How often should employers review their umbrella fund provider?

03 September 2019: The 2019 Sanlam Benchmark Survey found that one-third of employers using umbrella funds have never reviewed their provider, while less than half of respondents conducted a review of their provider every one to three years.

"Employers have a duty of care to ensure that they choose an umbrella fund that provides the best outcomes for their employees," says Nazia Kahlon, Group Savings specialist at Allan Gray. "While umbrella funds remove many of the governance and administrative responsibilities from the employer, employers still have important fiduciary duties and must maintain oversight of the fund. This includes assessing the offering from time to time, with the help of the independent financial adviser or asset consultant."

She adds that employers should opt for umbrella funds that are able to deliver value for money, and that this should be the priority focus.

"Employers and their advisers should take a holistic approach when reviewing umbrella fund providers. Look at everything from investment return to governance and service. Fees are an important factor, but it is not simply how much you are paying, but what you are paying for."

Below Kahlon elaborates on the key metrics that should be used to measure the effectiveness of umbrella fund offerings:

1. **Governance:** Employers must ensure that the trustees of their chosen umbrella fund have the required experience, qualifications and skills to make good choices on behalf of members and ideally at least 50% of them should be independent. Trustees are required to discharge their duties in accordance with the Pension Funds Act.

2. **Quality default investment options:** Is the fund's default investment strategy appropriate for most members and does the investment manager have a proven track record in delivering superior net-of-fee returns without taking on too much risk? Without investing in a suitable fund with appropriate asset allocation and diversification, it is unlikely that members will achieve good retirement outcomes.

3. **Admin and client service capabilities:** The administration capabilities of the fund are exceptionally important. "Having access to quality default investment portfolios is great, but if your fund isn't paying out claims on time because it doesn't have the required administration capabilities to deal with processing member requests, this can be problematic for the member or dependants," says Kahlon.

   In addition, members should have access to professional client service and support, as well as member education, as appropriate. While members should receive benefit statements annually at the very least, they should also ideally have access to their own secure online account.

4. **Fees:** "Fees should be scrutinised, and it is important to understand what you are paying for and whether you are getting good value from your umbrella fund provider," says Kahlon.

   When looking at the fee component, Kahlon says that transparency is a key factor.

   "A good umbrella fund should have a simple, transparent fee structure that gives both the employer and employee clear sight of contributions, returns and charges. Employers should ensure that contributions are used for their intended purpose –

saving for retirement – and that they are not consumed by hidden costs."

Moving fund providers is admin-intensive, but that is not a reason to stay with a provider who is not measuring up.

"If your fund is not delivering on these priorities, it may be time to evaluate alternatives to make sure you have the most appropriate retirement savings mechanism in place for your employees," Kahlon concludes.

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(Allan Gray Media Release provided by Magna-Carta)