FINANCIAL WELL-BEING IN THE WORKPLACE

QUARTERLY ISSUE 3 | 2015

ALEXANDERFORBES
Securing your financial well-being

Contents

Editor's note

"In a democracy, the well-being, individuality and happiness of every citizen is important for the overall prosperity, peace and happiness of the nation."
– APJ Abdul Kalam (President of India 2002–2007)

PETER EDWARDS
CEO
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Alexander Forbes is fully behind the concept of holistic financial well-being for all employees and with the recent launch of our Financial Well-being Days we hope to reach as many employees as possible. To create, grow and protect their wealth and assets. We want to help people secure their financial well-being and so provide peace of mind, now and in the future. That is what matters most to us.

This is also where the editorial focus of the *Quarterly* will be from this edition and into the future. *Quarterly* will no longer focus exclusively on retirement funding issues, but will concentrate more on the overall financial well-being of retirement fund members and employees.

So, this first issue of the new-look *Quarterly* kicks off with an article based on research from *Benefits Barometer 2015* about getting closer to a workplace solution for the financial well-being of individual employees. Everyone agrees that financial literacy and financial capability are important, but there's no consensus about how to best help employees to secure their financial well-being.

Anne Cabot-Alletzhauser argues that we cannot succeed in securing employees' financial well-being unless we also solve South Africa's debt problem. She argues that the almost unrestricted access to debt is the biggest culprit. Another problem is the huge gap between financial advisers and debt counsellors. Unless we can integrate these services, any ambitions to transform the savings culture of South Africans will be perpetually undermined.

Following Anne's article, we look at the complexities of financial products and decision-making and how trustees can help members make better financial decisions. Staying with the theme of helping employees secure their financial well-being, we discuss how to help members figure out if they have too much or too little life cover and with load shedding becoming part of everyday life in South Africa, we even have some tips from our short-term insurance business about protecting people and property against power surges and other disasters.

Finally, we take a look at healthcare planning for retirement. Anthea Towert, head of medical scheme consulting at Alexander Forbes Health, says it makes sense to 'life-stage' healthcare cover throughout your career. This makes the burden at the end of a person's working life a little easier to bear. We end with our usual overview of interesting pension funds adjudicator cases in our Legal snippets section.

I hope this new-look *Quarterly* gives you some useful insights and inspiration from our articles and the words of APJ Abdul Kalam who reminds us that any company (or democracy) needs every one of its employees (citizens) to succeed at life, otherwise we all fail.

Workplace solutions for financial well-being

AMY UNDERWOOD
SENIOR RESEARCH ANALYST
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Everyone agrees that financial literacy and financial capability are important. As this extract from the newly launched *Alexander Forbes Benefits Barometer 2015* shows, the problem is that there's no consensus about what companies need to achieve and what the focus should be to help employees to secure their financial well-being.

Most financial education programmes in South Africa focus on a single aspect of financial planning. Retirement funds have member education programmes to help people interpret their benefit statements, and financial institutions go to great lengths to help people determine what kind of annuity would best suit their needs in retirement or what sort of tax-free savings investment would be most effective in helping them fund their child's education. Employers have gone to great lengths to introduce debt counselling or programmes that help employees cope with financial crisis, and the government and NGO sector have focused on providing access to budgeting and planning tools.

Financial wellness as a concept wants to move away from this single focus to help people strike a balance between living responsibly today and planning wisely for tomorrow.

Shifting from financial wellness to financial well-being

Now we need to take financial education programmes one step further. We need to keep individuals engaged throughout their financial journey. What the so-called journey is all about is less about accumulating a body of knowledge and more about learning how to let go of potentially dysfunctional behaviours. It's about building up a more effective way to get money and finances to address your specific hopes, fears and dreams.

Who should be involved?

We have to tackle financial well-being on multiple levels and those levels need to incorporate as broad a social context as possible. But after considerable debate and reflection, it's becoming particularly clear that the real engine room for change must, by necessity, be the workplace.

This can be a challenge. Employees consider their financial circumstances a deeply private matter. For many individuals, financial crisis and debt can often be a cause for deep embarrassment and shame. But let's look at the problem differently. How would you respond to this statement?

"I see my employer as a natural source of assistance with:

- my physical well-being
- my mental and social well-being
- my financial well-being

? Which answer most naturally resonated with you?

The reality is that for most of us, our employment represents the heart of our engagement with money. Your salary is your first port of call for financing life's requirements. Like it or not, an employer will always play some role in how employees engage with money.

Sally Hass, the former director of human resources for the American paper company, Weyerhaeuser, said it best: "Employers are already in the financial education business. They provide benefits and educate employees about complicated financial and investment products ... but they rarely give much thought to the question of how they can be more effective with what they are already spending to educate employees."

Improving an employee's financial capability works in the interests of both the employer and the employee. A study by Hira and Loibl concluded that financial wellness is particularly correlated with employee satisfaction with the employer and with company pride – more so, perhaps, than other wellness initiatives set by the employer. From that perspective the potential for return on investment for the employer is far more easily justified.

Overcoming the challenges

The challenge for delivery in South Africa is finding the right balance between the broader reach of technology-driven solutions and the need for one-on-one, unbiased assistance. That means we will have to lean heavily on technology that will enable us to personalise the user experience more. It will demand that we learn how to better manage big data to draw far better insights of what's required. And it means that we have to be prepared to deliver on multiple media levels to individuals who are at very different points of engagement, who have very different and conflicting needs, and very different resources at their disposal to achieve those hopes and dreams.

A clear picture is beginning to form as to what will be required to make workplace initiatives work. A bigger problem may well be that to structure the optimal solution requires a complete retooling of the financial services industry.

Dealing with debt

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HEAD: RESEARCH INSTITUTE
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Debt is one of the great value destroyers for retirement fund savings. Here's a compelling argument for why we have to deal with South Africa's debt problems.

"The reality is that although the South African retirement system has many good features, there are a number of issues to address"

South Africa most decidedly has a debt problem. The numbers speak for themselves: we have 22.84 million credit active consumers, 10.26 million with impaired credit records. This shows how many people are at least three months behind in their debt payments. If you use that as the criteria, the National Credit Regulator estimates that 45% of all active members are over-indebted. But not all debt is from credit, and that highlights a significant problem.

These numbers don't include non-payment of rates and taxes, utilities or school fees. They also don't reflect the fact that one out of every two indebted people borrow from informal money-lenders, *mashonisas*, invariably at exorbitant rates, and more often than not, for the purposes of paying off formal debt obligations.

Let's look at some factors the National Credit Regulator (NCR) identified as catalysts for debt:

- Bad planning
- Peer pressure
- "Wanting to live in the first-class lounge"
- Interest rate hikes
- Retrenchments
- Ignorance
- Divorce

Clearly there is one important factor that the regulator failed to mention. Spending more than you earn may well be a problem, but having the *means* to spend more than you earn is also a problem. Nowhere on this list is the credit *provider* identified as a problem. And yet reckless lending and the spiralling interest rates that go with it **must** be held equally culpable.

As the anthropologist Deborah James points out, untangling the debt web in South Africa is hugely complex. In her book, *Money from Nothing: Aspiration and Indebtedness in South Africa*, James says: "I see many of these problems as structural and I view it as hypocritical that borrowers are asked to reform their behaviour when lenders are allowed to go free."

The problem is not so much getting into debt, but getting out of it

The *National Credit Act* may be an admirable starting point for providing reasonable and fair protection of consumer interests, but the industry tasked with helping people pay off their debt and ultimately repair their credit standing is hugely problematic. It is full of conflicts of interests, ineffective oversight or monitoring, and inadequate levels of professionalism or value-enhancing administration. It is an industry in serious need of a regulatory overhaul.

The debt counselling industry is one of the newest to address problems that affect an individual's financial well-being. And yet, from a regulatory perspective, standards, training requirements and market oversight for the industry have historically fallen outside the scope of powers of the Financial Services Board (FSB). The National Credit Regulator reserves this power and reports directly to the Department of Trade and Industry. As such, regulation of the debt counselling industry is more closely aligned to banking than it is to the provision of a financial service.

The problem is that it creates a huge gap in the advisory industry. Financial advisers deal with people who have money that they need advice on, and debt counsellors deal with people who *had* money (at least in the form of credit) but one way or another ended up mismanaging their decisions around that access to money.

Surely though, these are two sides of the same coin. Credit (debt) is a critical financial lever for people to buy necessary lifetime assets like a house or car and other items they'll have to finance over time. That's why every financial advisory template should include insight about how people can manage these commitments effectively. And yet dealing with the consequences of debt mismanagement typically falls outside the ambit of financial advisers. Once an individual goes 'under water' on their credit commitments, they are handed over to debt counsellors, consolidators, and managers whose sole focus is to deal with the legal threats of debt, not the long difficult business of restoring an individual to financial well-being.

What can we do?

Debt counselling has had a huge impact on the lives of thousands of South Africans. When it works it has the potential to transform the lives of individuals and their families. The good news is that the more people understand the system, the better we'll become at addressing the problems. Unless we can integrate this segment of the complete financial well-being picture into our mainstream model and massively uplift its promise to bust the vicious debt cycle, any ambitions to transform the savings culture of South Africans will be perpetually undermined.

Product complexity and choices

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FINANCIAL SERVICES

Financial decision-making is challenging. Simple decisions like spending rather than saving can be difficult to make. Many financial decisions involve a complex decision-making process. How can trustees and employers help people make better choices?

In *Benefits Barometer 2015* the Alexander Forbes research team argues that to keep people engaged, we need to address their own criteria for well-being. These criteria may be more subjective than economically rational. The issue is not that their priorities are flawed. The issue is more that they may not understand the long-term financial consequences of not having the insurance product or choosing an inappropriate product.

In many cases, a financial product is not the only way to solve a specific problem. Alternatives exist that may be social, for instance. The implication is that by balancing financial and alternative strategies, there may well be opportunities for individuals to stretch their money further.

In the section that follows, we look at a framework for navigating financial decisions relating to insurance from the individual's perspective.

Financial decision-making in the insurance space

Insurance products are tough to wrap your head around. In most cases people get nothing out unless the worst happens. There's little likelihood of instant gratification. In fact, in the context of personal well-being, not ever needing to use these products would be the best outcome of all.

Unlike health insurance products, the risk events covered by both long- and short-term insurance products happen so rarely and unpredictably that we often fail to see the value in holding the insurance product at all. If we viewed insurance as an investment, we'd rightfully feel like we'd invested in a dud. As a result many people don't buy insurance.

Buying insurance is more about managing fear than making a financial decision. That's why it's important to have a conversation with your adviser that goes beyond product details. Ask your adviser to help you navigate through options like:

- Buying a formal insurance product
- Using informal insurance mechanisms, like *stokvels*, which pay out on certain events
- Self-insuring by using savings or income as an offset
- Relying on family or community for support
- If all else fails, readjusting your lifestyle should the event occur.

Different people have different risk tolerances, levels of adaptability and cognitive biases. To help you determine whether to buy an insurance policy, you have to answer two main questions:

- Is there a significant enough probability of the event happening?
- Can you deal with the impact if the event does happen?

Five things to help you when assessing the probability of the event happening

1. Don't consider probabilities over too short a period into the future.
2. Understand how your chances of experiencing the event may differ from someone else's. For example, if you have a history of heart disease in your family, this puts you at greater risk of a heart condition than the average person.
3. Don't think that because it hasn't happened recently that it will not happen in the future.
4. Avoid overconfidence in your ability to estimate probabilities. If you choose not to buy insurance, each day that you don't experience the loss event affirms your decision not to buy the insurance. But every insurance product is developed from a need that existed in the market and is driven by the fact that the probability of occurrence was great enough that it warranted an insurance contract.
5. Consider the risk probability together with the potential loss. This means going against your mental biases. To assess whether you need the insurance it is fine to consider how likely the event is to happen, but you also need to ask yourself: "If the event happened, could I cope with the loss?"

4 QUESTIONS
TO HELP YOU ASSESS WHETHER YOU CAN DEAL WITH THE IMPACT

You and your adviser should consider these questions to help you assess whether you can cope with loss. The answers will help you determine if your savings, income or additional support systems would be enough to give you the protection you need without additional insurance.

1 IS THE MAXIMUM POTENTIAL LOSS UNCAPPED?

For certain types of loss events it's simple to estimate how much cover you'll need. Vehicle insurance should cover the value of your car, and life insurance should be enough to cover your family's daily living costs after your death for a reasonable time. In these cases an adviser can help you calculate whether you have enough savings or income to cover the expected loss.

There may be cases where the loss is unlimited. For example, you may get a rare disease and your medical costs could run into millions – too much to cover with your savings. In this case, insurance will be a priority.

2 DO YOU HAVE ENOUGH EMERGENCY FUNDS TO ABSORB THE LOSS?

The decision to buy insurance for losses that do have an upper limit depends on the assets you have at your disposal to absorb such a liability.

It isn't always easy to assess all the costs you could face if you experienced the loss event. When it comes to disability insurance, for example, there are many costs you may have to pay for, like physiotherapy, that you don't think of when assessing whether you have enough money to offset the risk. Your adviser can help you to consider all the angles, as well as help you with any saving and investing decisions.

3 DO YOU HAVE SOCIAL STRUCTURES TO SUPPORT YOU SHOULD YOU INCUR THE LOSS?

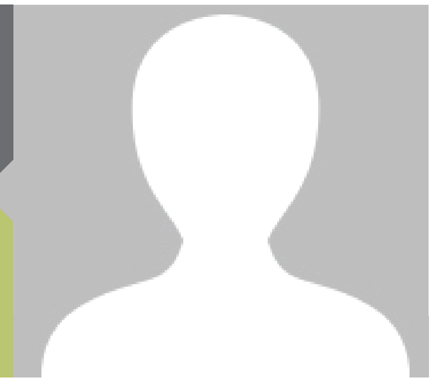
Some communities have strong social ties where sharing of medical costs and income support are common. If you're comfortable relying on this support system to protect your family when you're gone, you may be less inclined to buy life insurance.

4 WILL YOU BE ABLE TO LIVE YOUR LIFE AS YOU WISH IF THE INSURABLE EVENT OCCURS OR COULD YOU ADAPT YOUR LIFESTYLE?

We are much more adaptable to losses than we think. If your cellphone was stolen, you could adapt and buy a cheaper one. However, if your uninsured car was stolen, would you be able to adapt to taking the bus? If you became disabled, would you be able to survive or adjust to a life with no income? You have to think about whether you could adjust your lifestyle without compromising your well-being.

What this article demonstrates is that financial decision-making is complex and unless employees and members are provided with access to financial advice or guidance to help them answer these questions, they may very well achieve sub-optimal outcomes where their greater financial well-being is concerned.

The right amount of life cover



JORETHA BOTHMA
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Is there an ideal amount of life cover? And will it change as life circumstances change? People don't like to think about the bad things that might happen, but we all need to take a long hard look at our life, disability and critical illness cover.

No one wants to think about life's 'What ifs' – What if I'm in an accident? What if I pass away? What if I become disabled and can't work? What's more, employees often think that their group life cover will be enough if any of these tragedies should strike. Here are some tips to help your fund members and employees take an honest look at what they're paying for and if it is the right cover for their needs.

Personal circumstances play a role

Major life events, like getting married, buying a home or having a baby, trigger a reminder to review your life insurance cover in line with your changing needs. You have to look at how these changes impact on you and those around you. It's important to consider the financial impact of this change on your new environment and over the long term. In an article entitled "10 Reasons Why Financial Plans Aren't Just For The 1%", Forbes magazine estimates that only 31% of financial decision-makers in families have made provision for a comprehensive financial plan that includes life cover, savings, investments, emergencies, major purchases, insurance needs and other financial goals. Life is complicated and there are many possibilities along the way – it is best to be prepared for any outcome.

Speak to your financial adviser

An accredited financial adviser will explain and understand the impact of any life changes on your financial well-being and assist you with how you can best protect and maintain it.

A FINANCIAL ADVISER CAN HELP YOU:

- assess the benefits to best suit your current and future circumstances
- to regularly review what you are paying for and whether it's still the right cover for your needs
- decide if you are under- or overprotected and whether you should adjust your cover levels
- understand any tax and legislative changes that can affect your life protection and savings needs.

Why you need life cover

This will pay a benefit to your family if you pass away. It should protect your family against outstanding student loan debt, home loans or any other debt.
It should also aim to provide for your family, by maintaining their standard of living, when you are no longer there.

LIFE COVER FACT

A recent ING consumer survey found that less than half (45%) of married respondents have ever, or rarely, talked about what would happen to the family finances if a spouse died.

Questions to help identify life cover needs

- How long would your family be secure financially if you were to pass away?
- Will your family be able to adjust their lifestyle?
- Do you have a large study loan, mortgage or other debt that still needs to be paid off?

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How much life cover is enough?

Alexander Forbes financial consultant Graham Knight explains that you could work out how much cover you need by choosing how much of your capital you want to draw, for example 5%. "Start by considering your living expenses. If you pay R20 000 towards your bond, school fees, groceries and other living expenses each month then you should have about R4 million life cover. This means your family will be able to invest the payout they get and draw 5% of that amount to pay for living expenses."

This example is only an illustration. It is based on the needs of a particular family, and isn't a rule of thumb. There are many assumptions taken into account when doing this calculation.

Speak to an accredited financial adviser to make sure you have the right cover for your unique needs.

Other types of long-term insurance

There are different types of long-term insurance cover you can take out to provide comprehensive protection for yourself and your family.

Critical illness cover	Cancer fact	Disability cover	Disability fact
Provides cover against serious critical illnesses like cancer and heart attacks or even Ebola. A serious illness can have a major financial impact on your finances. Most people simply can't afford the cost of certain medical advances, if it's not covered by a medical aid.	Lung cancer is the most common cancer among South African men (according to the Sandton Oncology Centre). With the financial protection that critical illness cover provides, you can undergo different treatments not necessarily available on medical aid. It will also ease the financial pressure on your family.	Protection for when you can't work or earn an income – temporarily, permanently, after you're retired or if you're retrenched.	According to the World Health Organisation about 70% of disabled adults rely on family and friends for assistance with daily activities.

Helping members understand what they need

In the previous *Quarterly* publication, we considered a lifecycle approach to death benefits on a group basis. The objective of the lifecycle approach is to better meet the needs and targeted outcomes of each member, but to get members to engage with not only their life cover, but disability and critical illness cover too, we need to consider their unique needs. Members need financial advice or guidance, not only about their options on group insurance cover, but cover in their personal capacities too. All too often, members don't understand whether their group insurance cover is enough, and as a result they are either over- or underinsured in their personal capacities.

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Protection from load shedding and other disasters

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Media reports about the increase in criminal activity during load shedding as well as increases in claims because of damage from power surges have highlighted new risks for clients. Alexander Forbes Insurance has some tips to minimise the damage.

Some insurers may not cover you if you experience loss as a result of alarm failure in a power cut or lightning storm. Alexander Forbes Insurance looks at every case on its own merits. Alarm company records that show a habit of arming the alarm and alarm testing, as well as proof that you have recently replaced your battery, may influence claims decisions.

Many people and companies have bought generators to reduce the impact of load shedding on their business or daily lives. The National Inventory Data has some tips to keep in mind when using a generator:

- Never use a generator inside a home, garage, storage areas or other enclosed spaces as the build-up of carbon monoxide gas is a health hazard.
- Place your generator outdoors far from doors, windows and vents.
- Don't use a naked flame, matches or a candle near a generator; rather use a torch if you have to turn on a generator in the dark.
- Keep a small fire extinguisher, like a 4.5 kg dry powder or 2 kg carbon dioxide fire extinguisher, near the generator.
- Store petrol, diesel, propane and other flammable liquids in properly labelled, non-glass or non-breakable safety containers outside living areas.
- Make sure fuel storage areas are suitably ventilated.
- Turn off and cool down the generator before refuelling it.

Protecting equipment against power surges

Electronic equipment like computers and household appliances are continually subjected to blackouts and brownouts. A brownout is a voltage dip in an electrical power supply that usually causes lights to dim, and is often followed by spikes and surges. It's a good idea to have a holistic approach to lightning and surge protection.

Install surge protection components that comply with the South African Bureau of Standards codes of practice to protect your electronic and electric equipment from lightning and power surges. **Device specifications will determine the type of surge protectors you should install.**

As an example, Alexander Forbes Insurance pays for surge damage if the cover option includes full accidental damage. The damage must be visible component damage and not just that a component has stopped working. If you're concerned about any potential financial loss as a result of surge damage to appliances, check your insurance policy to make sure that surge damage is included in the contents cover.

LOAD SHEDDING SAFETY CHECKS

- Check indoor gas appliances for any gas leaks.
- Service and maintain fixed gas appliances.
- Avoid lighting paraffin lamps and candles wherever possible.
- Switch off all electrical appliances when the power cuts out.
- Don’t install generators indoors or near living area windows, as they produce toxic carbon monoxide gas.

8 HOURS

We may be in for the long haul where load shedding is concerned, which poses not only risks to businesses but to employees in their personal capacity too. It may be time for both companies and employees to look at alternatives like solar energy, gas appliances and inverters that allow for an uninterrupted power supply of up to eight hours.

Healthcare planning for retirement

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National Health Insurance is still at least 10 to 15 years away from full realisation, so not saving for retirement healthcare is something few people can afford, unless they are willing to settle for public healthcare.

The reality for most people is that they need to plan long before they retire to pay for the significant healthcare expenses they could incur in retirement. For this reason it makes sense to 'life-stage' healthcare cover throughout an individual's working life. This means people have to choose a level of cover to suit their healthcare needs at a point in time.

Typically, members need less cover when they are younger and their medical costs are lower, and more comprehensive cover when they are older and their expenses are higher. If members take out less expensive healthcare cover when they are younger, they should use some of what they would have spent on healthcare to save towards, or prefund, their higher healthcare costs in retirement.

For a single person in their early twenties, hospital and chronic cover on a basic medical scheme option should be enough. In their thirties to forties, they may need maternity cover if they are planning a family, and a higher level of day-to-day cover so that, for example, their children can see a doctor, and they could get their dental work done. When they retire, they are likely to need good hospital cover, rich chronic benefits and high day-to-day cover – the most comprehensive cover they can afford.

Matching costs and needs

The dilemma in retirement is that the cover members can afford often does not match the cover they need. Consider the example of a married man who is 55 years old and has a partner who is four years younger. His normal retirement age is 65, and in line with general practice today, he will not receive a post-retirement medical scheme subsidy from his employer in retirement. In this example we assume that medical inflation is 3% higher than CPI each year and that the man's investments earn a return of CPI plus 4% per year.

If this man wants comprehensive cover for himself and his spouse in retirement, assuming he lives to age 81 and his spouse to age 87, he will need to have saved R1.5 million today (assuming he makes no further contributions until he retires).

If he wants medium cover in retirement, he will need to have saved R850 000 by age 55; and for basic cover, he will need R630 000.

Most 55-year-olds do not have these amounts of money saved specifically for healthcare and need to fund it every month.

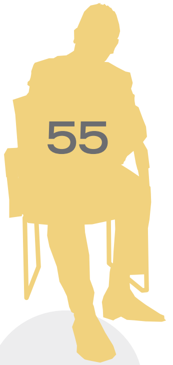
If the 55-year-old, who is 10 years from retirement, wants to prefund for comprehensive cover, he will have to save R15 200 a month each year from age 55. This amount is expected to increase by CPI plus 1% each year and earns a return of CPI plus 4% a year.

If he can afford to save only R8 400 a month, he will have to settle for a medium level of cover at retirement, and to pay for basic cover, he will need to save R6 300 a month.

How investment returns affect medical savings

In setting aside funds for retirement healthcare needs it is important to recognise that investment returns will have a significant impact on the amount they need.

If, for example, the 55-year-old could earn CPI plus 6% instead of CPI plus 4%, the amount he would have to save for comprehensive cover in retirement would decrease from R15 200 a month to R11 000 a month. Similarly, the amount required for medium level of cover would decrease from R8 400 to R6 000 a month. It is therefore important to save, but it is also important to earn a return after costs that beat medical inflation.



R1.5 million today

COMPREHENSIVE COVER

for himself and his spouse in retirement

R850 000

by age 55

MEDIUM COVER

R630 000

by age 55

BASIC COVER

What members can do to ease the burden

For most people these savings targets are daunting and seem so far out of reach that they feel as though they might as well not bother to plan for their post-retirement healthcare needs. But there are some tweaks members can make which will ease the burden and make it more manageable.

Tips for members

- First, make sure you are not overinsured. Understand your medical needs. Be on the right benefit option at the right time. One way of gauging your current health status is to go for regular health screening tests to check your blood glucose level, cholesterol, blood pressure and body mass index. Most medical schemes will cover a set of basic health screening tests from the risk benefits of the medical scheme.

  For example, if the 55-year-old is on a comprehensive medical scheme option today, but he could be adequately covered on a medium-level option, he can downgrade his option and save R3 000 a month in today's money terms.

- If you maintain a healthy lifestyle, you may not need a comprehensive option immediately when you retire – you could delay upgrading your healthcare cover until you are well into your retirement years.

- Save as much as you can now, but be a little more aggressive when you invest, because your investment returns need to beat medical inflation.

- Another option is to work for longer, not necessarily in the same capacity as before your retirement. If you delay full retirement by working in some capacity, you will have more time to save more money to fund your healthcare in retirement.

Legal snippets

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LEGAL ADVISER
FINANCIAL SERVICES

In this issue, we have a round-up of recent Pension Fund Adjudicator determinations, including a determination that the deduction of administration fees directly from a member's fund value was impermissible.

Deduction of administration fees from members' fund values amounted to an impermissible deduction

In the complaint against Outsources Solutions Provident Fund and mCubed Employee Benefits (the administrator), the complainants were unhappy with the deduction of administration fees from their fund values and were further unhappy with the calculation of the administration fees.

The adjudicator pointed out that the reduction of members' benefits for any reason must be allowed and specifically provided for in the rules of a fund. The adjudicator also said that the administration costs that were deducted from members' fund values should not have been so deducted. Instead, these costs should have been deducted from the reserve account, which was set up specifically for the purpose of paying these costs.

The adjudicator found that the administrator had acted unlawfully and in contravention of the provisions of the fund rules in deducting these costs directly from members' fund values.

The adjudicator ordered that the administrators refund the administration fees together with the fund return that would have been earned had the administration fees not been deducted.

Note: Funds and administrators of retirement funds must be careful not to make deductions which are not provided for by the rules of that fund, as this will result in members of the fund being prejudiced as their fund values will yield less growth.

Lack of communication amounts to dereliction of trustee board's duties

In the complaint against Dynam-ique SA Umbrella Provident Fund and AON South Africa (Pty) Ltd, the complainant was unhappy with the lack of communication by the fund regarding a rebuild exercise and the failure to provide him with information regarding his fund value.

The adjudicator noted with concern the amount of time that had passed since the rebuild exercise started. Members who had left the fund had not been paid their full withdrawal benefits and some members' fund values had not been transferred to their new fund after termination of their membership in the fund.

The adjudicator found that the board of trustees failed to take reasonable steps to ensure that the interests of its members were protected at all times, as this is one of the duties of the board of trustees in terms of the *Pension Funds Act*. The adjudicator also said that reliance on brokers to distribute fund communication was an abandonment of the board's duties.

The adjudicator ordered the fund to provide the complainant with a copy of all his outstanding benefit statements.

Note: Continued communication to fund members is important. Failure to communicate regularly with members will result in the board of a fund falling short of its duties owed to its members.

HOT TOPICS

Who should attend?
All trustees, principal officers, retirement fund administrators, consultants, brokers, investment managers, human resources managers and any other company representatives with retirement fund responsibilities will benefit greatly from attending our half-day Hot Topics seminars.

Today's retirement fund trustees have to deal with ever-changing legislation, adjudicator decisions, complicated volatile markets and increasingly difficult fiduciary responsibilities. To achieve and maintain a high level of competency, trustees need a constant level of education, knowledge and understanding. Alexander Forbes is committed to educating trustees through the Hot Topics seminars, which address some of the most pertinent issues in the industry.

HOT TOPICS SEMINAR DATES: LEGAL AND REGULATORY

Pretoria
19 October 2015
Centurion Lake Hotel

Durban
20 October 2015
Southern Sun Elangeni

Cape Town
21 October 2015
Crystal Towers

Johannesburg
22 October 2015
Hilton Hotel, Sandton

For more information about the Hot Topics Seminars, please contact:

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TRUSTEE TRAINING 2015

JOHANNESBURG	September	October	November
SAQA123417 Demonstrate ability to use and interpret texts that apply to the role and responsibilities of trustees of retirement funds (two-day course)		28–29	
SAQA123419 Demonstrate knowledge and understanding the duties of trustees of retirement funds with regard to death benefits (one-day course)		27	
SAQA123420 Demonstrate knowledge and understanding of the role and responsibilities of trustees of retirement funds (two-day course)	2–3		
Fiduciary duties and investments (two-day course)	9–10		24–25
Advanced fiduciary duties and investments (two-day course)			10–11
Disposal of death benefits (half-day course)	15		26
Governance & risk management (one-day course)		14	18
Retirement counselling		13	
Annual financial statements (half-day course)	17		
Principal officer course (half-day course)			19
Regulation 28 (half-day course)		20	
Legislative update (half-day course)			17
Annuities and preservation (half-day course)		21	
CAPE TOWN	**September**	**October**	**November**
SAQA123420 Demonstrate knowledge and understanding of the role and responsibilities of trustees of retirement funds (two-day course)	29–30		
Advanced fiduciary duties and investments (two-day course)		6–7	
Disposal of death benefits (half-day course)			24
Governance & risk management (one-day course)	9		
Annual financial statements (half-day course)		8	
Principal officer course (half-day course)		2	
Regulation 28 (half-day course)	16		
Annuities and preservation (half-day course)			18
Legislative update (half-day course)			

For more information about trustee training sessions in other provinces or neighbouring countries, please contact:

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“Schemes with weak governance structures often find themselves in positions where boards of trustees are acting in self-interest and not in the best interest of members.”

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Complaints or compliments ...
We would like to hear about them!
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