

# *Change is the only constant*



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# *Foreword*







**Gert Kapp**

We are delighted to present the results of our fourth retirement fund industry survey. The findings are based on responses received from 183 funds with total assets of R592 billion.

Our retirement fund specialist group designed and conducted the survey. Naturally, many questions are retained from previous surveys to enable us to identify and benchmark unfolding trends.

In addition, we deliberately included a number of new questions in order to explore existing issues further or to enhance interest in the survey by collecting feedback on topical matters.

This report covers four broad focus areas:

- Trustees' activities and remuneration;
- Trustees' education;
- Principal officers and their remuneration; and
- Regulatory matters and retirement reform.

New areas investigated include questions about chairpersons and subcommittees as well as regulatory matters and retirement reform.

National Treasury's in-depth series of papers on strengthening retirement funding outcomes has highlighted the need for trustees to set sensible defaults for members, including those for the transition from pre to post retirement. This is a vital need, as the bulk of retirees lack the impartial advice that would enable them to avoid unsuspected pitfalls. Take for example the substantial adverse impact over the long term of apparently innocuous annual fees of a few percent on living annuity investments. The attendant destruction of member/pensioner value is unfortunately commonplace at present.

In general, survey respondents support the objectives of retirement reform, but several of them caution that the changes tend to come at a cost in terms of additional complexity in record keeping or reporting. The additional costs are a negative for members and as Warren Buffett aptly put it 'costs are the enemy of returns'.

I wish to thank all respondents for their generous contribution of time, information and insights that made this report possible.

As with previous surveys, individual responses will remain confidential. However, if there is some further way in which we could have analysed aspects of the data that would be of special interest to you, please do not hesitate to contact us. If practical, we shall gladly seek to extract such information for you on an aggregate basis.

A handwritten signature in dark ink, appearing to read 'Gert Kapp', written over a light blue horizontal line.

**Gert Kapp**  
National Retirement Fund Leader  
PwC South Africa

21 May 2014

# *Salient features of the survey*



## ***Funds that participated (count)***

	2014	2012	2010
Standalone funds	116	153	143
Specialist funds (preservation, retirement annuity, umbrella, unclaimed benefit and beneficiary funds)	67	75	100
Total funds	183	228	243

## ***Asset base of respondents (R billions)***

	2014	2012	2010
Standalone funds	303	338	166
Specialist funds	289	370	141
Total funds	592	708	307

## ***Trustee representation among respondents***

	Total trustees	Professional trustees	Professional trustees to total trustees	Average number of trustees per board
Standalone funds	1004	52	5%	9
Specialist funds	474	107	23%	7

## ***Proportion of funds that remunerated some or all trustees***

	2014	2012	2010
Standalone funds	28%	23%	23%
Specialist funds	90%	91%	78%

## ***Proportion of funds that used professional principal officers***

	2014	2012	2010
Standalone funds	40%	48%	34%
Specialist funds	72%	79%	72%

## ***Median range of annual remuneration for fund officials***

	2014 R'000	2012 R'000
<b>Standalone funds</b>		
Chairpersons	50-100	50-100
Professional trustees	50-100	50-100
Principal officers	350-600	400-800
<b>Specialist funds</b>		
Chairpersons	10-50	50-100
Professional trustees	10-50	10-50
Principal officers	350-600	100-250

# *About the survey*





## The questions

The survey consisted of 65 questions on key aspects of trustee and principal officer remuneration and covered the following four focus areas:

- Trustees and their remuneration;
- Trustee education;
- Principal officers and their remuneration; and
- Regulatory matters and retirement reform.

We also collected basic fund data such as fund type, size of assets and membership. This enables us to stratify the results accordingly. Where there appeared to be major differences in responses depending upon fund type or fund size, we highlight these in the commentary.

## Respondents

The survey covered all types of funds across the South African retirement fund industry, but deliberately excluded the Government Employees Pension Fund (GEPF). The reason for this is that due to its exceptionally large size relative to the rest of the industry, inclusion of the GEPF would distort results significantly.

The bulk of responses were obtained from the principal officers of the funds. The total number of responses is some 20% down on the number obtained in our previous survey. This drop may to some extent reflect the ongoing trend of consolidation in the industry, with smaller funds joining umbrella funds. Nevertheless, we believe the level of response is sufficient to suggest that the trends and conclusions identified are representative of the industry.

## Survey population and statistics

The survey was completed by 183 retirement funds during January and February 2014. It is interesting that the 73 large funds (funds with at least R1 billion in assets) represented 40% of the respondents and accounted for R566 billion, some 96% of the total asset base of R592 billion.

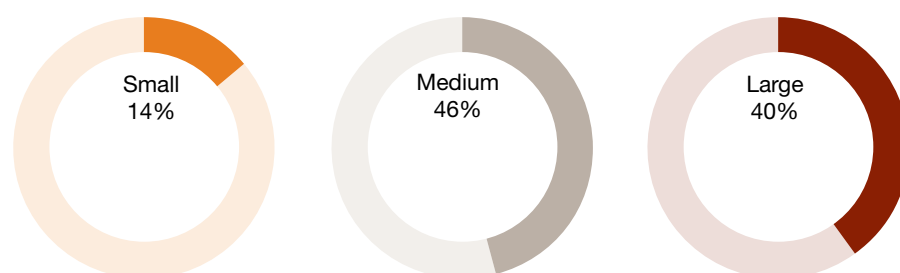
It was also noteworthy that the 18 self-administered funds, which represented only 10% of respondents, accounted for R270 billion or 46% of the total asset base.

Please refer to Appendix 4 for full details of the stratification of the population of the respondents and the related statistics.

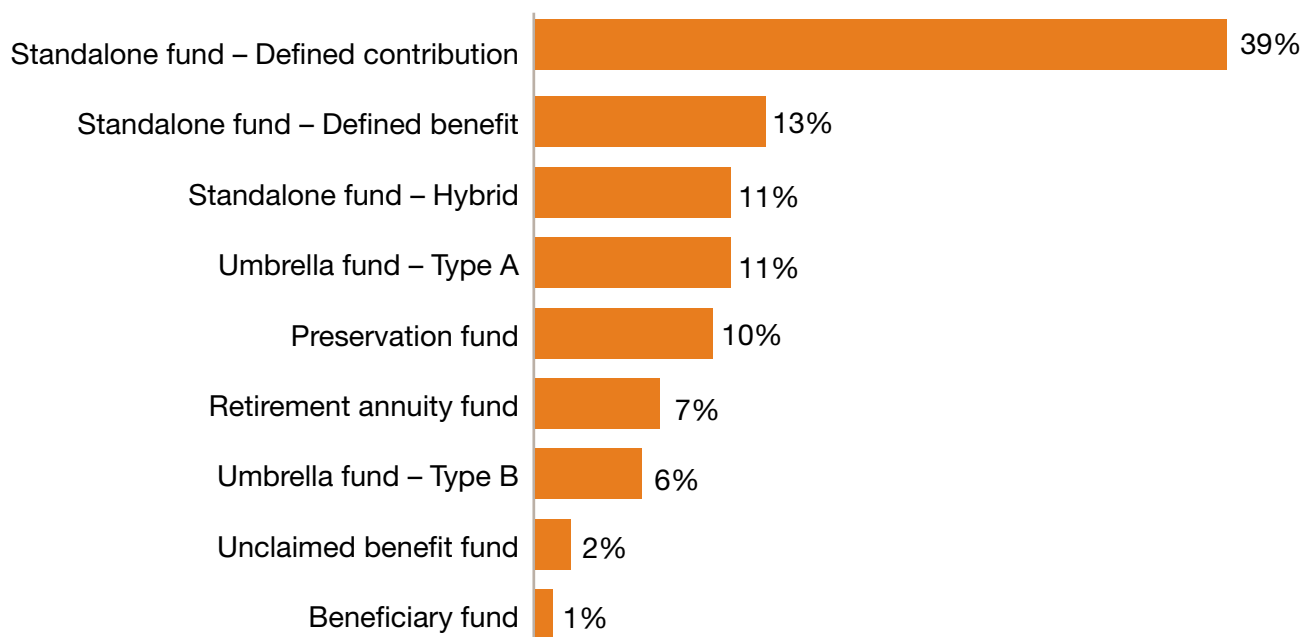
## Fund size and nature

We defined large funds as having assets of R1 billion or more. Medium funds have assets of between R50 million and R1 billion and small funds have assets of less than R50 million.

**Figure 1: Fund size**

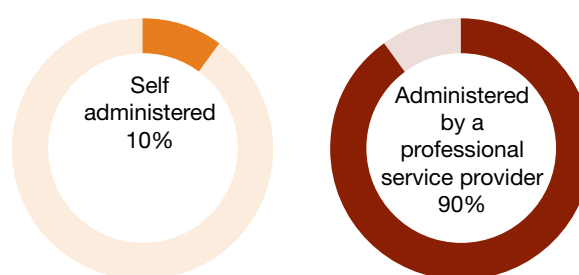


**Figure 2: Type of fund**



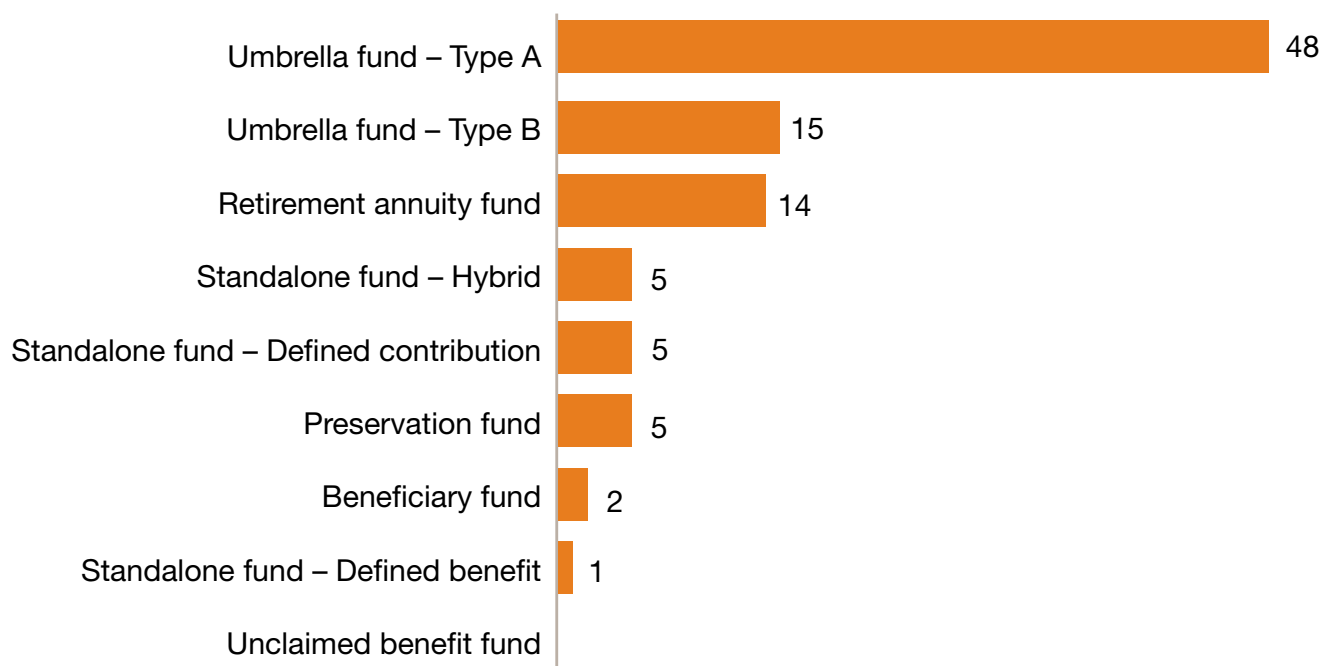
We have drawn a broad distinction between standalone private funds (which typically relate to a single employer company or group) and what we have termed ‘specialist funds’, namely preservation, retirement annuity, umbrella, beneficiary and unclaimed benefit funds (which typically link back to multiple employers and a sponsor).

**Figure 3: Fund administration**

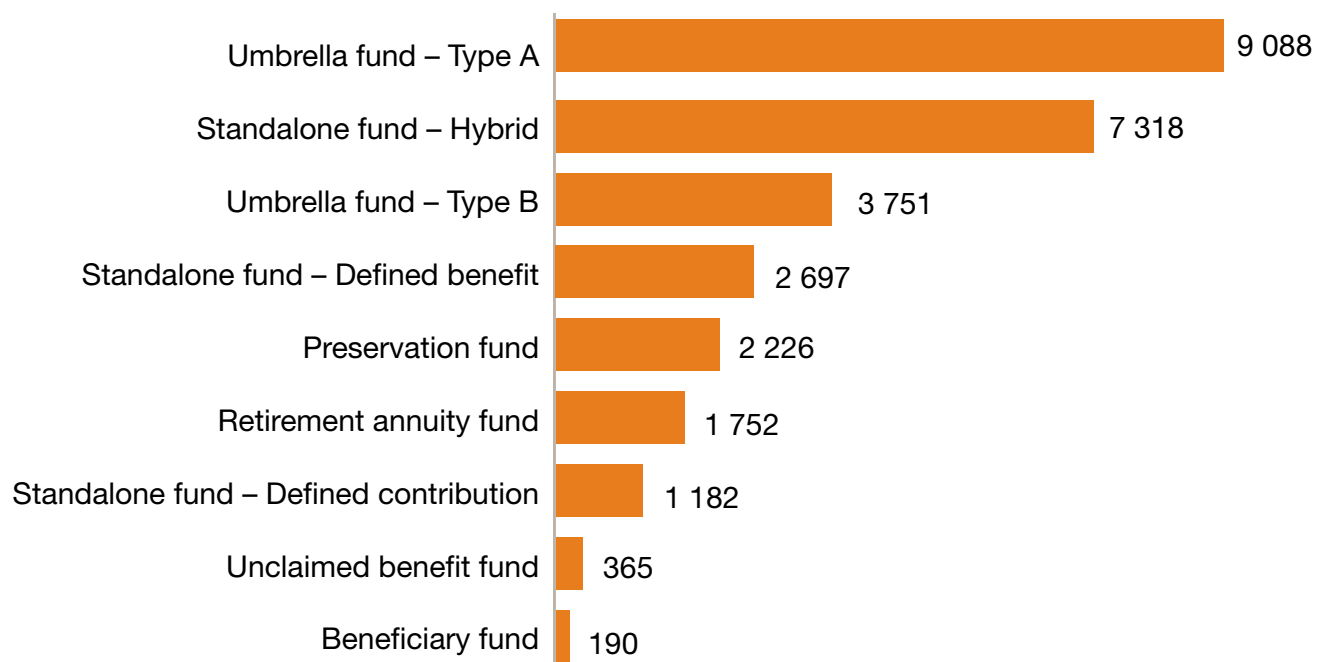


As noted earlier, the 18 self-administered funds that represent only 10% of the survey population are nevertheless highly significant because they account for R270 billion (46%) of the total asset base covered by the survey.

*Figure 4: Average number of active members (thousands)*

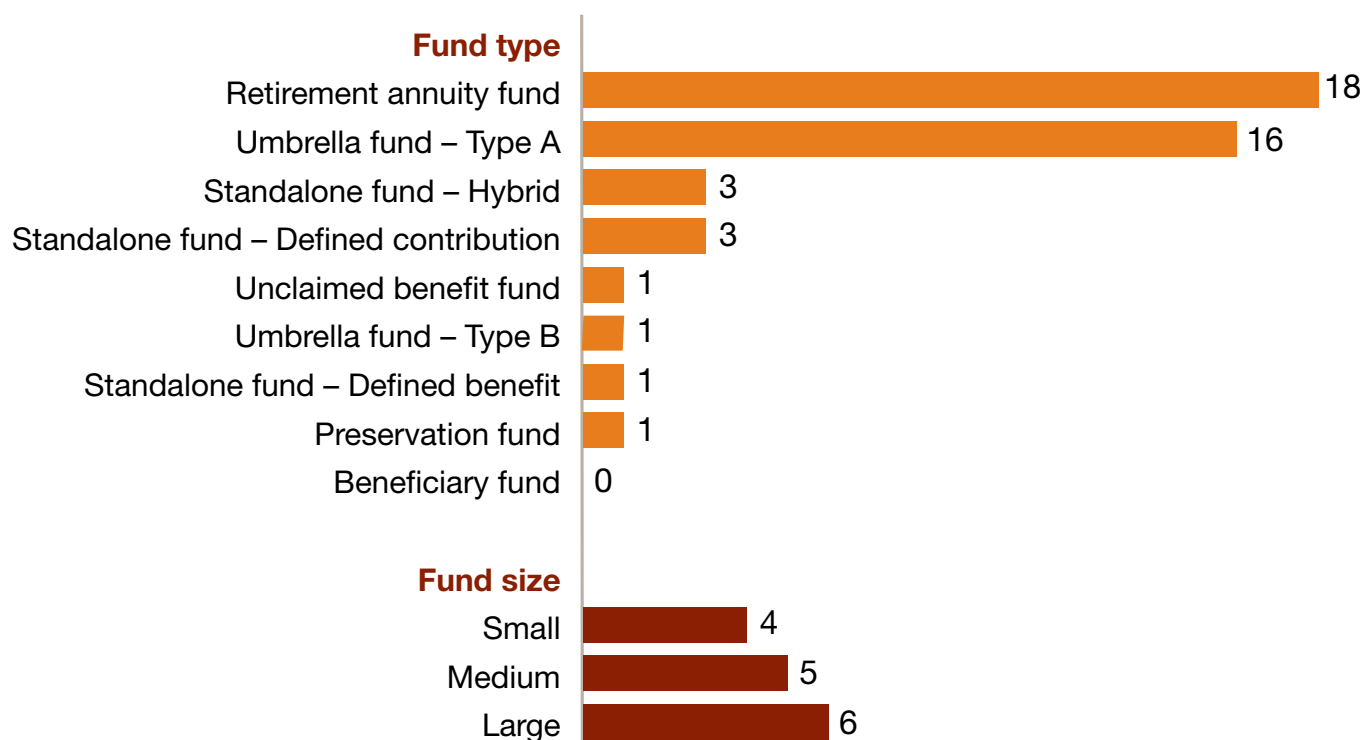


*Figure 5: Average total assets per fund (Rm)*



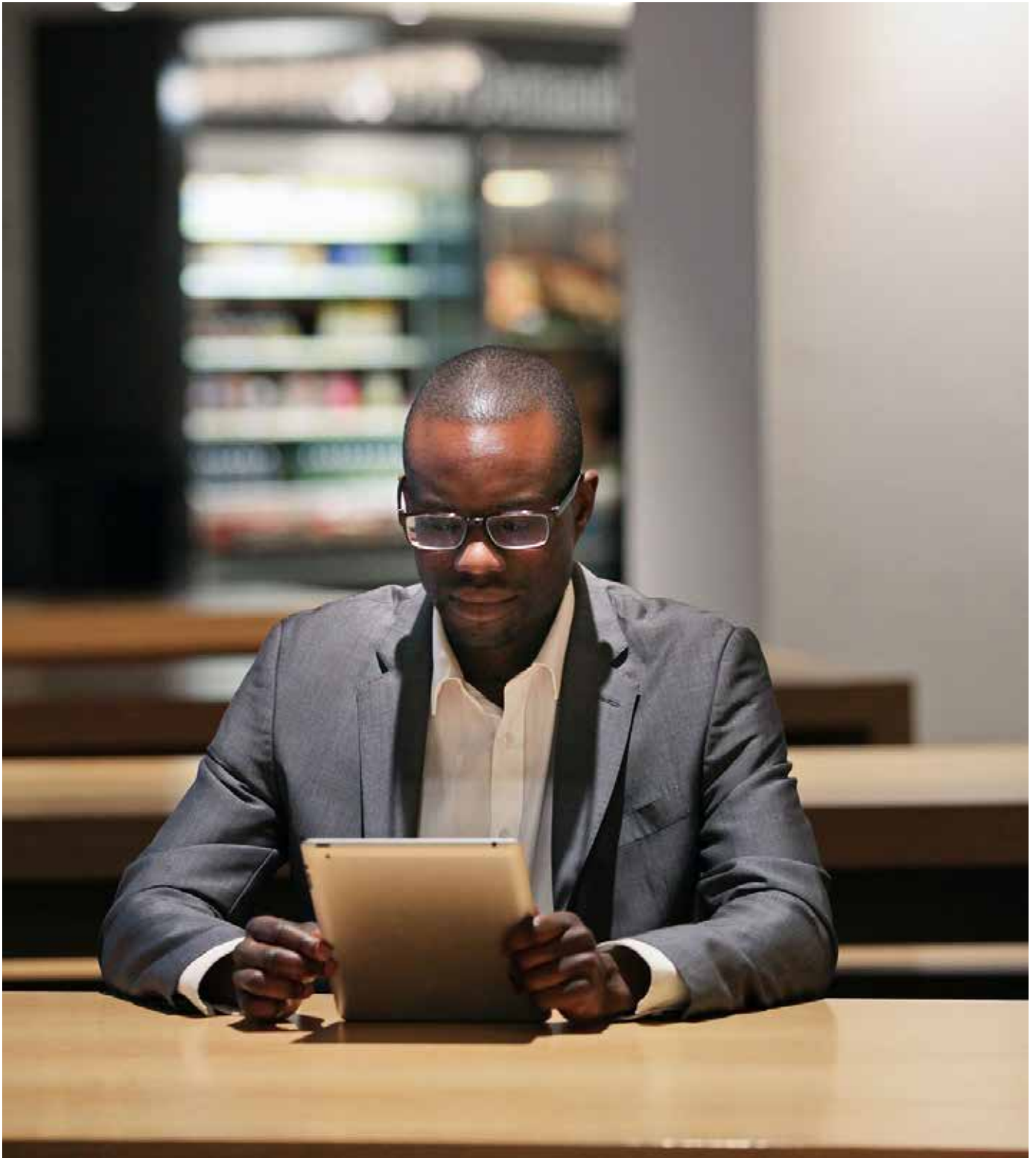


**Figure 6: Average number of member investment choices per fund**



Please note that we excluded two data points from Figure 6. The first related to a preservation fund that had 425 choices and the second related to a retirement annuity fund that offered 150 choices. Had we not excluded these extreme outliers, the averages shown above would have been massively distorted and would not have painted a realistic picture.

# *Key findings*



## Profile of the typical fund chair

If you are a fund chair, you will:

- Spend 4-8 days on fund matters annually;
- Spend 30% more time on fund matters than your fellow trustees;
- Serve on at least one subcommittee of the board and often two, or more;
- Probably be better remunerated if you chair a standalone fund rather than a specialist fund;
- Be supported by a principal officer who earns at least ten times more than you (but this may include earnings from other funds that the principal officer works for);
- Be supported by two professional trustees if on a specialist fund, but only one on a standalone fund;
- Stand an 80% chance of having a professional trustee serve with you on a subcommittee if such a subcommittee exists; and
- Be responsible for about R400 million in fund assets as your basic pro-rata share (with each of your fellow trustees) of joint and several liability.

## Trustees and their remuneration

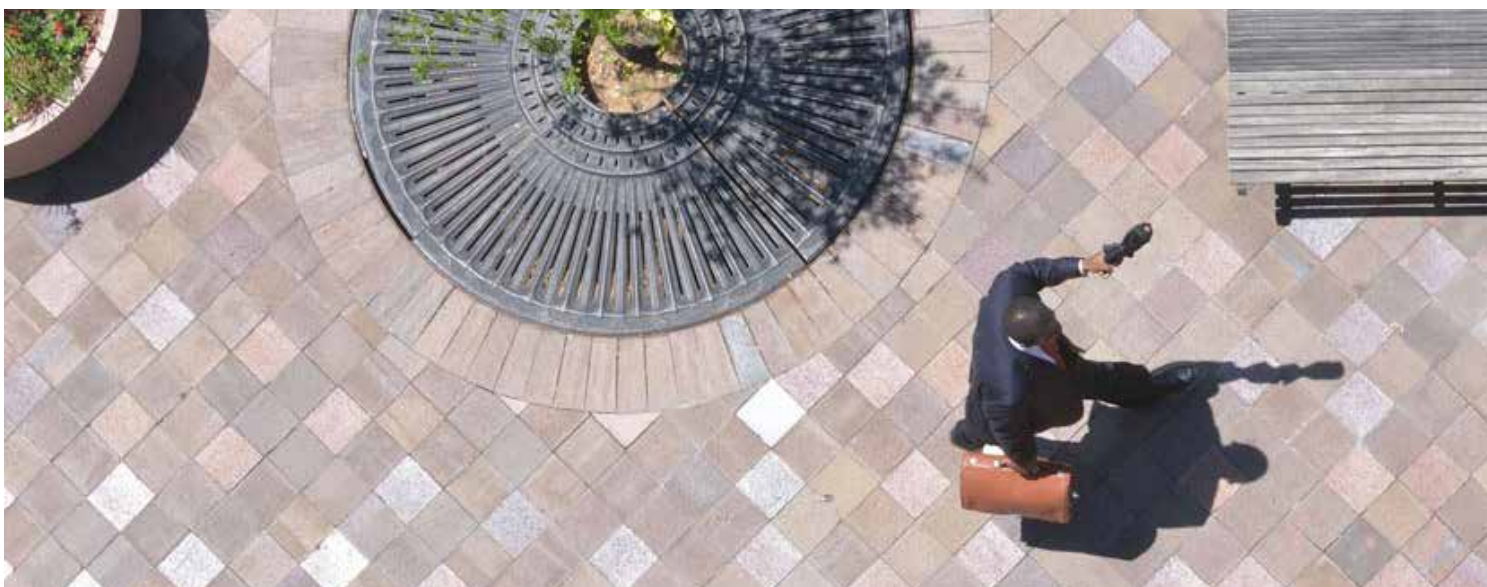
- The average trustee board has eight members, as in our 2012 survey;
- Specialist funds have two professional trustees on average;
- The proportion of professional trustees to total trustees remained as in the 2012 survey at 11% overall. This increases to 23% (2012: 34%) for the specialist funds and drops to 5% (2012: 2%) for the standalone funds.
- Proportions of respondent funds that remunerated trustees:
  - 11% remunerated all trustees;
  - 39% remunerated some trustees;
  - 50% did not remunerate any trustees;

It is encouraging that for 90% of boards trustee turnover is not unduly rapid trustees can attain a reasonable level of practical experience 59% of trustees serve for 3-5 years and a further 31% for over five years; and

The median average annual remuneration band for professional trustees is R10 000-R50 000 this applies to their serving on the main board as well as their service on subcommittees.

## Trustee education

- As expected, professional trustees are the most experienced – 94% have more than five years' and 53% have more than 10 years' experience;
- Professional trustees are also the most highly educated with 91% having a degree or postgraduate qualification, but it is pleasing that 70% of member-elected trustees are similarly qualified;
- 75% of funds indicated that training needs had been assessed in the past two years – quite an improvement on the 66% in the 2012 survey; and
- Across all funds trustees spent an average of 17 hours per year on training and attending industry events, compared to 27 hours in the 2012 survey. This decline may be due to factors such as less major industry changes (such as Regulation 28) and increases in the costs of industry events that make them less affordable.





## Principal officers

- 72% have 10 or more years' experience and it appears they are staying on until they retire. Many of those who were in the 5-10 years category in our 2012 survey have now moved along to the greater than 10 years category;
- 84% have a degree or postgraduate degree 53% have a postgraduate degree;
- The median remuneration band across all funds was R350 000-R600 000, but for large funds this was R600 000-R1 000 000;
- For large funds, 31% were remunerated more than R1 000 000;
- Attending training and industry events takes up on average about 34 hours or one man week per year for small and medium funds, but about two man weeks for large funds; and
- The average time spent on fund matters is 15-23 hours per month for small and medium funds but 56 hours for large funds.

## Regulatory matters and retirement reform

79% (2012: 73%) of respondents indicated that compliance with the ongoing impact of regulatory changes such as Regulation 28 and retirement reform would result in additional cost for members;

76% (2012: 68%) of respondents believe there is scope for simplification and cost reduction in their funds;

The most favoured cost reduction measures identified were:

- To make use of passive investment strategies;
- To move risk benefits outside the fund/remove or reduce member investment choice; and
- To move from a standalone fund to an umbrella fund.



# *Trustees and their remuneration*



## Overview of funds, transactions, balances and membership

### Statistics for the South African retirement fund industry

	2013	2012	2011	2010
<b>Number of funds</b>				
Active	2 271	2 541	3 160	#
Inactive (pending closure or transfer)	3 584	6 350	6 872	#
Total	5 855	8 891	10 032	10 125
<b>Membership ('000s)</b>	*	*	13 750	12 298
	<b>R billions</b>	<b>R billions</b>	<b>R billions</b>	<b>R billions</b>
<b>Contributions</b>	*	*	143	129
<b>Benefits</b>	*	*	148	141
<b>Assets under management</b>	*	*	2 430	2 198
Privately administered	*	*	1 144	1 056
Underwritten	*	*	269	255
GEPF	*	*	943	818
Transnet, Telkom, Post Office	*	*	74	70

**Source:** Financial Services Board 2013 annual report – these statistics include the Government Employees Pension Fund (GEPF), Telkom, Transnet and 89% of registered funds

\* These statistics were not yet available

# These statistics were not presented

It is clear from the sheer scale of activities that boards of trustees bear extensive responsibilities both from a legal and member expectation point of view. In this edition of the survey we asked respondents whether the fund was part of a group of funds that operate through a single board and related set of subcommittees. Over a third (65 funds) confirmed that this was indeed the case.

The extent of this consolidation of the management of funds is no doubt partly due to legacy defined-benefit funds (still in the process of being run down) being dealt with alongside the successor defined-contribution fund. However, it is also commonplace for sponsors to have the same board run several legally disparate specialist funds.

However, trustees are often not remunerated directly by the funds they act for because the related employer or sponsor compensates them for these services as part of their normal employment.

This survey highlights the extent to which trustees are remunerated directly by the funds that they serve and indicates what those remuneration levels are.

In order to set the context, we collected data on the total numbers of trustees on each board and within that total the proportion that were professional or independent trustees.

By 'professional trustee' we mean someone that makes this a significant part of his/her career and is always paid separately for these services. An independent trustee is typically a professional trustee that does not have any connection to any other service provider to a fund.

It is possible that an independent trustee is not remunerated and hence would not be a professional trustee but such cases are relatively rare.

We included a number of new questions in this survey on chairpersons and subcommittees in order to establish how they are operating. As the questions are new, we have not been able to assess the extent of any changes since 2012 and the scope for commentary is limited accordingly.



## Trustee boards and who is remunerated

Figure 7: Average number of trustees on board

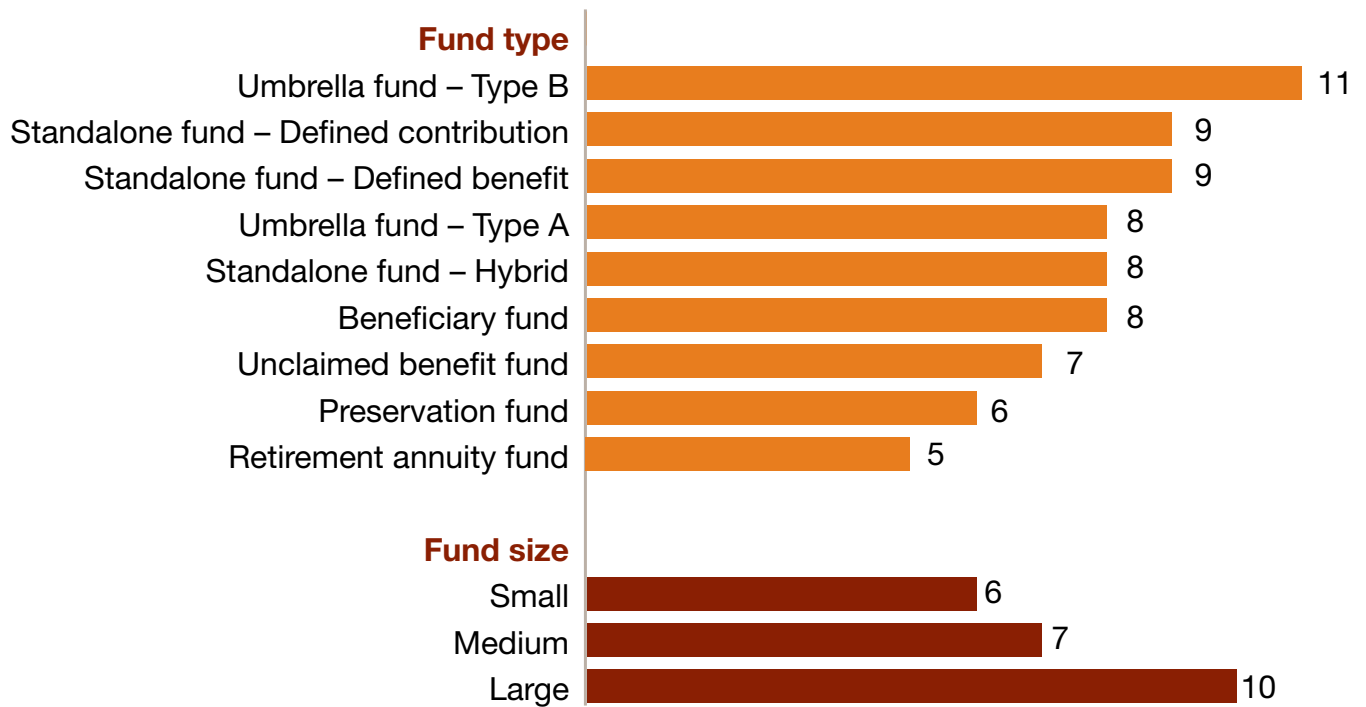
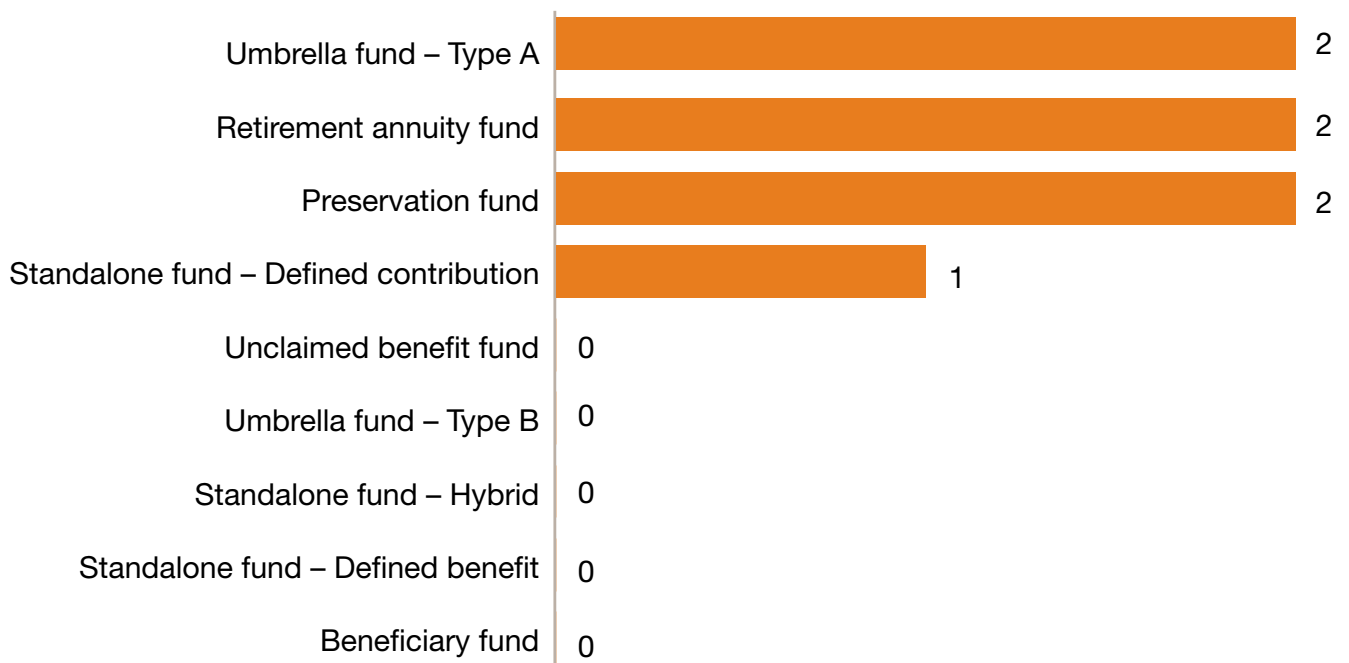


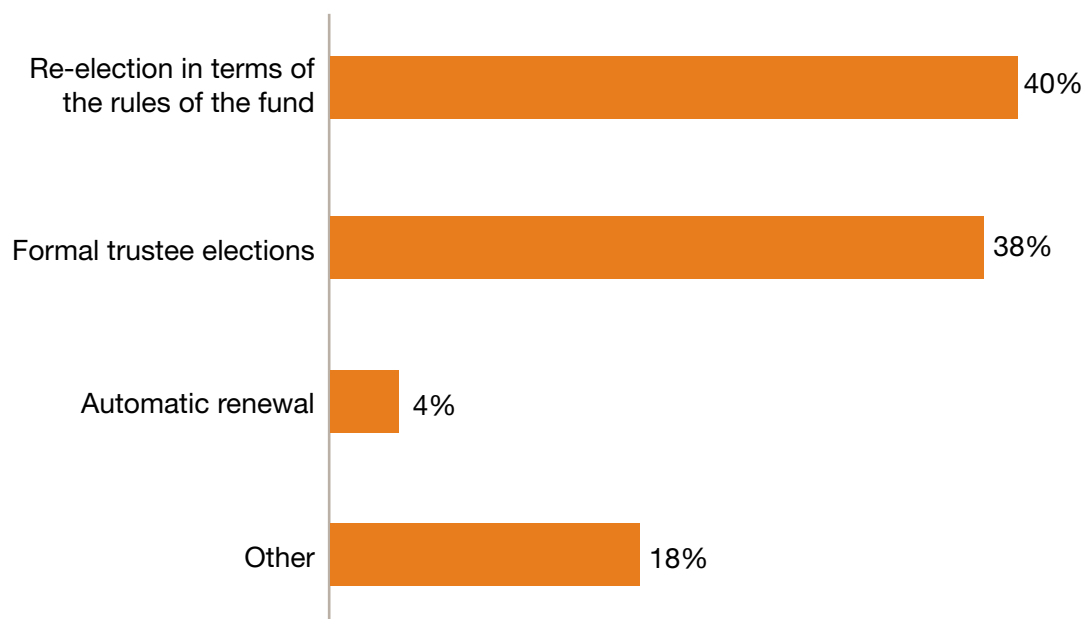
Figure 8: Average number of professional trustees



**Figure 9: Process for re-appointing a trustee**

**Q**

What is the process for re-appointing a trustee for a further term of office?



This was a new question that elicited a small but significant response from 4% of respondents who said that the term of office was automatically renewed. Respondents that selected the 'Other' category generally indicated that appointment was done by or with the consent of the sponsor or employer. The two most popular options probably reflect the statutory 50:50 representation of employer and employee trustees on the boards of standalone funds, which accounted for 63% of the 183 survey responses.

We also asked how long trustees serve on the board of the fund on average. Responses were as follows:

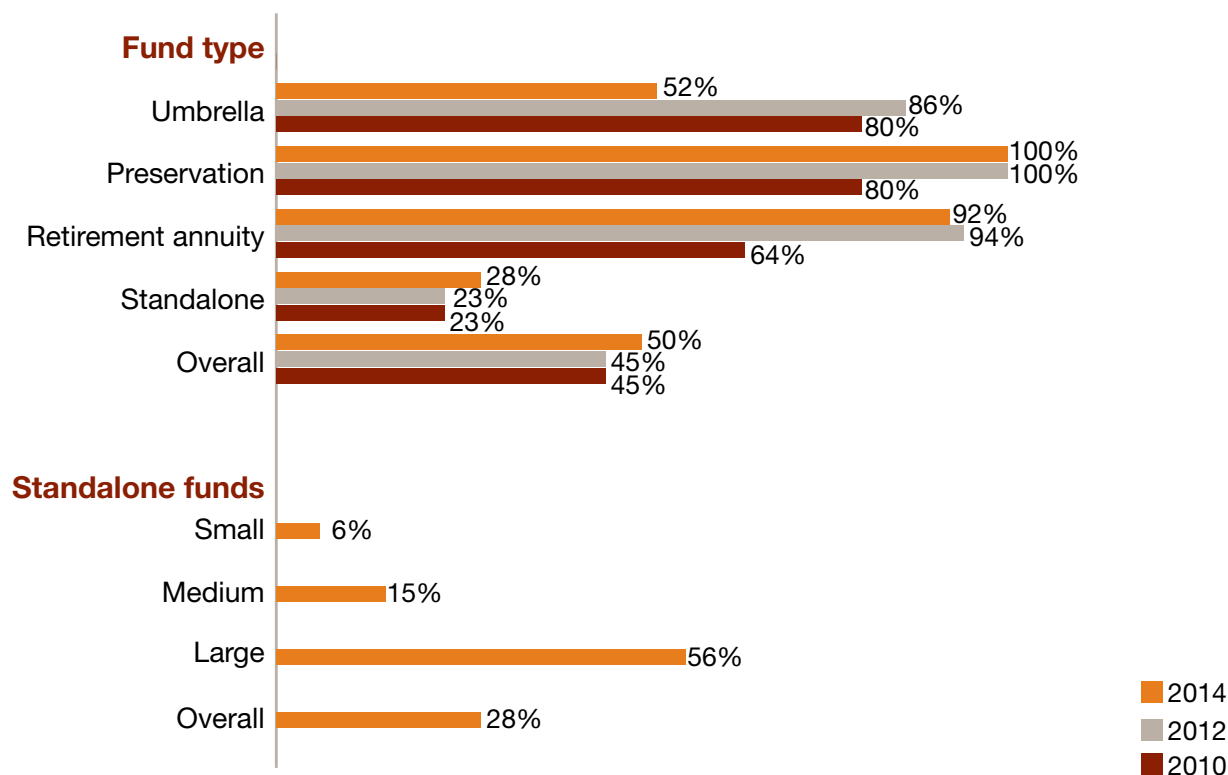
- <3 years 10%
- 3-5 years 59%
- >5 years 31%

It is encouraging that for 90% of boards, trustee turnover appears to be not so rapid that they cannot attain a reasonable level of practical experience in dealing with fund matters.

**Figure 10: Proportion of funds that remunerate trustees**

**Q**

Are trustees remunerated in any manner for purposes of acting on the board or any board subcommittee?



In our 2010 and 2012 surveys, the proportion of funds that remunerated some or all trustees remained static at 45%, but in 2014 this increased to 50% overall, as shown in Figure 10.

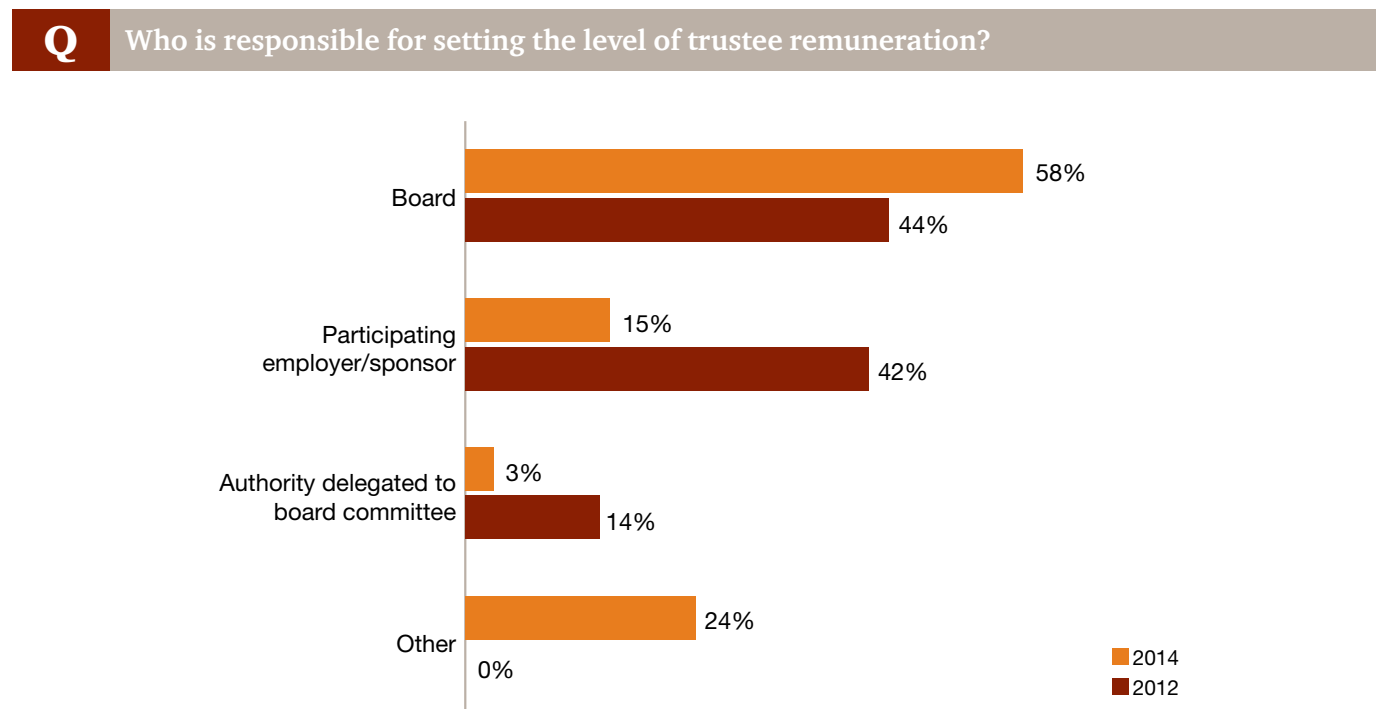
This is due to the increase in the proportion of standalone funds that are remunerating trustees, which grew from 23% to 28%. This outweighed the decline in the proportion of umbrella funds that remunerated trustees (there were only 31 umbrella funds in the survey results as opposed to 116 standalone funds).

The proportion of umbrella funds that remunerate some or all trustees appears low at only 52%, but this is because the umbrella funds include both Type-A funds and Type-B funds. While all Type-A funds remunerate their trustees, the 52% average is skewed by the Type-B funds, which typically do not remunerate trustees. (The Type-B umbrella funds tend to be more akin to standalone funds and have few participating employers in a group of related companies compared to the Type-A umbrella funds that are effectively open to all employers.)

Within the standalone funds, the overall average does not tell the full story. On further analysis by fund size, it is evident that the large funds report a much greater incidence of trustee remuneration.

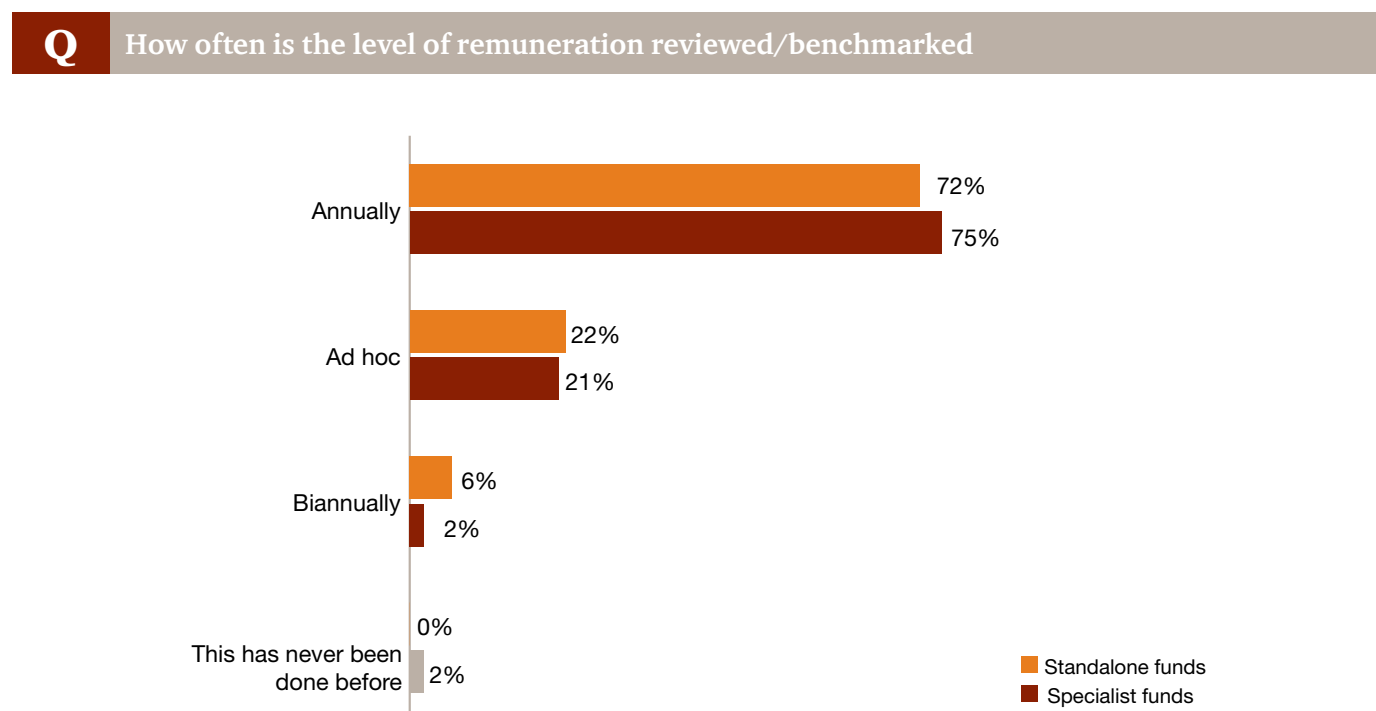
As in previous surveys, where respondents indicated trustees were not remunerated, we asked them to indicate why. In almost all cases the reason given was that as such trustees were already employed by the employer, sponsor or administrator, no additional remuneration was considered necessary.

**Figure 11: Responsibility for setting remuneration**



The responses reflect a major shift away from trustee remuneration being set by the participating employer /sponsor and instead the board itself is dealing with this.

**Figure 12: Frequency of remuneration review**



A similar pattern emerged in our 2012 survey.

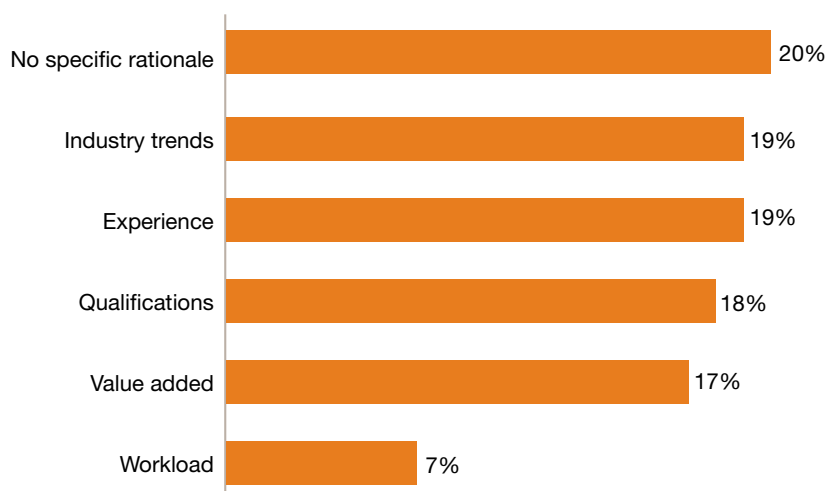


## What drives remuneration levels?

Figure 13: Drivers of trustee remuneration

Q

Which of the following is directly related to the level of trustee remuneration awarded?  
(Select all relevant options)

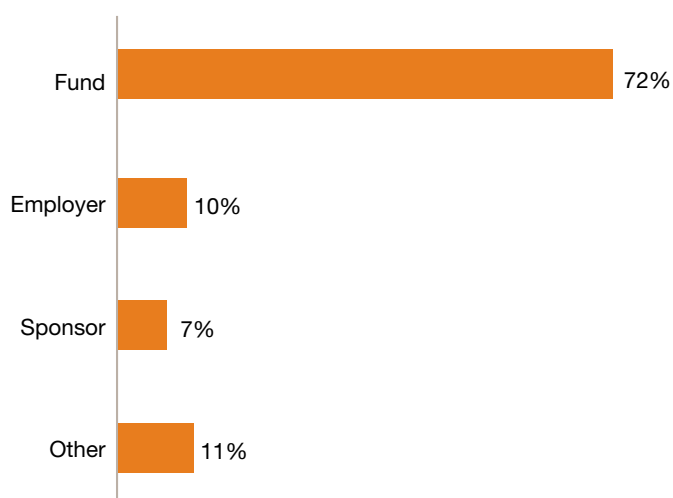


We added the new options of 'Industry trends' and 'No specific rationale' to answering this question. Both were well supported mainly at the expense of 'Workload', which dropped from 33% in 2012 to only 7% in 2014.

Figure 14: Who pays trustees

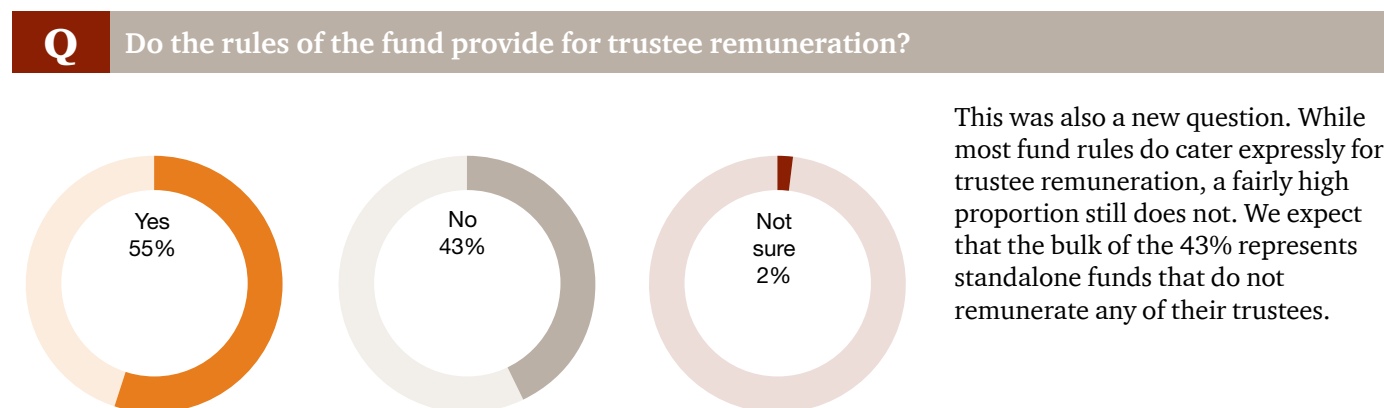
Q

Who is responsible for payment of trustee fees?

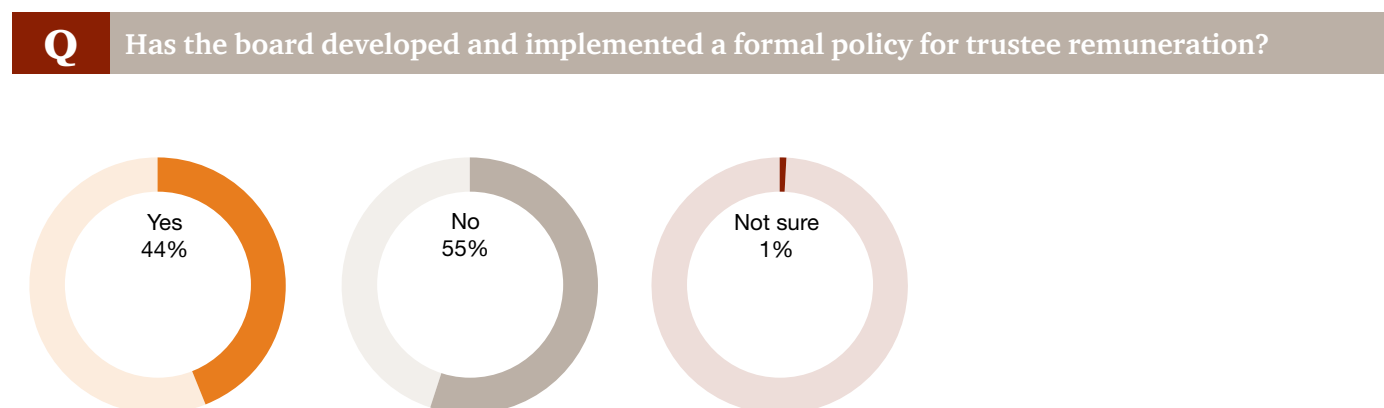


This is a new question and the 92 funds whose trustees were remunerated showed a substantial preference for payment directly by the fund. Those who responded 'Other' indicated that while the fund made the payments to trustees, it was reimbursed by the sponsor. However, in general, the sponsor does not actually bear this remuneration cost because it is recovered as part of the management fee charged to the fund.

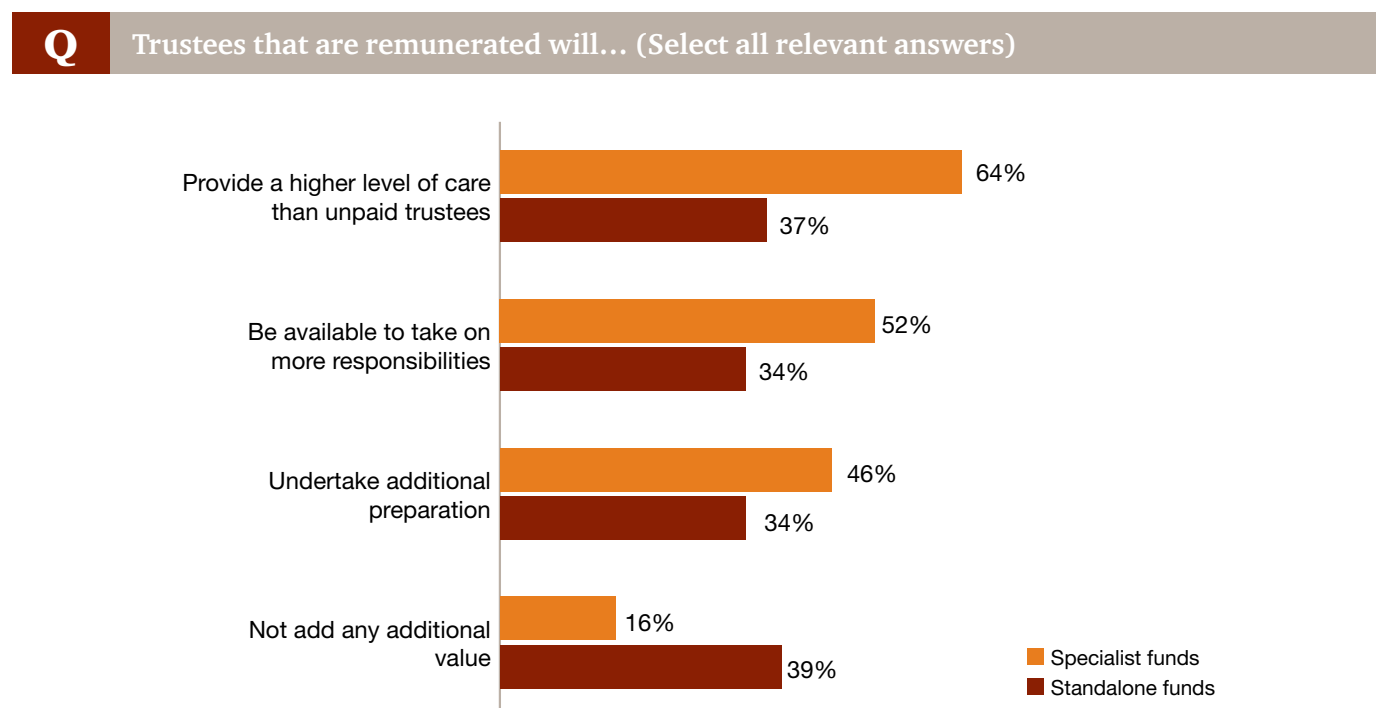
**Figure 15: Rules for remuneration**



**Figure 16: Formal policy for trustee remuneration**



**Figure 17: Benefits of paying trustees**



The overall pattern shown in Figure 17 is broadly similar to that seen in our 2012 survey. There continues to be a marked difference in expectations about the impact of professional trustees between standalone and the specialist funds.

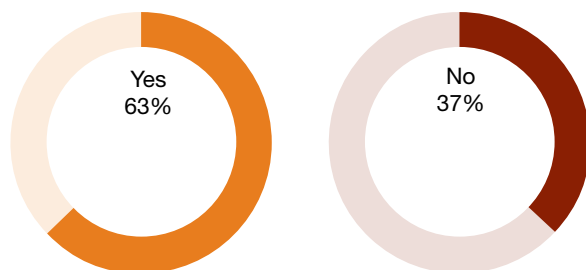
Few of the standalone funds make use of professional trustees and this may well account for their more neutral or even negative stance on the value of professional trustees. The standalone funds' belief that professional trustees would not add any additional value was more than three times higher at 39%, compared to 12% in the 2012 survey.

This may merely indicate that these boards feel that adequate access to expertise is being obtained through service providers such as asset consultants, administrators and fund valuers.

In contrast, the response from specialist funds that remunerated trustees will provide a higher level of care has increased to 64%, up from 51% in the 2012 survey. This suggests that specialist funds recognise that you have to pay to obtain proper expertise and commitment and that this needs to exist within the board as well as being available from service providers.

**Figure 18: Participation of chairperson on subcommittees**

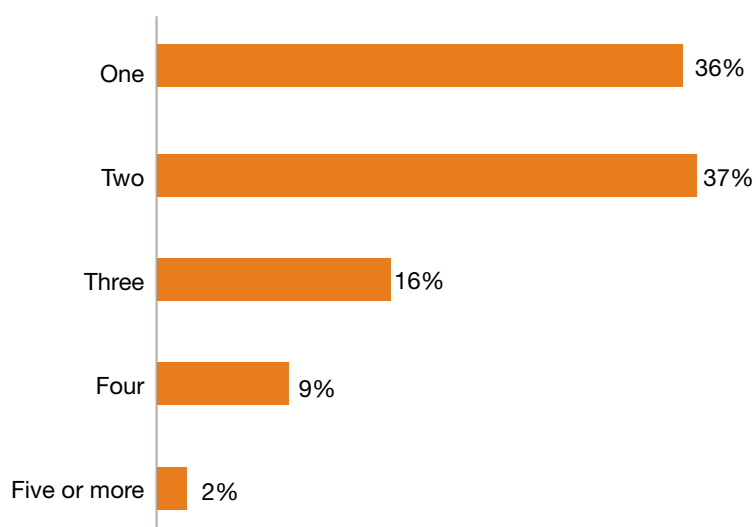
**Q** Does the chairperson act on subcommittees?



This almost two-thirds prevalence does not surprise as there is the obvious advantage that if the chairperson of the main board acts on a subcommittee, he or she is perfectly placed to convey outcomes from the subcommittee to the rest of the board.

**Figure 19: Number of subcommittees chairperson participates on**

**Q** How many subcommittees does the chairperson act on?

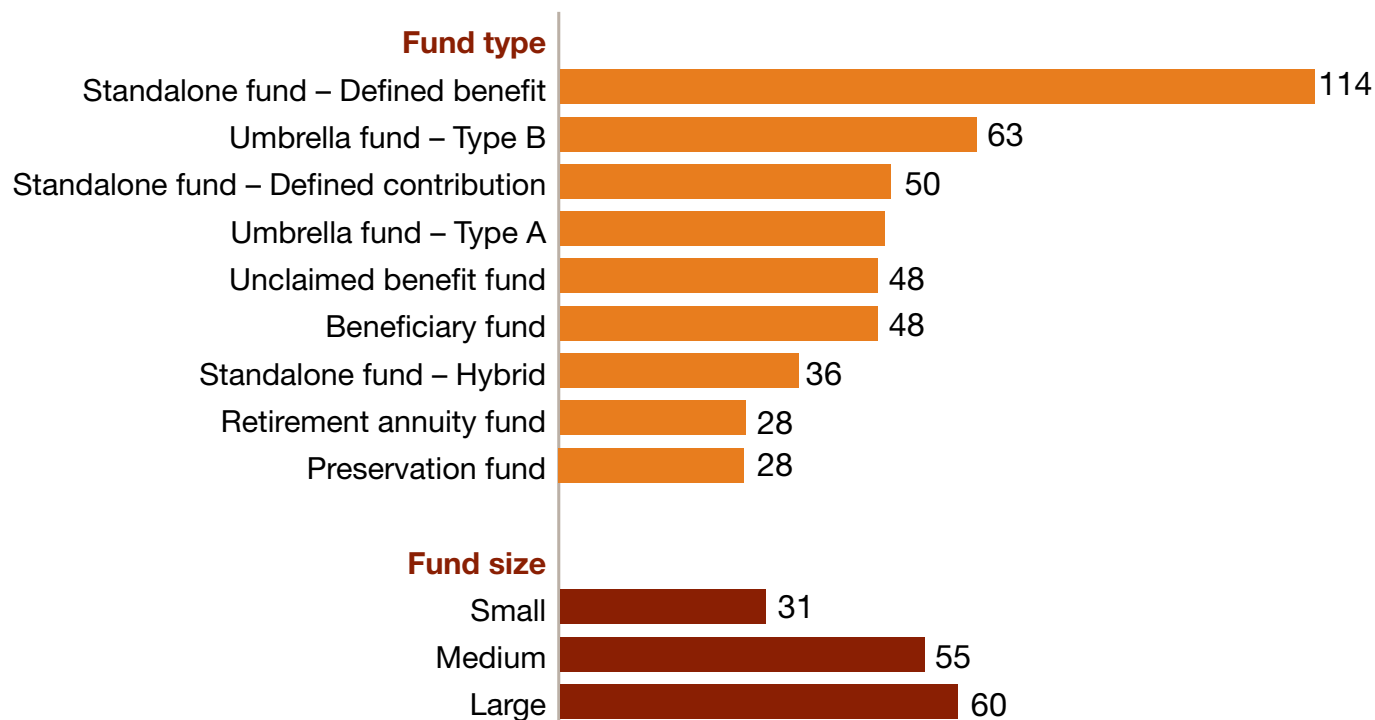




**Figure 20: Time worked by the chairperson for the main board (hours/year)**

**Q**

What average number of hours per year does the chairperson spend conducting fund affairs as main board chair only?

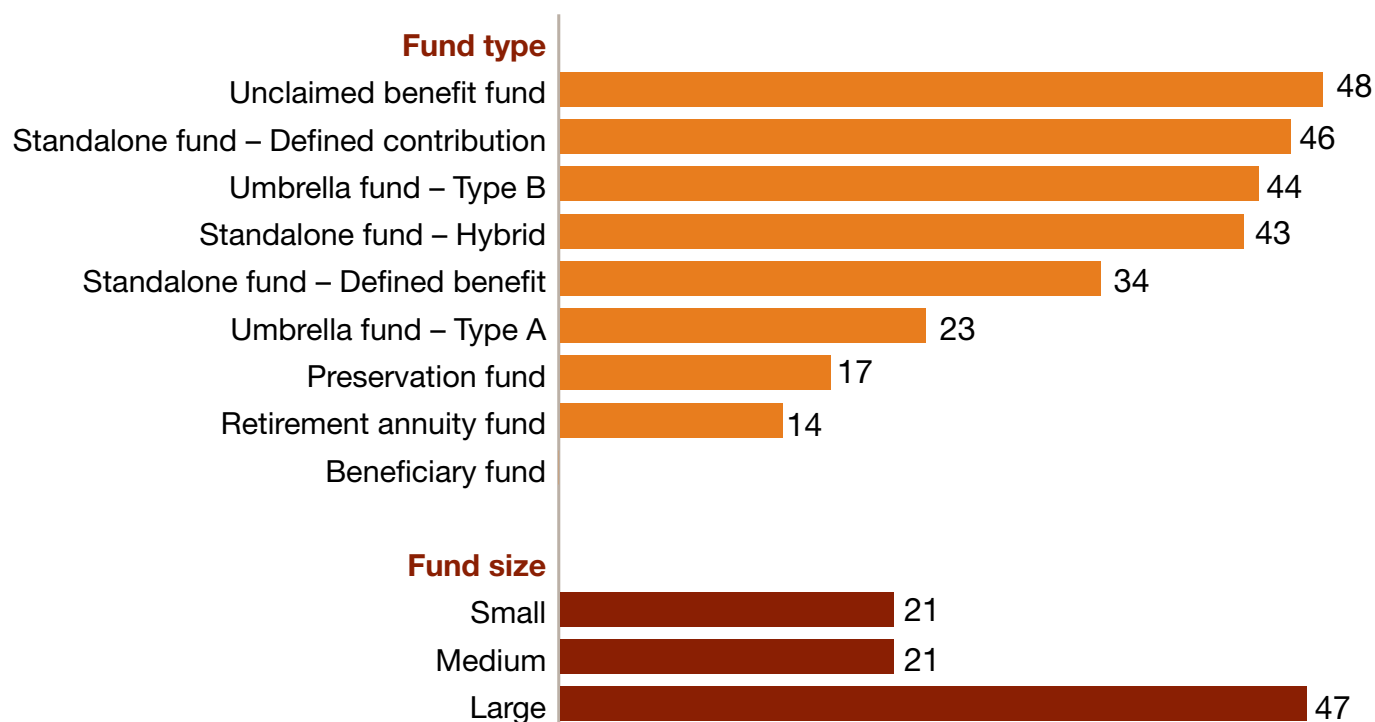


Please note that the hours shown in Figure 20 are for acting on the main board only and this time does not include any time that is spent acting on subcommittees. As expected, the large funds take up more time at approximately eight days per year (assuming eight-hour working days).

**Figure 21: Time spent by the chairperson on subcommittees (hours/year)**

**Q**

What average number of hours per year does the chairperson of the board spend conducting affairs as a subcommittee member?



**Figure 22: Involvement of trustees on subcommittees**

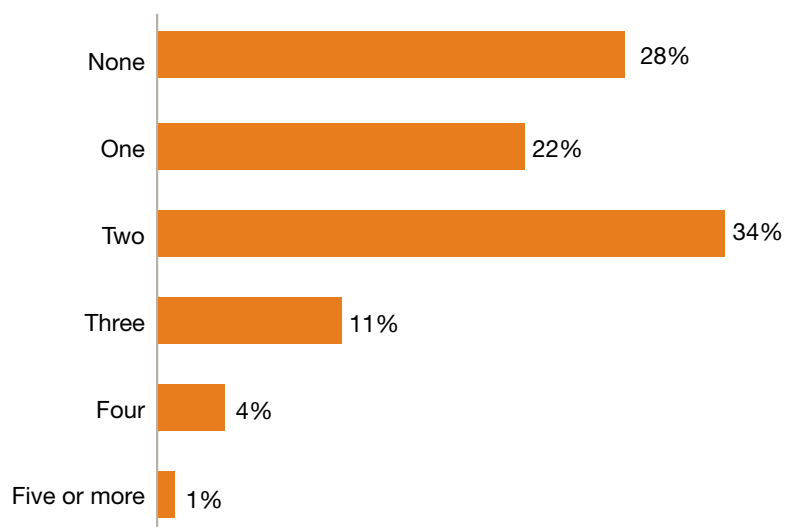
**Q**

Do trustees act on subcommittees?



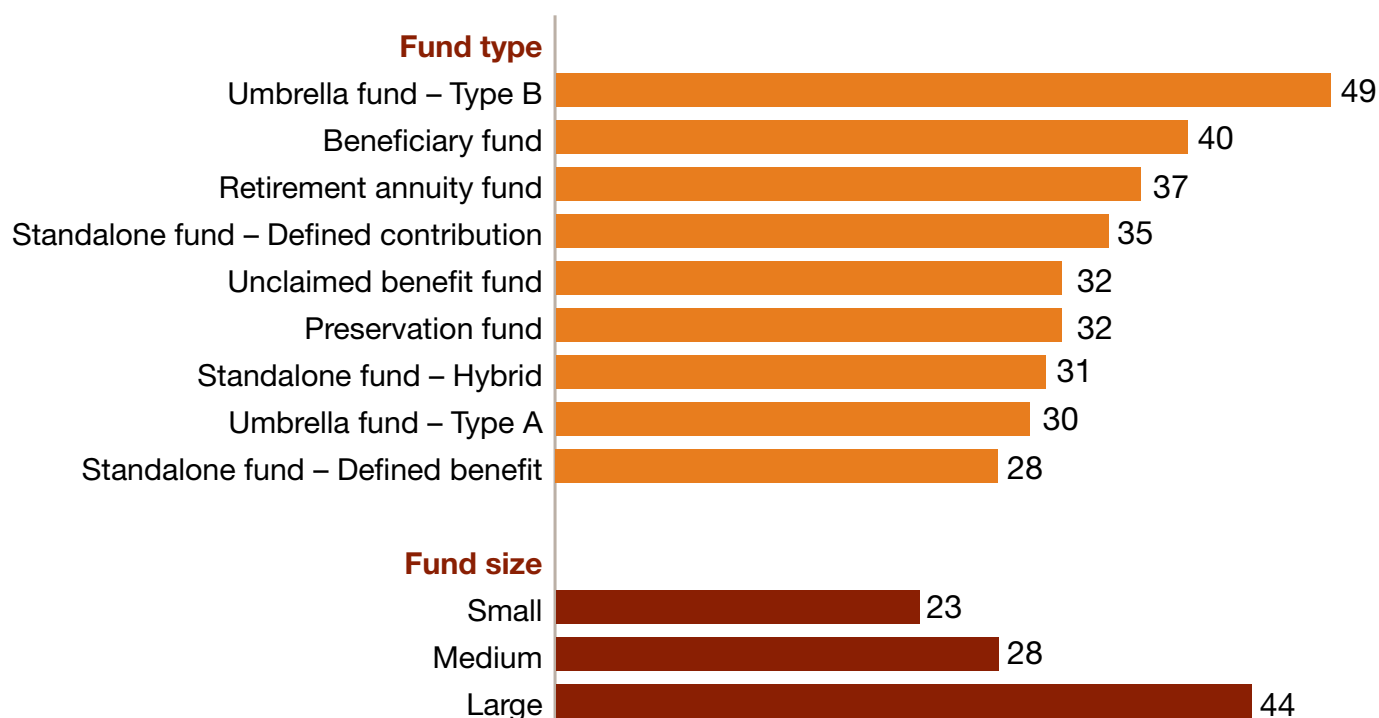
*Figure 23: Number of subcommittees trustees act on*

**Q** How many subcommittees do trustees act on?



*Figure 24: Time spent by trustees for the main board (hours/year)*

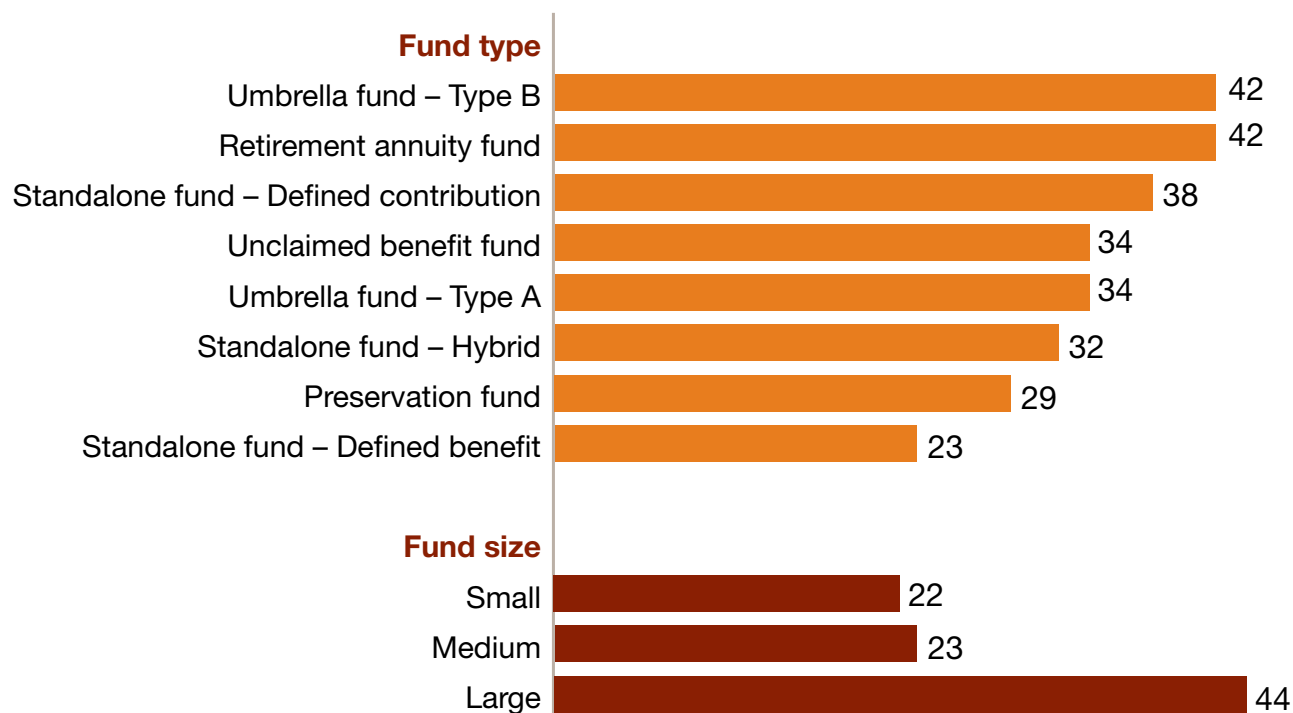
**Q** What is the average number of hours per year that trustees spend acting on fund affairs at main board level only?



**Figure 25: Time spent by trustees for subcommittees**

**Q**

What is the average number of hours per year that trustees spend acting on subcommittees only?



**Figure 26: Professional trustees on subcommittees**

**Q**

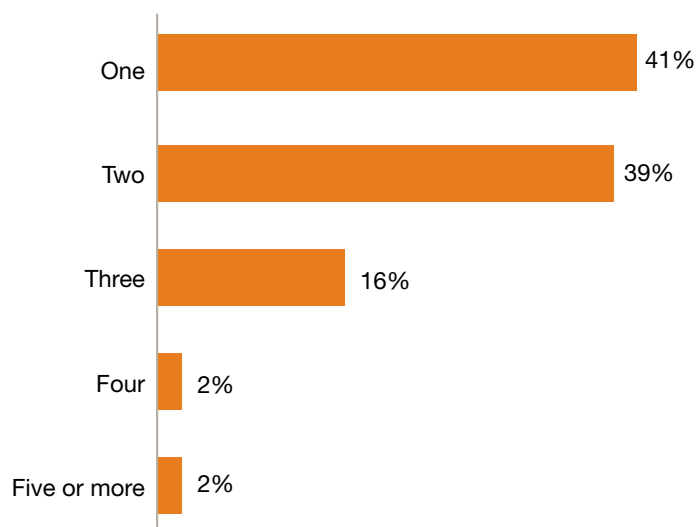
Do professional trustees act on subcommittees?





**Figure 27: Number of subcommittees professional trustees act on**

**Q** How many subcommittees do professional trustees act on?



There is an 80% chance that a professional trustee will act on one or more subcommittees if these exist.

**Figure 28: Time spent by professional trustees acting on the main board (hours/year)**

**Q** How many hours do professional trustees spend acting on the main board only?

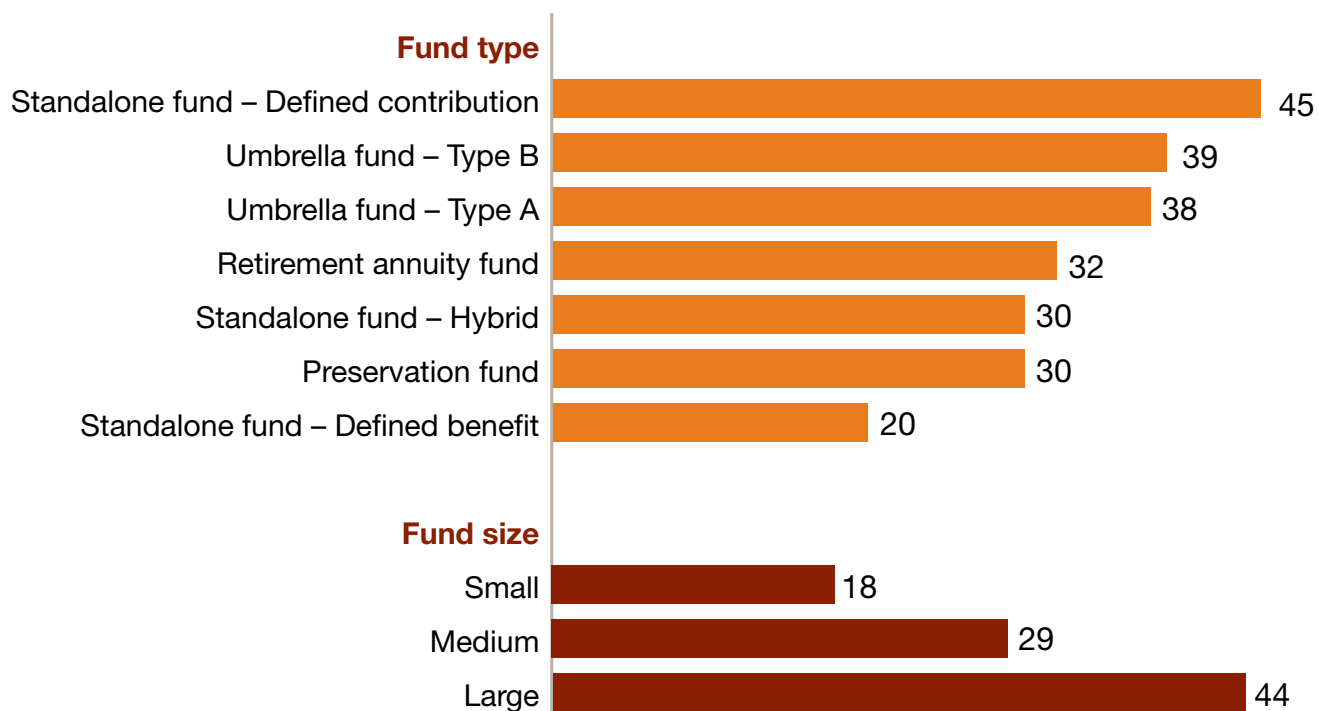
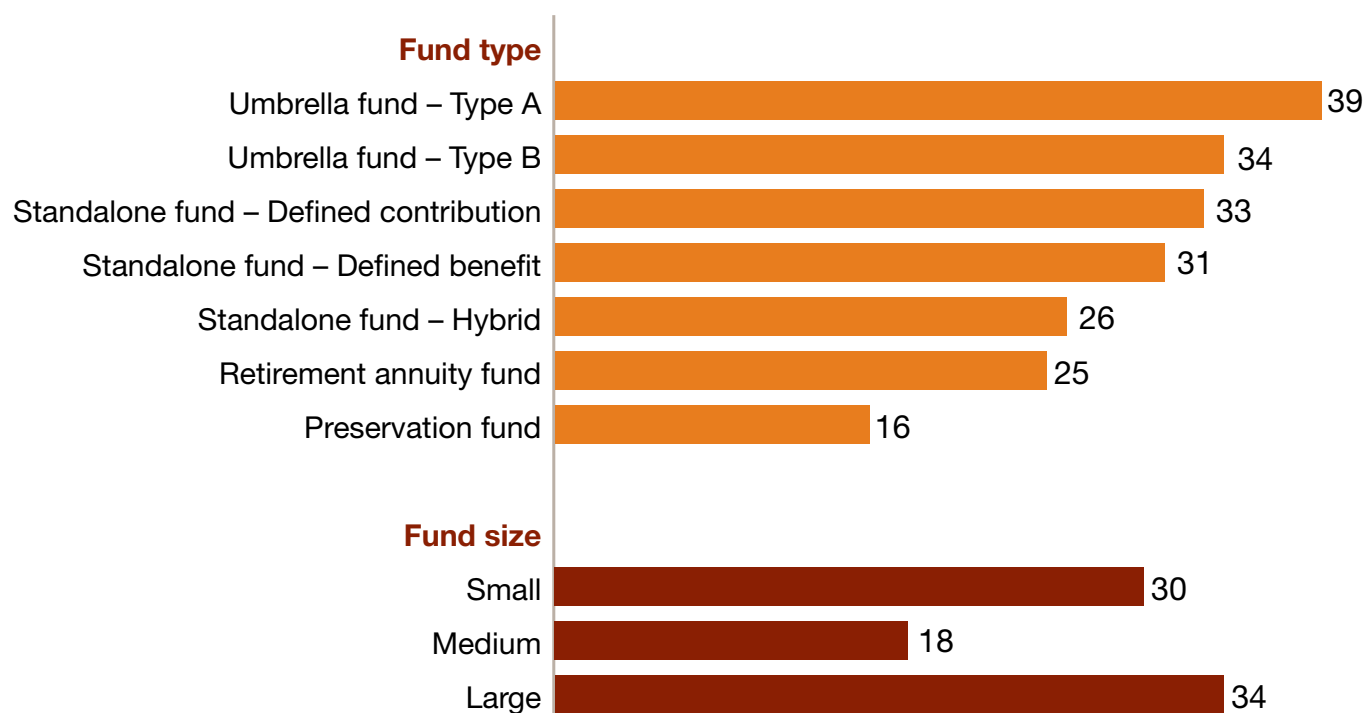


Figure 29: Time spent by professional trustees acting on subcommittees (hours/year)

Q

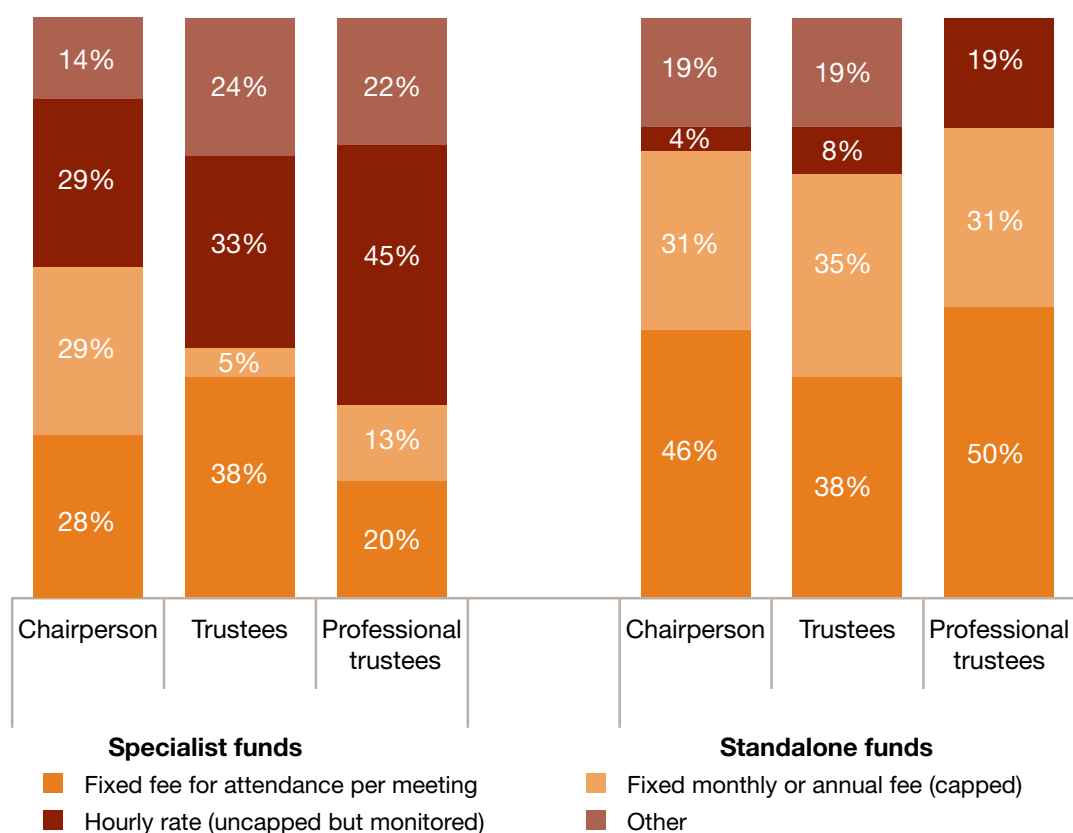
How many hours do professional trustees spend acting on subcommittees only?



**Figure 30: Basis for remuneration to act on the board**

**Q**

What is the basis for remuneration to act on the board only?



The proportion of professional trustees in specialist funds receiving the uncapped but monitored hourly rate increased to 44% compared to 37% in the 2012 survey and remains the most favoured method of remuneration. It is also the most popular for specialist fund chairpersons where it ties for first place with the fixed monthly or annual fee (capped).

In contrast, for standalone funds, the fixed-fee for attendance per meeting remains the method of choice, as it was in the 2012 survey.

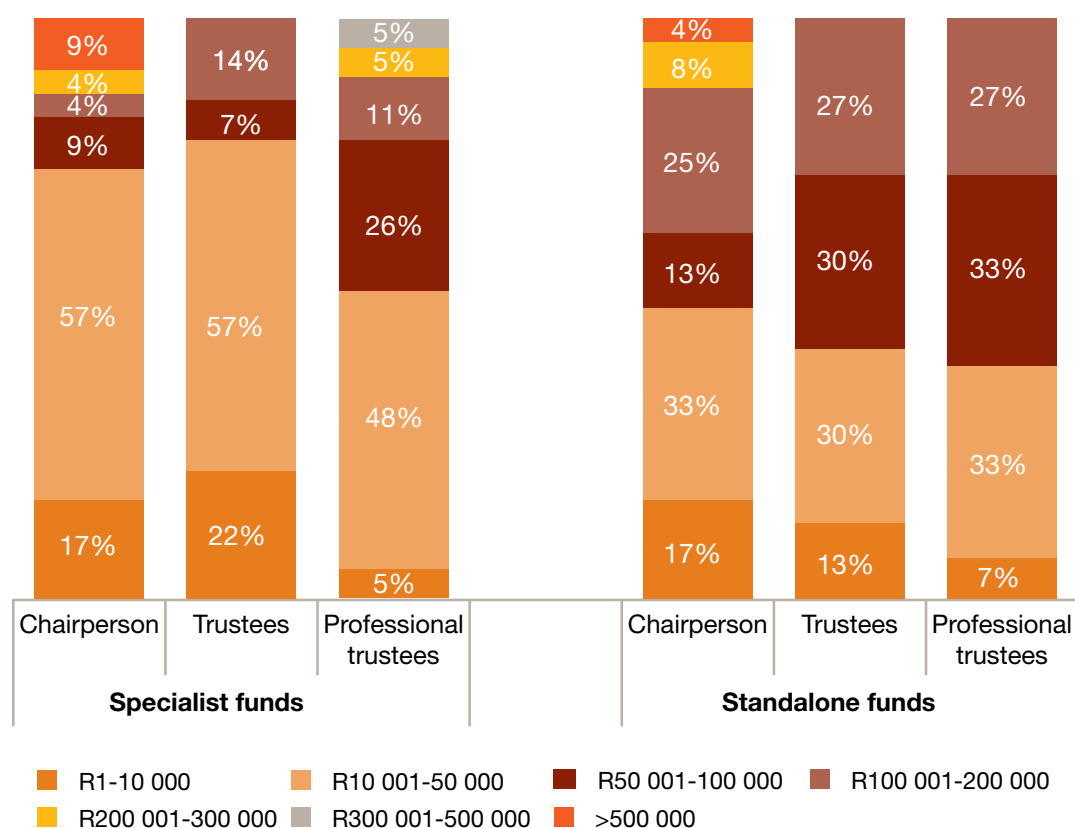
We asked respondents about the arrangements made with professional trustees who are remunerated and of the 72 responses received, just over half indicated that formal service contracts were in place.

The next most popular response was that 'other arrangements' were in place, but the survey questionnaire did not probe respondents further about this. We noted with interest that six (8%) of these responses indicated that there was no remuneration for the professional trustees – presumably this would indicate that they were paid, but not by the fund. The sponsor may have paid them and recovered the cost as part of a management fee to the fund.

**Figure 31: Trustee remuneration for acting on main board**

**Q**

What is the range of the average annual remuneration paid per trustee for purposes of acting on the board only?



For specialist funds, the median remuneration band for chairpersons, trustees and professional trustees is the same, namely R10 001-R50 000. With just 2% more in the R50 001-R100 000 band, the median for the professional trustees would have reached that band.

In contrast, the median lies in the R50 001-R100 000 band for standalone funds for all types of trustees.

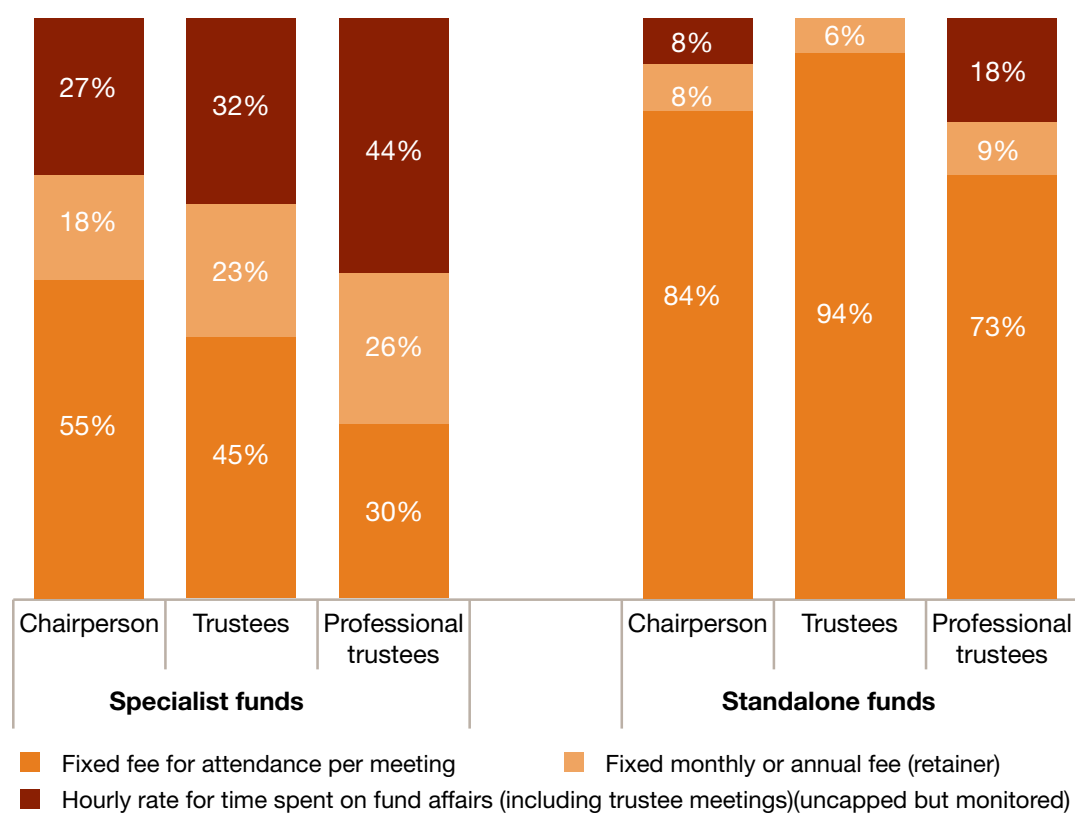
The standalone funds pay more than the specialist funds at almost all levels. This is perhaps because the sponsors typically associated with specialist funds are probably checking and monitoring costs more closely.



**Figure 32: Basis of remuneration for acting on subcommittees**

**Q**

What is the basis for the remuneration for acting on board subcommittees?



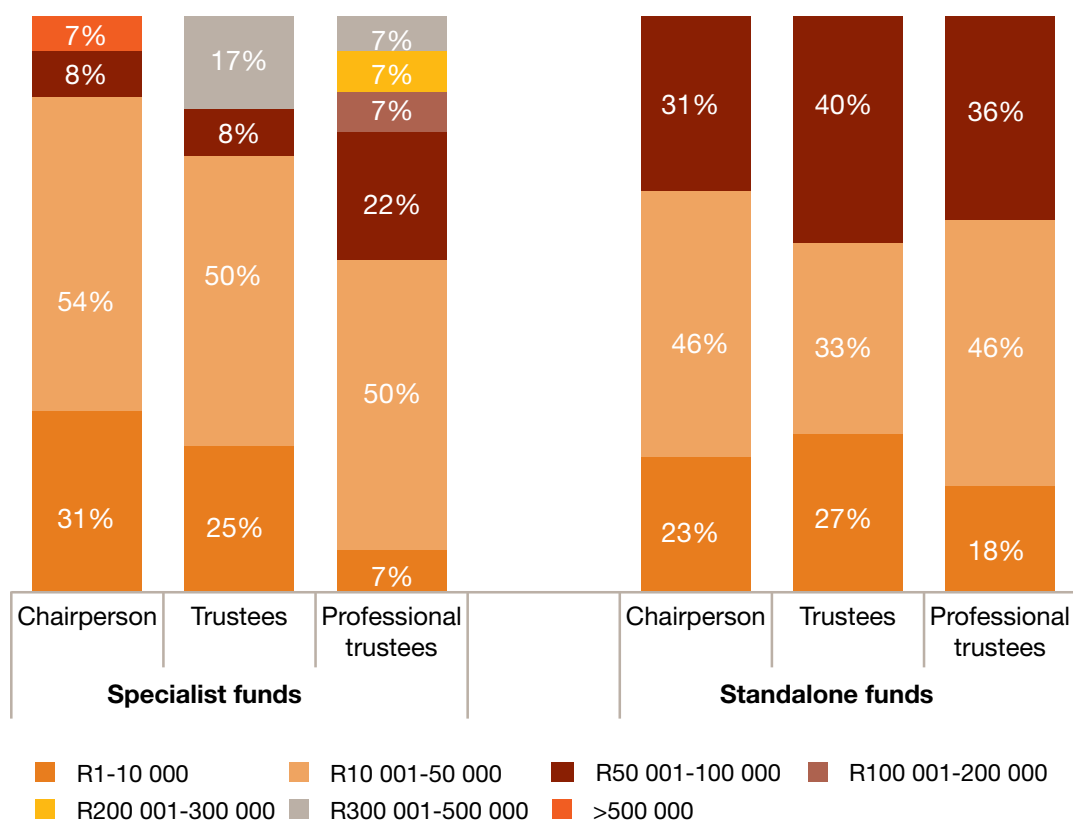
For the specialist funds, chairpersons' and trustees' fees are predominantly based on fixed fees for attendance of meetings. Professional trustees' fees lean more towards an hourly rate charged for time spent on fund affairs, as would be expected for professional advisors.

For standalone funds, remuneration based on a fixed fee per meeting has by far the most support.

**Figure 33: Remuneration levels for acting on subcommittees**

**Q**

What is the range of the average annual remuneration paid for acting on subcommittees?



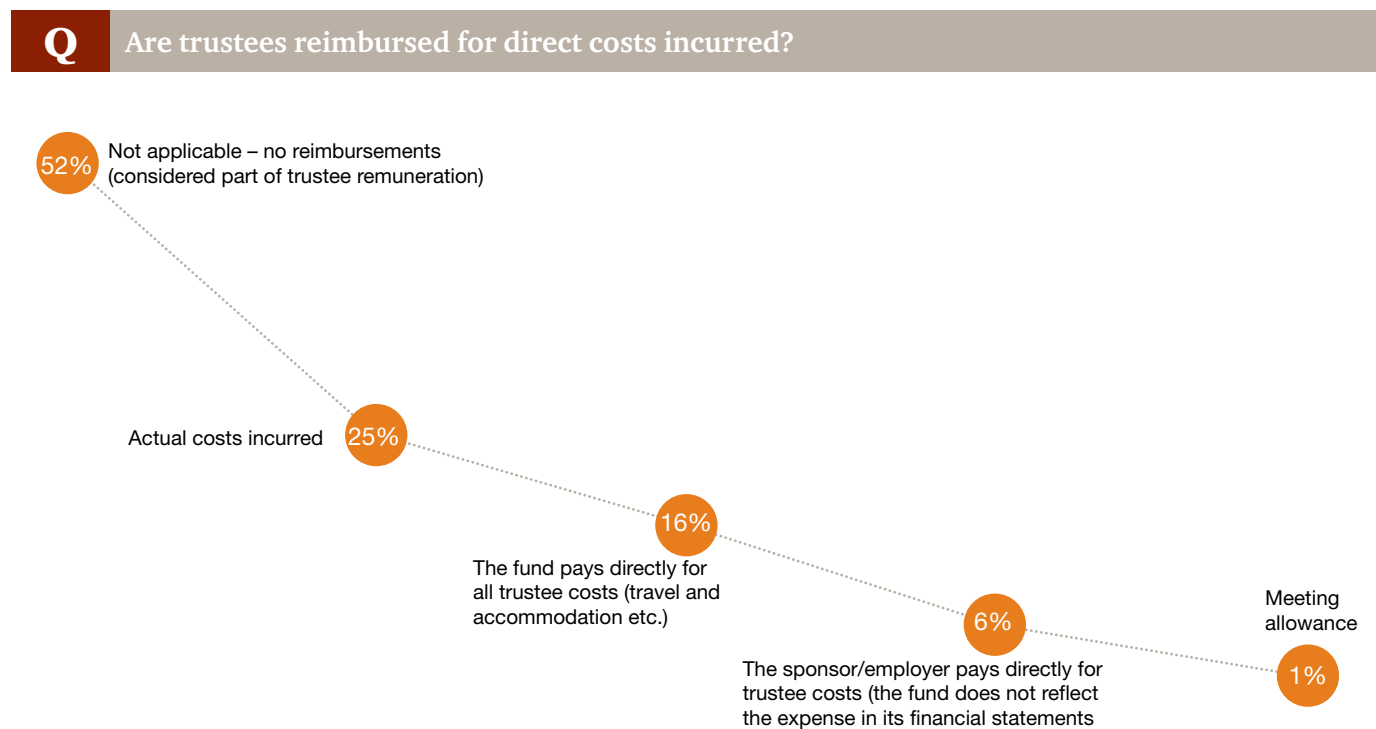
For specialist funds the frequency across remuneration bands aligns closely with that seen for the main board.

For the standalone funds, subcommittee remuneration was capped in the R50 000-R100 000 band and does not reach the higher

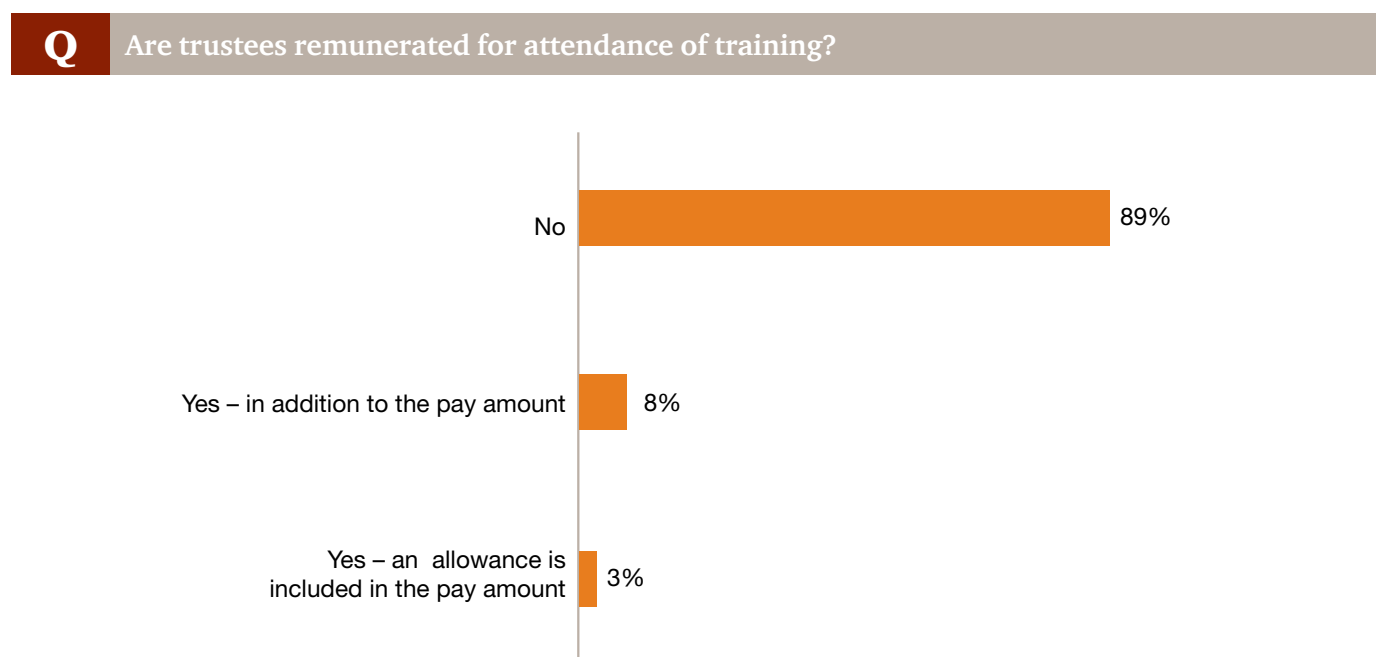
remuneration bands attained by the main board.

Subcommittee remuneration levels are higher in standalone funds than in specialist funds. This suggests that sponsors may be controlling this aspect of cost more tightly than the standalone funds do.

**Figure 34: Reimbursement of trustees**

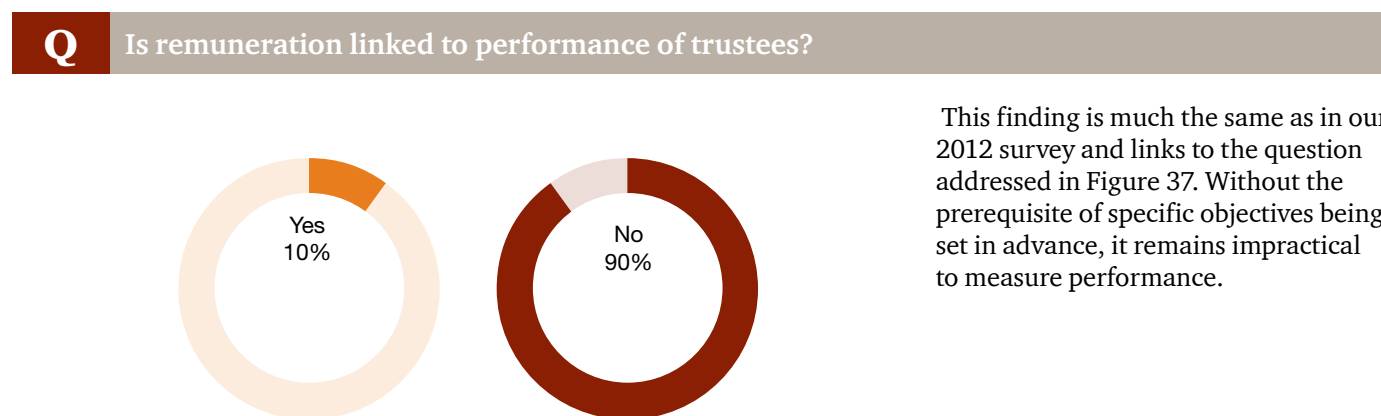


**Figure 35: Reimbursement for training**

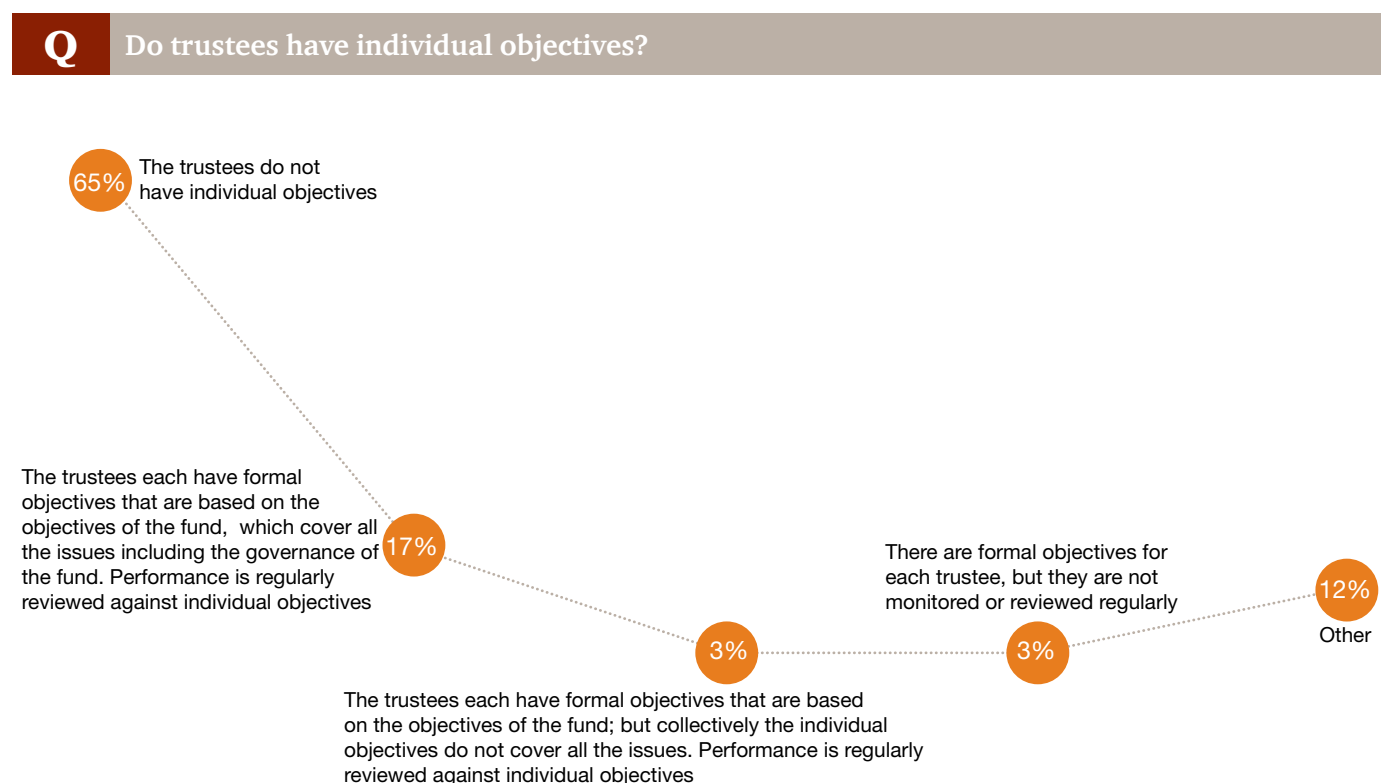


The 'No' response has become more emphatic, reaching 89% (2012: 80%).

**Figure 36: Linking remuneration to performance**



**Figure 37: Trustees' objectives**

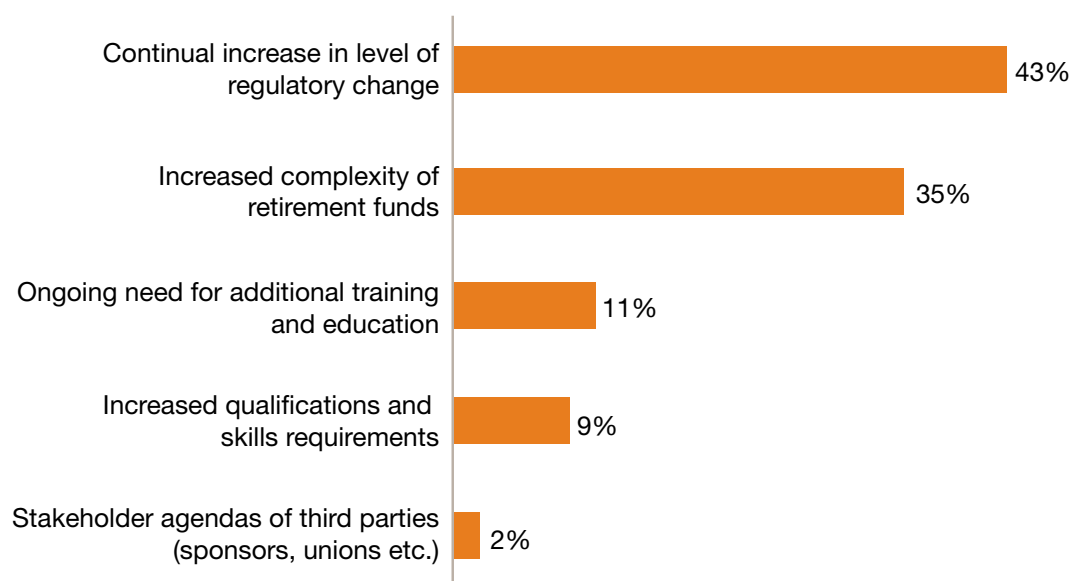


In our 2012 survey, 73% of respondents indicated that the trustees did not have individual objectives. So there appears to have been a shift of 8% towards objective setting and performance review against those objectives.

**Figure 38: Issues contributing to increased workload**

**Q**

What are the key areas contributing to increased workload for trustees?



This pattern remains virtually unchanged from the 2012 survey.





## ***Respondents' feedback regarding trustee remuneration***

- The sooner it becomes law that funds have to employ professional and independent trustees the better. They should be remunerated accordingly: at a fixed fee per meeting as well as per hour for additional work done. The 50% member-elected trustees tend not to work that effectively because they often lack the necessary skills and aptitude.
- Trustee remuneration would change the culture of trustees being seen as providing a free service to members/ employers and may compromise accountability. Where trustees are remunerated, they would view themselves as a professional. This would enhance their preparation for meetings and they would view their responsibilities and duties in a serious manner.
- Trustee remuneration should be based on skill level, contribution (performance) and be benchmarked to industry norms taking into account the complexity of the fund and volume of business.
- All trustees on the fund should be paid at the same rate/retainer except where a trustee serves on one or more subcommittees. Remuneration should not be based on actual time spent, nor should it relate to or be the same as an independent trustee's charge-out/professional rate as an actuary, lawyer etc.
- Remuneration should be well regulated as trustees may pay themselves anything.
- The remuneration of each trustee should be disclosed in the annual financial statements of the fund. (This comment was no doubt designed to promote better accountability and temper the self-interest of trustees alluded to in the comment above.)
- As long as trustees are employees of the sponsoring employer and they are provided paid time off to perform their trustee duties, there should not be additional remuneration.
- Where funds employ professional skilled trustees, they should be properly remunerated but on a fixed retainer.
- There are some trustees who are exploiting the lack of set guidelines on remuneration and deliberately postpone/ adjourn meetings or call for additional meetings in order to earn more fees.
- Trustees' remuneration should take into account their fiduciary duties, i.e. they are ultimately (100%) responsible for the safeguarding of the assets and the overall health of the fund.



# *Trustee education*



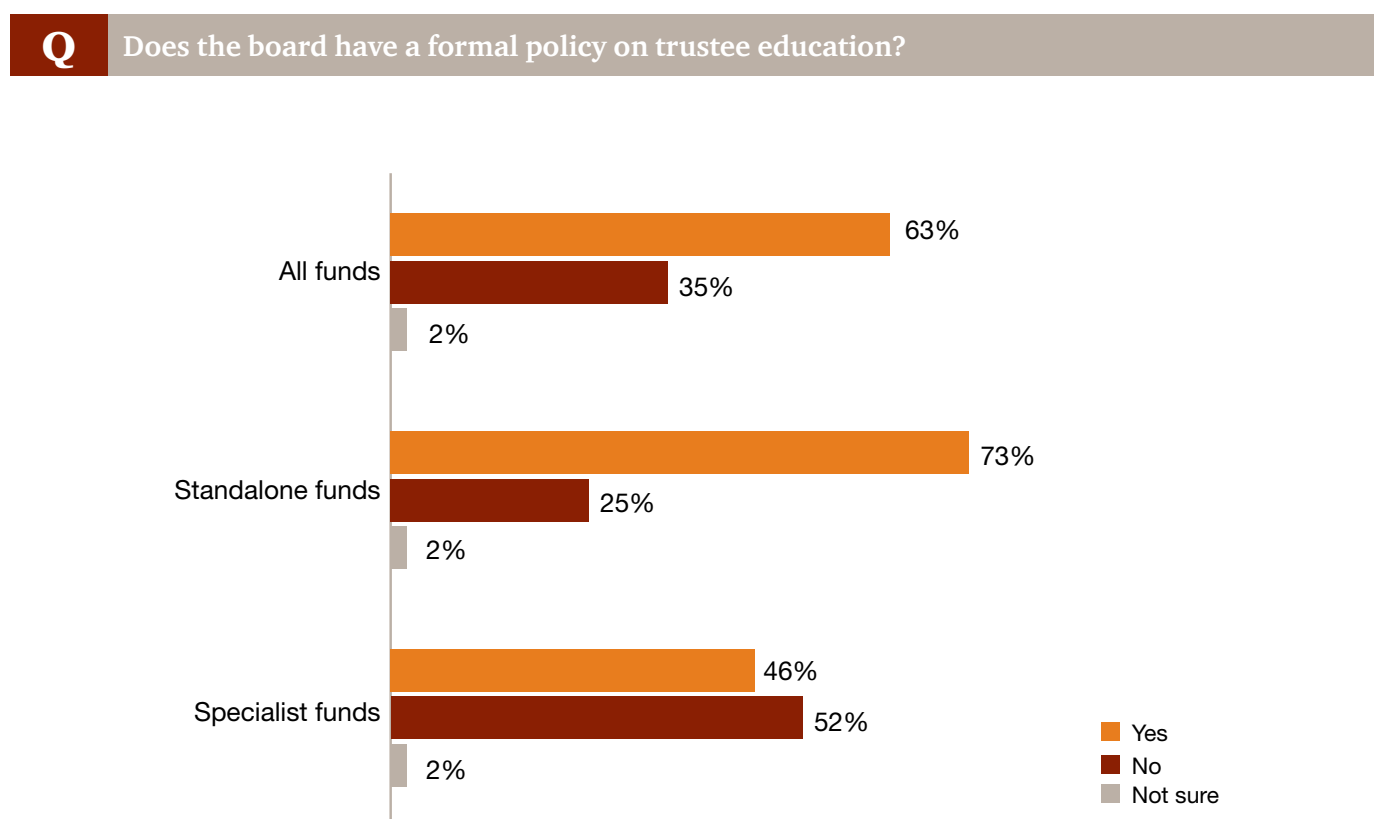
## Why trustee education is vital

The sheer scale of pension fund investments, coupled with the attendant economic and administrative risks, means that boards of trustees bear a massive responsibility to govern these arrangements wisely.

Not only do trustees have almost unlimited fiduciary responsibilities placed upon them by law, but they also have a moral obligation to act in the best interests of fund members. This is because for most fund members their pension fund interests will be their major source of income in retirement.

For these reasons it is vital that trustees equip themselves with the skills and knowledge to discharge their obligations effectively.

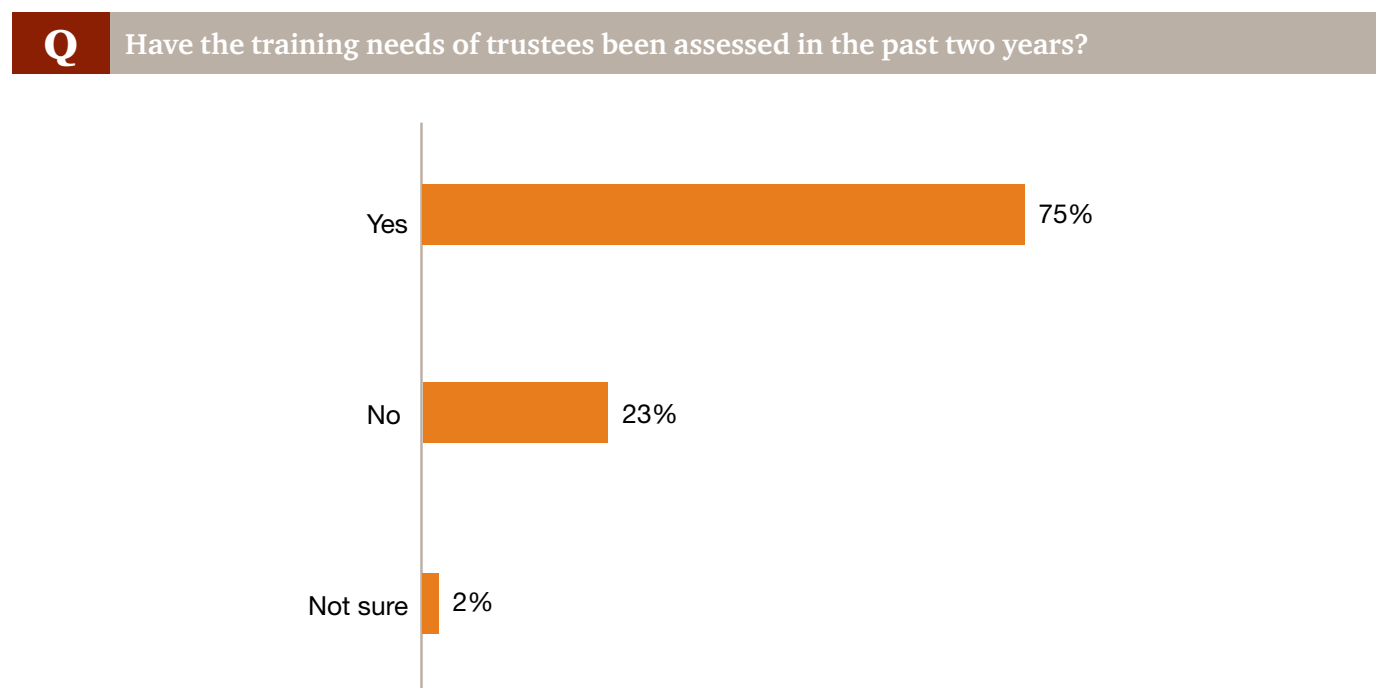
**Figure 39: Board policy on trustee education**



The overall 'Yes' response has improved from 45% to 63% since the 2012 survey. This improvement is largely due to an increase from 60% to 73% among standalone funds.

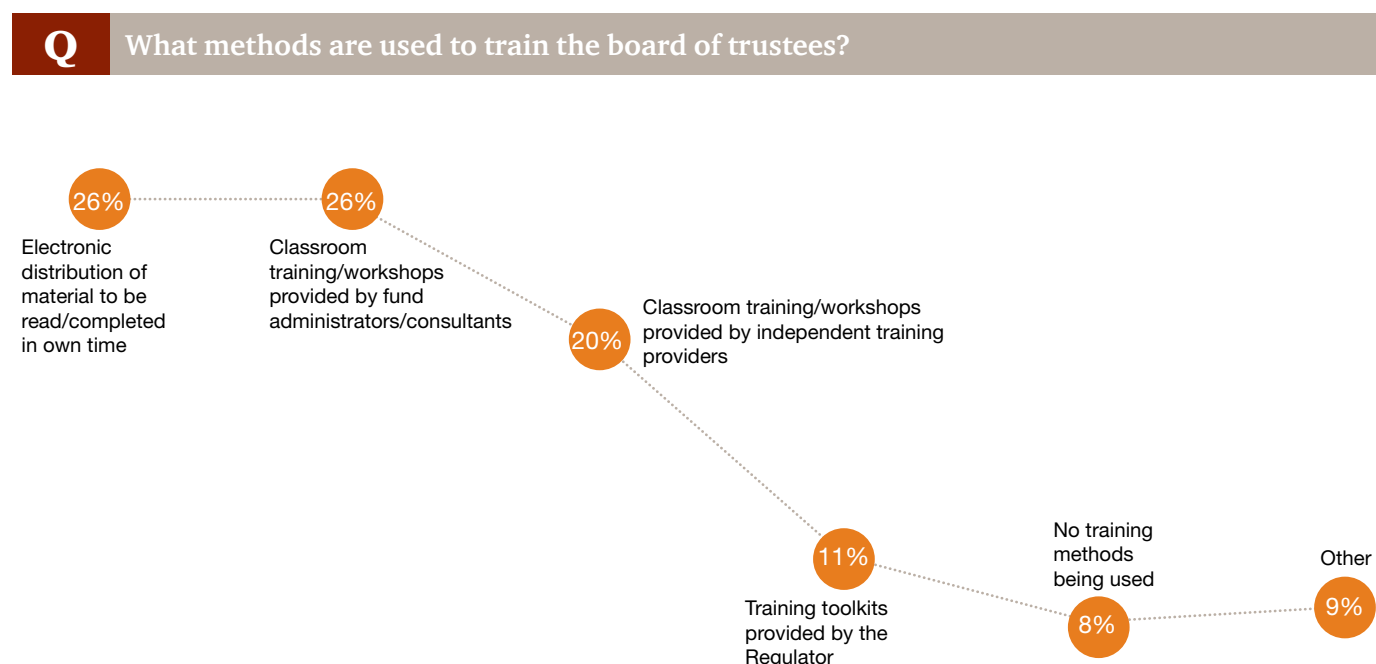
Specialist funds probably rely on professional trustees to take care that their skill set remains sufficiently extensive and up to date.

**Figure 40: Assessment of training needs**



Once again, there has been pleasing improvement since the 2012 survey when 66% provided a 'Yes' response. This reflects the drive of the Financial Services Board to improve the level of trustee education through its web-based Trustee Toolkit. The FSB has already provided and anticipated 'fit and proper' requirements for trustees. This aligns with the trend seen in several other countries that have set up minimum requirements for trustees, including industry-specific competence and continuous professional education.

**Figure 41: Training methods used**

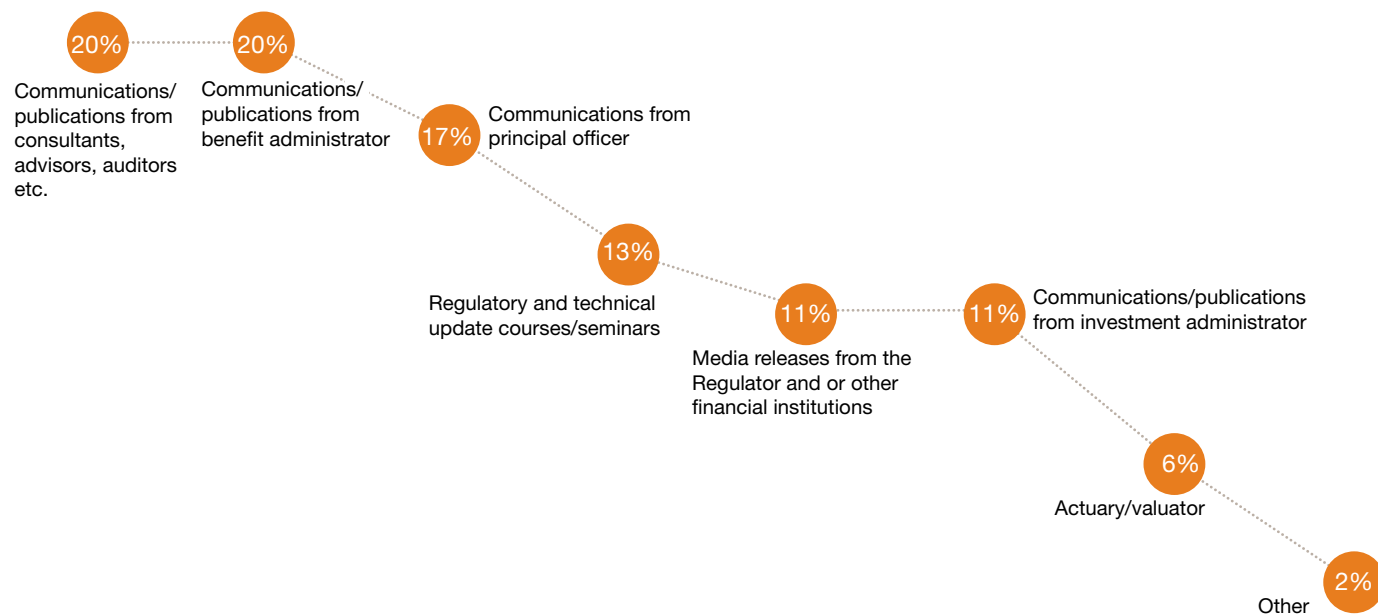


These results are similar to the pattern seen in the 2012 survey, except that the 'Other' choice was not available then. The classroom training and electronic distribution of materials categories appear to have dropped to accommodate the 9% in this new category, for which we received feedback indicating that trustees are being self-trained and up-skilled by information provided by their principal officers.

**Figure 42: Keeping up to date**

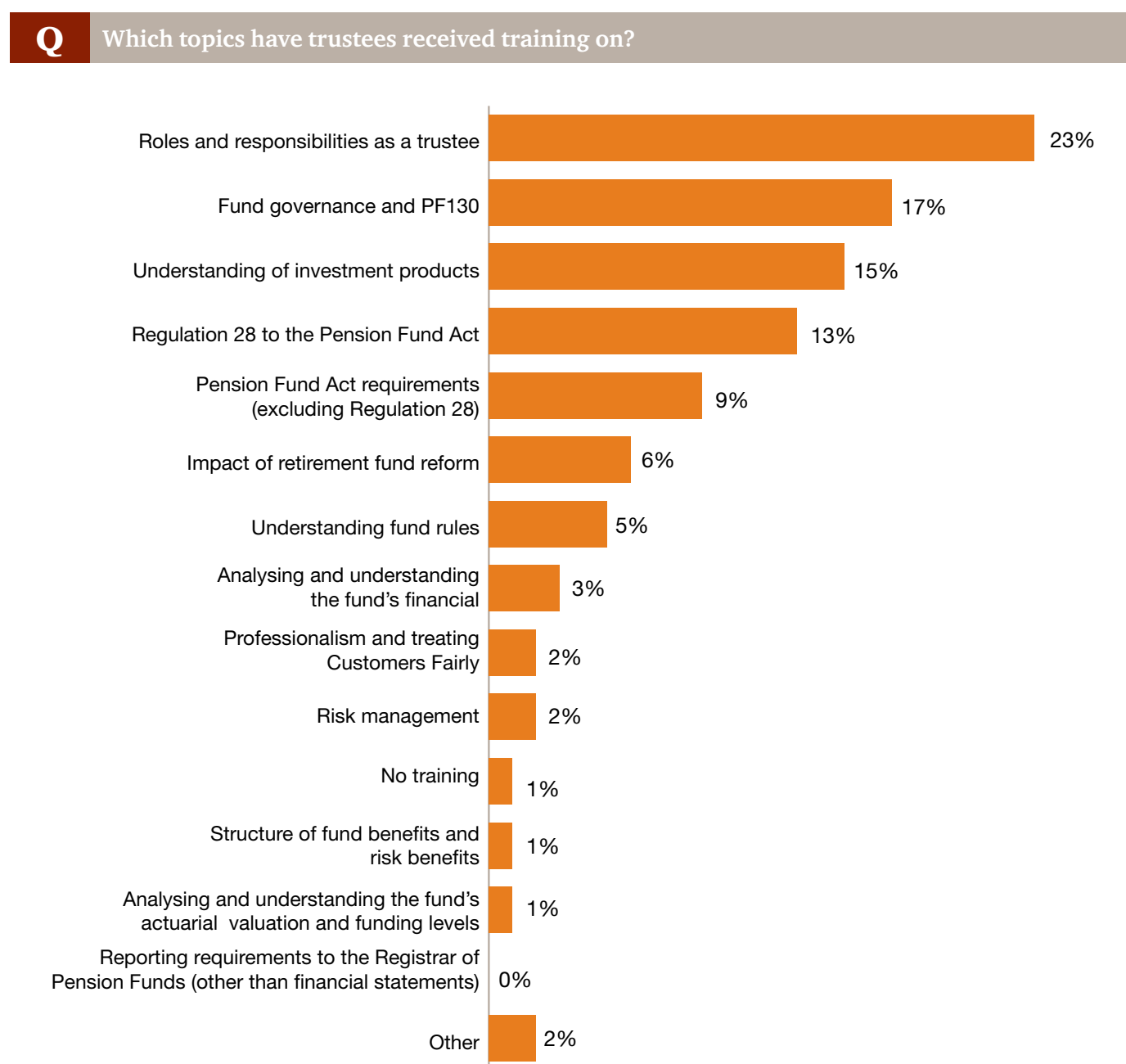
**Q**

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



There is a clear reliance on service providers and administrators at 20% each with the principal officer making a further sizeable contribution of 17%. This question was not asked in the 2012 survey.

**Figure 43: Areas covered in training**



The pattern shown in Figure 43 is broadly similar to that found in 2012 in that the bulk of training continues to be focused on roles and responsibilities of trustees, fund governance, Pension Funds Act requirements and understanding investment products.

Training on risk management has dropped from 7% to 2%. It is to be hoped that this merely reflects that proper risk management processes are already in place and are duly

monitored. Clearly, the need to assess and manage the fund risks effectively will not have diminished.

The level of training around the fund financial statements and actuarial valuation remains low at a combined total of 4%, the same level as 2012. These two areas are of fundamental importance, but we expect that most trustees may lack the financial qualifications or experience needed to fully understand the underlying complexities. Accordingly, the lack of

training on these aspects remains a cause for concern.

At just 2%, 'Professionalism and Treating Customers Fairly' enjoyed scant support. This may be because retirement funds are not expressly required to comply with the Treating Customers Fairly (TCF) initiative pending the FSB engaging further with stakeholders on how TCF should be applied to the industry.



Figure 44: Trustee experience

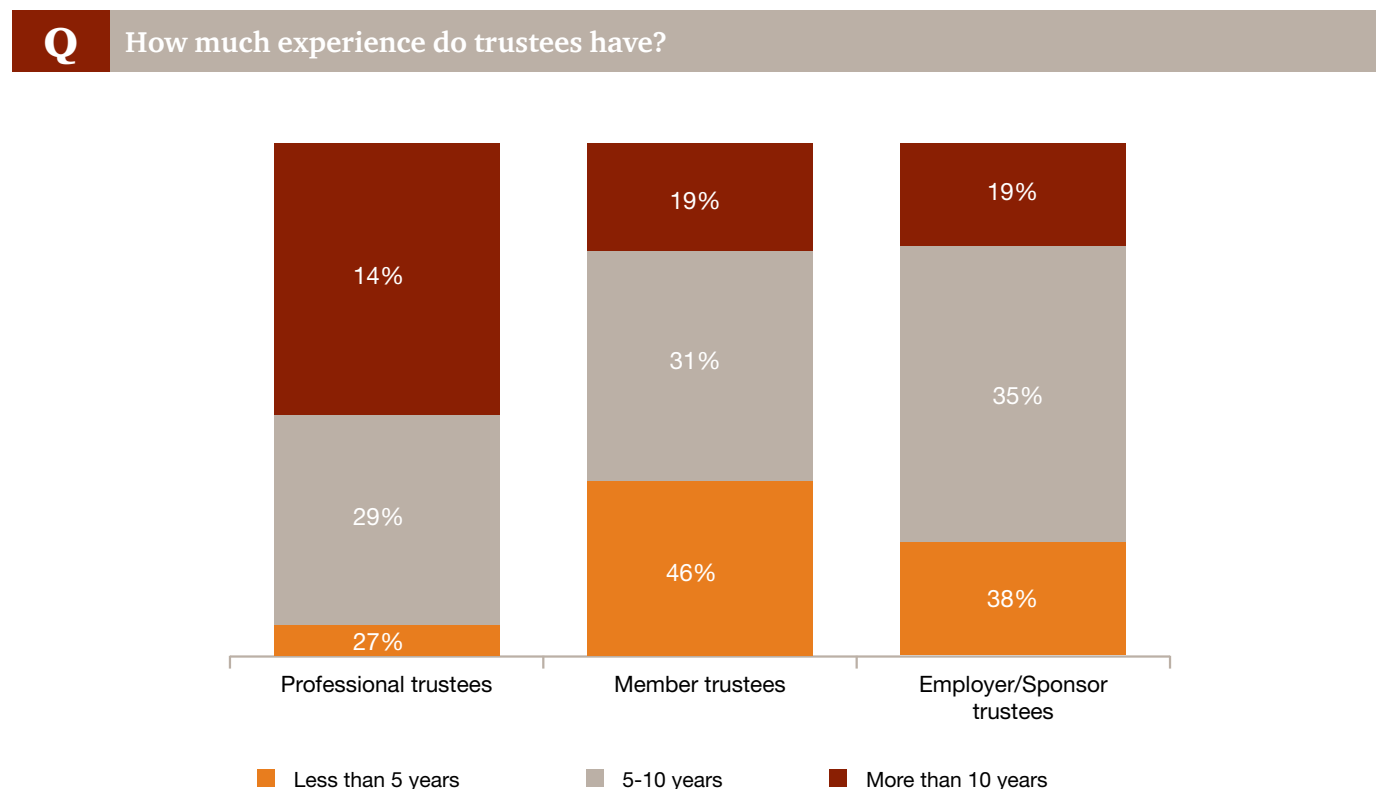
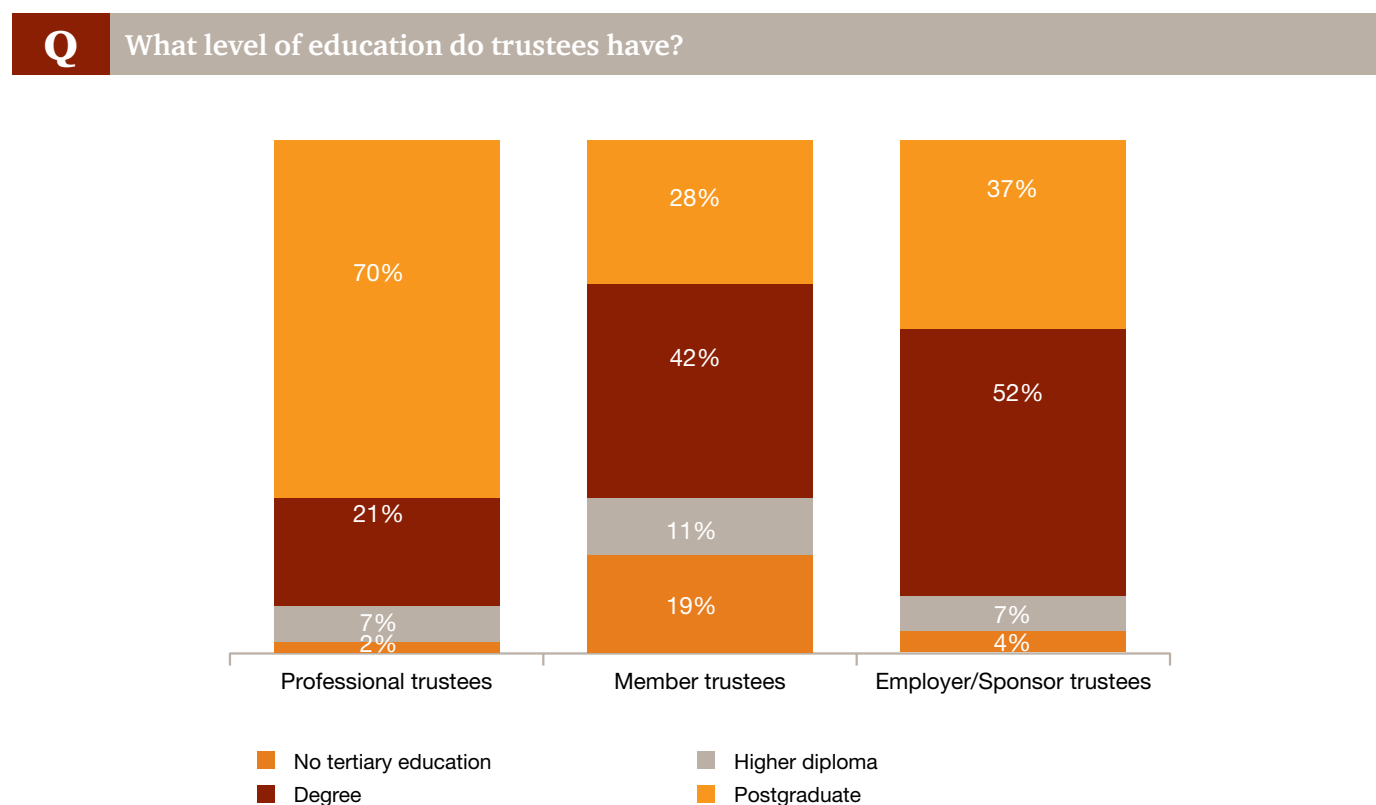


Figure 45: Education level



As expected, professional trustees are the most experienced and most highly educated, followed by employer/sponsor trustees. With 70% (2012: 65%) of member-elected trustees having a degree or postgraduate degree, there is some closing of the gap relative to the education level of the professional trustees.

*Figure 46: Time spent in training (hours/year)*

**Q**

What average number of hours per year do trustees spend on training and attending industry events?



Trustees across all funds spent an average of 17 hours per year on training and attending industry events, compared to 27 hours in the 2012 survey. This decline may partly be due to there being fewer major industry changes to respond to in the past year and partly due to a perception mentioned by some respondents that industry events had tended to become unduly expensive.



## ***Respondents' feedback regarding trustee education***

### **Keeping abreast of changes**

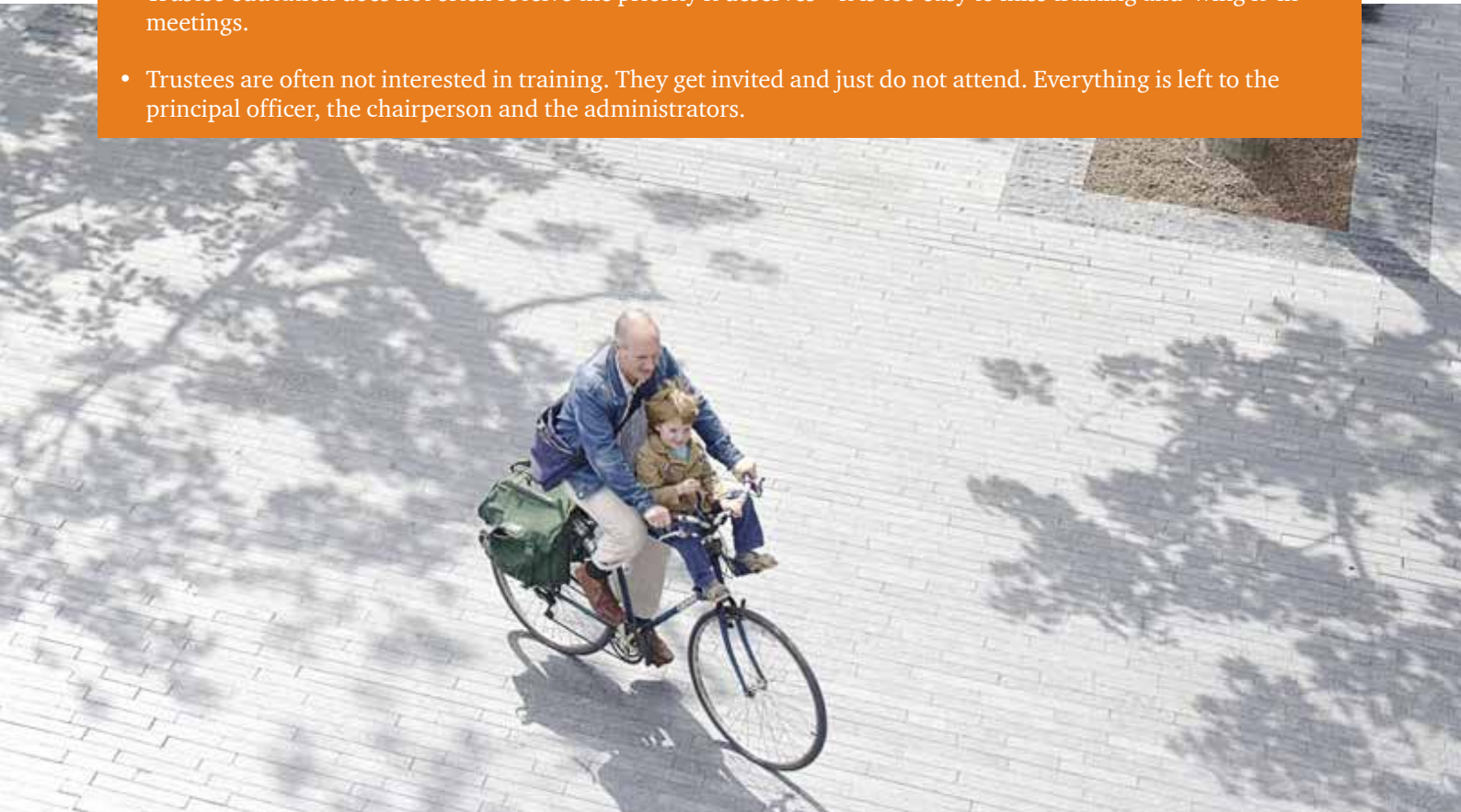
- Time is spent at each trustee meeting to discuss developments in the pension fund arena and keep abreast of changes.

### **Suggestions for improvement**

- A trustee's potential ability may not depend solely on level of education, but a minimum level of competency needs to be demonstrated so that issues and advice can be critically assessed. There should be some form of pension fund educational certification that is regularly updated.
- The Financial Services Board should legislate educational standards and require all trustees to disclose their status annually. For member-elected trustees, the funds should have a training policy and pay for it.
- Training is currently not compulsory. It should be made compulsory and tested for understanding. A formal record of relevant continuous professional development should be put in place.
- The term of office of trustees should be sufficiently long – a minimum of five years to allow education, training and on-the-job experience to be absorbed and applied for the benefit of fund members.
- Trustee training should be fund specific and not merely deal with general issues in the industry.
- There should be a focus on financial statement analysis.

### **Some perceived challenges**

- Member-elected trustees do not always take responsibility for their own development and learning. They want to be spoon-fed. All trustees should have a tertiary education.
- Trustee training tends to be regularly deferred because of other priorities.
- Trustee education does not often receive the priority it deserves – it is too easy to miss training and 'wing it' in meetings.
- Trustees are often not interested in training. They get invited and just do not attend. Everything is left to the principal officer, the chairperson and the administrators.



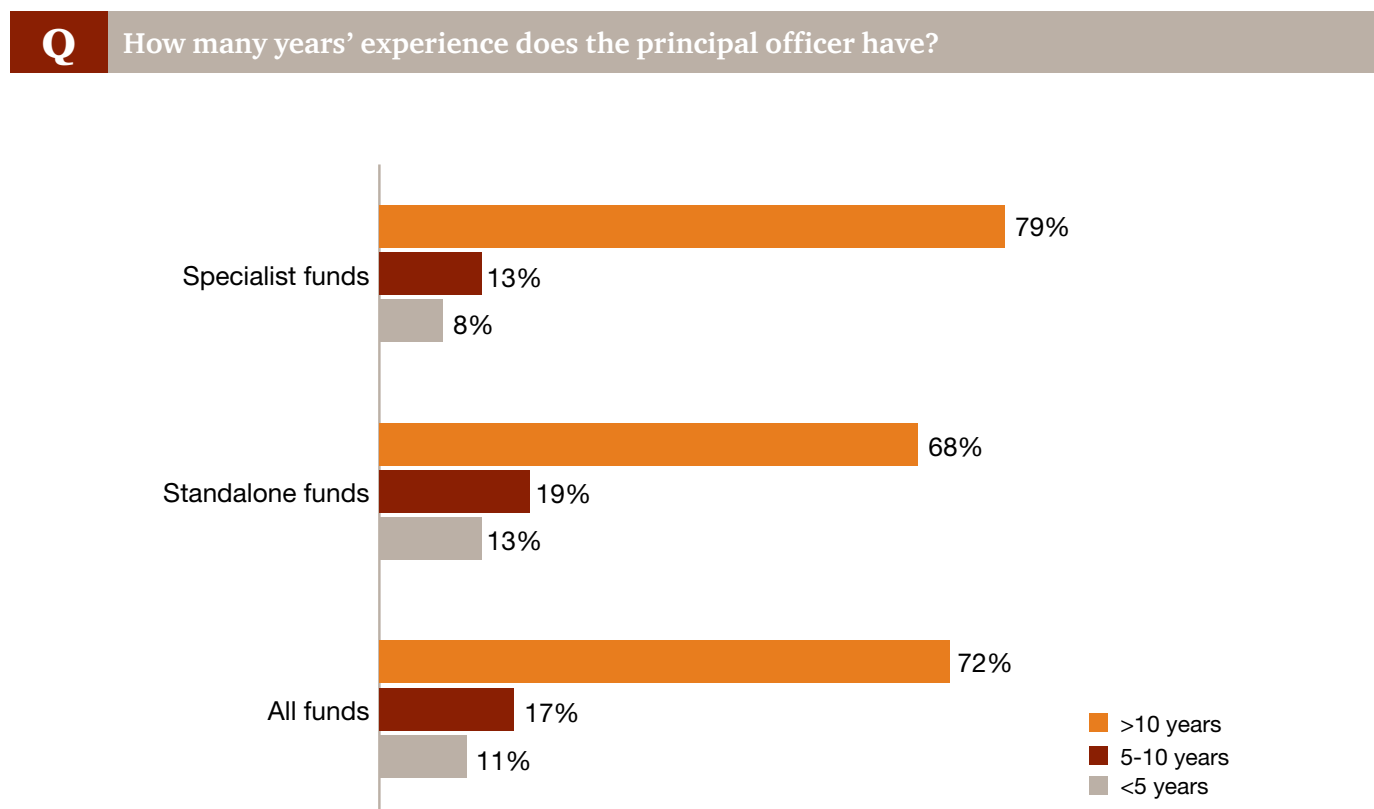
# *Principal officers*



The role of principal officer continues on its path to full professionalisation. Once again, we have sought to assess both the experience and education levels of principal officers and then place their current remuneration levels in the context of their time commitments to their funds.

## Experience and qualifications of the principal officer

Figure 47: Experience



Two remarkable trends emerged among principal officers with more than 10 years' experience:

- The overall proportion has increased sharply to 72%, compared to 39% in our 2012 survey; and
- No less than 79% of specialist funds have such principal officers, up from just 25% in our 2012 survey.

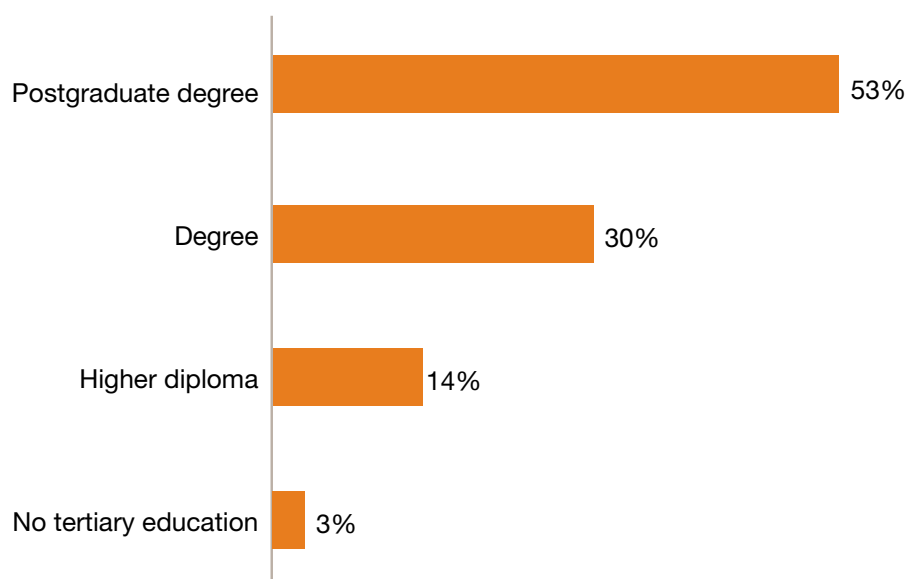
Principal officers who were in the '5-10 years' category in our 2012 survey appear to have continued in office and moved along to the '> 10 years' category. There has been a compensating drop in the '5-10 years' category from 34% in 2012 to 17%. Likewise, the '<5 years' category has fallen to 11% from 27% in 2012.

Ongoing consolidation in the industry means there are fewer, but larger funds. This seems likely to be an underlying cause for the trends noted above. The most experienced principal officers evidently remain in demand, but there is little scope for new entrants until veterans retire.

**Figure 48: Education**

**Q**

What is the level of education of the principal officer?



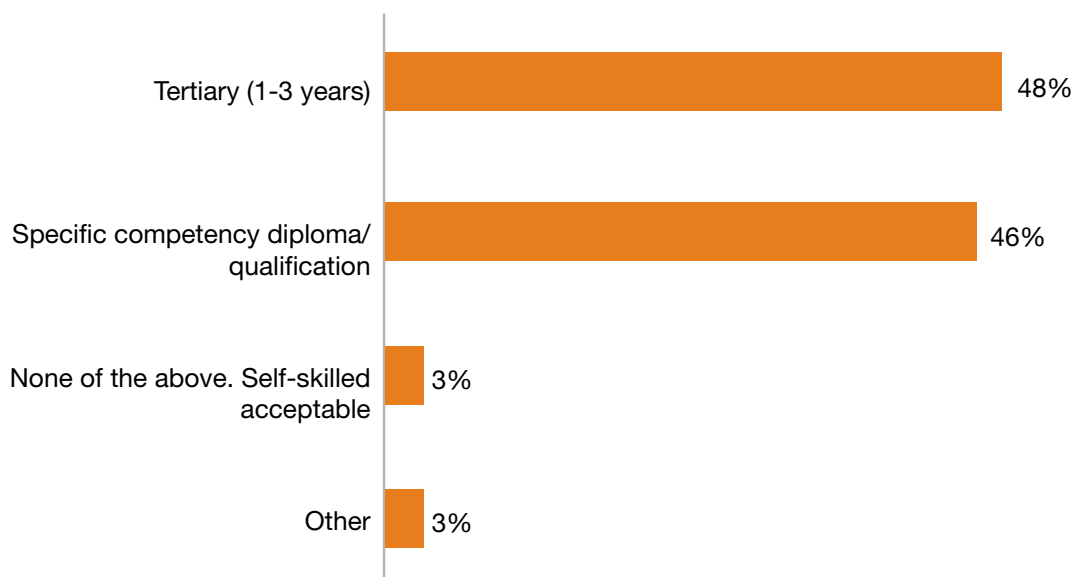
In our 2012 survey we asked “What is the minimum qualification that a principal officer should have?”. Responses then were 48% for a tertiary education plus a specific competency and 18% for a 1-3-year tertiary education. The findings shown in Figure 48 suggest that these expectations have been exceeded.

In 2014 we again asked about expected education levels, but with the refinement that the ‘Specific competency diploma/qualification’ was identified separately from tertiary education. From the responses shown in Figure 49, specific competency is clearly considered as important as having a tertiary education.

**Figure 49: Minimum qualification required**

**Q**

What is the minimum qualification a principal officer should have?

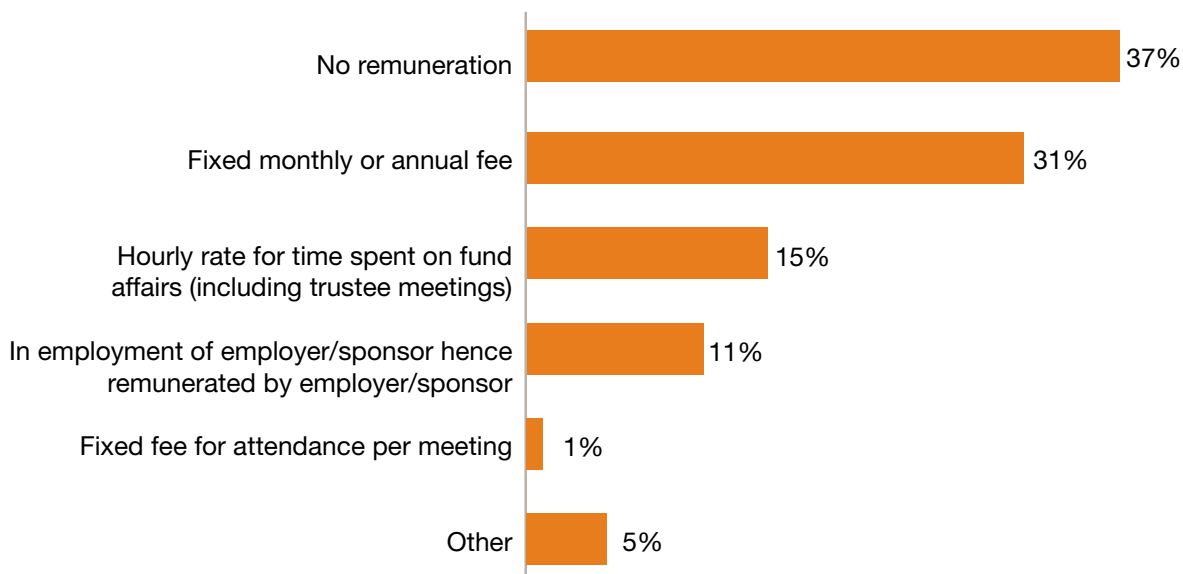




## Remuneration

Figure 50: Basis of remuneration

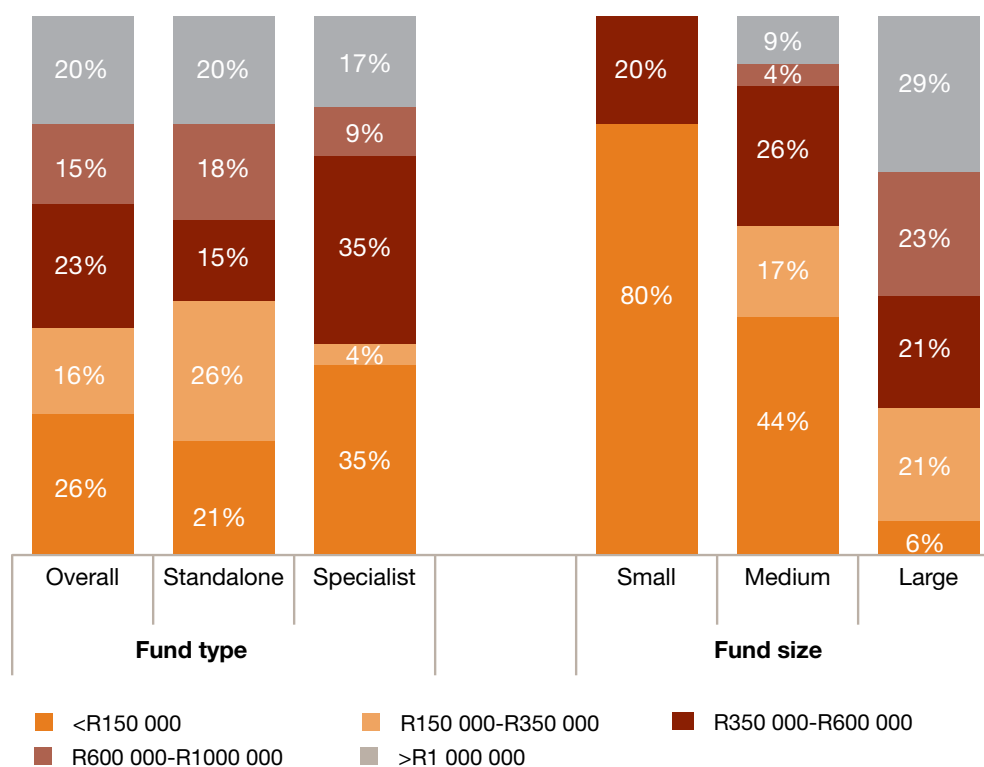
**Q** What is the basis of the principal officer's remuneration?



The survey findings on this question were identical in 2012.

Figure 51: Remuneration levels

**Q** What is the range of the principal officer's remuneration?

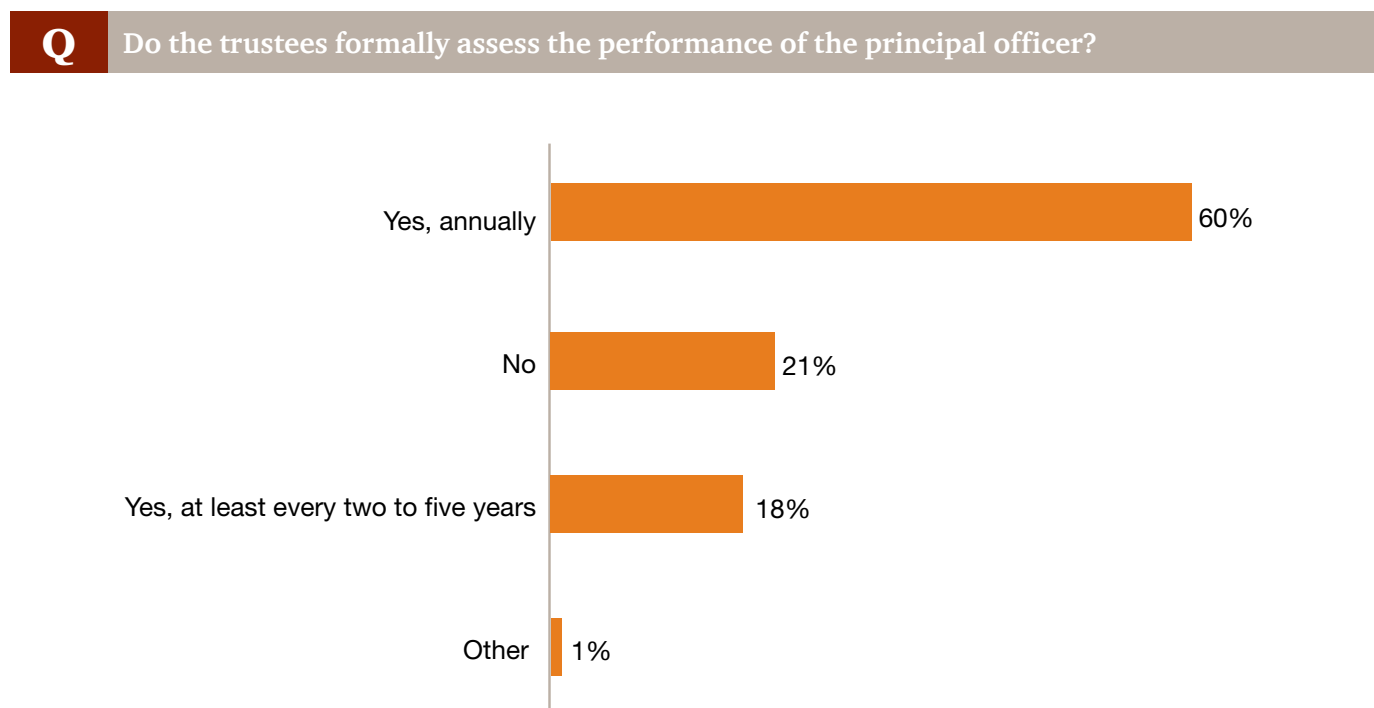


In our 2012 survey we used somewhat different remuneration bands, making exact comparisons with this year's results impractical.

What is apparent in this year's results is the significant proportion of principal officers that are remunerated in the top band (> R1 000 000), which is R200 000 higher than it was for 2012.

## Time spent and assessment

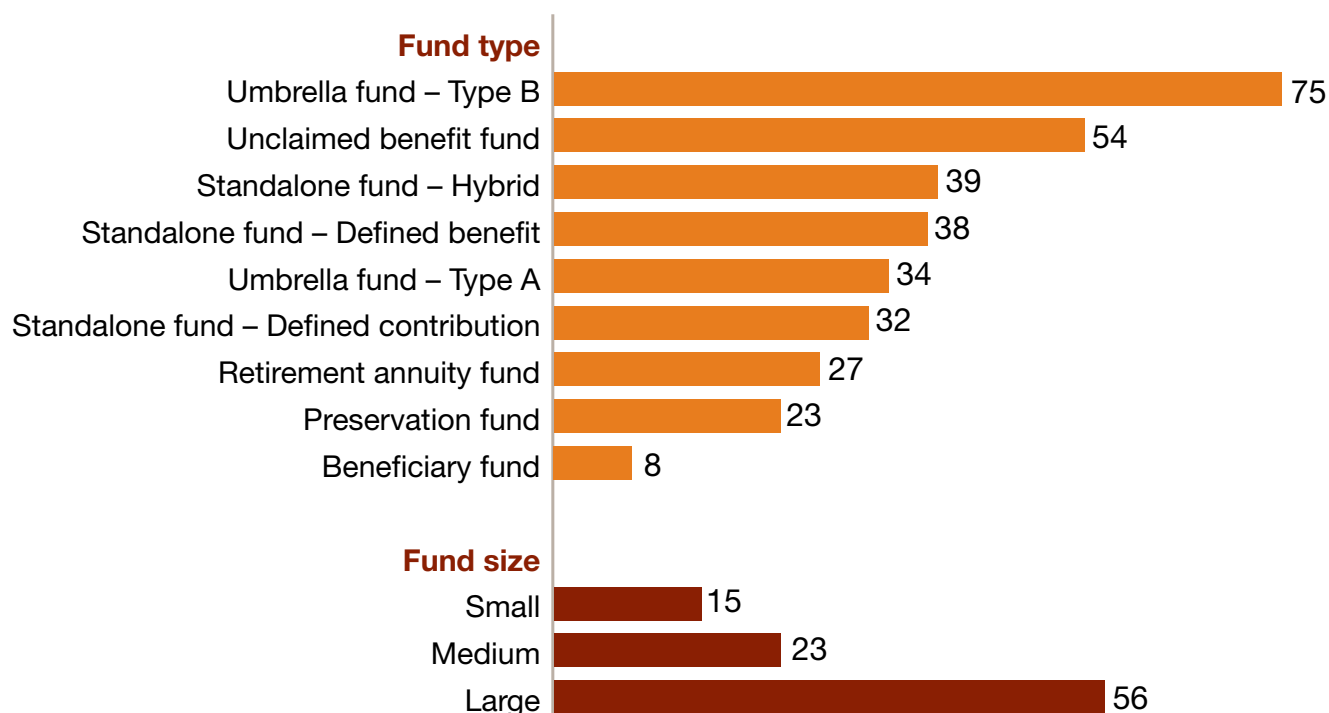
Figure 52: Performance assessment



It is pleasing to note that the 'No' response is down to 21% from 30% in 2012. It is to be hoped that the still fairly significant 'No' response is not due to there being absolutely no assessment of performance, but rather that the assessment is informal as opposed to being rigorous and formally documented.

**Figure 53: Time spent on fund matters (hours/month)**

**Q** How many hours per month does the principal officer dedicate, on average, to fund matters?



The broad pattern is similar to that seen in 2012 survey, but there are also some significant changes in time spent compared to 2012.

### Time spent on fund matters

	Average hours	
	2014	2012
Large fund	56	97
Standalone – defined contribution	32	62
Standalone hybrid	39	106

The reduction in time spent by principal officers of standalone defined contribution funds by almost half suggests this may be due to some change in circumstance between 2012 and 2014.

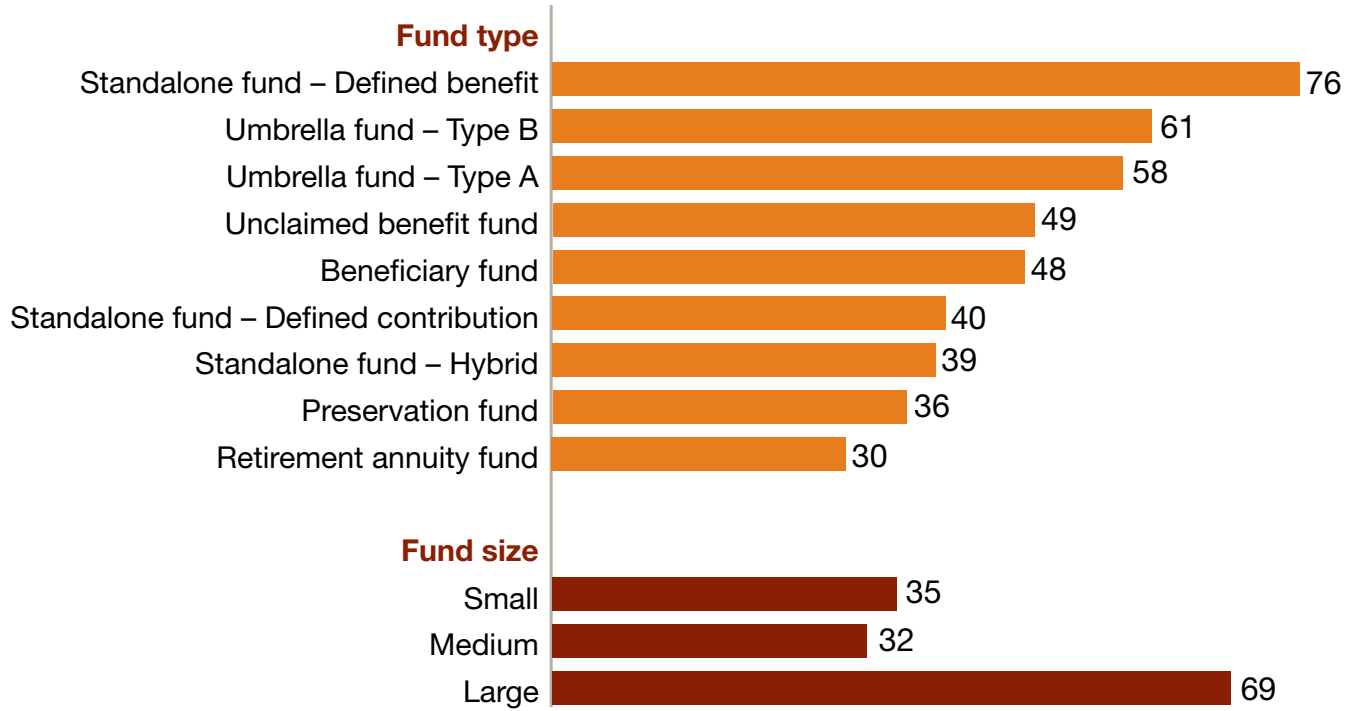
It is likely that the extra involvement of principal officers in getting to grips with the Revised Regulation 28 requirements that became applicable to all funds with year ends on or after 31 July 2011 (as per Notice No 3 issued on 19 December 2011) could account for a significant part of this.

## Training

Figure 54: Time spent on training (hours/year)

Q

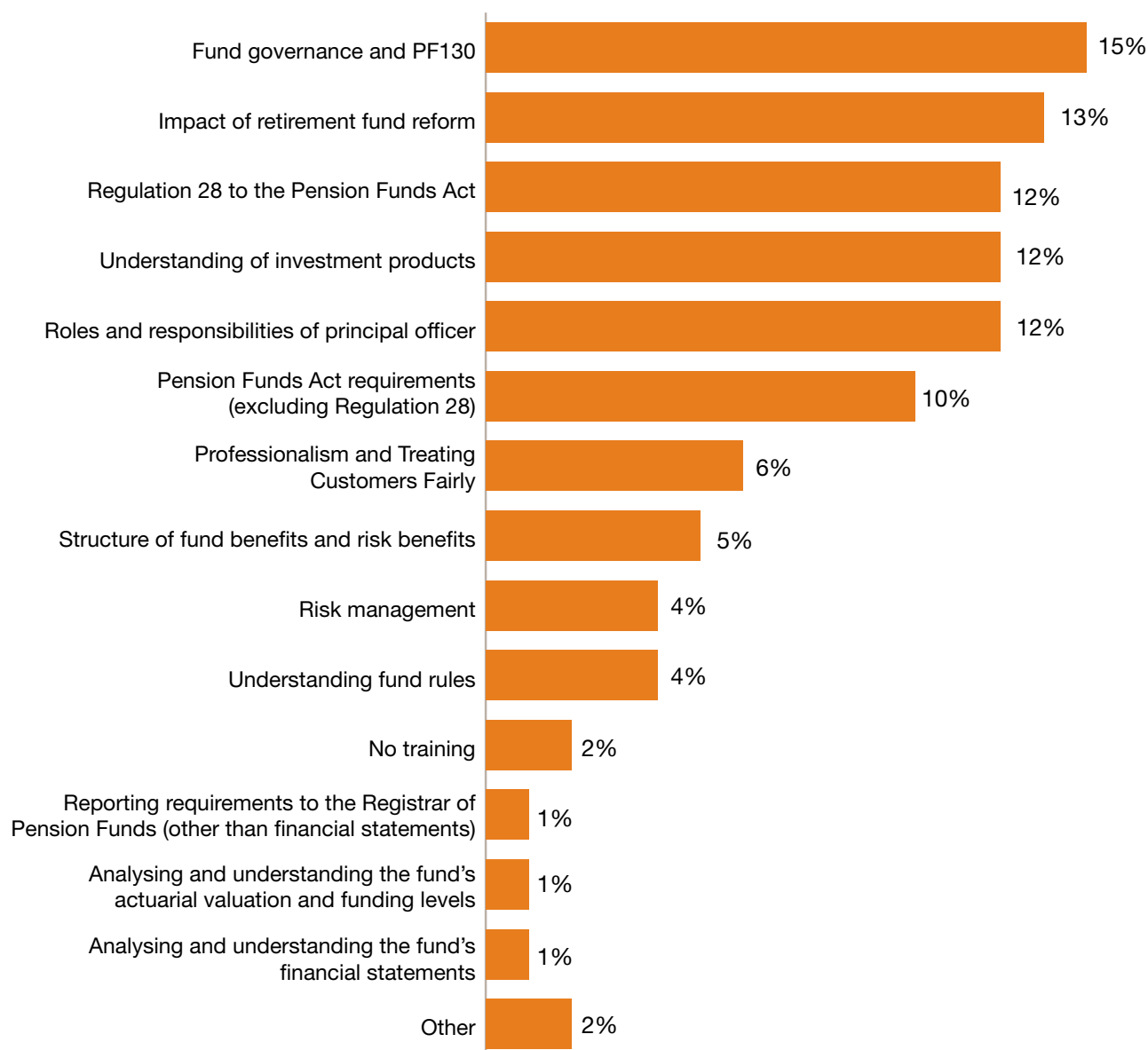
How many hours per year does the principal officer typically spend on training and attending industry events?



**Figure 55: Areas of training**

**Q**

**In what areas has the principal officer received training?**



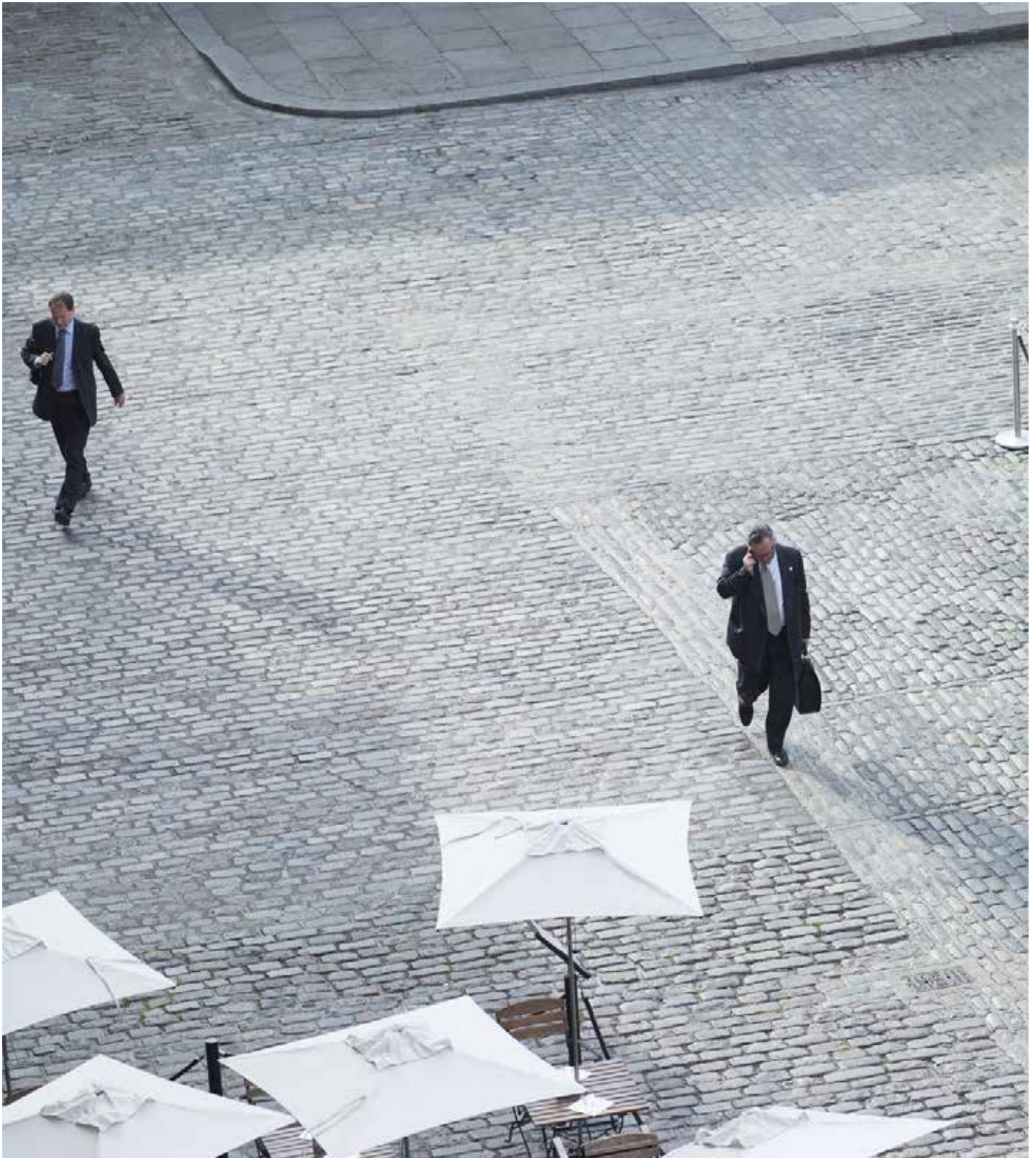
The area of 'Fund governance and PF 130' retained the top position for training, but the level has declined to 14% from 22% in 2012. This appears to be due to the new 'Impact of retirement fund reform' category that came in second at 13%.

## ***Respondents' feedback regarding the role of the principal officer***

- The qualification standards for principal officers being set by the former Principal Officers Association (POA) (the POA has subsequently merged into the new Batseta Council for Retirement Funds of SA (Batseta) organisation) will be excellent for their education and make this a recognised profession.
- Training on 'how to be an effective principal officer' should be provided by the POA (Batseta).
- The principal officer should ideally be paid by the fund rather than the employer to avoid potential conflicts and undue influence.
- The Financial Services Board should legislate ongoing requirements for continuous professional development (CPD). There should be annual disclosure of CPD of the principal officer to the trustees.
- The role of the principal officer is underestimated and remuneration is not on the same level as that for actuaries and investment professionals. A good principal officer can save the fund millions.
- The role of the principal officer is grossly underestimated and underpaid. This is equivalent to running a company with R2bn assets with no staff, but all the responsibilities. Compared to CEOs of listed companies of similar size, principal officers are grossly undervalued.
- The role of the principal officer should focus on the executive function and not merely on acting as a compliance officer as some people in the FSB seem to want. Principal officers must be professional in what they do and treated as professionals and must be remunerated accordingly, especially on large funds.
- Principal officers' remuneration should be commensurate with that of the chairperson or professional/independent trustee.
- A principal officer must have a genuine concern for the interests of members and pensioners and must actively seek to provide them with good service.



# *Regulatory matters and retirement reform*



The ongoing saga of retirement funding reform brings to mind a remark attributed to the chess grandmaster Aron Nimsowitsch: “As an old player you must know that the threat is stronger than the execution”.

Much change has already occurred in the South African retirement fund industry in response to the mere threat of change, but according to National Treasury there is still a long road ahead. This was reflected in the 2014 Budget Speech delivered by Minister of Finance, Pravin Gordhan:

*We still seek improved coverage and preservation of retirement funds, and lower costs in the system. We are currently consulting within NEDLAC on measures to cover the six million employed South Africans who do not enjoy access to an employer-sponsored retirement plan. We intend to move progressively towards a mandatory system of retirement for all employed workers.*

*Agreement has been reached with the Association of Savings and Investment of South Africa on a way forward to reduce the level of charges for retirement savings products. Draft regulatory reforms will be published shortly.<sup>1</sup>*

<sup>1</sup> 2014 Budget Speech, <http://www.treasury.gov.za/documents/national%20budget/2014/speech/speech.pdf>

National Treasury followed this up with a paper entitled ‘2014 Budget Update on Retirement Reforms’, published on 14 March 2014. This paper provides a useful summary of the history of the retirement reform policy objectives and what has already been done to implement them. But what is of course highly topical for the industry is the outline of some significant ‘Next steps’ (short-term reforms) set out in this paper. These are summarised below for ease of reference.

## **Retirement fund defaults**

The National Treasury undertook to release a set of draft regulations on default strategies by May 2014.

The regulations will require funds to have default investment portfolios for the investment of retirement savings, default annuity products for members on their retirement and default preservation rules for members on termination of membership before retirement, each to be chosen by fund boards subject to certain restrictions. The draft regulations will form the basis for a consultation process leading to final regulations.

Default investment and annuitisation strategies will be required to comply with both principles and rules designed to achieve appropriate outcomes. Products chosen for the purpose of default offerings must be simple, suitable for members and chosen after a robust and transparent process so that members can have confidence that the defaults have been chosen with their best interests at heart and will produce outcomes consistent with what they have been led to expect.

Rules will give effect to these principles. Limited customisation of defaults will be permitted to allow the default arrangements to better meet the needs of defined categories of members who may have very different preferences for risk and reward.

Members whose retirement savings are automatically invested in default investment portfolios must be permitted to instruct their funds to disinvest some or all of those savings from those portfolios and to invest them in one or more alternative portfolios instead, without paying any implicit or explicit exit penalties other than reasonable administration charges.

Recognising that the choice of annuity provider and product may be critical to a member’s financial security in retirement, funds may be required to employ financial counsellors – who may not receive commission payments from service providers in respect of member choices – to guide members through the default annuity option and any other options they may be considering. Fund-provided financial counselling could also be considered when individuals leave their funds prior to retirement.

The required default preservation measures will be designed to ensure that individuals need to do very little to ensure that their retirement savings are preserved on termination of membership before retirement and will follow them from job to job (called ‘savings follow member’).

This requires a default for when individuals leave retirement funds before retirement age (the default rules will require that funds preserve individual benefits inside the fund), and when individuals join retirement funds (the default rules will require that funds ask members if they have any preserved benefits and transfer them automatically into the new fund).

As with all defaults, members will be allowed to opt out of the default and select their own preservation provider, or withdraw the money from the fund after they have left the service of the employer, in line with current rules.

## Disclosure of retirement fund charges

During 2014, the National Treasury and the FSB intend to continue consultation regarding how retirement fund charges should be quantified and disclosed with a view to releasing draft regulations on this matter later this year or early next year.

Any measure would need to make allowance for costs that are either incurred by funds directly or that are incorporated into investment products, including derivative instruments, investment portfolios or other vehicles in which funds may invest.

To ensure fairness, it may also be necessary to include an allowance for the benefits to members for such features as guarantees or risk-insurance policies for which members are charged.

## Stronger regulation and supervision

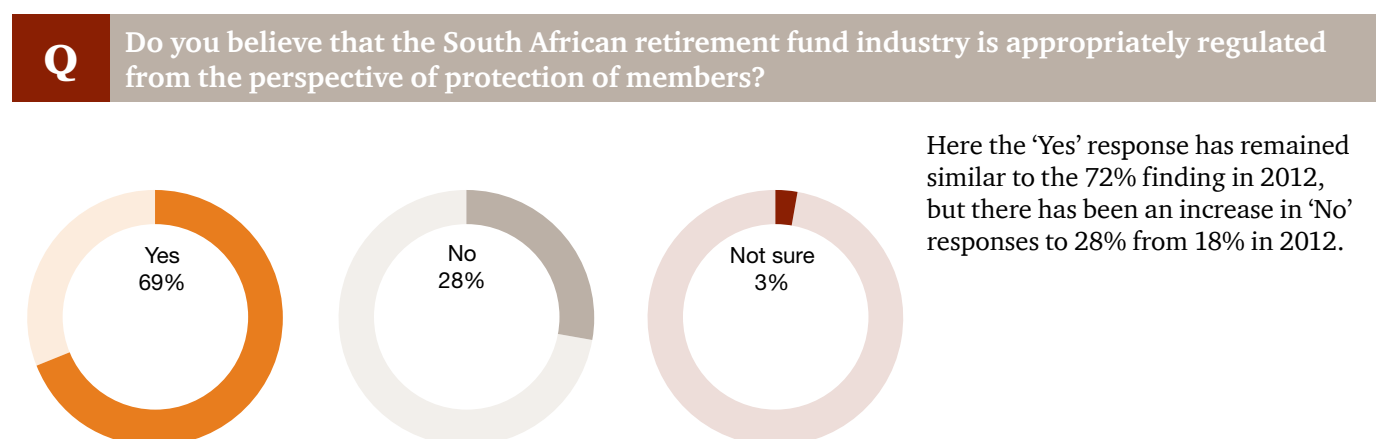
The Registrar of Pension Funds is preparing a number of draft regulatory instruments intended to implement new provisions in the Pension Funds Act relating to trustee training, 'fit-and-proper' requirements for trustees, improving fund governance and promoting the harmonisation and consolidation of retirement funds.

At the same time, the Registrar is working with other FSB departments on proposals for new standards for the licensing, registration and operation of funds, including their administrators and those who provide other products and services to them.

These proposed new standards will be formulated after careful and detailed analysis of the risks associated with the conduct of retirement fund businesses. This work is expected to take considerable time and effort.

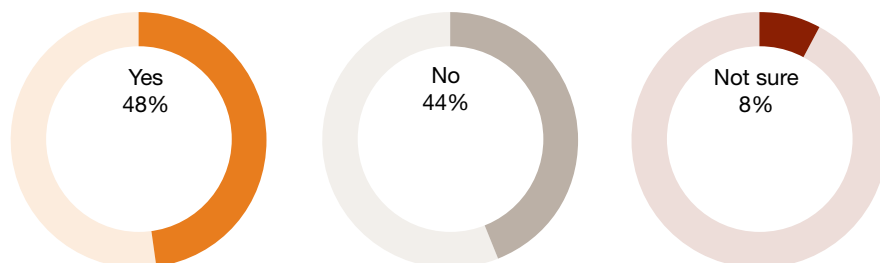
Stakeholders will be invited to make representation for consideration while these standards are being formulated, both before the draft standards are published for comment and before they are finalised.

Figure 56: Protection of members



**Figure 57: Member access to net replacement ratio**

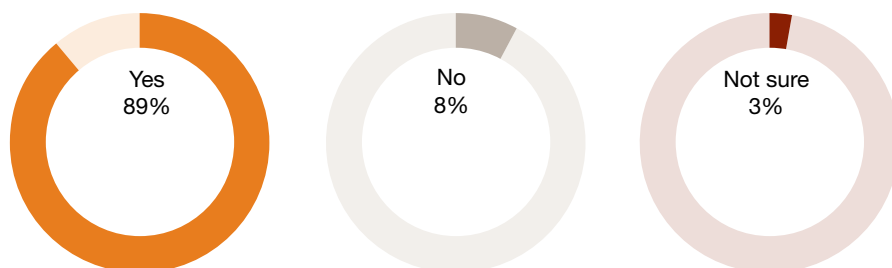
**Q** Do your fund members have access to tools for calculation of net replacement ratio?



This was a new question and it is pleasing that almost half of funds are already providing these important tools to assist members to assess whether their arrangements are on track to achieve their desired outcome on retirement.

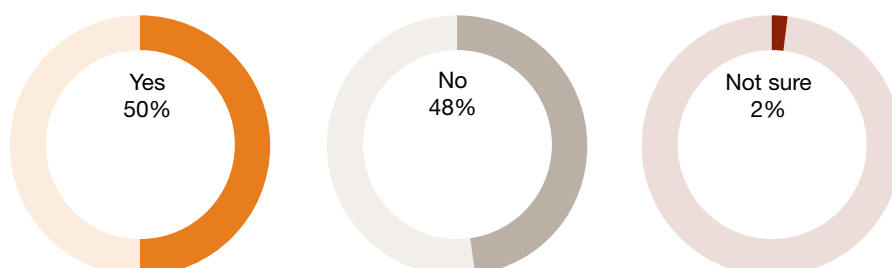
**Figure 58: Protection of members in respect of regulation**

**Q** Do you believe that the board of trustees and management in respect of the fund are suitably equipped to identify and assess the impact of regulatory changes on the fund from the perspective of protection of members?



**Figure 59: Guidance of members**

**Q** Does your board of trustees guide members not only during the contribution phase, but also through to the annuity phase?



While half of the boards are being proactive on this issue, almost as many are not and will need to play catch up once the retirement reforms put forward in the 2014 Budget become mandatory.



**Figure 60: Provision of annuity products for retiring members**

**Q**

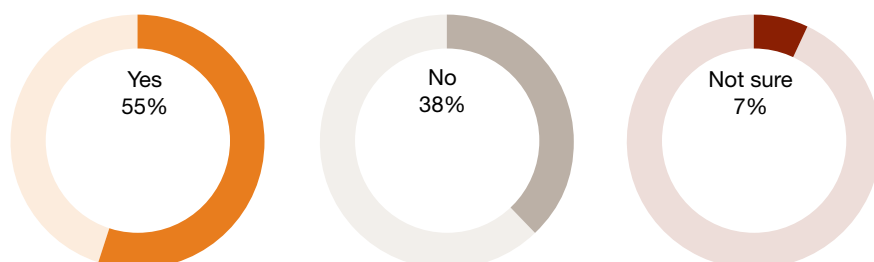
Do you believe that retirement funds should provide suitable annuity products as a default option for retiring members (including living annuity products)?



**Figure 61: Benchmarking of fund charges**

**Q**

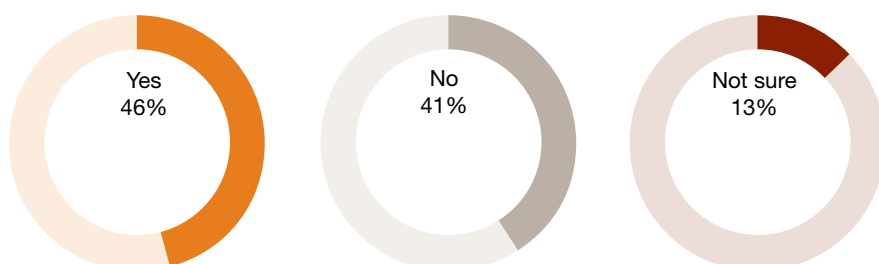
Do you think it would add value to the industry if the Regulator developed a measure of retirement fund charges that is common to all types of retirement funds?



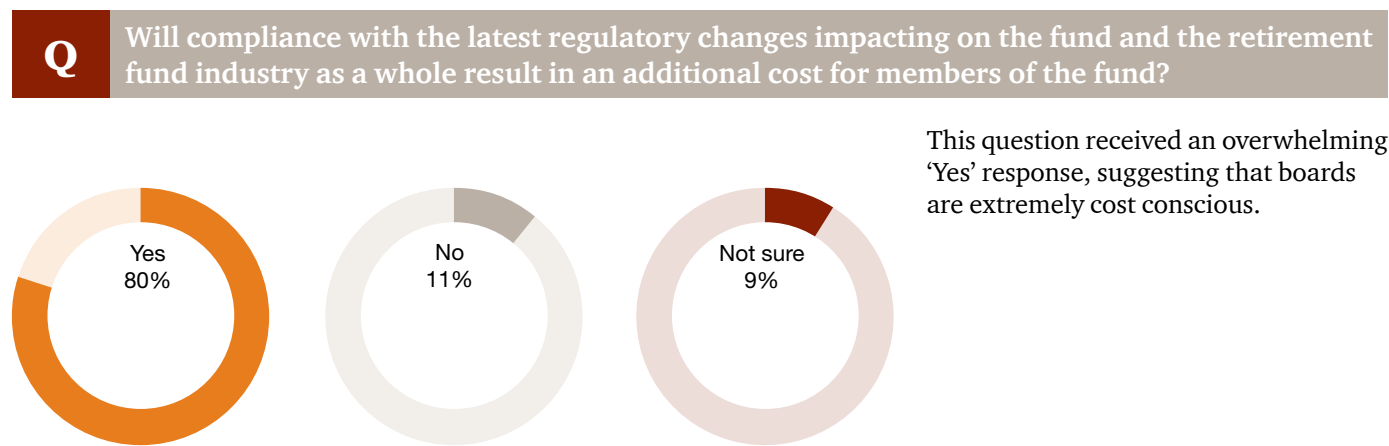
**Figure 62: Standardisation of fund documents**

**Q**

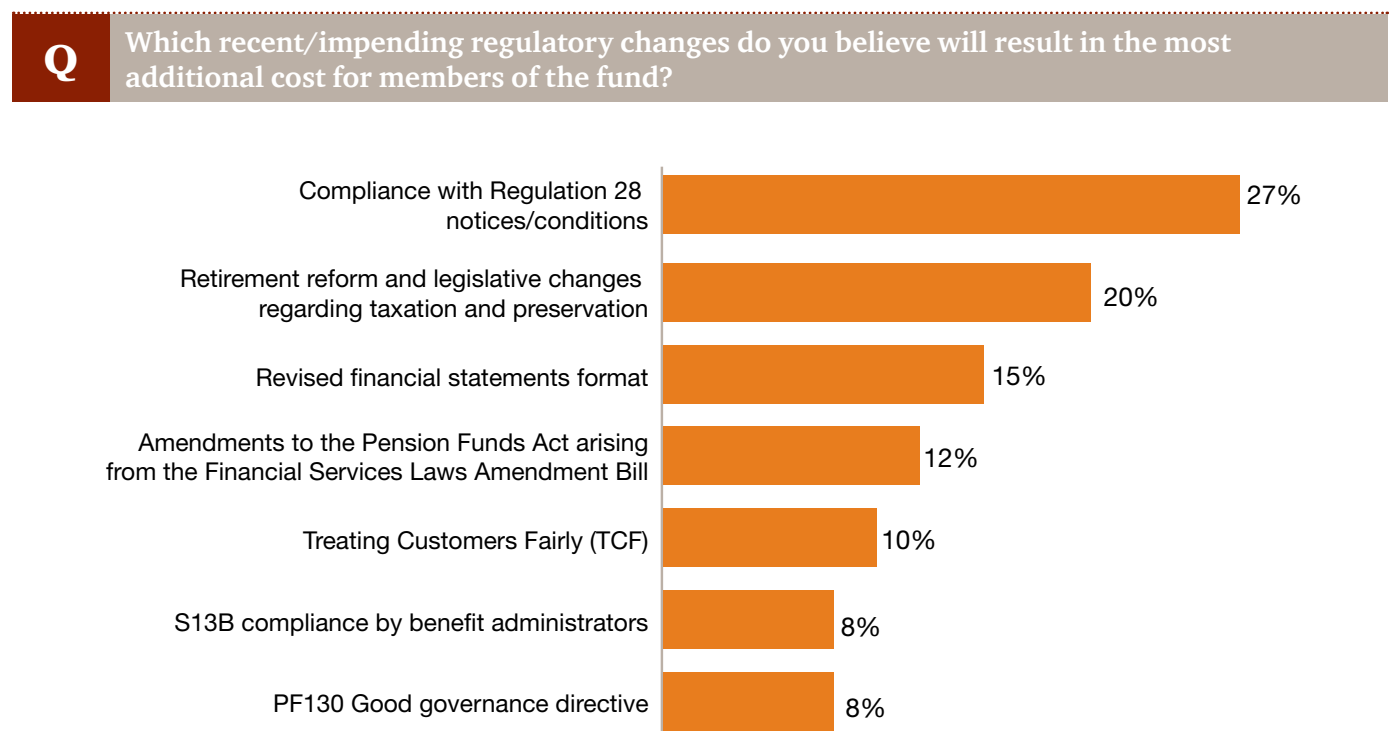
Would it add value if the Regulator issued standard fund rules and other documents, including Service Level Agreements, investment manager mandates, pension increase policies and governance templates?



**Figure 63: Impact of regulatory changes on costs**



**Figure 64: Regulatory changes incurring the greatest costs**



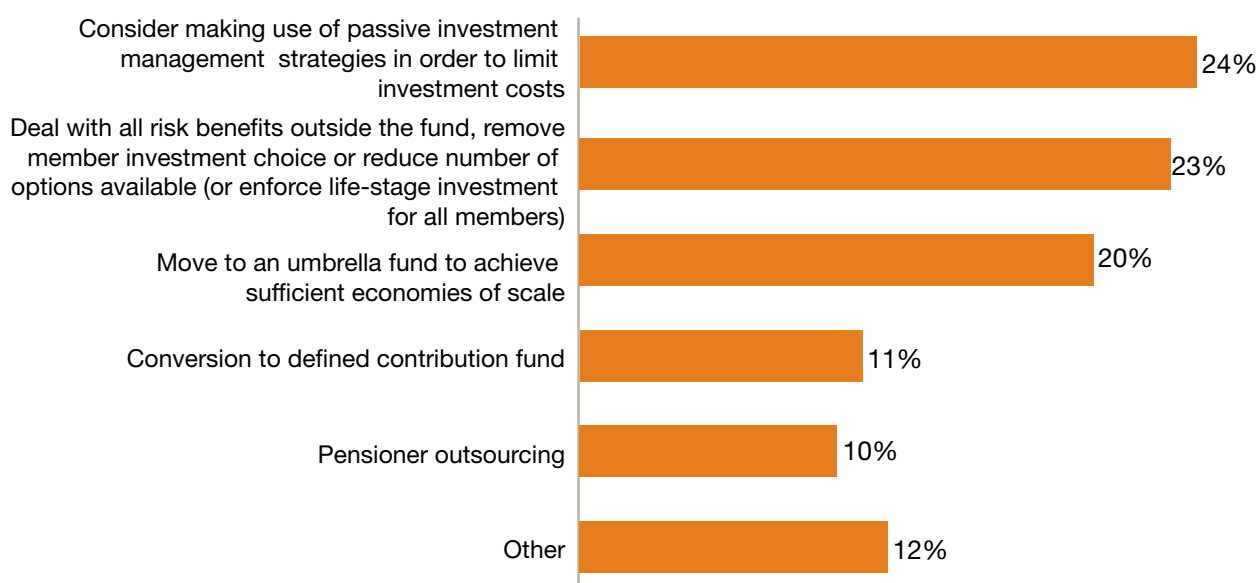
**Figure 65: Scope for cost reduction**

**Q** Do you believe that there is scope for simplification and/or cost reduction in the operation of the fund?



**Figure 66: Actions that would reduce costs**

**Q** Aspects to be dealt with in simplification/cost reduction



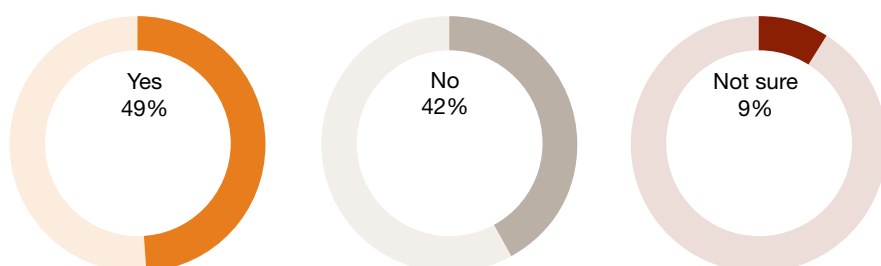
In our 2012 survey, we included the option of ‘Removing member investment choice’ as a cost reduction strategy and it gleaned support of 19%. This time, 23% favoured removing individual member choice or reducing the number of options available. A similar proportion (21%) favoured ‘Pensioner outsourcing’ and ‘Conversion to a defined-contribution fund’. The proportion favouring ‘Move to an umbrella fund for economies of scale’ increased from 13% in 2012 to 20%, as shown in Figure 66.



**Figure 67: Strategic asset allocations**

**Q**

Has the board of trustees used liability-driven investment techniques, such as asset liability modelling to determine strategic asset allocations for the fund?



### ***Respondents' feedback regarding regulatory matters and retirement reform***

- Defined-contribution funds should offer defined-benefit-type options on retirement (We note that the implication of this suggestion is that funds would quote and compete against the insurers on annuity products).
- There should be forced saving and mandatory pension on retirement (no opportunity to take cash or take maximum one-third cash on retirement).
- Regulations should compel employers to be more proactive in advising members on retirement.
- Funds should not be giving advice or selecting default service providers. Members are responsible for their own financial affairs.
- The availability of more cost-effective investment options will benefit the industry, although we are very comfortable with our current investment structure and costs.
- Regulations should be introduced to standardise costs.
- The pace of change is far too slow for members. The FSB spends years telling the industry that change will come (e.g. PF 130 to be made a directive). The regulator should look at different requirements for occupational and retail funds.
- The proposed reforms are more positive than negative and a move in the right direction. Setting up of appropriate defaults, harmonised tax treatments, compulsory preservation etc. is a good thing, but at the same time the industry is moving to a point of over-regulation. Too much regulation will not only confuse the membership but also destroy the industry.
- The proposed reform needs to be implemented without undue delay.
- Regulatory cost and complexity is becoming excessive. The Government seems to want to eventually penalise all funds to catch a few delinquents.
- The rand contributions capping is an unnecessary evil and does not help the poor at all. This will cause a serious complication to SARS records, administrators and funds. It also destroys simplicity and clarity on individual members' financial position.

# *Appendices*

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# *Appendix 1:*

## Remuneration of chairpersons

Fund type	Funds	Assets	Average assets	Groups	Remuneration: Number of recipients per pay range (per annum)						
	Number	Rbn	Rm	Number	Nil	R1-10 000	R10 001-50 000	R50 001-R100 000	R100 001-200 000	R200 001-300 000	R300 001->R500 000
Governed as single funds											
Preservation fund	1	0	50	1	1						
					1						
Retirement annuity fund	5	1	153	1	1	2	1				
				3	1	1					
Umbrella A and B	14	109	7 802	5	2	5		1			1
				11	2	1					
Unclaimed/beneficiary	2	1	412	2							
				2							
Governed in a group of funds	45	178	3 966								
Number of groups				12	2	1	6	1	1		1
					4	1	5	1			1
Total	67	289									
Standalone funds											
Governed as single funds											
Large	31	236	7594	15	3	5	3	4			1
				21	1	6	3				
Medium	46	12	267	41	1	2		1	1		
				45	2						
Small	17	0	23	16	1						
				17							
Governed in a group of funds	22	55	2467								
Number of groups				10	8			1	1		
					9		1				
Total	116	303									
Grand total	183	592									

*Remuneration for service on the main board only*  
*Remuneration for service on subcommittees only*

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## *Appendix 2:*

# Remuneration of professional trustees

Fund type	Funds	Assets	Average assets	Groups	Remuneration: Number of recipients per pay range (per annum)						
	Number	Rbn	Rm	Number	Nil	R1-10 000	R10 001-50 000	R50 001-100 000	R100 001-200 000	R200 001-300 000	R300 001->R500 000
<b>Specialist</b>											
<b>Governed as single funds</b>											
Preservation fund	1	0	50				1				
					1						
Retirement annuity fund	5	1	153		3		1	1			
					4		1				
Umbrella A and B	14	109	7 802		9		3	1	1		
					10		2	1	1		
Unclaimed/beneficiary	2	1	412		2						
					2						
<b>Governed in a group of funds</b>											
	45	178	3 966								
Number of groups				12	1	1	4	3	1	1	1
					3	1	4	2	1	1	1
<b>Total</b>	<b>67</b>	<b>289</b>									
<b>Standalone funds</b>											
<b>Governed as single funds</b>											
Large	31	236	7594		22	1	3	4	1		
					24	1	3	3			
Medium	46	12	267		41		2	1	2		
					43	1	2				
Small	17	0	23		17						
<b>Governed in a group of funds</b>											
	22	55	2467								
Number of groups				10	9				1		
					9			1			
<b>Total</b>	<b>116</b>	<b>303</b>									
<b>Grand total</b>	<b>183</b>	<b>592</b>									

Remuneration for service on the main board only  
Remuneration for service on subcommittees only

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## *Appendix 3:*

# Remuneration of principal officers



Fund type	Funds	Assets	Average assets	Groups	Remuneration: Number of recipients per pay range (per annum)					
	Number	Rbn	Rm	Number	Nil	<R150 000	R150 001-R350 000	R350 001-R600 000	R600 001->R1 000 000	Remunerated by employer/sponsor
<b>Specialist</b>										
<b>Governed as single funds</b>										
Preservation fund	1	0	50			1				
Retirement annuity fund	5	1	153		3	1		1		
Umbrella A and B	14	109	7 802		4	4	1	2	2	1
Unclaimed/beneficiary	2	1	412		1			1		
<b>Governed in a group of funds</b>										
	45	178	3 966	12	1	2		4	2	1
Number of groups										
<b>Total</b>	<b>67</b>	<b>289</b>								
<b>Standalone funds</b>										
<b>Governed as single funds</b>										
Large	31	236	7594		5	2	4	4	6	6
Medium	46	12	267		33	3	3	2	1	4
Small	17	0	23		12	3				2
<b>Governed in a group of funds</b>										
	22	55	2467	10	3		2		4	1
Number of groups										
<b>Total</b>	<b>116</b>	<b>303</b>								
<b>Grand total</b>	<b>183</b>	<b>592</b>								

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## *Appendix 4:*

# Stratification of the survey population

Funds	Count	Assets	Members	Pensioners	Trustees	Professional trustees	Average assets per member	Average assets per trustee	Professional trustees to total trustees
	Number	Rbn	'000	'000	Number	Number	R'000	Rm	%
<b>By type</b>									
<b>Specialist funds</b>	67	289	1504	44	474	107	187	610	23%
Preservation	19	42	87	-	106	37	483	396	35%
Retirement annuity	13	23	180	1	70	24	128	329	34%
Umbrella A and B	31	223	1136	43	269	46	189	829	17%
Unclaimed/beneficiary	4	1	101	0	29	0	10	34	0%
<b>Standalone funds</b>	116	303	452	112	1004	52	537	302	5%
Defined benefit	24	65	21	34	218	4	1 182	298	2%
Hybrid	21	154	110	63	177	7	890	870	4%
Defined contribution	71	84	321	15	609	41	250	138	7%
<b>Total</b>	<b>183</b>	<b>592</b>	<b>1956</b>	<b>156</b>	<b>1478</b>	<b>159</b>	<b>280</b>	<b>401</b>	<b>11%</b>
<b>By Size</b>									
Large	73	566	1719	153	733	88	302	772	12%
Medium	85	25	219	2	584	54	113	43	9%
Small	25	1	18	1	161	17	53	6	11%
<b>Total</b>	<b>183</b>	<b>592</b>	<b>1956</b>	<b>156</b>	<b>1478</b>	<b>159</b>	<b>280</b>	<b>401</b>	<b>11%</b>
<b>By administration</b>									
Self-administered	18	270	277	106	217	4	705	1 244	2%
Administered by a professional service provider.	165	322	1679	50	1261	155	186	255	12%
<b>Total</b>	<b>183</b>	<b>592</b>	<b>1956</b>	<b>156</b>	<b>1478</b>	<b>159</b>	<b>280</b>	<b>401</b>	<b>11%</b>

# Appendix 5:

## Recent International PwC thought leadership on pension funds



[http://www.pwc.co.uk/en\\_UK/uk/human-resource-services/assets/pension-scheme-funding-survey-2013.pdf](http://www.pwc.co.uk/en_UK/uk/human-resource-services/assets/pension-scheme-funding-survey-2013.pdf)

### PwC 2013 Pension Scheme Funding Survey (PwC UK)

PwC in the UK performs an annual survey on how defined-benefit funds are coping with their challenges, particularly that of being underfunded, often due to the persistent low interest rates.

This survey highlights that most of them are no closer to resolving and clearing their underfunding than they were two years ago.

This survey was published in January 2013 and represents:

- A snapshot of emerging trends from 150 funding valuations from April 2009 to September 2013;
- A wide range of schemes, both in terms of size and the scheme actuarial advisor; and
- A follow-up to 2012 PwC UK Pension Scheme Funding Survey published in June 2012.

Areas covered:

- Emerging trends in pension scheme funding;
- Deficits and recovery plans;
- Integrated risk management;
- Non-cash security and risk transactions;
- Assumptions;
- Investment and governance; and
- Data used.



[http://www.pwc.com/en\\_GX/gx/hr-management-services/publications/assets/global-pension-survey.pdf](http://www.pwc.com/en_GX/gx/hr-management-services/publications/assets/global-pension-survey.pdf)

## Moving on: Global retirement fund benefits in a post-defined benefits world (PwC Global)

Our major international clients asked us to carry out this survey because, like us, they're increasingly concerned that the risks associated with their global retirement benefits outweigh their value to the organisation and its stakeholders.

This survey has three focus areas:

- Tackling the defined-benefits legacy;
- Embedding 'new paternalism' to reinforce defined contribution; and
- Improving governance: striking the right balance between local and central decision making.

Most of the 114 participating companies are in the Global Fortune 500, representing 4.7 million employees and \$950 billion of pension liabilities.

Findings were discussed under the following headings:

- The death of defined benefit is now a global phenomenon
- Financially significant legacy DB obligations need increasing control and action
- Flexibility is the future – on meeting employees individual retirement funding needs more effectively
- Employers still believe they've a critical role to play in providing retirement benefits, but they're unsure of what that role should be



# PwC's retirement fund related services

## **Built on the strength of the PwC network**

Our retirement fund specialist group draws on the strength of PwC's global network and expertise:

- We serve retirement funds and their employers worldwide. We operate in 157 countries through over 180 000 people;
- Established in South Africa in 1923, we employ 4 595 people in 23 offices locally and have retirement fund specialists in all major centres;
- Our retirement fund audit division is an experienced team. They make retirement funds their careers and have hands-on involvement on a daily basis;
- We are also auditors and advisors to players in the industry such as investment/hedge fund managers, asset consultants and retirement fund administrators; and
- 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.

## **How we can help you**

The expertise and experience of the people in our retirement fund specialist group assures clients peace of mind.

### **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 e.g. when part of a defined-benefit is commuted for cash;
- Independent assessment of assumptions and methodology in fund actuarial valuations;
- Financial reporting on IAS and IFRS 2 valuations;
- Merger/acquisition support on risks linked to benefit arrangements, BEE trusts and share option plans;
- Independent valuation of structured products or derivative overlay structures to hedge market risk;

- Asset-liability modelling of funds; and
- Review of defined contribution structures to determine likely levels of replacement ratios for existing and future members.

### **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 platform;
- Reports to the Registrar of Pension Funds in terms of Section 15 of the Pension Funds Act; and
- Valuations of unlisted investments, e.g. those to meet socially responsible investment objectives.





### Advisory services

- Independent benchmarking and guidance on trustee/principal officer remuneration in the context of specific fund board/subcommittee obligations and wider remuneration norms;
- 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.



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[www.pwc.co.za/retirement-funds](http://www.pwc.co.za/retirement-funds)

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