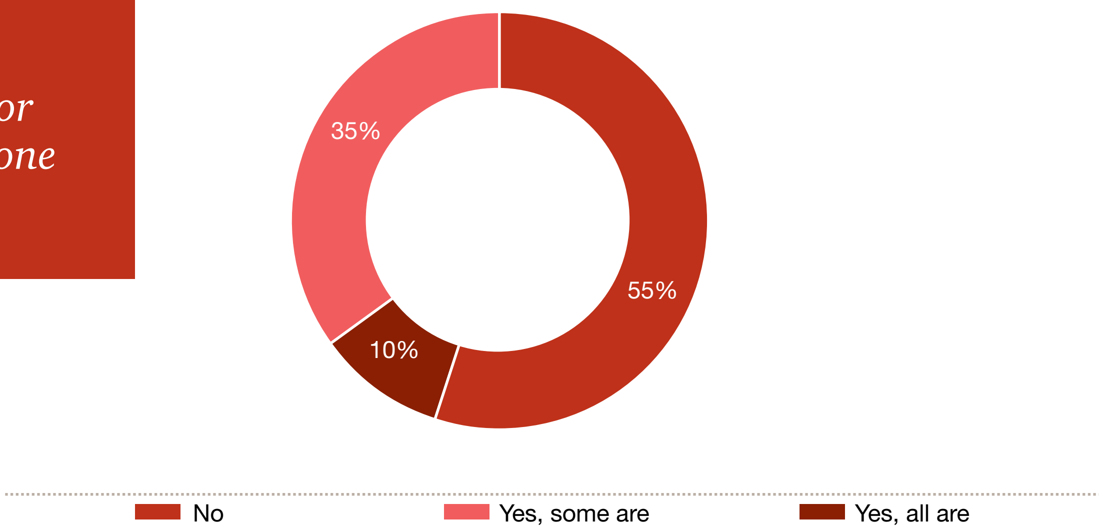
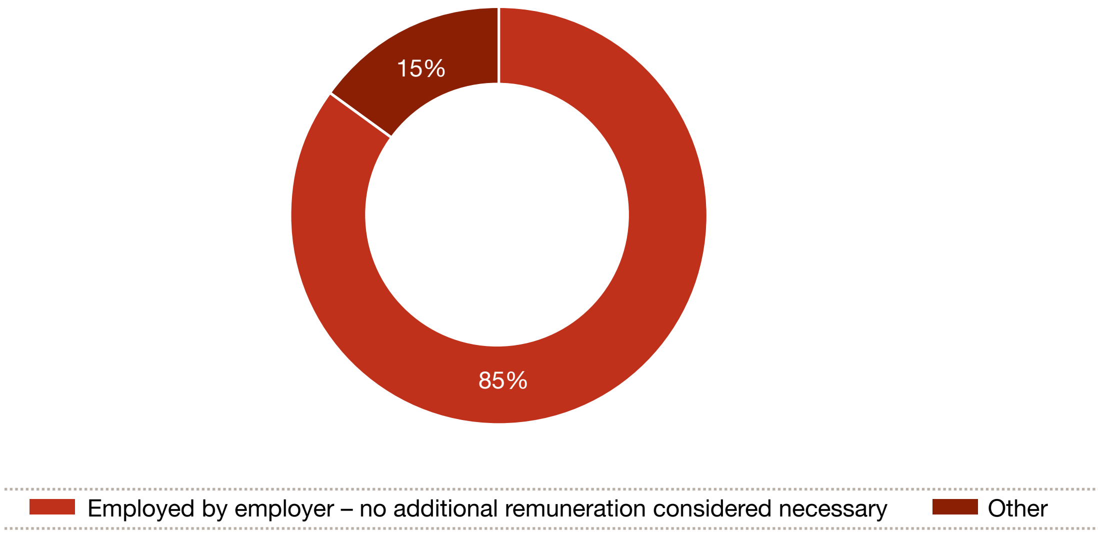
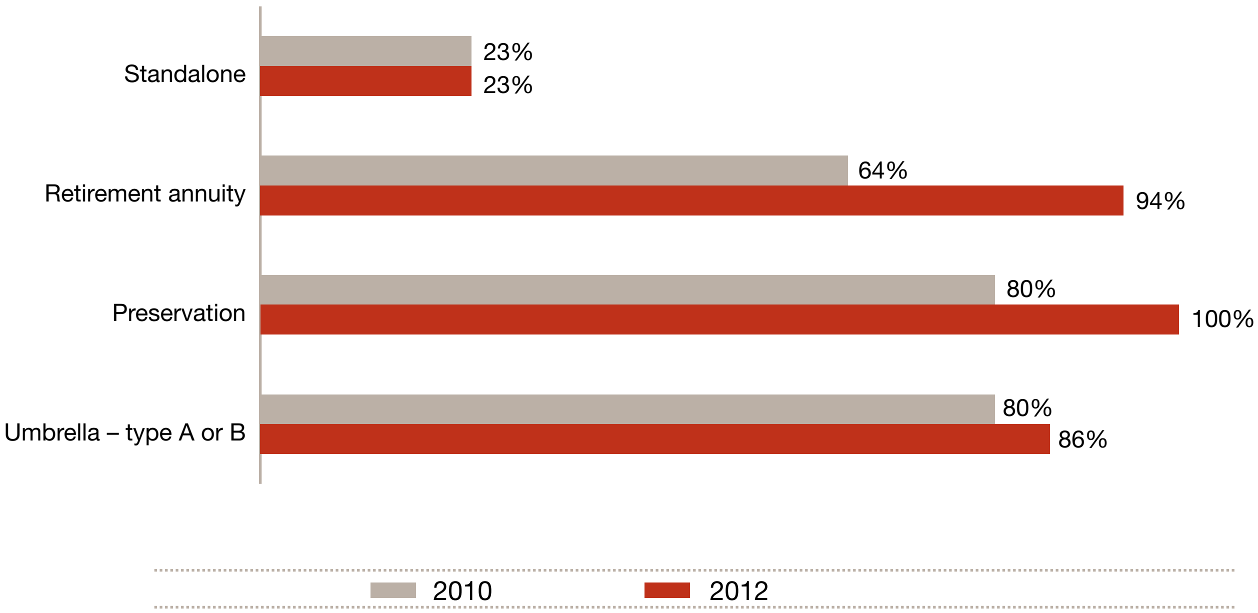


Figure 11:
Why are trustees not remunerated?



When one analyses the total fund population between standalone and specialist funds, the picture changes dramatically with only 23% (2010: 23%) of standalone funds remunerating their trustees compared to 91% (2010: 78%) of specialist funds. Interestingly, the percentage of specialist funds remunerating their trustees has increased sharply since 2010. This suggests that independent trustees with specialist knowledge are being more frequently appointed directly by funds in place of trustees being employed directly by sponsors.

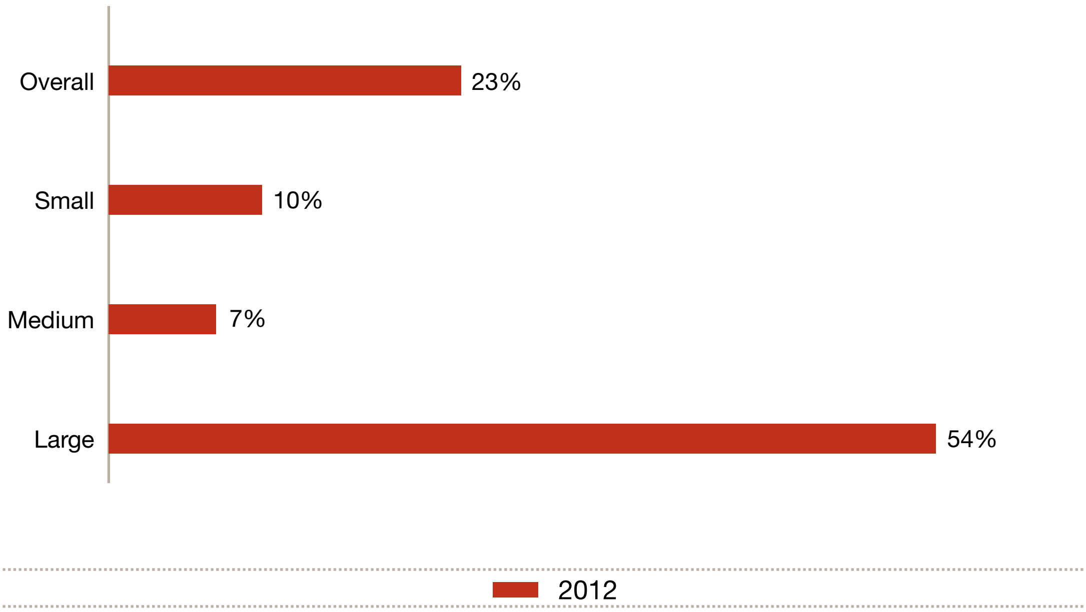
Figure 12:
Analysis per fund type where all/some trustees are remunerated



The bulk of small and medium standalone funds do not remunerate their trustees at all compared to large funds where more than half do. Only 54% of large standalone funds remunerate trustees compared to 91% of specialist funds. At first glance, one might expect these percentages to be more closely aligned. The difference probably reflects a general trend among standalone funds in which employer and member-appointed trustees are on the payroll of the employer and fulfil their trustee roles as part of that employment.

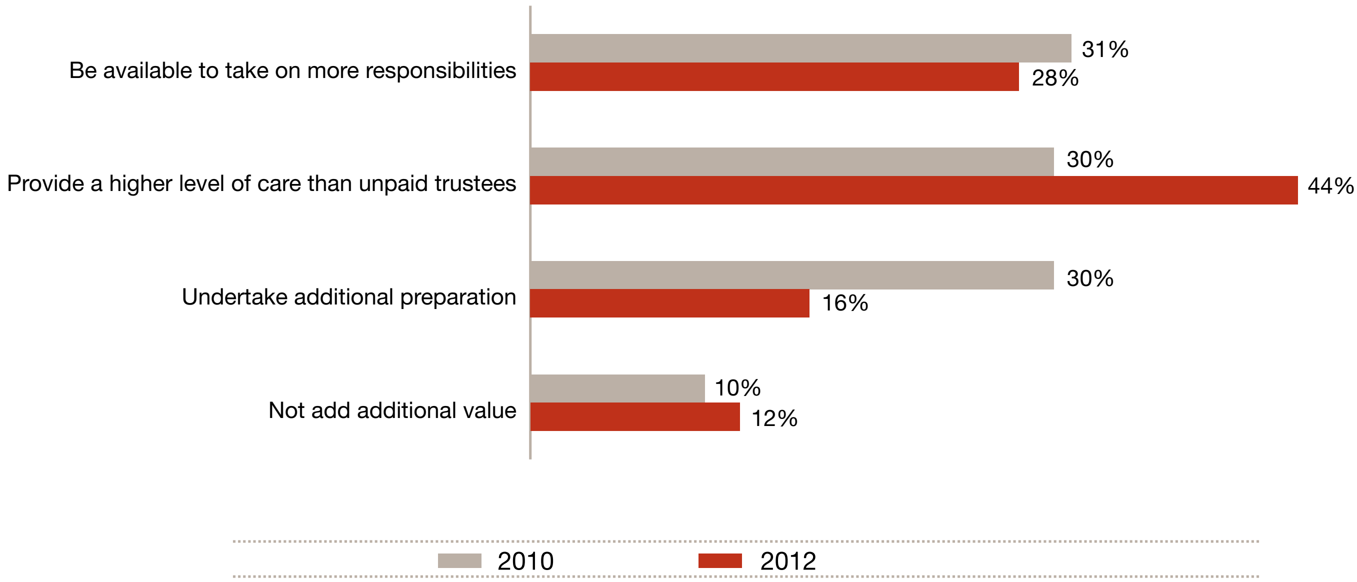
Do the trustees on the boards of large standalone funds have the required skills to fulfil their onerous duties in terms of the Pension Funds Act taking into account the rapidly changing and increasingly complex retirement fund environment? Clearly, they think so and a significant move towards making more use of professional trustees seems unlikely, as 86% of standalone funds indicate that they are not considering a review of their remuneration policy.

Figure 13:
Analysis per standalone fund type – All/some trustees are remunerated



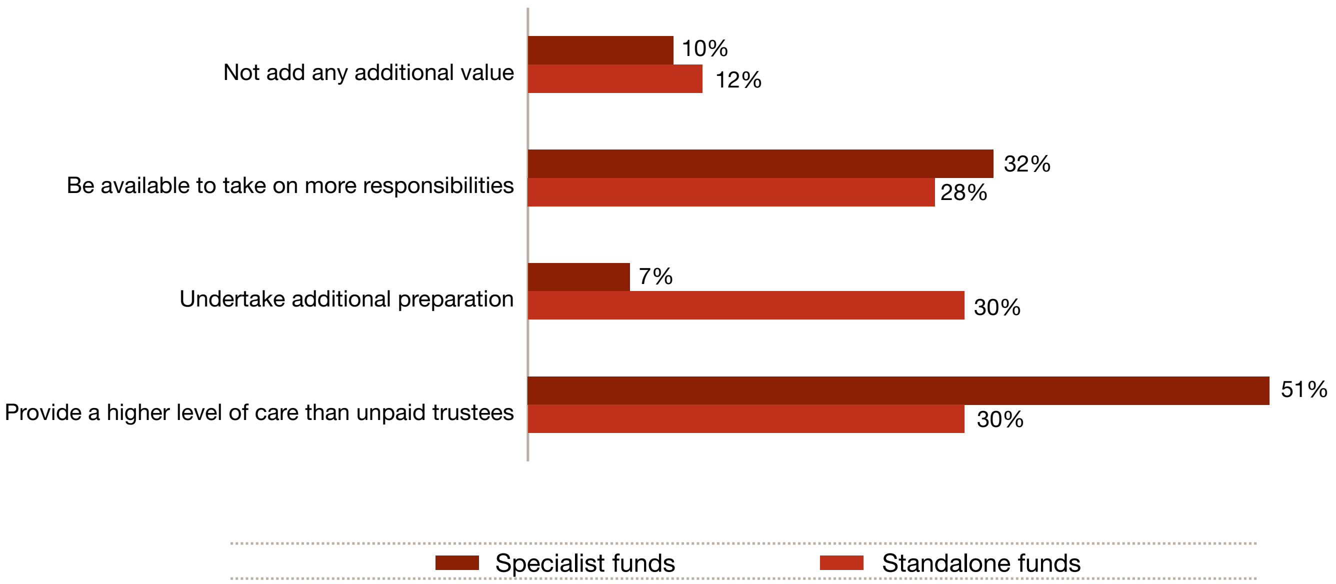
What value do retirement funds derive from remunerating trustees and has this perception changed since our 2010 survey? Remunerated trustees are expected to provide a higher level of care or undertake additional preparation or be available to take on more responsibilities. This is the view of 88% (2010: 90%) of funds that remunerate trustees, while only 12% (2010: 10%) are of the view that remunerated trustees do not add further value.

Figure 14:
Trustees that are remunerated will...



Upon further analysis, 12% of standalone funds that remunerate trustees are of the view that remunerated trustees do not add further value compared to 10% of specialists funds.

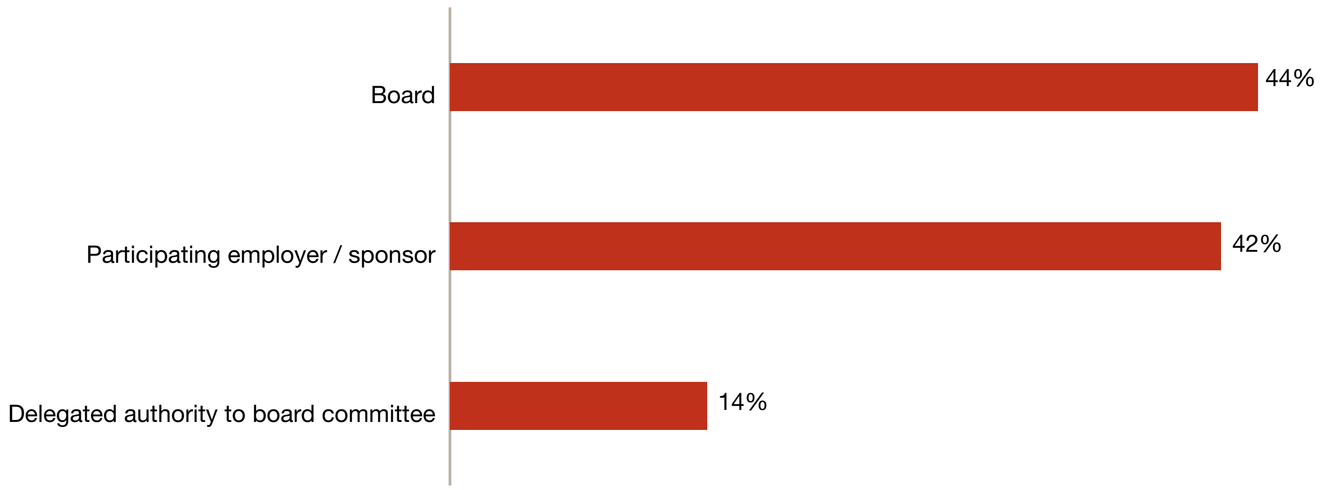
Figure 15:
Trustees that are remunerated will...



The bulk of funds that do remunerate trustees recognise the value of this practice. It is therefore not clear why the bulk of large standalone retirement funds do not pursue this lead.

Who sets remuneration?

Figure 16:
Who sets trustee remuneration? (all funds)



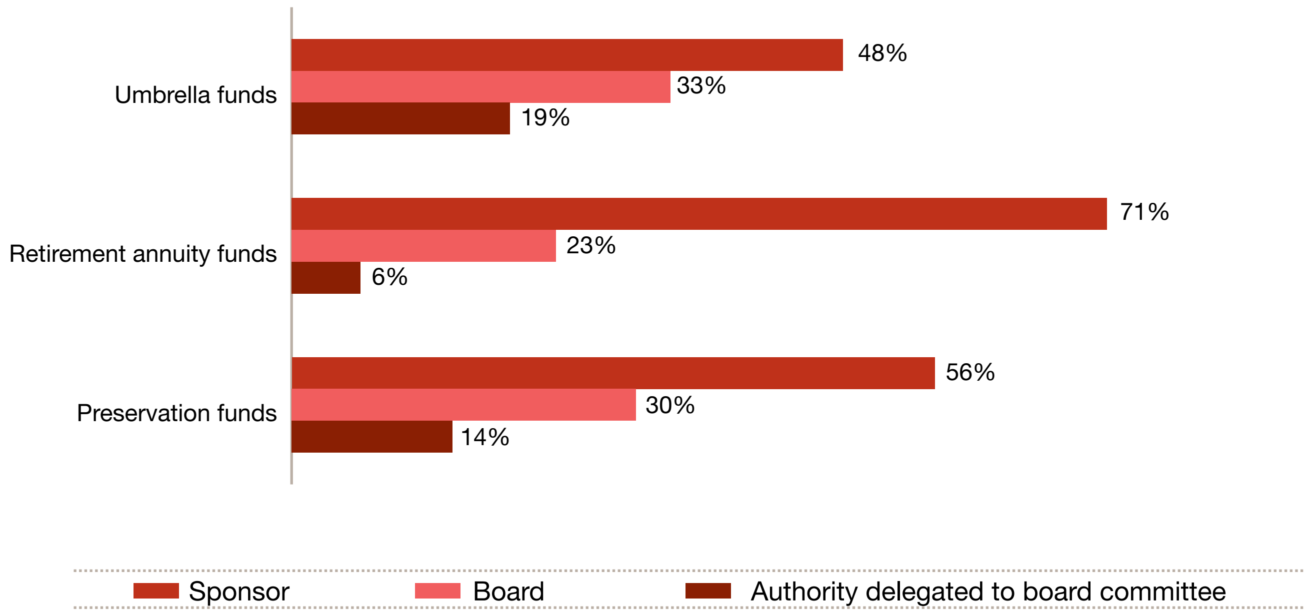
88% of respondents believe that professional trustees would exercise a higher duty of care.

The main board still appears to determine the level of trustee remuneration for standalone funds according to 71% of respondents. The use of a board subcommittee to determine the level of remuneration seems to have increased since 2010, with 13% of standalone funds making use of this mechanism.

For specialist funds, the sponsor continues to be the main driver of the level of remuneration. Where the sponsor sets the trustee remuneration, this can arguably lead to a conflict of interest should such a trustee need to choose between acting in the best interests of fund members or of towing the line on a less than fund-member-friendly corporate policy or practice by the sponsor.

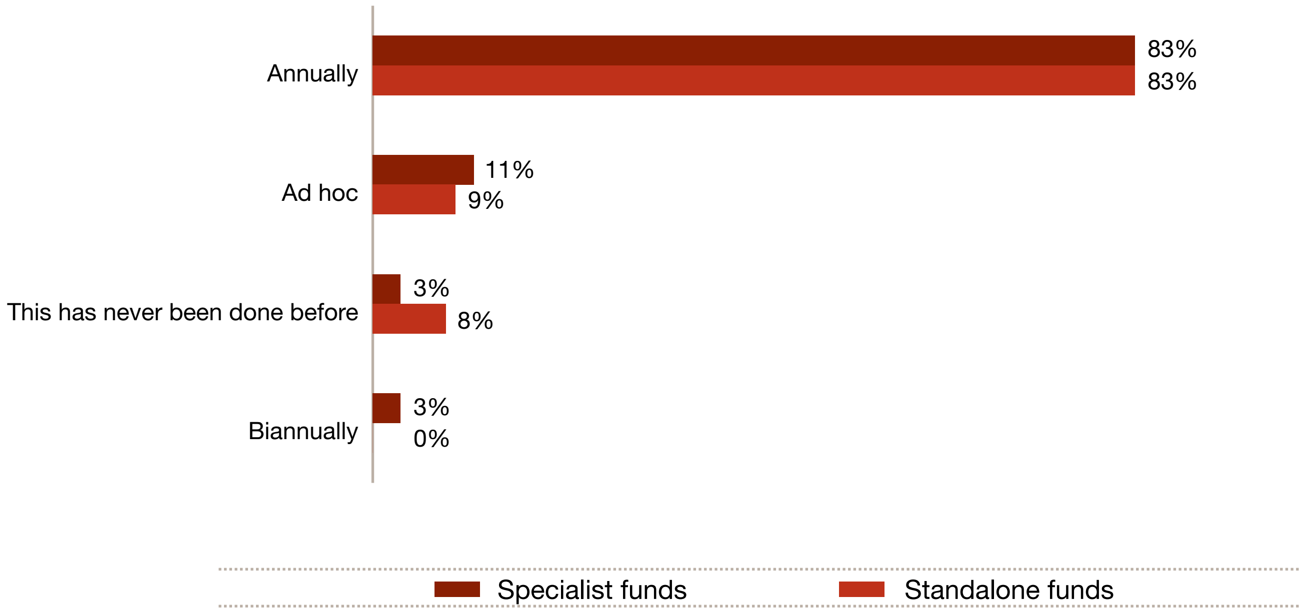
Interestingly, the boards and board committees of umbrella funds determined the level of trustee remuneration for the majority of these funds. They lead the way in increasing independence from sponsors on this aspect.

Figure 17:
Who sets trustee remuneration? (specialist funds)



We see a significant improvement in how often the level of remuneration is reviewed, with 83% of funds saying that they review their level of remuneration annually. In our 2010 survey, 30% of funds had never reviewed the level of their trustee remuneration, compared to only 5% of funds currently.

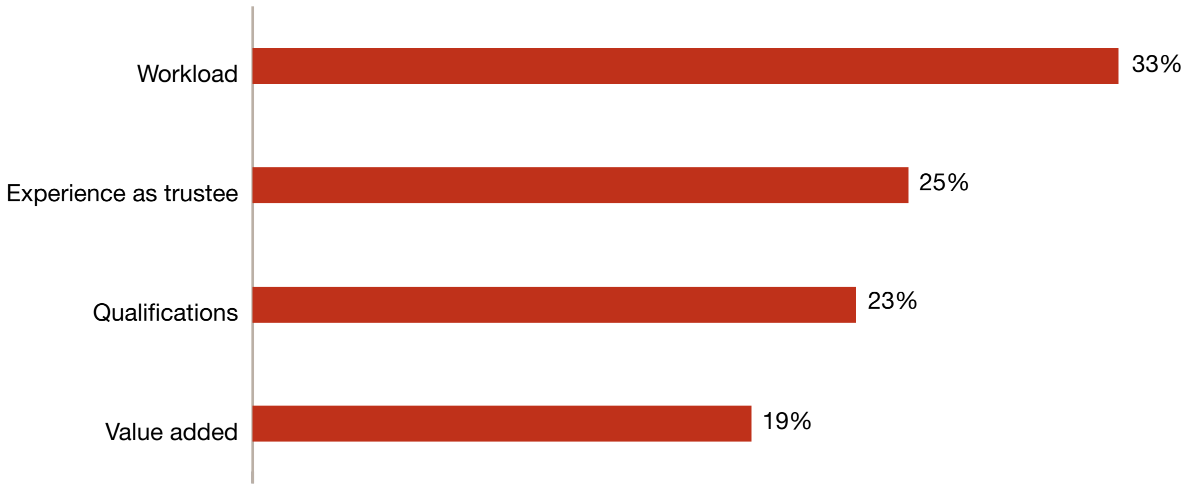
Figure 18:
How often is the level of remuneration reviewed/benchmarked?



What do respondents believe drives trustee remuneration?

Both standalone and specialist funds are of the view that workload is the main determinant of the level of trustee remuneration awarded, followed closely by the experience as a trustee. There is a fairly balanced distribution between factors listed, which indicates that trustees view all these factors as important drivers of trustee remuneration.

Figure 19:
Factors directly related to the level of trustee remuneration awarded



The way in which fund officials are remunerated

The most favoured basis of remuneration overall for chairpersons for both standalone funds (40%) and specialist funds (40%) is a fixed fee for attendance of meetings. The exception to this trend is umbrella funds, where 35% preferred an hourly rate for time spent on fund affairs, while only 32% of these funds remunerate their chairpersons on a fixed-fee basis for attendance of meetings. However, since our 2010 survey, the remuneration of chairpersons has shifted away from a fee-per-hour and toward a fixed-fee for attendance of meetings.

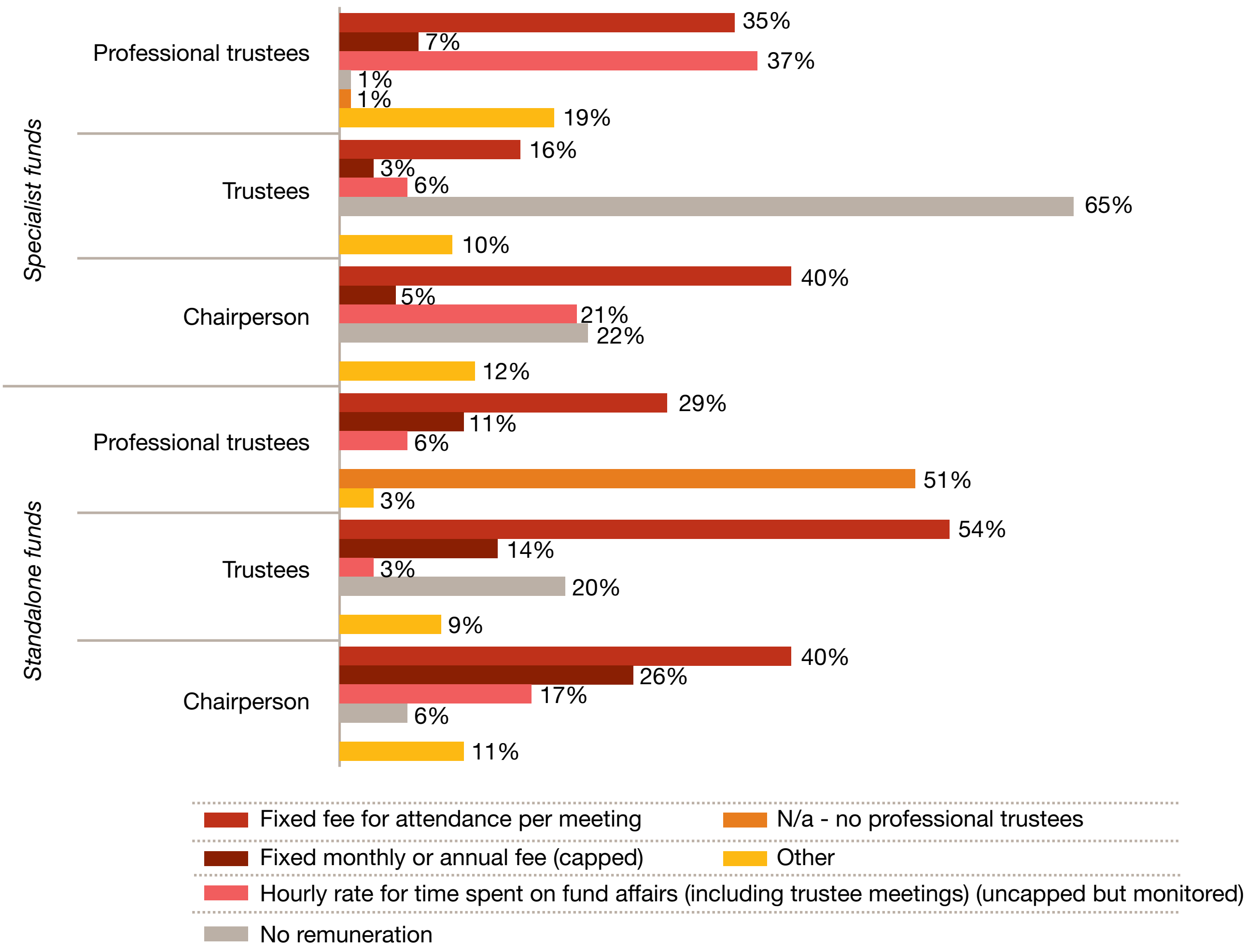
As in our 2010 survey, 54% of member/employer elected trustees of standalone funds earn a fixed fee for meeting attendance. Only 20% of standalone funds who remunerate trustees do not remunerate member/employer elected trustees. This contrasts sharply with the practice of specialist funds, where the majority of funds (65%) do not remunerate sponsor appointed trustees as it is seen as part of their day-to-day duties to also act as trustees on these funds. There has recently been a tendency for sponsors to appoint independent trustees to boards of these funds and we believe that these trustees are remunerated by the sponsor.

Only 49% of standalone funds appointed professional trustees compared to 81% of specialist funds. We expected that the larger the standalone fund, the more likely it would be for professional trustees to be appointed. This is not the case – a similar percentage of small, medium and large funds appointed professional trustees. Where standalone funds appointed professional trustees, most of them were remunerated on a fixed-fee basis for attendance of meetings in line with the results of our 2010 survey.

For specialist funds, 37% are remunerated professional trustees on an hourly rate for time spent on the fund's affairs, whereas 35% were on a fixed fee for attendance of meetings.

Figure 20:

Basis of remuneration



Level of remuneration

How are trustees remunerated and how much are they paid?

The following categories of remuneration were surveyed:

- Chairperson of the board of trustees;
- Employer/member /sponsor appointed trustees; and
- Professional trustees.

Detailed tables of the results analysed between small, medium and large standalone funds, retirement annuity, preservation and retirement annuity funds are set out in Appendix 1.

There is a wide spread of remuneration paid to chairpersons of funds for both standalone and specialist funds.

The annual remuneration for the majority of chairpersons (57%) of funds that remunerate trustees was in the range R1 – R100 000. A further 39% of chairpersons earned between R100 000 and R300 000 and 3% of chairpersons earned in excess of R300 000. The top earning chairpersons (2%) earned remuneration in excess of R500 000 per annum.

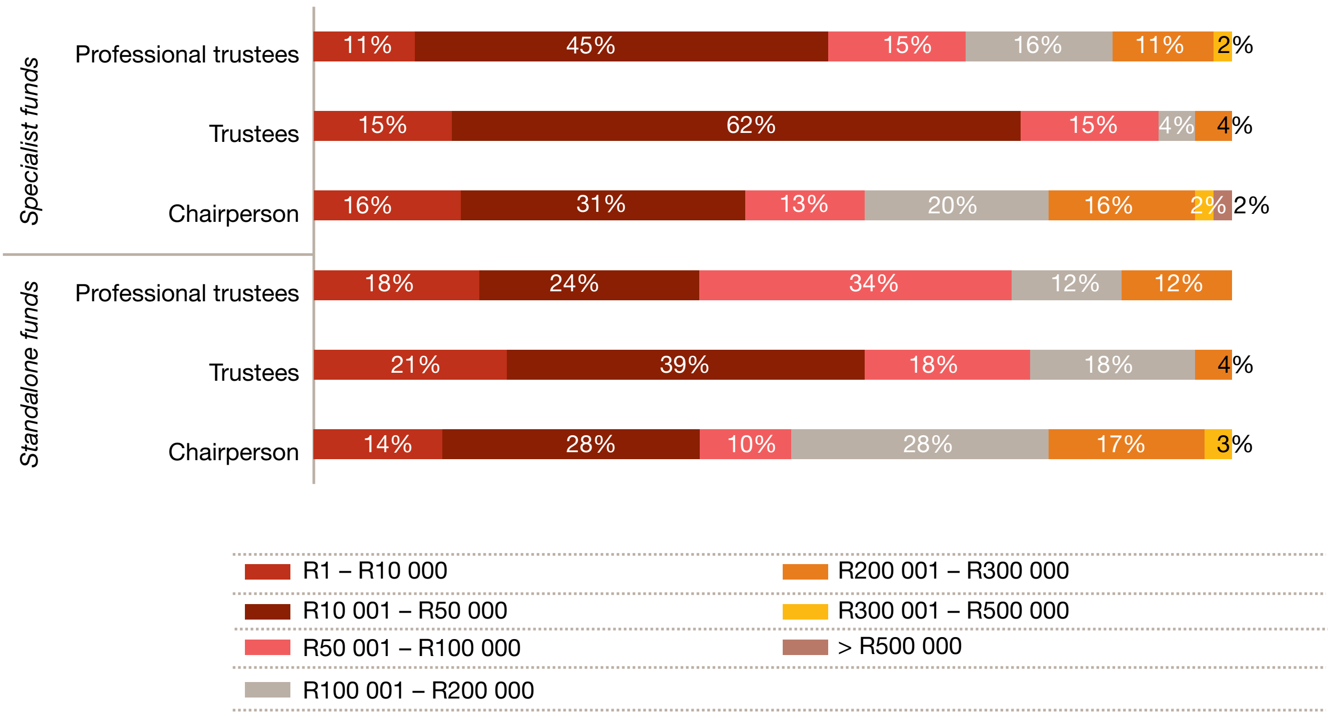
The usual level of annual remuneration paid to trustees of standalone and specialist funds differed considerably.

For standalone funds, 60% of trustees earned between R1 and R50 000, compared to 77% for specialist funds. The top earning trustees for both specialist funds and standalone funds (4%) earned an average annual remuneration of between R200 000 and R300 000 per annum.

Professional trustees of standalone funds tend to earn more than their specialist fund counterparts – 56% of professional trustees of specialist funds earned less than R50 000 on average per annum, compared to only 41% of standalone funds.

Top earning professional trustees of standalone funds represent 12% of those trustees with an average annual remuneration between R200 000 and R300 000, compared to 2% of specialist funds' top earning trustees who earned between R300 000 and R500 000 per annum.

Figure 21:
Remuneration levels



Other compensation

As identified in our 2010 survey, trustees are either reimbursed for direct costs incurred or these costs are paid for by the employer or the sponsor of the fund.

Figure 22:
Are trustees reimbursed for direct costs incurred?

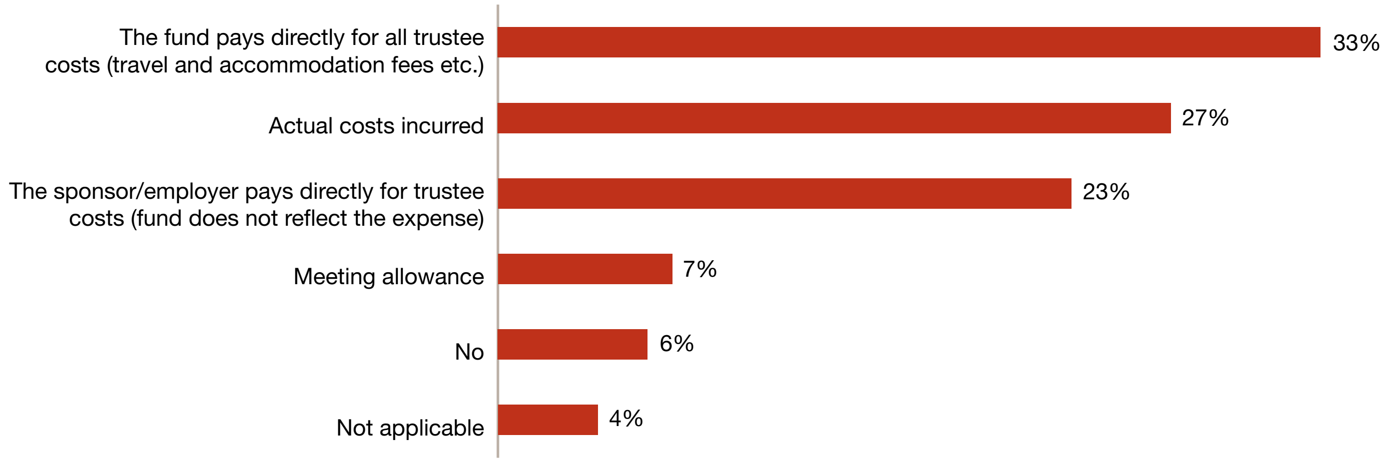
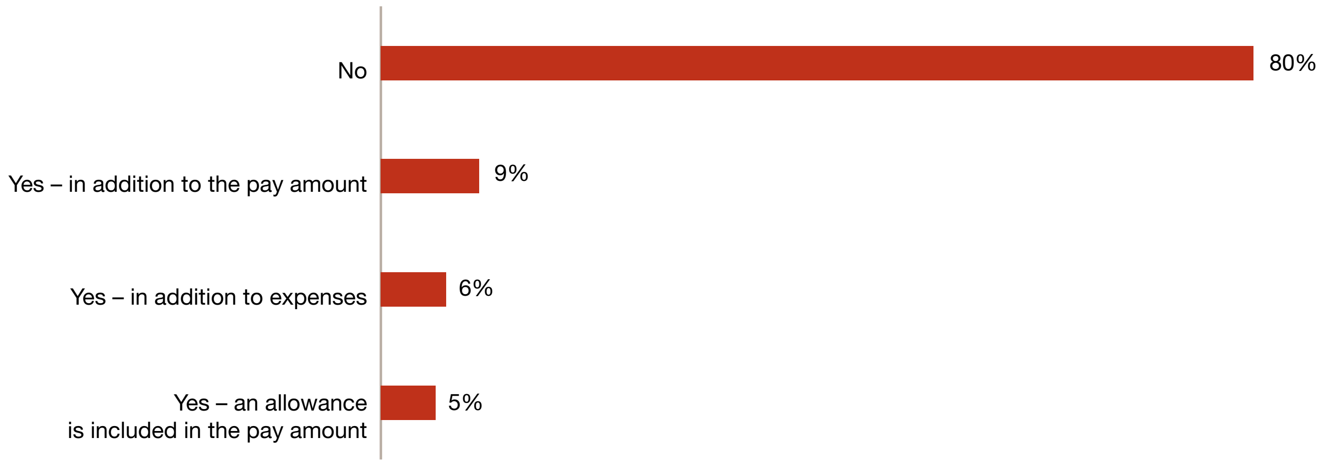


Figure 23:
Are trustees remunerated for attendance of training?

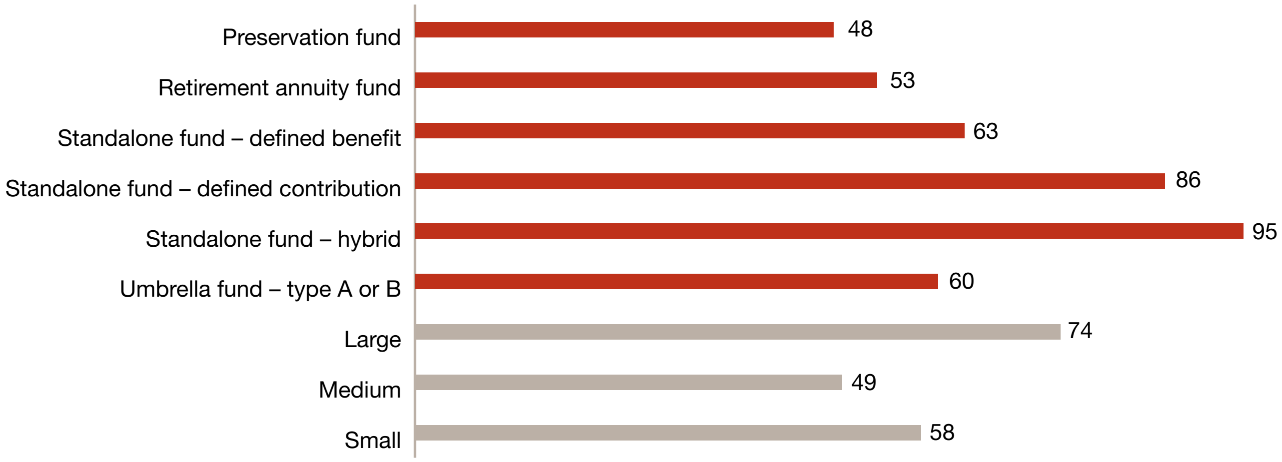


The pattern of not remunerating trustees for attendance of training continues. Only 20% (2010: 13%) of funds remunerate trustees for this.

Time spent by trustees on funds affairs

We asked respondents about the time that trustees spend on a fund's affairs over a year. The estimated time spent per type of specialist fund was closely aligned, but the time spent on the different types of standalone funds varied – between 63 hours and 95 hours. We believe the reason for this wide range is that hybrid funds are generally large standalone funds that require much more trustee input than their smaller counterparts.

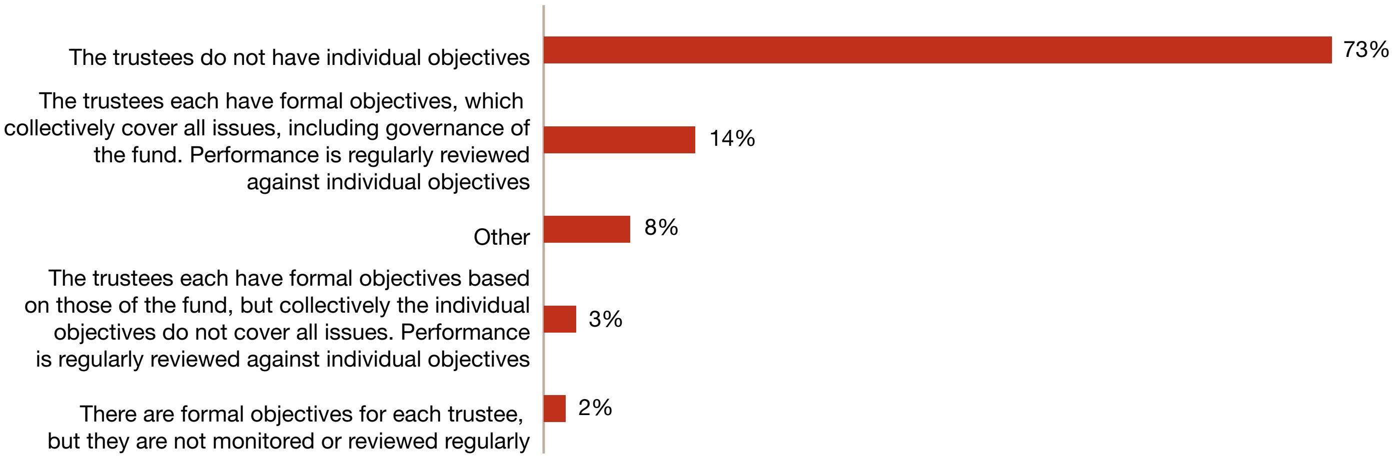
Figure 24:
Time spent by trustees on fund affairs per year (average hours)



Performance and assessment

In our 2010 survey, we noted that 68% of funds did not set individual objectives for their trustees. This has deteriorated to 73% of funds this year. Only 14% of funds' trustees have formal objectives that collectively cover all issues, including the governance of the fund, and review performance against individual objectives.

Figure 25:
Do trustees have individual objectives?



In the absence of formal objective setting, it was not surprising to note that for 85% of funds' trustee remuneration was not linked to the actual performance of trustees. The same concern was highlighted in the 2010 survey.

Figure 26:
Is remuneration linked to the performance of the trustee?

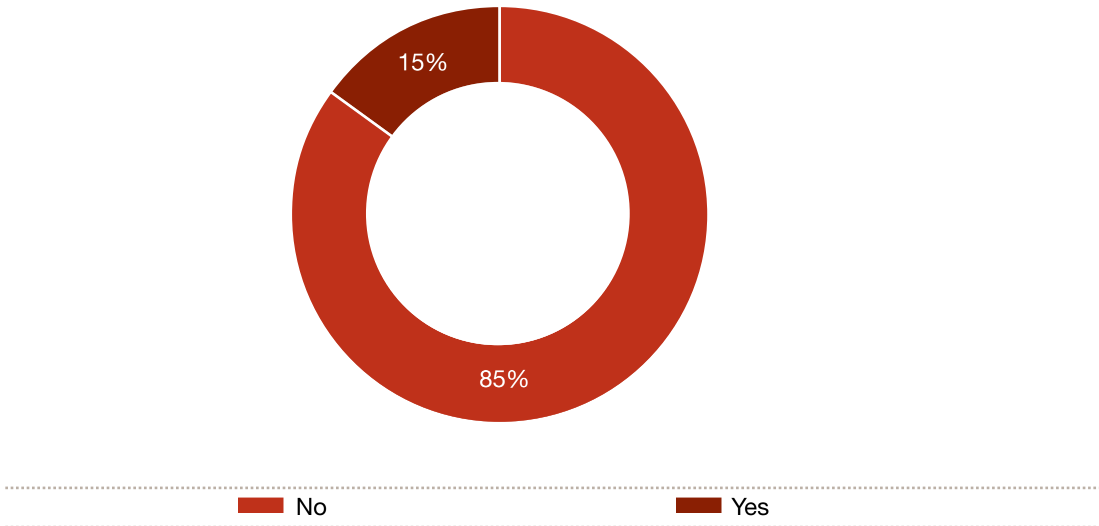
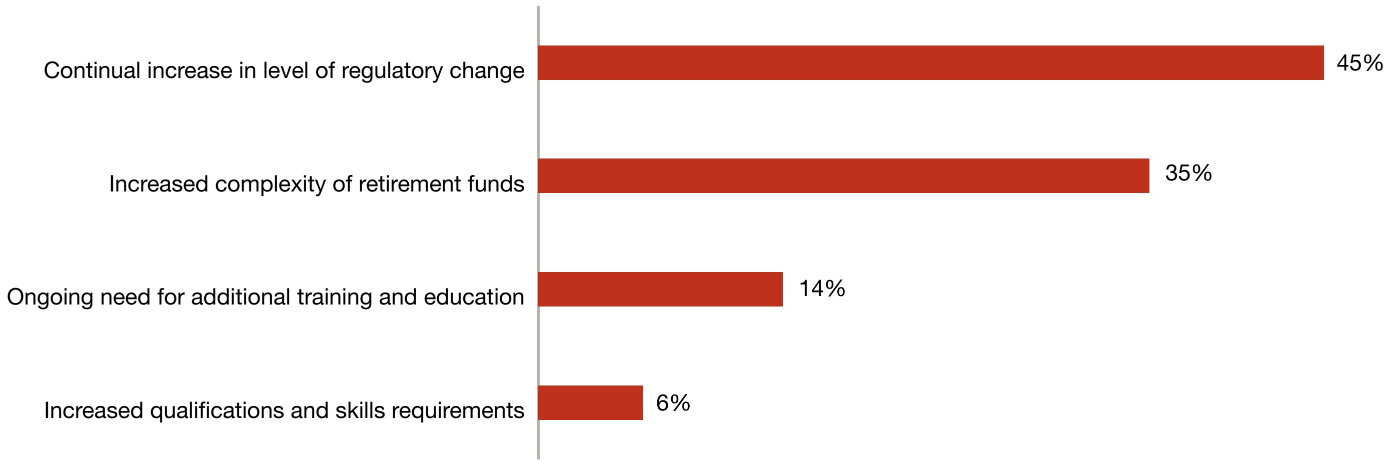


Figure 27:
What are key areas contributing to increased workloads for trustees?



On the question of what has led to increased workloads for trustees, it was not surprising that the increased complexity of retirement funds (35%) and regulatory changes (45%) were identified as the main contributors. The retirement fund landscape has changed significantly in the last few years and more is expected from trustees than ever before.

Trustee education

Why trustee education is important

The sheer scale of pension fund investments, coupled with the attendant economic, political and administrative risks, places an enormous responsibility on boards of trustees to govern these arrangements wisely. It is of utmost importance that trustees equip themselves with the required skills and knowledge to enable them to discharge their obligation towards fund members in the best possible manner.

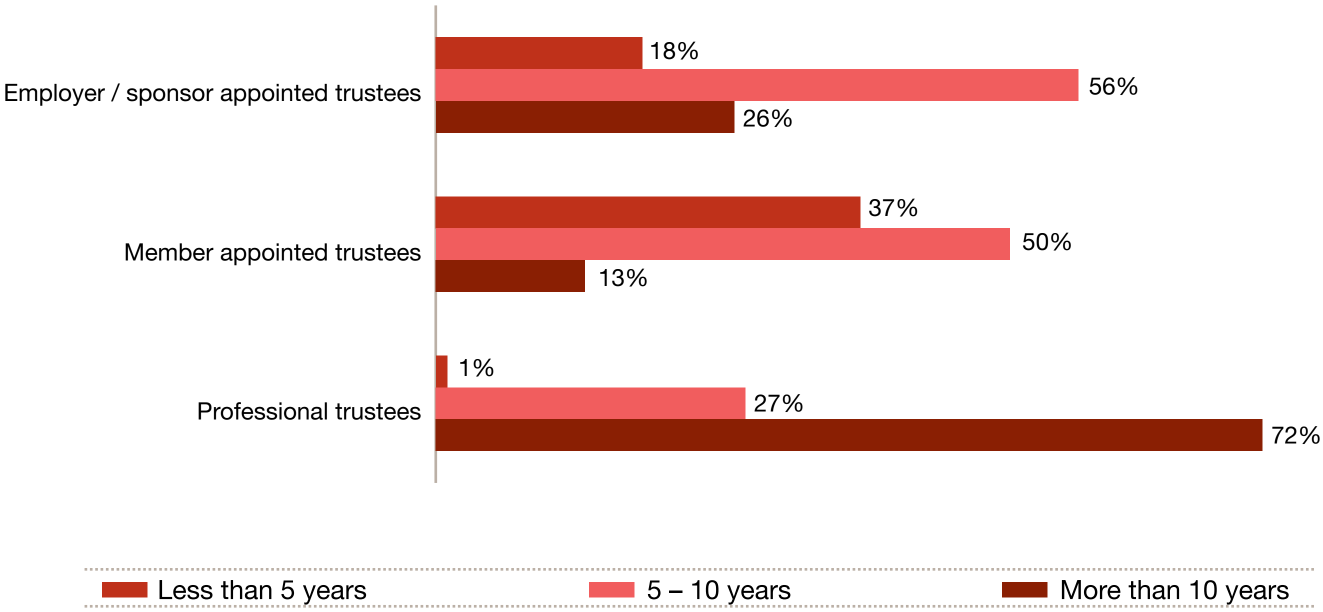
Trustee experience

One would expect professional trustees to be at the forefront with employer trustees not far behind. With professional and employer trustees often re-appointed to boards of trustees following the expiration of their terms of office, they often do gain more experience over the years than their member trustee counterparts, who seldom stay on for more than one term.

This expectation is confirmed by the results of the survey, which found that 56% of employer trustees and 73% of professional trustees have more than 10 years' experience, compared to 13% of member trustees.

Figure 28:

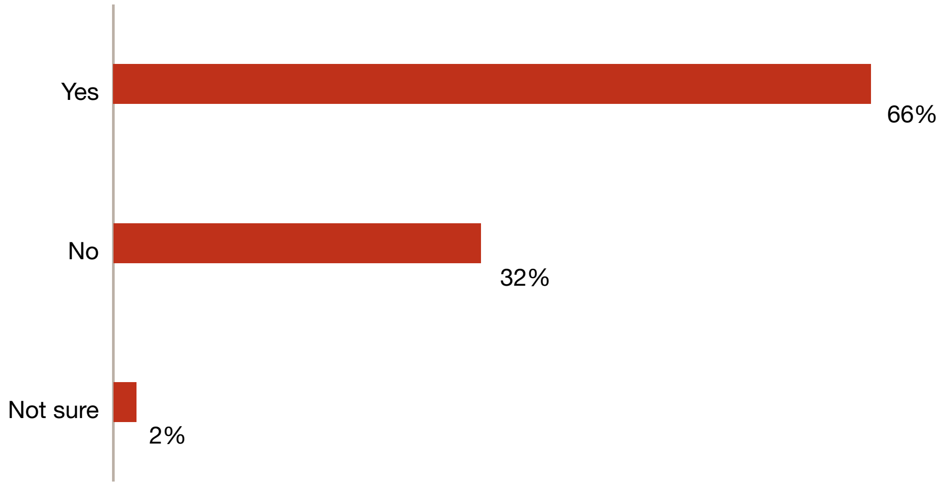
How much experience do trustees have?



Assessment of the training needs of the board of trustees

Figure 29:

Have the training needs of the trustees been assessed in the past two years?



It is positive that two-thirds of respondents indicated that training needs of trustees had been assessed. It is one thing to assess but another to act. We would hope that the outcome was better focussed, more relevant and hence more effective training for these boards of trustees.

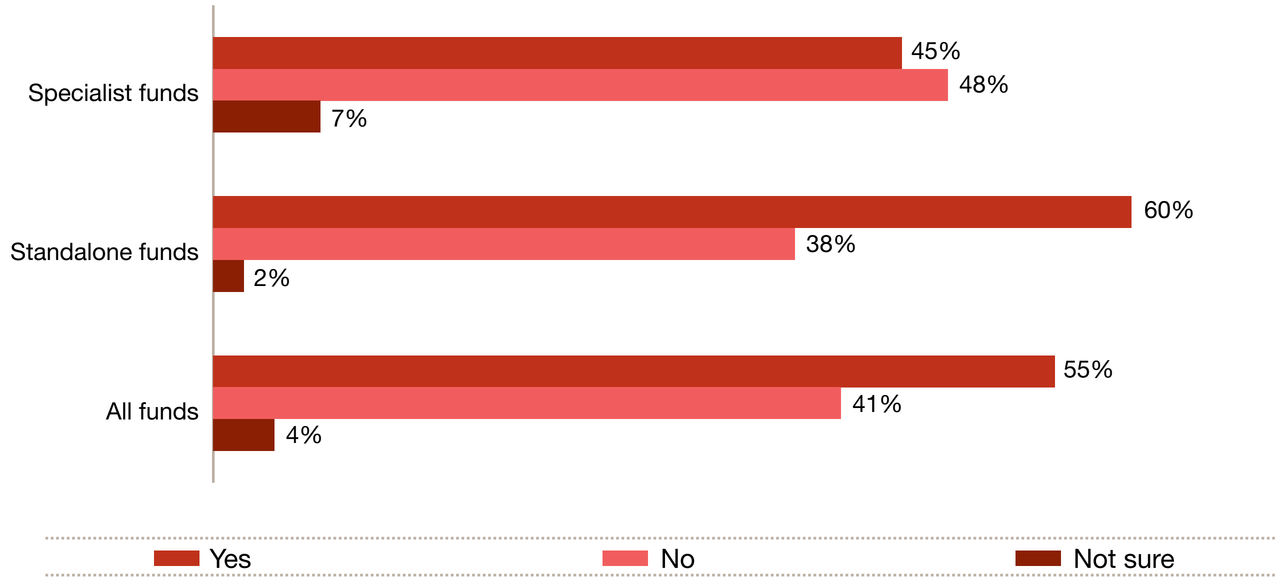
Learning and education policies

Although 55% of respondents have formal learning and education policies in place dealing with the education requirements of trustees, it is interesting that standalone funds led the way at 60%, while specialist funds lagged behind with only 45% having a formal policy in place.

Concerns have to be raised about the number of funds that are 'unsure' whether they have a policy in place. One would hope that PF130, properly applied, addressed this matter.

Figure 30:

Does the board have a formal policy on the education requirements of trustees?

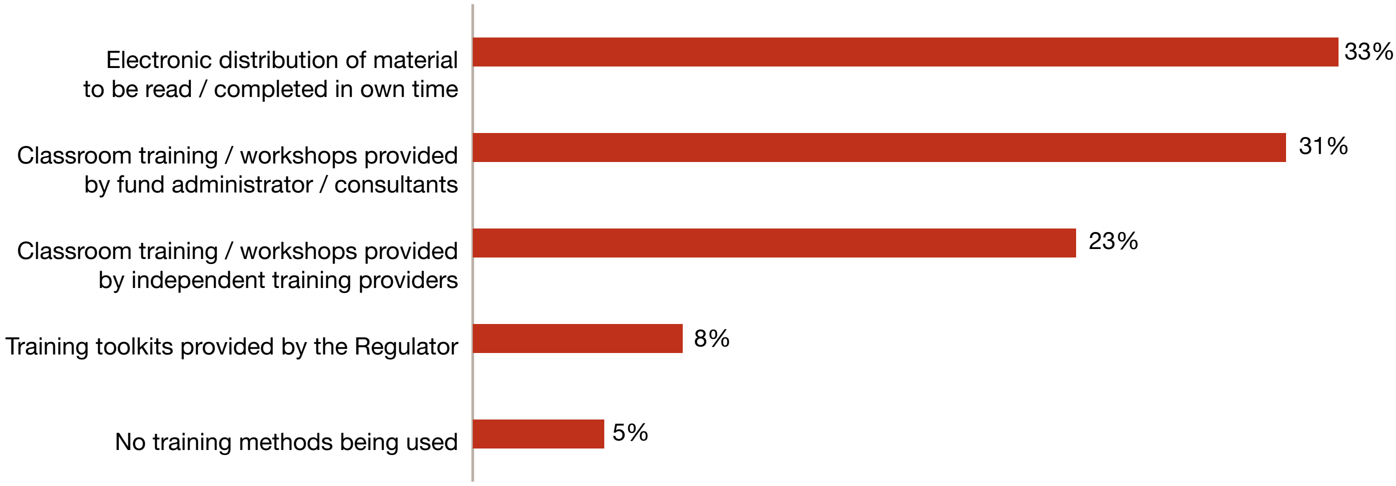


Training methods used

The training methods provided to trustees are split evenly between classroom training, workshops by independent training providers or fund administrators/consultants, and electronic distribution of material.

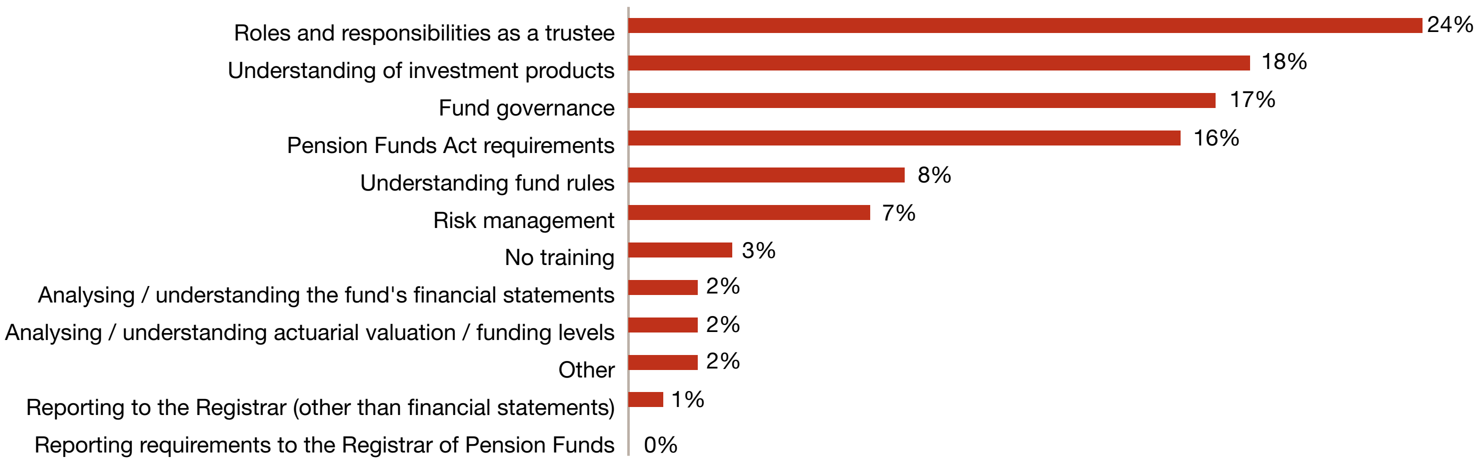
Training toolkits provided by the Regulator were only used by 8% of respondents. This may be due to this being a new arena in the South African pension fund environment. Interest in and use of these materials is likely to grow in the future.

Figure 31:
What methods are used to train the board of trustees?



Areas in which trustees have received training

Figure 32:
Which topics have trustees received training on?



As indicated in Figure 32, the majority of training provided to trustees focuses on the roles and responsibilities of trustees, fund governance, Pension Funds Act requirements and understanding of investment products.

It is worrying that 3% of respondents indicated that no training was provided to the fund trustees. This may be less of a concern for professional trustees who see to their own continued education and training, but is alarming in relation to member trustees, who may well lack the experience and knowledge to deal with the complex issues that trustees need to face and action. Up to 13% of member trustees had no tertiary education. Unless this is compensated for through long experience in the retirement fund industry, these trustees' training needs require special attention.

There are significant barriers to attaining a sound level of financial literacy. A further question that arises from this is a very real concern about the ability of many trustees to understand fully the financial statements that they sign off and likewise for the actuarial valuations that form an integral part of a defined benefit fund's financial soundness considerations. In both cases, only 2% of respondents indicated these to be focus areas in which training is provided.

Other areas of education noted by respondents include:

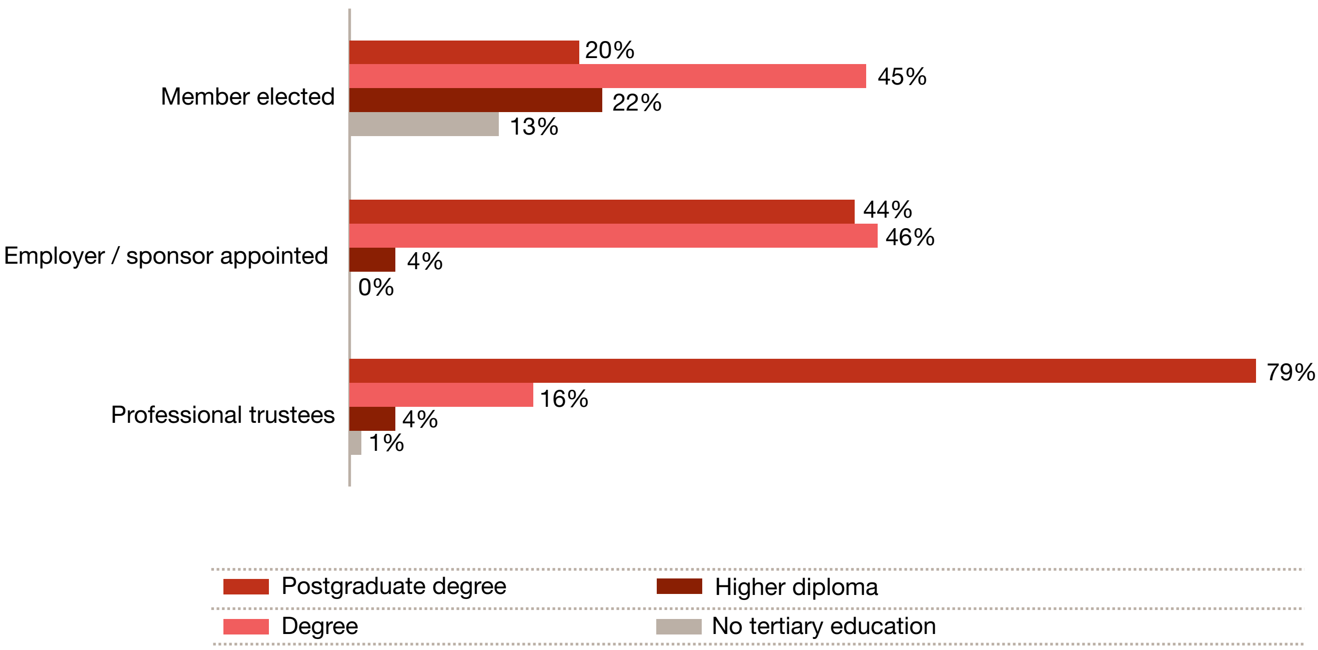
- Investment strategy and analysis of investment reporting;
- Section 37C death benefits, including payments to trusts;
- General pension fund training; and
- Issues critical to proposed fund restructuring.

Level of education of trustees

It is comforting to note that the majority of trustees, including member, employer and professional trustees have education levels of higher diplomas and above, with more than half of trustees having degrees or postgraduate qualifications. Professional trustees are expected to bring a wealth of knowledge and expertise to the table and this was confirmed with 79% of professional trustees having a postgraduate degree. However, their use across the survey population is not as widespread as might be expected, with only 36% of the funds making use of the services of professional trustees.

Figure 33:

Education of trustees



Average number of hours per year spent by fund trustees on training and attending industry events

The results of the survey indicated that, on average, trustees spend 27 hours per year on training and attending industry events. Whether this is enough is a question that can only be answered by each individual trustee after carefully considering his or her very important responsibility towards the fund members whose retirement benefits are being managed.

Several respondents indicated that a minimum level of trustee training should be compulsory.

We suggest trustees should take care that enough time is set aside to equip themselves with the knowledge and skills they may well lack.

Factors for trustees to consider:

- What is my current level of experience as a trustee?
- Do I have the knowledge required to make informed decisions regarding financial reporting, investment products, valuation results and regulatory compliance?
- Can I add value to the risk management process of the fund and ensure proper focus is placed on critical areas?
- Do I possess the necessary confidence to deal effectively with service providers and to ask the right questions and ensure that proper responses are obtained?
- Can I provide fund members with the comfort that their retirement benefits are being looked after by a suitably knowledgeable, skilled and experienced board?

With the ever-changing regulatory, investment and financial reporting environments, trustees should ensure that they are at the forefront of these changes and hence well equipped to fulfil their key role.

Other views regarding trustee education

A common view running through respondents' feedback was that trustees must keep up to date with the regulatory and governance requirements of the retirement funds industry and that ongoing training of all trustees should be compulsory.

Some respondents felt that there should be minimum education levels for trustees. Others felt that the value of trustees' input could not be determined by academic qualifications. A number of respondents indicated that each trustee, especially professional trustees, should take ownership of their own continued professional development, while many supported the idea that the Registrar of Pension Funds should provide the primary platform for the training of trustees.

Suggestions were made that the Registrar should formally monitor training. Ways to accomplish this include:

- Compulsory annual disclosure to the FSB and fund members of training attended;
- Training should be compulsory for holding an office and monitored by the amount of 'points' accumulated for completion of training;
- Compulsory implementation of an induction and development policy by each board of trustees;
- Measuring training annually to determine what individuals have done to educate themselves. This may be accomplished with annual certification by each trustee; and
- Encouraging board members to complete an annual self-assessment to ascertain training requirements.

Training challenges identified

The following challenges were noted by respondents concerning training:

- With the high cost of training seminars/workshops, the Registrar should supply more accessible training and information (web-based) with the focus on providing information and not only training;
- Training should differentiate between retail and occupational funds;
- High staff turnover generally undermines training efforts;
- As most trustees are employed, it is often difficult to have sufficient time away from the office to attend to fund matters/meetings/training;
- It is becoming increasingly onerous to be a trustee (due to legislative requirements, etc.);
- New trustees face a steep learning curve given the ever-increasing complexity of the pension fund industry; and
- Some member trustees seem reluctant to read all applicable and topical material sent to them.

Suggestions from respondents for training events/material included:

- Training must be fund specific and not merely deal with general issues in the industry;
- Training needs to be split into different areas and dealt with intensively;
- It is important to use trainers that are able to communicate effectively to trustees who have different levels of expertise;
- Frequent communication of industry articles and other publications by the principal officer or service providers to the fund provides a good platform for ongoing education and development of trustees;
- It is essential that the employers/administrators give maximum assistance to trustees in understanding the role and responsibilities of a trustee;
- Trustees training should be provided by independent facilitators;
- A standardised set of training materials/checklists/guidelines created and maintained by regulatory bodies may be beneficial to the industry;
- On-the-job training during trustee meetings adds value;
- Self-education of trustees is essential. Trustees need to keep themselves abreast of developments in the industry by reading relevant articles in magazines and newspapers; and
- Continuous development and the relevant taxation legislation should form part of the training curriculum.

Principal officers

In our 2010 survey, we looked at the remuneration of principal officers for the first time. The considerable role of professional principal officers in large and specialist funds aligned with almost 70% of respondents for those funds reporting that the principal officer was remunerated.

In view of governance-related developments in recent years directly affecting the role of the principal officer, such as PF 130 and the 'Fit and Proper Requirements' set out in Directive PF 5, issued by the Financial Services Board, we thought it appropriate to assess the skills and experience of principal officers in addition to looking at their current remuneration levels.

Experience and qualification of principal officers

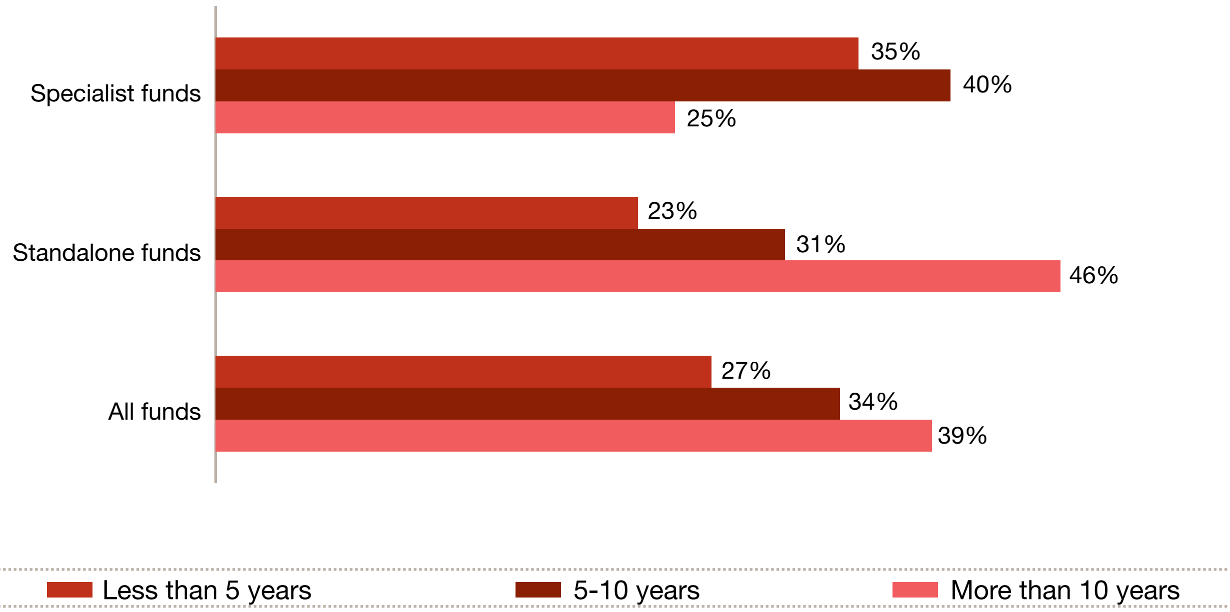
No less than 73% of respondents had five years' experience or more, and 83% held at least a degree. This percentage is above 80% regardless of fund size. Overall, more than half (54%) held a postgraduate degree, indicating a marked tendency towards appointing highly-skilled individuals in this position. For specialist funds, this percentage increases to 60% and is lowest at 50% for small funds. Only 4% of large funds' principal officers have no tertiary education.

Profile of principal officers surveyed

Fund type	Number of principal officers
Standalone funds	153
Specialist funds	75
Total	228

Figure 34:

How many years' experience does the principal officer have?



Principal officers in standalone funds have more experience than those in specialist funds.

Principal officers in standalone funds have more years of experience than those in specialist funds. Almost double the proportion of principal officers of standalone funds (46%) have more than 10 years' experience compared to 25% for specialist funds. Among specialist funds, 35% of principal officers have less than five years' experience compared to 23% for standalone funds. Principal officers in small and medium funds have more years' experience than those in large funds. Only 67% of large funds' principal officers have more than five years' experience compared to 80% for medium and 65% for small funds.

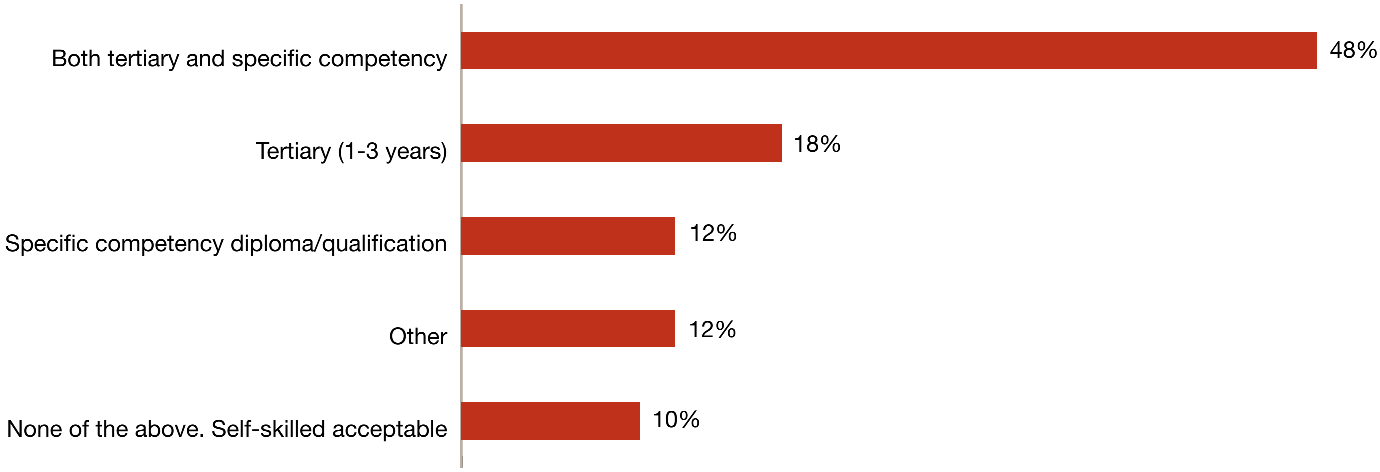
Asked what the minimum qualifications required should be, there was a mixed response but with the majority (66%) in favour of at least a tertiary qualification. This is as expected given the actual qualifications reported by respondents.

Almost two-thirds (60%) were in favour of a specific competency (12% outright with a further 48% preferring a combination of both tertiary and specific competency). Only 22% felt that self-skilled and other strategies would be sufficient. These include:

- Specific degree in retirement fund matters/industry professional qualification;
- Combination of self-skilled/work experience and education;
- Strong legal and financial backgrounds; and
- Work experience in the employee benefits environment.

Regardless of the combination favoured, all respondents agreed that special professional skills, derived from further education and relevant experience, were essential.

Figure 35:
What is the minimum qualification a principal officer should have?

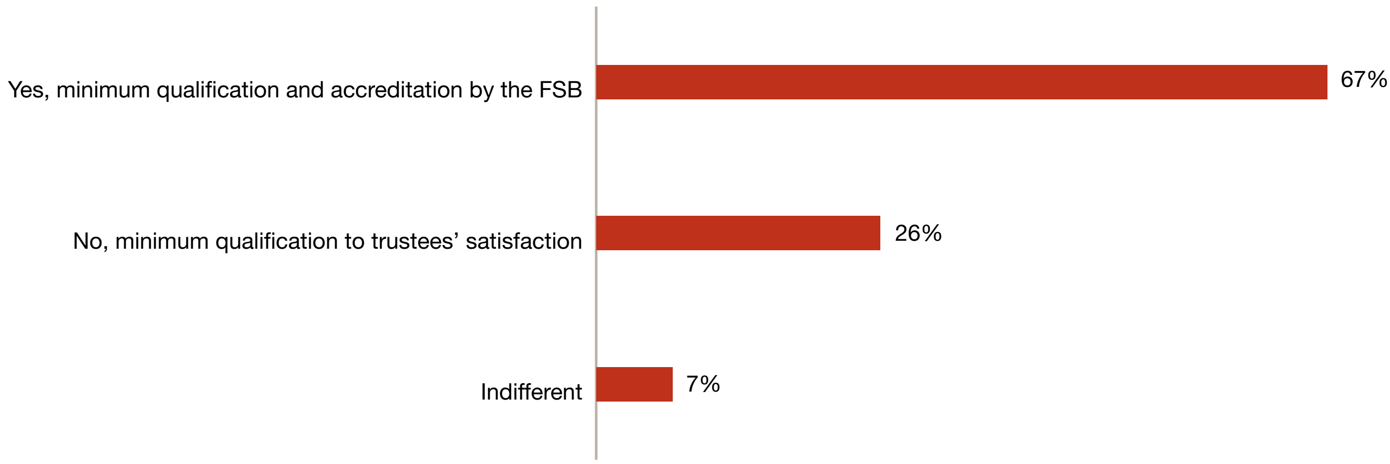


Regulation and employment status

Two-thirds of respondents were in favour of being regulated with a minimum required qualification and accreditation with the FSB.

Figure 36:

Should principal officers be regulated?

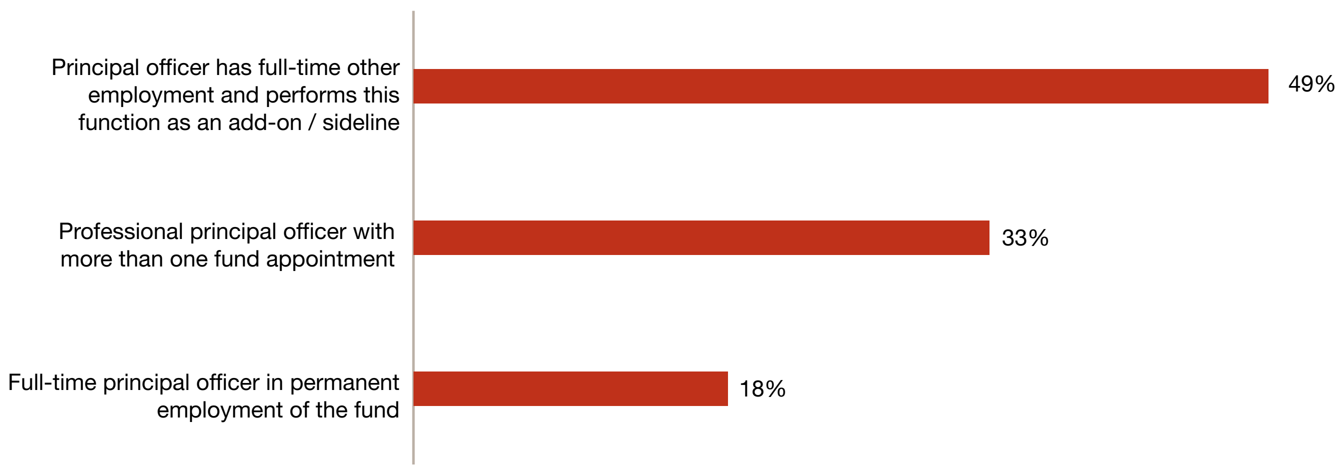


This desire was a bit puzzling considering that about half (49%) of principal officers were not full-time and performed the job as an add-on or sideline. One would not expect them to be in favour of the red tape likely to accompany regulation, in addition to their normal day jobs.

Specialist funds showed the lowest interest (57%) in a minimum qualification and accreditation by the FSB and the highest percentage vote for 'minimum qualification to trustees' satisfaction' of 35%, which possibly indicates that the sponsor prefers to have a say in the choice of principal officer.

Figure 37:

What is the current status of the principal officer?



51% of respondents have a full-time career as a principal officer

The fact that 51 % of respondents have full-time careers as principal officers indicates that the job has evolved into a skilled profession. As expected, for large and specialist funds, there is a preference to employ permanent or professional principal officers.

Small and medium funds tend to have part-time principal officers (in 61% of cases) who have other full-time employment, possibly indicating that they work for the employer and fulfil the principal officer job as sideline.

For large funds, 26% employ a full-time principal officer and 45% employ professional principal officers who have more than one fund appointment.

Specialist funds reflect an even greater tendency to outsource the function with 53% employing professional principal officers and 15% employing full-time officers, meaning that 68% have full-time or professional principal officers.

Remuneration

In 2010, 53% of funds did not remunerate their principal officers compared with 42% in 2012 – a large shift of 11 percentage points. Those funds that do remunerate prefer a fixed monthly fee or salary (as in 2010), with the large funds paying higher salaries. About half of small (49%) and medium (58%) funds do not remunerate the principal officer as opposed to only 15% of large funds that do not do so.

Standalone funds issue bigger pay cheques with 63% of those that do remunerate paying more than R400 000 per annum.

Specialist funds pay less than R250 000 per annum in 67% of cases, possibly indicating that sponsors are picking up the bulk of remuneration.

Of large funds that remunerate, 39% pay more than R800 000 per annum.

A fixed-fee per meeting is the least preferred option across all types of funds, while an hourly rate is the second least popular except in the case of specialist funds, where 24% of principal officers are remunerated per hour.

Figure 38:

What is the basis of the principal officer's remuneration?

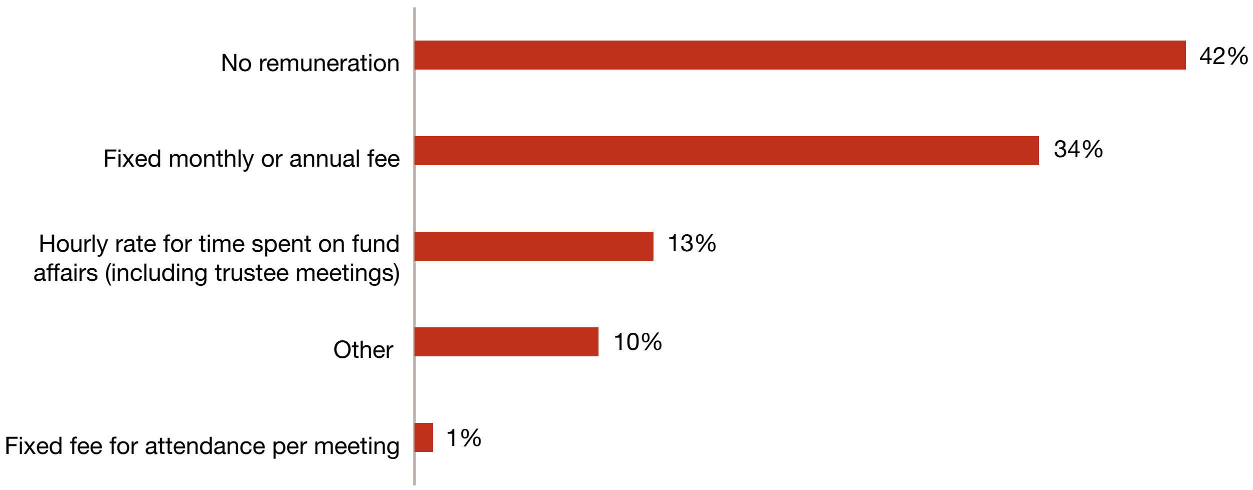
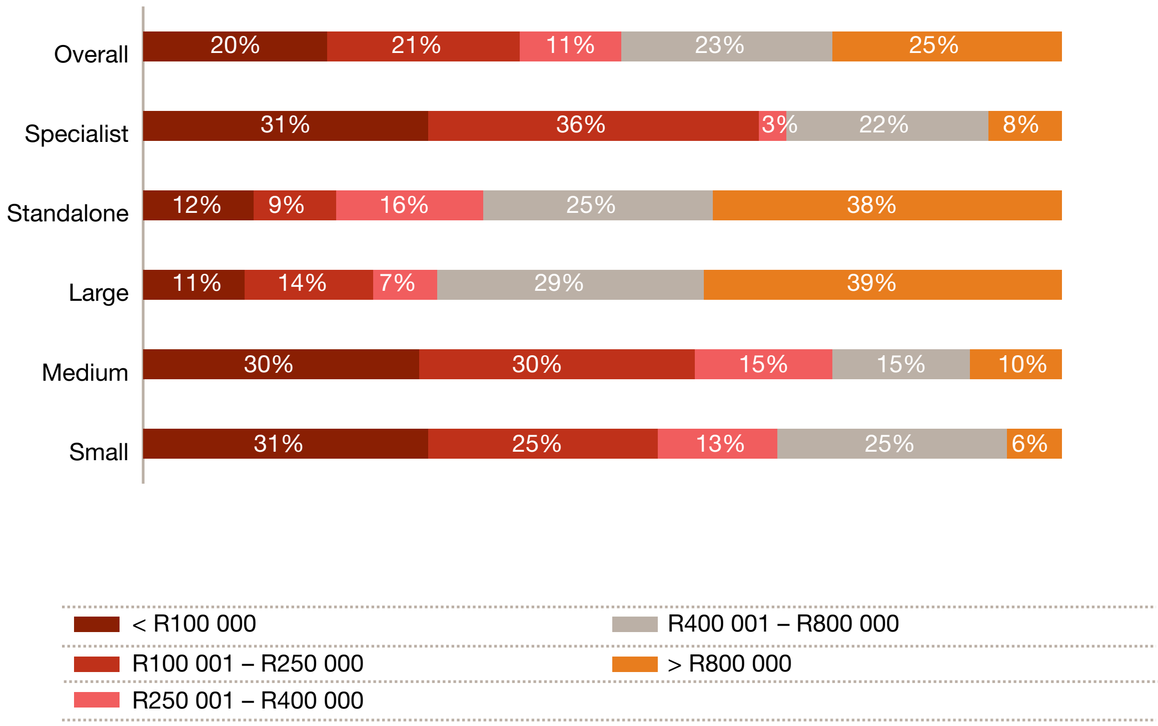


Figure 39:
What is the range of the principal officer's remuneration?

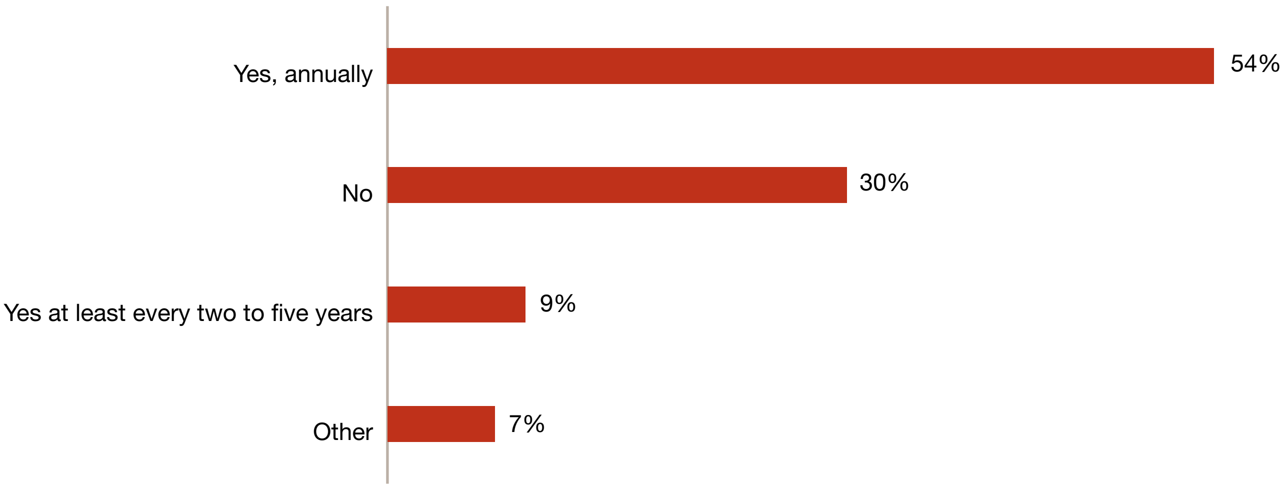


Refer to Appendix 2 for full details of the number of cases of remuneration per remuneration band reported by respondents.

Time spent and assessment

Figure 40:

Is the performance of the principal officer formally assessed by the trustees?



Principal officers are being assessed annually for more than half the funds surveyed. As expected, remuneration and assessment appear to go hand in hand.

The bulk of the 30% not being assessed annually is attributable to small and medium funds that often do not remunerate their principal officers either. Given that 59% of small funds, 33% of medium funds and only 15% of large funds do not assess their principal officers annually, there appears to be a greater trend towards better governance the larger the fund.

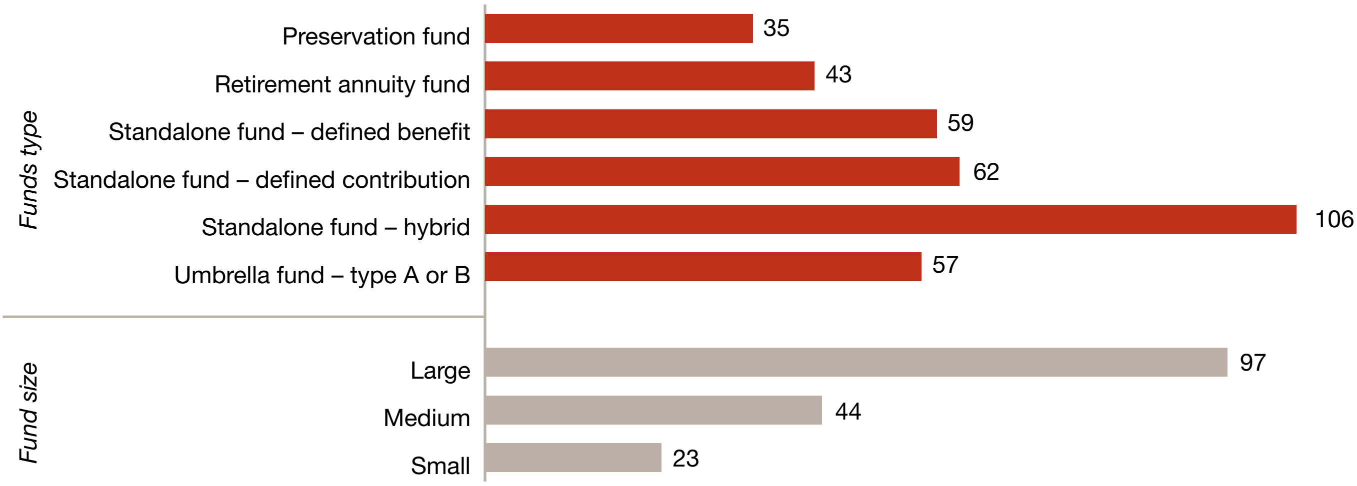
Regardless of the type of fund or fund size, all respondents spent more or less one week per month on fund matters, with small funds at three days the lowest, as expected. The time commitment for principal officers of large funds doubles to between two and three weeks on average per month.

Small and medium funds require the least effort, with one week or less required per month. It is interesting that defined benefit and defined contribution standalone funds receive more or less the same dedicated hours as umbrella funds.

The perception has been that umbrella funds are more complex and require more time to manage. Perhaps this time effort is then more the problem of the administrator than that of the principal officer.

Hybrid funds require the most effort and preservation funds the least. Even for small and medium funds, hybrid funds require 80 hours (10 working days) per month. Large defined benefit funds require on average 135 hours (17 working days) per month.

Figure 41:
How much time per month does the principal officer dedicate to the fund? (average hours)



Training

All principal officers attend at least three day's training or industry events per year, regardless of fund size. This is heartening because, as noted earlier, overall 49% of them perform the function as an add-on or sideline to their full-time jobs.

It is debatable what the ideal number of hours should be, but the question should be asked whether at least 60-90 hours would be more desirable to bring it in line with other professional bodies like SAICA and the FPI.

Principal officers of umbrella funds spend the most time on training and events, while officers of preservation and retirement annuity funds spend the least, perhaps because these products have experienced less development over the years, or the sponsors cover legal compliance, reducing the dependence on principal officers having to attend training.

Figure 42:
How many hours per year does the principal officer typically spend on training and attending industry events? (average hours)

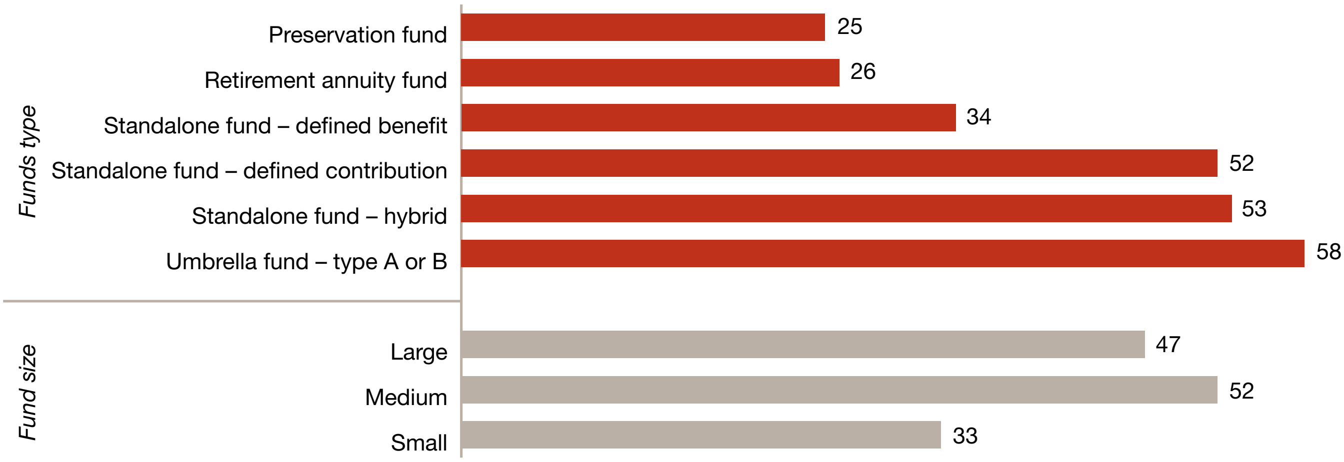
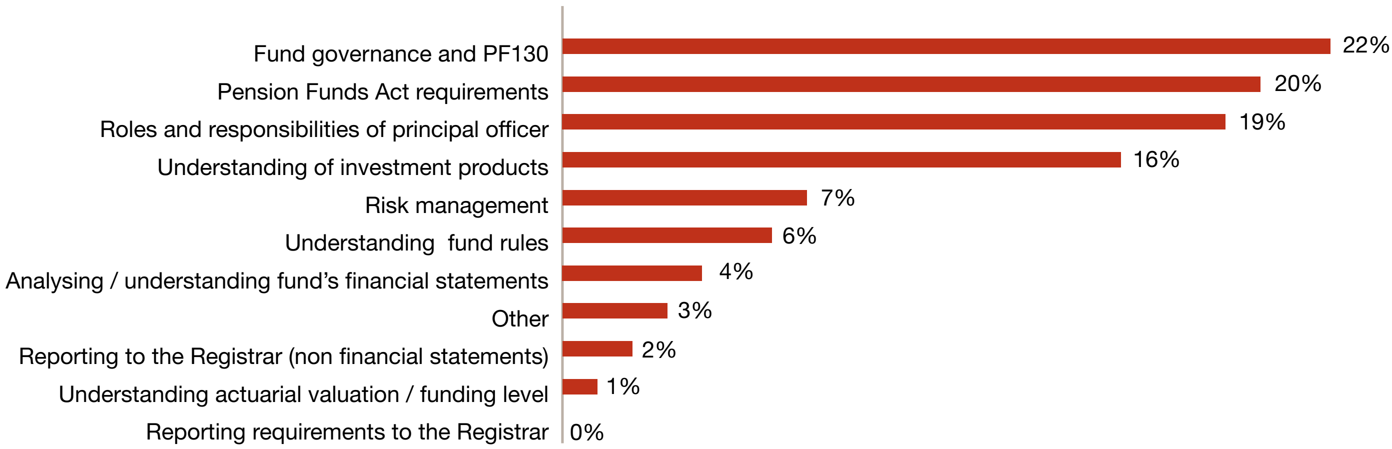


Figure 43:
In what areas has the principal officer received training?



The top three areas of training are governance (PF130), the Pension Funds Act requirements, and roles and responsibilities of principal officers. This is as expected given the statement on compliance that must be signed off annually by each principal officer in the financial statements.

Understanding of investment products is next in line and should probably receive more attention. Investments seem to be regarded as more of a trustee responsibility or that of the outsourced asset consultants or investment managers.

A worrying trend is that little time is spent on understanding the financial statements (4%), the actuarial reports (1%) and risk management (7%). Clearly, principal officers regard these areas as either too complex or covered by the outsourced service providers.

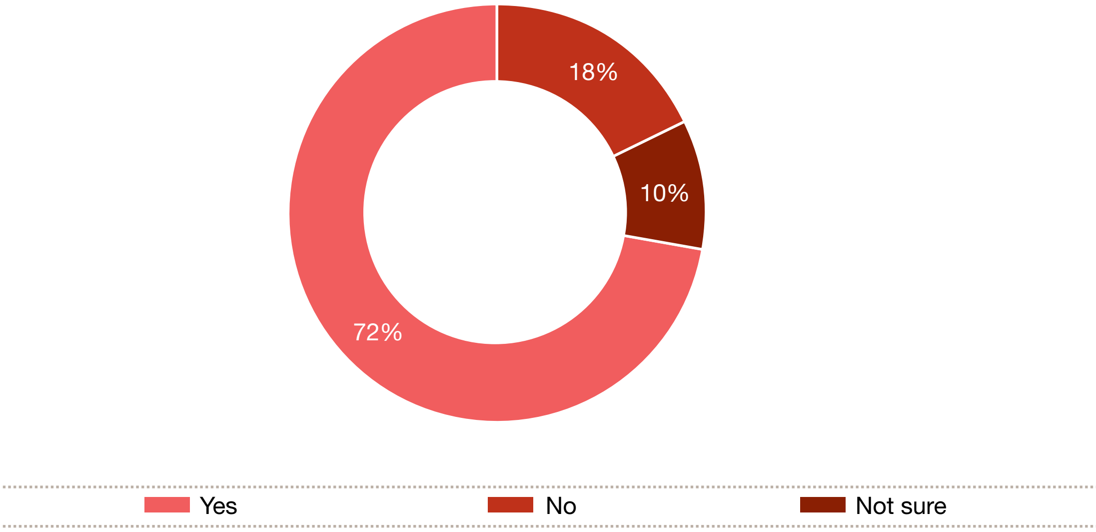
Just 3% of respondents indicated that either no training is provided because they are self responsible, being professional trustees, or that they received training in less than three areas or other specific fields such as Section 37C disposal of death benefits or the fund's accounting system.

Regulatory aspects and risk management

Protection of members

Figure 44:

Is the South African retirement fund industry appropriately regulated from the perspective of protection of members?



Overall, 72% of respondents believe that the South African retirement fund industry is appropriately regulated from the perspective of protection of members. A number of respondents emphasised the importance of the role played by the Regulator in the effective monitoring and supervision of compliance with legislation, and the consistent enforcement of compliance.

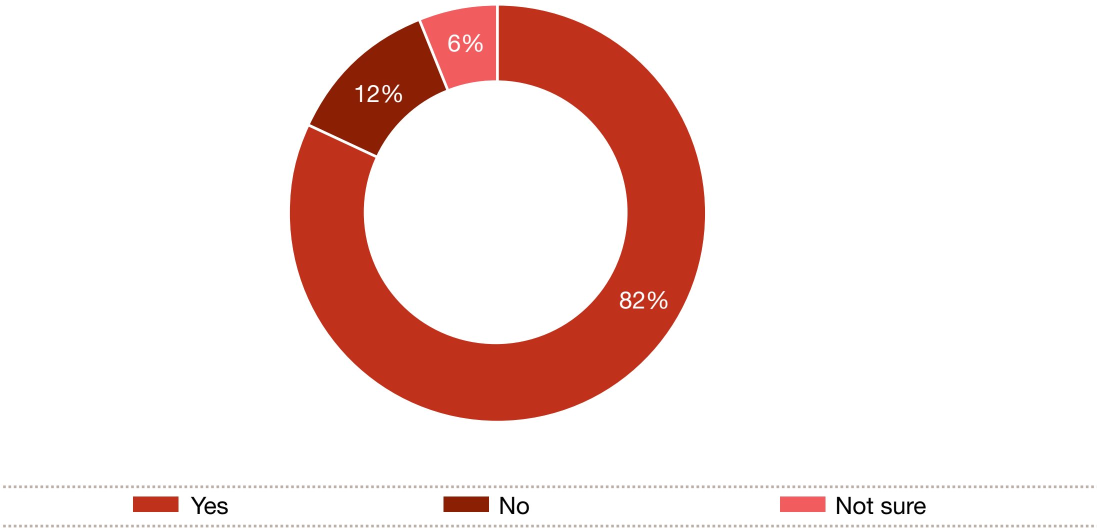
For those respondents that answered no or were unsure, a number felt that the industry is possibly over regulated and/or legislation is not focused sufficiently on the key risk areas from the perspective of protecting members. This is apparent from ongoing retirement fund scandals brought to light in the press from time to time, which result in the loss of members' funds.

Other observations made by respondents:

- More should be done to contain costs;
- Enforcement is not always effective and is reactive;
- There are undue time delays in settling of benefits;
- Communication to umbrella fund employers is less than desirable or late;
- Timing of issuing of benefit statements is frequently late;
- The number of Adjudicator cases is an indication that all is not as well as it should be; and
- Identification and assessment of impact of regulatory changes needs to be undertaken.

Figure 45:

Is the board of trustees and management of the fund suitably equipped to identify and assess the impact of regulatory changes on the fund?



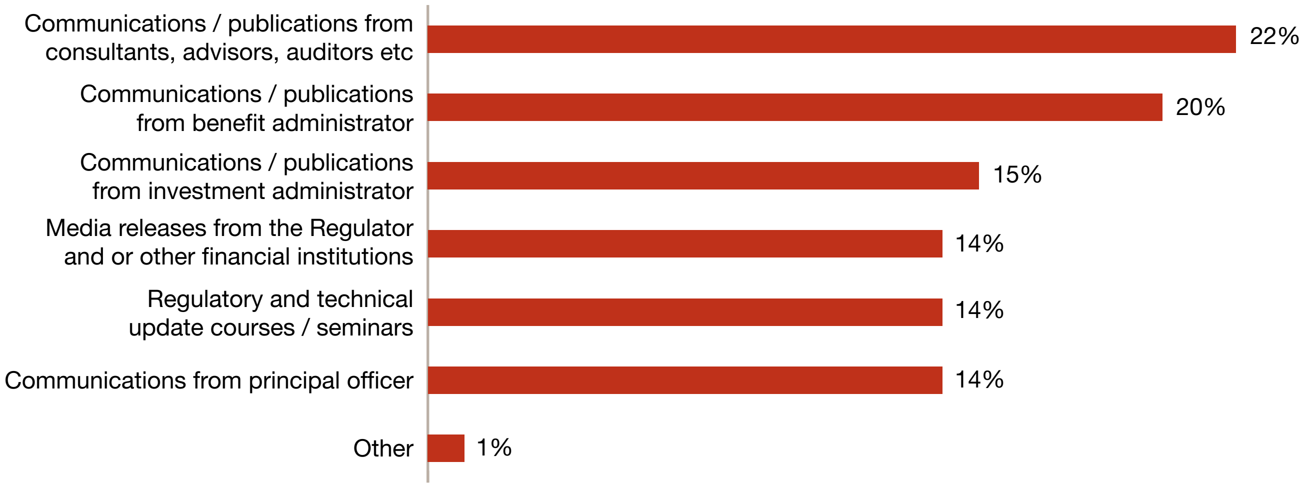
It is positive to note that 82% of respondents felt that their board of trustees and management were suitably equipped to identify and assess the impact of regulatory changes on the fund.

Findings under the trustee education section of the survey also emphasised the importance of ongoing training and continued professional development of trustees in order to ensure that they keep up to date with regulatory changes and developments.

Means of keeping up with regulatory changes

Figure 46:

How do trustees/board of management keep up to date with regulatory changes impacting the fund and the retirement fund industry as a whole?



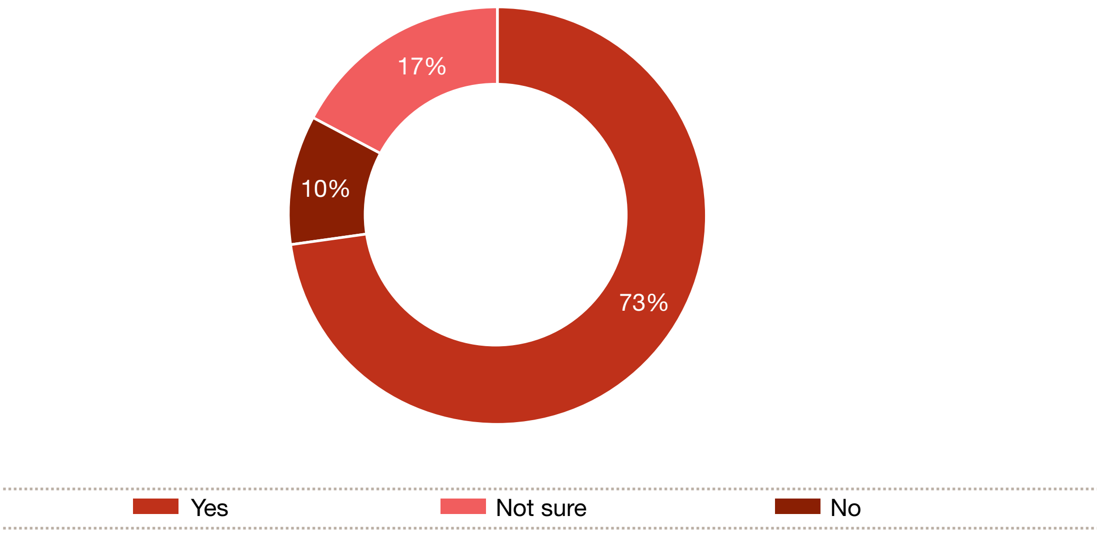
Communication notices and publications issued by consultants, advisors, auditors and investment and benefit administrators were seen to be the key means by which trustees kept up to date with regulatory changes affecting the fund and the retirement fund industry as a whole.

Where trustees are actively involved in commenting on regulatory change proposals, this is also seen as a means of ensuring that they have carefully considered the implications of the proposed regulation on their funds and can ensure compliance once the change has been implemented.

Cost of regulatory changes for members of the fund

Figure 47:

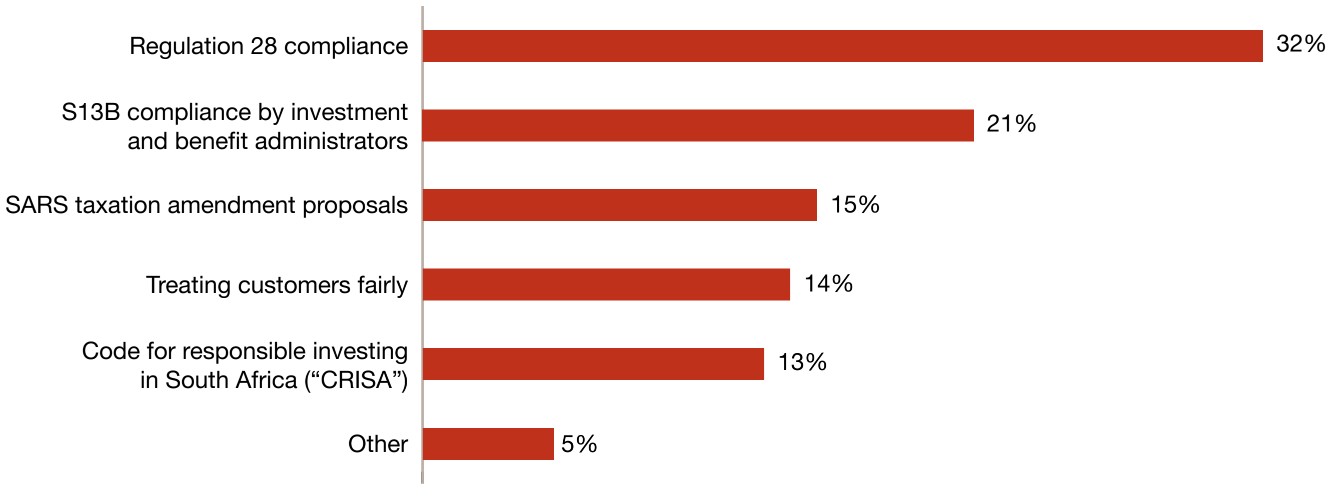
Will compliance with the latest regulatory changes affecting the fund and the industry as a whole result in additional costs for members of the fund?



It was not too much of a surprise to note that 73% of respondents feel that the latest regulatory changes for funds and the industry as whole will result in an additional cost for members of funds.

Figure 48:

Which recent regulatory changes do you believe will result in the most additional cost for members of the fund?



Most additional cost is expected to come from compliance with the revised Regulation 28.

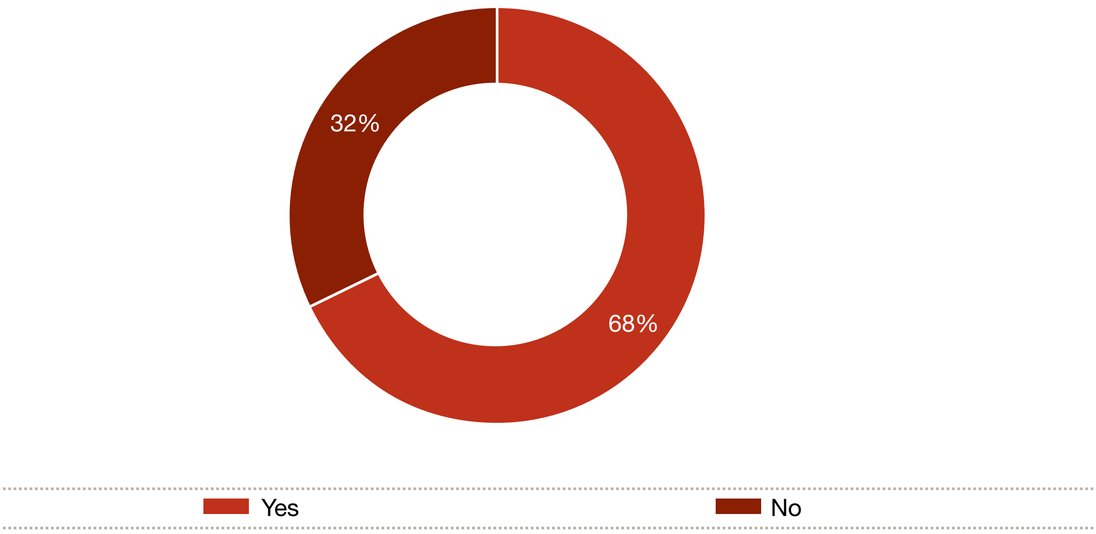
In line with our expectations and knowledge of the retirement fund industry, the top three areas of regulatory change expected to have the most additional cost impact for members were noted as follows:

- Regulation 28 compliance;
- S13B compliance by investment and benefit administrators; and
- SARS taxation amendment proposals.

Scope for simplification and/ or cost reduction in operation of the fund

Figure 49:

Is there scope for simplification and/or cost reduction in the operation of the fund?

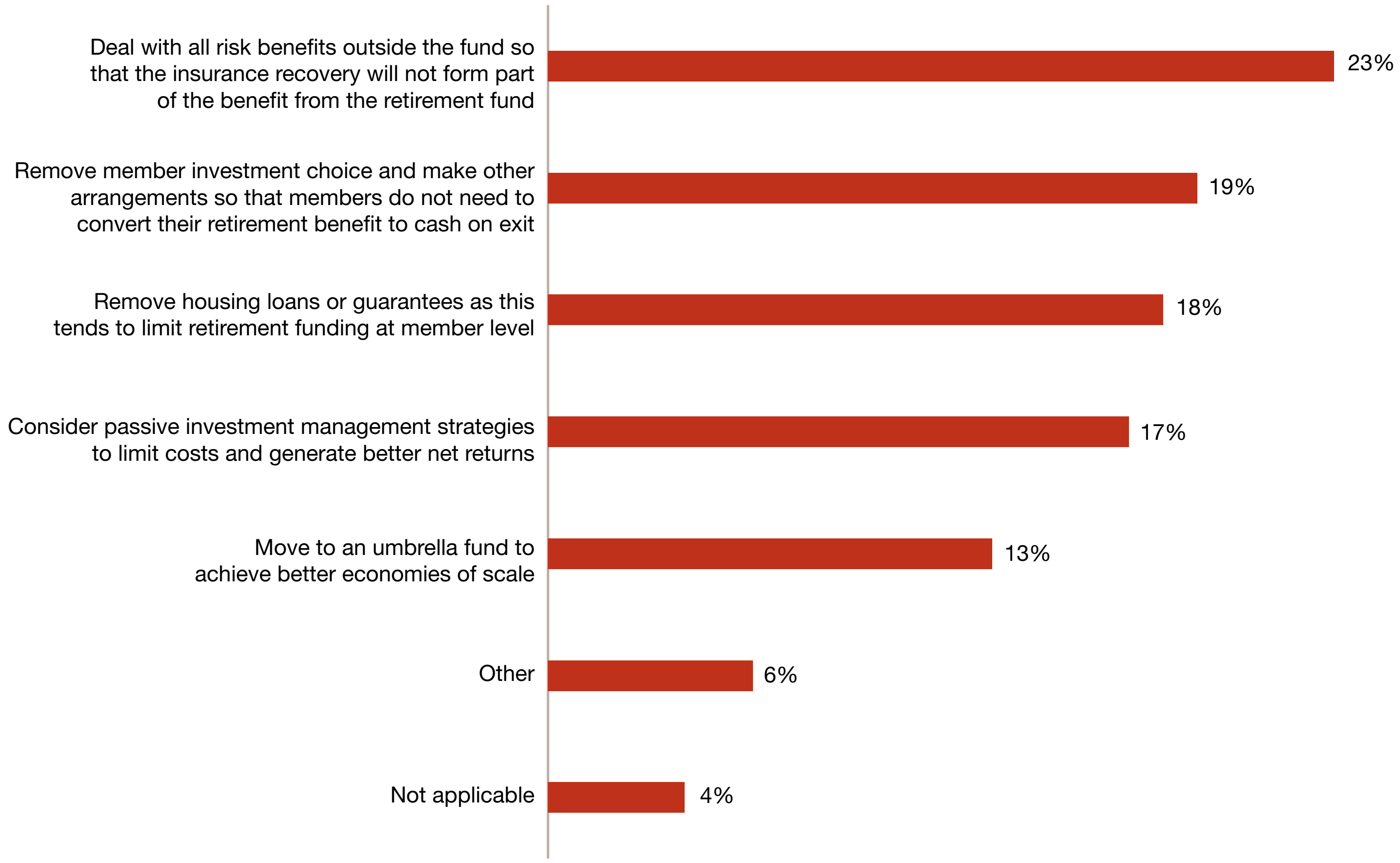


The overwhelming majority of respondents felt there was scope for simplification and/ or cost reduction in the operation of their funds. This suggests that respondents believe that fund arrangements and operations are more complex than necessary or desirable and in our experience this is often so.

Those that said ‘no’ offered reasons such as:

- Governance and compliance costs are a given and will always be there;
- Diverse member needs cannot be catered for more cheaply;
- Operations are managed as efficiently as possible and costs are reviewed regularly;
- Tough competition between providers keeps all of them on their toes; and
- Economies of scale are already in place.

Figure 50:
Aspects to be dealt with in simplification / cost reduction

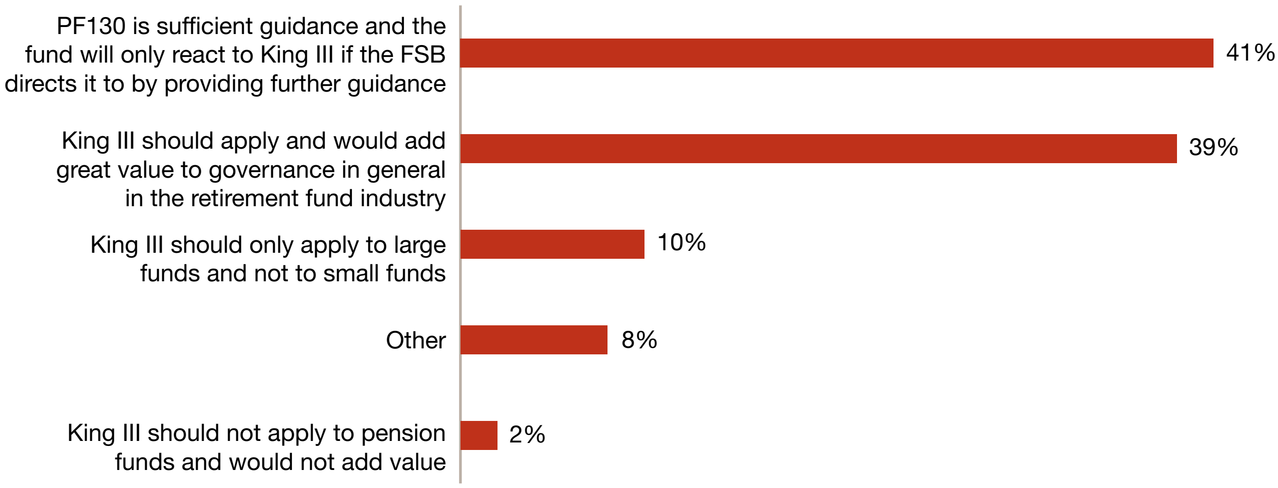


The main areas identified that could possibly simplify and/or reduce costs to the fund are as follows:

- Deal with all risk benefits outside of the fund;
- Remove member investment choice; and
- Remove housing loans and/or housing loan guarantees.

Application of King III to pension funds

Figure 51:
Should King III apply to pension funds?

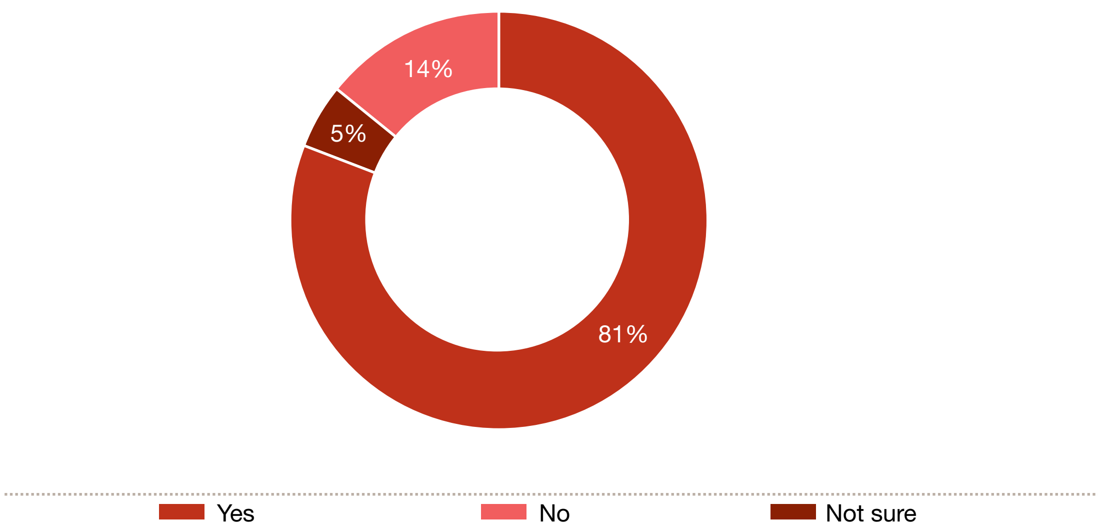


Following on from our previous surveys in 2007 and 2010, adherence to sound principles of governance remains a high priority for trustee boards. Most respondents fell into one of two evenly matched camps: one that saw King III as very valuable for funds and the other that felt PF130 provided sufficient guidance on fund governance.

A number of respondents suggested PF130 should be amended to take into account the relevant aspects of King III not already covered in PF130.

Annual review of risks faced by the fund

Figure 52:
Has the board completed a detailed annual review of risks of the fund, taking account of the probability of occurrence, the financial impact and how effective the risk mitigation strategies are?

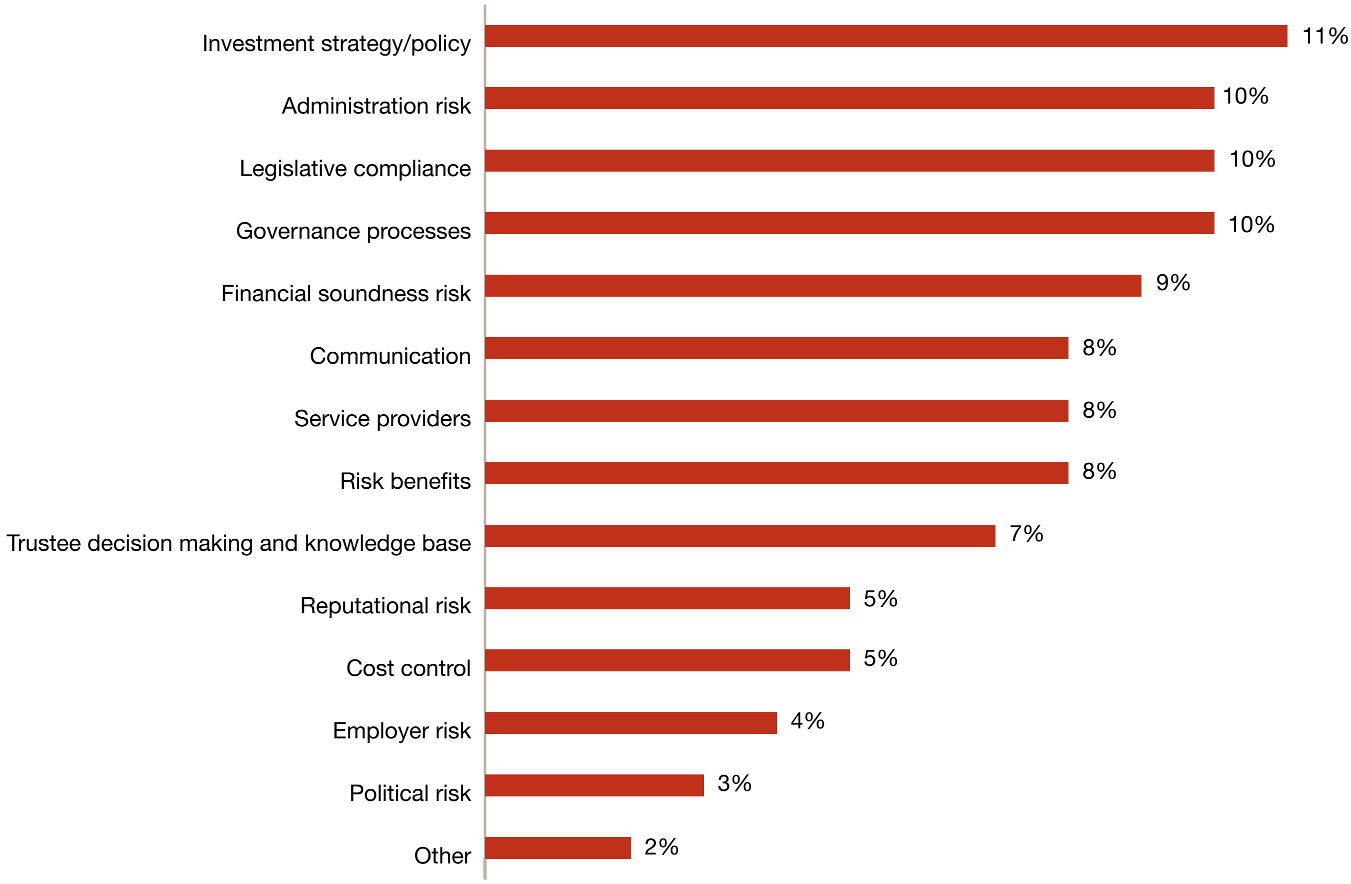


It was positive to note that 81% of respondents had completed a detailed annual review of the risks faced by the fund in compliance with PF130.

The risk reviews performed by funds had considered the key elements set out in PF130 of the probability of event occurring, the financial impact and how effective the risk management strategies of the fund are.

This represents a slight improvement on the responses to a similar question in our 2007 survey where 75% of funds had proper risk assessment in place.

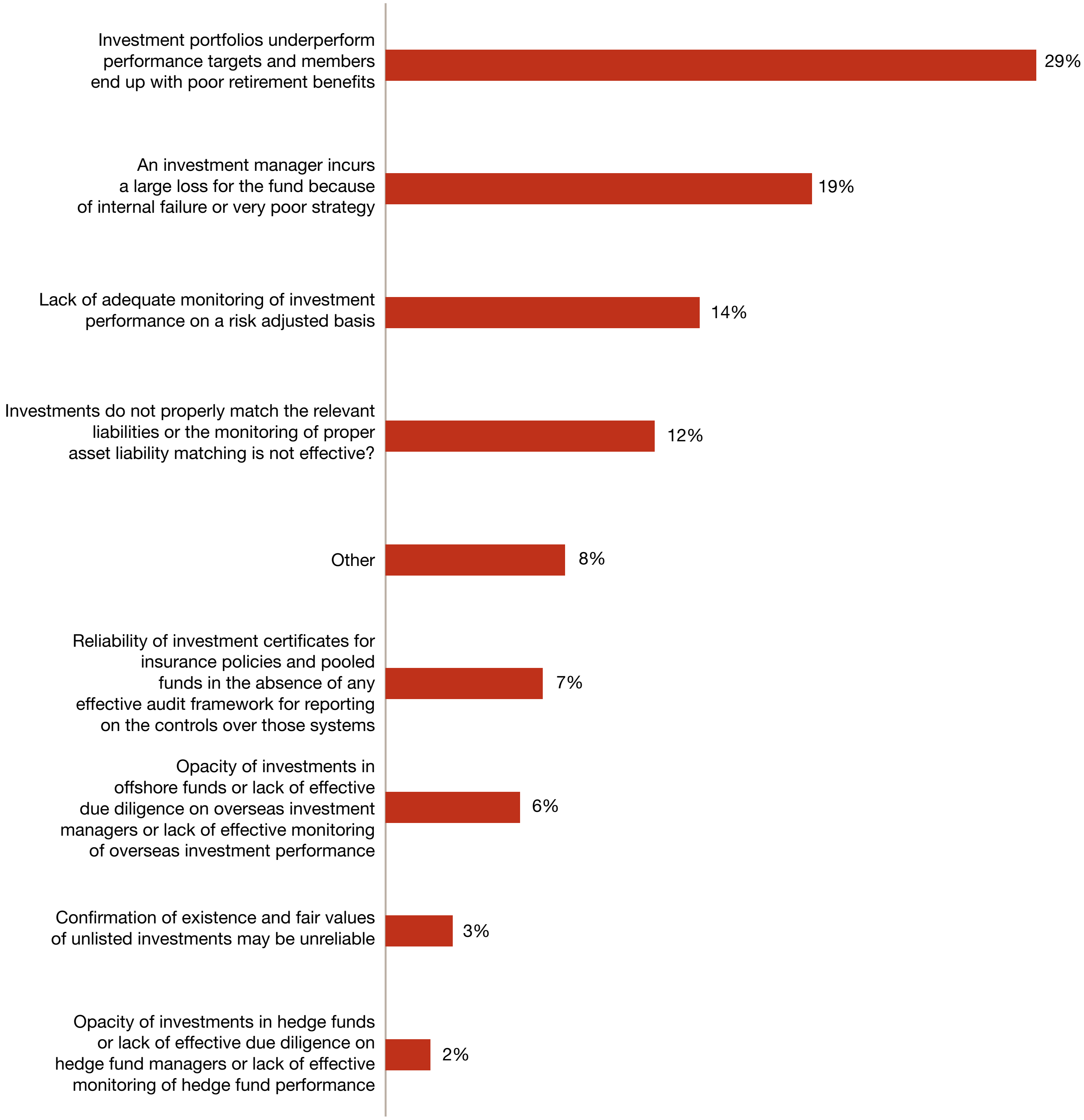
Figure 53:
What dimensions were specifically covered by the annual risk review?



Top investment risks for the fund

Figure 54:

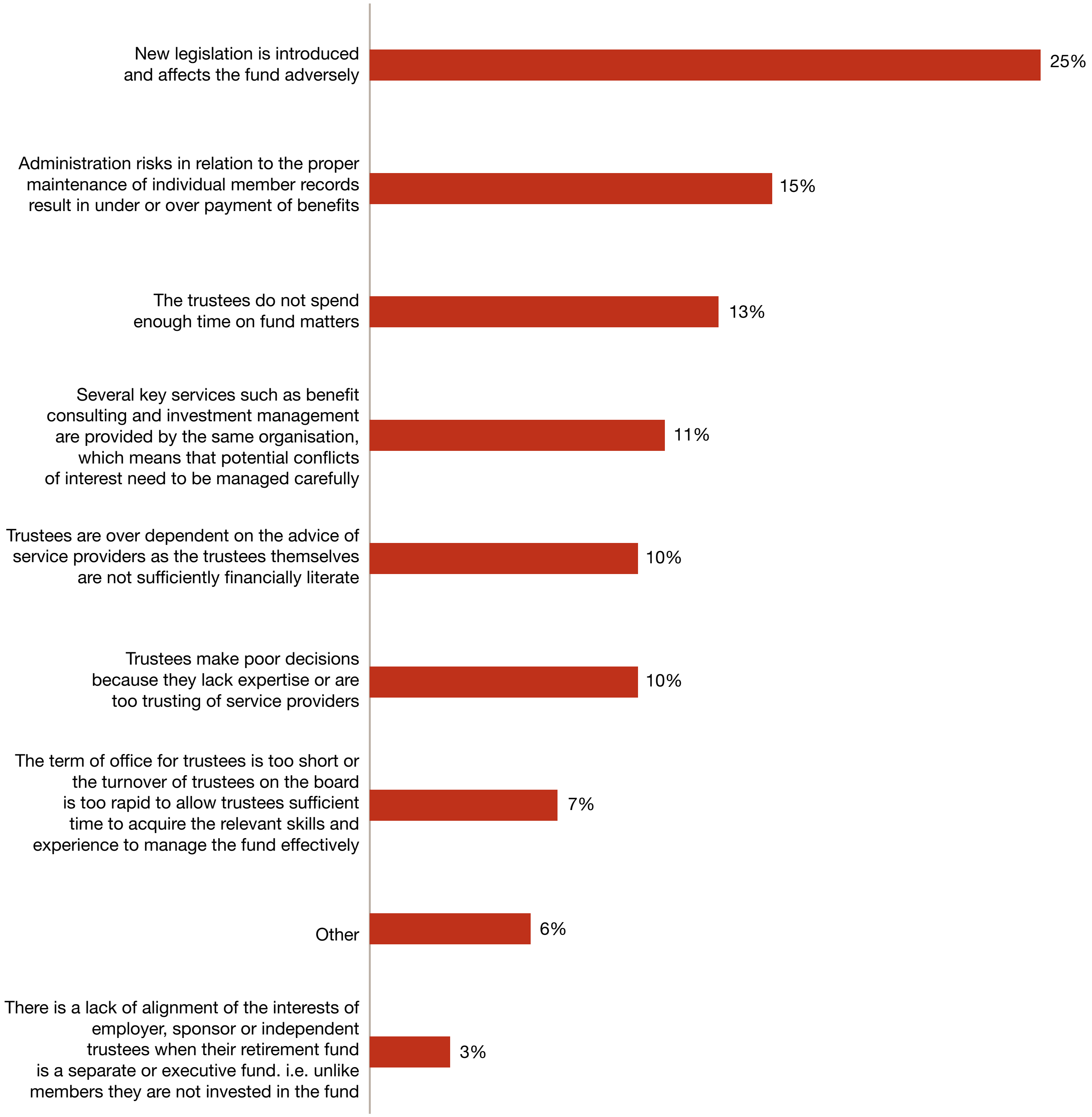
Which investment risks to the fund are identified or perceived by the board?



We note that more complex aspects such as offshore investments, unlisted investments and hedge funds were not rated as a significant risk. In those funds that have them, we would hope that this is not due to a lack of understanding.

Other risks for the fund

Figure 55:
What other risks to the fund are identified or perceived by the board?

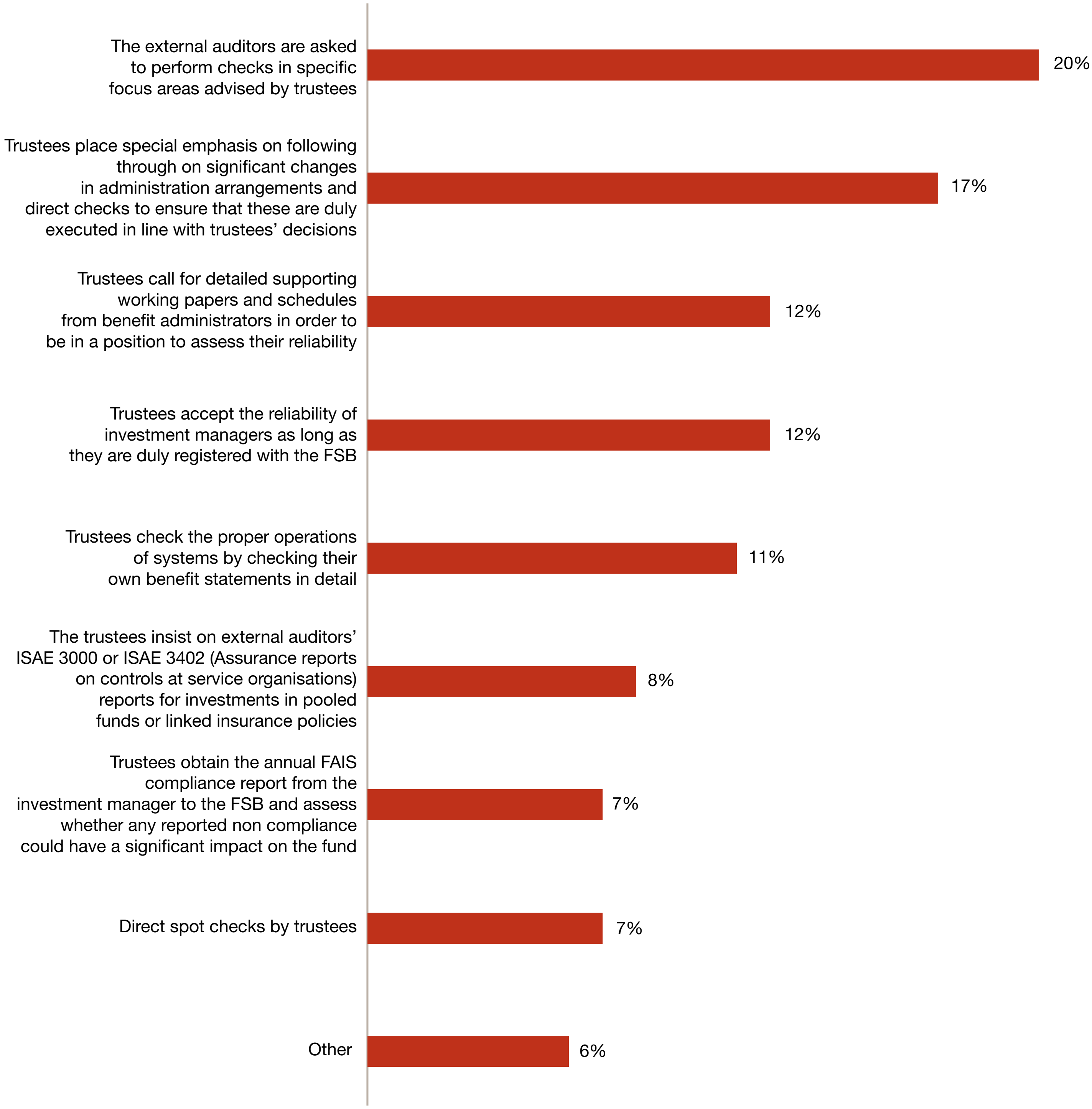


Other risks noted included control failures due to reliance on service providers and perceived interference from unions.

Management and monitoring of risk management strategies

Figure 56:

How do trustees primarily manage/monitor risks?



Regulation is perceived not only as a safeguard, but also as a threat.

Over and above the findings shown in Figure 55, the following are some of the other views expressed by respondents in relation to the \ regulatory environment and/or risk management:

- The Regulator should consider prescribing minimum levels of competence and educational training before a person can fulfil the role of a trustee;
- Consideration should be given to the regulation of maximum limits in respect of administration fees for funds to ensure that more money can be invested on behalf of members;
- Uncertainties created by a constantly changing regulatory environment make it difficult for funds to ensure compliance and develop appropriate operational and investment strategies;
- The 'one-size-fits-all' approach to regulation does not always address the practical challenges of different types of funds and or different fund sizes; and
- The gradual move from rules-based to more principle-based regulation is seen as a step in the right direction.

Appendices

Chairpersons' remuneration bands

Fund type	No. of funds	Average fund assets (Rm)	Number of cases per pay range (per annum)							
			Nil	*R1 – R10 000*	*R10 001 – R50 000*	*R50 001 – R100 000*	*R100,001 – R200 000*	*R200 001 – R300 000*	*R300 001 – R500 000*	*> R500 000*
Specialist										
Umbrella	43	3 479	11	2	7	6	11	4	1	1
Retirement annuity	16	11 401	4	2	7	-	-	3	-	-
Preservation	16	2 386	5	5	3	1	-	2	-	-
Total	**75**		**20**	**9**	**17**	**7**	**11**	**9**	**1**	**1**
Standalone funds										
Small	21	24	22	1	1	-	-	-	-	-
Medium	82	315	78	1	3	-	-	1	-	-
Large	50	6 240	28	2	4	3	8	4	-	1
Total	**153**		**128**	**4**	**8**	**3**	**8**	**5**	**-**	**1**
Grand total	**228**	**3 107**	**148**	**13**	**25**	**10**	**19**	**14**	**1**	**2**
Percentage	100%		65%	6%	11%	4%	8%	6%	0%	0%

Trustees’ remuneration bands – non chair or professional trustees

Fund type	No. of funds	Average fund assets (Rm)	Number of funds indicating average pay per trustee per pay range (per annum)							
			Nil	*R1 – R10 000*	*R10 001 – R50 000*	*R50 001 – R100 000*	*R100,001 – R200 000*	*R200 001 – R300 000*	*R300 001 – R500 000*	*> R500 000*
Specialist										
Umbrella	43	3 479	29	3	5	4	1	1	-	-
Retirement annuity	16	11 401	10	-	6	-	-	-	-	-
Preservation	16	2 386	10	1	5	-	-	-	-	-
Total	**75**		**49**	**4**	**16**	**4**	**1**	**1**	**-**	**-**
Standalone										
Small	21	24	19	1	1	-	-	-	-	-
Medium	82	315	79	2	1	-	-	-	-	-
Large	50	6 240	27	3	9	5	5	1	-	-
Total	**153**		**125**	**6**	**11**	**5**	**5**	**1**	**-**	**1**
Grand total	**228**	**3 107**	**174**	**10**	**27**	**9**	**5**	**2**	**-**	**1**
Percentage	100%		76%	5%	12%	4%	2%	1%	0%	0%

Trustees' remuneration bands – professional trustees

Fund type	No. of funds	Average fund assets (Rm)	Number of funds indicating average pay per professional trustee per pay range (per annum)							
			Nil	*R1 – R10 000*	*R10 001 – R50 000*	*R50 001 – R100 000*	*R100,001 – R200 000*	*R200 001 – R300 000*	*R300 001 – R500 000*	*> R500 000*
Specialist										
Umbrella	43	3 479	11	6	7	8	9	1	1	-
Retirement annuity	16	11 401	7	-	6	-	-	3	-	-
Preservation	16	2 386	2	-	12	-	-	2	-	-
Total	**75**		**20**	**6**	**25**	**8**	**9**	**6**	**1**	**-**
Standalone										
Small	21	24	21	-	-	-	-	-	-	-
Medium	82	315	79	2	1	-	-	-	-	-
Large	50	6 240	36	1	3	6	2	2	-	-
Total	**153**		**126**	**3**	**4**	**6**	**2**	**2**	**-**	**-**
Grand total	**228**	**3 107**	**146**	**9**	**29**	**14**	**11**	**8**	**1**	**-**
Percentage	100%		65%	4%	13%	6%	5%	3%	0%	0%

Principal officers' remuneration bands

Fund type	No. of funds	Average fund assets (Rm)	Number of cases per pay range (per annum)					
			Nil	*<R100 000*	*R100 000 – R250 000*	*R250 000 – R400 000*	*R400 001 – R800 000*	*>R800 000*
Specialist								
Umbrella	43	3 479	9	9	11	2	8	4
Retirement annuity	16	11 401	4	4	4	0	3	1
Preservation	16	2 386	3	5	6	0	2	0
Total	**75**		**16**	**18**	**21**	**2**	**13**	**5**
Standalone								
Small	21	24	14	2	1	2	2	0
Medium	82	315	58	6	2	6	6	4
Large	50	6 240	7	2	4	4	10	23
Total	**153**		**79**	**10**	**7**	**12**	**18**	**27**
Grand total	**228**	**3 107**	**95**	**28**	**28**	**14**	**31**	**32**
Percentage	100%		42%	12%	12%	6%	14%	14%

Appendix 3: Stratification of the population

Specialist funds

Fund type	Preservation			Retirement annuity			Umbrella			Grand total
	Large	*Medium*	*Small*	*Large*	*Medium*	*Small*	*Large*	*Medium*	*Small*	
Number of funds	8	7	1	9	5	2	17	18	8	75
Professional administrator	8	7	1	8	4	2	16	16	8	70
Self administered	-	-	-	1	1	-	1	2	-	5
Number of active members ('000s)	85	2	0	2 459	36	0	1 301	138	2	4 025
Number of pensioners ('000s)	-	-	-	340	0	0	33	0	0	373.613
Total assets (Rbn)	37.063	1.064	0.042	181.162	1.194	0.060	142.153	7.241	0.192	370.171
Number of trustees	60	30	4	58	24	15	150	124	40	505
Number of professional trustees	18	19	2	13	11	-	57	31	21	172
Number of investment choices	114	378	40	1 898	43	-	1 172	127	66	3 838

Non-specialist funds

	Large			Medium			Small			Grand total
Standalone	DC	DB	Hybrid	DC	DB	Hybrid	DC	DB	Hybrid	
Number of funds	24	14	12	72	6	4	16	4	1	**153**
Professional administrator	21	11	10	66	6	3	16	4	1	**138**
Self administered	3	3	2	6	-	1	-	-	-	**15**
Number of active members '000	452	49	94	84	1	3	9	0	0	**692**
Number of pensioners ('000s)	12	86	38	1	1	1	0	0	-	**139**
Total assets (Rbn)	104.845	127.841	79.325	21.577	2.135	2.108	0.420	0.067	0.013	**338.331**
Number of trustees	250	128	124	564	42	32	94	24	8	**1 266**
Number of professional trustees	2	10	4	4	2	2	5	-	-	**29**
Number of investment choices	103	-	46	220	-	15	20	-	4	**408**

Appendix 4: Summary findings of the PwC's 2012 UK Pension Scheme Governance Survey

UK Pension Scheme Governance Survey: The Trustee Perspective

Over 80 representatives from a variety of large pension schemes participated in our latest biennial survey, which reveals a unique in-depth picture of schemes today and the challenges facing trustees.

The pace of change and pressure on trustees and their boards over the past two years has been relentless. Not only have they been forced to deal with the continuing challenges of the global economic downturn, but changes in government, pensions strategy and tax legislation have each had an impact on the time trustees have to spend managing their schemes.

Our survey has revealed many areas where trustees have shown a real improvement in their governance over the past two years, such as the quality of their interactions with scheme sponsors and knowledge of alternative investment products. These improvements have led to many trustees feeling they have the best available package of contributions, security and investment.

The coming year will see fresh challenges for trustees as employers deal with issues such as auto-enrolment, increasingly volatile balance sheet positions and the drive to reduce costs. We expect defined contribution arrangements to increase and look with interest to see how trustees face the new challenges awaiting them.

However, significant challenges remain, not least, the quantum of information trustees have to wrestle with and the limited time they have to do so. Trustees are also grappling with how to communicate effectively with members to improve engagement without significantly increasing costs.

Small steps can make a big difference to the quality of scheme governance – the survey highlights six key areas where trustees can, with small steps, make significant improvements.

Data overload, information scarcity

While trustees are meeting more frequently than ever before, there continue to be significant challenges with the amount of information trustees are given to assimilate in advance of meetings. Many trustees use subcommittees to help control their workloads, although they note varying levels of success with this approach. There has been a significant improvement in trustees' interactions with employers where they are robust at challenging their sponsors' views.

Despite the ongoing focus from the Pensions Regulator, over a third of trustees are not regularly assessing their own knowledge and understanding, and actively seeking to address gaps.

Should the full results of this survey be of particular interest to you, please let us know and we shall gladly arrange to share them with you.

Communicating with members

While 40%of trustees have planned regular communications and communicate major items of pensions news as they arise, over two-thirds are communicating with members without having put a proper communication strategy in place. Feedback is rarely proactively sought from members and is dealt with on an ad-hoc basis.

Significantly, only 22% of trustees for defined contribution arrangements felt they gave members sufficient information to make an informed investment choice. A number of respondents commented that they felt that despite significant investment in communications, they were battling against member apathy.

Risk awareness – are trustees doing enough?

Risk management has clearly moved up trustees' agendas but half of respondents felt that risk management was not the primary driver of their meetings. For example, over a quarter of trustees have not specifically considered custody risk within their schemes. We find this surprising given the publicised issues as a result of the collapse of Lehman Brothers and MF Global, and the FSA's focus at a corporate level in this area.

Compliance is increasingly being achieved with a tick-box attitude, which may reflect the underlying trend in the UK to move to a more litigious society. Interestingly, however, there is still significant variance among trustees in assessing their compliance with the Regulator's Codes of Practice.

Investments: Agility versus short-termism

Very few trustees received real-time information on their investment performance. However, the real question is whether there is a case for receiving this information if structures are not in place to utilise the information received with swift investment responses.

Ten percent of schemes surveyed have turned to fiduciary managers in an effort to improve the speed of response to emerging market conditions. Time will tell whether this approach will actually deliver on its promise of better performance with minimised downside risk.

Key to any investment approach (traditional or fiduciary management) is the regular assessment of the performance of, and the control environment in place, at fund managers. Trustees may delegate the task, but not the ultimate responsibility for their scheme's investments.

Data: Cleaning up the mess

Clearly, trustees have spent a considerable amount of time over the past couple of years focusing on scheme data given the Pension Regulator's specific interest in this area. Somewhat surprisingly, 63% of trustees said that they had assessed not only the completeness of data, but also data quality and had made progress to rectify deficiencies identified.

PwC's retirement fund-specific services

The expertise and experience of our people assures clients peace of mind

- We provide industry-focused services to retirement funds and their employers worldwide. We operate in 151 countries through 163 000 people.
- Established in South Africa in 1923, we employ 4 400 people in 21 offices with retirement fund experts in all major centres.
- Our retirement fund audit division is managed by and operates with individuals who make retirement funds their careers and have hands-on involvement on a daily basis.
- We are also statutory auditors and professional advisors to other key players in the industry such as investment/hedge fund managers, asset consultants and retirement fund administrators.
- Using our actuarial, financial, investment and risk management expertise, we provide holistic solutions that enhance stakeholder value, improve employee relations, reduce risk and meet executive needs.

Actuarial services

- Identifying fund risks, assessing fund risk appetite and risk mitigation/risk transfer strategies;
- Benefit design and implementation of cost-effective packages that are seen as valuable by employees;
- Checking of complex benefit calculations, such as when part of a defined benefit is commuted for cash;
- Independent assessment of assumptions and methodology in fund actuarial valuations;
- Financial reporting on IAS 19 and IFRS 2 valuations;
- Merger/acquisition support on risks linked to benefit arrangements, BEE trusts and share option plans; and
- Independent valuation of structured products or derivative overlay structures to hedge market risk.

Assurance and accounting services

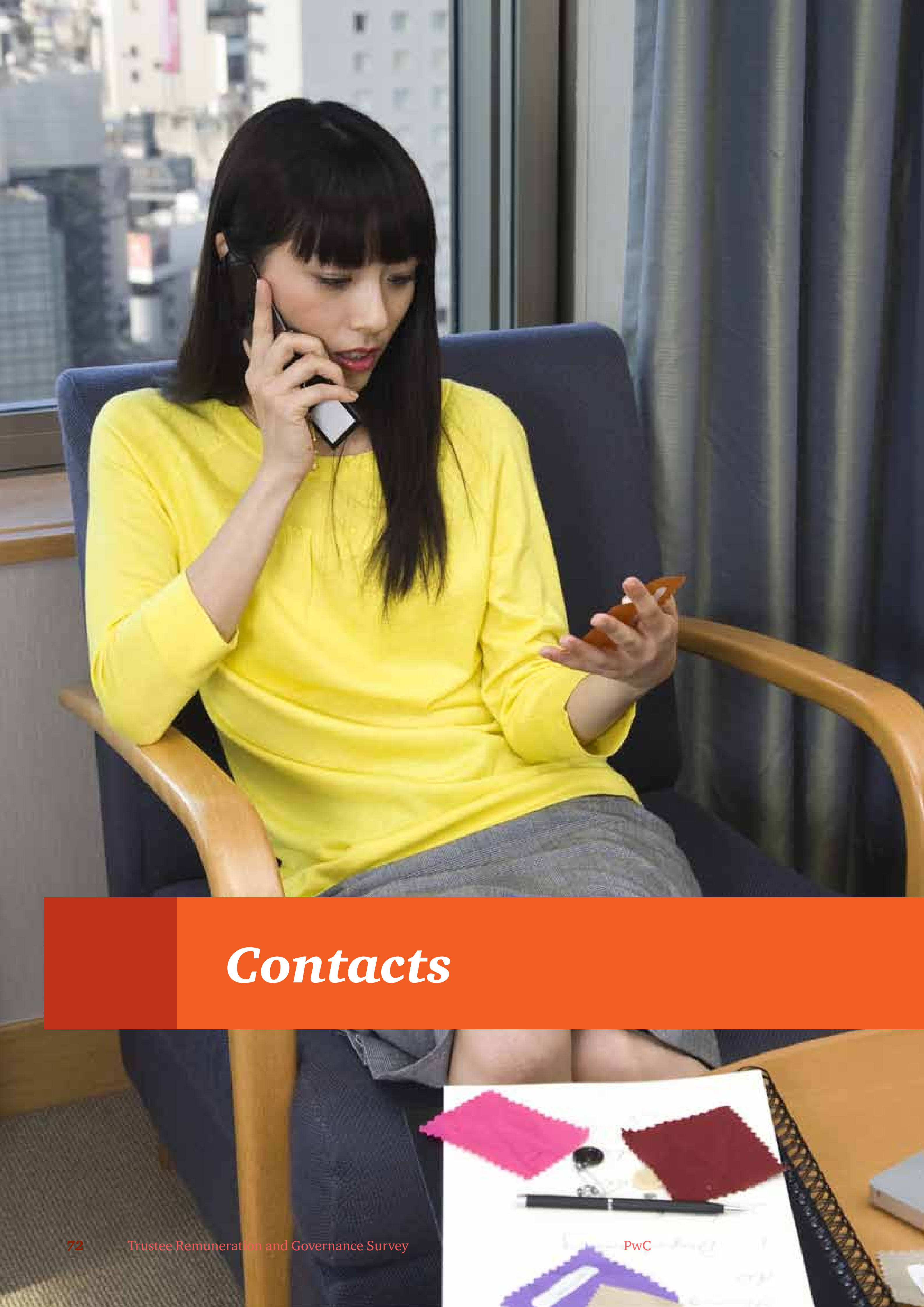
- Statutory audits;
- Accounting, regulatory and governance advice;
- Detailed checking of the roll up of individual member records;
- Checking on completeness and accuracy of migration of member data to a new administration platform;
- Reports to the Registrar of Pension Funds in terms of Section 15 of the Pension Funds Act; and
- Valuations of unlisted investments, such as those held to meet socially responsible investment objectives.

Advisory services

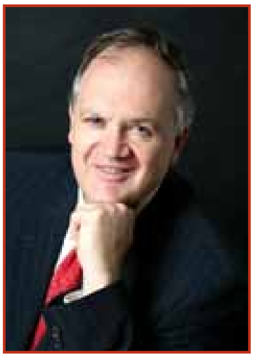
- Forensic investigations, including data mining techniques applied to detect invalid benefit payments;
- Information systems and process assurance;
- Trustee and administrator training on retirement fund accounting and governance; and
- Strategy development including IT strategy.

Tax services

Although retirement funds do not incur income tax or dividends tax, they are affected by input VAT and there may be scope to ensure that the impact of this cost is not in excess of what is required.



Contacts



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