Preserving for the future

Retirement Funds Survey

Sixth edition

October 2020

pwc

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Foreword

We are delighted to present the results of our sixth Retirement Funds Survey. The findings of the survey are based on responses received from 50 funds, with total assets of R542bn.

Our retirement fund specialist group designed and conducted the survey. Many of the questions were retained from previous surveys to enable us to identify and benchmark unfolding trends, and new questions were introduced in order to understand how funds are reacting to changes in the industry.

This report covers two broad focus areas:

- Fund officials' activities and their remuneration; and
- Default Regulations.

Retirement funds have faced significant challenges in 2020 as a result of COVID-19 and the changing regulatory environment. It is important for the boards of funds (boards) to stay abreast of changes to the industry while at the same time addressing the needs and well-being of their members.

I wish to thank all respondents for their generous contribution of time, information and insights, which have made this report possible.
As with previous surveys, individual responses will remain confidential. However, if there are any aspects of the data and our analysis that are of special interest to you, please contact us. Where possible, we will gladly extract such information for you on an aggregate basis.

Julanie Basson
Retirement Funds Leader
PwC South Africa

October 2020

Executive summary

The onset of the COVID-19 pandemic in 2020 highlighted the fact that unforeseen events are almost certain, and that we all need to plan for the unknown.

78%

of the funds individually held assets in excess of R1bn

Preserving funds for the future is a huge responsibility placed on the retirement fund industry, and every stakeholder needs to take part in educating and communicating key messages – both to fund members and non-fund members – to preserve retirement savings.

Section 7C(2) of the Pension Funds Act specifically states that the board shall take all reasonable steps to ensure that the interest of members in terms of the rules of the fund and the provisions of the Act are protected at all times.

Section 7A(3) further states that a board member must attain such levels of skills and training as may be prescribed by the registrar by notice in the Gazette, within six months from the date of the board member's appointment, and that board members retain the prescribed levels of skills and training throughout their term of appointment. This emphasises the importance for boards to ensure they have the best skills around the table to fulfil their obligations and protect the interests of their members' retirement benefits.

Our 2020 survey focussed on larger retirement funds than in prior surveys, and incorporates the responses of 50 funds, collectively managing R542bn in pension assets. The majority of funds (58%) are regarded as specialist funds (retirement annuity, preservation, unclaimed benefits, beneficiary and umbrella funds) and the majority of funds (78%) individually held assets in excess of R1bn.

Our survey found that fund governance among the funds surveyed continues to be strong, with both trustees and principal officers being well educated, well constituted with independent trustee representatives, having sufficient subcommittees for managing key areas, having more than five-to-ten years' relevant experience and in general preparing sufficiently for meetings.

Forty seven percent of funds indicated that some or all of their board members are remunerated, a 8% decrease from our 2016 survey findings. Proper governance comes at a price and we have seen that chairpersons and independent professional trustees will now cost funds between R3 000 and R3 600 per hour (or between R5 000 and R6 800 per meeting).

The remuneration gap between chairpersons and professional trustees is still there, although it has narrowed significantly. For both specialist funds and stand-alone funds, rates per hour are around R3 500. Surprisingly, board members' hourly rate stayed close to R800 per hour, with a slight drop from 2016. This trend corresponds with the survey finding that the percentage of funds that remunerate their board members has dropped. Nevertheless board members still earn at least R3 000 per meeting, albeit roughly half of chairpersons and professional trustees.

Principal officers surveyed served between two and five funds per year on a part-time basis and charged between R1 200 and R1 320 on average per hour. The highest rate per hour noted was R2 500. Those employed full time at a fund earned on average between R500 000 and R1 550 000 per year, depending on the complexity and size of the fund.

The Default Regulations were introduced in an attempt to make trustees more responsible for member education and for sourcing fair retirement options. Although these have been implemented successfully by the majority of respondents, very few members have chosen to stay in-fund in year one of the implementation. Understandably, the majority of trustees opted for a conservative life default annuity out of fund, thereby limiting their own risks. Only time will tell if the Regulations will have the desired effect of cheaper and better preservation.

We trust that boards will find the results of our survey a useful benchmark to track both remuneration costs and their funds' progress in the implementation of the Default Regulations.

Salient features of the survey

Our sixth Retirement Fund Survey is based on responses received from 50 funds with total assets of R542bn.

While this is fewer than the number of respondents in our 2016 survey, this was expected due to the consolidation of stand-alone funds into umbrella funds over the past ten years. Seventy-eight percent of respondents represented large funds and 22% were from medium-sized funds. Of the 50 funds surveyed, 21 were stand-alone funds, while the remainder were made up of specialised funds (preservation, retirement annuity, umbrella, unclaimed benefits and beneficiary funds).

Funds that participated (count)

	2020	2016	2014	2012	2010
Stand-alone funds (funds which serve a single employer)	21	66	116	153	143
Specialist funds (preservation, retirement annuity, umbrella, unclaimed benefit and beneficiary funds)	29	34	67	75	100
Total funds	**50**	**100**	**183**	**228**	**243**

Asset base of respondents (Rbn)

	2020	2016	2014	2012	2010
Stand-alone funds (funds which serve a single employer)	109	101	303	338	166
Specialist funds (preservation, retirement annuity, umbrella, unclaimed benefits and beneficiary funds)	433	274	289	370	141
Total funds	**542**	**375**	**592**	**708**	**307**

Fund size

	2020	2016
Small (assets of less than R50m)	0%	9%
Medium (assets of between R50m and R1bn)	22%	46%
Large (assets of R1bn or more)	78%	45%

Board composition

The majority of funds surveyed have the following subcommittees:

- Audit and risk
- Investments
- Benefits

The boards of funds that participated in the survey have an average of nine members with three being independent.

More than three-quarters (78%) of respondents said their board members prepare sufficiently for board and subcommittee meetings.

On average, member-elected board members have between five and ten years' experience Employer-elected members have more than ten years' experience.

Principal officers and chairpersons of funds spend on average five and four hours respectively on preparation per meeting.

On average, independent board members and principal officers have more than ten years' experience.

All (100%) of the independent board members have a degree and/or postgraduate degree, compared to 85% of the principal officers.

Remuneration

47%

of the funds indicated that some or all of their board members are remunerated

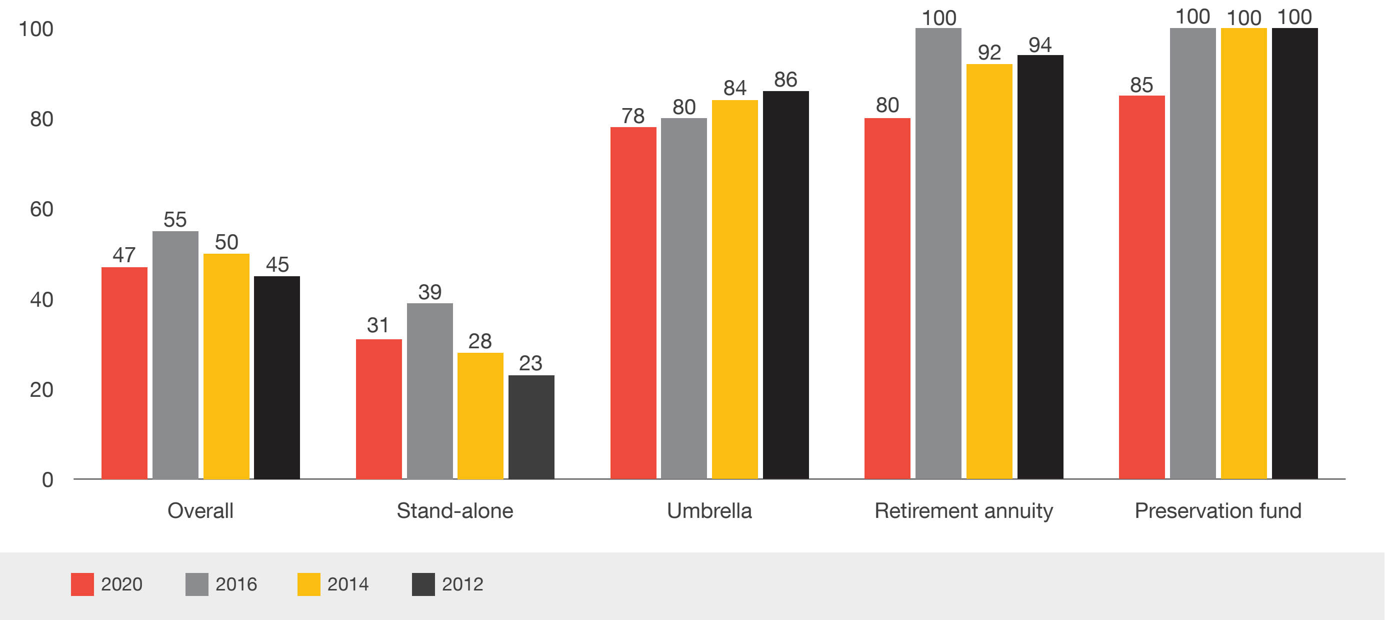
Remuneration of board members

In our 2012 survey, 45% of funds indicated that they remunerated some or all of their board members. This percentage increased to 50% in 2014 and, continuing with the trend, went up to 55% in 2016. This number however decreased to 47% of the funds surveyed in 2020.

In general, we saw a decrease in the frequency of board remuneration across different categories of funds. As with previous surveys, if respondents indicated that board members were not remunerated, we asked them to indicate why. In most cases the reason given was that board members were already employed by the employer, sponsor or administrator and no additional remuneration was considered necessary.

In two cases the rules did not allow for trustee remuneration.
The categories of board members that seem more likely to be remunerated are independent board members and pensioner representatives.

Figure 1. Remuneration of board members by fund type (% remunerated)



Source: PwC analysis

Basis for remuneration of board members

In general, we noted an almost equal split between funds remunerating on a fixed-fee-per-meeting basis and an hourly basis, the latter being the preferred choice by a 7% margin. Few participants remunerated board members on a retainer basis.

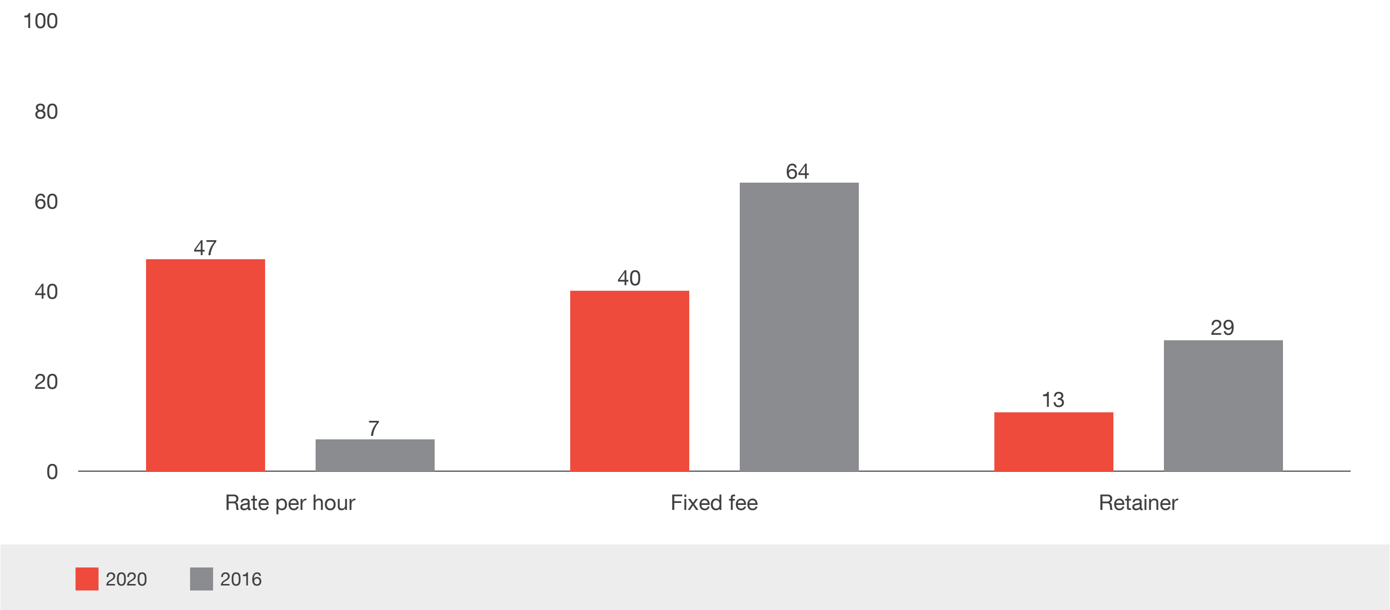
Responsibility for setting remuneration

Boards or board subcommittees are responsible in most cases (more than 50%) for setting the level of board member remuneration, very similar to the results of the 2016 survey.

Frequency of remuneration review

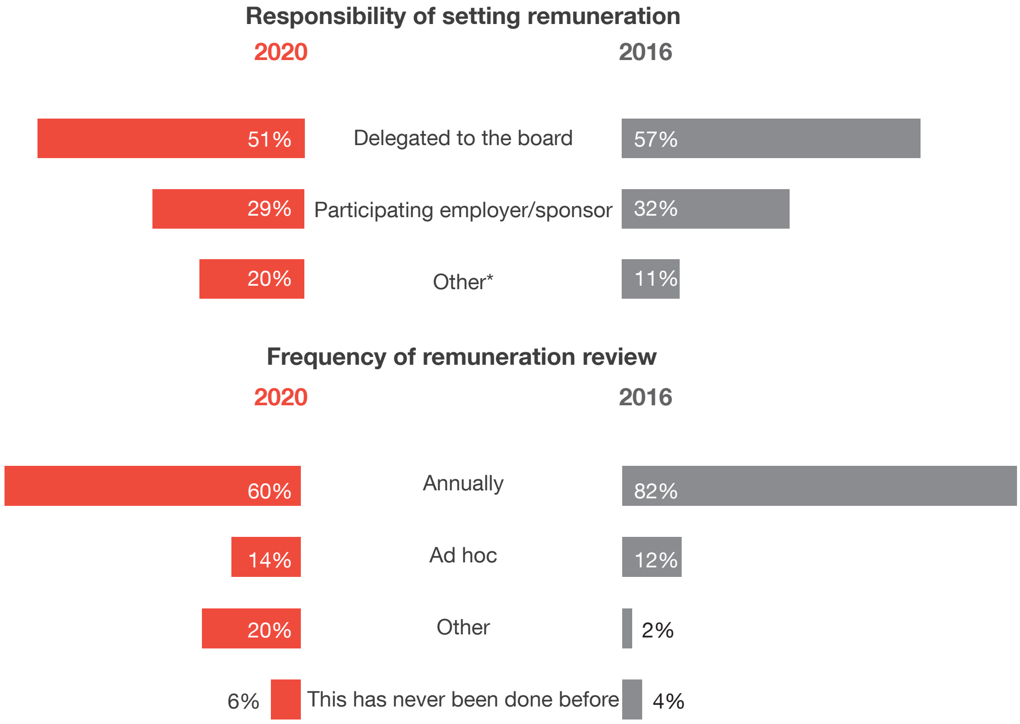
In line with findings in previous surveys, an annual review or benchmarking of remuneration takes place in most cases. Ad hoc reviews take place in 14% of cases.

Figure 2. Basis of remuneration



Source: PwC analysis

Figure 3. Responsibility for setting remuneration and frequency of review

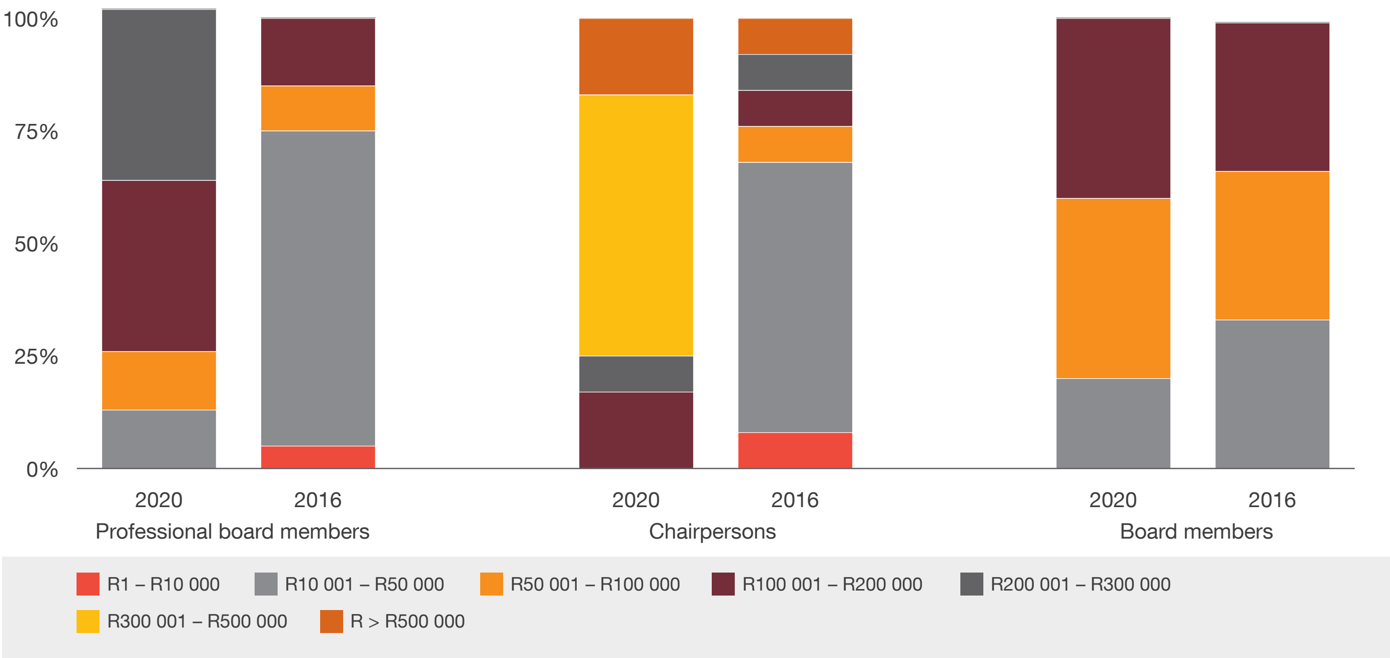


* Benchmarking
Source: PwC analysis

Remuneration of board members

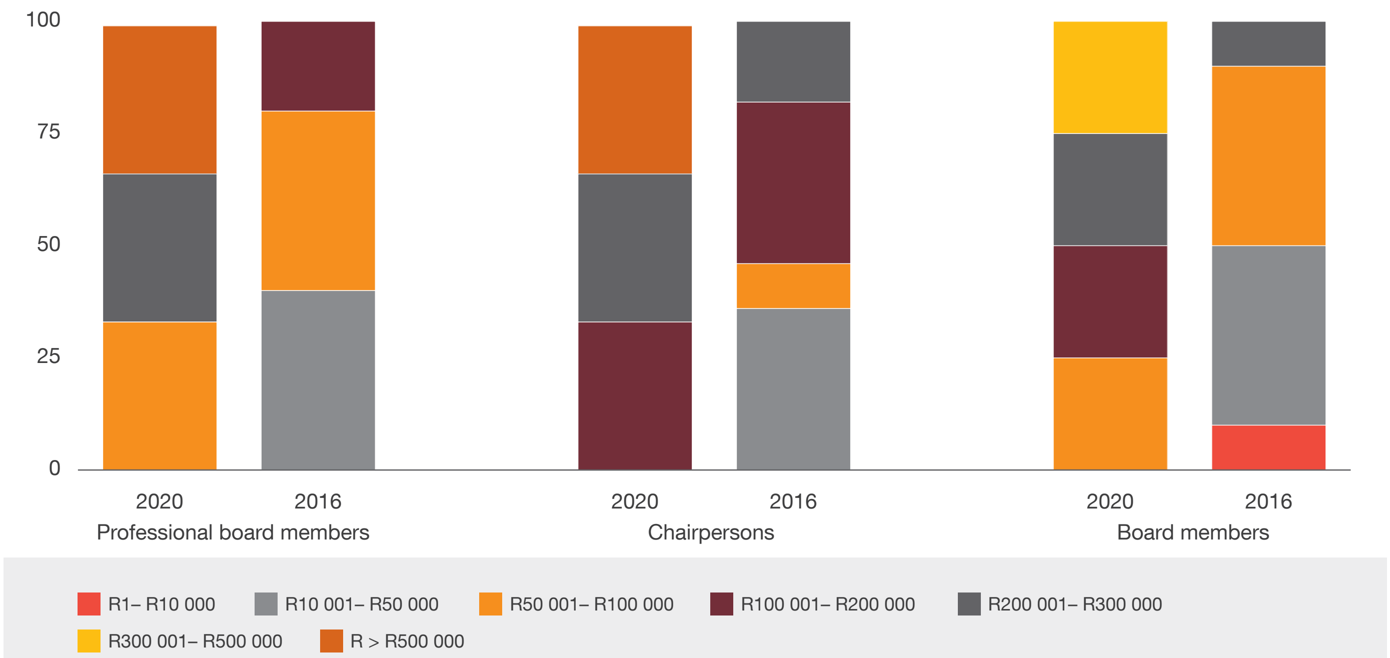
The graph below depicts the average annual remuneration earned by chairpersons, board members and professional board members, and compares specialist funds with stand-alone funds.

Figure 4. Specialist funds: Annual remuneration of board members for serving on the board



Source: PwC analysis

Figure 5. Stand-alone funds: Annual remuneration of board members for serving on the board



Source: PwC analysis

Remuneration summary (R)

	Specialist funds		Stand-alone funds	
	2020	2016	2020	2016
Chairpersons				
Average remuneration	387 351	153 241	337 333	109 498
Maximum remuneration	670 000	1 323 991	600 000	245 440
Board members				
Average remuneration	162 405	79 254	425 000	63 028
Maximum remuneration	240 000	127 600	500 000	233 500
Professional board members				
Average remuneration	277 409	50 029	294 000	83 466
Maximum remuneration	402 432	182 000	550 000	192 000

It is evident that annual remuneration at all trustee levels has increased significantly since 2016, probably reflecting the increased burden of compliance and extra efforts required from trustees in recent years.

Fee breakdown (R)

	Specialist funds		Stand-alone funds	
	2020	2016*	2020	2016*
Chairpersons				
Average fee per meeting	6 084	4 307	5 712	5 675
Rate per hour	3 452	3 087	3 500	1 365
Board members				
Average fee per meeting	3 187	3 319	3 106	4 519
Rate per hour	797	900	776	782
Professional board members				
Average fee per meeting	6 820	6 107	5 329	3 950
Rate per hour	3 636	2 038	3 000	1 699

* 2016 Comparative rates have been normalised to ensure comparability to 2020 fund mix for obvious outliers.

Specialist funds: Average fee per meeting for serving on subcommittees

	2020
Chairperson	5 264
Board members	3 050
Professional board members	6 476

Standalone funds: Average fee per meeting for serving on subcommittees

	2020
Chairperson	5 842
Board members	2 850
Professional board members	5 113

The average fee per meeting was not available in the 2016 survey. This will be benchmarked against this survey in future.

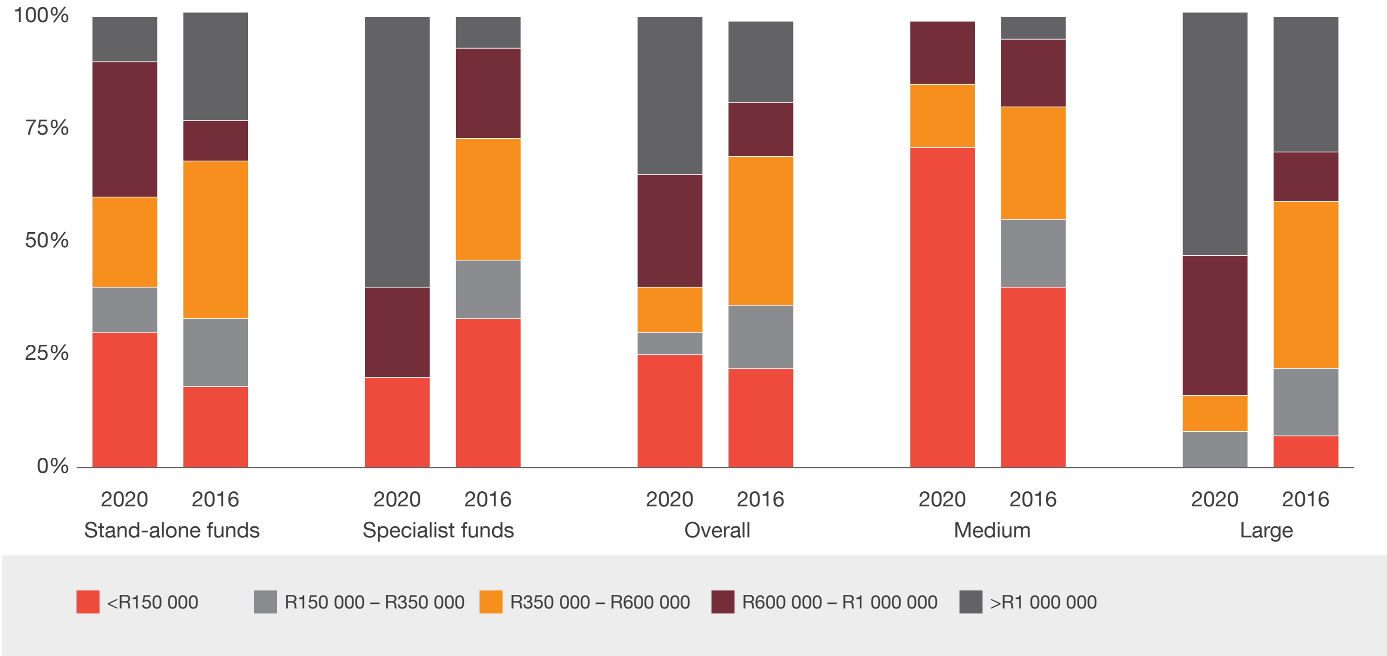
Chairpersons and independent professional trustees will now cost funds between R3 000 and R3 600 per hour (or between R5 000 and R6 800 per meeting). There is still a gap between chairpersons and professional trustees, although it has narrowed significantly. Rates per hour are around R3 500 for both specialist funds and stand-alone funds.

Surprisingly, the rate per hour for board members stayed below R1 000, with a slight drop from 2016 (11% drop in the case of specialist funds). Nevertheless, board members still earn at least R3 000 per meeting, albeit roughly half of chairpersons and professional trustees.

Remuneration of principal officers

The graph below depicts the average annual remuneration earned by principal officers, and compares specialist funds with stand-alone funds

Figure 6. Annual remuneration of principal officers



Source: PwC analysis

Remuneration summary: Principal officers (R)

	Specialist funds	Stand-alone funds
Average remuneration	1 543 759	594 339
Maximum remuneration	2 600 000	1 846 000

Fee breakdown: Principal officers (R)

	Specialist funds	Stand-alone funds
Average fee per meeting	4 611	5 697
Average rate per hour	1 318	1 266

The fee earned per meeting for stand-alone funds is greater because the meetings last longer than for specialist funds (on average 4.5 hours compared to 3.5 hours for specialist funds). However very few funds remunerated principal officers per hour or per meeting and the majority paid a fixed fee per year. The highest rate per hour was R2 500.

Those employed full time earned between R500 000 and R1 550 000 on average per year, depending on the complexity and size of the fund.

Remuneration for attending training

In line with our 2016 survey, the majority of board members are still not remunerated for attending training, although this percentage has dropped by more than 10% since 2016. We noticed an increasing trend in allowances being paid for training attendance, as part of a board members remuneration package, with 23% of funds now contributing extra towards training, which doubled the percentage noted in 2016.

This is a positive trend and we expect it to significantly increase in line with the Financial Sector Conduct Authority's drive for all board members to upskill and attend specific training in order to be able to fulfil their roles and responsibilities.

Observations by principal officers

Appointment

The majority of principal officers are independently employed, while almost a third work for either the employer or the sponsor. The balance of funds directly employ and pay their principal officers as full-time employees.

Number of funds

On average, participating principal officers held office as principal officers for three funds in the case of stand-alone funds and up to two in the case of umbrella funds. For specialist funds like preservation funds and retirement annuity funds, the average number varied between five and eight.

Assessment

Three-quarters (75%) of boards formally assess the principal officer's performance on an annual basis, which is in line with the 2016 survey. Another 15% do an assessment every two-to-five years.

Only 10% do not assess performance, which is a positive improvement on the 20% recorded in 2014.

Default Regulations

89%

of boards successfully implemented Default Regulation policies, including submitting the relevant rule amendments and receiving Financial Sector Conduct Authority (FSCA) approval before 1 March 2019.

Amendments to the Regulations issued under Section 36 of the Pension Funds Act 24 of 1956 were published in the Government Gazette during August 2017. All funds that were registered before 1 March 2018 had until 1 March 2019 to comply with the Default Regulations.

The Default Regulations require the board of trustees to offer the following to fund members:

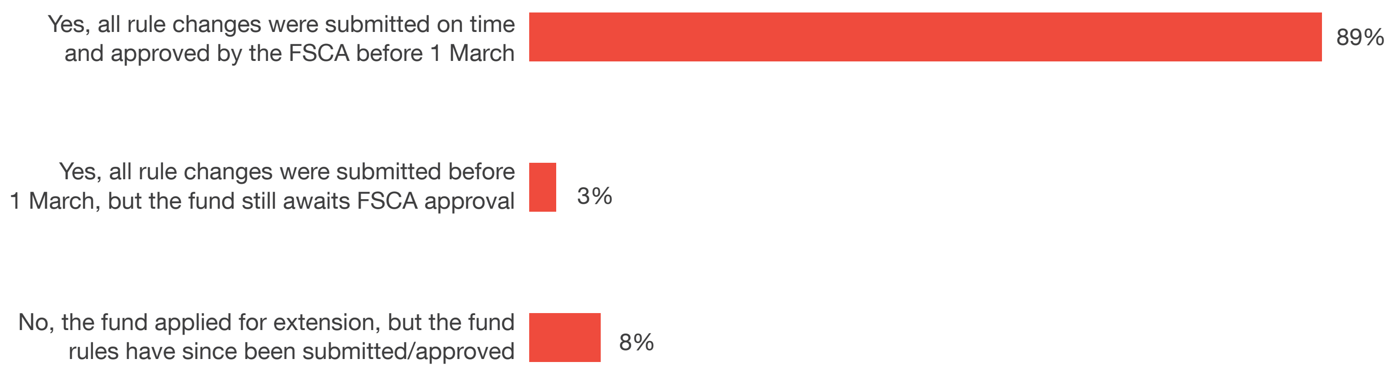
- a default investment portfolio that is not excessively complex or unreasonably expensive;
- a default in-fund preservation of benefits for members who move between employers before retirement; and
- a default annuity strategy to ensure that members are able to convert their retirement savings into an income at retirement that is efficient, transparent and cost effective.

Our survey explored broadly how these policies have been implemented and the take-up of default strategies by members since implementation.

Boards relied on a variety of knowledge sources and information to upskill board members on the Default Regulations.

On a positive note, 89% of boards succeeded in implementing these policies, including submitting the relevant rule amendments and receiving FSCA approval before 1 March 2019 with only 8% of boards requesting extensions following the 1 March 2019 deadline.

Figure 7. Proportion of funds members that met the compliance deadline of 1 March 2019 (%)



Source: PwC analysis

Default investment portfolio

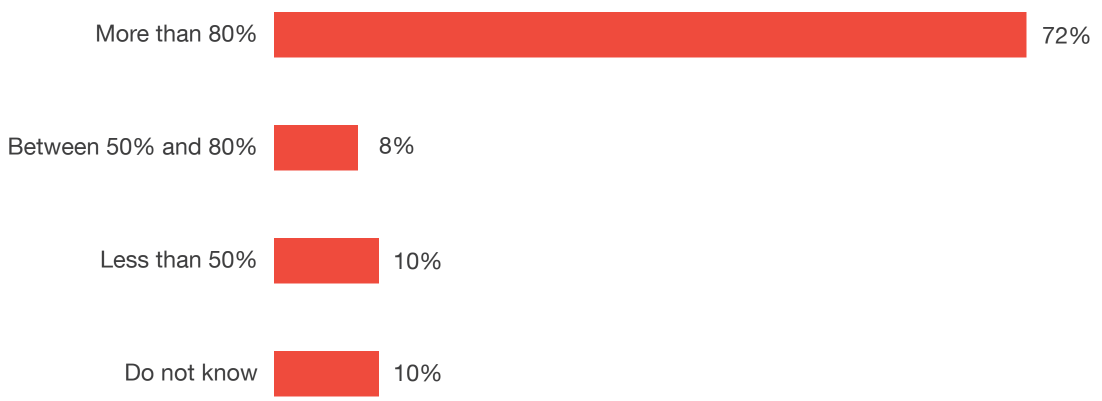
A default investment portfolio is a portfolio for members of occupational funds who do not specifically choose how their retirement savings should be invested.

The default investment portfolio must comply with the following principles:

- it must be appropriate for members who are automatically placed in that investment portfolio;
- the members must be adequately informed of the composition of the assets and the performance of the default investment portfolio;
- it must be reasonably priced and competitive, and the members must be informed of all the fees and charges;
- passive and active investment options must both be considered as investment options; and
- there must not be any loyalty bonuses or complex fee structures.

Unsurprisingly, among funds that offer investment choice, 72% of respondents reported that more than 80% of their members are invested in the default investment portfolio/option, with only 10% indicating that fewer than 50% of members were invested in the default investment portfolio/option.

Figure 8. Proportion of funds that invest in the default portfolio (%)



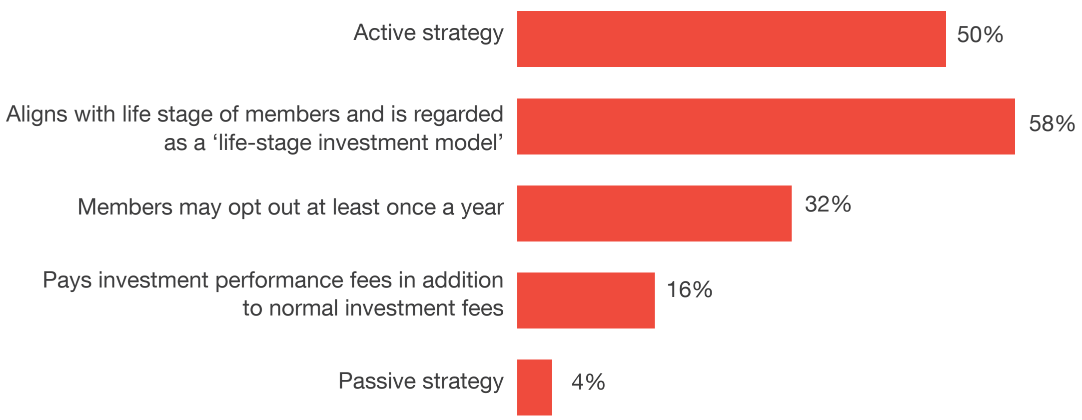
Source: PwC analysis

Fifty-eight percent of respondents indicated that the default investment portfolio/option is linked to the fund's life stage model.

Surprisingly, 16% of respondents indicated that the default investment option includes some form of performance-based investment management fee. This is curious given both the stated aim that default investment options should limit the use of complex fee structures and the difficulty involved in communicating performance-based fee structures to members in a clear and understandable manner.

There is no doubt that active strategies were favoured over passive strategies, given that only 4% of respondents indicated that their fund's default investment strategy was a passive strategy.

Figure 9. Characteristics of default investment strategies pursued by funds (%)



Source: PwC analysis

Comments and views on default investment options

Survey feedback focused mainly on the positive aspects and included the following:

- Most members are not skilled or comfortable to make investment choices, making default investment options an almost perfect solution.
- Default investment portfolios are now aligned to the post-retirement investment strategy.
- Default investment options are not perfect but remain the best model to assist members to sufficiently plan for retirement.

Default preservation

The Default Regulations require pension and provident funds to offer a default in-fund preservation arrangement to members who leave the employment of a participating employer. The funds should allow such members to leave their accumulated retirement savings in the fund and become a 'paid-up' member. When a member is no longer employed by the participating employer, the fund must make that member paid-up until the member instructs the fund, in writing, to either pay out or transfer the benefit due to them.

The fund must give the member a paid-up membership certificate within two calendar months of becoming aware that the member is no longer employed by the participating employer. In addition, funds should be able to automatically accept members' balances from other retirement funds to ensure members' retirement savings follow them from employer to employer.

Most members are not skilled or comfortable to make investment choices, making default investment options an almost perfect solution.

Even though deferred retirement and in-fund preservation became available to members of all funds from 1 March 2019, take-up has been slow with 68% of the respondents indicating that less than 20% of their members who retired or withdrew from their employers opted to defer their retirement from the fund or preserve their withdrawal benefits in the fund.

Only 3% of respondents indicated that they had more than 200 members who retired or withdrew from their employers who opted to defer their retirement and stay in the fund or preserve their withdrawal benefits in the fund. The majority, 84%, indicated that they had fewer than 50 members who elected to stay in the fund.

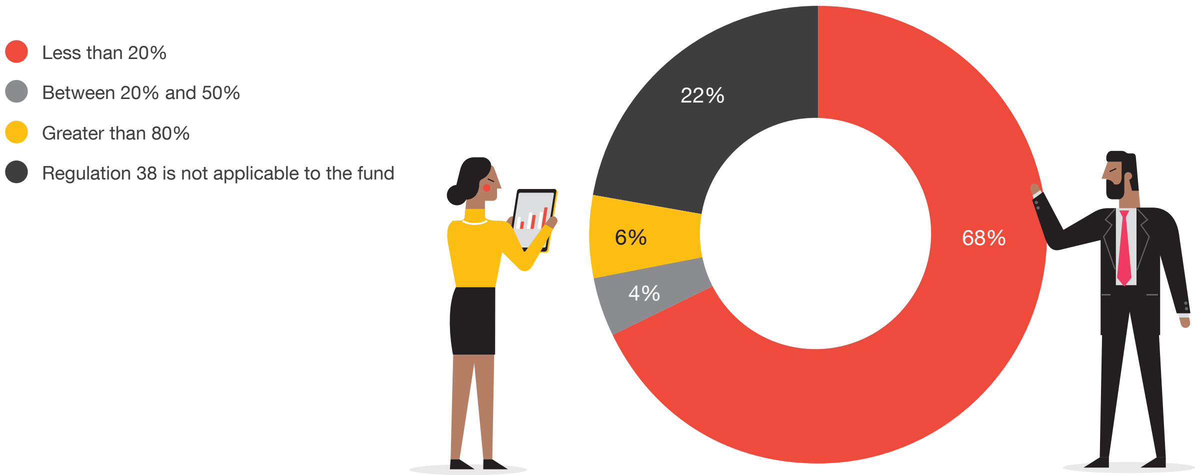
The initial low take-up is probably a function of the number of retirees in the funds surveyed on the one hand, and the fact that the default options were new and either not understood or adequately communicated in the first year of implementation on the other.

Take-up of these options was likely also further impacted by the relatively poor economic climate and the weak job market, which meant that exiting members were more likely to seek access to their retirement savings as a means to sustain themselves, rather than preserving them.

Overall, year one numbers do not indicate a trend to preserve in-fund.

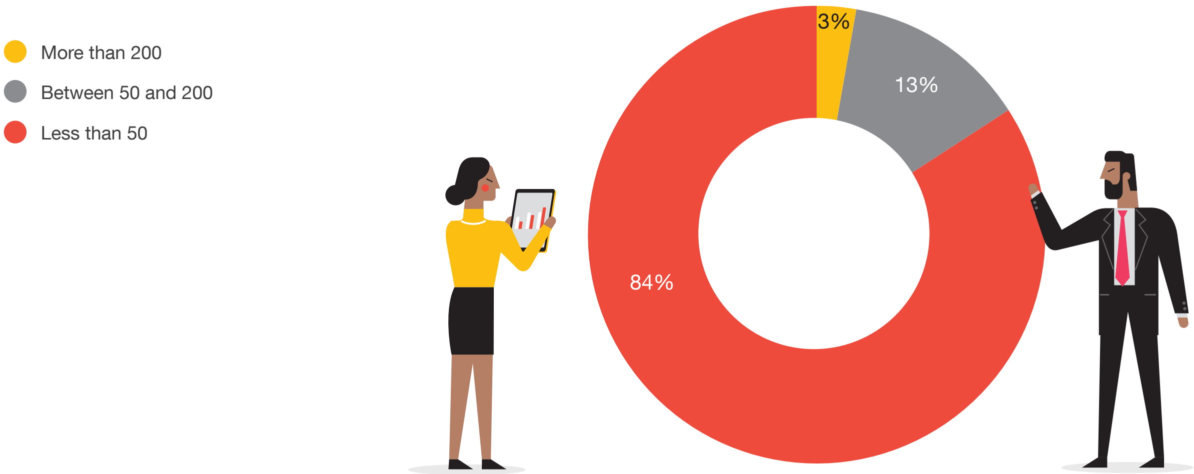
Overall, year one numbers do not indicate a trend to preserve in-fund, and one can only hope that at least some of the benefit money was invested wisely and cost-effectively elsewhere, as cost savings for members is one of the key intentions of the Default Regulations.

Figure 10. Proportion of exiting members who chose to preserve in the fund (%)



Source: PwC analysis

Figure 11. Proportion of default paid-up members in the fund (%)



Source: PwC analysis

Respondents had mixed views on whether paid-up members should pay a similar administration fee to contributing members with 46% of respondents suggesting that paid-up member should pay less than active members (because there are no contributions to administer). 41% of the respondents reported that they currently make paid-up members pay the same as active members either because the Fund's policy has been set as such or because the Board is still in the process of setting a policy. Only 28% believe that paid-up members should pay the same as contributing members. Surprisingly, 13% of the respondents believe that paid-up members should pay more because they cost more to administer.

These responses are likely to change over time when the costs associated with maintaining these members become clearer. Typically, communicating with members is a function at least partially performed by the human resources function of sponsoring employers. Time will tell if communicating with paid-up members can be achieved cost-effectively by the funds alone.

Unfortunately, the take-up of deferred retirement and in-fund preservation will remain low for the foreseeable future unless government implements retirement reforms that align the benefits of provident funds to those of pension and retirement annuity funds, and the regulator and industry start to take active steps to limit leakage of retirement fund savings.

46%

Paid-up members should pay less because there are no contributions to administer. They in effect cost less to administer.

28%

Active members and paid-up members should pay the same administration fee.

13%

The fund is still in the process of finalising a policy and paid-up members currently pay the same administration fees as active members.

13%

Paid-up members should pay more because there is no assistance from the employer to keep track of their information and member communication. They in effect cost more to administer.

One of the respondents commented that the current legislation does not allow members exiting a fund to withdraw a portion of their retirement fund savings while retaining the balance in the fund, whereas they can do this if they move to a preservation fund. This defeats the object of being able to leave one's money in a more cost-effective preservation option within the fund.

Comments and views on default preservation

Respondents' feedback focused mainly on the expected administrative and governance challenges associated with keeping track of members who preserve in-fund.

The comments received included:

- The challenge will be to keep track of default members and those with small amounts can have these depleted by fees.
- Default preservation is moot as long as the FSCA turns a blind eye to the massive leakage of retirement savings via mock divorces and fraudulent housing loans (allowing up to 90% of member interest/value), which are [arguably] applied for other purposes.
- Default preservation will just become a home for what was previously unpaid/unclaimed benefits.
- The biggest challenge is keeping track of the whereabouts of preserved members once they leave, potentially leading to even more unclaimed benefits.
- The fund must be able to show that members are better off in preserving their benefit in the fund as opposed to elsewhere. There is also a potential oversight in current legislation in that on exiting the fund, members cannot withdraw a portion of the retirement savings while retaining the balance in the fund, whereas they can do this if they move to a preservation fund. This defeats the object of being able to leave one's money in a more cost-effective preservation option within the fund.

Annuity strategy

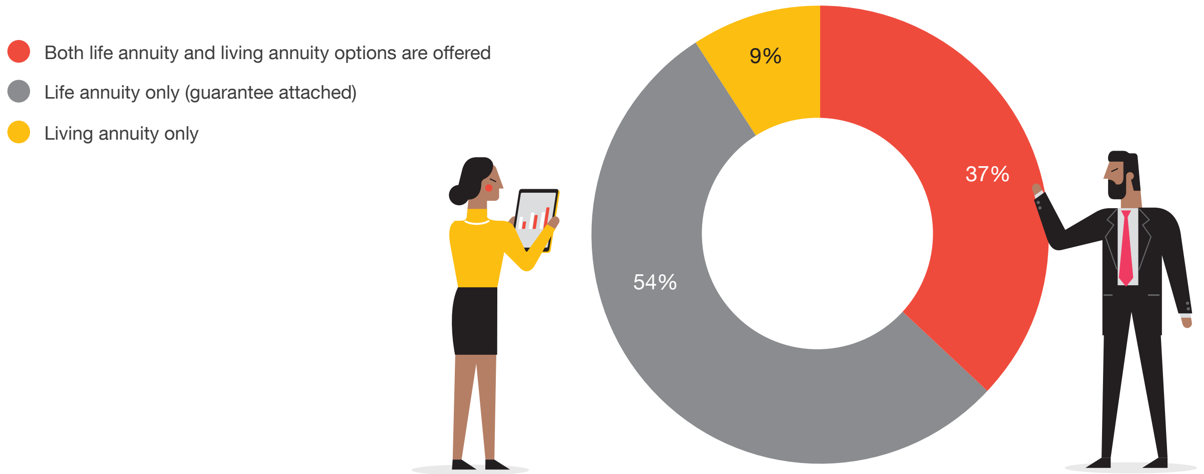
Pension, pension preservation and retirement annuity funds, as well as provident and provident preservation funds, where the rules of such provident funds allow a member to elect an annuity, are required to have a default annuity strategy.

The default annuity can either be in-fund or out-of-fund. It can also be either a living annuity or a life annuity.

The default annuity strategy must comply with the following principles:

- it must be appropriate and suitable for the specific classes of members enrolled into it;
- where the annuity is a living annuity, the members must be regularly informed of the objective, asset class composition and performance of the annuity. The Financial Sector Conduct Authority may prescribe the format of the communication;
- the fees and charges must be reasonable and competitive;
- members must be informed of all the fees and charges and the impact on their benefits;
- members should be given access to retirement benefits counselling at least three months before their normal retirement age; and
- it must be reviewed annually to ensure that it continues to be appropriate for the members and continues to comply with the Default Regulations.

Figure 12. Regulation 39 default annuity options offered by funds



Source: PwC analysis

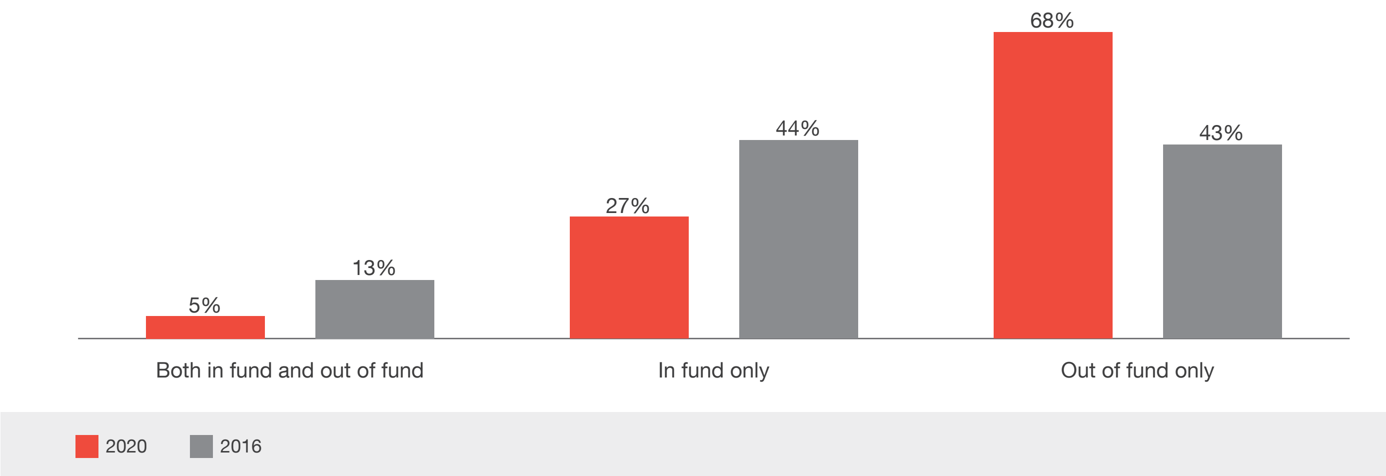
The arguably less risky and conservative option of a life annuity was the clear favourite amongst respondents, with 54% opting for this default annuity strategy. Only 9% of respondents indicated that the fund offered only a living annuity, while the remaining 37% opted for both options as their default annuity strategy.

The main reason provided for offering in-fund living annuities was the lower cost for members. Although there was no apparent reason why funds offered in-fund life annuities, as mentioned earlier, we believe it is the more conservative option for members due to the associated guarantees of the product.

In our 2016 survey there was no apparent preference for considering whether the default annuity strategy should be offered inside (44%) or outside (43%) the fund. This year, we found a clear preference for providing default annuitisation strategies outside (68%) compared to inside (27%) the fund. The remaining respondents indicated that default annuitisation strategies are provided both inside and outside the fund (most likely with living annuities being offered inside the fund and life annuities outside the fund).

We can only speculate that the cost and administrative burden were considerations that changed the attitude of funds. More board efforts and associated risks of in-fund annuities would certainly motivate boards to only offer annuity strategies outside the fund.

Figure 13. Default annuity strategies offered by funds



Source: PwC analysis

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