

Questions to ask your provider when considering an umbrella fund

1. Who are the trustees of your umbrella fund? How many are independent from the sponsor and all service

Umbrella funds are exempt in the Pension Funds Act from requiring member elected trustees on their board of trustees. This means that the sponsor – usually the fund administrator – is able to appoint the full board. This introduces a potential conflict of interest in the appointment of service providers, like administrators and investment managers (or multi-managers) to the fund. Independent trustees add an element of independence to the decision making within the fund.

The sponsor is the legal entity that establishes the fund. In standalone funds the sponsor is the employer, in commercial umbrella funds the sponsor is usually the administrator.

2. Does each participating employer (sub-fund) have their own:

- a. Management committee?
- b. Bank account?

At this stage, management committees are not a legislated requirement. However, having a management committee in place gives some decision making powers to the participating employer, and allows for a level of governance oversight.

Each sub-fund having their own bank account introduces an important level of financial governance. This means that the contributions for your members are immediately allocated into your sub-fund's bank account, easy to reconcile and immediately start earning interest. No reconciliation from a central umbrella fund bank account is required.

3. Does the fund's participation guidelines or rules limit the appointment of service providers, specifically:

- a. Administrators?
- b. Consultants?
- c. Investment managers and/or portfolios?
- d. Insurers for any insured benefits, like death, disability and funeral cover?

One of the disadvantages in an umbrella fund is the sacrifice of flexibility when it comes to the selection of service providers. Different umbrella funds offer different levels of flexibility – some are rigid, and some far more open. You will need to feel comfortable that the service providers offered to you are reputable and are competent. In addition, they should be competitive when it comes to the services or products they provide and are reasonably priced. Again, you need to be comfortable with any conflicts of interest there may be in the structure.

4. Does the fund's participation guidelines or rules limit the benefit structure options participating employers can choose from? Would any current benefits provided by our fund need to change?

One of the disadvantages in an umbrella fund is the sacrifice of flexibility when it comes to the selection of benefit structures. You need to be comfortable that the umbrella fund you are considering accommodates your benefit structure. You need especially avoid reducing fund benefits when transferring in to an umbrella fund.

5. What is the fund's default investment strategy and how has it performed in relation to the trustees' identified benchmarks?

Although umbrella funds usually offer cheaper administration fees, this can come at the expense of investment performance. Understanding the umbrella fund's investment strategy and performance in the context of the market performance will help you understand the full picture of the value the umbrella fund can add to members.

6. Discuss all aspects of fees, including fees for:

- a. Administration
- b. Governance
- c. Communication
- d. Consulting
- e. Investments
- f. Investment handling/administration
- g. Legal
- h. Disclose any other fees

Be specific to ask about all of these fees. Be careful of umbrella funds that quote low administration fees, but then have higher than average investment, advice or other fees. Feel free to ask the umbrella fund if they have any other fees that are not included in this list.

7. How does the fund ensure financial governance per participating employer? What reporting is provided in this regard?

Financial governance is key at sub-fund level in the larger umbrella fund structure. Are you able to see your sub-fund's assets and liabilities? Are you pooled with other sub-funds when it comes to contribution collection, investments and/or insurance underwriting?

8. With regards to compliance, in the last two years:

- a. How many Pension Fund Adjudicator matters have been lodged citing the fund?
- b. How many data compromises (breaches) have been lodged to the Information Regulator?
- c. How many times have you had to make submissions for the fund to any Regulator for non-compliance of any kind?
- d. How many financial penalties have you had to pay for non-compliance?
- e. Have you claimed against the trustees' fidelity cover?

Understanding the level of compliance within the fund gives you comfort on how the fund is managed and administered. Has the fund been reported to any regulators or had to pay any fines?

Any claims against the fund's fidelity cover policy may highlight inappropriate or unsavoury trustee behaviour.

9. How does the fund support the participating employer/management committee in their role?

One of the attractions of participating in an umbrella fund is that lower effort levels and time investment need to be made by employees who have day jobs. But you may wish to have some decision making power in the umbrella fund structure. If there is no management committee, make sure you know who is monitoring/reviewing the service delivery of the umbrella fund, and its underlying service providers, and who decides if and when to transfer to a different umbrella fund.

10. How does the fund manage conflicts of interest inherent in an umbrella fund structure?

Conflicts of interest are often inherent in commercial umbrella funds. The trustees (where the sponsor usually has at least 50% of the board of trustees) usually appoint the sponsor's administrator, insurer, investment manager or multi-manager and the consultants/advisors. This conflict needs to be managed in members' best interests.

11. How does the fund support members with financial education?

Financial education is receiving more attention and guidance from the FSCA. How are your members supported in their retirement journey and financial planning in general? Are they equipped to make informed decisions?

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