

Suggestions to be wary of in South Africa's retirement Industry



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In recent months, some financial service providers to retirement funds (commercial umbrella funds) have suggested to participating employers that employee benefits consultants are not needed and that a retirement fund's other service providers will “do the right thing” for employers and members at all times. It must be made clear that this would be a conflict of interest and is a stretch of the imagination by any account.

Low savings rates cannot be the only talking point

The South African financial services sector is a well established and organised one, a beacon of light in an otherwise dire economy. In the last few years there has been much talk about long term savings, or rather the lack thereof, when it comes to retiring comfortably from a retirement fund. No doubt this is a complicated matter with several different variables playing their role in determining a retirement fund member's final retirement benefit. These factors include the length of fund membership, the amount contributed to the fund each month, the investment returns achieved by the fund and the overall costs of the fund. The spotlight has been focussed on fund management fees and costs, but what is clear is that a meaningful solution to the low savings rate needs to address all these factors.

However, what we must also be wary of is that failing to pay attention to conflicts of interest acting within funds also affects retirement outcomes.

Ensuring fund products are suitable for client needs and are cost effective

In commercial umbrella funds, the employee benefits consultant has played an important role for participating employers and funds for many decades now. They ensure that the best interests of the members and employers are protected by keeping a watchful eye on the products offered to participating employers, ensuring they are suitable for their clients and also that they are cost effective.



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This is necessary because invariably there are linkages in a commercial umbrella fund between the umbrella fund sponsor, the umbrella fund's Section 13B administrator, the investment portfolios offered, the risk benefit insurers availed to a participating employer and other service providers to the umbrella fund, such as 'in-house' consultants. The consultant is offered as part of the "protection" which every participating employer and member of the retirement fund needs - monitoring the actions of the other service providers in a retirement fund to protect the members' and employers' interests in the fund.

Bearing this in mind, in recent months there has been mutterings in corridors when some of these service providers engage with participating employers to the effect that consultants are not needed and that the retirement fund's other service providers will "do the right thing" for employers and members at all times.



Do service providers and their employees, especially those in commercial umbrella funds, always act in the members' and employers' best interests, especially when the measures to evaluate their performance and bonuses are extensively linked to their income generation and profitability? Can one-stop-shopping not be seen as wolves in sheep's clothing?

We would therefore caution against cost comparisons which offer discounted short term costs (what is not promised by these operators is that the quoted prices will remain similar in following years or whether this will escalate disproportionately after the sheep have been corralled).

We would also caution employers and members to be wary of service delivery that excludes a consultant. In reality, most consultants are able to provide bespoke solutions to their clients and are able to manage retirement fund specific issues more effectively and efficiently than other fund service providers.



An independent consultant can provide objective advice and specialised expertise, ensure compliance, generate cost savings and improve member outcomes in the retirement fund industry in South Africa. Here are some ways in which an independent consultant can add value:

<p>Objective advice</p> <p>An independent consultant is not tied to any specific fund or provider and can, therefore, offer objective advice that is in the best interests of the client. This can help ensure that the retirement fund is structured in a way that meets the needs of the members and is in line with the employer's objectives.</p>	<p>Expertise</p> <p>Retirement funds are complex structures and managing them requires specialised knowledge and expertise. An independent consultant can provide this expertise and help ensure that the fund is managed effectively and efficiently.</p>	<p>Compliance</p> <p>Retirement funds are subject to a range of regulatory requirements and it can be challenging for employers to keep up with these requirements. An independent consultant can help ensure that the fund is compliant with all relevant legislation and regulations.</p>
<p>Cost savings</p> <p>An independent consultant can help employers negotiate better fees with service providers and fund managers, resulting in overall cost savings for the fund and its members.</p>	<p>Improved member outcomes</p> <p>Ultimately, the goal of a retirement fund is to provide members with the best possible outcomes in retirement. An independent consultant can help ensure that the fund is structured and managed in a way that maximises these outcomes.</p>	<p>As a final word, we would advise our clients that the long term benefits of a consultant, not only in ensuring that the member and employer get good value for money from their retirement funding solution and independent advice, but also in alleviating the frustration that many experience when dealing with administrators and call-centres, far outweigh any promises that a client will fare better without a benefits consultant.</p>