

# RETIREMENT SAVINGS COST DISCLOSURE STANDARD

## FREQUENTLY ASKED QUESTIONS

### WHAT IS RSC?

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| <b>What is the Retirement Savings Cost (RSC) Disclosure Standard?</b>                         | It is a new cost disclosure standard that commits commercially sponsored umbrella funds of all Association for Savings and Investment South Africa (ASISA) members to present their retirement savings costs in a standardised way using prescribed, consistent assumptions.  |
| <b>Who is ASISA?</b>  | The Association for Savings and Investment South Africa (ASISA) represents the majority of the country's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers and life insurance companies. ASISA performs an oversight role for South Africa's savings and investment industry.                              |
| <b>What is RSC in a nutshell?</b>   | It is a standardised way of disclosing all retirement savings costs as a % of assets under four charge categories.  |
| <b>How does the RSC Standard differ from the Retail Effective Annual Cost (EAC) Standard?</b> | <p>The EAC disclosure is designed for disclosure to individual fund members.</p> <p>EAC has already been implemented on retail saving products like retirement annuities and will be implemented on commercial umbrella pension and provident funds in 2020.</p> <p>RSC is for use at employer/scheme level on commercially sponsored umbrella pension and provident funds.</p> |
| <b>When is the RSC Standard effective?</b>  | The RSC Disclosure Standard was effective from 1 March 2019, with the final date for implementation for all ASISA members being 1 September 2019.   |



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## WHY RSC?

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| <b>Why was the RSC Disclosure Standard developed?</b>  | <p>ASISA members are committed to operating within the Treating Customers Fairly (TCF) principles framework. Outcome three of the TCF principles requires financial services providers to give their customers clear information and make sure that they are fully informed about all aspects of the products and services they are being sold.</p> <p>To this end the RSC Disclosure Standard was developed. It gives employers, advisers and boards of trustees a clearer view of retirement savings costs and makes it easy for them to compare charges on competing commercial Umbrella Funds. This will better enable a like-for-like cost comparison when considering quotations from different umbrella funds, noting that benefits and features of the different propositions – especially of default investment portfolios – will still differ, and this will still require the appropriate evaluation from an overall value-for-money perspective.</p>  |
| <b>Is RSC really necessary?</b>                        | <p>Yes, accurate retirement fund cost comparisons have been tedious. The way in which these fees and costs were calculated and shown to clients differed from fund to fund, making a simple cost comparison close to impossible without committing time to converting everything to a standardised base. For example, one quote can have a cost as a % of salary, and another can have the same cost disclosed as a Rand amount or a % of assets.</p>   |
| <b>Why are the charges expressed as a % of assets?</b> | <p><b>There are a number of reasons:</b></p> <ul style="list-style-type: none"> <li>• Retirement savings growth is driven by investment returns which are expressed as a % of assets, so it makes sense to take all the charges (regardless of whether Rand per member per month, or % of salary, or % of assets) and express these charges in the same way too. Retirement savings growth net of costs, expressed a percentage of assets, is a useful measure of value.</li> <li>• There is a retail cost-disclosure standard called Effective Annual Cost (EAC), and this also uses % of assets as the basis for illustrating costs; this RSC standard is based on that standard, with % of assets intended as the consistent basis by which charge illustrations are done.</li> <li>• When costs are expressed in a number of different ways, it makes it more difficult to assess whether the overall costs are reasonable in the context of all the benefits being delivered, so the single % of assets basis simplifies the cost landscape.</li> </ul> <p>It may take people a little time to understand the % of assets basis, but in time, we expect that the financial services industry will get used to this method of expressing costs and it will help decision-makers to assess more easily whether they are getting good value or not.</p> |

## RSC IMPACT

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| <b>Who is impacted by RSC?</b> | <ul style="list-style-type: none"> <li>• Retirement funds, who must implement RSC in their proposal documents</li> <li>• Employers and trustees of boards, who will be able to assess the cost and value of retirement savings</li> <li>• Intermediaries, for whom RSC is a powerful tool to advise clients on overall costs and (via the illustrative member table) the impacts of these costs on different members.</li> </ul> |
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| <b>Does the RSC Standard apply to all retirement funds?</b>   | No, it doesn't apply to stand-alone retirement funds, umbrella funds other than those which are commercially sponsored, retirement annuity funds, preservation funds, beneficiary funds and other retail savings products covered under the Retail EAC Standard.   |
| <b>Does the RSC standard change how funds charge their fees?</b>  | No, it just dictates how they disclose them. In other words, a fund could still charge fees as a % of salary, but it would have to convert that charge to the equivalent % of assets value for inclusion in the RSC table.   |
| <b>With the introduction of the Retirement Savings Cost disclosure, how has the disclosure of Investment Charges changed?</b> | <p>Prior to the introduction of RSC it was difficult to compare the cost of different investment portfolios. In many instances base domestic fees, base global fees, performance fees and fees on specialised investments would all be provided separately, or only some of these components would be disclosed.</p> <p>RSC requires the disclosure of an "all-in" Total Investment Charge (TIC) over rolling 36 month periods, annualised to the most recent quarter-end, where Total Investment Charge is the sum of Total Expense Ratio (TER) and Transaction Costs (TC).</p> <p>TER is a global standard that includes investment management fees, performance fees, bank charges, audit fees, taxes and scrip lending costs.</p> <p>TC is made up of other necessary cost in administering an investment portfolio, including VAT, Brokerage, Securities transfer tax, Investor protection levy, STRATE contract fees, Exchange rate costs, Bond spread costs, and Fees associated with Contract for Difference (CFDs).</p> |
| <b>In which documents will the RSC Standard be implemented?</b>   | Point of sale client documentation, including but not limited to quotations or proposals by all ASISA members. For existing business, the standard must be made available to clients upon request.   |

## RSC DISCLOSURE

### SUMMARY OF INPUTS

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| <b>What is the Summary of Inputs table? What must I look out for when going through it?</b>                                    | It is a summary of the inputs that are used to calculate the RSC charges table. The values for the number of members, assets at commencement and total annual pensionable salary must be the same across the different umbrella fund providers. Total Premiums Applied to Risk Benefits are likely to be different for all ASISA members, as the quoted risk benefit rate is likely to differ. Accordingly Total Contributions Applied to Savings will differ by ASISA member where gross employer contributions are inclusive of risk benefits costs.   |
| <b>How do the numbers add up on the summary of inputs?</b>   | <ul style="list-style-type: none"> <li>• Total Contributions Applied to Savings = Gross Total Employer Contribution + Gross Total Employee Contribution - Total Premiums Applied to Risk Benefits if the risk contribution arrangement is <b>inclusive</b> (i.e. risk contribution is included in the gross employer and employee contributions)</li> <li>• Total Contributions Applied to Savings = Gross Total Employer Contribution + Gross Total Employee Contribution if the risk contribution arrangement is <b>exclusive</b> (i.e. risk contribution is paid over and above the gross employer and employee contributions)</li> </ul> |
| <b>What contribution rate is shown on the Summary of Inputs table for a scheme with multiple contribution rate categories?</b> | The Summary of Inputs table reflects the average contribution rate, calculated by taking total contributions in rands and dividing by the Total Annual Pensionable Salary.   |

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| <b>The question “Is the Employer paying any other related costs in addition to the costs disclosed here?” was asked. What costs are being referred to and what is the purpose of this question?</b> | <p>This is a simple indicator of whether there are any additional administration, consulting or other retirement fund related expenses that the employer is paying outside of the quoted arrangement (i.e. over and above the employer contribution). For example, some employers will pay a separate consulting charge and might recover this from employees outside of the fund.</p> <p>The purpose of this yes/no indicator is to ensure that the full extent of the savings related costs are being disclosed, with the intent being to ensure disclosure of specific, ongoing contracted costs paid by the employer which will not be included in the RSC calculation.</p> |
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## RSC CHARGES TABLE

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| <b>How are the charges going to be categorised?</b>  | <p>Costs will reflect under the following categories:</p> <ul style="list-style-type: none"> <li>• Investment management costs</li> <li>• Advice costs</li> <li>• Administration costs</li> <li>• Other costs</li> </ul>  |
| <b>What is included under Investment Management?</b>   | <p>The Investment Management Charge includes all costs for all underlying investments, including investment performance driven charges and trading costs.</p> <p>Capital charges, where applicable, are reflected under the heading of “Other costs”, and are not included with Investment Management costs.</p>  |
| <b>What is included under Advice?</b>  | <p>The advice/consultant charge component includes all charges for the provision of advice by intermediaries/consultants, commissions payable to intermediaries/consultants (excluding commission on risk premiums) and investment consulting fees not included within the investment management charge.</p>  |
| <b>What is included under Administration?</b>  | <p>The administration charge component includes all retirement fund administration fees/charges and investment administration fees/charges not included within the investment management charge.</p>  |
| <b>What are the costs included under “Other” in the Charges Table?</b>   | <p>They include guarantee premiums/charges, regulatory, compliance and governance costs like contingency reserve account levies, FSCA levies, fidelity insurance and professional indemnity premiums, actuarial fees, audit fees, trustee and fund official’s remuneration and expenses, communication expenses and all other charges flowing via the fund that do not fit into the other categories.</p> |
| <b>Will there be a breakdown and explanation of each cost component?</b>   | <p>Yes, all assumptions used, as well as other necessary explanations relating to each charge will appear in the compulsory free text notes below the Charges Table.</p>  |
| <b>Some costs are applied as a % of salary or a Rand value. Why are they then simply summed up with the other costs that are applied as a % of assets?</b> | <p>They are first converted into an equivalent % of assets value before being added to the other costs to work out the total Retirement Savings Cost.</p>   |
| <b>Why are risk benefits not included in the RSC calculations?</b>   | <p>Retirement Savings Cost focuses on the costs applicable to delivering the retirement savings component only. Including Risk Benefits would create a distorted picture and for this reason they are excluded from the calculation.</p>  |
| <b>For purposes of the RSC calculation, how is advice cost determined for schemes with approved risk benefits?</b>   | <p>Advice cost on the total approved benefit is determined per application of the Long Term Insurance Act (LTIA). A proportional adjustment is then made to exclude the risk benefit element.</p>   |

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| <p><b>Why are the RSC charges shown over differing time periods?</b></p>   | <p>This is essentially to highlight the average costs that a scheme will incur over different time periods.</p> <p>1. Retirement saving typically happens over 40 years, and not just one or three or five or 10 years. Practically, the RSC charges table shows the impact of charges over shorter durations, but it assumes that all members will be part of the scheme for that time. However, some members will exit and retire, while other new members will join, so the 10-year cost figures represent a reasonable average cost for the scheme over time.</p> <p>2. The durational impact also illustrates the importance of preserving your retirement savings. If you have more assets, then your costs as a % of assets are typically a lot lower, and you are getting better value from your retirement umbrella scheme over time.</p> <p>Note: Retirement saving is a long term investment so a long term view of costs is necessary and will help decision makers in their planning.</p> |
| <p><b>Will the RSC always decrease over time?</b></p>  | <p>Rand or % of salary based charges tend to reduce over time when expressed as an RSC % of assets charge. This is because scheme assets tend to grow at a faster rate than the Rand or % of salary based charges. If all costs were expressed only as a % of assets, then the RSC would remain constant over the different durations because costs and assets escalate at the same rate.</p>  |
| <p><b>MEMBER TABLE</b></p>   |  |
| <p><b>The RSC tables include an illustrative member level disclosure table. Does that mean they can be used by members to see/manage their own fund costs?</b></p> | <p>No. The RSC scheme- and member-level disclosure tables are not intended for distribution to members. The member level table is made up of 9 member scenarios for illustrative purposes only. The member scenarios are not actual scheme members. The purpose of the member table is to inform scheme-level decision-makers of the cost impacts on different members using an illustrative combination of salaries and starting member shares/balances/transfer values.</p> <p>ASISA has been working with all the umbrella fund providers to agree on a standard by which member-level cost disclosure can be made available to existing members. This standard has been agreed to and, as from October 2020, schemes will be required to make this specific member-level cost disclosure available to members on request.</p>  |
| <p><b>How exactly does the member table work?</b></p>  | <p>It shows 10 year RSC values calculated using 9 member scenarios of salary and current member share, illustrating how RSC could differ for different members. This table is for consumption at scheme level and uses fictitious member information to illustrate how the RSC could look if a client's members, for example, have higher average assets or if they earn lower income. Ultimately, it is just a decision-making guideline or tool.</p>   |

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| <p><b>So, if the member level cost table isn't for members, what's the point of having it in the RSC standard?</b></p> | <p>The table is aimed at helping decision-makers to decide whether the scheme is in the best interests of all their members.</p> <p>The scheme-level table essentially represents an average of all the charges that all the members in the scheme will incur, assuming they make the average contribution. However, each scheme will have different members, with different salaries and different contribution rates.</p> <p>The regulators want funds to highlight this point and illustrate it via a member table that shows how different members might experience different retirement outcomes, because their cost impacts will be higher or lower than the average of the scheme due to these differences.</p> <p>So, the member table sets out nine different scenarios, using a prescribed set of illustrative salaries and starting member assets. Since some schemes may already exist, it is assumed members will transfer existing assets into their new scheme.</p> <p>The member-level disclosure table, therefore, shows what projected costs members across all salary bands might incur over a 10-year period, thereby providing decision-makers with the level of detail they need to be able to decide whether the scheme is in the best interests of all their members.</p> |
| <p><b>What exactly is current member share?</b></p>  | <p>It is the Rand value of a member's assets.</p>   |
| <p><b>GENERAL</b></p>  |   |
| <p><b>Can an individual member of the fund request an RSC disclosure?</b></p>  | <p>They currently cannot. However, ASISA has approved the new Retirement Fund Standard: Effective Annual Cost (EAC) for Individual Fund Members which will enable disclosure at a member level. All individual members of umbrella funds will be able to request an EAC for their retirement benefits and companies have until 1 October 2020 to complete implementation.</p>   |
| <p><b>So, does this mean that my company can now simply shop around for the cheapest umbrella fund?</b></p>            | <p>In essence, yes. But doing so won't necessarily be in the best interests of your business or your members. It's important to remember that there is far more to the value delivered by a retirement fund than low costs.</p> <p>There are many factors to consider other than cost when choosing a suitable retirement solution for members and employees. As such this should only be one input into the decision.</p> <p>It appears that most intermediaries and employers understand this fact. Old Mutual recently did a Retirement Saving Cost Disclosure Survey and feedback based on over 100 face-to-face interviews with intermediaries and employers confirmed that cost is just one of a number of criteria used in the selection of an umbrella fund. That said, the findings show that cost is a very important consideration, with investment performance, customer service, benefit flexibility and sponsor factors also regarded as very important criteria.</p>   |



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| <p><b>Different funds will have different investment growth, annual fee increases and member experiences. Is it really possible to compare “like-for-like” over a period of 10 years?</b></p> | <p>The short answer is “No”.</p> <p>The longer answer is that ASISA has developed the RSC disclosure to help even the playing field of cost disclosure. In support of this, ASISA has compiled the following standard assumptions to be used in RSC calculations:</p> <ol style="list-style-type: none"> <li>1. Gross investment returns of 6% per annum compound</li> <li>2. Salary escalation at 6% per annum with the first such increase taking place 12 months after commencement date, and every 12 months thereafter</li> <li>3. Price inflation of 6% per annum with the first such increase taking place 12 months after commencement date, and every 12 months thereafter</li> <li>4. Any existing assets from a current retirement fund to be transferred in terms of Section 14 of the Pension Funds Act coincident with the commencement date</li> <li>5. Group Risk Insurance premiums and related costs/ commissions to be excluded</li> <li>6. No member movements (exits or new entrants) during the entire 10 year period</li> </ol> <p>Given the above, it remains very important to evaluate the specific investment strategy of different default investment portfolios. One portfolio might invest in assets that target a gross return of CPI+6% over time, while another might only target CPI+3% over time. This difference does not come through in the RSC calculations.</p> <p>There will also be many other benefits and features that need to be considered when making the final decision. The role of an adviser in this ultimate decision-making process still remains very important.</p> |
| <p><b>I'm already a participating employer in an umbrella fund. Why do I need to care about RSC?</b></p>  | <p>While the main benefit of RSC will be at the point of sale to a new umbrella fund client, RSC must also be included on any re-quotes requested by existing business clients as well, so the RSC standard is also useful for existing clients who may want to assess the costs they are paying on their existing scheme. All ASISA members have to make the RSC tables available to their existing clients on request.</p>  |
| <p><b>In an RSC world, what additional information must intermediaries/consultants provide when requesting a quotation?</b></p>   | <p>Intermediaries/Consultants must provide size of assets on existing business plus a complete view of all applicable advice fees or fees not flowing through the fund. Typically:</p> <ul style="list-style-type: none"> <li>• Investment fees will be per the umbrella provider</li> <li>• Advice fees to be comprehensively disclosed. Where a fee will be applied but has not yet been determined, this is allowable and must be disclosed as such</li> <li>• Administration fees are as per the provider</li> <li>• Other fees to include are anything highlighted by the intermediary/consultant</li> </ul>   |
| <p><b>Does the RSC charges table replace the current Old Mutual SuperFund quote document?</b></p>   | <p>No, it doesn't replace it. It will be included as a new section in the existing quote and re-quote documents. All existing quotation information will continue to be provided. The RSC table is not required as part of an Annual Rate and Fee Review process.</p>   |
| <p><b>In Old Mutual SuperFund quotes for the purposes of RSC, do Investment Advice and Investment Administration fees fall under Investment Management?</b></p>                               | <p>No, Investment Advice falls under “Advice” and Investment Administration falls under “Administration”.</p>   |

## RSC WEBINAR

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| <p><b>How will the calculation incorporate performance fees, as these are calculated retrospectively?</b></p>   | <p>RSC uses the sum of the Total Expense Ratio (TER) and Transaction Costs for the Investment Management Charge (and performance fees form part of the TER). TER's are calculated over rolling three year periods coinciding with a calendar quarter end. The RSC investment fee inputs will in effect be updated quarterly. The RSC will thus be an indication of the effect of performance fees but the actual performance fees in future may differ from the historic performance fees.</p>  |
| <p><b>With so many variables going into RSC, how are we going to know if every service provider is using the same information and assumptions?</b></p>  | <p>The values for the number of members, assets at commencement and total annual pensionable salary must be the same across the different providers. This is an easy check for an adviser or employer when comparing quotes.</p> <p>Where other values are different (e.g. investment management charges linked to different investment defaults), then it is important for advisers and employers to understand the reasons for these differences.</p> <p>Furthermore, for compliance purposes, there are very clear ASISA sign-off guidelines that all ASISA members need to follow regarding their RSC calculation methodology, which include an annual review and sign-off by an appropriate senior executive of the different providers.</p> <p>The footnotes required for RSC will also be important and advisers and employers must take note of these and query them with providers if necessary.</p> |
| <p><b>What happens to fees when there is no or negative growth?</b></p>   | <p>The RSC calculation uses the ASISA standard gross investment return of 6% per annum compound, and ignores actual investment growth. Therefore, if there is zero or negative growth, it wouldn't affect the charges on the RSC calculation.</p>   |
| <p><b>The example done during the presentation is based on the assumption that the Fund will be investing in Absolute Growth Portfolio (AGP).</b></p> <ul style="list-style-type: none"> <li>• Does this mean all service providers are to use AGP as an investment portfolio?</li> <li>• What if they use a different investment portfolio?</li> </ul> | <p>The RSC calculation will use the specific default investment portfolio that was selected by the client, so it won't necessarily be AGP.</p>  |
| <p><b>Are stand-alone funds covered under the RSC Disclosure Standard?</b></p>  | <p>No, they are not. It only covers commercially-sponsored umbrella funds.</p>  |
| <p><b>Will the relevant costs charged be reflected on the annual member benefit statements?</b></p>   | <p>No, RSC is done on a scheme level and will not appear on the annual member benefit statements.</p> <p>A member-level Effective Annual Cost (EAC) disclosure standard has been agreed amongst ASISA members, for implementation within the commercial umbrella fund environment, from October 2020. At that time, a member will be able to request their own specific EAC. When this becomes available, the EAC does not need to be shown in annual member benefit statements – this will be at the discretion of the ASISA members.</p>  |



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| <p><b>To what extent does Old Mutual enable (investment default) comparisons? For example, does Old Mutual set out all the (default investment) portfolios available, with their Total Investment Charges, as well as their investment performance over an extended period?</b></p> | <p>You will note that various Old Mutual SuperFund marketing material has been updated to make allowance for the introduction of RSC.</p> <p>The key changes you will note include:</p> <p><b>Proposal (quote) document:</b></p> <ul style="list-style-type: none"> <li>• An updated “Why Old Mutual SuperFund” section sets out a number of Old Mutual SuperFund features, including the investment features</li> <li>• Within the Investment Features section, an adviser or employer can request up to three Old Mutual SuperFund investment defaults to be shown for comparison purposes; this comparison includes the 10-year (retrospective) investment performance of those default investment portfolios, consistent with the (forward-looking) 10-year RSC calculation that is done</li> </ul> <p><b>Investment performance reports:</b></p> <ul style="list-style-type: none"> <li>• The monthly investment performance updates now show investment performance over 1, 3, 5 and 10 years, consistent with the periods used for the RSC disclosure</li> <li>• This is shown for all Old Mutual SuperFund investment portfolios that form part of Old Mutual SuperFund</li> </ul> <p><b>Choice – not just the default investment portfolios</b></p> <ul style="list-style-type: none"> <li>• This table gets updated monthly – go to the Old Mutual SuperFund webpage and click on the “Investment Funds” link in the top bar, and see under “Investment Performance Reports” <a href="https://www.oldmutual.co.za/corporate/products-and-services/employee-benefits/old-mutual-superfund/investment-funds">https://www.oldmutual.co.za/corporate/products-and-services/employee-benefits/old-mutual-superfund/investment-funds</a></li> </ul> <p><b>Investment fees disclosure:</b></p> <ul style="list-style-type: none"> <li>• Similarly, Old Mutual SuperFund will start showing the Total Investment Charges for ALL Old Mutual SuperFund Choice investment portfolios – not just the default investment portfolios</li> <li>• This table gets updated quarterly – go to the Old Mutual SuperFund web-page and click on the “Investment Funds” link in the top bar, and see “Investment Portfolios and Fees List” under the “Investment Performance Reports” heading</li> <li>• The first version of this new report appeared during Quarter 4 of 2019</li> </ul> |
| <p><b>Will the costs charged differ between DB and DC funds?</b></p>  | <p>Yes. Old Mutual does apply different member administration fees within the Old Mutual SuperFund Defined Benefit (DB) Umbrella Fund, compared to the Old Mutual SuperFund Defined Contribution (DC) Umbrella Fund.</p> <p>Please speak to Michelle Acton at Old Mutual Corporate Consultants (OMCC) to discuss whether your stand-alone Defined Benefit (DB) fund is eligible for inclusion in the SuperFund DB umbrella fund (email her at <a href="mailto:macton@oldmutual.com">macton@oldmutual.com</a>)</p>   |
| <p><b>Would you be showing the RSC at each renewal of the fund?</b></p>   | <p>No, it is not a requirement to show RSC in Annual Fee Review documents. The RSC will be shown in any benefit-change proposal documents (also known as “requotes”), as this can be equated to a “new” proposal, but it is not a requirement at renewal.</p>   |