ARTICLE

TRANSPARENCY AND GOOD GOVERNANCE LACKING IN THE RETIREMENT INDUSTRY
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With only six out of 100 people in South Africa being able to retire comfortably, much can be said about the state of the local retirement industry. Why are so many citizens unhappy at the pay-out stage and why aren't people saving enough for their retirement?

The answers to these questions are actually quite simple. The industry itself has caused this dilemma because of *inter alia*; historically high cost and commission structures, structuring of products such as guaranteed products, smoothed bonuses and penalty clauses. This has also been allowed to happen by Trustees Boards approaching retirement fund issues from a perspective of what suits them personally – and not "walking" in their members' shoes. The same goes for employers who participate in *umbrella funds*. Too often the "corporate speak" of these meetings is more important than the real needs of members. In reality, the average person simply cannot *actually* understand the complexity of their insurance products and they become bull dozed with fear tactics adopted by many unscrupulous players in the industry.

A "less is more approach"

There is a clear case in the industry for a "less is more approach". Members care about benefits – not posh offices, boardrooms and egos. National Treasury clearly states the obvious: the industry needs to ensure simpler products, lower costs and improved savings. Too many suppliers are using the "market beating" returns to attract business but their high costs negate any benefit these returns may derive for the man in the street. In fact seventy-five percent of asset managers do not beat the index.

A retirement fund is after all a *savings vehicle,* or at least it is supposed to be. As employers, we have to be seen therefore as placing people at the heart of the issue, and tackling the perceived lack of care for their wellbeing and that of their communities. It is easy to grow R250 per month (escalating annually) to R1m over 40 years. Why are we not seeing this?

The questions we raise in this article are; where do you stand as a leader in industry and are you taking a lead as the perceived guardian of your employees' future?

What needs to happen?

For ease of getting straight to the point, let's not debate the fact that it is the company's obligation and moral duty to provide a retirement fund for its employees. However, in creating the fund it must be established upon the basis that it meets the requirements of all the company's employees, and not for the leaders of the company alone. Remember of course that whilst the management of the company only consists of between 10 - 15 percent of its structures, the pay differential between management and the average employee remains quite uneven. With this in mind, employers should also bear the following factors in mind, namely:

- choose the fund carefully, and ensure that -- as the guardian for others -- the benefits of the fund will meet the needs of all the employees;
- diligently eliminate cost layers and complexity;
- choose simple benefits and structures;
- maximise savings and ensure transparency; and
- ensure suppliers' smart technology can easily support members and keep them informed.

There are countless examples in South Africa where employees have been members of their company's retirement fund for their whole working lives, only to discover at the end of their working lives that the fund value is nowhere near what they had been promised, leaving them in desperate poverty. With class actions now alive and well in South Africa, including the myriad of employee protective legislation already in place, it won't be too long until someone takes legal action against employers and boards for knowingly, over a period of many years, allowing such a situation to arise. Irrespective as to how this situation has come about -- by omission or otherwise -- employers will need to rapidly address this unacceptable state of affairs, particularly since companies in South Africa are generally expected to report upon the manner in which they safeguard the interests of their human capital within their annual Integrated Reporting.

Since most employers are counselled by actuaries, consultants and investment gurus when deciding upon the manner and type of funds the company will support, clearly it is nearly impossible for companies and their board of directors to claim ignorance when retirement funds have been ill-chosen and where employees are left stranded.

Company directors to be held liable for non-payment of contributions

In terms of the Financial Services Laws Amendment Act 2013, signed into law in January 2014, convicted employers can now face a fine of up to R10 million and/or imprisonment of up to ten years. Previously, what was only a 'referable event', is now a criminal act. The revised Act stipulates "the key director who is regularly involved in the management of the company's overall financial affairs" will now be personally liable for the payment of fund contributions. Employers and their trustees are required to identify such persons, failing which all the directors will be held personally liable if they do not pay fund contributions.

What are the employer/trustee responsibilities?

The role of trustees is very clear; through the employer, trustees need to manage the retirement funds and ensure there's compliance with the legal requirements that apply to these funds. This includes ensuring that all decisions and actions are taken according to the retirement fund laws and rules. But it also means acting in the best interest of the members (i.e. employees). Employers need to ensure their members (employees) receive the best return on their invested funds by asking appropriate market and socio - economic related questions and making sure that wise decisions are made.

In addition, it is the responsibility of the trustees to make sure that the assets they are responsible for are not abused and that they themselves do not become open for bribery. This means keeping a close watch over fund administrators to ensure members' assets are managed properly according to the law, and that trustees are beyond reproach. Moreover, regular audits as well as checks-and-balances should be a regular governance exercise that is undertaken by the employer so that the necessary assurances and/or counter measures can be proactively managed to avoid any possible unwanted investment risks.

Uncompromised transparency

There needs to be absolute transparency with both trustees of a retirement fund and the recipients of these funds - about what they are getting. Members must understand what the fee structures are that potentially eat into their savings. At the same time, members must be empowered in such a way that they have a say upon their retirement products, and especially so in order to lower cost structures which enable them to achieve a greater return in the long run on their savings. The only way to do this is to redistribute the wealth from the retirement companies into the pension savings of members – this means changing cost structure models and fee layering for the best interest of the people.

Complex products, with many options, variables, split investment choices, multiple asset managers, and bespoke plans for the employees' "personal needs" – all cost more. Companies should not let anyone tell them otherwise. If they want this, then they must go in with their eyes open and make sure they pay a fair price.

Complete overhaul needed

More forward looking investors who underpin their retirement plan solutions with sound governance practices are needed in the Pension Fund Industry. There is no need to wait for National Treasury to force this change.

Companies and investment firms need to challenge the status quo and bring about change in the financial services industry. Undeniably, the world would be a better place if everyone practiced the good governance principles espoused within the King Report on Governance for South Africa 2009 ('King III'). Good governance, which includes ethical business practices, requires all the industry players to be transparent in their advice, their actions and their products.

Retirement funds can only be transparent if they are in "good health" and have nothing to hide. The industry needs to ensure that there are better governance practices, by forcing full fee disclosure at one touch point. To this extent, retirement fund providers should operate under the business principle that "less is more" and they should become an early adopter of full disclosure and not wait until transparency is enforced by legislation.

Companies can also lead this change by ensuring their retirement fund providers operate with integrity, good governance and are fully compliant. Besides being FAIS compliant and meeting other industry regulations, companies should seek out providers that have audits and controls which are continuously updated throughout the year. In addition, they should have a robust technology system in place which has solid control of the processes and workflows, is able to match assets and liabilities on a daily basis and provides a 24/7 view of the fund's investments.

Innovating by doing it differently

LifeSense Financial Services is leading the change for complete openness as well as the creation of a financial model that means "fewer fees for them and more money for the members". They have done this by creating simple products with the lowest fees on the market, balanced with strong market investment returns. LifeSense has proven that its business model works - having improved its members Net Replacement Ratio (NRR) enormously by bringing simple products with no penalties, fees or commissions other than what has been provided for in their client agreements.

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About LifeSense

LifeSense is a Financial Services company bringing much needed transparent financial services to South Africans. Founded in 1988, LifeSense is an independent, licensed retirement fund administrator and financial services consultancy. LifeSense provides clients with a range of services including retirement fund administration and consulting, retirement annuities, financial planning, payroll services and private wealth creation. The company has invested in world-class technology to manage and safeguard its client's funds and investments. Some of its clients include: McCann's Worldgroup, Twincare International, Rohlig Grinrod, Lowe Partners, Total SA, SA Guide Dogs for the Blind, Pretoria Urology Hospital, Redhill School, and Yokogawa. (Where required, LifeSense companies are registered Financial Service Providers. LifeSense Financial Services Private Clients Division Pty Ltd. FSP: 10024. LifeSense Financial Services Administration Division Pty Ltd. FSP: 27496. LifeSense Financial Services Administration Division Pty Ltd. is registered with the Financial Services Board as a Section 13B Administrator.)