



OLDMUTUAL

THE RIGHT UMBRELLA FOR YOUR NEEDS

A guide to assist employers to choose a suitable Umbrella Fund for their employees



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USEFUL DEFINITIONS

FSCA	Financial Sector Conduct Authority (fulfils the functions previously performed by the Financial Services Board)
MANCO	An employer level management committee set up within an umbrella fund to manage the interests of the participating employer and its employees who are members of that umbrella fund.
Management board	The board of management appointed by the sponsor or fund to oversee the management of the fund.
NRA	Normal retirement age.
Participating employer	An employer who joins an umbrella fund and whose employees are members of that umbrella fund.
PEAR	Pensionable Annual Remuneration (also sometimes known as Pensionable Salary). This is the amount of an employee's salary package that is used to calculate the member and employer contributions.
PF130	Pension Fund Circular 130. Issued by the Financial Services Board, which sets out guidelines on good governance of retirement funds.
Risk benefits	These are insured benefits that can be provided via the fund or the employer itself. Where a fund insures the benefit – e.g. a death or disability benefit, it is generally referred to as “approved risk”. Where the employer itself insures the risk, e.g. death, disability, funeral cover, it is generally referred to as unapproved risk
Replacement ratio	A measure of the amount of pension that fund members will earn when they retire relative to the salary they were earning in the year before retirement. As an example, if the member's pension in the first year of retirement is R7 000 a month and their salary in the year before retirement was R10 000 a month, their replacement ratio is 70% (R7 000 / R10 000 = 70%).
Section 14 transfer	This refers to section 14 of the Pension Funds Act and is the law that governs the transfer of members and their retirement savings from one retirement fund to another.
Sponsor	The financial institution that has established and registered the umbrella fund.
Sub-fund	Each participating employer and its members (and their portion of the total fund assets) make up a sub-fund within the overall umbrella fund.
Type A umbrella fund	<p>This fund is managed by an independent management board (trustees) and each employer operates a sub-fund within the umbrella fund. General rules can be set up at the fund level to guide the benefits structures, investments, etc.</p> <p>Special rules can then be drawn up at employer level for their specific sub-fund within the parameters set out by the general rules. These would be specific to that employer and its employee members and each participating employer can have their own set of special rules.</p> <p>Administration, accounting and actuarial services take place at the main fund level and are usually provided by the sponsor.</p>

<p>Type B umbrella fund</p>	<p>Main rules set up at the fund level that outline the benefit structure for all participating employers.</p> <p>All participating employers are then linked in some way - such as at an industry or union level. Only employers who are eligible due to such links can participate. The fund rules clearly outline how trustees are appointed and elected to make sure members and employers are well represented.</p>
<p>Wound up</p>	<p>When a retirement fund closes (for whatever reason), a date is set by which time all business of the fund will need to stop. The trustees will obtain a detailed valuation of the fund and deal with the winding up of the fund and the way that the members' retirement savings is to be distributed to the members, as set out by the rules of the fund.</p>



UNDERSTANDING YOUR RETIREMENT FUND OPTIONS

As an employer you need to decide whether to offer your employees a basic salary, or to give them a full set of employee benefits, which may include retirement savings. You might know that offering employee benefits and a way to save for retirement are some great ways to give your business a competitive edge when it comes to hiring the best staff. Retirement savings, more specifically death benefits also help to meet the expectations of family members should an employee die in service. However, it's easy to be put off doing so by the combination of a complex retirement fund industry, lots of regulations, and concerns that you (or your HR team) may end up having to spend too much time on fund administration. This doesn't need to be the case, thanks to the many advantages of umbrella funds, which this document aims to set out for you.

WHAT ARE YOUR RETIREMENT FUND OPTIONS?

Before you can think about offering an umbrella fund, it's useful to understand how these funds fit into today's employee benefit mix. Broadly, there are two main options* for employers when it comes to offering their employees a retirement fund:

1. **A standalone fund**, this is where you, as the employer, would set up a retirement fund for your employees. The fund needs to be managed by a board of trustees made up of representatives of your business and your employees.
2. **An umbrella fund**, In this case the fund is set up by someone other than you and is designed to allow more than one employer to participate (and offer it to their employees). These funds are managed by a professional board of trustees and offer various levels of involvement and control for you and the other participating employer depending on your own choices.



*Group Retirement Annuity solutions are another, less common, retirement savings option for employers, but these are not considered in this document.

CHARACTERISTIC	STAND-ALONE FUND	UMBRELLA FUND
Governance structure	Management board or trustees. Every fund must have a board consisting of at least four board members, at least 50% of whom the members must elect.	<p>Management board Type A retirement funds are not required to have a board where the members elect at least 50% of the board. However the Financial Services Board sets out guidelines that requires the rules of the fund allow for at least one independent trustee. To avoid any possible conflicts of interest with the sponsor and to provide the fund with comprehensive management expertise, we recommend that there are a number of independent trustees.</p> <p>MANCO Participating employers may be required by the fund's rules to establish a MANCO. The participating employer will need to mandate the terms of reference and assist with a constitution that will stipulate requirements in terms of representation. The MANCO may have powers delegated to it by the management board or the employer and it may also make recommendations to the board.</p>
Administration	Administrator appointed by the board.	Administrator appointed by the board. Very often this is delegated to a division of the sponsor of the umbrella fund
Actuarial	Actuary appointed by the board.	Actuary appointed by the board. Sub-funds do not require an actuary.
Investments	Strategy decided by the board.	The board determines the range of options available to the members as well as the default investments. Depending on the desired level of control, some umbrella funds may allow MANCOs to design their own investment strategies.
Member communication	Management board/trustees responsible for all communication	The management board responsible for the communication required to comply with FSCA guidelines. Additional communication at employer level may be provided at the instance of the employer or MANCO (especially where own investment strategy is implemented).
Risk benefits	Decided by the management board/trustees. Associated unapproved benefits may be arranged in conjunction with the employer. Very flexible in terms of levels of cover and insurer selection	Level of flexibility related to choice of insurer subject to umbrella fund allowing. Level of cover varies between different umbrella funds

DOES THAT MEAN AN UMBRELLA FUND IS RIGHT FOR YOU?

In recent years there has been a big move by many businesses of all sizes towards umbrella funds as the best way of giving their employees access to solid retirement savings, and reducing the administrative load often involved in managing a stand-alone fund.

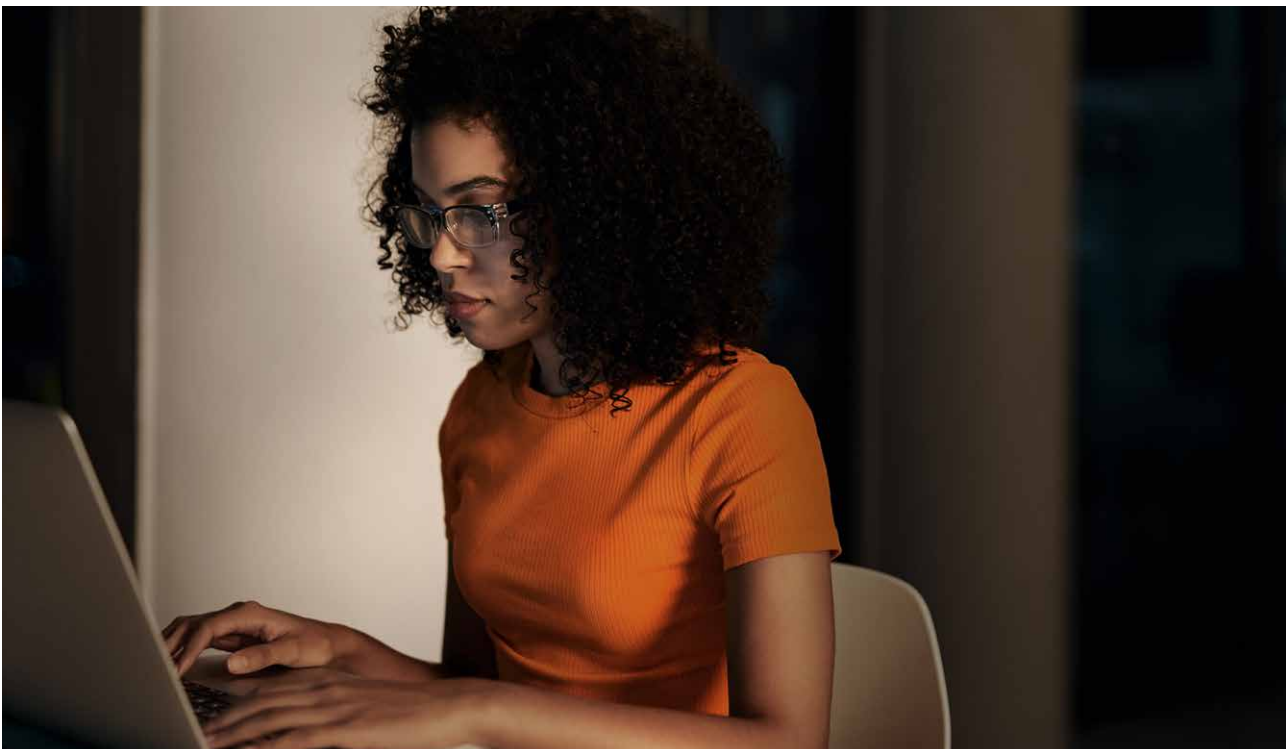
That said, deciding whether to move from your existing stand-alone retirement fund (if you already have one) to an umbrella fund is not a simple decision.

There are pros and cons to both solutions and the best one for you and your employees will depend on many factors, including the size of your company, the number of employees, how complex your stand-alone fund is, how involved you want to be in managing it, and whether you have the resources to look after your own fund.

IF YOU THINK AN UMBRELLA FUND MAY BE FOR YOU (AND YOUR EMPLOYEES), READ ON...

If you're interested in joining an umbrella fund arrangement, or moving to one from an existing stand-alone fund, the next important decision you'll need to make is which umbrella fund is right for you. This guide has been designed by Old Mutual Corporate Consultants to help you:

- evaluate your existing stand-alone arrangement and compare it to an umbrella fund; and
- compare the key features of different umbrella funds so that you can choose the one that best suits you and your employees.



ALREADY HAVE YOUR OWN STAND-ALONE FUND?

HERE'S WHAT TO CONSIDER IF YOU'RE THINKING ABOUT CHANGING TO AN UMBRELLA FUND

- **Is your current fund able to be wound up and transfer accurate member values to the umbrella fund?**

This may sound obvious, but many funds are not up to date with administration records, financial statements or valuation submissions. Others may have complex structures or features that cannot easily be wound up, which may make it more challenging to transfer from your stand-alone fund to an umbrella fund.

- **Is your current fund defined contribution or defined benefit?**

Although there are umbrella funds that cater for defined benefit schemes, most umbrella funds are defined contribution funds, and these types of funds are the main focus of this guide.

- **Does your current fund have any unusual benefits or benefit structures that an umbrella fund might not easily be able to match?**

For example, your fund is a defined benefit arrangement or you are responsible for the administration of pension payments or the current funding position of your fund isn't at a satisfactory level. For a successful transfer to an umbrella fund it is vital that you ensure that the benefits your employees get are not reduced or removed.

If your answers to these questions reveal that there may be challenges when it comes to transferring your existing fund to an umbrella fund, it would be worthwhile to first address these issues before starting the transfer process or investing the time needed to determine which umbrella fund may be right for you and your employees.

Umbrella funds are able to offer a good alternative that meets all the requirements you place on your stand-alone fund. But overcoming some of the obstacles outlined above will ensure that switching to an umbrella fund - if you decide to go that route - will go a long way towards making the transition as smooth as possible.



WHAT REALLY MATTERS (TO YOU AND YOUR EMPLOYEES)?

Before you can decide on which umbrella fund you would like to join, you need to decide what really matters to you and your employees that will become fund members.

While evaluating and comparing umbrella funds can be complex and daunting, the time you invest doing that before making a decision will be very well spent because it will lower the chances that you will have to make expensive and time consuming changes to your fund arrangement down the line.

There are a number of requirements that any umbrella fund must meet if it is going to deliver good retirement outcomes for your employees. This section highlights these requirements and guides you on what questions to ask about each one in relation to what you want for your employees.

Here's a look at what really matters when selecting an umbrella fund:

1. GOVERNANCE MATTERS

A well run fund is critical. It ensures that members' interests are protected and avoids those members' benefits being reduced as a result of bad management decisions.

Key elements of good governance to think about are:

FACTOR	QUESTIONS WORTH ASKING INCLUDE:
The management board	How is it chosen? How is it made up? How many independent members are there? What are their qualifications and experience? Do they have the necessary expertise? How independent are they?
The principal officer	What are his or her qualifications, experience and independence?
Governance processes	How are death benefits distributed? How are service providers chosen and monitored? How are expenses managed?
MANCO	How involved does the umbrella fund allow the MANCO to be?
The fund rules	What are they? Are they clear and relevant? Are they compliant and up to date? What special rules apply?
Fund policies	Does the fund have clearly documented policies, especially around: <ul style="list-style-type: none"> • Environmental, Social and Governance (ESG) • Transformation • Conflicts of interest • Risk management • Investments
PFI30	Is the fund fully compliant with all retirement industry regulations? Is it aligned with the principles of the King reports?

2. FLEXIBILITY AND CHOICE MATTERS

Once you have assessed your needs as an employer, it's important to carefully look at the ability of the umbrella fund to meet those needs. Different umbrella funds offer different levels of flexibility – and greater flexibility usually carries more cost. You need to make sure you balance the level of flexibility you want in order to meet members' needs with the associated costs.

Key elements of flexibility (choice) to think about are:

FACTOR	QUESTIONS WORTH ASKING INCLUDE:
The range of choices available to participating employers	<ul style="list-style-type: none"> • What are the contribution levels? • Is there investment choice? • What are the normal retirement ages for members? • Who is/are the risk insurer(s) and what are the risk benefit structures? • What is the process for distributing death benefits?
The range of choices available to members	<ul style="list-style-type: none"> • What are the contribution levels and are these flexible? • Is there investment choice? • What are the risk benefits on offer and are their choices within these or are they pre-packaged?

3. INVESTMENT GROWTH MATTERS

Enabling members to earn a level of growth well above inflation for most of their working life is key to them achieving a reasonable replacement ratio and being able to retire comfortably.

Key elements of investment growth to think about are:

FACTOR	QUESTIONS WORTH ASKING INCLUDE:
Investment portfolio range	<ul style="list-style-type: none"> • What is the range of investment portfolios available? • Does the range cover a variety of investment styles, asset managers and portfolios? • How are these portfolios selected, approved and monitored by the board? • Is the range unduly biased towards the sponsor's in-house portfolios (e.g. through favourable fees or other design features.)? • Are the following types of investment available within the range of options*: <ul style="list-style-type: none"> – Life stage or pre-retirement switching. – Both active and passive investment options.* – Variety of risk profiles to suit different needs. – Both single manager and multi-manager options. • Are you limited to a particular type of investment (e.g. passive or multi-manager or smoothed only)?
Default investment	<ul style="list-style-type: none"> • What is the umbrella fund's default strategy? • Is it endorsed by the board? • Does the investment default suit most of your employees? • Can each participating employer choose its own default investment (i.e. different to the board default) for its employee members?
Growth vs protection	<ul style="list-style-type: none"> • Is there a reasonable mix of growth portfolios and capital protection portfolios?

Deceased member assets	<ul style="list-style-type: none"> • Where are the assets of deceased members invested while the death claims process is underway?
Complexity of strategy	<ul style="list-style-type: none"> • How easy is it for members to understand the investment strategy? • Does the fund communicate to members on the choices available to them? • How useful and user-friendly are the investment reports? • Does the MANCO have access to advice to help it develop an investment strategy?
Costs and transparency	<ul style="list-style-type: none"> • What are the investment costs that members will pay? • How are they disclosed?

*It is not essential that all of these are available, but it is valuable to understand the range.

4. RISK BENEFITS MATTER

Within a stand-alone fund, there is usually a risk benefit structure in place and this is insured by the management board's and employer's choice of insurer. If this is the case with your existing fund, can the structure be replicated in the umbrella fund or offer a similar structure that will not prejudice your fund members?

Also, if you have a very complex risk benefit arrangement, and you would like to retain it, you must conduct a full assessment of the administrative capabilities of the umbrella funds you are considering. This should focus especially on the fund's proven ability to administer complex risk benefits.

Key elements of risk benefit to think about are:

FACTOR	QUESTIONS WORTH ASKING INCLUDE:
Flexibility	<ul style="list-style-type: none"> • How flexible are the risk benefits? • Is it possible to have age-based multiples for death benefits? • Do you have a choice of underwriters/providers and is it possible to have more than one?
Features	<ul style="list-style-type: none"> • Are there any special or unique features of the risk cover? • Does the fund offer only group life and disability benefits, or are there additional risk benefits such as critical illness or dread disease or funeral policies?
Communications	<ul style="list-style-type: none"> • How are the risk benefits reflected on the benefit statements? • How is evidence of health communicated to the members once they join?
Premiums	<ul style="list-style-type: none"> • How are the premiums deducted and paid over to the insurer? • Is this a simple process or will it require time and effort from your resources?

5. PRESERVATION MATTERS

Preservation of a member's retirement savings is one of the most important elements of their retirement planning. Failing to preserve when they face a career move or other life event can be a major setback in their efforts to secure a good retirement. Therefore it is critical that preservation options are carefully considered when evaluating an umbrella fund.

Key elements of preservation to think about are:

FACTOR	QUESTIONS WORTH ASKING INCLUDE:
Default preservation and portability	What is the fund's default preservation and portability approach?
Complexity	• How easy/seamless is it for withdrawing members to transfer to the fund's default preservation solution?
Costs	• What are the costs to transfer to the preservation solution? • Does the default preservation solution allow exiting members to keep on accessing the portfolios at the same fees as when they were members?
Communication and advice	• How is the solution communicated to members when they resign or get retrenched? • Can members get advice about preservation? If so, how is this advice paid for?



6. SOLID ADMINISTRATION MATTERS

As an employer, you need to consider the way in which your contributions need to be paid over to the fund every month. To avoid administration headaches and prevent your human resources being tied up in admin, this process should be as seamless and hassle-free as possible.

Another area of potential complexity is claims administration. Your chosen umbrella fund should make this as simple as possible for you as well.

Key elements of administration to think about are:

FACTOR	QUESTIONS WORTH ASKING INCLUDE:
Contributions	<ul style="list-style-type: none"> • How are the payroll data submissions done monthly? • How is the contribution collection/payment managed? • What is the payroll payment versus data reconciled on a monthly basis? • How much flexibility is there in contribution submissions based on your company requirements, e.g. late loading of new staff, late removal of resigned staff, back-dated salary adjustments?
Withdrawals	<ul style="list-style-type: none"> • What are the minimum documentation requirements? • What is the typical payment turnaround time? • How does the fund communicate with the member?
Retirement	<ul style="list-style-type: none"> • What options are available in terms of deferred retirement? • What support is given to the member leading up to retirement and at retirement? • What annuities are offered?
Death claims process	<ul style="list-style-type: none"> • How difficult is the process for members and their beneficiaries? • How thorough is the board in identifying dependants? • What role does the MANCO play?
Investment returns	<ul style="list-style-type: none"> • What is the process for allocation of investment returns to members? • Do unit prices get recalculated by the administrator or are they entered directly and reflected on member statements? • How does the fund ensure the full return is being allocated to members?
Online access	<ul style="list-style-type: none"> • Do members have online access to their details and fund information? • How simple is the registration process? • What can members do online - is it view-only access or are there transactional capabilities (e.g. investment switching)?

7. CONVERSION TO A PENSION AT RETIREMENT MATTERS

Helping your employees retire well goes beyond offering them a retirement fund. Members need help at the point of their retirement as well, to ensure they make good decisions about investing their hard-earned savings to secure a reliable pension.

Key elements of conversion at retirement to think about are:

FACTOR	QUESTIONS WORTH ASKING INCLUDE:
The investment process	<ul style="list-style-type: none"> • How seamless is the transition process at retirement? • What is the cost or fees involved of converting a member's lump sum to a pension?
Default annuity strategy	<ul style="list-style-type: none"> • What is the default annuity strategy of the fund? • If so, does this suit your members?
Advice and Counselling	<ul style="list-style-type: none"> • Is Retirement Benefit Counselling available to members? If so, in what form? • Is advice available to members nearing retirement?

8. COST MATTERS

The most important thing in relation to costs is to make sure that you and your employees receive value in relation to the fees and charges you are paying. Most umbrella funds are designed to offer various solutions. These range from very simple with minimal flexibility and limited choice to more complex arrangements that mimic large stand-alone funds with full flexibility and choice. Of course, the amount of flexibility chosen directly impacts on the costs to members and employers.

Key elements of fees, charges and costs to think about are:

FACTOR	QUESTIONS WORTH ASKING INCLUDE:
Administration costs	<ul style="list-style-type: none"> • Are these charged on a 'per member per month' basis or as a % of payroll? • Is there flexibility in methods of charging (e.g. some umbrellas allow you to convert rand-based fees to % of payroll)? • Is there any fee charged as a % of assets? (Note: sometimes funds charge a fee as a % of payroll and an additional fee as a % of assets) • Is there any fee levied at the scheme or participating employer level? • How are fees reviewed, and when? • What is included in these costs (e.g. is switching free or an additional charge)?
Investment fees (also called investment management fees or asset management fees or portfolio fees)	<ul style="list-style-type: none"> • Are these fees based on asset size at the umbrella fund level or the participating employer level? (It is preferable that this is at umbrella fund level as employers and members benefit from the full scale of the umbrella fund.) • What performance fees exist? • Are the performance incentives reasonable (i.e. not too easy)? • Are the investment fees disclosed regularly as TERS?'

<p>Advice fees (also called consulting fees)</p>	<ul style="list-style-type: none"> • Can the MANCO select a service provider of their choice or must it use a preferred supplier? • How is the fee for employee benefit consulting calculated (as % of payroll or rand per member per month)? • Are there asset consulting fees and, if so, how are these levied?
<p>Governance fees</p>	<ul style="list-style-type: none"> • Do all participating employers share the governance costs? • Are these part of the administration fee? • What does the governance fee cover (does it include audit fees, actuarial fees, bank charges, Board members costs, etc.)? • How are these recovered (rand per member per month or % of payroll)?
<p>Other fees, costs or charges</p>	<ul style="list-style-type: none"> • What other fees, costs or charges are applicable? • Is there a single fee for these additional costs?
<p>Transparency</p>	<ul style="list-style-type: none"> • How are fees disclosed? See the section on cost comparison later in this document. • For commercial umbrella funds, how thorough is the Retirement Savings Cost disclosure?
<p>Expense reserve account</p>	<ul style="list-style-type: none"> • Is it possible to have an expense reserve account for the sub-fund to manage costs? <p>Note: It is not practical for all expenses to be deducted directly off the member contributions, so some umbrella funds allow for the provision of a sub-fund expense reserve account to fund ad hoc expenses</p>
<p>Cross subsidies</p>	<ul style="list-style-type: none"> • What is the extent of cross subsidies between different participating employers or between different groups of members?

9. TRANSFORMATION OF SOUTH AFRICA MATTERS

When you offer your employees a retirement fund, you're not just preparing them for their future you're also helping to build the entire South African economy by contributing to the growth of a strong savings culture. For this to be most effective, it's important that the fund you choose understands the vital role it plays in helping to build that future.

Key elements of transformation to think about are:

FACTOR	QUESTIONS WORTH ASKING INCLUDE:
Transformation	<ul style="list-style-type: none"> • What efforts are being made by the sponsor and the umbrella fund to transform South Africa? • How transformed is the management board
B-BBEE	<ul style="list-style-type: none"> • What is the sponsor's B-BBEE rating?

10. COMMUNICATION MATTERS

It really does not matter how good the fund is if the members do not know about it, or how to properly save for retirement. Communicating to members is therefore a critical component. Understanding how much communication goes out to members, as well as the quality thereof is important as you may need to supplement the communication if it's not sufficient.

Key elements of communication to think about are:

FACTOR	QUESTIONS WORTH ASKING INCLUDE:
Member benefit statements (these are often the primary means of communication with members).	<ul style="list-style-type: none"> • How clear and easy to understand are they? • What information do they contain? • Do they include information on replacement ratios or projected pension amounts? • How are they delivered to members?
Other communications	<p>What other communication support does the fund provide? Does it offer things like:</p> <ul style="list-style-type: none"> • Member newsletters? • A website? • Investment return feedback? • Training support? • MANCO training? • Financial education that aims to inform members on various financial concepts and know-how

11. THE SPONSOR MATTERS

Consideration of the sponsor is very important and is particularly relevant when something goes wrong.

Key elements about the sponsor to think about are:

FACTOR	QUESTIONS WORTH ASKING INCLUDE:
Reliability	• Will the sponsor have the resources to meet any claim, especially if it makes an error?
Trustworthiness	• Does the sponsor, umbrella fund or administrator's name come up often in Pension Fund Adjudicator cases?
Professional Indemnity Cover	• Is this cover in place? • How much cover is there - and is it sufficient given the scale of their existing business and of your company's scheme?



CHANGE MANAGEMENT

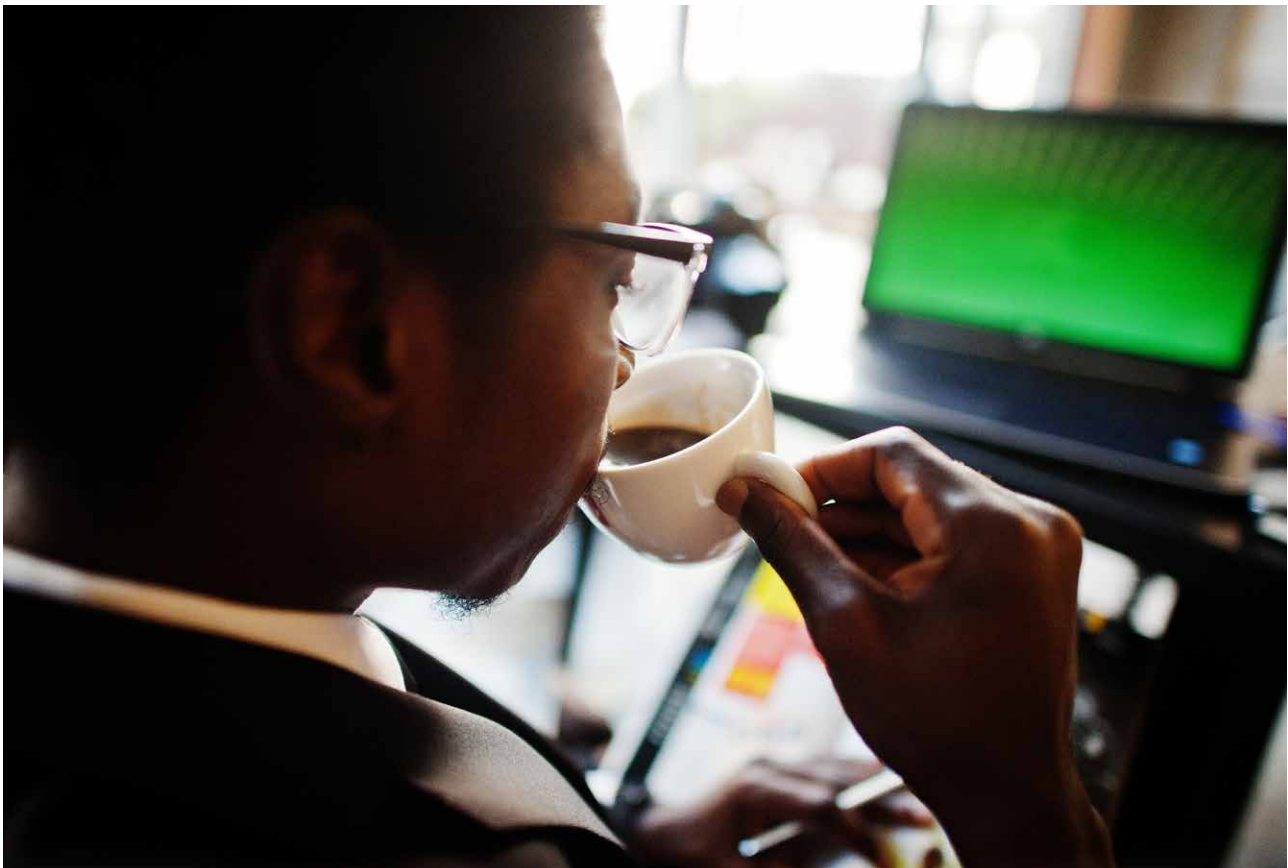
MAKE SURE IT IS A SMOOTH PROCESS

Introducing a new umbrella fund, or changing from a stand-alone fund to an umbrella fund, could have a big impact on your employees. Even if they are getting the same, or better, benefits, there's a good chance that the change will make them nervous. That's why it is vital for you to follow a careful change management process when moving.

The process can also be complex and challenging for you as an employer – but this can be managed well if the transfer is done correctly. To transfer your members, and the associated assets, to an umbrella fund, a Section 14 transfer application must be submitted to the Authority at the FSCA (in terms of the Pension Funds Act). If this is approached correctly, it can be very smooth.

If, on the other hand, the Section 14 is poorly handled, there is a lot that could go wrong and this can be costly, time consuming and frustrating. It can even have the potential to damage your relationship and reputation with your employees.

As you can see, it is critical that you implement and follow a comprehensive, well-managed project plan when introducing or moving to an umbrella fund. In fact, the best approach is to select an umbrella fund that is committed to working closely with you to help you through the entire process and partner with you to manage the change for the benefit of your business and your employees. At the very least, this support should include take-on advice and guidance, help with understanding the fund and its rules and structures, explanations of the various options, and clear communications with your employees.



DECISION MAKING - WHO NEEDS TO GET INVOLVED?

The table below shows who needs to make the various decisions when it comes to offering an umbrella fund to your employees:

DECISION	DECISION-MAKER
Default investment strategy	<ul style="list-style-type: none"> • The board • Some funds allow the MANCO to select a default from a range of choices.
Investment portfolio choices (Member Investment Choice)	<ul style="list-style-type: none"> • The board determine the range of options available • Some funds allow the MANCO to limit the number of investment options within Member Investment Choice.
Risk underwriter	<ul style="list-style-type: none"> • The board will contract with a pre-approved range of insurers • Depending on the umbrella fund selected, the MANCO may be able to choose an insurer from a pre-approved list.
Administrator	The board or, in many cases, the fund's sponsor.
Actuary	The board
Bank account	The board
Fiduciary responsibility	The board
Communication to members	The board (which may be supplemented by the MANCO).
Preservation	Fund members. The board can/should suggest options for members to choose from.
Death benefit distribution	<p>The employer, having the closest relationship needs to provide input to the fund. Thereafter, depending on the umbrella fund selected, there could be a range of options, including:</p> <ul style="list-style-type: none"> • The board makes the decision. • The MANCO makes a recommendation to the board for determination. • The decision may be delegated to the MANCO in accordance with the Rules and a written mandate.
Eligibility criteria	Determined by the employer and then specified in the sub-rules.
Contribution rates	For both the member and employer contributions, it is determined by the employer in terms of the existing employment contract with its employees, and it is then specified in the sub-fund rules. The umbrella fund may stipulate a minimum.

COMPARING COSTS

While cost alone should not be the main deciding factor when choosing an umbrella fund, it is a very important consideration for employers and their employee members.

The ASISA cost disclosure standard, Retirement Savings Cost (RSC), introduced with effect from 1 September 2019, enables employers to compare the costs of different umbrella funds and their impact on asset accumulation within the fund.

An example of a RSC disclosure table is included here:

RETIREMENT SAVINGS COST (RSC) CHARGES TABLE (% OF ASSETS)

CHARGES	1 YEAR	1 - 3 YEARS	1 - 5 YEARS	1 - 10 YEARS
Investment Management	0.55%	0.55%	0.55%	0.55%
Administration	0.67%	0.49%	0.39%	0.28%
Advice	1.80%	1.31%	1.05%	0.74%
Other	0.79%	0.76%	0.75%	0.74%
Total Retirement Savings Cost (RSC)	3.81%	3.11%	2.74%	2.1%

In addition to the RSC disclosures, the table in this section is included to help you compare different types of fees that could be levied by various umbrella funds and their impact on the overall costs to the fund and its members.

The table illustrates the impact of the three main types of fees (percentage of assets, percentage of salary and Rand per member per month) on different sample members. To allow comparison, the table shows the fee percentages or amounts that will have an equivalent impact on the member's asset accumulation from their current age until the assumed Normal Retirement Age.

To illustrate how the table works, a member aged 25 with a monthly salary of R10.000, contributing 15% of salary and starting with zero savings will accumulate the same amount of capital at retirement if they had a fee of 0.1% p.a. of assets OR a fee of 0.35% of salary OR a fee of R40.37 per month.

The table allows you to convert any fee or cost to a single constant measure (e.g. % of payroll) so that you can then compare the fee structures of different funds on a like-for-like basis.

PLEASE NOTE: It is not possible to make an exact comparison of the different types of fees because the precise impact of each fee depends on the value of assets invested in the fund as well as the level of salary and hence monthly contributions. As an example, comparing a fee that is charged as a '% of assets' to a fee levied as 'a % of salary' can only be done approximately because each type of fee will have a different impact on two different members - (1) a member approaching retirement who has a large amount saved in the fund or (2) a new member who has a small balance now, but is making large monthly contributions.

MEMBER PROFILE	FEE AS % OF ASSETS	FEE AS % OF SALARY	FEE AS RAND PER MEMBER PER MONTH
Age: 25 Monthly salary: R10 000 Monthly contribution: R1 500 Fund credit: R0	0.1% p.a.	0.35%	R40.37
	0.04% p.a.	0.15%	R17.26
Age: 40 Monthly salary: R25 000 Monthly contribution: R3 750 Fund credit: R300 000	0.1% p.a.	0.35%	R96.82
	0.04% p.a.	0.15%	R41.20
Age: 55 Monthly salary: R40 000 Monthly contribution: R6 000 Fund credit: R2 000 000	0.1% p.a.	0.57%	R238.23
	0.02% p.a.	0.15%	R62.00

Assumptions:

Inflation: 6% p.a. Salary inflation: 7% p.a. Investment growth: CPI + 4% p.a. NRA: 65



SCORECARD

Use the following scorecard to compare the different umbrella funds you are considering. Score each feature of the funds you are considering on the scale provided next to that feature in the table. These score scales relate to the weightings of each feature in terms of the overall final score out of 100.

NOTE: This scorecard and the weightings of various factors are just a guideline. You should feel free to adapt the scorecard to suit your specific needs and options.

FEATURE	SCORE/WEIGHTING LOW SCORE IS WEAK, HIGH SCORE IS STRONG	FUND NAME	FUND NAME	FUND NAME
Governance	1-10			
Flexibility and choice	1-10			
Investments:	1-5			
- Range of choices				
- Default investment	1-10			
Risk benefits	1-10			
Preservation	1-5			
Administration	1-10			
Conversion to pension	1-5			
Costs	1-15			
Transformation	1-10			
Communication: general and at benefit event	1-5			
Sponsor	1-5			
Total	/100			

ASSESS ALL YOUR OPTIONS TO MAKE THE BEST CHOICE

Whether you are thinking about introducing a retirement fund for your employees for the first time, switching from a stand-alone fund to an umbrella fund, or changing umbrella funds, it's essential that you carefully assess all your options to make the best choice. There are many benefits of joining an umbrella fund. Choosing the right umbrella fund is also not a simple task - it requires careful consideration, including a detailed evaluation of the various umbrella fund options available. Employers should gain an in-depth understanding of the features and flexibility of the specific solutions being offered, before selecting an option for their employees.



CONTACT US

This is a particular area of expertise for Old Mutual Corporate Consultants and we would be happy to partner with you in this important process and offer you whatever unbiased guidance and insight you might need.

Call us today to arrange a no obligation discussion on the ways in which we could add value to your decision about which umbrella fund is best for you and your employees.

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A BIT ABOUT US

Old Mutual Corporate Consultants is a dedicated consulting unit in Old Mutual Corporate, a division of Old Mutual Life Assurance Company (South Africa) Limited. Old Mutual is a licensed financial services provider. As such, we provide advice on all aspects of retirement funds ranging from benefit design and secretarial support to investment strategy, member communications, actuarial valuations and trustee training.

We have a team of dedicated, highly skilled consultants who are available to assist you to design and manage an employee benefits package to suit you as an employer and deliver maximum benefits to your employees.

