

Bulldozing in change

Conversations around retirement can be touchy. While many clients are on track to reach their retirement goals, many others have had to face a number of challenges along the way.

There is a lot of pressure on investors to take on the full responsibility for their retirement savings when they are not fully educated on what they need to do to navigate towards a comfortable retirement.

The ability to structure and customise employee benefits to meet specific or specialised needs is highly valued by employers, particularly as a means to attract and retain staff.

However, it is only through the economies of scale achievable in organisations that have upward of 400 employees that standalone employee benefit funds that offer these attributes can be adopted. Therefore, smaller companies often lack the ability to retain key staff because of a lack of proper benefits offered by the company.

COST EFFECTIVE OPTIONS

There is, of course, a need to provide cost-effective employee benefit schemes to smaller enterprises (SMEs) that have less than 400 employees, and lack the volume needed to make standalone funds a viable option.

The reality is that umbrella funds offer a suitable alternative and were specifically created to cater for this market segment.

The dynamics of the two offerings are distinctly different. From a fund perspective, the fully managed umbrella fund structure cross-subsidises risk and the associated costs and fees. This allows insurers to offer SME owners a means to meet the basic financial needs of their employees with different categories of standardised cover, with some degree of flexibility, customisation and choice available.

However, the ability to completely customise the cover and the investment portfolio is not possible, as is the case with standalone funds.

LIMITED CHOICE

SME owners are also somewhat limited in their choice of umbrella fund providers. Whatever fund is ultimately selected, it will be sponsored by the big insurance brand under which it falls, rather than the company itself.

This means that the dynamics of the fund tend to be biased toward the product provider and the underlying assets selected to support retirement savings. Fund members also have to fit in and adhere to the rules and regulations of the umbrella fund.

Standalone funds, on the other hand, have no such bias. The employer can also appoint their preferred provider and will have greater flexibility in establishing the rules and regulations that will benefit members most.

TRUSTED REPRESENTATIVES

In a similar vein, trustees of standalone funds act as representatives of the employer and its employees, acting according to their specific mandate as these funds were created for their exclusive benefit.

In contrast, the umbrella fund structure was created to effectively scale legal, administrative, underwriting, and asset management requirements to accommodate multiple employers in a cost-effective manner. While these cost benefits are passed on to the members of the umbrella fund, the trustees may find it challenging to always act in the best interests of the employer and their employees as they are appointed by the insurer.

APPEALING OPTIONS

Accordingly, the sense of ownership, the ability to customise, and the vested interest associated with free-standing funds tends to make it the more appealing option. However, the dynamics of umbrella funds are a necessary compromise as they provide a much-needed alternative to the more complex and expensive standalone

funds as previously there was no viable employee benefit solution for SMEs.

While umbrella funds may seem clinical, they now offer these smaller employers the opportunity to do the right thing by providing their employees with financial security through more standardised insurance cover, while also maximising retirement savings by keeping costs low.



Walter van der Merwe
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