

Stand-alone pension funds are more costly



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Many South Africans don't understand employee benefits



Further education needs to be considered for many South Africans who make less than optimal decisions about their finances in general because they don't understand and, therefore, don't take advantage of their employee benefits.

That's the word from Walter van der Merwe, CEO FedGroup Life.

"Most South Africans in formal employment have access to employee benefits of some kind. However, they are seldom fully informed of what they are.

"And if such information is made available, the link is rarely made by the employer to the overall effect the benefits have on the rest of the employee's financial landscape. This inhibits the employee's ability to make sensible financial decisions overall."

Although retirement reforms set to take effect on 1 March 2015 were delayed, government still intends to bring provident funds in line with pension funds, meaning that employees will be able to take out only 30% from provident funds on retirement, purchasing an annuity with the balance. Cash withdrawals prior to retirement will be stopped through forced preservation – which has already led to thousands cashing in their pensions early.

Van der Merwe says that some members of retirement schemes don't understand

how pension funds work versus provident funds.

"This is critical when addressing their fears of 'losing control' of their money."

An important element of retirement reform is the proposed State Fund, which would provide a degree of life, funeral, and capital disability cover – "an overdue and extremely important social aid," Van der Merwe adds.

"Such financial assistance is a critical factor in addressing the cycle of debt, as people on the breadline are frequently forced down less desirable avenues to cover unexpected expenses following death or disability."

However, he says, questions around the State's ability to administrate such a fund are warranted, and need to be addressed if the overarching climate of mistrust is to be eradicated.

"Everyone is familiar with the administrative challenges faced by the Road Accident Fund, as an example. Should we see a similar state of administration with the proposed State Fund, public concerns and mistrust would be well-placed.

"The Government must consider outsourcing the administration to the industry, which has the requisite skill and experience to not only grow the capital amount, but provide equitable payouts for members."

Turning to the issue of umbrella funds, Van der

Merwe says it's through these funds that South Africans are benefiting from enormous cost efficiencies due to economies of scale.

Umbrella funds are schemes that provide for a mix of a retirement fund, life cover, disability and funeral cover in a single package.

"Because they are group funds, administrators are typically specialists, and funds are typically standard – this means administration fees are kept to a minimum, which in turn means an increased contribution to the retirement fund, without any detrimental impact on employee benefits.

"Further, administration services are more streamlined and efficient due to specialisation."

He adds that standardisation doesn't imply inflexibility.

"Companies that participate in umbrella funds can still select benefits that best suit the needs and risk profile of their employees. Tailoring is available, and costs are calculated based on risk – which makes contributions fair."

Comparatively, stand-alone pension funds are more costly as there is less subsidy – allowing less to be saved for retirement, without boosting any of the benefits.

"And, while such products still offer risk cover, employers are responsible for setting up trustee funds and requisite administration bodies – diverting attention from their core business," he says.