

More Information

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sanlam umbrella fund

selecting a good umbrella fund -
questions to ask

Insurance

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Are you an employer looking to move your retirement fund from a standalone fund to an umbrella fund? Or perhaps you are already part of an umbrella fund but are considering changing service providers? If you fall into either of these categories, this guide will help you to make an informed decision regarding your retirement fund options.

more information...better decisions!

The best way for consumers (i.e. employers and fund members) to protect their interests is to narrow, or preferably eliminate, the information gap between providers and consumers. You are encouraged to question all providers so that optimal decisions regarding product choices can be made. Market forces in an ever increasingly competitive environment will, in turn, force providers to continually improve their product offerings.

As a provider, Sanlam faces these identical market competitive forces. The purpose of this document is to provide a joint response from the trustees of the Sanlam Umbrella Fund, and the sponsor of the product offering, being Sanlam.

Are these the only correct answers? Certainly not! Different product providers will have structured their products

differently, with relative strengths and weaknesses in different aspects of the offering. It is also important to note that each provider's answers will change over time. This is because product offerings are continually improved as a necessary response to competitive pressures, which will result from improved consumer understanding.

By posing consistent questions to each provider, there is a greater opportunity for you to make product choices from a position of knowledge. This, in turn, will lead to a much greater probability that optimal choices will be made. The power to make the best choice will truly be in your hands!

01 governance & member representation

Members of a retirement fund have a say in who governs the fund and the decisions taken on their behalf. To ensure that you are adequately represented and governed, ask the following questions...



What is the composition of the Board of Trustees that is responsible for the overall management of the umbrella fund?

What are their qualifications and experience?

The Sanlam Umbrella Fund is managed by a board of six trustees. Three trustees are appointed by Sanlam and three more are elected by the member representatives from a panel of suitably qualified industry professionals – all independent of Sanlam.

The three Sanlam-appointed trustees are Derek Smorenburg, Marius Jönas and Themba Gamedze. Marius Saayman has been appointed as the alternate Sanlam-appointed trustee. Their qualifications and experience are summarised as follows:



derek smorenburg

has been a Sanlam-appointed trustee since July 2007 and is the current elected chairman of the Board of Trustees of the Sanlam Umbrella Fund. He has more than 48 years' experience in the financial services industry. In 1986 he registered the Reinforced Pension and Provident Funds as the first commercial multi-employer umbrella funds in South Africa. He later sold the associated administration business to Sanlam, and then headed Sanlam's specialist umbrella fund business for many years. Derek is recognised as a pioneer in the retirement fund industry, and has been widely acclaimed in the press for some of the innovative ideas he has introduced over the years, with a particular focus on strong governance and client service delivery.

governance & member representation



marius jönas

is the chief executive officer of Futura SA Administrators and has more than 20 years' experience in the financial services industry (specifically, as a financial adviser, fund trustee, principal officer and chairperson). Marius established the Futura Umbrella Retirement Fund in 1998. Under his management and leadership, and as a result of his keen understanding of this specific segment of the market, the fund membership has expanded drastically and continues to grow. Marius has served as an executive consultant within Sanlam Umbrella Solutions since February 2009, and is the current chairman of the Sanlam Futura Umbrella Retirement Fund.



themba gamedze

was appointed as a trustee to the Sanlam Umbrella Fund towards the end of June 2014. He has a long-standing career as an actuary: he began his actuarial training in the UK more than 25 years ago before returning to South Africa in 1995 to manage the actuarial division at Munich Re. Later he was appointed into a number of executive roles within the life assurance sector. Themba is the past president of the Actuarial Society of South Africa and now serves as a fellow on this Society. Furthermore, he was the founding president of the Association of South African Black Actuarial Professionals. He is also a trustee of the Government Employees Pension Fund and of the Actuarial Society Development Trust. After a career break, Themba joined the Sanlam Group as Chief Executive: Strategic Projects and now serves as a non-executive director on a number of boards, including Santam.

governance & member representation



marius saayman

was appointed as alternate Sanlam-appointed trustee to the Sanlam Umbrella Fund in July 2007. Marius completed a BCom Accounting (Honours) at the University of Stellenbosch and served his articles with Brink, Roos & Du Toit (currently PriceWaterhouseCoopers), before qualifying as a CA (SA). He joined Sanlam in 1980 and fulfilled a number of roles in the group finance department, subsequently serving as chief financial officer of various business units - including Sanlam Employee Benefits. Marius previously represented Sanlam on the boards of various subsidiaries and currently serves on the board of trustees of 10 retirement funds. He completed an advanced management Diploma at UNISA and received a BCom (Honours) in financial management from the University of Cape Town. Furthermore, he attended the executive development programme at the Manchester School of Business.

During the 2012 member election, the members of the Sanlam Umbrella Fund elected Dalene Willemse, Ian McDonald and Alex Paterson as their elected representatives on the Board of Trustees, with Lavinia Khangala as their alternate representative. Their qualifications and experience are summarised as follows:



dalene willemse

has been appointed as independent principal officer and independent trustee for several retirement funds, including the NMG Umbrella Funds and the 10X range of retirement funds. She has been a member-elected trustee on the Sanlam Umbrella Fund since July 2007. Dalene holds a BA, BProc and LLB degree. She is a serving member of the Pension Lawyers Association, as well as the Principal Officers' Association of South Africa. With more than 20 years' experience in pensions and insurance law and compliance, Dalene practices as an independent legal and compliance consultant that provides legal and technical advice to funds and their trustees.

governance & member representation



alex paterson

has been appointed as a member-elected trustee of Sanlam Futura Umbrella Retirement Fund since 2004. He holds a master's degree in human resource management and industrial relations and runs his own management consultancy firm. As a registered master's human resource practitioner and a fellow of the Institute of People Management, Alex is widely involved in consulting, training and development and has developed a range of programmes in this field.

ian mcdonald

has been a member-elected trustee on the Sanlam Umbrella Fund since July 2007 and has been the chairperson on the death benefits allocation sub-committee for the Fund since being appointed. As a founding member of the Pension Lawyers Association, Ian served as Cape regional chairman in 1999 and 2000. Ian was a co-opted member of the LOA/IRF legal and technical committee, who worked closely with the Financial Services Board and the South African Revenue Services in developing pension fund legislation. He held the position of assistant adjudicator with the Pension Funds Adjudicator from 1999 to 2004. Ian specialises in the legal and technical aspects of retirement funding and currently runs a retirement fund counselling service.

lavinia khangala

has been appointed as an alternate member-elected trustee on the Sanlam Umbrella Fund since January 2013. Lavinia is an admitted attorney, conveyancer and notary public of the High Court. She holds a Master of Law degree from the University of Cape Town, BProc, LLB and she is a Certified Financial Planner from the Financial Planning Institute. Lavinia serves as chairperson on the Board of Trustees of the Telkom Retirement Fund, the Council for Geoscience Retirement



governance & member representation

Fund and as independent trustee on the Glacier Retirement Funds. In 2005, she set up her own consulting practice and in the past few years, through the POA tutorials, trained principal officers and trustees on legal, governance and ESG issues.

What are the qualifications of the other umbrella fund officials such as the principal officer and fund secretariat of the Sanlam Umbrella Fund?

A professional principal officer, supported by a fund secretariat, manages the day-to-day operations of the Fund's governance and ensures compliance with all regulatory requirements. Their qualifications and experience can be summarised as follows:

kobus hanekom

is the principal officer of the Sanlam Umbrella Fund, and is the head of strategy, governance and compliance at Simeka Consultants & Actuaries. He studied Law, and completed B.lur. and LLB degrees, and was admitted as an attorney, notary and conveyancer in 1983. Kobus is also a Certified Financial Planner, and was a founding member of the Pensions Lawyers Association of South Africa. He served as that organisation's president for its first two years. Kobus authored Volume 1 of The Manual on South African Retirement Funds (currently in its 13th edition) and is a regular speaker at industry conferences and workshops. He lectures employee benefits subjects in the post-graduate diploma in financial management offered by the University of Stellenbosch.



erina le grange

heads the fund secretariat based in the Sanlam Head Office in Bellville. Erina has been active in the retirement fund industry since 1985, with a specific emphasis on managing administration service delivery for some of Sanlam's largest retirement fund administration clients. She obtained her diploma in retirement fund management in 2004 and a certificate in business management in 2006. She has held the position of fund secretary since 2006.





governance & member representation

Does the umbrella fund meet the best standards of governance?

Has the umbrella fund formally approved a written governance plan to ensure on-going governance and compliance?

The following measures have been adopted by the Sanlam Umbrella Fund's Board of Trustees to ensure proper fund governance, compliance and the management of risks:

Equal member representation on both levels of decision making, namely the Joint Forums at employer level and the Board of Trustees. Both bodies are represented by industry professionals who are independent of the sponsor and in a position to protect members against any potential or perceived conflicts of interests.

- A trustee code of conduct (based on annexure A to PF 130)
- An acceptance of trusteeship signed by each trustee (based on form A of annexure A to PF 130)
- A trustee training protocol
- A declaration of interests signed by each trustee (based on form C of annexure A to PF 130 and PF 129)
- A protocol on the acceptance of gifts signed by each trustee (a departure from the narrow provisions of form B of annexure A to PF 130)
- A system of appraisal to assist the board in assessing its efficiency as well as those of the trustees (based on annexure C to PF130)
- A fund governance and risk management plan, in terms of which the duties of the trustees over the next three years are identified and allocated to responsible persons, with an indication of action items and 'due by' dates
- The preparation of a fund register that contains all the legal and contractual documentation of the Fund

governance & member representation



- A year planner in which meeting dates and action items are identified
- A master process and format for the agenda and minutes at each trustee meeting to ensure that matters are prioritised and are receiving the trustees' attention and that all actions and decisions are recorded
- A range of protocols to clarify processes and procedures, and to identify the persons responsible for overseeing and ensuring compliance.

The trustees have delegated certain duties to sub-committees and the sub-committee members have relevant specialist skills. Some trustees are present on these sub-committees. In doing so, the trustees remain responsible for the entire operations of the Fund, and the sub-committees report to the trustees via the principal officer and fund secretariat. The appointed sub-committees are as follows:

- An administration sub-committee
- An audit sub-committee
- A communication sub-committee
- A complaints sub-committee
- A death benefits allocation sub-committee
- A governance & risks sub-committee
- An insured benefits management sub-committee.
- An investments sub-committee.

Does the umbrella fund allow for member representation at participating employer level?

Yes, member representation is catered for via the Sanlam Umbrella Fund's Joint Forum structure at participating employer level. In terms of the Fund's requirements, all participating employers must establish a Joint Forum comprising of employer and member representatives for each participating employer.

Joint Forums are designed to facilitate the process of consultation and decision-making between the participating employer and its employees in respect of their group retirement benefits within the spirit of the Labour Relations Act. The Joint Forum is convened and chaired by the contracted benefit consultant who guides the forum to ensure the Fund's benefit structure remains relevant.

The Joint Forum is not responsible for the operation and management (fund governance) of the Sanlam Umbrella Fund. This remains the duty of the Board of Trustees.

Is at least 50% of the Board of Trustees elected by members? How does this process work, and is it fair and democratic? Are the member-elected trustees completely independent from the umbrella fund sponsor?

Member representatives from every Joint Forum are invited to attend the annual general meeting where they are given the opportunity to elect the independent trustees of the Sanlam Umbrella Fund every three years. Members of the Sanlam Umbrella Fund elect 50% of the Board of Trustees via their Joint Forum member representatives. A panel of independent candidates is short-listed by the governance & risks sub-committee who take into account qualifications, knowledge and experience, on condition that candidates are entirely independent of Sanlam and not associated with a major competitor umbrella fund product offering. The written CVs of all candidates are distributed to every Joint Forum along with a ballot paper. The member-elected representatives at each Joint Forum (maximum two per participating employer) are allowed to vote for their preferred candidates, either directly by a secret ballot at the Sanlam Umbrella Fund's annual general meeting, or alternatively by posting their vote. The member-elected trustees are then selected based on the number of valid votes received prior to the election closing date, following a count of votes by the fund secretariat. The most recent

election process was concluded in December 2012 and the current elected trustees' three-year term of office expires on 31 December 2015.

Is there a forum in place such as an annual general meeting where member representatives can question the trustees on their performance and plans?

An annual general meeting is held in both Cape Town and Johannesburg. These meetings are also held in Durban and Port Elizabeth when sufficient interest is shown. All Joint Forum representatives (comprising of participating employer and member representatives) and all contracted benefit consultants are invited to these meetings. The trustees and sponsor are personally present at these sessions, and face-to-face communication follows, including summarising key achievements to date and plans going forward. Clients have the opportunity to question the trustees and the sponsor on all aspects of the Fund.



02 fund sponsor

Umbrella funds should be supported by a stable, financially sound and well-managed organisation. It is imperative that you verify this during the research process. Ask the following questions...



Who backs the Fund financially?

Which organisation sponsors the umbrella fund?

Are you comfortable with the ethics of the organisation?

The Fund is sponsored by Sanlam. Sanlam is therefore responsible for providing the necessary professional and technical resources so that an appropriate product offering can be delivered to the marketplace. The sponsor also provides the necessary capital to grow the membership of the Fund in order to deliver economies of scale for the ultimate benefit of members. The sponsor aims to make a profit by delivering these services to the Fund, and adheres to the governance requirements of the Fund as laid down by the trustees.

Founded in 1918, Sanlam is one of the largest, most highly capitalised and most widely respected financial services groups in South Africa. The Sanlam Board of Directors is committed to the principles of the Code of Corporate Practices and Conduct as set out in the King Report on Corporate Governance (King III), and to the highest level of corporate governance and best practice.

Sanlam sees value in subscribing to a system whereby ethics, personal and corporate integrity and governance practices set the standards for compliance. Sanlam is working to apply all the material aspects of King III to its business. Sanlam acknowledges the national priority and the critical importance of transforming the South African economy so that it is inclusive of all of its people and affords everyone the opportunity to participate meaningfully in the mainstream economy. For Sanlam, this is both a social and a business imperative. Transformation is, therefore, one of the key pillars of its business strategy and is one of the cornerstones of its approach to sustainable development. Sanlam's Broad-Based Black Economic Empowerment (BBBEE) strategy is based on the collective effort of all businesses in the group to implement BBBEE.

In 2011 Sanlam went to considerable lengths to improve its transformation performance across all aspects of the broad-based approach to black economic empowerment and has achieved a level 2 contributor status. Because transformation is a journey, and an integral part of the sustainability of Sanlam, the strategy is built on achieving consistent improvement. Areas of particular focus include skills development, socio-economic development, and a commitment to the transformation of the management composition, which directly affects both the management and employment equity elements. More information regarding Sanlam is available on request. Alternatively, visit the Sanlam website at www.sanlam.co.za.



fund sponsor

What expertise
and resources are
allocated to the
umbrella fund?

**What resources are provided for the benefit of the umbrella fund and its members?
Does the sponsor have the necessary diverse range of technical expertise to ensure
an appropriate product offering both in the immediate future and on a long-term
sustainable basis?**

During 2007 Sanlam established a specialist business unit to concentrate on the product development and growth of the Sanlam Umbrella Fund, namely Sanlam Umbrella Solutions. This is in line with the business philosophy of the Sanlam Institutional Cluster whereby the appropriately skilled people are recruited into specialist businesses to increase focus and to ensure passionate ownership of any business venture.

The growth of the Sanlam Umbrella Fund has been identified as one of the key strategies for Sanlam within the corporate market, and Sanlam is committed to providing the appropriate resources to ensure the long-term success of the business strategy. The results of the sponsor's initiatives are evident, and it has achieved outstanding membership growth since the launch of the Sanlam Umbrella Fund. Launched in 2008, the Fund reached the 100 000 members milestone early in 2012.

Sanlam Umbrella Solutions is blessed with outstanding talent and technical expertise including full-time staff with actuarial, accounting, marketing and administration experience. Furthermore, Sanlam Umbrella Solutions has access to the full range of support resources available within Sanlam. Sanlam Umbrella Solutions also works closely with the expert skills appointed by the trustees such as the principal officer and the investment consultants with the aim of delivering world-class solutions to its members.



03 communication

Once a commitment is made to an umbrella fund, the members should be communicated with on a regular basis and in an effective manner. Don't assume this will happen. Ask the following questions...



communication

Do the trustees communicate effectively?

What steps have the trustees taken to ensure that member communication is appropriate and to empower members to make informed financial decisions?

The trustees recognise that appropriate communication to all stakeholders is the key to assisting members to take control of their own financial destinies. Thus, the trustees place a premium on ensuring that communication is delivered to members, and have put in place processes to try to ensure such delivery.

Apart from the comprehensive member communication services detailed below, the trustees have also put in place various other mechanisms to communicate Fund developments.

The trustees have established a communications sub-committee to oversee the delivery of appropriate communication to members, Joint Forums and participating employers. The communications sub-committee meets on a monthly basis and formally reports on its activities at each meeting of the Board of Trustees.

An annual trustee report is issued summarising the main developments on the Fund, and the trustees' plans for the future.

'The Fund in Detail' document is regularly updated to ensure members and participating employers have access to updated information on the product offering.

In 2011, the Sanlam Umbrella Fund won the Institute of Retirement Funds (IRF) Communications Challenge 2011 - Umbrella fund category. The award recognises the fund's comprehensive understanding of its target market.

What communication is delivered to members as part of the standard offering?

Is it only an annual member benefit statement, or is a more comprehensive member communication service offered?

How are member queries channelled and resolved?

Upon entering the Fund, every member receives a member certificate issued by the administrators as well as a membership guide and benefit summary. Thereafter, every member receives an annual benefit statement compliant with PF 86 as issued by the Registrar.

communication



The communications sub-committee ensures that members receive regular updates from the Fund via the following communication elements:

- Monthly investment fact sheets and information on investment returns
- Quarterly investment reports
- Quarterly electronic newsletter to the Joint Forum
- Regular industry and regulatory updates
- Regular member newsletters that aims to educate members on financial matters

Members can enrol to view their personal information online via the internet using the Retirement Fund Web site. The information is updated on a daily basis and reflects information as contained on the Fund's administration platform. Members can access statements reflecting their values in the Fund so as to facilitate personal financial planning.

Members also have access to a call centre where they can ask questions relating to their Fund benefits and enquire the progress of benefit payments. The call centre agents have enquiry access to the administrator's workflow system so that they can appropriately respond to member queries. The call centre agents are not FAIS-accredited and cannot provide financial advice to members.

The mandatory appointment of a FAIS-accredited contracted financial adviser is intended to ensure that members have access to much-needed face-to-face financial advisory services. This can be particularly important when benefits are due to be paid and when members are required to make significant financial decisions pertaining to their own retirement funding and insurance needs.

How accurate, reliable and up-to-date is the member information and data kept?

Is financial information updated daily, monthly or annually?

Can members access information on a daily basis via the internet?

The backbone of the member communication service delivery is the leading-edge Sanlam Employee Benefits' administration platform that balances assets, liabilities and financial accounts on a daily basis. By allowing members to access accurate and daily-updated personal

financial information, the foundations have been laid for accurate and timeous delivery of information to members and participating employers.

The Retirement Fund Web provides our employers and members with state-of-the-art retirement fund administration processes and member communication tools via the internet.

The following functionalities are currently available to users:

- View up-to-date, abbreviated, member benefit statements
- View member information
- Enter new members from the Fund on withdrawal or retirement
- Submit death claim information
- Execute individual investment choices
- Change member information
- Enter details related to temporary absence
- View all payments made for members
- Trace all transactions on a history log/audit trail
- View monthly reports relating to member data
- View documentation relating to the Fund, i.e. rules and policies

A retirement benefit calculator demonstrating expected benefits at normal retirement date in nominal and real terms, as well as an expected shortfall at this date. It also demonstrates the effects on these values if a member wishes to retire earlier or invest additional money in the Fund.

The participating employer, contracted benefit consultant and contracted financial adviser can extract reports on-line, using the Retirement Fund Web facility. Retirement Fund Web contains daily-updated information on the participating employer's members, for the purpose of fulfilling their duties and obligations in respect of the Fund.

04 investments

The advantage of an umbrella fund is that it pools a range of funds, thereby producing more capital to invest wisely and receive returns from. It should never be assumed that the investment process will be to the best benefit of the members.



investments

What is the umbrella fund's investment strategy?

Is there an appropriate default investment strategy available for members that either do not wish to, or are not in a position to make investment choices?

Is this default investment strategy suitable for the majority of members?

What methodology was followed in deciding on this investment strategy?

Yes, the trustees of the Sanlam Umbrella Pension and Provident Funds have approved three default investment strategies that can be chosen as a default investment strategy to cater for the needs of such members. The choice between these three default strategies would depend on the members' specific investment objectives, but overall should be suitable to the majority of the members. The methodology underlying these default strategies can be briefly outlined as follows:

Sanlam Lifestage

The Sanlam Lifestage is the Fund's trustee-approved default investment strategy. Sanlam Lifestage aims to provide members with a holistic investment offering that remains suitable throughout their membership of the Fund. It supports members in their life stage and retirement planning by aiming to:

- Grow members' investments during the accumulation phase (more than six years to retirement)
- Match a member's post-retirement needs with an appropriate pre-retirement portfolio as they approach retirement.

Members only need to select their appropriate pre-retirement portfolio. The selection and management of the appropriate investment managers and strategy are assigned to the appointed portfolio manager. If no selection is made, the member simply defaults into the Capital Preservation phase of the Sanlam Lifestage. The fund member enjoys a seamless investment transition from employment to retirement.

investments



Volatility Protection Strategy

The trustees have approved an alternative default investment strategy suitable for members who wish to achieve inflation-beating returns over the medium to long-term, but who are particularly concerned about protecting themselves against significant short-term investment losses. The strategy will most likely result in lower returns than the Sanlam Lifestage over the long-term, due to the implicit cost of the underlying guarantees and lower effective equity exposure. Nonetheless, the trustees recognise that such a strategy is suitable for many members, particularly those members who are not in the position to make appropriate investment choices and might not appreciate that a high equity exposure inevitably implies some risk of capital loss over the short-term.

The trustees continually review the investment strategy of the Volatility Protection Strategy and will make periodic changes to the underlying investments in line with the objectives of the strategy.

Passive Investor Strategy

The trustees have approved a second alternative default investment strategy suitable for members who aim to contain investment management costs by choosing a passive investment management strategy with underlying investments tracking market indices.

The Passive Investor Strategy could suit those investors who are not convinced that the available active investment management strategies will outperform a comparable basket of market indices over the long-term and, thus, decide that by containing investment management costs, the resultant net retirement pay-outs to members will be enhanced – all other factors being equal.

The trustees review the investment strategy of the Passive Investor Strategy continually, and will make periodic changes to the underlying investments in line with the objectives of the strategy.

The trustees of the Sanlam Futura Umbrella Retirement Fund have a formal investment strategy in place whereby the Fund aims to provide stable long-term returns in excess of the inflation that suits the majority of the members in this fund's long-term investment needs.

Is there a suitable range of investment choices available to satisfy the requirements of members whose requirements are not satisfied by the default investment strategy?

How diverse is the member investment choice range, and does it cover the full risk-return spectrum?

What guarantees are available to satisfy the requirements of cautious investors concerned with protecting against capital loss, and who provides such guarantees?

An extensive range of investment choices are available to members whose requirements are not fully satisfied by the default strategies provided their employer has selected the comprehensive (member investment choice) option.

Members invested in the Volatility Protection Strategy, the Sanlam Monthly Bonus Fund and the Sanlam Stable Bonus Fund enjoy investment guarantees from Sanlam, where their capital is protected under certain specified conditions.

These guarantees do, however, come at a cost, but offer valuable protection for members who have a low tolerance for short-term investment losses. Members may choose between:

- The three trustee approved default investment strategies - the Sanlam Lifestage, the Volatility Protection Strategy or the Passive Investor Strategy
- A range of institutionally priced investment portfolios, including smoothed bonus, single manager and multi-manager investment options
- More than 1200 retail collective investment schemes (CIS) available on Sanlam's Glacier investment administration platform (subject to minimum product criteria). As part of this offering, members can also choose to invest the equity component of their Glacier investments in their own personalised share portfolio.



05 insured benefits

When making a selection, you need to ensure that your money is secure, is insured and is protected from unduly high rate increases.



insured benefits

How effectively is the risk pool managed?

Does the umbrella fund have processes in place to ensure the on-going sound actuarial management of its risk pool?

What is the track record of management of the risk pool?

Who are the people responsible for this function, and what are their qualifications and experience?

The trustees have appointed a specialist Insured Benefits Management Sub-committee to continually review the management of the risk pool so that members' interests are protected via sound actuarial risk management practices. The sub-committee currently comprises of a qualified actuary, a chartered accountant and a risk benefit specialist. To the extent that these goals are achieved, members will benefit by way of competitive insured benefit premium rates which are determined by taking into account actual claims experience. The Insured Benefits Management Sub-committee meets monthly to review all aspects relating to insured benefits including risk management, underwriting, pricing and product enhancements.

Are insured benefits automatically underwritten by an in-house insurance company that is associated with the sponsor?

What protection for members exists if the insurer was to increase its risk premium rates in the light of a poor claims experience?

What is the actual history of risk premium increases applicable to the umbrella fund participants over recent years?

The trustees have approved two insurance companies, Sanlam and Capital Alliance, to underwrite the Sanlam Umbrella Fund's risk pool.

The quotation system has been designed so that participating employers and members enjoy the benefit of having each insured benefit component automatically placed with the insurer that, in the opinion of the sponsor, offers the most competitive premium rates for similar terms and conditions. The placements of insured benefits between the insurers are reviewed on an annual basis to protect the interests of members.

insured benefits



In the event that one of the two insurers were to increase its risk premium rates, members are protected by way of the integrated risk re-broking facility, whereby the insurance business could be placed with the other insurer, provided that such a change is deemed in the best interests of members. This mechanism prevents an insurer from increasing risk premium rates where such an increase is not justified when taking into account actual claims experience.

Insurance premium rates are revised annually based on, to a large extent, the claims experience of the risk pool. It would appear at this stage that actuarially sound risk-management processes are in place, with each participating employer being charged appropriate risk premiums based on its own membership risk profile. Premium rate increases have been contained satisfactorily over the last few years.

Is the range of risk benefits products under the umbrella fund comprehensive and appropriate to satisfy members' requirements?

The Sanlam Umbrella Fund comprises of a comprehensive range of insured benefits, and the quotation system automatically provides a comparative quotation per benefit type between the two appointed insurers so that clients can be assured of highly competitive premium rates. The range of risk benefit products is continually reviewed by the insured benefits management sub-committee to ensure that the latest market developments and trends are always considered.

The range of risk benefit products across the various product options currently includes:

- Conventional group life cover, flexible group life cover and reinforced group life cover
- Lump sum disability cover
- Income disability cover
- Temporary income and lump sum disability cover
- Accident cover
- Family funeral aid cover
- Trauma benefit cover
- Spouse's group life cover
- Conversion options on certain benefits



06 costs

Hidden costs and lack of transparency is, unfortunately, all too common in South Africa's financial services industry. To avoid paying far more than you should for the administration of your umbrella fund, ask the following questions...



costs

What are all the costs?

What is the overall cost of all administration fees, and how will this impact on members' ultimate retirement benefits? Are there additional asset-based administration fees?

What method is used to apportion all the administration fees between individual members, and is the basis fair and reasonable?

What is the total cost of all these fees added together and expressed as a Rand per member per month charge?

What additional administration costs will be levied other than the administrator's fees?

How are other costs such as FSB levies, auditing fees and trustees reimbursements recovered? Do the trustees appropriately manage these costs via formal budgeting and approvals processes?

All costs are clearly and transparently indicated on the Sanlam Umbrella Fund's new business quotation documents and revision documents. These documents must be read in conjunction with the document entitled *The Fund in Detail* where all operating expenses and investment management fees are described in detail.

Administration fees are levied by Sanlam to cover the cost of administering the scheme, and are calculated and quoted per sub-fund and deducted monthly. These fees are deducted as a flat percentage from each member's salary. However, participating employers can choose to have these fees deducted as a flat rand amount per member. The administration fee is quoted inclusive of a discount based on asset size that recognises each sub-fund's contribution to enhancing the Fund's economies of scale.

A **consulting fee** is payable monthly to each participating employer's FAIS-accredited financial adviser, for providing the contracted benefit consulting and contracted financial advisory services. Consulting fees are not subject to review as part of the annual revision process, but can be reviewed at any time by negotiation and agreement between the contracted benefit consultant, the contracted financial adviser and the participating employer.

costs

Sanlam levies a **risk management fee** by way of a 5% loading to the insurers' net insured benefit premiums for providing risk management services required to ensure the on-going sound actuarial management of the Fund's risk pool. The risk management fee is included in the quoted insured benefit premiums.

The administration fees do not include the normal costs and disbursements incurred by the Fund, e.g. the FSB levies and fees, fidelity insurance premiums, actuarial services, audit services, independent trustee expenses, member communication, and other fees and disbursements. These fees are recovered by way of a monthly **contingency reserve account levy** which is determined by the trustees in terms of a budgeting process.

What are the risk premium rates for the chosen risk benefits?

How does the sponsor ensure these are market competitive?

How often are these subject to review? What cross-subsidies exist between different members and participating employers, and, if so, are these appropriate?

The underlying premium rates for each of the two contracted insurers are reviewed as at 1 March each year. During a calendar year new clients enjoy a guarantee that premium rates cannot be increased for the first 12 months after joining the Sanlam Umbrella Fund. The insured benefits management sub-committee interacts with the contracted insurers, and has the mandate to ensure that risk premium rates remain competitive. This would include the mandate to check premium rates in the wider insurance market. Risk premiums are quoted per benefit type per participating employer, and take into account a wide number of factors that impacts the risk profile of the membership group. The principle therefore is to minimise cross-subsidies between different participating employers as much as possible, and to charge risk premium rates that are reflective of the true underlying risk of the membership group.

Risk premium rates per benefit are expressed and charged at a uniform premium rate across each membership group either as a flat percentage of salaries, or as a fixed unit rate per R1 000 cover per month, or as a flat rand per member per month, depending on the insured benefit type. This implies that different members within the same membership group will be charged the same premium rate per benefit, as opposed to different premium rates applying between

costs

younger and older members, or between males and females. The exception is the voluntary flexible group life cover where premium rates are quoted per age band and gender to protect the insurers and the risk pool from anti-selection.

All insurance costs per benefit type are clearly and transparently indicated on the Sanlam Umbrella Fund new business quotation documents and revision documents. These documents must be read in conjunction with the document entitled *The Fund in Detail*, where all insured benefits' terms and conditions are described in some detail.

What are the charges levied by the investment managers?

Are these costs fully disclosed? Are there hidden investment fees that are deducted from fund performance rather than disclosed separately?

Are performance fees charged, and if so is the performance charging basis fair and reasonable?

Investment management fees are calculated and levied on a monthly basis by applying specified fee scales per portfolio based on each sub-fund's actual investment values. These investment management fee scales are detailed in *The Fund in Detail* for every portfolio on the trustee-approved investment menu.

Most portfolios on the trustee-approved investment menu operate on a fixed fee scale, but performance fees might apply on some portfolios as is indicated in *The Fund in Detail*. In particular, Sanlam Multi-manager International (SMMi) may mandate underlying asset managers to be remunerated on a performance fee basis, but only when performance targets agreed to between SMMi and the asset manager have been exceeded.

In the case of portfolios wrapped on Sanlam's long-term insurance license, Sanlam Group actuarial also monitors investment management fees to establish whether these are market competitive, and that any performance charging basis is fair and reasonable. This is in addition to analyses conducted by the trustees, the investment sub-committee and the appointed investment consultants. Glacier investments will attract an asset administration platform fee as well as investment management fees levied by the relevant fund management companies, depending on the underlying investments selected. These fees will be fully disclosed in the Glacier application forms that each member is required to sign before any such investment is made.

07 advice

Professional advice is key in the umbrella fund at a variety of levels. Very often the effectiveness of a fund is directly dependent on the effectiveness of the professional advice. Don't leave this to chance. Ask the following questions...



advice

What is the level of qualifications and professional competence of the Fund's advisers?

Which professional advisers do the trustees make use of?

What is the level of qualifications and professional competence of these advisers?

What specific services do these advisers provide? What is the cost of such advisers, and is such a cost included in the administration fees or is it additional to such fees?

Kobus Hanekom of Simeka Consultants & Actuaries is the principal officer, and also provides contracted fund governance, compliance and benefit consulting services to the Sanlam Umbrella Fund. Kobus is assisted in these duties by the fund secretariat, Erina le Grange, and trustees which are made up of Sanlam employees.

Ian McDonald, the member-elected trustee, heads the death benefits allocation sub-committee. Backed by more than 35 years' experience in the retirement funding industry, Ian provides the committee with legal and technical advice with regard to the allocation of death benefits to the beneficiaries of deceased members.

The investments sub-committee is fortunate to receive advice from two consulting companies being Simeka Consultants & Actuaries and Independent Actuarial Consultants. These are both specialist actuarial consulting firms with a high level of technical and professional expertise amongst its staff.

The auditors of the Sanlam Umbrella Fund are RSM Betty & Dickson. RSM Betty & Dickson was established in 1939 as a South African firm of accountants and auditors. It is a member of RSM International and the seventh largest network of independent accounting consulting firms in the world, comprising of 702 worldwide offices and US\$3.9 billion annual revenues.

Other professional advisers might be contracted for ad hoc work as required depending upon circumstances.

The costs of all these professional advisers are included in the contingency reserve account levy and are revised annually by the trustees following a formal budgeting process. This levy also covers other costs such as FSB levies, fidelity insurance premiums, independent trustee expenses and specialist member communication services above the standard service contractually provided by Sanlam Employee Benefits.

costs

Is the benefit consultant accredited by the Financial Services Board to provide such advice, and what is the benefit consultant's qualifications and experience?

Is the benefit consultant independent of the umbrella fund sponsor?

What services does this benefit consultant provide and are these contracted in writing?

What is the basis of remuneration of this contracted benefit consultant and is the level of such remuneration commensurate with the consulting services to be provided?

The mandatory appointment of a FAIS-accredited contracted benefit consultant is intended to ensure that participating employers and Joint Forums are kept abreast of legislative and product updates, and also that the appropriateness of the chosen benefit structure is regularly reviewed. The mandatory Joint Forum process ensures that members are also consulted on such developments via their member representatives, and is a valuable additional communication channel.

The contracted benefit consultant contracts in writing to provide the following services:

- To assist the participating employer with completion of all documents required for fund installation including section 14 transfer documentation where applicable.
- To assist the participating employer in complying with all administrative duties and requirements set out by Sanlam and in accordance with the rules of the Fund, including:
 - Assisting with ensuring adherence by members to all medical underwriting requirements
 - Assisting with ensuring an adequate process for members to complete forms as required (e.g. beneficiary nominations forms)
 - Assisting with product related and general member queries.
- To prepare a member booklet in electronic format for the sub-fund and works from templates approved by the trustees for distribution to members via the Joint Forum.

costs

- To provide Sanlam with electronic versions of any tailored sub-fund member communication material that the Joint Forum requires to be posted on Retirement Fund Web subject to Sanlam's final approval.
- To assist the employer with election of member representatives to the Joint Forum.
- To arrange, convene and chair an annual Joint Forum meeting with the participating employer conforming to the agenda guidelines as prepared by the trustees, and to complete and email a Joint Forum meeting declaration to the fund secretariat. The first Joint Forum meeting should be convened within four months of inception date or as soon as possible thereafter.
- To obtain a personal access code to the Retirement Fund Web that will allow the contracted benefit consultant to obtain any information required in order to provide advice to the participating employer.
- To provide the services of a contracted financial adviser to members (as detailed below) or refer members to a qualified third party to fulfil this service.

The contracted benefit consultant must be compliant in terms of the Financial Advisory and Intermediary Services Act, No 37 of 2002 to render the above services.

Is the financial adviser accredited by the Financial Services Board to provide such advice, and what is the financial adviser's qualifications and experience?

What services does this financial adviser provide and are these contracted in writing?

What is the basis of remuneration of this contracted financial adviser and is the level of such remuneration commensurate with the financial advisory services to be provided?

costs

The contracted financial adviser contracts in writing to provide the following services:

- To provide individual members with financial advice and a retirement needs analysis as required.
- To advise members of the importance of completing beneficiary nomination forms.
- To advise members on their options in case of retirement, withdrawal or disability.
- Be available to advise beneficiaries of deceased members on their options.
- To advise members on investment choices and providing them with financial advice when selecting individual investment portfolios for their assets.
- To obtain a personal access code to the Retirement Fund Web that will allow the contracted financial adviser to obtain any information required in order to provide advice to members.

The contracted financial adviser is appointed by the participating employer and its Joint Forum, who also reviews the on-going service delivery. The contracted financial adviser's experience, qualifications and independence are all factors to consider in making any such appointment, but as a minimum the contracted financial adviser must be compliant in terms of the FAIS Act (Pension Fund Benefits) (No 37 of 2000) to render the above services.

A standard consulting fee scale is available as a guide, but each Joint Forum is encouraged to interrogate all fees and ensure they are satisfied that these are fair and reasonable, and commensurate with the level of service being provided.



notes

